



Facility for Approximation with the EU Acquis

Further support to the development of trade in Kosovo

**Project Identification No.
EuropeAid/138565/DH/SER/XK
Service Contract No. 2018/395-320**

PAPER ON SERVICES

21st December 2018



Your contact persons within
GFA Consulting Group GmbH:

Ms Martina Bernauer (Project Director)

This document was originally written in English language

Kosovo

Further support to the development of trade in Kosovo

Contract Number 2018/395-320

Activity 2.1.4

Paper on Services

Authors:

Luis Abugattas (Team Leader)

Shqipe Jashari-Sekiraqa

Mirsad Simnica

Osman Džudžević

Disclaimer

The content of this publication is the sole responsibility of the authors and GFA Consulting Group GmbH and can in no way be taken to reflect the views of the European Union

GFA Consulting Group GmbH

Eulenkrugstr. 82
D-22359 Hamburg
Germany

Phone: +49 (40) 6 03 06 170

Fax: +49 (40) 6 03 06 159

E-mail: martina.bernauer@gfa-group.de



REPUBLIKA E KOSOVËS/REPUBLIKA KOSOVA/ REPUBLIC OF KOSOVA

QEVERIA E KOSOVËS / VLADA KOSOVA /GOVERNMENT OF KOSOVA

**MINISTRIA E TREGTISË DHE INDUSTRIË
MINISTARSTVO TRGOVINE I INDUSTRIJE
MINISTRY OF TRADE AND INDUSTRY**

DEPARTAMENTI I TREGTISË / DEPARTAMENT TRGOVINE / DEPARTMENT OF TRADE

Kosovo's Services Economy: Challenges and Opportunities for Growth and Sustainable Development

Contents

I. INTRODUCTION	4
II. SERVICES: ECONOMIC GROWTH AND SUSTAINABLE DEVELOPMENT	5
III. KOSOVO'S SERVICES ECONOMY	8
3.1. Structure of Kosovo's Services Sector.....	8
3.2. Employment in Services Activities	11
3.3. Pattern of Structural Change of the Kosovo's Economy.....	14
IV. KOSOVO TRADE IN SERVICES	17
4.1 Overview of trade	18
4.2 Pattern of Kosovo's Trade in Services.....	23
4.2.1 Transport	24
4.2.2 Travel.....	28
4.2.3 Business Services	30
4.2.4 Personal Cultural and Recreational Services	38
4.2.5 Governmental services.....	39
V. CONCLUSION AND RECOMMENDATION	39

I. INTRODUCTION

Kosovo's economy is predominantly a "services economy". The services sector has emerged as the largest segment of the economy and its driving force, contributing a growing share of domestic valued added, employment and trade. Services activities accounted in 2017 for 71.9 per cent of GDP at basic prices, and generated 81.2 per cent of total formal employment in the country. More importantly, services activities constitute the backbone of the Kosovo's private sector. Services activities comprise 86 per cent of total firms registered in the country, and provide for 82.6 per cent of total private sector employment. Services activities generate 87.3 per cent of total firm's turnover in the economy, and represent 88.8 per cent of total expenditures.

The relative weight of services in the economy has been progressively increasing over time, and the shift towards services has accelerated in recent years. During the period 2012-2017, 81 per cent of all new enterprises, entering the market, were in services activities; and the services sector generated 87 per cent of all new employment. At the same time, trade in services constitute a core element in the integration of Kosovo into the global economy. Contrary to the case of trade in goods, where the country suffers from a growing structural deficit, Kosovo has experienced a surplus of trade in services, which has been instrumental in contributing to partially finance the current account of the Balance of Payments (BOP).

The crucial role that services play in economic growth, in the systemic competitiveness of an economy, and overall development is today well entrenched in the literature. Efficient services activities, effectively integrated with the other productive sectors of the economy, are widely recognized as a prerequisite and as a necessary condition for achieving adequate rates of economic growth, productive integration into the global economy, and generalized improvements in the welfare of the population. However, the mere size of the services sector is not an indicator, in itself, of the role that these activities are performing in underpinning economic growth, competitiveness and welfare improvements.

This document examines the structure and performance of services in the economy of Kosovo and in Kosovo's trade; aiming at providing insights for the exploration of policy alternatives that would contribute to enhancing the role of services activities to Kosovo's developmental aspirations. The following section presents a brief discussion of the role of services in growth and development as to provide the overall framework guiding the analysis of the subsequent sections. Section Two examine the structure and performance of the services sector in the economy of Kosovo; assessing the extent and nature of its contribution to growth and development. Section Four, provides an assessment of Kosovo's trade in services. The final section discusses the main conclusions emanating from the analysis and suggests some policy recommendations on the ways and means that could be explored in order to maximize the contribution of services to economic growth and sustainable development. This document is the first approximation to the issue of services and development in Kosovo; therefore, attention is dully paid in identifying areas that require further research and assessment.

II. SERVICES: ECONOMIC GROWTH AND SUSTAINABLE DEVELOPMENT

The service sector is composed of a wide variety of market and nonmarket activities, ranging from transport and retailing, to hotels, restaurants, financial activities, business and personal services, education, health and public administration¹. The importance of services activities and their crucial role in economic growth and social development is already well entrenched in economic analysis. Economic literature has highlighted and demonstrated, through innumerable studies, the importance of services; identifying major areas in which these activities perform a non-substitutable role in a productivity-based economic growth process. Attention is currently centered in elucidating what would be the best policies for strengthening domestic capacities in services activities and enhancing their contribution to economic development and welfare.

There are many strong arguments supporting the need to pay much closer attention to the role of service activities in growth and development, and particularly in economic policy-making. First, because they account for the main share of the economy; but, above all, because service activities are increasingly integrated into the overall production system. All goods producing activities, as well as many service industries themselves, require services as inputs to produce designs and distribute their goods and/or final services. Secondly, because service industries are playing an increasingly active role in market integration and the globalization process, both at a national and international level. Thirdly, the creation of new jobs, added value and income is increasingly tied to the performance of services economy. Finally, attention should be paid because the development of certain service activities (education, health, leisure and personal services) is directly related to the enhancement the overall welfare of the population.

Box No 1² presents a brief overview of the role of different services activities in the economy and in fostering growth and sustainable development.

¹ In this document, the classification of services activities follows those adopted in General Agreement on Trade in Services (GATS) of the WTO. Services include distribution of electricity and water, as well as construction.

² Based on Abugattas, L and Zarilli, S (2007). "Challenging Conventional Wisdom: Development Implications of Trade in Services Liberalization". UNCTAD, New York and Geneva.

BOX 1

Financial, telecommunications, energy distribution, and transport and related logistic services constitute the underlying basic networks of the economy allowing for the functioning of the overall economic system. These services bond the economy, and being intermediate inputs into production in all sectors, their availability, price and quality determine to a large extent the systemic competitiveness of an economy.

Markets materialize through distribution services, the so call distributive trades, and their efficiency and operational margins have a great impact on the overall price levels in the economy. Retail and wholesale distribution services are a vital link between producers and consumers, with the margins that apply in the provision of such services influencing the competitiveness of firms on both the local and the international market

Education and health services are fundamental for the development and reproduction of human capital, which is widely acknowledged to yield significant economic and social returns.

Professional services, and the so called producer services, are responsible for the generation, dissemination and application of “knowledge” increasingly constituting, in the context of the emerging knowledge economy, a crucial interface between knowledge generation and productive and other social endeavors. Professional services enhance the performance of other firms through research and development and organizational improvement, with technology becoming the basis of increased productivity and competitiveness.

Accounting and legal services constitute critical components of the overall required infrastructure of a market economy. Without an adequate provision of these services no sound economic activity would be possible. Beyond the multi-purpose information that accounting services provide, they are the foundation of the countries fiscal systems and play a key role in corporate governance. Legal services, on their part, provide for the adequate implementation of laws and regulations, the protection of rights and fulfilment of contractual obligations, and facilitate conflict resolution allowing for the adequate functioning of the markets.

Services such as the cultural industries and a number of social, communal and governmental services are fundamental in developing what has been defined in economic literature as “social capital”, contributing to the internal social and cultural cohesion of society which guarantees economic growth or overall human well-being. Furthermore, other services, such as entertainment services, restaurants and hotels and personal services, while generating important employment, significantly contribute to improving the overall quality of life in society.

Services increasingly contribute to the integration of national economies into the international trading system. Trade in services is a very dynamic element in the world economy: an efficient integration into the evolving world services economy is becoming crucial for the development prospects of many developing countries. Also services perform an important function in coordinating production processes, both within and, increasingly, across countries. Services therefore also play a critical role in the feasibility and operation of global value chains

There are a number of trends, evolving worldwide, that have enhanced the importance of services as drivers of a growth-enhancing structural transformation of the economies, both in developed and developing countries. Many services activities, in particular the so called “*producer*” or “*business services*”, have emerge as “*drivers of productivity/competitiveness*” through forward and backward linkages with other sectors of the economy. These activities, through its enabling role, have a significant impact on total factor productivity growth, diversification, and inclusive growth potential. An important trend, which highlight the increasing role of services, is that goods producing firms are becoming more specialized in their core activities, increasingly outsourcing their non-core activities to the *business services sector*. Increasingly, the production of goods involves combination of manufacturing and services functions, and there is an important shift away from production dependent upon material resources to production that utilizes knowledge as key source of competitiveness and innovation. This reorganization is rapidly progressing as

technological change lowers the costs of communication and logistics across firms, and across countries, and has allowed a significant range of processes to be automated by increasing the scope and complexity of what can be outsourced. Some outsourcing of services just led to a change in the industry where an existing activity is recorded; but increasingly new and novel business services are emerging.

The outsourcing of business services to dedicated providers, even in traditional aspects, are expected to deliver significant efficiency gains resulting from specialization and economies of scale. It has been shown that services sector productivity matters for the productivity of downstream firms producing goods, and more for those firms that use services relatively intensively in their overall input mix. There is also evidence that the nature of the work being done in the business services sector is generally changing faster than in other sectors, and the development of new ways to deliver services requiring specialist knowledge strongly suggest that business services are at the center of the technological change that is radically transforming the economies worldwide.

Different analysis conducted in both developed and developing countries indicate that the “services” component of material production follows a rising curve in input-output comparisons, and that in agriculture and manufacturing activities, services progressively account for a more significant and growing proportion of the total, direct and indirect inputs utilized. Also, it has been shown that a «*servitization*» processes is currently taking place in the manufacturing sector where many firms are also supplying services to the market alongside their products. At the same time, increase technology use by services is changing the structure of competition in the goods producing sectors; thus have implications for the growth and productivity of those sectors. Efficient services are therefore essential for developing competitiveness in other productive sectors; and developing manufacturing without quality services is difficult, if not almost impossible; while at the same time, services-led growth without an integrated and competitive industrial sector can lead to a severe growth slowdown to the extent that resources are allocated to lower productivity activities.

Digitalization and the rise of the platform economy and technological innovations in services such as transport and logistics, mobile communications and associated value added services, such as e-commerce, and e-payment; access to cloud computing and data storage, among other, are changing the features of the economics of services. This trends potentially enhances, in a significant way, the ability of small firms to contest markets and supply products and services to buyers. New technologies allow small firms to sell into global markets as well as to supply services to larger firms that participate in global value chains and to domestic consumers.

These spreading processes show a progressive and deepening integration between material production and services; which should be factored in in the definition and implementation of economic development policies. Given the heterogeneity of services activities, there is *no-one-fits-all* policy that would accommodate all services activities, also policies should reflect the specificities of the ground conditions in each country. Therefore, blind transposition of other countries experiences would not be advisable.

Iterative, adaptive and flexible policy approaches are required; as well the setting of an appropriate domestic regulatory framework for the different services activities is crucial to promote competition and improve efficiency. However, services policies should be synchronized and articulated into an overall vision of a “*comprehensive service industry development strategy*” which should provide proper guidance on the nature and scope of the sectorial interventions and on their interaction and the most appropriate sequence for implementation. Such strategy should focus on market services, in particular on the development of business services, and a services trade policy should be a core component of a comprehensive strategy. A number of countries that have seen services production and productivity expand substantially have done so by developing comprehensive service industry

development strategies. Consultation and cooperation with the private sector to identify opportunities and deal with specific growth constraints are an important elements of such strategies.

III. KOSOVO'S SERVICES ECONOMY

Kosovo's economy is predominantly a "services economy". The services sector has emerged as the largest segment of the economy and its driving force, contributing a growing share of domestic valued added, employment and trade. Services activities accounted in 2017 for 71.9 per cent of GDP at basic prices, and generated 81.2 per cent of total formal employment in the country. Services exports are three times higher than goods exports. More importantly services activities constitute the backbone of the Kosovo's private sector. Services activities comprise 86 per cent of total firms registered in the country, and provide for 82.6 per cent of total private sector employment; generating 87.3 per cent of total firm's turnover in the economy, and represent 88.8 per cent of total expenditures³.

This section of the document presents a preliminary exploration into the services sector in Kosovo's domestic economy. It aims at assessing the contribution to economic growth and employment of these activities, and its role in the process of the long-term structural transformation of the economy.

3.1. Structure of Kosovo's Services Sector

The high contribution to GDP and employment of services activities is an attribute that is shared by most small-resource-poor economies. However, in the case of Kosovo the following features should be noted. First, the participation of services in GDP is relatively high in comparison with its GDP per capita. Kosovo exhibits a contribution of services to total generated value added in the economy similar to that of developed countries; and historically, such participation was high even at lower GDP per capita levels. This reflects the inability to develop a manufacturing base and the collapse of mining sector. This is what is called in the literature *premature deindustrialization*. Secondly, the high participation of services in GDP is taking place at lower levels of urbanization in comparison with other countries. There is a strong association between urbanization levels and services contribution to value added; as many services activities develop as result of the agglomeration of population in urban centers. In this regard Kosovo shows an anomalous pattern. Finally, there is a significant weight of non-market services in the total contribution of services to GDP. This is explained by the size of public administration and the provision of basic services mainly by public entities⁴.

Table 15⁵ presents the evolution of the structure of the Kosovo economy for the period 2009-2017. Data clearly shows the progressive shift towards services; activities that gained 6.22 per cent points of participation in total GDP. Data shows GDP at basic prices that allows for a better assessment as taxes and subsidies cannot be attributed to the different sectors. The shift towards services has been at the expense of the goods producing activities, in particular agriculture and mining. Manufacturing has experienced a small decline in its participation.

³ Source: Kosovo Agency of Statistics

⁴ These features require further in depth analysis.

⁵ Source: Kosovo Agency of Statistics

Within services activities, the major transformation has been the relative decline of the participation of real estate activities and public administration and defense in total GDP, which have experienced a reduction of their participation in 4.3 percentage points. At the same time, mainly non-tradable activities (wholesale and retail trade, education and health services) have increased their participation in a similar proportion. The increased contribution of electricity, of which distribution is a service, and of information and communication services is noticeable.

The last column of Table 1 present the average compound annual growth rate of the different sectors of economic activity; which provides a view of their long-term dynamism and explains the structural change that has taken place. As it can be observed, a number of services sectors have experienced high two-digit growth rates during the period analyzed. It is worth noting the growth of entertainment and recreation services; of information and communication services, accommodation and food services; health services; and, and administrative and support services. The differential growth rates, if they continue, allows to foresee the path that the structural transformation of the Kosovo's economy is transiting.

Figure 1⁶ presents the structure of the services sector GDP in 2017. It shows the participation of the different services sub-sectors in the total value added generated by all services. An important feature to highlight is that mainly non-tradable activities comprise the bulk of the services sector. Public administration and defense, real estate and wholesale and retail services account for almost half the valued added generated by services activities in the Kosovo's economy. Construction contributes with an additional 11.9 per cent; and education and health services, combined, contribute with amount slightly above 10 per cent. Public provision of education and health services is predominant. Therefore, if we add the public participation in these activities to the contribution of public administration and defence, we have that slightly over one fifth of the total value added generated by services originates in public sector activities⁷.

Services sub-sectors that include knowledge intensive business services - professional and scientific services, administrative and support services, and information and communication services (which are, as discussed above, the more dynamic worldwide and at the centre of the economic transformation) contribute with 6.8 per cent of the total value added generated by the services sector. More detail information by specific activity within these subsectors is required to examine the evolution and performance of business services in the economy and their articulation with goods producing activities. This is an area that should receive priority attention in a future research agenda⁸.

⁶ Source: Kosovo Agency of Statistics

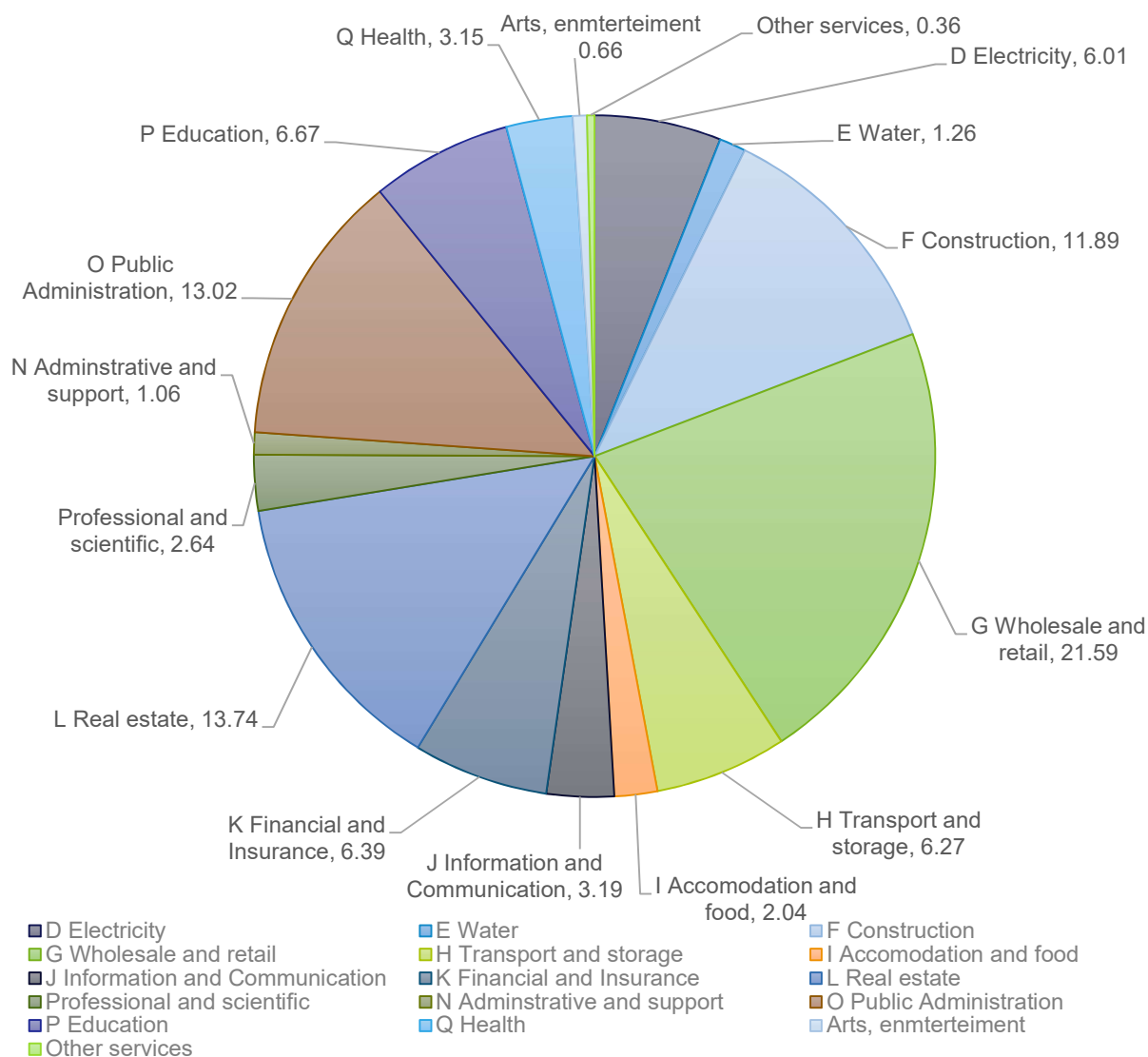
⁷ The participation of the public sector in the provision of services is an area that requires further assessment in order to fine tune the analysis and quantify more accurately its contribution to GDP and total employment.

⁸ On the basis of ISIC classification, at least at 4 digit on value added and employment data would be required to undertake a more comprehensive assessment.

Table 1. Kosovo: Gross Domestic Product by Economic Activity Constant prices [NACE Rev.2] Thousand EURO and %

	2009	%	2010	2011	2012	2013	2014	2015	2016	2017	%	Change 2009-2017	Annual Growth Rate
A Agriculture, forestry and fishing	598306	17.33	583262	600286	561766	626312	643883	634700	618100	652148	12.83	-4.50	1.08
B Mining and quarrying	136335	3.95	129762	145968	151116	131451	123047	116460	114238	130617	2.57	-1.38	-0.53
C Manufacturing	478750	13.87	499952	461253	567724	585050	577245	603672	643248	686148	13.50	-0.37	4.60
D Electricity, gas, steam and air conditioning supply	97050	2.81	96827	112520	126746	138021	146627	173057	199104	217122	4.27	1.46	10.59
E Water supply; sewerage, waste management and remediation activities	24090	0.70	29491	36557	35379	51356	54322	55560	44675	45343	0.89	0.19	8.23
F Construction	282632	8.19	240982	334184	331192	350058	330653	387963	415083	429627	8.45	0.27	5.37
G Wholesale and retail trade; repair of motor vehicles and motorcycles	484820	14.04	565306	544962	564213	638730	708775	714134	743406	780094	15.35	1.31	6.13
H Transportation and storage	133484	3.87	177711	219205	199747	217726	232851	211606	218277	226671	4.46	0.59	6.84
I Accommodation and food service activities	22506	0.65	28510	34643	40516	38087	52177	53370	61328	73559	1.45	0.80	15.96
J Information and communication	34678	1.00	34386	41547	59892	53414	115190	116426	110311	115358	2.27	1.27	16.21
K Financial and insurance activities	145635	4.22	135892	165475	176255	202085	222652	259703	221402	230992	4.54	0.33	5.94
L Real estate activities	425258	12.32	413921	415941	421706	455278	465944	499315	501599	496492	9.77	-2.55	1.95
M Professional, scientific and technical activities	47467	1.37	53519	66011	67894	75461	75036	87768	92675	95507	1.88	0.50	9.13
N Administrative and support service activities	12372	0.36	11946	19278	20059	21680	21685	34088	34573	38119	0.75	0.39	15.10
O Public administration and defence ; compulsory social security	380431	11.02	392296	440177	485660	505884	459833	430657	457033	470288	9.25	-1.76	2.69
P Education	101675	2.94	118923	124433	157544	163479	169878	220414	237416	241068	4.74	1.80	11.39
Q Human health and social work activities	36121	1.05	45275	58933	68547	73291	82890	101518	109891	113864	2.24	1.19	15.43
R Arts, entertainment and recreation	3545	0.10	11812	15050	20347	23452	26978	23328	23940	25422	0.50	0.40	27.92
S Other service activities	7675	0.22	11265	8578	11964	8517	9164	10322	12977	13023	0.26	0.03	6.83
T Activities of households as employers;	5	0.00	5	5	1	0	0	0	0	0	0.00	0.00	ND
Total Services % of GDP		64.86									71.08	6.22	
GVA at basic prices	3452833	100	3581047	3845006	4068267	4359332	4518832	4734060	4859275	5082462	100		4.95

Figure 1. Kosovo: Structure of the Services Sector 2017



3.2. Employment in Services Activities

Table 2 presents the distribution of employment by sector of economic activity for the period 2012-2017. In the aggregate, services account for 81.24 per cent of total employment in the economy; and very importantly these activities have contributed with 87.9 per cent of all new jobs created during the period 2012-2017. Employment in services activities is concentrated in wholesale and retail trade, construction, accommodation and food services, education and health services, and public administration. These services account for 89.96 per cent of total employment in the services sector. Given the high participation of public employment in education, (33.7 thousand and health 14.3 thousand respectively) the total public employment in services represents almost one in every four persons working in services activities (23.88 per cent).

The most dynamic sub-sectors in terms of employment generation during the period 2012-2017 have been construction; which has increased its participation in 3.4 percentage points, accommodation and food services activities (1.8 percentage points participation increase), and wholesale and retail services increasing its participation in employment in 1.3 percentage points. These three services sub-sectors have contributed with 80.3 per cent of all employment generated in the services sector. Public administration and defense has also contributed with 13.7 per cent of employment generation during the period under analysis. As it can be observed in the table, eight services sub-sectors have experience a decline in employment in absolute terms. This trend is an area that requires further analysis; which could be the outcome of labor-saving technologies introduced in these activities

Table 2. Kosovo: Employment by Economic Activity [Thousand and %]

	2012	% of Total	2013	2014	2015	2016	2017	% of Total	Participation % Change	Absolute change
A Agriculture, forestry and fishing	13.9	4.6	20.3	8.6	6.7	14.2	15.9	4.4	-0.2	2000
B Mining and quarrying	3.6	1.2	4.3	3.6	2.5	3.6	4.2	1.2	0.0	600
C Manufacturing	43.4	14.3	43.1	44.9	43.9	44.2	47.5	13.2	-1.1	4100
D Electricity, gas, steam and air conditioning supply	7.0	2.3	5.8	5.7	5.3	5.5	6.6	1.8	-0.5	-400
E Water supply, sewerage, waste management	3.6	1.2	4.1	3.4	4.4	6.7	4.3	1.2	0.0	700
F Construction	29.0	9.5	39.0	35.6	28.2	38.6	46.6	12.9	3.4	17600
G Wholesale and retail trade, repair of motor vehicles and motorcycles	40.8	13.4	43.6	46.8	42.9	49.5	52.8	14.7	1.3	12000
H Transportation and storage	10.6	3.5	10.8	11.0	8.4	10.6	9.7	2.7	-0.8	-900
I Accommodation and food service activities	14.3	4.8	18.0	19.7	19.8	21.3	23.8	6.6	1.8	9500
J Information and communication	6.9	2.3	10.0	9.6	9.6	7.3	9.5	2.6	0.3	2600
K Financial and insurance activities	6.8	2.2	7.6	5.9	5.9	6.5	6.3	1.7	-0.5	-500
L Real estate activities	0.7	0.2	0.6	0.2	0.3	0.3	0.2	0.1	-0.1	-500
M professional, scientific and technical activities	5.6	1.8	7.0	6.5	5.5	6.6	7.9	2.2	0.4	2300
N Administrative and support service activities	14.4	4.7	13.1	11.0	10.7	11.0	13.9	3.8	-0.9	-500
O Public administration and defence, compulsory social security	15.2	5.0	16.7	20.7	22.1	24.8	21.9	6.1	1.1	6700
P Education	36.7	12.0	38.1	38.8	36.4	35.4	34.1	9.5	-2.5	-2600
Q Human health and social work activities	22.8	7.5	27.8	23.6	18.6	18.8	23.3	6.5	-1.0	500
R Arts, entertainment and recreation	6.7	2.2	6.0	4.7	4.4	5.6	5.0	1.4	-0.8	-1700
S other service activities	11.9	3.9	12.5	11.1	12.5	12.1	15.7	4.4	0.5	3800
T *Activities of households as employers	5.0	1.6	7.4	9.3	7.2	8.6	7.4	2.1	0.5	2400
U Activities of extraterritorial organisations and bodies	6.0	1.7	6.3	5.0	3.5	3.0	3.7	1	-0.7	--2300
Total services	244.0	79.9					292.7	81.2	1.3	48700
Total Employment	304.9	100.0					360.3	100		55400

3.3. Pattern of Structural Change of the Kosovo's Economy

The nature of structural transformation is important for understanding economic growth and development. The structure of the economy matters for growth performance and development, since sectors have different capabilities to achieve and to induce productivity gains, and to benefit from domestic and foreign demand. What a country produces and exports matters for economic growth, because activities differ with respect to returns, demand, and spillover potential. Economic development becomes a process where production is moving increasingly towards higher productivity activities with greater technological spillovers, increasing returns and higher demand elasticities. Structural change is the driver of development, not just a by-product. Growth-enhancing structural change occurs when resources are progressively allocated towards higher productivity activities. In this section we assess the nature of the pattern of structural change that the Kosovo's economy is experiencing.

Kosovo's economy is highly heterogeneous in terms of sectoral labor productivity. Table 3⁹ presents labor productivity in the different economic sectors and its evolution during the period 2012-2017. Given data difficulties regarding effective employment in the agricultural sector, we have not included it in the analysis. Most of agricultural employment is informal and non-paid family workers. However, different studies have demonstrated that the agricultural sector is a very low productivity one in Kosovo. Growth enhancing structural transformation would take place with the re-allocation of labor towards higher productivity activities in the manufacturing and services sectors. Data in Table 3 clearly shows the different levels of productivity and the varied performance of different sectors in terms of the average annual rate of productivity growth. While some sectors show significantly positive productivity growth performance, other are lagging behind; even showing negative productivity growth rates.

⁹ Source: Kosovo Agency of Statistics

Table 3. Labor Productivity by Sector of Non-agricultural Economic Activity [EURO]

	2012	2013	2014	2015	2016	2017	Annual productivity growth (%)
B Mining and quarrying	41976.7	30570.0	34179.7	46583.9	31732.8	31099.3	-0.058
C Manufacturing	13081.2	13574.2	12856.2	13751.1	14553.1	14445.2	0.020
D Electricity, gas, steam and air conditioning supply	18106.6	23796.7	25724.0	32652.2	36200.8	32897.3	0.127
E Water supply; sewerage, waste management and remediation activities	9827.5	12525.9	15977.1	12627.3	6667.9	10544.9	0.014
F Construction	11420.4	8975.8	9288.0	13757.5	10753.4	9219.5	-0.042
G Wholesale and retail trade; repair of motor vehicles and motorcycles	13828.8	14649.8	15144.8	16646.5	15018.3	14774.5	0.013
H Transportation and storage	18844.1	20159.8	21168.3	25191.2	20592.1	23368.1	0.044
I Accommodation and food service activities	2833.3	2115.9	2648.6	2695.5	2879.2	3090.7	0.018
J Information and communication	8680.0	5341.4	11999.0	12127.7	15111.1	12142.9	0.069
K Financial and insurance activities	25919.9	26590.1	37737.6	44017.5	34061.8	36665.4	0.072
L Real estate activities	602437.1	758796.7	2329720.0	1664384.0	1671997.2	2482460.0	0.327
M Professional, scientific and technical activities	12123.9	10780.1	11544.0	15957.7	14041.6	12089.5	-0.001
N Administrative and support service activities	1393.0	1655.0	1971.4	3185.8	3143.0	2742.4	0.145
O Public administration and defence ; compulsory social security	31951.3	30292.5	22214.2	19486.7	18428.7	21474.3	-0.076
P Education	4292.8	4290.8	4378.3	6055.3	6706.7	7069.4	0.105
Q Human health and social work activities	3006.4	2636.4	3512.3	5458.0	5845.3	4886.9	0.102
R Arts, entertainment and recreation	3036.9	3908.7	5740.0	5301.9	4274.9	5084.4	0.109
S Other service activities	1005.4	681.4	825.6	825.8	1072.5	829.5	-0.038

Aggregate productivity growth in the economy results from both: intra-sectoral productivity growth, increasing productivity by firms in the sector; and also as result of structural change, employment being increasing generated in higher productivity activities. As sectors differ not only in terms of productivity levels, but also in terms of productivity growth rates; resource allocation has a static and a dynamic effect. The static effect measures the productivity growth caused by changing employment patterns, while the dynamic effect captures shifts towards sectors with higher productivity growth rates.

Figure 2. Kosovo: Employment Generation by Productivity Level 2012-2016

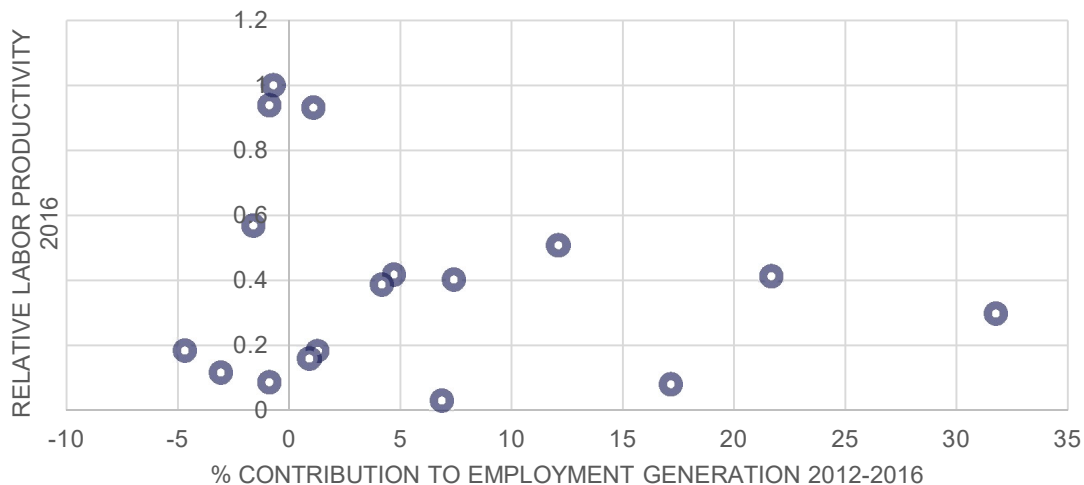
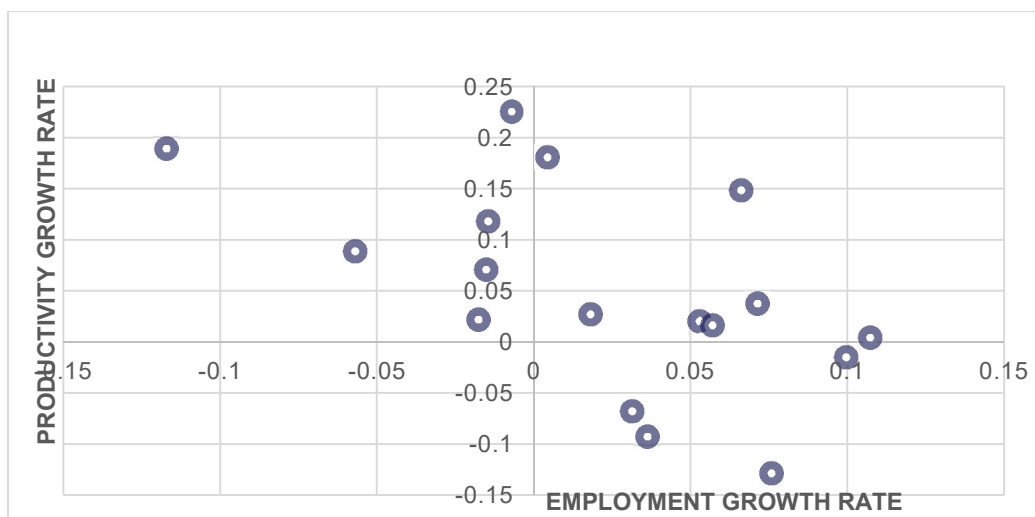


Figure 2 presents the contribution of each sector of economic activity to employment growth for the period 2012-2017 and its relation with the relative productivity of the sector. As it can be observed, the Kosovo economy is generating employment in those sector with the lowest productivity. It is imperative to note that in sectors with higher productivity employment is barely growing and more worrisome is the fact that it is declining in many services activities.

Figure 3 attempts to show the dynamic effect of resource allocation. It presents the growth rates of employments and of productivity for the different sectors of the economy. In those sectors with higher productivity growth rate, the employment growth is negative; while in sectors with a low productivity growth rate, the employment growth rate is significant.

Figure 3. Kosovo: Productivity and Employment Growth Rates



The preceding brief analysis shows that the pattern of structural change of the Kosovo economy might not be very conducive to sustained economic growth. Kosovo's economy is predominantly a services economy and will continue to be so in the future. The challenge is to find ways and means to promote the development of higher technology with higher value services activities that could emerge as drivers of growth and impulse a growth-enhancing structural change of the economy. Services activities would underpin the growth and development of sectors of material production. The main issue is if the free functioning of the markets forces alone will produce the necessary shift, or if active policies will be required to achieve fruitful results in this regard. Some measures have already been taken as the enactment of the Law on Services, and the adoption of some sectoral strategies covering some services sectors. But what is required is to draft an overall strategy, including a services trade policy, which will allow achieving a robust and competitive services sector.

IV. KOSOVO TRADE IN SERVICES

Trade in services has become a very dynamic element of the globalization process, and services trade is growing faster than trade in goods. The ongoing technological revolution and significant regulatory changes that have taken place worldwide have spurred the dynamism of services trade. Recent estimates of international transactions, made on the basis value added, shows that services trade represents half of total global trade. For many countries, trade in services is emerging as the main instrument for their integration into the multilateral trading system.

According to the General Agreement on Trade in Services (GATS), which adopted a definition of trade in services, which has also been incorporated in the Additional Protocol 6 to the CEFTA Agreement, trade in services takes place through different modes of supply.

BOX 2 ¹⁰

Mode 1: Cross-border supply: is defined to cover services flows from the territory of one Member into the territory of another Member (e.g. banking or architectural services transmitted via telecommunications or mail);

Mode 2: Consumption abroad: refers to situations where a service consumer (e.g. tourist or patient) moves into another Member's territory to obtain a service;

Mode 3: Commercial presence: implies that a service supplier of one Member establishes a territorial presence, including through ownership or lease of premises, in another Member's territory to provide a service (e.g. domestic subsidiaries of foreign insurance companies or hotel chains); and

Mode 4: Presence of natural persons: consists of persons of one Member entering the territory of another Member to supply a service (e.g. accountants, doctors or teachers). The Annex on Movement of Natural Persons specifies, however, that Members remain free to operate measures regarding citizenship, residence or access to the employment market on a permanent basis.

This session presents a preliminary assessment of Kosovo's trade in services. The analysis is based on data of Balance of Payments (BOP) from the Central Bank of Kosovo, which records the transactions between residents and non-residents, classified under different categories. International trade in services flows show the transactions between residents and non-residents according to twelve main service categories of the Extended Balance of Payments Services

¹⁰ WTO/GATS 4 modes of supply

classification (EBOPS 2010). This data does not allow to fully assess trade in services according to mode of supply. In particular, data utilized in this paper does not include trade under Mode 3, commercial presence; which is called foreign affiliate trade in services (FATS). The further development of statistics on trade in services, according to mode of supply and more disaggregation by type of service, should be high in the priorities of the future work agenda.

4.1 Overview of trade

Trade in services can create opportunities for Kosovo to expand the output of services in sectors where there is a relative comparative advantage, thus creating jobs, contributing more to GDP and generating foreign exchange. This can be especially important for Kosovo, which is facing constraints in accessing international markets for goods due to the poor transport infrastructure, being landlocked, and currently not being able to utilize efficiently sea ports in Albania or Greece.

Services exports can be, and should be, considered as an important component of the country's growth strategy. Furthermore, imports of services can significantly improve overall economic performance by increasing competition, bringing international best practices, better skills and technologies. Given that a significant proportion of trade in services takes place through foreign direct investment, it can also bring the much needed investment capital into the country.

Figure 4, presents Kosovo's aggregate data on trade in services for the period 2008-2017 according to the main categories of services. Trade in services has shown dynamism during this period, in which there has been a sustained services trade surplus. Services exports have grown at an annual average growth rate of 12.9 per cent; while imports at 8.1 per cent. In consequence, there has been an increasing surplus. In 2008 the services trade surplus stood at EURO 154.8 million reaching EURO 805.4 million in 2017; indicating a compound growth rate of the positive balance of 17.93 per cent during the period. However, the surplus on trade in services has significantly fluctuated from year to year.¹¹ It is important to note that the surplus on trade in services makes an important contribution to financing the current account.

Exports of services have grown from EURO 391.1 million in 2008 to 1 billion 319 million in 2017; while imports have increased from EURO 236.3 million to 514.2 million in 2017.

¹¹ In 2009 the trade surplus increased and reached EURO 235.4 .in 2010 it decreased to 188.6 million. In 2011 the balance reached 408.0 million and continued increasing until 2013 with 518.3 million. Next following years in balance decreased and in 2015 it stood at 459.8 million euro. For last two years services in Kosovo has a positive balance in 2016 with 642.5 million euro and in 2017 it reached the highest amount of 805.4 million

Figure 4. Kosovo: Trade in Services

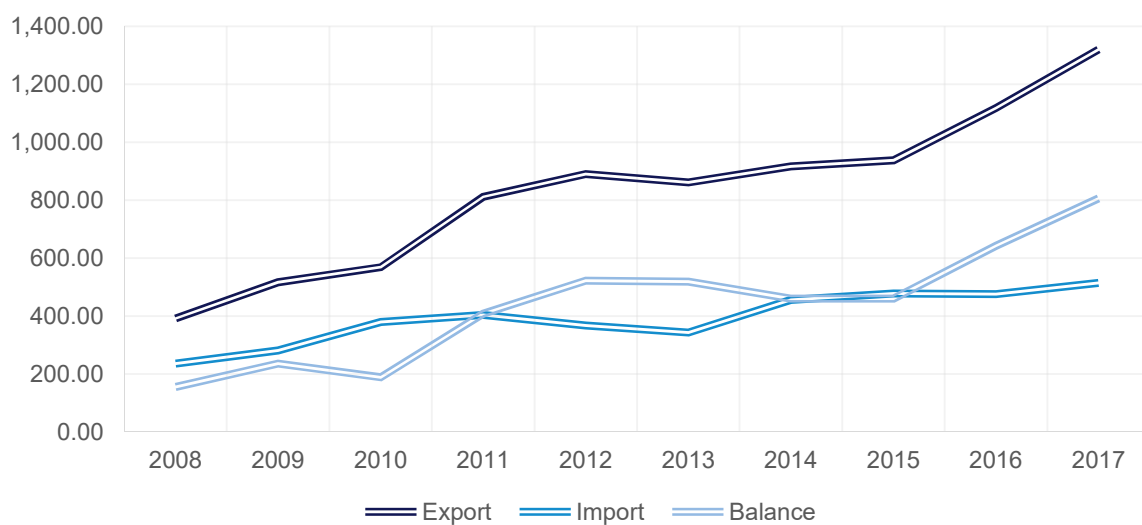


Figure 5 shows the composition of exports of services during the reporting period by main categories. Box No 2 presents a brief explanation of the transactions that are recorded under the different categories of services. Kosovo’s main services exports is travel. Travel has represented the bulk of exports during the entire period 2008-2017. In 2008, it explained 45 per cent of total exports, and in 2017 its participation had increased to 81.6 per cent of total exports of services. Travel services basically accounts for the surplus that Kosovo registers in services trade. There has been a significant decline in the value of exports of government services due to the reduction of the size and activities of foreign entities, such as EULEX, KFOR among others, in the territory of Kosovo.

The increase of exports of business services, which include a wide variety of different activities, has registered an annual average growth rate of 5.8 per cent, and this development should be noted. Exports of transport services have practically remained at the same level during the period under analysis.

It is very important to conclude this part by highlighting that Kosovo’s export of services is mainly based on travel, which is the effect of expenditures of non-residents in the country during temporary stay. In this regard, the visit of the diaspora and the money that they spent during their stay is a substantial component of total exports of travel services. This kind of export might not be sustainable and in near future could have a negative impact on overall export of services.

Figure 5. Kosovo: Export of Services

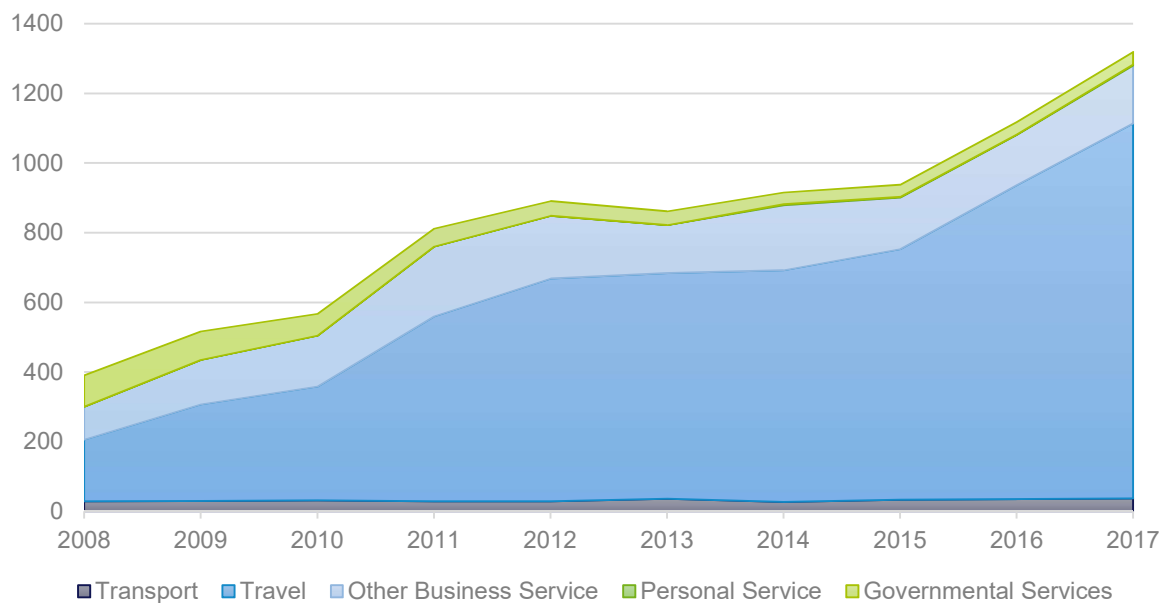


Figure 6 shows the composition of Kosovo's imports of services for period 2008-2017. Import of services has increased over this period but at a smaller growth rate than exports. Imports of services are less concentrated than in the case of exports; however, travel also constitutes the main import. Kosovo is a net importer of transport services; and also a substantial importer of business services.

Figure 6. Kosovo: Imports of Services

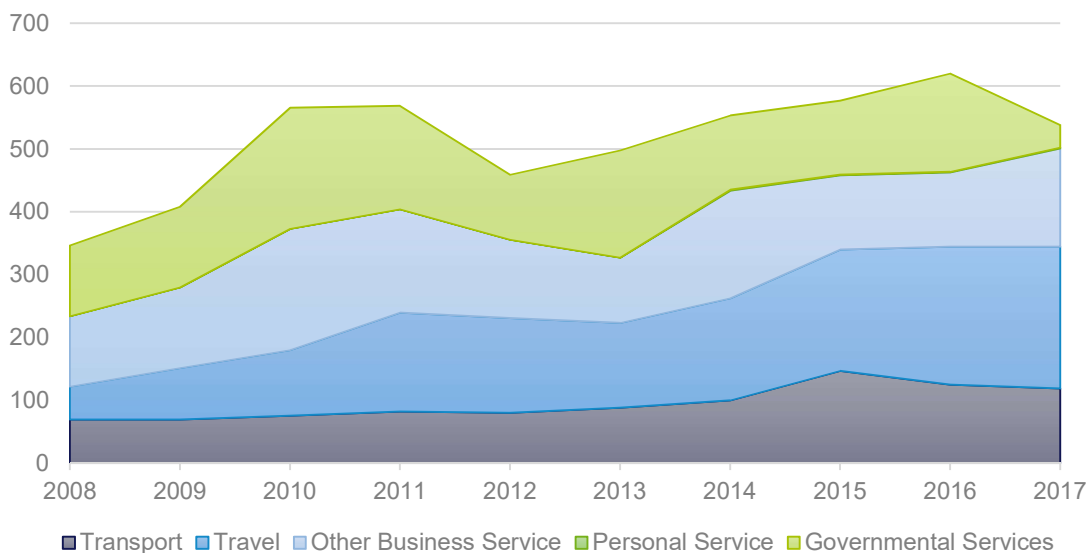


Table 4. Kosovo Trade of Services by sectors¹²

Year	Transport			Travel			Business Services			Personal, Cultural and recreational			Government goods and services			Trade of Services (Total)		
	X	M	Balance	X	M	Balance	X	M	Balance	X	M	Balance	X	M	Balance	X	M	Balance
2008	29.0	69.0	(40.0)	177.6	52.6	125.0	94.5	112.3	(17.8)	...	...	...	90.0	2.4	87.6	391.1	236.3	154.8
2009	30.1	69.2	(39.1)	277.6	82.1	195.5	127.0	128.4	(1.5)	0.8	0.1	0.7	81.4	1.7	79.7	516.9	281.5	235.4
2010	31.2	75.3	(44.1)	327.7	104.7	223.0	146.2	192.8	(46.6)	...	...	...	62.7	6.4	56.4	567.9	379.3	188.6
2011	28.6	82.0	(53.4)	531.6	157.3	374.4	200.1	164.6	35.4	0.0	0.0	0.0	51.6	0.0	51.6	811.9	403.9	408.0
2012	29.3	80.0	(50.7)	636.8	150.8	486.1	180.3	124.6	55.8	0.0	0.0	0.0	42.9	12.0	30.9	889.4	367.3	522.0
2013	36.5	88.0	(51.5)	647.5	135.3	512.2	138.0	103.6	34.4	0.0	0.0	0.0	39.0	15.8	23.2	861.1	342.8	518.3
2014	26.6	99.6	(73.0)	665.6	162.9	502.7	186.6	170.9	15.8	2.5	1.6	1.0	34.7	20.6	14.1	916.1	455.5	460.6
2015	33.1	146.7	(113.5)	719.7	193.2	526.6	148.4	118.3	30.1	1.6	0.8	0.8	34.8	18.8	16.0	937.7	477.8	459.8
2016	35.3	124.6	(89.2)	901.4	219.8	681.7	144.0	118.0	26.1	1.3	1.2	0.1	35.5	11.7	23.9	1117.6	475.1	642.5
2017	37.2	118.7	(81.5)	1,077.4	225.7	851.7	166.3	156.4	9.9	2.7	1.5	1.2	35.8	11.7	24.1	1319.5	514.2	805.4
Compound Annual Growth Rate %	2.52%	5.5		19.75	15.68		5.81	3.37		12.93	31.1		-8.81	17.16	-	12.93	8.09	

¹² This paper utilizes preliminary results for analysis. Values on the table may vary from current official documents at Central Bank of Kosovo do to the usual refines made in reports on trade of services. Thus, discrepancies are insignificant and could be omitted because this paper analyses an overall trends of trade in services

4.2 Pattern of Kosovo's Trade in Services

BOX 3

The term international trade in services covers services transactions between residents and non-residents. Services trade data is primarily collected for the purpose of elaborating the economy's balance of payments. Besides being provided through trade between residents and non-residents, services may be supplied also through foreign affiliates in host countries. Hence, the wider scope of trading in services adds also the commercial presence of the service suppliers. This latter component, foreign affiliate trade in services (FATS), is not constructed for balance of payments. It has to be estimated in its own.

Transport - Covers international revenues (receipts) and expenses (payments) associated with moving people and goods from one location to another, and includes related supporting and auxiliary services and postal and courier services. Transport is classified according to: (a) mode of transport, namely, sea, air, or other ("other" may be further broken down into rail, road, internal waterway, pipeline, and space transport as well as electricity transmission); and (b) what is carried—passengers or freight. Postal and courier services cover the pick-up, transport and delivery of letters, newspapers, periodicals, brochures, other printed matter, parcels, and packages, including post office courier and mailbox rental services.

Travel - In the case of travel, the consumer moves to another territory to consume the goods and services that he or she acquires. Travel credits cover goods and services for own use or to give away acquired from an economy by non-residents during visits to that economy; while debits cover goods and services for own use or to give away acquired from other economies by residents during visits to these other economies. The standard component breakdown of travel is between business and personal travel, with supplementary data for groups of special interest, such as border, seasonal, and other short-term workers.

Other business services – Includes a wide variety of tradable services. It consists of financial services, communication and information services; research and development services, professional and management consulting services, and technical, trade-related, and other business services. Research and development services include services associated with basic and applied research and experimental development of new products and processes. Professional and management consulting services include legal services, accounting, management consulting, managerial services, public relations services, advertising, and market research. Amounts received by a parent company from its affiliates for general overhead expenses related to these services are included. Technical, trade-related, and other business services include architectural and engineering, construction, waste treatment, operational leasing, trade-related, and other business services.

Personal, cultural, and recreational services - Consist of (a) audio visual and related services and (b) other personal, cultural, and recreational services. Audio-visual and related services consist of services and fees related to the production of motion pictures (on film, videotape, disk, or transmitted electronically, etc.), radio and television programs (live or on tape), and musical recordings. Other personal, cultural, and recreational services include health services, education services, and others. Other personal, cultural, and recreational services include those associated with museums and other cultural, sporting, gambling, and recreational activities, except those included in travel.

Government goods and services; goods and services acquired from the host economy by diplomats, consular staff, and military personnel located abroad and their dependents; and services supplied by and to governments that are not included in other services categories. Services supplied by and to governments are classified to specific services categories when source data permit.

This section provides a brief and more detailed assessment of Kosovo trade in services. It analyses trade by type of service and some activities within each category¹³.

¹³ Some sub-sectors are merged together or completely omitted because of their irrelevance to this paper.

4.2.1 Transport

Transportation is not simply a means of overcoming the physical constraints of geographical distance to international trade, it is a service that is traded in its own right by shipping companies, airlines, and a variety of surface based modes of transport, and diverse auxiliary services. Transport and logistics services facilitate international trade and play an important role in the growth and development of the economies. The quality and the efficiency of transport and logistics services matter for international trade, considering that weak services and logistics infrastructure and operational processes can be a major obstacle to global trade integration. The more timely, reliable and efficient the logistics supply chain, the more efficiently and reliably goods can be delivered from the point of production to the point of consumption. Furthermore, the multiple connections in the supply chain imply that a well-functioning transportation sector is important to realize the full potential of trade facilitation policies.

The transport services category can be divided into four sub-categories, namely sea transport, air transport, other modes of transport, and postal and courier services.¹⁴ The first three sub-categories further contemplate transport of people or of goods (freight). In the case of passenger transport, international trade in transport services covers all services provided to non-residents by resident carriers and to residents by non-resident carriers. Nevertheless, the transport of travelers (non-residents) is not included in transport. In international services trade it is classified under travel services. In the case of freight, transport services include all the international transport of the economy's exports and imports of goods. Moreover, it includes freight services provided by resident operators on the compiling economy's imports inside the customs frontier of the exporting economy (exports of freight services). In the case of Kosovo, due to its land-locked situation, sea transport is not a relevant category.

Figure 7 shows the time series for the evolution of international trade in transport services from 2008 to 2017. In aggregate terms, Kosovo is a net importer of transport services; and the trade deficit has been progressively increasing since 2008. Export of transport services has remained almost stagnant, with an annual average growth rate of 2.5 per cent; while imports have registered an annual average growth rate of 5.6 per cent. The nature of the significant increase in imports in 2015 is relatively ambiguous. High volatility in this sector is not noted, except for the period 2014-2015. Even though there is a significant difference in a value of exports and imports, it seems that change in the value of imported transport services is followed to some extent by the export component.

¹⁴ Other modes of transport services include all other modes of transport besides sea and air. They can be disaggregated to: space transport, rail transport, road transport, inland waterway transport, pipeline transport, electricity transmission and other supporting and auxiliary transport services (i.e. all other transport services that cannot be allocated to any of the components of transport services previously described).

Figure 7. Kosovo: Trade in Transport Services

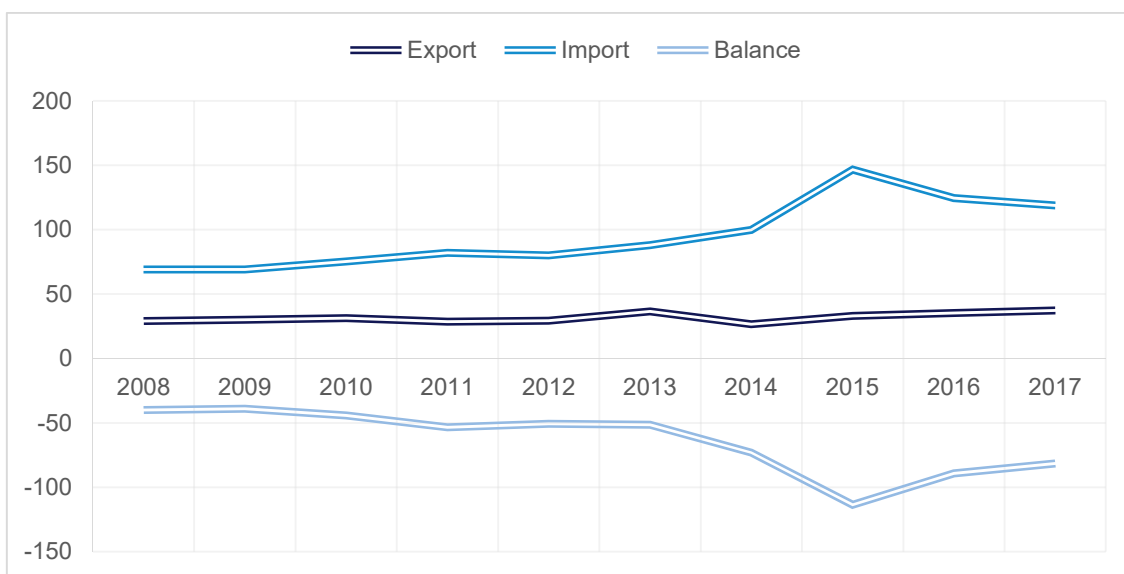
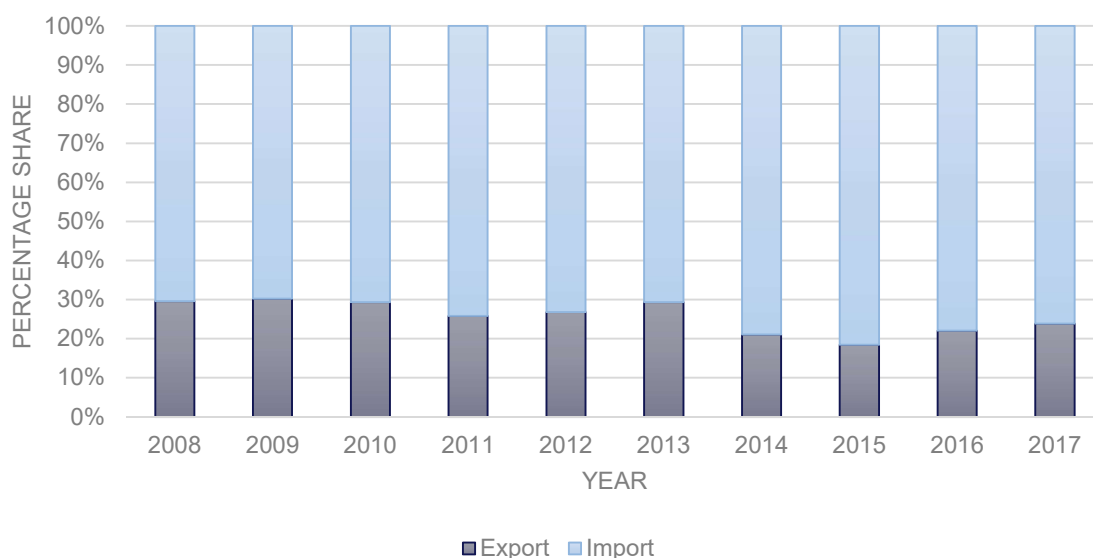


Figure 8 presents the ratio of transport services exports to imports. During the period 2008-2011 the ratio between export and import stood almost the same, exports covering around 25 per cent of imports; while for the period 2011-2013 the ration stood at 30 per cent. In 2014, the ratio drastically decreased to around 10%. Lastly, for the period 2015-2017 the ratio has been around 20 per cent. The fact is that the export coverage of imports of transport services has experienced a progressive decline, which translate into a growing trade deficit albeit with significant yearly fluctuations.

Figure 8. Import Coverage Ratio for Trade in Transportation Services

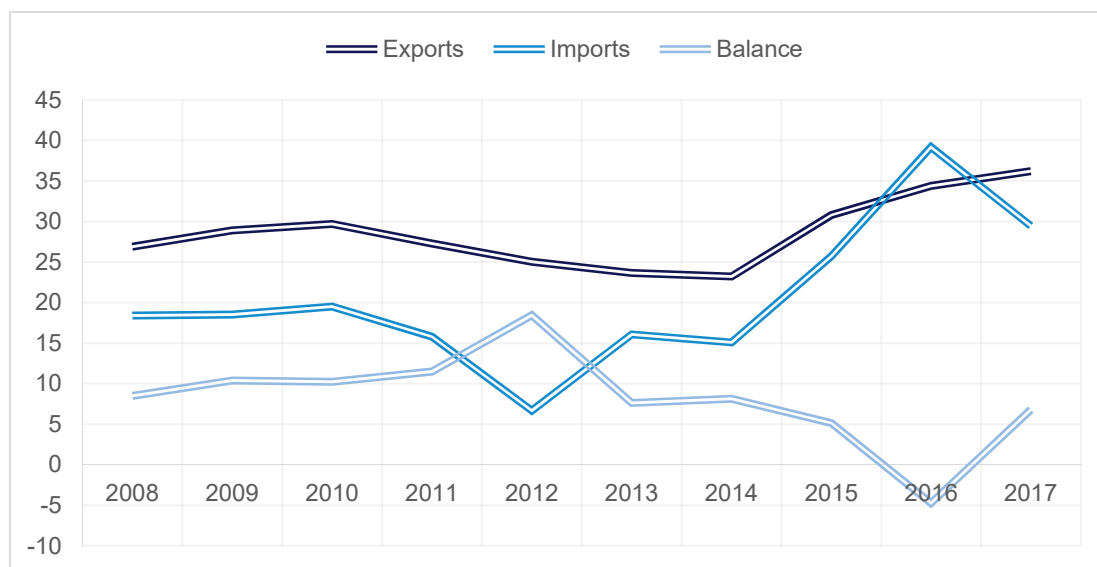


Historically there have been close relations between international trade and international transport. Development in trade is mirrored in the development in international transport, as there is a significant association between the volumes of trade in goods and the evolution of export and imports of freight transport services.

Air Transport Services

Air Transport services are further disaggregated into transport of passengers, freight and other services. Figure 9 presents the aggregated time series data for exports and imports of air transport services. As it can be observed, Kosovo has registered a surplus on trade in air transport services during the period 2008-2017, with the exception of 2016 when a deficit was recorded. However, the trade surplus have shown a declining trend since 2012.

Figure 9. Kosovo: Trade in Air Transport Services



The composition of trade in these services merits further analysis. In the case of transport of passengers, Kosovo depends mainly on foreign carriers, not registering exports of these services as there is no a well-developed national airline industry. Air transport of passengers have represented, during the period 2008-2017, the bulk of Kosovo’s imports of air transport services. In 2017, transport of passengers accounted for 85 per cent of total air transport imports of Kosovo.

In the case of freight, that is transport of goods via air, there is very limited, almost inexistent trade as most of Kosovo’s imports are through land. Air freight exports practically do not exist, and imports during the period 2015-2017 have averaged only EURO 19,000. The main export of air transport services, practically all registered exports, and that explains the surplus in these services trade are in the category “other”, which reflects the payments made by foreign carriers in Kosovo for services related to air transport.¹⁵ In recent years the imports of other air transport servicers have shown a rising tendency, albeit with significant fluctuations.

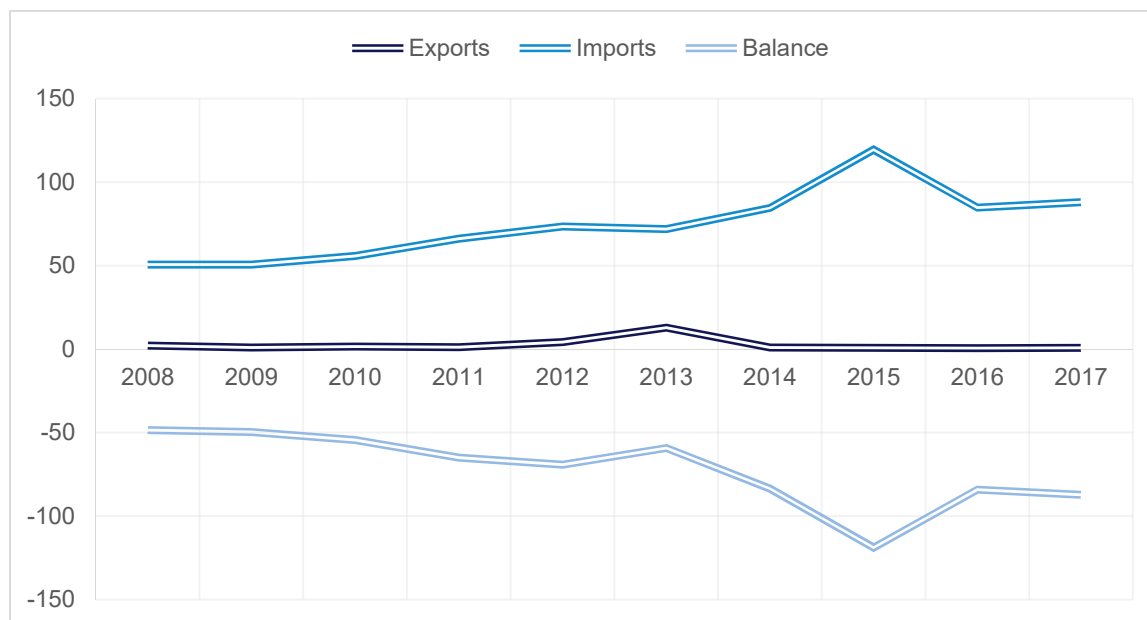
Other Modes of Transport

Other Modes of Transport comprises a variety of different transport means, including road transport, rail, and water way transport, pipeline transport, and space transport, and also electricity

¹⁵ Other transport services include services that are auxiliary to transport and not directly provided for the movement of goods and persons. The category includes cargo handling charges billed separately from freight, storage and warehousing, packing and repackaging, towing not included in freight services, pilotage and navigational aid for carriers, air traffic control, cleaning performed in ports and airports on transport equipment, salvage operations, and agents’ fees associated with passenger and freight transport (e.g., freight forwarding and brokerage services).

distribution. In the case of Kosovo, the main mode of transport registered is road transport. Road transport can be further disaggregated into passengers, freight and other.¹⁶ Figure 10 presents the time series data of trade in other transport services for Kosovo for the period under analysis.

Figure 10. Kosovo: Trade in Other Transport Services



Imports of road transport services significantly exceeded exports every year, resulting in a persistent and growing deficit for Kosovo. This is a reflection of the high dependency of Kosovo trade in foreign transport services suppliers. The deficit in trade of these services has almost double since 2008, growing from EURO 48 million to EURO 87 million in 2017. The bulk of registered trade is freight; that is the transport of goods; which in 2017 represented 99.7 per cent of all imports of these services. In the case of passengers the time series only register trade since 2014, with low values for both exports and imports; with a maximum value for exports of EURO 184 thousand in 2017, and for imports of EURO 316 thousand in 2016. Kosovo registered a small surplus in two years, and a deficit in the other two years for which there is data available.

The evolution of trade in freight transport is closely associated with the trends in trade in goods. In the case of Kosovo, the analysis was done to estimate the degree of association between imports of goods and imports of freight transport services during the period under analysis. The regression analysis showed a significant association between the evolution of imports of goods and the imports of freight transport services ($R^2 = 0.5531$). An increase in imports of goods, in the absence of any change in the supply of transport services, will produce a concomitant increase of the import of freight transport services slightly above half the increase in imports of goods. This degree of association also demonstrates the dependence of Kosovo on foreign services suppliers of transport services. A similar analysis was done to estimate the association of export of freight services and exports of goods from Kosovo. In this case, no significant relationship was found; signaling that also in the case of exports there is a high dependency on foreign transport suppliers. This might be showing the impact of the restriction that Kosovo transport services providers confront in operating in neighbor countries.

¹⁶ Other transport services include supporting and auxiliary transport services that are not directly provided for the movement of goods or people, some of which are also provided by transport operators

Postal and Courier Services

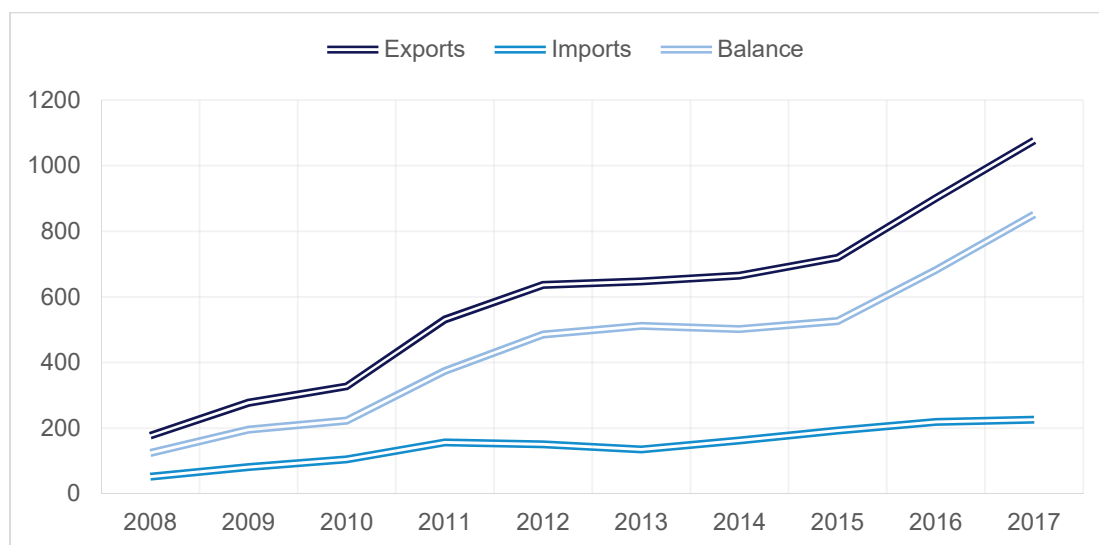
The reporting period for which there is data on postal and courier services is from 2014 to 2017. An inconsistent trend of trade in these services is spotted in 2014, the amount exported stood at 2.3 million euro, decreasing during 2015, to 1.5 million, and then in 2017 decreased drastically to EURO 206 thousand. Meanwhile, imports of postal and courier services has increased from 686 thousand euros in 2016 to 1.2 million euros in 2017.

4.2.2 Travel

Travel registers the expenditures on foreign non-residents while in Kosovo (exports), and that of Kosovo's temporary travelers while in foreign countries (imports). People travel to other countries either for business purposes or for personal ones. In terms of personal travel, accounts record the expenditures related to health or for educational purposes, and for other reasons basically for tourism.

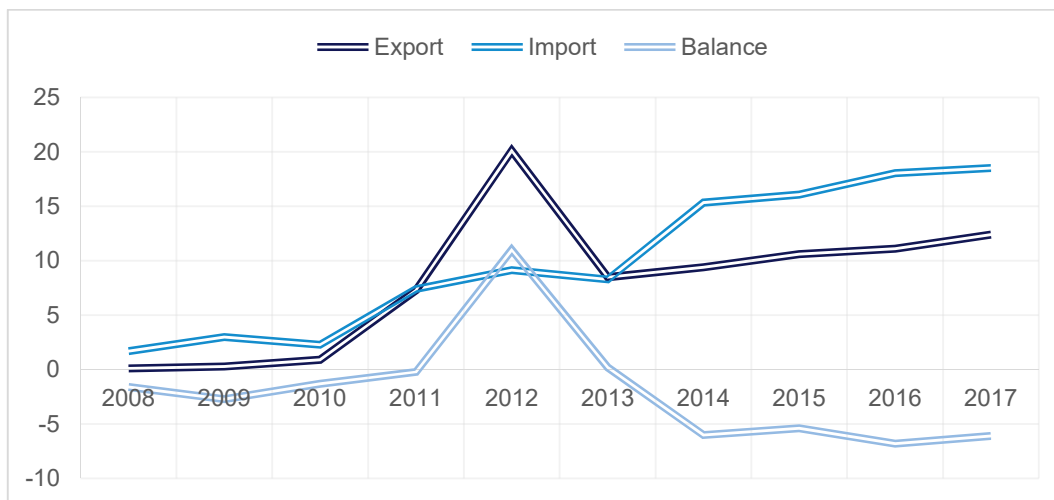
Travel is the most important component of services trade in the case of Kosovo. Figure 11 presents the time series evolution of trade in this category of services for the period 2008-2017. As it can be observed, both exports and imports have shown significant dynamism during this period; during which Kosovo has registered a sustained and growing trade surplus; which reached EURO 871.7 million in 2017. During this period exports grew at an average growth rate of 24.85 per cent, while imports at a rate of 15.68 per cent.

Figure 11. Kosovo: Trade in Travel Services



In the case of Kosovo, travel for personal reasons, other than business, dominate trade. Business travel, even though showing dynamism, represents a minor proportion of the total. In 2017, business travel only represented 1.15 per cent of total Kosovo exports, and only 8.2 per cent of total imports in this category. In business travel Kosovo has experience a deficit most of the years during the period analyzed. However, the progressive increase in exports shows that more people are coming to Kosovo pursuing business activities. Exports have grown from EURO 114 thousand in 2008, to EURO 12.4 million in 2017. On its part, the expenditures of Kosovo nationals traveling abroad for business purposes have grown from EURO 1.17 million to EURO 18.5 million during the same period. Figure 12 presents the time series evolution of business related travel.

Figure 12. Kosovo: Trade in Business Related Travel



In the case of personal travel, the category 'Other' is reflecting mainly tourism. There is some dynamism in the case of health and education travel, but the value of trade both of exports and imports in these cases is relatively low. In both cases, Kosovo has experienced sustained deficit; signaling that the country is a net importer of health and education services. In the case of health services during 2017 Kosovo imported EURO 7.4 million, while it exported EURO 1.16 million. In the case of education services imports amounted to EURO 6.6 million, while exports reached EURO 3.36 million.

As mentioned above, travel for other personal purposes, including tourism, constitute the bulk of Kosovo's trade related to this account. In this case, both exports and imports have shown significant dynamism. Exports have grown from EURO 177 million in 2008 to EURO 1,060 million in 2017; while imports from EURO 49.2 million to EURO 193.2 million during the same period. Exports have been growing at a compound annual growth rate of almost 20 per cent; and imports at a rate of 14.6 per cent a year. Kosovo has maintained a growing trade surplus, which reached EURO 867.3 million in 2017, up from the surplus of EURO 128 million achieved in 2008. An important component of personal travel comprises the visit trips undertaken by the Kosovo diaspora. According to 2017 data, out of 120 thousand visitors, almost 30 per cent of them were not made by the foreign nationals. Moreover, many second generation diaspora members hold foreign passports. A significant proportion of visitors come from countries with a sizeable Kosovo diaspora. The impact of the diaspora in the travel account is an issue that deserves further detailed analysis, as it is not tourism in the strict sense.

4.2.3 Business Services

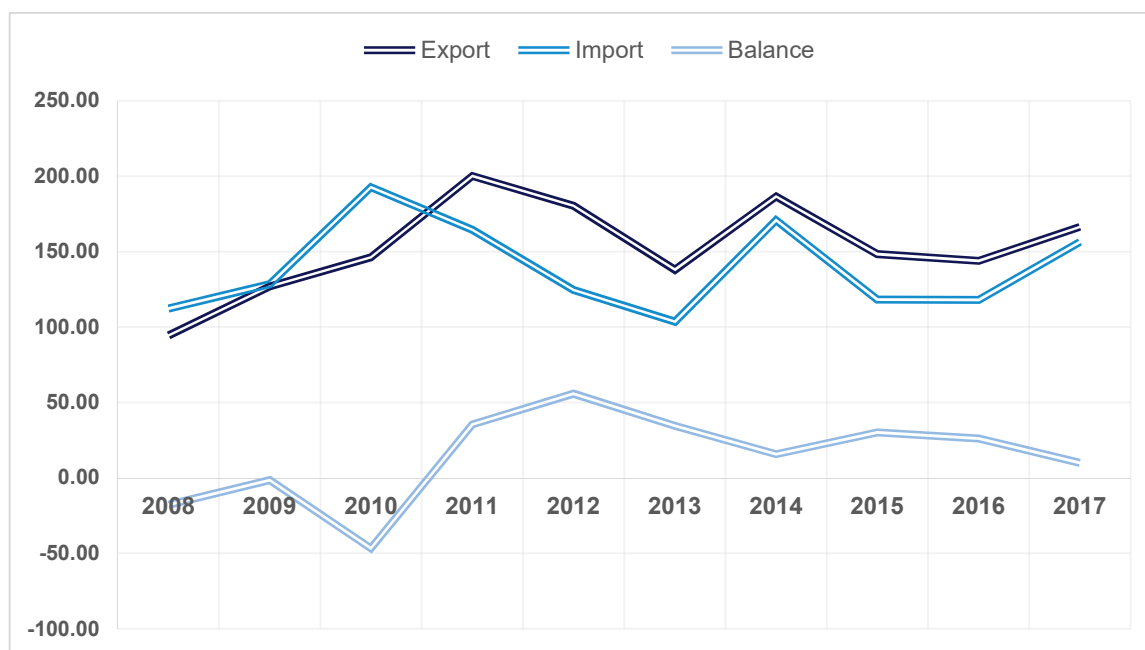
Trade in business services is one of the fastest growing segments of global trade in services. This category encompasses a wide variety of different services activities, many of which are inputs for sectors of material production and also for other services. Table 5 presents the evolution of Kosovo's trade in business services for the period under analysis the broad categories of business services considered for this assessment.¹⁷ As it can be observed there has been high level of fluctuation in both exports and imports throughout the reporting period. Exports dominated over imports from year 2011 onwards; however there is a declining trend on the trade surplus on trade in these services; as it can be clear concluded from Figure 13. The peak surplus of EURO 55.8 million was achieved during 2012. The trade surplus in 2017 was only EURO 9.9 million.

¹⁷ In this document trade in "manufacturing services on physical inputs owned by others", maintenance and repair services; and "charges for the use of intellectual property have not been included; as to assess trade in services in the light of the GATS and AP6 coverage. In that sense we have incorporated construction services under this category.

Table 5. Kosovo: Trade in Business Services

	<i>Construction</i>			<i>Insurance and pension services</i>			<i>Financial services</i>			<i>Telecommunications, computer, and information services</i>			<i>Other business services</i>		
	<i>X</i>	<i>I</i>	<i>Balance</i>	<i>X</i>	<i>I</i>	<i>Balance</i>	<i>X</i>	<i>I</i>	<i>Balance</i>	<i>E</i>	<i>I</i>	<i>Balance</i>	<i>X</i>	<i>I</i>	<i>Balance</i>
2008	8.9	5.7	3.2	12.1	24.2	-12.1	2.7	2.5	0.1	57.3	20.4	36.9	13.6	59.5	-45.9
2009	15.7	5.0	10.7	14.8	24.4	-9.6	5.4	1.8	3.5	72.5	15.6	56.8	18.6	81.5	-62.9
2010	6.4	26.6	-20.2	15.5	28.4	-12.8	3.7	0.4	3.2	79.7	34.3	45.4	40.9	103.1	-62.2
2011	13.7	19.0	-5.3	13.9	31.0	-17.1	0.3	1.1	-0.8	96.9	20.1	76.8	75.3	93.5	-18.1
2012	22.4	11.4	11.0	25.3	29.2	-4.0	0.7	2.0	-1.3	70.4	23.0	47.4	61.6	58.9	2.7
2013	9.4	2.9	6.5	22.7	32.1	-9.4	2.0	2.7	-0.7	59.8	27.7	32.1	44.3	38.3	6.0
2014	12.0	7.7	4.4	21.8	35.9	-14.1	0.1	2.3	-2.2	77.7	58.2	19.5	75.0	66.8	8.2
2015	14.0	3.9	10.1	18.2	38.2	-20.0	0.5	3.2	-2.7	54.8	55.8	-1.0	60.9	17.2	43.7
2016	12.9	1.4	11.6	19.2	44.2	-24.9	0.5	3.5	-3.1	48.4	45.9	2.6	62.9	23.0	39.9
2017	9.3	1.4	7.9	19.7	41.6	-21.9	0.8	5.2	-4.4	46.6	51.3	-4.8	88.8	56.9	31.9

Figure 13. Kosovo: Trade in Business Services

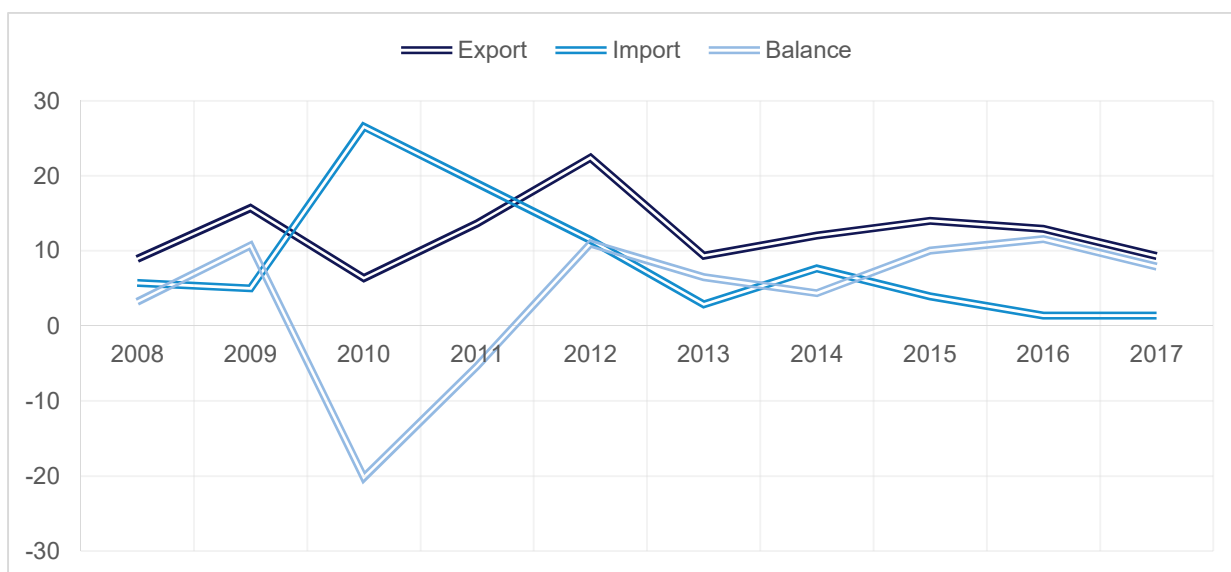


Trade in business services has not been particularly dynamic during this period. Exports grew at an annual compound rate of 5.8 per cent, while imports at 3.4 per cent. Since 2012, exports have remained fluctuating around almost the same level; as has been the case of imports. Additionally, the import coverage ratio has experienced slight fluctuation.

Construction

Construction services record construction abroad by Kosovo firms and construction by foreign firms in the reporting economy. Figure 14 portrays the evolution of trade in these services. Kosovo has maintained a surplus during the period, with the exception of 2010 when there was a significant increase in imports. The significant fluctuation of the value of exports should be noted, which reflects the project-based nature of this trade. Imports of construction services have experienced a sharp decline since 2012 and have been very limited in the last years of the time series. This is an activity in which Kosovo could make some further inroads in services trade.

Figure 14. Kosovo: Trade in Construction Services

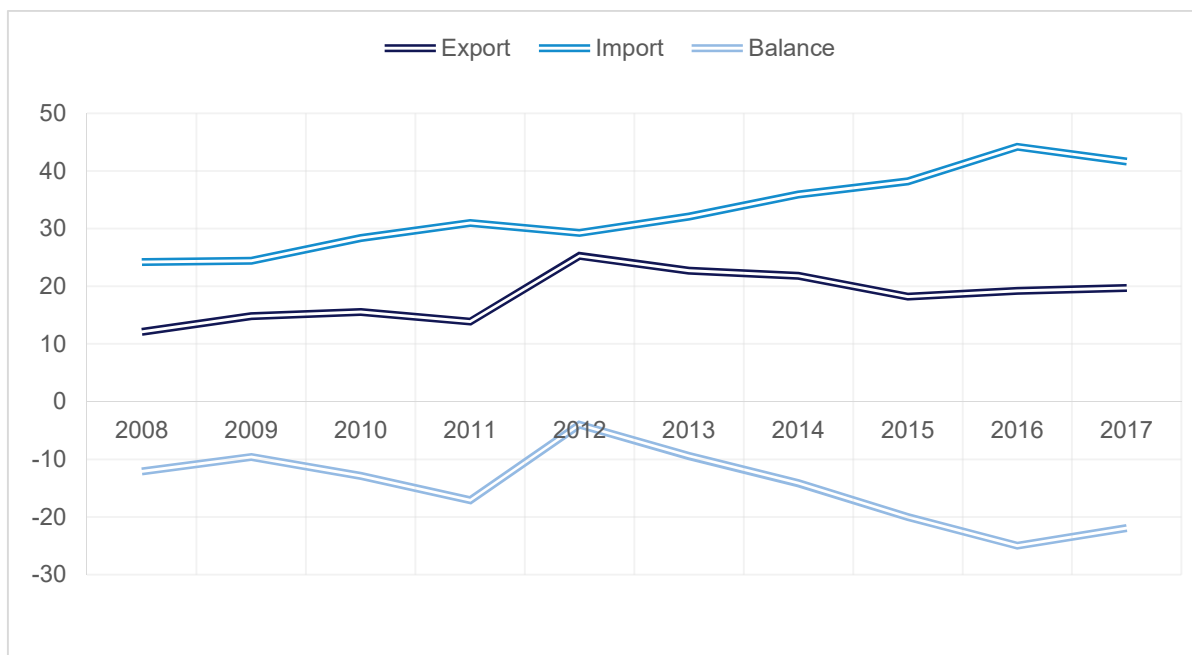


Insurance and Pension Services

This category, in the case of Kosovo, mainly reflect trade in insurance services, as there is no record of transactions on pension services. Insurance services covers the provision of various types of insurance to nonresidents by resident insurance enterprises, and vice versa. Kosovo is a net importer of insurance services; showing a trade deficit during the entire period. Figure 15 presents the evolution of trade in these services. Three different transactions are included under insurance services: Direct insurance, covering different types of insurance contracted with non-residents as life, health, or transport insurance; reinsurance contracted by insurance companies to transfer some of the risk; and other auxiliary insurance services, which would include among other services insurance brokers. In these three categories there is a sustained trade deficit, reflecting the limited development of the insurance market in Kosovo. Imports of auxiliary insurance services are only recorded in four years to the time series.

In terms of value, direct insurance represents the bulk of Kosovo trade both in exports and imports. There has been some dynamism in trade of these services. Exports of direct insurance grew from EURO 11.5 million during 2008, to reach EURO 19 million during 2017. On its part, imports grew from EURO 20 million in 2008, to EURO 38 million. No more disaggregated data is publicly available on the type of direct insurance that is traded. In 2017, direct insurance represented 99 per cent of total Kosovo exports of insurance services; and 92.5 per cent of total imports.

Figure 15. Kosovo: Trade in Insurance Services

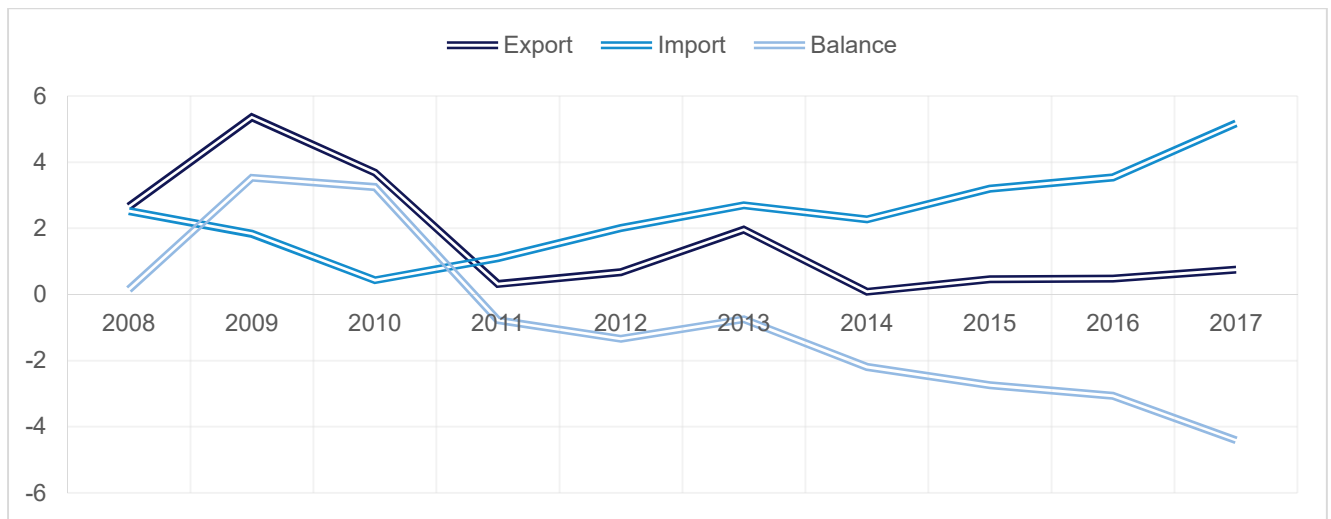


Financial Services

The financial sector plays a crucial role in all economies. In general terms, trade in financial services as reported by balance of payments is quite limited in the case of Kosovo.¹⁸ Exports since 2008 have been declining, and in recent years have shown significant variability. On their part, imports have shown a rising trend; and there has been a sustained trade deficit in these services since 2011, after a surplus during the period 2008-2010. Most of Kosovo's trade on financial services takes place through establishment of foreign banks in Kosovo; which (as discussed earlier) is not reflected in balance of payments, and it should be measured as foreign affiliate trade in services (FATS). Figure 16 presents the evolution of Kosovo's trade in financial services as reported in balance of payments.

¹⁸ Exports comprise the indirectly measured financial services supplied on the loan assets and deposit liabilities of resident financial corporations for which the counterparty is a nonresident unit. Imports comprise indirectly measured financial services purchased by resident units from all institutional sectors with nonresident financial corporations.

Figure 16. Kosovo: Trade in Financial Services



Telecommunications, computer and information services

Trade in these services have been expanding rapidly over the years. Table 6 presents data on trade in these services disaggregated by its major components.

Table 6. Telecommunication, computer and information services

Year	Telecommunication Services			Computer Services			Information Services			Total Telecommunication, computer and information Services		
	X	I	Balance	X	I	Balance	X	I	Balance	X	I	Balance
2008	55.9	13.8	42.08	-	-	-	1.37	6.54	(5.16)	57.29	20.37	36.92
2009	70.51	12.1	58.34	-	-	-	1.96	3.47	(1.51)	72.47	15.64	56.93
2010	77.04	28.02	49.02	-	-	-	2.62	6.29	(3.66)	79.67	34.31	45.39
2011	94.55	17.5	77.03	-	-	-	2.30	2.55	(0.25)	96.85	20.07	76.78
2012	70.27	22.00	48.27	-	-	-	0.13	1.00	(0.86)	70.40	23.00	47.40
2013	56.77	23.64	33.12	1.27	1.97	(0.70)	1.71	2.07	(0.36)	59.75	27.70	32.05
2014	68.89	50.02	18.86	8.78	8.18	0.59	-	-	-	77.68	58.22	19.46
2015	40.50	39.84	0.65	14.31	15.97	(1.65)	-	-	-	54.82	55.82	(1.00)
2016	35.29	36.72	(1.43)	13.10	9.13	3.97	0.03	0.01	0.02	48.43	45.86	2.56
2017	49.64	40.29	9.35	14.89	10.96	3.92	0.14	0.07	0.07	64.68	51.33	13.34

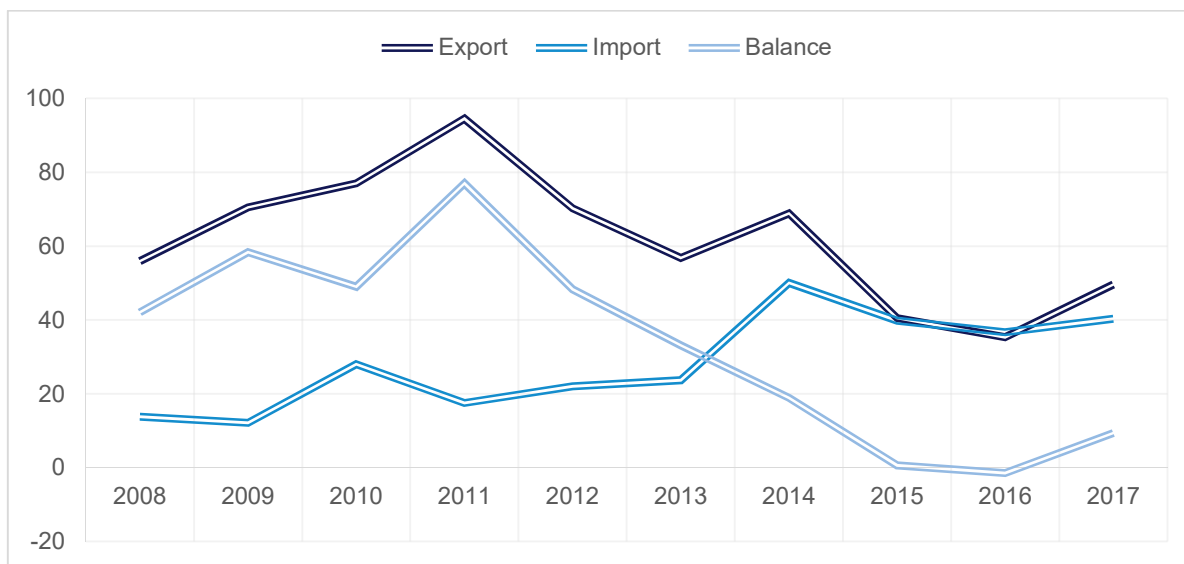
Telecommunications represents the bulk of trade transactions of these services. Kosovo has registered a sustained surplus on trade in international telecommunications during the period, however the surplus has significantly declined in recent years. With respect to trade in telecommunication services, it is important to highlight that the account mainly reflect the outcome

of the revenue settlement process between carriers of international telecommunications traffic, and depend on the volume of incoming and outgoing traffic. In this case, a net outflow of traffic will result in a net payments outflow from the country that "exports" that traffic. The evolution of trade is reflecting the changes that have taken place in the volume and direction of telecommunications traffic between Kosovo and the rest of the world.

An interesting development is the dynamism that computer services are showing in recent years, both in terms of exports and imports. There is only data from 2012 onwards. As it can be seen in Figure 17, Kosovo has been able to revert trade deficit and it has experienced a surplus during the last two years of the time series for which there is available data. Computer services comprises computer software and other computer services. It would be interesting to have more detail data on the type of computer services that Kosovo is trading. The development of the sector has been notable in Kosovo, with new companies entering the market. This sector can provide an interesting opportunity for Kosovo to diversify exports towards higher value activities.

Trade in information services, which covers news agency services and other information services,—including provision of news, photographs, and feature articles to the media; and direct, non-bulk subscriptions to newspapers and periodicals is not very significant in the case of Kosovo; and both exports and imports have shown a significant decline during the period under analysis. What is noticeable is the progressive decline of imports from EURO 6.5 million on 2008, to just EURO 70,000 in 2017. The factors that account for the trend in trade of these services would require a more detail analysis.

Figure 17. Kosovo: Trade in Telecommunications, computer and information services

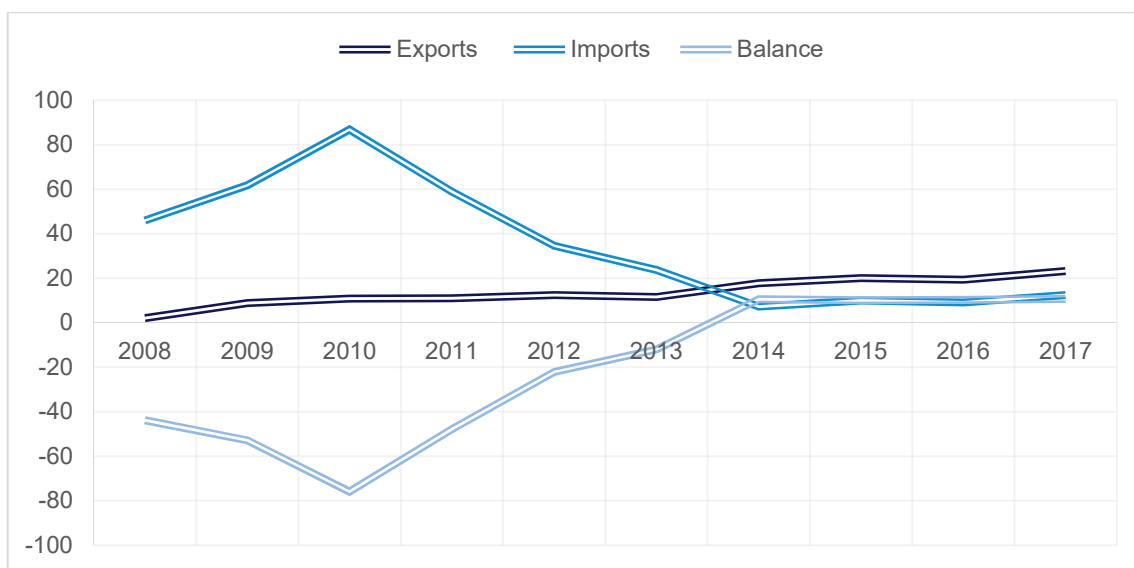


Other Business Services

This sector includes three sub-sectors: research and development services, professional and management consulting, and technical, trade-related, and other business services. There is no data on trade in the sub-sector research and development services in the case of Kosovo. This is an important component of services trade as it is the means through which technology is transferred across countries; as it comprises work undertaken on a systematic way to increase the stock of knowledge. It would be appropriate to explore the ways and means to gather data on trade in this type of services.

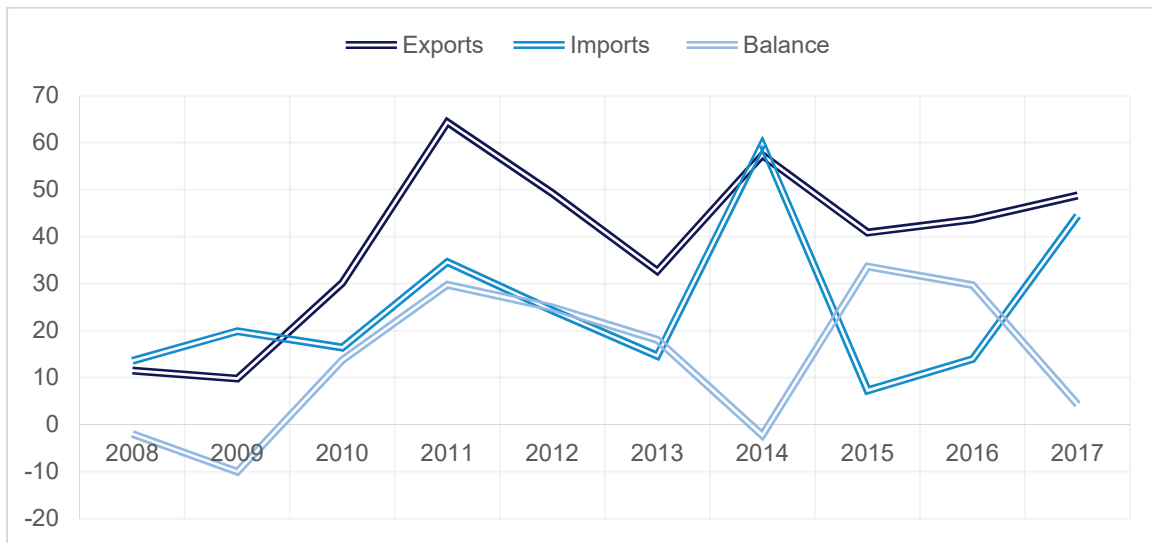
In the case of professional and management consulting services trade a very interesting trend can be observed during the period. Kosovo has been able to revert the trade deficit it experienced during the period 2008-2013, and achieve a surplus during the following years. The deficit had a peak during 2010 with EURO 75 million. This has been possible due to a significant increase in exports, which grew from EURO 2 million in 2008 to EURO 23.1 million in 2017. At the same time there has been a dramatic decline of imports from the peak of EURO 86 million reached in 2010, to only EURO 12.4 million in 2017. This trend might be signaling a successful process of import substitution, where local services providers have been able to make inroads in the domestic market. Figure 18 presents the evolution of trade in these services.

Figure 18. Kosovo: Trade in Professional and Management Consulting Services



In the case of technical, trade related and other business services Kosovo has also been able to significantly increase its exports, and to achieve a trade surplus during seven years of the time series. Exports have grown from EURO 11 million in 2008 to EURO 48.7 million in 2017, having a peak of EURO 64.3 million in 2011. In the case of imports a higher yearly variability can be observed, they have fluctuated from a maximum of EURO 59.6 million in 2014 to a minimum of EURO 7.2 million in 2015. The export performance of Kosovo in these services is a very positive sign of the potential for becoming an international player in the exports of some value added services. Figure 19 presents the evolution of trade in technical, trade-related and other business services.

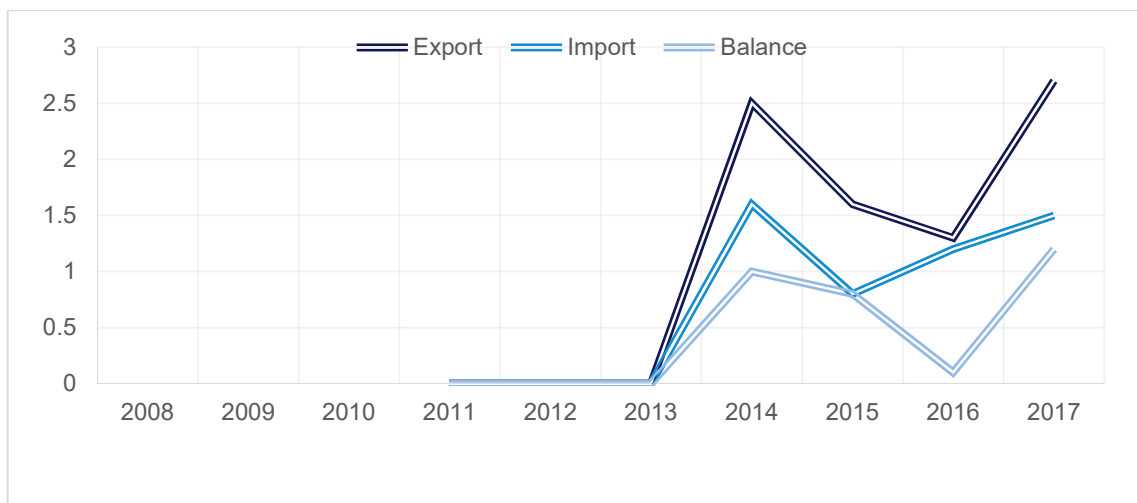
Figure 19. Kosovo: Trade in Technical, Trade-related and other Business Services



4.2.4 Personal Cultural and Recreational Services

This category records transactions in audio-visual and related services, artistic related services and other personal, cultural and recreational services. In the case of Kosovo there is data only for four non-continuous years in the time series, and there is no data for audio-visual and related services. In the case of other personal, cultural and recreational services for the years for which there is data Kosovo has experience a trade surplus. However, the value of trade is not very significant. The peak exports were in 2017 with EURO 2.5 million; and the peak imports in 2015 with EURO 1.57 million. Figure 20 presents the available data for trade in these services.

Figure 20. Kosovo: Trade in Personal, Cultural and Recreational Services



4.2.5 Governmental services

The balance of payments category “government goods and services” records the expenditures of foreign diplomatic entities, staff and military personnel located abroad and their dependents, and similar expenditures by Kosovo abroad, and also services supplied by and to governments that are not included in any other services category. Kosovo has maintained a surplus during the period under analysis. In the case of Kosovo there has been a sharp decline in exports from EURO 87.5 million in 2008 to EURO 24 million in 2017. This has been the result of the diminishing presence of foreign personal and different entities in the country and the reduction of their activities. At the same time imports have substantially increase during the same period from EURO 2.3 million up to 11.74 million in 2017. The increase in imports is a reflection of the enhanced presence of Kosovo diplomatic missions and more activities in foreign countries.

V. CONCLUSION AND RECOMMENDATION

The services sector, which is the backbone of the Kosovo’s economy, should be playing a leading role in promoting an inclusive growth-enhancing structural change of the economy. The analysis undertaken demonstrate that even though services have been very dynamic in recent years, its contribution to growth and development is by no means as it should be. Kosovo is expanding low productivity services activities, and there is no significant articulation between domestic supply of business services and sectors of material production. Even though trade in services has been dynamic during the last decade, there is strong dependence on travel receipts, which is the slowest growth sector of international trade in services, and in the particular case of Kosovo it seems to reflect in great measure family visits more that tourism in strict sense.

There is an urgent need to improve the collection of statistics on services activities, both in terms of national accounts by generating much more disaggregated data at the sectoral level; and also regarding trade in services there is the need to begin generating more detail data on the different services categories and on FATS. The progressive implementation of the Manual on Statistics (MSIT 2010) on Trade in Services would be an appropriate instruments to improve the statistics on trade in services.

The present study is a first approximation to our understanding of the Kosovo’s services economy and its role in growth and development. Further assessment, with comprehensive sectoral analysis is needed in order to gather the knowledge that is required to undertake informed policy decisions on how to assure that higher technology higher value services emerge as key growth engines, both in themselves and also through their contribution to enhancing the productivity of other sectors of economic activity. On such a basis a services development strategy should be incorporated with high priority in the governments’ agenda; which should include as a core element a services export promotion strategy. The challenge that Kosovo is confronting is daunting; it is necessary to find ways and means to alter the pattern of structural change of the economy; which by no means will be an easy task. But is a necessary condition if the sustained growth of the economy can be assured as well as overall improvements in the welfare of the population.