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Improving Kosovo-Serbia Economic Relations

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Improving Kosovo-Serbia Economic Relations

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1 Executive Summary

Arguably, economic cooperation between Serbia and Kosovo[1] has been at its lowest points in recent years, due to blockage of economic exchange imposed for political reasons. Most recently, this cooperation has been critically endangered by the ban on the use of Serbian Dinars in Kosovo, followed by a rather complete absence of any cooperation between the two central banks in Belgrade and Prishtina.

However, trade and economic exchange functioned relatively well for mutual benefits at times in the past and there is much room for improvement.

Several agreements between Serbia and Kosovo signed between 2013 and 2023 explicitly stipulate open market and economic cooperation between the two parties. Most recently, this cooperation has been critically endangered by the ban on the use of Serbian dinars in Kosovo, followed by a rather complete absence of any cooperation between the two central banks in Belgrade and Prishtina. However, the implementation of this cooperation was poor, hampered by the issues of sovereignty, political calculations by the ruling elites and populistic measures that violated the agreed measures. The Article 6 of the latest agreement from 2023 (The Ohrid Agreement), specifies that "The Parties agree to deepen future cooperation in the fields of economy...", but does not explicate what "deepening cooperation" means or entails exactly. This report identifies domains that need to and could be improved, and proposes ideas and measures that should be taken in that respect.

The most important domain that needs to be improved is the business environment, which would allow the re-establishment of free cooperation between businesspeople from Serbia and Kosovo. Such cooperation traditionally existed during the Socialist Yugoslavia, and even though it was reduced during the 1990s, it was rather quickly re-established after the war in 1999. Businesspersons should be encouraged to develop multiethnic joint ventures in the production of industrial products, which is all expected within the Western Balkans Common Regional Market, under the auspices of the Berlin Process. The premise for such a process is the political will to actually reach the process of normalization of relations between Serbia and Kosovo. Here, the two sides greatly differ. Kosovo wants to cut all ties with Serbia in an effort to establish its full sovereignty (political, economic, cultural, and international). Serbia is stronger by its size and economic strength compared to Kosovo, and is thus considered a threat in achieving this goal, and the Serbian community in Northern Kosovo is seen as a disruptive factor with its demand to establish a significant level of self-governance through the establishment of the Association of Serb Municipalities. Serbia is seen as the only winner in free trade and exchange of services, due to the undeniable surplus it achieved, but under normal circumstances this exchange would also be stimulating for the Kosovo side, because the rule is that exchange with neighbours in conditions of free market economy is always a very important segment of foreign economic relations. Following this logic, today's EU was created, then the Central European CEFTA, later

1 For Serbian researchers, this designation is in line with UNSCR 1244(1999) and the ICJ Opinion on the Kosovo declaration of independence.

the Western Balkan CEFTA in 2006. Thus, CEFTA market for the Serbian economy is the second partner in terms of trade volume, i.e. export and import of goods, immediately after the EU. For 11 months of 2023, Serbia had more than EUR 5.5 billion in trade with CEFTA parties. In this exchange, Serbia had a trade surplus of more than 2.5 billion euros, which was mainly the result of exports of electricity, grains and products from them, oil and petroleum products, beverages and road vehicles, and the coverage of imports by exports was 260.6 percent. On the other hand, the value of goods and services from CEFTA countries imported by Kosovo in July 2023 reached 73.9 million euros, or 14.4 percent of the total value of imports with a recorded decrease of 16.4 percent. Most of the purchases were from North Macedonia (5.9%), Albania (5.4%), followed by Serbia. In June, when the ban was imposed, the purchase of products from Serbia halved, and was worth about 13 million euros. The value of Serbian goods and services placed on the Kosovo market in July 2023, due to the import ban, was sufficient to cover only 1.3 percent of Kosovo's total imports. There was also a significant decrease in the value of products imported into Serbia from Kosovo. First, until July 8, a complete ban on the trade of Serbian products was in force, and then a decision was made that the ban should apply only to finished products, and to exclude raw materials, semi-finished products, mineral fertilizers and animal feed, machinery, equipment and building materials. Food and consumer goods are the most at risk. It is unknown when the Kosovo market will be opened for Serbian products, and the damage to the economy of both sides is increasing by the day. On top of that, the import ban pushes both Serbian and Albanian businesspersons into the grey area of unregistered transactions, which leads to the criminalization of such economic flows in the long run. Moreover, in the present globalized economy, this ban is hardly a simple bilateral matter. Several US companies (such as Coca Cola for instance), which have their regional centres and production in Serbia, have also been affected by this ban that, according to a US diplomat in Prishtina, also endangers US economic interests. Last, but not the least, official bans lead to unregulated markets, gray economy, corruption and criminal, all of which was already attested in economic relations between Belgrade and Prishtina in a Freedom House report from nearly two decades ago.[2] Prolonged ban could therefore likely lead to a regression into an unregulated marker relations beneficial for the smugglers and shady businesses and detrimental to legitimate businesses.

The most important barrier is thus certainly the ban on imports of Serbian products, which was introduced for the first time in 2018, and then abolished in 2020, only to be reintroduced in June 2023, although without an official government decision. During the first ban, Bosnia and Herzegovina was also involved, which seriously undermined the foundations of the CEFTA arrangement between the countries of the region, as well as the Western Balkans Regional Economic Area – established as a precursor to the Common Regional Market in 2017, at the Berlin Process Summit in Trieste. The aim of creating a regional market is precisely the further liberalization of trade and investment, with the removal of non-tariff barriers such as complicated procedures at border crossings, large administration and mismatch in the work of customs and inspection services - sanitary, veterinary and radiological. During the Covid-19 Pandemic, green corridors were introduced in the Western Balkans, which significantly simplified and accelerated border crossings and border procedures in the region for certain products. Hence, a viable goal today is to expand such practice to a wide range of products with the help of the Common Regional Market and significantly facilitate trade in the region.

In summary, the main obstacles and measures required for the improvement of economic relations emphasized by experts on both sides are: free trade, abolition of customs barriers, cooperation between the two central banks in enabling the flow of money in RSD and EURO between Belgrade and Prishtina, mutual recognition of paperwork (enabling money wire transfer), implementing the existing rather than making new economic agreements, provide joint production of goods, foster cooperation rather than competition where possible (energy, ecology), fully utilize CEFTA and the Common Regional Market possibilities and prevent its breaches.

2 A Joint European Vision: Free Movement for Goods and People in Kosovo and Serbia, file:///C:/Users/ifdt/Downloads/free-movement.pdf

2 Implementation of Article VI of the Agreement on the Path to Normalisation of Relations

2.1 Introduction[3]

Kosovo and Serbia accepted the Agreement on the Path of Normalization of Relations[4] on 27 February, 2023 in Brussels. Article 6 of the Kosovo-Serbia Agreement states that "The Parties agree to deepen future cooperation in the fields of economy, science and technology, transport and connectivity, judicial and law enforcement relations, posts and telecommunications, health, culture, religion, sport, environmental protection, missing persons, displaced persons and other similar areas through the conclusion of specific agreements." Articles 1 and 9 are also related to the economic cooperation between Kosovo and Serbia. In particular, Article 1 mentions that both parties recognize each other's "license plates, and customs stamps", which has significant implications for trade. In addition, Article 9 states that "Both Parties take note of the EU's and other donors' commitment to establish a special investment and financial support package for joint projects of the Parties in economic development, connectivity, green transition and other key areas". However, the Agreement leaves no specific explanation and understanding of what 'deepening cooperation' means in further detail. Thus, it is crucial to examine and propose ideas and measures that can be taken in these areas, especially in the fields of economy and energy.

2.2 Framing the Article VI: Multiple Agreements, Poor Implementation

Kosovo – Serbia dialogue is continuing since 2011. Several agreements have been reached so far, main being The 2013 Brussels Agreement,[5] The 2020 Washington Agreement[6] and The 2023 Ohrid Agreement (Annex).[7] However, implementation has been poor and many measures that were designed to improve economic cooperation were actually not utilized at all or were used only partially.

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3 The authors owe their gratitude to Albanian and Serbian experts who kindly participated in this research, especially to Mihailo Gajić and Jelica Minić for their thorough interviews and revising several sections of the draft report, and Lulzim Peci, Senad Šabović, Dušan Radaković, Artan Mustafa and Micah Savage for their insightful comments made at the presentation of the draft report in Prishtina. The responsibility for the expressed views, of course, rests solely on the authors themselves.

4 https://www.eeas.europa.eu/eeas/belgrade-pristina-dialogue-agreement-path-normalisation-between-kosovo-and-serbia_en

5 https://ec.europa.eu/commission/presscorner/detail/en/IP_13_347

6 https://edition.cnn.com/2020/09/04/politics/serbia-kosovo-agreement/index.html

7 https://n1info.rs/english/news/full-text-of-implementation-annex-agreed-in-ohrid/

The 2013 Brussels Agreement seemed to be a breakthrough. Both parties ratified it, with Serbia agreeing not to block, or encourage others to block, Kosovo on its EU path, while Kosovo officials agreeing to grant substantial autonomy to the Kosovo Serbs in the form of the Association of Serbs Municipalities. Some of the elements of the agreement have been implemented – for instance, Serbia accepted to tolerate customs-border crossing between northern Kosovo and Serbia proper, Serb police forces from Northern Kosovo have been – at least declaratively – subjected to Kosovo Police Task Force, Kosovo was allowed to use its own telephone code etc. However, the main source of dispute remains to be the overall scope and jurisdiction of the envisaged Association. According to Serbian claims, this Association/Community should have wide authority, but for Kosovo politicians it should function merely a consultative body, little more than a non-profit organization (for a more detailed analysis, see: Pavlović and Ćeriman 2020[8]).

The 2020 Washington Agreement has been signed by the Serbian President Aleksandar Vučič and Kosovo then-Prime Minister Avdullah Hoti in the White House at the end of Donald Trump's presidency. It almost exclusively focused on economic issues and cooperation, largely leaving aside the status and sovereignty issues, thus reflecting Trump administration's belief that even the most complex political issues can be resolved with some investments and the promise of economic improvements. The most ambitious projects announced by this document are: railway from Belgrade to Prishtina and further to the Adriatic, Belgrade-Prishtina Highway (The Peace Highway), Kosovo joining the "Mini-Schengen Zone" (The Open Balkans), major infrastructural projects to secure Kosovo's water and energy supply, diversifying energy sources etc. These measures aimed to improve economic ties and included agreements on issues like transportation, infrastructure, and trade. Both parties committed to collaborating with the Export–Import Bank of the United States and the U.S. International Development Finance Corporation, as well as joining the Mini Schengen Zone. During the same time period, The European Union has been involved in facilitating dialogue and normalization talks between Kosovo and Serbia, where both prime ministers met in Brussels to discuss economic cooperation among other issues. The latest agreement also pertaining to economic cooperation was the Ohrid Agreement in 2023, where the parties agree to deepen their cooperation and also both parties acknowledge the commitment of the European Union (EU) and other donors to create a dedicated investment regarding joint projects in the economic sector. In practise, however, little has been done to implement it, and the new Biden administration soon set a different tone, shifting the focus from economy to political issues and pushing for Serbian *de facto*, if not *de iure*, recognition of Kosovo's independence.

In addition, Kosovo and Serbia alike are part of various regional initiatives, the most durable and functional of which are The Berlin Process which is taking the form of Regional Common Market (agreed in Sofia 2020 Berlin Process Summit) and CEFTA, the trade agreement that still regulates regional trade.

2.3 Serbia-Kosovo's Hurdled Economic Relations

Since Kosovo's independence in 2008, economic relations between Kosovo and Serbia have been complex and influenced by political tensions. Consequently, these tensions spilled out to their trade relations as well, and political issues have occasionally hampered their economic cooperation. Since 2007, Serbia and Kosovo have pledged to engage in duty-free bilateral trade, as members of the Central European Free-Trade Area, and Kosovo opened its market to the Serbian goods as well, following the liberal trade paradigm. As Serbia did not recognize Kosovo's independence, imports of goods from Kosovo were more complicated. In 2011 the trade embargo between the two countries ended when Serbia agreed to accept goods marked "Kosovo Costoms", devoid of national symbols. Owing to its greater size, proximity and better economic parameters, between 2005 and 2018 Serbia amounted to Kosovo's main trade partner. Serbian imports to Kosovo amounted at around €3.6 billion, followed by Germany

8 https://doiserbia.nb.rs/img/doi/0353-5738/2020/0353-57382003340C.pdf

with €3.3 billion, and Macedonia with €3.1 billion. In comparison, Kosovo exported around €250 million to Serbia for the same period, which is a ratio of 15 to 1[9]. For instance, in 2017, trade with Serbia constituted 12% of Kosovo's overall foreign trade.

The dialogue between Kosovo and Serbia was suspended in November 2018 when Kosovo imposed trade tariffs on Serbian goods. Initially, Kosovo declared a 10% tax on imported goods from Serbia and Bosnia-Herzegovina, citing unfair trade practices and harmful behaviour towards Kosovo in response to Serbia's anti-recognition campaign against Kosovo. That same November, Kosovo announced another significant tax rate escalation, this time to 100%. This decision is believed to be a reaction to Kosovo's unsuccessful attempt to gain Interpol membership, a failure largely attributed to Serbian influence. The introduction of the import tariff almost brought to a halt imports from both countries. The imposed tariffs are estimated to result in approximately €40 million per month in lost exports for Serbia. Despite substantial pressure from the EU and the US to lift the tariffs, Kosovo has resisted, vowing to maintain them until Serbia makes political concessions.

Eventually, on April 1, 2020, Kosovo rescinded the 100% tax. The Kosovo PM Albin Kurti announced that goods imported from Serbia would require certification for quality, mirroring the requirements for Kosovo supplies sent to Serbia. However, the next government led by Avdullah Hoti removed these requirements. Serbian goods swiftly returned to Kosovo markets. In 2020, Albania was the first country in the region from which Kosovo imported goods, North Macedonia second, and Serbia third. In 2021, the trend changed, and Serbia returned to the first place, with an increase of 76%. In March of 2022, a fact-check by BIRN revealed that while the value of imports from Serbia had decreased compared to five years ago, in 2021 Kosovo still purchased slightly more than 305 million euros worth of goods produced in Serbia, a significant increase compared to the pandemic-affected 2020. Official Kosovo statistics also showed[10] that Kosovo imported over 340 million Euros worth of goods from Serbia, and exported around 60 million in 11 months of 2022.

The aforementioned measures have not been reinforced immediately with Kurti's comeback to power in March 2021, but in June 2023 the Kosovo Goverment again banned the export of Serbian goods. Initially, a complete ban on Serbian products was in effect until July 8, after which a decision[11] was made to apply the ban only to finished products, with exceptions for raw materials, semi-finished products, mineral fertilizers, animal feed, machinery, and equipment. Consequently, Serbian exports to Kosovo dropped from 27-29 million euros per month in March-May, to 6-12 million per month in June-December 2023. In 2023[12], thus, Serbia was Kosovo's 6th exporter in a value of 48.15 mill euro (5.9% of total exports), and 9th importer with 198.24 mill euro (3.4% of total imports). At the moment of writing this report, the ban is still in place. Taken altogether therefore, the trade between the two economies have shifted in the last decade, with political decisions and bans strongly influencing and too often hampering their economic exchange.

9 Gashi, P. & B. Berisha "The impact of 100% tariff on the import of goods from Serbia and Bosnia and Herzegovina." Hamburg: GFA Consulting Group. DOI: https://doi. org/10.13140/RG 2.28941.38885 (2019).

10 https://www.kosovo-online.com/en/news/business/kosovo-procures-most-goods-serbia-economists-call-boycott-serbian-products-25-12-2022

11 https://www.kosovo-online.com/en/news/analysis/six-months-blockade-serbian-goods-kosovo-hundreds-millions-euros-losses-both-sides

12 https://www.institutigap.org/lajme/3179

3 Potential Vision

The current relations between Kosovo and Serbia are all but normal, and at the lowest level in the last years. There is an extremely high mutual distrust, with inflammatory rhetoric which is contrary to what both have committed on February 2023 through the Agreement on the Path to Normalisation of Relations.

The research teams in Belgrade and Pristina jointly developed a set of questions which served as basis for interviews with leading economic and policy experts. The questions are future looking, in order to help develop a broad framework in an attempt to answer what Article 6 of the Agreement could potentially result to.

Five questions were used for interviews in Pristina, and six questions were used for the ones in Belgrade.

3.1 The Kosovo Perspective

The research team in Kosovo conducted interviews with four senior experts to obtain concrete ideas on the following questions, agreed with colleagues in Belgrade:

1. **Which are the three main areas which urgently need to improve in order to have a better economic cooperation between Kosovo and Serbia?**
2. **Which new economic agreements should be reached between the two sides?**
3. **In the context of regional economic integration of Common Regional Market, which are the substantial barriers which need to be removed between the two sides?**
4. **What would this economic integration entail in real life of citizens? How would it look like practically?**
5. **Is there an area for joint production from which both sides would benefit? If yes, which one?**

Responses

The first question was about the three main areas which need to improve the economic situation. The first respondent answered that there needs to be an overall transformation of relations with a broad economic vision, which should concretely have benefits for citizens. The new vision would inevitably lead to understanding that political relations must be at a far different level then it currently is. He also stated that in terms of trade and goods, Kosovo must see the benefits of free and open trade with Serbia and recognize that imports from Serbia are mostly "cost efficient". The second respondent said that the key obstacle to cooperation was the entrapment of both governments on the issue of recognition and non-recognition, and that as long as this entrapment exists, not much can be done to improve the economic cooperation. He also said that non-tariff barriers which both have introduced to each other's products should be lifted, not to be introduced again, in order to see how the products will really fare. The third respondent said that it was impossible to think about a qualitative cooperation when Kosovo and Serbia, and all other Western Balkans, have competitive economies rather than complementary ones. He also stated that the regional cooperation, meaning Kosovo and Serbia too, has reached its maximum to a level where it is not beneficial, because the main markets for both, including the rest of Western Balkans, has become the EU. The forth respondent noted that Kosovo and Serbia were at a peculiar position, since at regional level – through Berlin Process and CEFTA – they were working on removing barriers and deepening cooperation, while at the bilateral level both were using non-tariff barriers to prevent cooperation, including the toxic and conflict prone public discourse of governments.

On the question on what new economic agreements Kosovo and Serbia should work towards, the first respondent said that both should move towards a strategic cooperation in the energy sector, where both Kosovo and Serbia ought to recognize the need to deepen the cooperation in the energy sector, the need for long-term development and energy transition in line with Green Agenda, and by engaging in exploring the possibilities to expand the "Albanian energy market – ALPEX" with Serbia and the rest of Wester Balkans. The second respondent said that legally there was no problem to economic cooperation and that it was the bunker mentality of the leaders which is preventing this cooperation. The third responded said that there were no incentives, especially if one looks at the FDIs between the countries – where the following trends were visible – FDIs between Kosovo and Albania, and FDIs between Serbia and Republika Srpska entity of Bosnia and Herzegovina. Furthermore, given the limits of intra-regional trade, no plans or agreements can change these limits.

The third questions tested the potential for cooperation through the Common Regional Market (CRM) platform. The first respondent said that improving transport was key, especially finalizing the highway from Prishtina to Niš and functionalisation of the railway. The second responded said that not many of the businesses were even aware of the CRM, and asked if it was the same as the Open Balkans Initiative. The third respondent said that CRM was not enough anymore to help growth of the region, and that the only way how it can work is through FDIs from the EU. In this sense, he said that if the Growth Plan was real, it would help to advance the CRM and increase growth. The fourth respondent said that there are several areas where agreements could be made in order to create a single market, modelled after the EU Single Market, and allow access to labour market to all, through concluding agreements on removal of double taxation, banking payment system, and finding a working model on portability of social rights, such as pensions, healthcare, social insurance, etc. The first responded noted the need to address the problem of absorption capacities of Kosovo. The third responded said that Kosovo needed to understand that it does not lose from economic cooperation with Serbia, while the first responded said that joint projects towards EU could be on the table for Kosovo and Serbia.

As for the potential for joint projects and the benefits for citizens, the forth respondent said that if both Kosovo and Serbia are committed to mutual peace and cooperation, and are really determined to make a step towards normalisation of relations, both should develop a joint vision for development of Northern Kosovo. The first responded said that there needs to be a strategic framework to utilize green industrial policies, which can be very beneficial to both. The third responded said that there need to be measures to enable full free movement of labour force, to try and retain some of the people in the region, given the brain-drain trends towards the EU.

3.2 The Serbian Perspective

The research team in Belgrade conducted 6 interviews each with relevant economic experts. The aim was to obtain expert opinion, chiefly key ideas and suggestions, on how to deepen cooperation between Serbia and Kosovo, particularly in the fields of economy and energy. Article 6 of the Kosovo-Serbia agreement of February 27, 2023, mediated by the European Union, states that "The Parties agree to deepen future cooperation in the fields of economy, science and technology, transport and connectivity, judicial and law enforcement relations, posts and telecommunications, health, culture, religion, sport, environmental protection, missing persons, displaced persons and other similar areas through the conclusion of specific agreements." Articles 1 and 9 are also related to the economic cooperation between Kosovo and Serbia. Given that it is not clear what is meant by 'deepening cooperation', it is crucial to examine and propose ideas and measures that can be taken in these areas, especially in those of the economy and energy. The correspondents were asked the following questions:

1. **Which are the three main areas which urgently need to improve in order to have a better economic cooperation between Kosovo and Serbia?**
2. **Which new economic agreements should be reached between the two sides?**
3. **In the context of regional economic integration of Common Regional Market, which are the substantial barriers which need to be removed between the two sides?**
4. **What would this economic integration entail in real life of citizens? How would it look like practically?**
5. **Is there an area for joint production from which both sides would benefit? If yes, which one?**
6. **How do you see the potential of the Open Balkans initiative and the possibility that it improves cooperation between the two sides?**

The correspondents were promised anonymity. To ensure it, they were given questionnaires that did contain personal questions. Thereby, it is not possible to identify who gave which answers. This was done to ensure that the interviewees voice their views and opinions in a free and open manner. As we cannot reveal the identity of the participants, it suffices to say that they were members of the American Chamber of Commerce in Serbia, Serbian Chamber of Commerce, independent economic experts with expertise on Serbia-Kosovo economic relations, an academic from the Faculty of Political Sciences and a research institute that published extensively on this topic, members of NGOs involved with Serbia-Kosovo cooperation and Chapter 35[13] of the Serbian EU accessions process – normalization of their relations.

The questions and research framework have been formulated and agreed with the Kosovo team in late 2023. Informants were selected in January and their responses collected in February 2024. All interviewees were informed about the research, its aims, the anonymity and participation on a voluntary basis. The response rate was around 40%, which means that it took 15 invitations to obtain 6 responses. The reasons for such relatively high rejection rate could be ascribed to the contested notion of the issues in questions, unfavourable present situation between Serbia and Kosovo, but also perhaps to the limited contacts that the Serbian research team had previously had with the particular experts in question. In any case, these 6 interviewees come from various sides of the Serbian society – business, independent experts, academic and civil society, with the focus on the economic experts, and should thereby be considered generally illustrative for the expert opinion on this issue.

13 https://mei.gov.rs/upload/documents/pristupni_pregovori/pregovaracke_pozicije/ch35_common_position_eu.pdf

Responses

The respondents were initially asked to indicate areas through which economic cooperation between Kosovo and Serbia could be improved. One of them emphasized the need to improve the business environment, enabling the re-establishment of free cooperation among business people from both sides. This includes cooperation in agricultural product exchange, a unified energy market, collaboration in telecommunications services, and the development of joint ventures in industrial production. The political will for normalization of relations between Serbia and Kosovo is crucial. However, the two sides have differing objectives, with Kosovo seeking full sovereignty while Serbia is seen as a threat to achieving that goal. Despite this, trade with neighbours is essential for both sides, as evidenced by the significant trade exchange within CEFTA (Central European Free Trade Agreement) countries. The second respondent highlighted the importance of education, political relations, cooperation between governments, and the possibility of sanctions from EU mediators if needed to improve relations between Serbia and Kosovo. Respondent 3 drew attention to the importance of free trade and the elimination of tariffs and non-tariff barriers, along with countering nationalist propaganda against buying products from Kosovo. Respondent 4 identified mutual recognition of paperwork as a significant obstacle, citing an example where a person from Serbia faces challenges in transferring money to Kosovo due to differences in bank stamp regulations. Finally, the fifth respondent stressed the dependence of economic cooperation on political stability, advocating for political normalization as a precondition for economic cooperation between the two sides.

Various viewpoints exist also regarding the new economic agreements that should be reached between Kosovo and Serbia. Respondent 1 suggested that economic agreements should focus on joint production of goods, aiming to foster cooperation between the involved parties rather than competition. Respondent 2 advocates for agreements that promote free trade without imposing sanctions on each other's goods. They emphasize the importance of ensuring free movement of goods, especially for essential items like medicines and educational materials, to prevent adverse effects on the Serbian population during potential governmental blockages. This corresponds to comments made by a Serbian expert from North Mitrovica, who questioned the very possibility of the total ban of Serbian products and trade with Serbia in Kosovo. In his view, Serbian products are both so well established and also sometimes the only accessible at the market, that it is illusionary to attempt to get rid of them altogether. Experts have been inclined to interpret such move of Kosovo establishment as yet another way of a showing off, populist measure that the two Serbian and Albanian leaders use to show their patriotism, but which effectively run contrary to the interests of the population. Hence, it is no secret that the same Serbian products actually do reach the Kosovo market, via Macedonia or Albania, where they are simply repackaged to the "new clothes" and then imported to Kosovo. Exemplary cases of such allegedly Macedonian products on the Kosovo market are grain and sugar, which Macedonians themselves lack and import from Serbia. The greatest damage is thus done to the consumers themselves, who are willy-nilly using the same products as before the ban, but pay up to 30% or more than without the ban.

Respondent 3 proposes agreements that ensure complete freedom in trade, flow of capital, and payment transactions in areas with a majority Serbian population. Respondent 4 believes that while no new economic agreements are necessary at the moment, there is a need to implement the existing ones effectively. They highlight the importance of addressing trade restrictions imposed by Kosovo, which violate CEFTA agreements. Additionally, they suggest the need for mutual recognition of phytosanitary standards in foodstuff and agricultural products, along with aligning technical standards with EU regulations. Respondent 5 shares the view that there is no need for new economic agreements, emphasizing the importance of implementing the current ones effectively.

When addressing the issue of the main barriers to regional economic integration between Kosovo and Serbia, respondent 1 sees significant obstacles in the political realm, and believes that it is unlikely that an economic agreement alone can resolve this issue. Historical examples of European integration, which relied on deepening economic interdependence, are, according to his view, not applicable to the Serbia-Kosovo dispute. Respondent 2 argues that Kosovo breaches agreements for political purposes. Since it is a signatory, Kosovo needs to abide it, if not then it should be penalized. Other respondents em-

phasize the necessity of removing barriers to free trade and free flow of people and capital. They think that The Common Regional Market is still not in place and with this pace of reforms, it will take an additional 50-100 years to implement it, so respondent 4 thinks that any reforms proposed here should be adopted on the regional WB level and not on the bilateral Serbia-Kosovo one. Generally, respondent 5 provides the bottom line of all arguments, when claiming that there is a need for political stability, otherwise the Common Regional Market is nothing else but a good intention.

The following question tackled the issue of possible economic integration and its impact in the real life of citizens, as well as the projection of how would it look like practically. If founded on principles of cooperation, collaborative production initiatives could be strategically planned within the Open Balkans framework, believes respondent 1. For him, one side could, for instance, contribute raw materials while the other side provides technology and expertise, or both sides could actively engage, leveraging their combined knowledge across various sectors ranging from agriculture to the IT industry. As argued by respondent 2, citizens would have more goods, more choice, more competition would lead to better quality, perhaps even to decrease of prices. "Both countries are poor, they simply need to put their economic benefits aside from the political issues". Respondents 3 and 4 emphasize the possibility of travel, trade, and invest without limitations. Thereby, travel of people would be smoother because there would not be border crossings; goods and services would be cheaper due to decreased costs of transport and documentation burden. Respondent 5, on the other hand, believes that, at the moment, this scenario looks like a science fiction. Above all, it is stressed, the reason for such poor condition is a need for political agreement which will stimulate economic cooperation, free movement of labour, money, goods and services. For now, this political agreement seems to be out of sight.

Respondents offer various perspectives on potential areas for joint production benefiting both Kosovo and Serbia. Respondent 1 suggests IT or agriculture as promising sectors. Respondent 2 highlights the potential for collaboration on ecological projects, engaging local communities in improving the environment and fostering relations. Respondent 3 identifies electricity, the food industry, and tourism, envisioning opportunities like foreign tourists visiting Kopaonik via Prishtina airport. Respondent 4 refrains from broad comments on this topic. Respondent 5 emphasizes the interdependence in industries such as food production and metal processing, where many products in Kosovo rely on raw materials imported from Serbia. In general, these responses reflect diverse views on areas where joint production could yield mutual benefits for both sides.

Finally, the respondents also commented on the potential of the Open Balkans Initiative to improve cooperation between Kosovo and Serbia. Respondent 1 indicates scepticism, stating that Kosovo's refusal to join the Initiative and deteriorating relations between Kosovo and Serbia hinder progress. He suggests that the liberalization of markets tends to benefit more powerful actors and propose a different political framework centered around solidarity among the peoples of the "Open Balkans" region. Respondent 2 emphasizes the importance of supporting integration efforts, highlighting the contradiction of Kosovo's exclusion from the Open Balkans due to concerns about Serbian dominance. This respondent advocates for supporting the initiative despite challenges. Respondent 3 emphasizes the need for a solid framework to remove economic barriers, particularly focusing on enabling the free movement of people and advocating for a setup similar to the Schengen Zone. Respondent 4 also thinks that the problem appears as political rather than economic. Kosovo desires to be recognized as an independent state on par with Serbia, a stance that Serbia opposes. Previously, there was a tacit agreement where both parties overlooked this situation, but recent developments in Kosovo's political landscape have rendered this approach ineffective. According to this perspective, the Open Balkans Initiative was actually initiated as a response to Kosovo's refusal to cooperate with Serbia and Bosnia within the framework of the Berlin Process, highlighting the need for a new approach due to the evolving political dynamics in the region. Finally, respondent 5 argues that Kosovo is not inclined towards economic integration unless it receives full recognition from Serbia. This stance renders any initiative, including the Open Balkans Initiative, unsuccessful in its objectives.

4 Regional Cooperation

At the Western Balkans regional level, Kosovo and Serbia are working together on the establishment of the Common Regional Market, are beneficiaries of EU's Economic Investment Plan (EIP) and will receive significant assistance from the Growth Plan (GP). Both EIP and GP condition the Western Balkans to establish the CRM.

The CRM is mostly implemented by the Regional Cooperation Council and CEFTA. Four mobility agreements to enable free movement of people have been signed within the Berlin Process (November 2022 and October 2023)[14]. Very important decisions to further trade cooperation and movement of workers through CEFTA have been blocked by Kosovo due to reasons not related to trade.

The decisions with CEFTA would greatly deepen cooperation and mobility of people. They comprise the movement of workers, extension of scope of recognition of professional qualifications, electronic signature, payments systems, enabling joint tariff monitoring and harmonisation of prices and reduce overpricing, enabling electronic commerce which would decrease prices to buy and sell online. Implementing these issues would enable the full realization of the Common Regional Market. This is also directly linked with the Growth Plan benefits, integrating both parties and the region within the EU Single Market.

The Growth Plan, a conditional assistance plan, focuses on seven initial priority areas:

1. Free movement of goods;
2. Free movement of services and workers;
3. Access to the Single Euro Payments Area;
4. Facilitation of Road transport;
5. Integration and de-carbonisation of the Energy Markets;
6. Digital Single Market;
7. Integration into industrial supply chains.

Accessing the EU's Single Market will only be granted if the Western Balkans give their neighbours access to their own market, meaning removing of barriers and an impeded flow of goods, services, people, and trade.

In order to access their portion of EUR 6 billion, Kosovo and Serbia further need to work jointly on regional stability and cooperation. Concretely, Kosovo would benefit EUR 945 million, while Serbia EUR 1,738 million in the next three years. Coupled with the significant assistance provided by the EIP, both Kosovo and Serbia have much to gain from the cooperation. And both must implement the Agreement on the Path to Normalisation of Relations, including its Article 6.

14 Agreement on Free Movement with ID Cards in the Westen Balkans, Agreement on Recognition of Higher Education Qualifications, Agreement for Recognition of Professional Qualifications for Doctors of Medicine, Dentists and Architects in CEFTA context and the Agreement on Recognition of Professional Qualifications for Nurses, Midwives, Pharmacists and Veterinary Surgeons in CEFTA context.

5 Conclusions and Recommendations

Kosovo and Serbia need to commit to peace and respectful relations. The current situation where there is hostility at the bilateral level, but cooperation at the regional level, is not sustainable. In order to transform the current relationship, it appears that the regional framework is an easier dimension for both governments to advance mutual cooperation.

Improving mutual relations does not rest solely on the governments. Other segments of society, including civil society and businesses, have a role and a voice in pressuring governments towards peace. The inflammatory rhetoric coming from both governments needs to come to an end, if both are serious to honour the commitments they have made.

The recommendations developed below are forward thinking, taking into account the interviews with experts in Kosovo and Serbia, the commitments of CRM, the conditionality of EIP and GP. They include short- and mid-term actions to change the current state of play.

1. **Enable free trade –** Kosovo should lift the current barrier imposed due to "security reasons". Imports from Serbia are more cost efficient, the costumers themselves are the final decisionmakers on what products they will purchase. Serbia should lift all non-trade barriers for goods produced in Kosovo.
2. **Reintroducing money flow between Belgrade and Prishtina –** The punitive measures that led to the ban of the Serbian dinar in Kosovo have direct and dire consequences on the Kosovo Serbs, and indirect negative consequences on the Albanians and other Kosovo citizens. A number of international actors clearly emphasized the need to enable financial transactions and money exchange between Serbia and Kosovo. Thus, enabling transfers made in Serbian dinar to Kosovo and maintaining at least elementary ties and cooperation between the central banks in Belgrade and Prishtina is of vital importance for their economic cooperation and securing the basic needs of the population.
3. **Decide through which regional framework will Article 6 be implemented** – As the cooperation is easier through regional mechanisms, both governments need to decide which mechanism they will chose to further develop Article 6 of the Agreement on the Path to Normalisation of Relations. They can consider the CRM, parts of OBI, or the current development of the second phase of CRM which both Serbia and Kosovo will sign in the second half of this year within the Berlin Process Summit.
4. **Enable CEFTA decisions** – As Kosovo is currently seen as the party which is hampering the full establishment of the Common Regional Market because of vetoing the CEFTA decisions, it should lift the veto. Both Serbia and Kosovo should engage in good faith in the current initiative to resolve the issue of representation in CEFTA.

5. **Consider the following arrangements for free movement of people and provision of services** – To enable provision of services, including mobility of labour, Kosovo and Serbia should conclude the following agreements, either through Brussels-led dialogue on normalization of relations process or through second phase of the Common Regional Market:
   a. Removal of double taxation
   b. Portability of social rights (pensions, healthcare and social insurance)
   c. Equal and free access to labour market (expansion of the current OBI agreement applicable for Albania, North Macedonia and Serbia to the rest of Western Balkans)

6. **Explore cooperation in the energy sector** – Both Kosovo and Serbia ought to recognize the need to deepen the cooperation in the energy sector, the need for long-term development and energy transition in line with Green Agenda by engaging in exploring the possibilities to expand this cooperation.

7. **Accelerate implementation of Transport projects** – Kosovo should continue with construction of its part of the highway to Merdare. Both Kosovo and Serbia should accelerate the work towards railway connection, either through the existing proposal (Niš-Gjilan-Prishtina) or revisiting it, including implementation of commitments to establish a direct flight between Belgrade and Prishtina.

8. **Towards complementarity instead of competitiveness** – Initiate a strategic discussion and create a plan introducing complementarity of economies to maximise the opportunities from the Grow Plan, and attracting FDIs.

9. **From adversaries to cooperation partners** – Kosovo and Serbia should jointly work and devise a joint development plan for the four northern municipalities of Kosovo, either through establishment of a free zone in North Mitrovica, or joint investments programme to begin its partnership in peace.

10. **Empowering businesspersons from Belgrade and Prishtina** as agents of positive change - according to experts, business people from both sides were (too) silent so far; business community did not voice nor propose no comprehensive proposals or actions to remedy or counter negative political measures against economic cooperation. Stronger voice of the economists and businesspersons would be welcome here, and could likely even cast and resolve political claims that economic cooperation with Serbia is detrimental for Kosovo, or jointly identify protective measures that would protects particular interests of one or both sides, in full accordance with the CEFTA regulations. In this respect, the recent initiative of the US embassy in Prishtina that brings periodically businesspeople from both sides to discuss their issues and mutually identify the potential problems, is a welcome one. Such initiatives ands practices should be strengthened and multiplied on other levels as well, and further promoted under an institutional umbrella.



