

Effects of the Central European Free Trade Agreement (CEFTA) on Kosovo 2014-2023



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ABSTRACT

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Kosovo is a member of the Central European Free Trade Agreement (CEFTA). Through this agreement, policies related to free trade in Central European countries have been created and implemented. CEFTA aims to liberalize and expand the market to achieve economic objectives, such as increasing exports, Foreign Direct Investment (FDI), production, and competitiveness. In Kosovo, trade liberalization has not been accompanied by an improvement in the competitiveness of the manufacturing sector, resulting in a high trade deficit. The objective of this research is to analyze data on the export and import of commercial goods between Kosovo and CEFTA countries from 2014 to 2023 and their impact on Gross Domestic Product (GDP) and FDI over these years. Empirical analyses show that exports and imports with CEFTA member countries have a significant impact on GDP, but do not have a noticeable effect on increasing FDI.

1. INTRODUCTION

In the 20th century, Kosovo's economy went through various stages of development, experiencing stable economic growth from the 1960s to the 1980s. However, in the 1990s, it was affected by the consequences of the last war in Kosovo and the region, up until 1999 [1]. After the end of the war, Kosovo's economy undoubtedly needed recovery and can still be considered a young and dynamic economy, transitioning from a centralized structure to an open and free economy [2]. As a country that geographically belongs to Southeast Europe, Kosovo had to make its economy part of regional economic integrations. Kosovo already had the goal of increasing competition in the economy, increasing export capacities with the aim of reducing the trade deficit with countries in the region and beyond. In fact, Kosovo offers a number of advantages for regional economic integration if compared to countries in the region and beyond. The young and qualified population, natural resources, favorable climatic conditions, new infrastructure, fiscal policies with the best rates, geographical position with access to the regional market put Kosovo in better position [3]. Therefore, Kosovo managed to become part of CEFTA, represented by the United Nations Interim Mission in Kosovo (UNMIK) at that time, as it was the only authority with the right to represent Kosovo at the regional and international level. In 2008, Kosovo declared its independence, but it was not recognised by Serbia [4]. As a result, the authority of UNMIK continued to represent Kosovo at several international levels, starting from the meeting of the Security Council [5] and up to the representation in CEFTA.

Since 2013, UNMIK does not participate in the technical level meetings and the invitation is sent only to the representatives of Kosovo.

2. HISTORY OF THE EVOLUTION OF CEFTA

CEFTA is a free trade agreement that was first signed by the Visegrad countries (Poland, Hungary, Czech Republic and Slovakia) in December 1992. In July 1994, this agreement entered into force and the participating countries hoped to mobilize efforts for integration in Western European institutions. This agreement, the text of which was changed twice, was joined by Slovenia in 1996, Romania in 1997, Bulgaria in 1999, Croatia in 2003 and Macedonia in 2006. On April 6, 2006, the Prime Ministers of the South-Eastern European countries approved a declaration on the expansion of CEFTA with other countries of the Western Balkans: Albania, Bosnia-Herzegovina, Moldova, Serbia, Montenegro and with Kosovo represented by UNMIK [6]. On July 26, 2007, CEFTA entered into force for Kosovo, Albania, Macedonia, Montenegro, and Moldova, and for Serbia in August 2007 and Bosnia-Herzegovina in November 2007. During 2007, these countries were added to CEFTA, but the member states Visegrad left CEFTA after joining the European Union in 2004, as were: Poland, Hungary, the Czech Republic, Slovakia and Slovenia. For the same reason, Bulgaria, Romania and Croatia also left CEFTA. The same process is expected to happen in the case of the membership of the countries from the Western Balkans in the structures of

the European Union (EU) since membership in CEFTA is a process that helps and accelerates membership in the EU with the main function of creating a free market between EU candidate countries and potential candidates countries. In fact, CEFTA is based not only on the free trade principles of the EU but also of the World Trade Organization (WTO). Following this historical process, it is worth noting that Kosovo's membership in CEFTA was preceded by the signing of bilateral free trade agreements with Albania (2003), Macedonia (2005), Croatia (2006) and Bosnia (2006). These agreements were also signed through UNMIK and were later integrated into CEFTA. Access to this open market for the exchange of commercial products, technology, competition, enables Kosovo to prepare for EU and WTO membership. These advantages from CEFTA and their use are good opportunities for the development of Kosovo's economy.

3. LITERATURE REVIEW

There is rich empirical literature that explores the effects of free trade agreements, but there are contradictory approaches regarding their impact on economic development, the increase in the volume of trade and its diversity, FDI, competition, etc. Thus, authors: Hur and Park [7], Brada and Méndez [8], Vamvakidis [9], Jalles [10], Tumwebaze and Ijjo [11] argue that the impact of these regional free trade agreement is not significant in trade. While, researches of Badinger and Breuss [12], Alcalá and Ciccone [13], Karras [14], Liu [15] identified positive effects on production and growth. Positive effects on growth have been identified also by researches of Dollar and Kraay [16], Frankel and Romer [17], Freund and Bolaky [18], Atif et al. [19], Kar et al. [20]. However, other research confirms the opposite through their findings, showing that the effects of an open market are either non-significant or negative [21-23]. In the other side, Subasat [24] demonstrated that the relationship between market liberalization and the flow of imports and exports depends on specific examples. Yamarik and Ghosh [25] present the same argument regarding the effects of free trade agreements, concluding that this effect should be evaluated on a case-by-case basis.

Santos-Paulino and Thirlwall [26] elaborate on this aspect in more detail, emphasizing that trade liberalization generally stimulates imports and exports. However, in developing countries, it can worsen the balance of payments as imports often increase faster than exports, depending on each country's export potential capacity. The development of technology and high-tech exports are key factors for the economic growth and development of countries [27].

According to Gjonbalaj et al. [28] trade liberalization offers at least three major benefits for the economy, such as improved export opportunities, a better investment environment, and stable relationships with neighbors. Dragutinović-Mitrović and Bjelić [29] argue the same for CEFTA, concluding that this agreement has increased exports among its member states due to the fact that these countries have similarities in culture and language. The opening of the economy in the region offers opportunities for increasing exports and foreign trade and for attracting FDI [30]. FTAs expand the trade of goods and services, increase exports, and boost production [31]. Klimczak and Trivić [32] also confirm that CEFTA has influenced the increase of trade among its parties and, according to them, future effects will come from the facilitation of non-tariff barriers and the improvement of

criteria for product origin, movement of goods, and intellectual property protection.

The positive effects of CEFTA have also been confirmed in the research by Choi and Minondo [33] for the effects of CEFTA in Albania, as one of its member states. While Vujanovic [34] has presented important findings on the positive impact of CEFTA on economic growth. Fugazza [35], Carballo et al. [36] and Maria [37] explain that market opening can have negative effects on a country's balance of payments and economic performance if it lacks competitiveness before the opening, as well as if it has weak institutions, poor market connections, and inadequate transport infrastructure. Fernandes et al. [38] conclude that states opening their markets should take measures to simplify border procedures as they positively impact trade flows and reduce trade costs. Regarding the simplification of these procedures, Moisés et al. [39] suggest that the benefits of computerization towards reducing border time and trade costs for developing countries have been limited because the elimination of non-tariff barriers on a multilateral basis has been relatively slow due to their technical nature.

According to Leka et al. [40], measures should be taken in these dimensions: technical barriers to trade, sanitary and phytosanitary measures, and administrative barriers. CEFTA members need to address issues such as lack of law enforcement, ineffective judiciary, corruption, bribery, and property relations [41]. If we return to the effects of CEFTA on FDI, it's worth noting that Grieveson et al. [42] in their study did not find any significant effect of CEFTA on FDI of these countries. For Jaumotte [43] interpreting the impact of agreements like CEFTA on FDI is ambiguous because it can be negative or unclear, considering that member states do not have the same benefits from it. As long as the benefits to the parties are not equal from these agreements, it is fair to conclude that poverty reduction or improvement in income distribution may occur as a result of these trade benefits [44-47].

However, there are studies that demonstrate the positive effects of market liberalization on reducing poverty and equal income distribution [48-52]. Mamuti et al. [53] through an empirical study, has concluded on the need to continue strengthening trade agreements within the CEFTA region, maintaining macroeconomic stability, and promoting a business-friendly tax environment to further stimulate financial integration and to contribute to economic development, increased investment, and regional stability.

4. RESEARCH METHODOLOGY

To achieve the objectives of this research and to verify the raised hypotheses, a comparative research methodology has been applied, focusing on both quantitative and qualitative aspects. Primary and secondary data have been collected from the customs of Kosovo, scientific literature, as well as other important sources.

These indicators cover the time period from 2014 to 2023 and focus on the analysis of Kosovo's exports and imports with CEFTA countries, as well as other trading partners, and their impact on GDP and HDI in Kosovo.

The hypotheses are:

Hypothesis I: *Kosovo's exports and imports with CEFTA countries have had a significant effect on GDP growth.*

Hypothesis II: *CEFTA has had a non-significant effect on*

5. EMPIRICAL ANALYSIS

It is difficult to measure and isolate all the effects of CEFTA on trade structure, the level of economic openness of a country compared to other countries or the global economy, as well as the share of exports and imports of goods in their GDP [54]. A simple measure of the openness of a country's economy that indicates the integration of the state within the global market is the share of exports and imports in GDP.

$$Trade\ openness\ it = export\ it + import\ it / GDP\ it \quad (1)$$

i means parties (party) and *t* shows years.

The indicators for Kosovo's trade exchange with CEFTA countries, EU, and beyond for the time period 2014-2023 show positive growth trends, albeit with very high trade imbalances (except for the year 2020), where declines are seen in indicators that also reflect negative trends in real GDP. From Tables 1 and 2, it is observed that Kosovo's main trading partners are CEFTA countries, the EU, Turkey, and others. Since 2016, Kosovo has signed FTAs with EU and has the same regime as with CEFTA countries. To test the presented hypotheses, a simple econometric model was developed, and with the premise of correlation analysis, the interpretation of the results was carried out.

The analysis focuses on the impact of the CEFTA agreement on Kosovo's economy and does not include the sector of trade exchanges with EU countries, Turkey, EFTA countries, and other nations. The analysis also does not

encompass the services sector, as well as other capital transactions that have a significant impact on Kosovo's balance of payments.

In the first hypothesis, GDP is taken as the dependent variable, while in the second hypothesis, foreign direct investments are taken as the dependent variable.

The simple specification of the model is as follows:

$$Y(GDP) = EX1(t) + IM2(t) + FDI3(t) + ui \quad (2)$$

and

$$Y(FDI) = GDP(t) + IM2(t) + EX3(t) + ui \quad (3)$$

In the first case, *GDP* is the dependent variable, while exports, imports, and foreign direct investments are the independent variables. *ui* represents the possible error. The analysis and interpretation of the results in this research are based on the data created from Tables 1 to 4. Subsequently, the data were exported to statistical software for social scientists (SPSS). Through Pearson coefficients, the coefficients between the dependent and independent variables were tested, and the degree and direction of the relationship between the two variables were assessed.

Table 1 presents the total value of exports of commercial goods for the period 2014-2023. In the table, Kosovo's total exports for the year 2023 reached the amount of 819,641,369.00 million euros. The main countries to which Kosovo exported were CEFTA member states with 41.2%, EU countries with 31.9%, EFTA countries with 8.9%, other countries with 15.4%, and Turkey with 2.5%. From the table, a significant increase in exports is observed for the period 2021-2023 compared to previous years.

Table 1. The value of exports and imports of commercial goods for the years 2014-2023

The Value of Exports for Commercial Goods										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
CEFTA	96,365,478	96,223,584	128,384,295	166,053,541	165,072,521	150,214,285	204,097,530	271,024,854	327,719,870	338,039,020
EU	61,160,333	62,046,997	50,100,077	75,480,581	90,989,751	115,104,354	153,720,036	219,002,850	296,355,455	261,490,244
EFTA	9,283,749	10,910,059	14,366,862	18,026,251	26,577,760	26,285,659	36,215,598	52,089,255	66,288,552	73,627,540
Turkey	4,399,515	2,967,250	2,705,939	3,138,673	6,536,114	7,959,838	11,039,736	17,534,172	23,629,327	20,236,544
Others	34,122,361	35,451,319	22,668,207	50,148,544	39,716,045	49,582,855	33,633,598	152,368,530	154,489,336	126,089,940
Total	205,331,437	207,599,209	218,243,535	312,847,590	329,205,470	349,406,540	439,129,821	712,552,448	868,902,365	819,641,369
Value of Imports of Commercial Goods										
CEFTA	699,293,353	749,141,208	750,882,157	850,702,486	848,413,519	498,549,764	611,141,166	888,015,881	999,133,214	922,221,990
EU	1,074,435,210	1,096,854,876	1,179,058,036	1,295,410,885	1,439,311,100	1,729,224,727	1,521,615,568	2,089,173,310	2,396,467,106	2,560,303,649
EFTA	31,504,573	25,142,751	22,846,081	25,607,795	35,089,844	33,864,953	25,555,170	35,596,137	41,780,480	37,963,244
Turkey	230,832,571	246,138,137	286,123,076	288,230,496	334,976,561	429,891,847	408,381,652	584,559,180	839,113,953	873,211,446
Others	441,235,564	454,859,258	521,214,523	545,947,874	667,704,270	780,286,638	704,407,663	1,052,239,693	1,326,684,454	1,485,209,449
Total	2,477,306,104	2,572,140,590	2,760,123,872	3,005,899,536	3,325,495,294	3,471,817,610	3,271,101,219	4,649,584,210	5,603,179,207	5,878,909,817

Source: Kosovo customs, 2024. <https://dogana.rks-gov.net/OpenData/Index>

Additionally, in Table 1, the total value of Kosovo's imports for commercial goods for CEFTA countries as well as for all other countries is presented. From the table, it is also seen that the main importing countries of Kosovo were EU countries with 43.5%, other countries with 25.2%, CEFTA countries with 15.6%, Turkey with 14.8%, and EFTA countries with 0.6%. For the year 2023, the total value of imports reached the amount of 5,878,909,817.00 million euros. From the comparative period, it is noticed that Kosovo's imports show a significant increase for the years 2021-2023. The commercial goods that occupy the main weight in the general structure of imports for 2023 were: Petroleum oils and oils obtained from

bituminous minerals 28.74%, cigars, cigarettes and cigarillos, from tobacco or tobacco substitutes 18.43%, cars and vehicles other motor transport 5.9%, other bars and rods of cast iron and non-alloyed steel 1.67%, waters, including mineral waters and carbonated waters 1.29%, other imports 43.93%. While the main commercial goods exported for 2023 were: Mattress supports and holders; bedding and similar articles 12.6%, plastic construction equipment 6.7%, pipes, tubes and profiles 6.67%, waters, including mineral waters and carbonated waters 4.1%, other furniture and parts thereof 3.9%, returns and infernal waste, cast iron and steel remelted waste ingots 3.7%, others 62.5% [55].

Table 2. The value of exports and imports with CEFTA countries for the years 2014-2023

The Value of Imports with Cefta Countries										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
AL	125,485,312	143,636,704	113,370,277	147,806,503	205,325,617	222,549,871	188,929,556	265,759,243	255,291,402	326,207,839
BA	63,345,903	75,236,974	78,713,046	81,354,686	69,096,750	2,148,743	36,516,183	51,192,376	66,498,776	59,860,997
MD	138,233	128,646	591,564	730,743	479,231	1,620,788	857,534	259,744	496,869	1,060,243
ME	13,753,015	15,658,006	13,616,019	15,957,873	16,206,900	28,480,706	24,003,373	24,852,751	24,064,696	27,585,244
MK	138,450,288	142,405,946	155,429,833	155,547,292	170,829,431	239,305,641	187,406,323	240,552,802	281,242,806	309,271,148
S	358,120,601	372,074,932	389,161,418	449,305,388	386,475,589	4,443,997	173,428,198	305,398,964	371,538,664	198,236,520
Total	699,293,352	749,141,208	750,882,157	850,702,485	848,413,518	498,549,746	611,141,167	888,015,880	999,133,213	922,221,991
The Value of Exports with Cefta Countries										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
AL	29,797,599	29,242,538	36,387,702	53,229,612	65,633,200	65,498,968	107,681,933	109,221,848	100,421,389	112,697,228
BA	1,801,380	3,391,653	7,619,952	7,856,730	7,685,980	5,863,112	6,920,291	10,961,978	11,114,012	12,109,017
MD	58,79	67,754	0	0	6,576	0	782	2,621	4,611	132,053
ME	15,392,443	11,187,606	13,174,181	19,174,475	18,435,642	19,309,388	18,376,324	24,193,218	12,200	44,451,153
MK	26,138,135	24,400,587	31,455,513	39,445,492	41,402,560	42,407,230	42,339,863	84,324,140	117,663,596	120,494,588
S	23,235,860	27,933,445	39,746,947	46,347,232	31,908,534	17,135,585	28,778,338	42,321,048	60,689,256	48,154,981
Total	96,365,477	96,223,583	128,384,295	166,053,541	165,072,491	150,214,284	204,097,531	271,024,854	289,905,064	338,039,020

Source: Kosovo customs, 2024. <https://dogana.rks-gov.net/OpenData/Index>

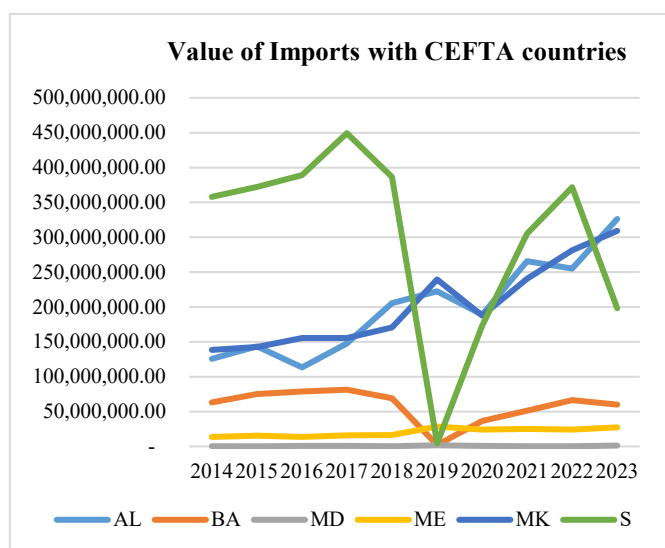


Figure 1. Value of imports with CEFTA countries
Source: Data from Kosovo customs, 2024

From Figure 1, the trend of imports is presented according to years and countries for the 10-year period. A significant decline in Kosovo's imports was observed with Serbia due to the imposition of a 100% protective tariff on all products exported to Kosovo from this country [56]. However, the trend with other countries is roughly the same. Imports from Bosnia and Herzegovina and Moldova do not show any significant impact.

From Table 2, as well as Figures 1 and 2 for the year 2023, it is observed that the importing countries of Kosovo were: Albania 35.3%, North Macedonia 33.5%, Serbia 21.5%, Bosnia and Herzegovina 6.4%, Montenegro 3%, and Moldova 0.1%. The total value of imports for commercial goods with CEFTA countries for the year 2023 was 922,221,991.00 million euros. Meanwhile, the main exporting countries of Kosovo for the year 2023 were: North Macedonia 33.6%, Albania 33.3%, Serbia 14.2%, Montenegro 13.1%, and Moldova 0.03%. The total value of exports for the year 2023 was 338,039,020.00 million euros. From the table, it is evident that with CEFTA countries, Kosovo also has a negative trade balance, and the value of exports covers imports by 36.6%.

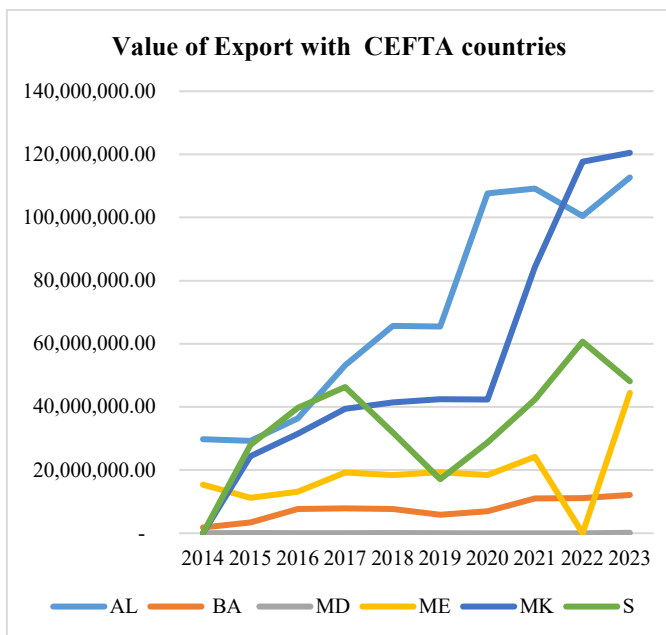


Figure 2. The value of export with CEFTA countries
Source: Data from Kosovo customs, 2024

In 2016, the SAA agreement for Kosovo entered into force and the same rules of CEFTA also apply to EU countries [57]. After its entry into force, it has led to a decrease in revenue in the consolidated budget of Kosovo. The table shows the impact of customs duty exemptions for the years 2016-2024. For this time period, the losses in revenue from customs duties and VAT amounted to 606,941,747.00 million euros, while the tripled value of imported goods for this period was 6,277,334,947.57 million euros.

From Table 4, it is observed that GDP for the reporting years showed modest growth, reaching 9,843,000,000 million euros in 2023. FDI experienced a slight increase, while exports

showed significant growth compared to the reporting periods, whereas imports continued to show a rising trend. Based on the analysis of export and import markets of commercial goods in Kosovo compared to other countries, it is noted that there is a high negative trade balance. In 2023, the value of total exports of commercial goods reached 819,641,368.80 million euros, while total imports reached 5,878,909,817 million euros. The percentage of total import coverage by exports for this year was 13.9%, whereas comparing the ratio of exports to imports for the period 2014-2023, the average export-to-import coverage ratio was 11.3%. The increase in the value of exports for 2023 was influenced by the rise in prices in the global market. FDI in relation to GDP has a participation of 0.86%. Real GDP for the reporting period 2014-2023 (excluding the year 2020) averaged 5.2%.

Table 5 shows that there is a significant correlation between GDP, imports, exports, and years, while there is no significant correlation with FDI. From Table 6, the t-test shows a satisfactory confidence level of 5.470 points for years, 5.510 points for GDP, and a low significance level with <.001 points. The correlation between GDP and exports in CEFTA is highly significant at 3.1117 points, while the correlation of imports with CEFTA countries in relation to GDP is 0.196. Foreign direct investments have no correlation with GDP and are presented with a negative indicator of -0.010 points.

Regarding the second hypothesis that the impact of CEFTA has affected the increase in foreign investments in Kosovo, from the analysis of the data in Tables 7 and 8, we see that there is no significant correlation between FDI as the dependent variable and exports, imports, years, and GDP as independent variables.

Based on the data in the table, we see that the confidence level is t-1.591, with a significance of .136. The correlation coefficients indicate that the independent variables such as years, GDP, exports, and imports have not influenced FDI. The coefficient B for years is -1.581, for exports 2.033, for imports .791, and for GDP .196 points.

Table 3. The effect of the free trade agreement with EU on tariff reduction by years (2016-2024)

Year	Month	Value of Goods with SAA	The Change in Customs	The Change in VAT	The Total of Impact
2016	12	341,139,365.94	14,084,827.13	2,425,752.92	16,510,580.06
2017	12	519,592,035.13	27,087,929.93	4,647,327.33	31,735,257.27
2018	12	595,888,123.21	37,131,116.61	6,424,247.81	43,555,364.42
2019	12	757,844,795.62	54,651,162.12	9,335,966.32	63,987,128.45
2020	12	684,999,071.60	58,089,758.70	9,861,643.29	67,951,401.99
2021	12	887,036,030.02	83,082,072.87	14,120,060.76	97,202,133.63
2022	12	1,032,776,068.20	101,185,745.76	16,912,224.47	118,097,970.23
2023	12	1,170,898,756.35	115,364,090.86	19,350,599.74	134,714,690.60
2024	3	287,160,701.50	28,474,317.09	4,712,903.58	33,187,220.67
Overall - Total		6,277,334,947.57	519,151,021.09	87,790,726.22	606,941,747.30

Source: Data from Kosovo customs, 20024.

Table 4. GDP, FDI, export and import (2014/2023)

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
GDP	5,325,095,000	5,674,422,000	6,037,273,000	6,356,456,000	6,671,522,000	7,056,172,000	6,771,601,000	7,957,876,000	8,936,177,000	9,843,000,000
FDI	151,200,000	308,800,000	220,000,000	255,400,000	272,100,000	254,600,000	345,700,000	420,700,000	778,200,000	844,300,000
Export	205,331,436	207,599,208	218,243,535	312,847,590	329,205,470	349,406,540	439,129,820	712,552,448	868,902,365	819,641,368
Import	2,477,306,104	2,572,140,590	2,760,123,872	3,005,899,536	3,325,495,294	3,471,817,610	3,271,101,219	4,649,584,210	5,603,179,207	5,878,909,817
Real GDP	3.3%	5.9%	5.6%	4.8%	3.4%	4.8%	-5.3%	10.7%	3.5%	3.3%

Source: Data processed by authors (2024).

Table 5. Correlations

		Correlations				
		GDP	Year	EX CEFTA	ID	IN CEFTA
Pearson Correlation	GDP	1.000	.983	.971	.395	.652
	Year	.983	1.000	.935	.295	.627
	EX CEFTA	.971	.935	1.000	.524	.672
	FID	.395	.295	.524	1.000	.458
	IN CEFTA	.652	.627	.672	.458	1.000
Sig. (1-tailed)	GDP	.	<.001	<.001	.053	.002
	Year	.000	.	.000	.118	.003
	EX CEFTA	.000	.000	.	.013	.001
	FID	.053	.118	.013	.	.028
	IN CEFTA	.002	.003	.001	.028	.013
N	GDP	10	10	10	10	10
	Year	10	10	10	10	10
	EX CEFTA	10	10	10	10	10
	FID	10	10	10	10	10
	IN CEFTA	10	10	10	10	10

Source: Authors' calculations in SPSS (2024).

Table 6. Coefficients

		Coefficients ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-399213775966.509	72978522918.626		5.470	<.001
	Year	200376672.930	36363178.032	.617	5.510	<.001
	EX CEFTA	8108.608	2601.377	.389	3.117	.008
	FID	-4.771	580325.748	.000	-.010	.847
	IN CEFTA	113981.901	473.847	.009	.196	.992

a. Dependent Variable: GDP

Source: Authors' calculations in SPSS (2024).

Table 7. Correlations

		Correlations				
		ID	Year	EX CEFTA	IN CEFTA	GDP
Pearson Correlation	ID	1.000	.295	.524	.458	.395
	Year	.295	1.000	.935	.627	.983
	EX CEFTA	.524	.935	1.000	.672	.971
	IN CEFTA	.458	.627	.672	1.000	.652
	GDP	.395	.983	.971	.652	1.000
Sig. (1-tailed)	FID	.	.118	.013	.028	.053
	Year	.118	.	.000	.003	.000
	EX CEFTA	.013	.000	.	.001	.000
	IN CEFTA	.028	.003	.001	.	.002
	GDP	.053	.000	.000	.002	.001
N	FID	10	10	10	10	10
	Year	10	10	10	10	10
	EX CEFTA	10	10	10	10	10
	IN CEFTA	10	10	10	10	10
	GDP	10	10	10	10	10

Source: Authors' calculations in SPSS (2024).

Table 8. Coefficients

		Coefficients ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	92096.089	57899.042		1.591	.136
	Year	-45.895	29.025	-1.730	-1.581	.138
	EX CEFTA	.003	.001	1.706	2.033	.063
	IN CEFTA	.000	.000	.188	.791	.443
	GDP	2.5968	.000	.318	.196	.847

a. Dependent Variable: ID

Source: Authors' calculations in SPSS (2024).

6. DISCUSSION OF RESULTS

Based on statistical indicators such as GDP, exports, imports, and FDI for the 10-year period (2014-2023), it is readily apparent that Kosovo, with the implementation of the CEFTA agreement, has had an impact in several directions: Continuous increase in the value of imports and exports of commercial goods, resulting in a high trade deficit. The increase in import value for this 10-year period was over 137%, while exports increased by 299%. In terms of importance in trade exchange, CEFTA and EU countries occupy the largest share, with CEFTA countries being the main trading partners of Kosovo in 2023, accounting for 73% of exports and 60% of imports. In terms of trade exchange within CEFTA, North Macedonia, Albania, and Serbia continue to be the most significant with nearly 90% of the total trade for commercial goods, while trade with other countries is lower. Kosovo continues to have a negative trade balance with all these countries, with a tendency towards its reduction. Kosovo signed the Stabilization and Association Agreement (SAA) in 2016, and CEFTA rules apply similarly to those of the EU. For the period 2016-2023, the potential revenues from customs duties, VAT, and other revenues have had a negative impact on budget revenues. In 2019 and 2020, trade with Serbia and Bosnia and Herzegovina saw a drastic decline, especially in imports, due to the imposition of a 100% customs duty by the Kosovo government on all imported goods. However, after its annulment in April 2020, there has been a slow growth trend in imports. From the hypothesis presented regarding the impact of CEFTA on GDP growth in Kosovo, the econometric model shows that the correlation between GDP, imports, exports, and FDI is significant, while there is no influence on FDI. Regarding the second hypothesis, GDP, exports, and imports as independent variables, and FDI as the dependent variable, it is observed that the independent variables have not affected FDI.

7. CONCLUSIONS

CEFTA have been established to facilitate trade with regional countries and their integration into the European market. All CEFTA member countries prefer trade with the EU, and FTA serves as a transitional mechanism for gradual integration into the EU. From the research findings, it can be concluded that the CEFTA agreement for Kosovo has had an impact on regional cooperation and approximation with EU standards. The SAA obliges Kosovo and Western Balkan countries to develop regional cooperation and create political and economic stability, as well as regulate their domestic market. Kosovo, in this respect, for the 10-year period, continues a trend of moderate import growth, while showing significant export growth, especially with the EU. From the hypothesis presented regarding the impact of CEFTA on GDP growth in Kosovo, the econometric model shows that the correlation between GDP, imports, exports, and FDI is significant, while there is no influence on FDI. Despite all existing political and economic circumstances in the Western Balkan countries, CEFTA has provided opportunities for these countries to advance their legal framework, align laws, especially those in the field of trade, with those of the EU, remove customs duties, non-tariff barriers, criteria related to product origin determination, transit and cross-border movement of goods, intellectual property protection, and

others, overcome disagreements and blockade situations during its implementation, and create and promote a business-friendly environment from which everyone benefits.

8. LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

Our study acknowledges several limitations that should be addressed in future research. Firstly, the lack of significant changes in FDI highlights the necessity for additional approaches to analyze influencing factors. The instability and scarcity of data have posed significant challenges, limiting our ability to delve deeper into the specific dynamics affecting FDI in Kosovo. Secondly, while our research methodology is systematic, it lacks control over other potential influencing factors such as political conditions, international relations, and macroeconomic changes. This omission potentially introduces bias and affects the robustness of our analysis. Additionally, our paper acknowledges but does not include various non-economic factors influencing FDI, such as obstacles to the functioning of CEFTA, particularly with neighboring countries like Serbia and Bosnia and Herzegovina. This exclusion limits the comprehensiveness of our analysis.

Furthermore, although our analysis covers the period from 2014 to 2023 and examines the trend of trade exchanges with CEFTA countries, the EU, and beyond, it does not employ time series analysis to assess the impact of long-term trends and cyclical changes. This methodological choice limits our ability to fully understand the temporal dynamics of trade exchanges. In our regression analysis, we did not include certain variables such as real GDP growth and inflation rate due to methodological complexities, which limits the explanatory power of our model.

To address these limitations, future research should incorporate in-depth qualitative interviews or case studies to better identify specific factors behind the lack of significant FDI growth. Including additional control variables such as political conditions, international relations, and macroeconomic changes would reduce bias and enhance the robustness of future analyses. A more comprehensive analysis of non-economic factors influencing FDI, particularly obstacles to the functioning of CEFTA, is warranted. Employing time series analysis in future research could provide a more accurate assessment of the impact of long-term trends and cyclical changes. Additionally, including control variables such as real GDP growth and inflation rate in regression models would increase the explanatory power of the models and provide a more detailed understanding of the factors influencing trade and FDI.

8.1 Practical implications of the findings

The findings of this study have several practical implications for policymakers, businesses, and economic stakeholders in Kosovo and other CEFTA member countries.

Firstly, the significant impact of CEFTA on GDP growth through increased exports and imports underscores the importance of regional trade agreements in fostering economic development. For Kosovo, maintaining and expanding its trade relations within CEFTA could lead to sustained economic growth. Policymakers should focus on enhancing trade policies and infrastructure to support export growth, thereby reducing the trade deficit and improving the overall

trade balance.

Secondly, the study highlights the need for Kosovo to diversify its economic activities beyond just commercial goods. The exclusion of the services sector and other Balance of Payments components in the analysis suggests that there is potential for growth in these areas. Policymakers should consider strategies to boost the services sector and other high-impact areas, which could significantly contribute to economic stability and growth.

Thirdly, the lack of significant changes in FDI despite trade liberalization indicates that there are other barriers to attracting foreign investment. This finding suggests that policymakers need to address non-economic factors such as political stability, legal frameworks, and ease of doing business to create a more favorable investment climate. Enhancing transparency, reducing bureaucratic hurdles, and ensuring consistent implementation of policies could attract more FDI.

Furthermore, the study's methodological limitations point to the need for more comprehensive future research. Incorporating qualitative approaches such as in-depth interviews and case studies could provide deeper insights into the specific factors affecting FDI. Additionally, employing time series analysis to examine long-term trends and cyclical changes would offer a more detailed understanding of trade dynamics.

In terms of practical application, businesses in Kosovo should leverage the benefits of CEFTA by exploring new markets within the region and beyond. Companies should also invest in improving their competitiveness, particularly in high-demand sectors identified through trade analysis. This strategic approach could enhance their market position and contribute to overall economic growth.

Therefore, while our current study provides valuable insights, addressing the identified limitations and exploring the suggested directions for future research will significantly enhance the understanding of FDI dynamics and the impact of trade agreements like CEFTA on Kosovo.

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