

# BALKAN DIALOGUES

## BELGRADE-PRISTINA: NORMALIZING ETHNIC RELATIONS THROUGH ECONOMIC COOPERATION

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# BALKAN DIALOGUES: BELGRADE-PRISTINA: NORMALIZING ETHNIC RELATIONS THROUGH ECONOMIC COOPERATION

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Economic exchange and cooperation are the key generators of economic growth and development. In post-conflict areas, building strong economic ties and interdependence between confronting parties, besides positive economic consequences, brings also opportunities for peacebuilding. Economic interdependence makes conflict, at both individual and national level, non-profitable; while on the other hand, closer economic ties call for renewal of lines of communication between members of opposing ethnic groups. **This is key to breaking down prejudices and humanizes the other side.** Interaction and communication with a confronted side are the core element of every peace project. What differentiates economic connectivity project from other peace projects is the strong sustainability component pertaining to communication and interaction between the confronted sides, as it brings in what other peace projects usually do not – economic interest.

This paper will explore into the aspects of economic cooperation between Serbs and Albanians on two levels: cooperation between Serbia and Kosovo and cooperation between Albanians and Serbs within Kosovo. It will lay out the stages of this cooperation through different phases of political relations between the governments and effects of long-term negotiations which culminated in the number of agreements. Finally, the author will depict some of the main societal preconditions that dictate the feeling of institutional security and the level of intercommunity communication and thus cooperation.

## Introduction

In addition to human casualties and material damage, interethnic conflicts leave devastating consequences: divided societies that do not communicate and hatred, which is the basis for building of one-sided national narratives dehumanizing "the other side". The broken bridges of communication between the two societies, one-sided national narratives and dehumanization are the backbone of the investment in long-term conflict and the resurgence of conflict. Contrary to this, strengthening economic cooperation between members of society of the two opposing sides facilitates sustainable communication between members of ethnic groups. This is key to breaking down prejudices and one-sided narratives in the long run. This was corroborated by research concerning the level of communication between Serbs and Albanians in the divided city of Mitrovica, conducted by the Alternative Dispute Resolution Centre (ADRC). The survey that included both Serbs and Albanians showed **direct causality between the degree of communication with the "other side" and the degree of ethnic distance towards the "other side"**. Albanians who communicate more with the other side, whether they work with or trade with Serbs, measure lower ethnic distance towards that ethnic group and vice versa. Another aspect of interethnic communication in Mitrovica revealed by ADRC research is that communication and interaction with the "other side" is mainly caused by economic interest or business needs.<sup>1</sup>

Accordingly, it can be postulated that the economic normalization of relations can also contribute to the political normalization of relations, especially when taking into account the fact that most political decisions are based on the positions of the majority in one society.

The Kosovo issue and economic cooperation between Serbs and Albanians has to be differentiated and analysed through two segments:

- 1 > Economic cooperation between Serbia and Kosovo
- 2 > Economic cooperation between Albanian and Serbian businesses in Kosovo

These two segments have different economic and institutional backgrounds.

<sup>1</sup> <http://mediation-mitrovica.org/wp-content/uploads/2018/06/ENG-Beyond-the-Bridge.pdf>

## **Economic cooperation between Serbia and Kosovo**

Since the end of the conflict in June 1999, the economic exchange and cooperation between two parties went through many stages.

Following the end of conflict, United Nations Mission in Kosovo<sup>2</sup> was established (UNMIK) as a civilian presence mission based on Resolution 1244 adopted by United Nations Security Council. In the first two years after the conflict, trade with Serbia and Montenegro was treated as an internal trade. In 2001, Kosovo Parliament adopted regulation based on which VAT in the amount of 15% had to be collected on all the imports, including Serbia and Montenegro.

In 2007, along with other Western Balkans countries, UNMIK signed CEFTA agreement<sup>3</sup> on behalf of Kosovo, which had an impact on the increase of trade exchange. However, after the unilateral declaration of independence, in late 2008, Kosovo started changing its symbols, including the customs stamps. UNMIK stamp was replaced with a stamp stating "Kosovo Customs". As a result, Serbia blocked all Kosovo's export to Serbia, considering it illegal and against CEFTA agreement.<sup>4</sup> This restriction would last until 2011, when the EU initiated negotiations for the purpose of resolving technical issues between the parties. This process would later become known as the Brussels Dialogue and it continues to this day with a proclaimed goal of reaching a comprehensive normalization agreement between Belgrade and Pristina.

As a result of the first stage of technical negotiations, a total of 6 relevant agreements that, among other things, aimed to regulate economic exchange were reached in 2011 and 2012: (on the) freedom of movement, civil registry, custom stamps, recognition of diplomas, IBM<sup>5</sup>, and regional representation.<sup>6</sup>

<sup>2</sup> <http://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C8CD3-CF6E4FF96FF9%7D/kos%20SRES%201244.pdf>

<sup>3</sup> Central European Free Trade Agreement: <https://cefta.int/legal-documents/cefta-agreement/>

<sup>4</sup> [https://www.international-alert.org/sites/default/files/Caucasus\\_RegulationOfTradeAcrossBorders\\_EN\\_2015.pdf](https://www.international-alert.org/sites/default/files/Caucasus_RegulationOfTradeAcrossBorders_EN_2015.pdf)

<sup>5</sup> Belgrade refers to this abbreviation as Integrated Boundary Management, while Pristina refers to it as Integrated Border Management

<sup>6</sup> All agreements available at: <http://www.kim.gov.rs/eng/pregovaracki-proces.php>

**The economic exchange was restored in spite of the fact that technical agreements on recognition of diplomas and Civil registry are still not fully implemented, thus obstructing free movement of labour to this day.**

The signing of The First Agreement of Principles Governing the Normalisation of Relations in 2013, which laid out the integration of North Kosovo into the Kosovo's institutional system<sup>7</sup>, was followed by more agreements related to economic cooperation reached by 2015 – the agreement on vehicle insurance as well as the renewed memorandum of understanding between Chamber of Commerce of Serbia and Chamber of Commerce of Kosovo.

In their first memorandum signed in 2013, among other things, the two chambers agreed to exchange information and analyse markets; support their members in trade and economic cooperation; organize joint events and promote partnership opportunities.<sup>8</sup> In the annex of this memorandum signed in 2013, it was further agreed to promote and cooperate on upgrading alternative dispute resolution mechanisms for the purpose of resolving commercial disputes between their members.<sup>9</sup> Finally, two additional annexes were signed pertaining to exchange of liaison officers; and an annex committing to re-establish the postal traffic between Post offices<sup>10</sup> of Serbia and Kosovo.<sup>11</sup>

As a result of political turbulence between the parties caused by mutual accusations of the purposeful delay in the implementation of the agreements and Serbia's lobbying against Kosovo's application for membership in INTERPOL, in November 2018 Kosovo introduced a 100% tariff on the products from Serbia and Bosnia and Herzegovina. This move put a halt on the EU facilitated dialogue for 18 months, until it was renewed in mid-2020 following the intervention of France and Germany.<sup>12</sup>

**This decision caused an almost complete disruption of Serbia's exports to Kosovo.** As visible in the figure below, Serbia's export to Kosovo increased from 260 million euros in 2010 to 450 million euros in 2017, only to decline steeply in 2019.

<sup>7</sup> <http://www.kim.gov.rs/eng/p03.php>

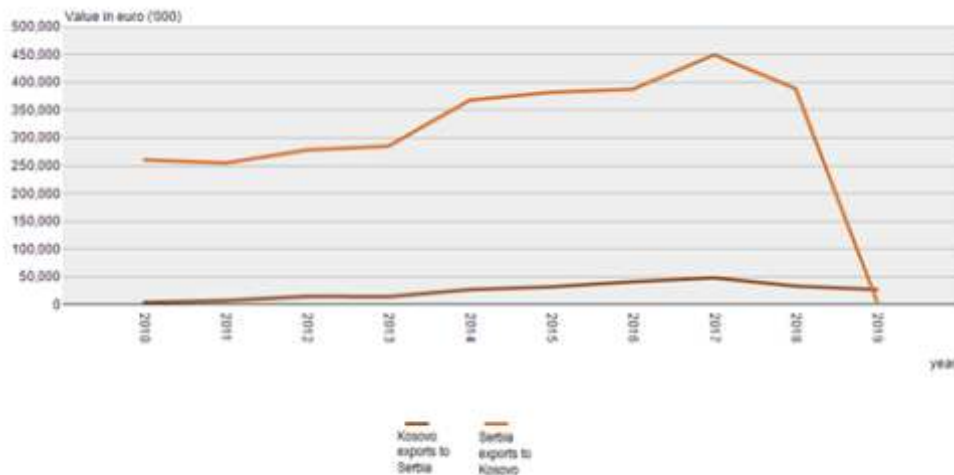
<sup>8</sup> <http://www.kim.gov.rs/doc/pregovaracki-proces/1%20Memorandum%20PKS-PKK.pdf>

<sup>9</sup> <http://www.kim.gov.rs/doc/pregovaracki-proces/2%20Aneksi%20MOR%20PKS-PKK.pdf>

<sup>10</sup> <http://www.kim.gov.rs/doc/pregovaracki-proces/2.1%20Aneks%20MOR%20o%20razmeni%20predstavnika%20komora.pdf>

<sup>11</sup> <http://www.kim.gov.rs/doc/pregovaracki-proces/2.2%20Annex%203%20MoU%20PKS-PKK%20febr%202015%20eng.pdf>

<sup>12</sup> <https://www.euronews.com/2019/11/11/western-balkan-leaders-plot-their-own-mini-schengen-zone>



*Figure: Economic exchange between Serbia and Kosovo  
2010 – 2019 (Source: Kosovo Agency of Statistics)*

A year later, in early 2020, Self-Determination Movement's Albin Kurti was appointed as the new Kosovo's Prime Minister. Kurti, who sat at the top of the executive for the first time in his political carrier and with a political legacy that also included calls for boycotting Serbian products had taken a stern position on the resumption of dialogue.

Resisting the strong pressure of the US Administration to revoke the tariffs in order to have the dialogue with Belgrade resumed, **Kurti introduced a different barrier – reciprocity.**

**The decision removed taxes but rendered Serbian businesses unable to continue import as they were required to use status-defining documentation and phrases such as “Republic of Kosovo”.** Furthermore, the decision caused outrage with the then special emissary of President Trump for the peace negotiations between Serbia and Kosovo, Richard Grenell.

Grenell, who earlier in 2020 brokered two deals between Kosovo and Serbia – agreement on establishing a direct air connection between Belgrade and Pristina and an agreement on reconnecting the railway and completing the “Peace Highway” between Belgrade and Pristina – was outraged by what he saw as Kurti's obstruction of the process of economic normalization that will have its culmination on 4 September 2020 in Washington.

Following open accusations of damaging US-Kosovo relations and different positions on management of the COVID-19 pandemic which led to Kurti dismissing a minister and Deputy Prime Minister from his coalition party - LDK - Kurti's government collapsed.

The new government coalition, formed in June 2020, immediately revoke the reciprocity measures. This restored economic exchange with Serbia and the dialogue – both the one facilitated by the EU and the one facilitated by the US.

In September 2020, under the facilitation of US Administration, Belgrade and Pristina signed the Economic Normalisation Agreement<sup>13</sup> thus complementing the previously signed letters of intent on airline, railway, and highway. The agreement contains points related to conducting feasibility study for the purposes of sharing Gazivode/Ujmani lake as a reliable water and energy supply; feasibility study on linking Belgrade-Pristina railway infrastructure to a deep sea port in the Adriatic; Cooperation with US International Development Finance Corporation, which would open its offices in Belgrade, for the purpose of operationalizing the Peace Highway, railway links, providing financing to support small and medium sized enterprises (SME's); and membership of Serbia and Kosovo in the "mini-Schengen zone".<sup>14</sup>

Although the form of the document signed is widely discussed, it did produce immediate consequences – DFC offices were opened in Belgrade, while the delegation of the US Energy Department visited Kosovo and Serbia, as well as the Gazivode/Ujmani lake.

The Washington Agreement is also one of the key campaign points for the acting prime minister Avdulah Hoti and the ruling LDK. Hoti even used the agreement to announce U.S. investments in Brezovica and called on businesses to "prepare for the cooperation with American business".

<sup>13</sup> <https://kryeministri-ks.net/wp-content/uploads/2020/09/ENG-ALB-SRB-Marveshja-e-Skenuar-2.docx>

<sup>14</sup> <https://www.euronews.com/2019/11/11/western-balkan-leaders-plot-their-own-mini-schengen-zone>



### What are the key problems affecting the cooperation?

In addition to the problems related to the status neutral export documentation there were also other problems reported. E.g., companies which collect old and scratch metals, which is a top exporting Kosovo's product to CEFTA countries, are not allowed to sell to or transit these goods through Serbia. According to interviewed companies, Serbian authorities told them that Kosovo exporters could not export to Serbia or transit because Kosovo is not a member of "Basel Convention on the control of transboundary movements of hazardous wastes and their disposal".<sup>19</sup>

Furthermore, although **recognition of diplomas** was discussed several times and agreed upon with both the facilitation of the EU and the US, this issue **remains unresolved** and **continues to prevent free movement of labour**. The practice in the implementation of these agreements showed that the process is too slow and burdened with long administrative procedures.<sup>20</sup>

Finally, although a more comprehensive study needs to be done in order to understand to what extent the phenomenon of 'emotional economy' is present in both Kosovo and Serbia, there are indicators that the economic behaviour of buyers and consumers is to some extent affected by inter-ethnic relations rather than their economic interest and rationale.

The phenomenon of "emotional economy" is typical for post-conflict areas just as it is for any other inter-group, identity-driven violent conflict between countries, regions or classes.<sup>21</sup> There are several examples of these indications.

When it comes to Kosovo, following the imposition of 100% tariff in November 2018, Kosovo government also adopted the regulation, which as a result, urged all Kosovo stores and markets to label the products with a flag of the country of origin with an aim to promote the consumption of the domestic products.

<sup>19</sup> Ibid

<sup>20</sup> [http://regionalnirazvoj.org/upload/Plan/Documents/2019\\_04/CisBalk\\_Lanac\\_Obrazovanje\\_u\\_procesu\\_normalizacije.pdf](http://regionalnirazvoj.org/upload/Plan/Documents/2019_04/CisBalk_Lanac_Obrazovanje_u_procesu_normalizacije.pdf)

<sup>21</sup> [https://www.international-alert.org/sites/default/files/Caucasus\\_RegulationOfTradeAcrossBorders\\_EN\\_2015.pdf](https://www.international-alert.org/sites/default/files/Caucasus_RegulationOfTradeAcrossBorders_EN_2015.pdf)

Furthermore, the political party with the biggest popular support in Kosovo, Self-determination Movement, led a campaign for boycotting Serbian products<sup>22</sup> and continues to oppose the establishment of the (Balkans') Mini-Schengen calling it Serbia's fourth attempt at creation of Yugoslavia.<sup>23</sup>

There is also an example of a hypermarket center in Ferizaj/Uroševac which long before the taxes on Serbian goods were introduced, in 2017, banned all Serbian products.<sup>24</sup> This hypermarket also introduced a policy of labelling all the products with the country-of-origin flag. All of this resulted in an increase of company's annual turnover to 3 million euros.<sup>25</sup> This practice of labelling products with a flag of the product's country of origin would later be institutionalized on the Kosovo level upon introduction of 100% tariffs.<sup>26</sup> This policy affects emotional economic behaviour of the consumers and represents an anticompetitive government policy.

<sup>22</sup> <https://balkaneu.com/determination-urges-boycott-products-serbia/>

<sup>23</sup> <https://www.danas.rs/politika/kurti-mini-sengen-je-namera-srbije-da-formira-cetvrtu-jugoslaviju/>

<sup>24</sup> <https://balkaninsight.com/2017/01/23/despite-the-boycott-the-import-from-serbia-increased-01-19-2017/>

<sup>25</sup> <https://kossev.info/plus-center-the-only-market-in-kosovo-that-does-not-sell-goods-from-serbia/>

<sup>26</sup> <https://kossev.info/u-svakoju-prodavnicu-na-kosovu-pored-cene-proizvoda-obavezna-i-zastava-zemlje-porekla/>

### Economic cooperation between Albanian and Serbian businesses in Kosovo

According to macroeconomic indicators, Kosovo's economy measures continuous growth in the last 20 years. The World Bank, data presented in the chart below, show that the GDP per capita increased from \$ 1,087 to \$ 4,417 per capita from 2000 to 2019.<sup>27</sup>



Figure: GDP per capita in Kosovo 2000 – 2019 (Source: World Bank)

According to the World Bank's overview of Kosovo's economy, the growth outperformed its neighbours in the past decade but, it has not been sufficient to provide enough formal jobs, particularly for women and youth, or to significantly reduce the high rates of unemployment. The growth model relies heavily on remittances to fuel domestic consumption but has recently shifted to more investment- and export-driven growth.<sup>28</sup>

<sup>27</sup> <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=2019&locations=XK&start=2000&view=chart>

<sup>28</sup> <https://www.worldbank.org/en/country/kosovo/overview>

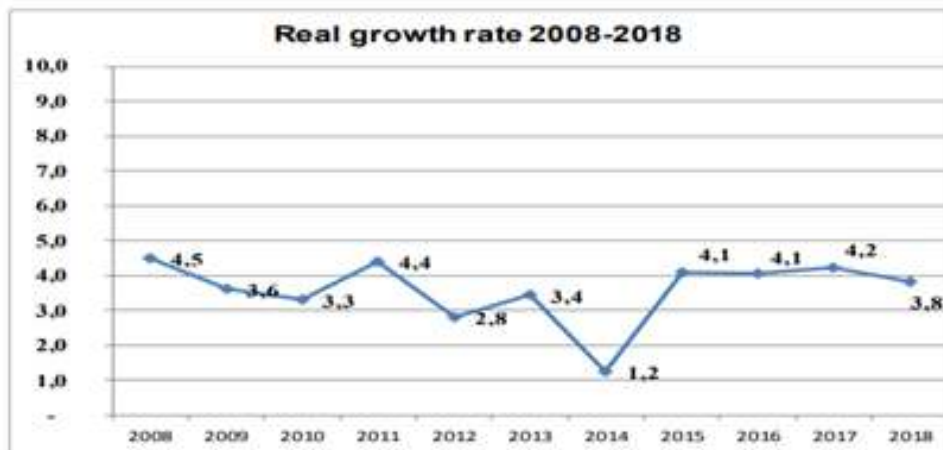


Figure: Real GDP growth rate 2008 - 2018 (source: Kosovo Agency of Statistics)

Over the last two decades, despite steady growth rate, the unemployment rate – along with other labour market indicators – remains the highest in the Western Balkans region, as less than one third of Kosovo's adult population has a job – with nearly nine out of ten women not working and around fifty percent of country's young people unemployed. Kosovo has the youngest population in Europe. Youth (under 15) comprise 25.7% of the population, while working age (15–64) account for 67.6%. Only eight percent of Kosovo's population are elderly, compared to 19% in the EU-28, and 22% in Italy.<sup>2930</sup>

According to the report of the Kosovo Agency of Statistics for 2018, the following economic activities contribute the most to Kosovo's GDP: Wholesale and retail trade and repair of motor vehicles and motorcycles 13%, Manufacturing 11.3%, Construction 8.7%, Public administration and defence and compulsory social security 7.8%, Real estate activities 7.4%, Agriculture, forestry and fishing 7.2%.<sup>31</sup>

In addition to official macroeconomic indicators by which Kosovo institutions record and present the state of the formal economy, there are estimates that **the size of the informal or shadow economy accounts for about 30% of Kosovo's GDP or about 1.8 billion euros**. The main cause of the shadow economy is considered to be high unemployment.<sup>32</sup>

<sup>29</sup> <http://documents1.worldbank.org/curated/en/814361497466817941/pdf/Kosovo-Jobs-Diagnostic.pdf>

<sup>30</sup> Total estimated population in Kosovo is 1.8 million. The census in 2011, conducted by Kosovo authorities was boycotted by majority of K-Serb community. The estimation is that there are around 120,000 Serbs living in Kosovo today.

<sup>31</sup> <https://ask.rks-gov.net/media/5075/gross-domestic-product2008-2018.pdf>

<sup>32</sup> [https://uhra.herts.ac.uk/bitstream/handle/2299/20324/country\\_report\\_republic\\_of\\_kosovo.pdf;jsessionid=62F0186C24D6C296A836CA41722CABC2?sequence=2](https://uhra.herts.ac.uk/bitstream/handle/2299/20324/country_report_republic_of_kosovo.pdf;jsessionid=62F0186C24D6C296A836CA41722CABC2?sequence=2)

### Political and economic context in Serb-majority areas in Kosovo

There are 38 municipalities in Kosovo, out of which 10 are Serb-majority municipalities (six in southern Kosovo and four in northern Kosovo). The four northernmost Serb-majority municipalities, which are the part of the Mitrovica region, were almost completely outside Kosovo's institutional system until the Brussels Agreement was signed in 2013.<sup>33</sup> The 15-point agreement-initiated integration of these four municipalities into the Kosovo system.

#### **Economy in Serb-majority areas remains widely dependent on Serbia's budget, namely - salaries, pensions and social welfare.**

There is no precise information on how many people are on the payroll of the Serbian-run institutions and enterprises but there are indicators on the number of people dependant on this income. After the end of conflict in 1999, Serbian authorities continued to finance public institutions and enterprises which remained operative, such as education, healthcare and social welfare system; and those which are not operative anymore. According to the research conducted by Institute for Territorial Economic Development (InTER) there are around 8,000 employed in these institutions only in four northernmost municipalities.

**If we account financial benefit of these incomes to their families, we come to the conclusion that approximately 80% of the inhabitants of North Kosovo are in some way financially dependent on the Serbian budget.**<sup>34</sup> The situation should be no different in other Serb-populated areas: according to the survey conducted by NGO Aktiv in Serb populated areas in Kosovo, 26% of the citizens surveyed are employed by the Serbian institutional system, while around 9.3% of people are employed by Kosovo institutional system, with only 18.3% working in the private sector.<sup>35</sup> In addition to this, Serbia continues to invest in development projects in Serb populated areas in Kosovo. **This policy of providing both financial assistance and the necessary services such as education and health insurance is the result of the Serbian government's intention to try to stop the further emigration of the Serb population from the post-conflict area of Kosovo.**

<sup>33</sup> <http://www.kim.gov.rs/eng/p03.php>

<sup>34</sup> [http://regionalnirazvoj.org/upload/News/Documents/2017\\_08/Public\\_institutions\\_of\\_the\\_Republic\\_of\\_Serbia\\_in\\_North\\_Kosovo.pdf](http://regionalnirazvoj.org/upload/News/Documents/2017_08/Public_institutions_of_the_Republic_of_Serbia_in_North_Kosovo.pdf)

<sup>35</sup> <http://ngoaktiv.org/publication/trend-analysis-2020-attitudes-of-the-serbian-community-in-kosovo>

Furthermore, as far as the private sector and its development in Serbian populated areas is concerned, it is conditioned by public spending from the public sector. According to study by InTER, 3180 companies from North Kosovo were registered within Kosovo system from 2000 to 2017, and almost half of them were registered after the signing of the Brussels Agreement in 2013. According to the data on the share of economic activity from the study, wholesale and retail trade, repair of motor vehicles and motorcycles is the biggest sector (40.4%). This sector is then followed by agriculture, forestry and fishing (18.6%), manufacturing (11.7%) and construction (6.4%).<sup>36</sup>

In addition to this, it is important to mention that the economy of North Kosovo to some extent functions outside of the Kosovo institutional system. This fact complicates the trailing of economic indicators in the region. According to the abovementioned study<sup>37</sup>, in 2015 there were 340 companies operative within the Serbian system, mainly micro and small businesses and Trepča Holding as the only large enterprise. There are no precise figures regarding the structure of the private sector in southern municipalities, however, these areas are mainly developing through agriculture, food processing and tourism.

Unlike economic cooperation between Kosovo and Serbia, where the degree of cooperation can be measured, **the level of economic cooperation between Serbian and Albanian businesses within Kosovo is difficult to quantify because there are no data and statistics on business cooperation at the inter-municipal level.**

<sup>35</sup>[http://www.lokalnirazvoj.org/upload/Publication/Documents/2018\\_01/Freaconomics\\_of\\_Northern\\_Kosovo.pdf](http://www.lokalnirazvoj.org/upload/Publication/Documents/2018_01/Freaconomics_of_Northern_Kosovo.pdf)

<sup>37</sup> Ibid

Although measurable data are not fully available, the level of collaboration can be assumed based on some of the available research projects. Namely, in the second half of 2020, ADRC conducted a pilot research on cooperation and problems in cooperation between Serbian and Albanian companies in Mitrovica region<sup>38</sup>, Pristina and Gračanica. This organization conducted 44 interviews with stakeholders, including businesses, financial institutions and governmental and non-governmental institutions. According to the preliminary findings of the research, while cooperation between Serbian and Albanian businesses has slightly increased over the years, especially in the northernmost municipalities, some of the key issues related to the political and economic context remain a burden to economic integration and development. As a comparison, according to the study of NGO Aktiv from 2013<sup>39</sup>, out of 331 surveyed companies from North Kosovo, only 18% of them were economically active in Albanian-majority areas, while according to ADRC's results, 15 out of 18 interviewed companies from North Kosovo state that they do cooperate with Albanian businesses. In addition to this, some of the interviewed businesses from the Region of Mitrovica, from both Serbian and Albanian community, stated that **the cooperation is growing and that it has had a positive impact on their personal perception towards the other community.**<sup>40</sup>

We can conclude that the Brussels dialogue process has contributed to the economic integration of the four northernmost municipalities. The dialogue brought incentives to the integration such as the agreement on revenue collection signed in 2013.<sup>41</sup> Namely, this agreement foresaw that all the revenues collected on the crossing points in North Kosovo<sup>42</sup> shall be transferred to the established Development Fund for North. The Fund was established for the purpose of socio-economic development of four northernmost municipalities. By November 2020, the total amount of 16.2 million euros has been collected, out of which 14.5 million euros were distributed to the four northernmost municipalities for development projects.<sup>43</sup>

<sup>38</sup> Kosovo is administratively divided into seven regions. Mitrovica region is composed out of seven municipalities (four Serb-majority: North Mitrovica, Zvečan/Zveçan, Leposavić/Leposaviq and Zubin Potok; and three Albanian-majority: South Mitrovica, Vushtrri/Vučitrn, Skenderaj/Srbica).

<sup>39</sup> <http://www.ngoaktiv.org/uploads/files/An%20inquiry%20into%20the%20economic%20situation%20of%20north%20Kosovo%20businesses%20-%20NGO%20Aktiv.pdf>

<sup>40</sup> Interviews with companies from Mitrovica region, Pristina and Gračanica.

<sup>41</sup> [https://kryeministri-ks.net/wp-content/uploads/docs/Agreement\\_on\\_Customs\\_revenue\\_collection\\_of\\_17\\_January\\_2013.pdf](https://kryeministri-ks.net/wp-content/uploads/docs/Agreement_on_Customs_revenue_collection_of_17_January_2013.pdf)

<sup>42</sup> Crossing point 1, Jarinje and crossing point 31, Brnjak

<sup>43</sup> <http://crnobelisvet.com/o-fondu-za-razvoj-severa-kosova/>

## What are the key problems affecting the cooperation?

The poor economic interconnection between Serbian and Albanian businesses is conditioned by multilayer problems: social, economic and political.

First and foremost, the long period of social segregation after the conflict has led to the point where majority of Serbs and Albanians do not speak the language of one-another, thus creating a **language barrier**. According to the research conducted by ADRC in North and South Mitrovica<sup>44</sup>, out of 1,000 citizens only 13.9% spoke each other's language. In addition to this, **60% of the respondents stated that they do not feel safe speaking their language in the areas where their community is in the minority**. This language barrier prevents communities to engage more extensively, both socially and economically. This affects their mobility in the areas where their community is not in majority and therefore prevents them to explore possible business opportunities.

Furthermore, **the private sector in Serbian-majority areas remains underdeveloped**. The underdeveloped businesses and lack of investment affects competitiveness of these companies and their positioning in the wider Kosovo market. In addition to the fact that **economic dependency on public sector causes lack of motivation of the community to engage and start a business**, the key reasons for underdeveloped private sector in Serbian populated areas is caused by the political instability, poor interethnic relations and distrust towards the institutional system.

Unresolved political relations between Serbia and Kosovo and status quo of the Serb-majority municipalities brings **uncertainty to the private sector investors**. Most of the interviewed companies from North Kosovo stated that unforeseeable political situation prevents from making long-term business plans.

<sup>44</sup> <http://mediation-mitrovica.org/publications/public-opinion-research-can-we-understand-one-another/>



Moreover, rule of law<sup>45</sup> and level of trust towards the institutional system are important preconditions for economic investment. The trust towards Kosovo's judicial system remains low and Kosovo's institutional system is not sending enough positive messages that their investment will remain safe. For example, the former Kosovo Property Agency, which has now been renamed the Agency for Comparison and Verification of Property (AKKVP) had registered 42,749 seized properties in Kosovo. According to Arian Krasniqi, the spokesperson of AKKVP, **96.84 per cent or 41,399 of usurped properties belonged to Serbs.**<sup>46</sup>

The other example of negative messaging related to rule of law is the Washington Agreement. In a point of this agreement, Kosovo pledged to "protect religious sites and implement judicial decisions pertaining to Serbian Orthodox Church".<sup>47</sup> This point serves as a reminder that, when it comes to the Serbian community, judicial decisions, even from the highest instance such as the Kosovo Constitutional Court may not be respected without a foreign political influence. It sends a negative message that existing Kosovo's legislation and a decision of Kosovo's Constitutional court<sup>48</sup> are not obligatory enough for the institutional system to respect it of its own accord.

Furthermore, although most of the interviewed Serb and Albanian businesses expressed willingness for potential cooperation, few of them also expressed concerns about possible "emotional economy" as a practice, where economic decisions of buyers and consumers are affected by the interethnic relations rather than their economic interest.<sup>49</sup><sup>50</sup> To reiterate, a more comprehensive research needs to be conducted in order to discover to what extent this phenomenon is present within Kosovo between Serbian and Albanian businesses and consumers. As mentioned in the first segment of this paper, some of the Kosovo's political parties were very vocal in advocating boycott of products from Serbia and there is an example of a hypermarket in Ferizaj/Uroševac where the owner decided to ban all Serbian products from his market. Although this campaign was directed against companies from Serbia<sup>51</sup>, it might have happened that this campaign had a spill-over effect on K-Serb businesses as well.

<sup>48</sup> <https://kossev.info/the-embassies-recalled-that-the-constitutional-court-s-decision-on-decani-monastery-s-land-has-not-been-implemented-even-4-years-later/>

<sup>49</sup> <https://kossev.info/srpski-proizvodjaci-na-kosovu-u-nemoj-borbi-za-trziste/>

<sup>50</sup> Interview with Albanian business from South Mitrovica

When it comes to Brussels reached agreements, it is important to mention that poor implementation of Civil registry agreement, or rather Kosovo's refusal to accept as valid Serbian issued civil registry certificates dating after 10 June 1999 (of birth, marriage and death) still causes problems for the Serb community to obtain Kosovo identification documents which prevents freedom of movement of the citizens affected and their economic integration. Although the situation with obtaining Kosovo identification documents greatly improved over the years, the Serbian issued marriage certificate validation process (the most challenging one as unlike proving birth or death, no alternative documentation or hospital records can be used to prove that the legal bond of civil matrimony was made) is still reliant on regular readoption of government administrative instruction and thus dependant on the political will of the party in power and it mostly affects marriages concluded between Kosovo born citizen and a non-resident with Serbian citizenship. Furthermore, even if the marriage gets validated by the Kosovo authorities, due to the reciprocity measure on non-recognition of Serbian passports, non-resident spouses with Serbian citizenship cannot apply for naturalization process. This practically means that if a Kosovo Serb married a wife from central Serbia after 10 June 1999 – she and their children cannot obtain Kosovo citizenship and identification documents in some cases. In addition, it is important to mention that marriages made in the Serbian system after 14 September 2016 (the date of the last Freedom of movement agreement) are excluded still cannot be verified at all, thus preventing spouses who were not born in Kosovo to go through the process of naturalization.

Finally, as much as the informal economy provides space for Serbian and Albanian businesses in North Kosovo to cooperate and earn more through evading taxes, the present situation where part of the businesses sector is not institutionally registered and integrated combined with frequent political tensions also prevents Albanian businesses to engage as this affects their level of confidence in the security of their investment.

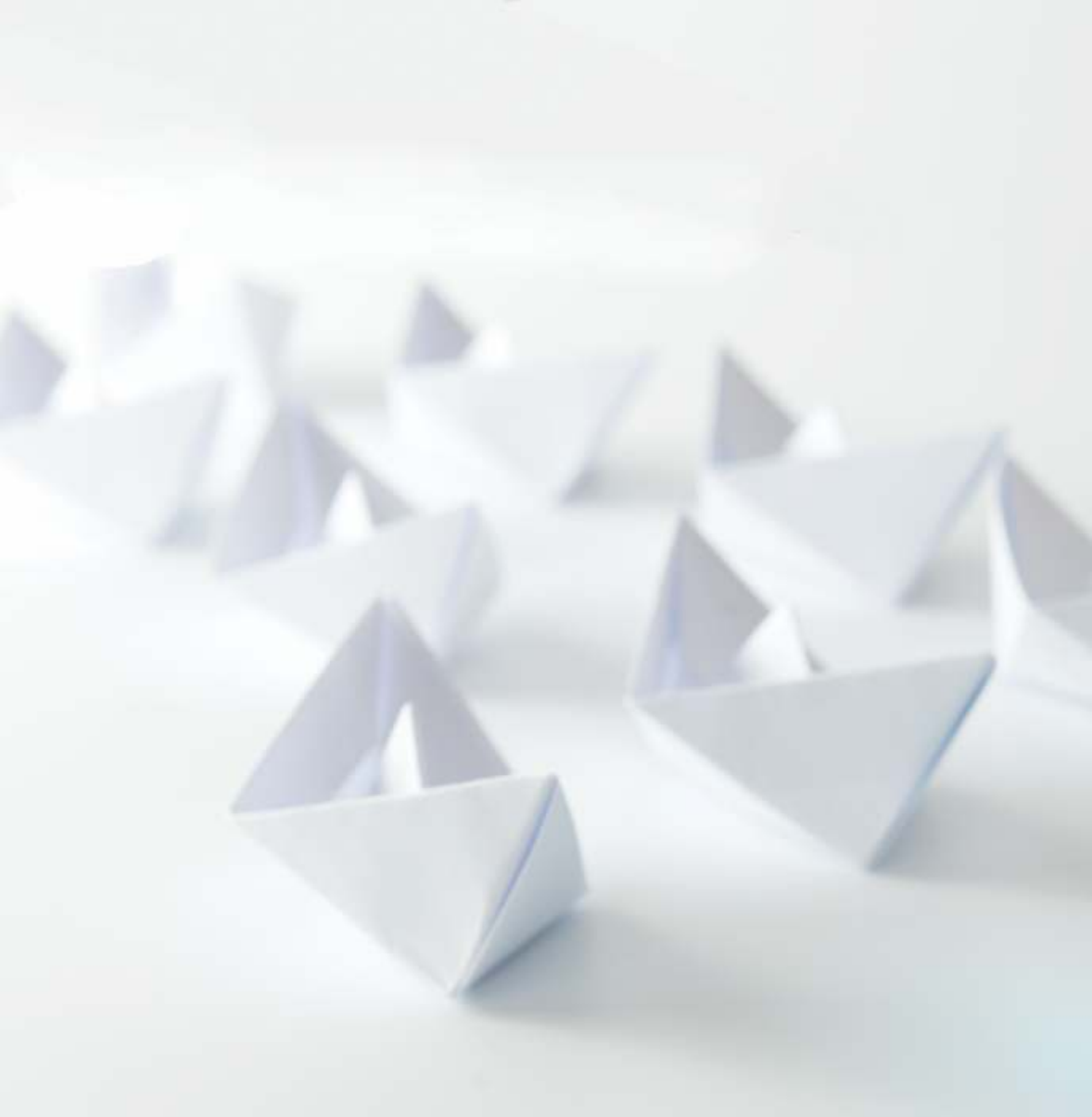
***On improving economic cooperation between Serbia and Kosovo***

- Chambers of Commerce should resume, intensify and expand their cooperation. Their cooperation should be prioritized and encouraged from the political level;
- The economic negotiations on the technical level should be continued and parties should work on harmonizing all the phytosanitary and veterinary certificates;
- Negotiating teams should work on mapping all the bureaucratic obstacles in trade exchange and try to resolve them in good faith. The problem of the symbolics could be overcome in using the terminology on which the parties previously agreed on. The Economic Normalization Agreement signed in Washington DC referred to parties in a consensually acceptable manner: Serbia (Belgrade) and Kosovo (Pristina). This wording can be suggested to be implemented and used in trade affairs as well (customs declaration, entity of origin, commercial invoice etc);
- The key problem in implementing negotiated agreements lies in the mismatch of the two administrative systems. Political negotiations need to involve legal experts from the field of the topic discussed in order to reach agreements which could be implemented in a less complex and speedy manner. In this respect, the agreement on diploma recognition should be re-discussed with experts from educational systems from both parties;
- The parties should stay committed to the implementation of the Washington agreement. The priority should be the development of an implementation plan on operationalizing highway, railways and airline connectivity between the parties; joining the mini-Schengen area and completion of the feasibility study on sharing Gazivode/Ujmani lake as reliable water and energy source. Economic interests of municipalities where the lake is located should be incorporated in the study and an eventual agreement.

The Parties should leave the practice of introducing anticompetitive policies and stimulating “emotional economy”/ethnic-based economic behaviour;

***On improving economic cooperation between Albanian and Serbian businesses within Kosovo***

- Chambers of Commerce of Serbia and Kosovo should seek funds for a standing language learning project;
- Parties should work on finding a module of introducing Serbian language in Albanian schools and Albanian language in Serbian schools for the purpose of overcoming language barrier in the long run;
- Kosovo Serb Chamber of Commerce should be established and operationalized. This body should be institutionally connected and provide support to the Kosovo Serb business community, whether in legal matters, capacity building or market integration. In addition to this, Presevo Valley Chamber of Commerce could be established. These two minority chambers can become part of the network together with Serbian Chamber of Commerce and Kosovo Chamber of Commerce where they could exchange and seek the opportunities for economic integration through fairs, capacity building trainings and exchange;
- To facilitate the feeling of the institutional security, Kosovo should implement the 2015 agreement most important to the community – establishment of the Community/ Association of Serb-majority municipalities. In addition to it, negotiating parties should work on mapping the causes of institutional insecurity of the K-Serb minority and incorporate its resolutions in the Comprehensive agreement;
- Apart from established Development fund for North Kosovo, which is a time-limited provisional solution, Kosovo should consider stimulating local economic growth by introducing fiscal decentralization policy Kosovo wide, where municipalities would materialize part of VAT collected on the territory of their municipality. This would support economic integration and it would stimulate municipalities to engage more in economic development and combat shadow economy on their territories.



**BALKAN DIALOGUES**

ECONOMIC NORMALISATION