

The Publicly Declared Customs Union Between Albania and Kosovo (1244 Security Council Resolution)



Victoria Pistikou

Abstract Leaders of Albania and Kosovo have publicly declared that they plan to create a customs union in order to abolish the traditional borders between them. They also claimed that the abolition of borders will inevitably occur with the accession of Albania and Kosovo to the EU. The aim of the paper is to examine whether such a union is possible and assess if this move primarily reinforces economic integration or it is the means of fulfillment of foreign policy objectives. Testing the validity of the theoretical framework, according to which regional trade agreements and even more bilateral free trade areas allow stronger states to further influence weaker states, I examine the case of the creation of the customs union between Albania and Kosovo (under the 1244 Security Council Resolution). First, I analyze the economic conditions under which the potential customs union is going to be made and to what extent basic principles of the background theory is satisfied for a successful endeavor. More precisely, I use and analyze macroeconomic indicators and bilateral economic relations. In addition, I analyze the economic and political motives of the creation of the customs union through a quantitative and qualitative analysis. I conclude, that the creation of the customs union between Albania and Kosovo is more the first step for the fulfillment of Albania's foreign policy goals rather than an effort of the economic upgrade of a Balkan country which struggles to become a member of the EU.

Keywords International economic relations · Economic integration · Customs union · Albania · Kosovo

JEL Classification F15 · F52 · F53

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1 Introduction

The aim of the paper is to examine the potential creation of customs union between Albania and Kosovo. The main argument is that the motives are rather political than economic and additionally, promote Albania's nationalistic aspirations in the region. The paper contributes to the customs union literature by assessing whether political motives may become the overarching factor in motivating an (customs union) initiative in an otherwise rather fragile and weak economic environment, such as the case of the Western Balkans and more specifically between Albania and Kosovo. By analyzing the economic and political dimension of a potential customs union in a case which has not been analyzed yet this paper attempts to justify the reasons that such an agreement may be the first step for altering the balance of power in the Balkans as a means of irredentism, similar to the German-Austrian customs union project of 1931 (Stambrook 1968).

In theory, according to Gilpin (1981), those who agree with the argument that today's economic interdependence has changed the environment and the nature of international politics, should be more skeptical, since groups and states have managed to increase their gains through economic growth and international cooperation, since economic interdependence and mutual gains has not yet diminished state's efforts for promoting their national interests against the others. Mastanduno's argument in "Economics and Security" (1998) is that economic policies are supportive of security issues and therefore, economy is a tool of foreign policy which should be used according to state's strategic principles.

The analytical framework aims to show the correlation between political and economic motives of the potential customs union between Albania and Kosovo. Determinants such as foreign policy objectives, bilateral economic relations as well as macroeconomic indicators are used in order to show the economic compared to the political aspect of this initiative (customs union). In particular, indexes such as GDP, GDP growth, GDP per capita, GNI per capita, HDI and bilateral economic relations, such as trade and foreign direct investments define the economic environment under which a preferential trade agreement, in this case a customs union, is going to take place. In addition, foreign policy objectives and state's international economic relations define the political motives.

Last but not least, the analytical framework is implemented in the case of Albania and Kosovo. The publicly declared customs union between Albania and Kosovo was selected for the following reasons: First, it is interesting to examine why a state like Albania, who wishes to become a member-state of an economic union like the EU and at the same time joins a regional trade agreement (CEFTA), wants to create a separate customs union with Kosovo which has not recognized as a state and faces security challenges. Second, this case includes both political and economic motives which allow the comparative approach of the issue and third, because this case is highly correlated with the status-quo and the balance of power in the region of the Western Balkans, therefore it is significant to examine the role of customs union in an unstable political environment.

2 Theoretical Framework: The Economic and Political Aspect of Regional Trade Agreements

International Political Economy focuses on the interaction between state and non-state actors in global level, regarding economics. As Cohn mentions, “*It is difficult to separate economics from politics, because governments may intervene in the market in efforts to improve economic performance, ensure that wealth is distributed more equitably, or correct for market failure.*” (Cohn 2016). The dependency path is the most significant factor in International Political Economy since it shows the causal effects, which sometimes are ignored in the analysis. Since the end of World War II, a new global economic order established under the principles of trade liberalization and economic integration. In 1944 the creation of International Monetary Fund and World Bank and in 1947 the General Agreement on Tariffs and Trade was the beginning on a new era in international economic relations. The liberalization of trade was also reinforced by Regional Trade Agreements. According to Ravenhill (2017: 141), “*one-half of world trade is now conducted within these preferential trade agreements*”. Preferential Trade Agreements consist of several types, such as Free Trade Area (FTA), Customs Union (CU), Common Market (CM) and Economic Union (EU) which may lead to a Political Union (PU), which is now a challenge for the European Union. However, based on the dependency path, the reasons for creating such agreements are both economic and political.

Regarding the first type, states of the Free Trade Area, such as NAFTA or ASEAN, eliminate trade tariffs among them however they maintain their tariff policies in commercial relations with no partners. In economic terms, a Free Trade Area widens trade in goods and services and increases distribution of production. In political terms, a Free Trade Area is not a threat for national sovereignty, especially for states with fragile political relations, meaning that regional partners maintain their right not to share their gains resulting from economic relations with no partner. For example, Mexico, which is in NAFTA, has trade agreements with more than 30 countries.

In Customs Union, partners not only do they eliminate tariffs among them but also, they adopt a common customs tariff against non-partners. In economic terms, all partners rely upon a common external tariff, so they are obliged to harmonize their national rules and regulations. This may also have distributing effects depending on which products are included in the common external tariff. It is also possible to gain more due to completeness and economies of scales. In political terms, there is a higher level of economic interdependence than in FTA's, since regional partners lose control on imposing tariffs according to their interests and their needs on non-partners. Consequently, they cede their autonomy in the exercise of foreign economic policy. For example, United Kingdom was not willing to sacrifice its privileges resulting from the Commonwealth. However, it joined the EU only when it raised its commercial relations with Europe. Customs unions, according to Cooper and Massell (1965) were created for political not economic reasons and according to Hirschman's argument, domestic policies play crucial role in supporting the creation of a customs

union, especially “*from those who expect to benefit from trade diversion*” (Cai 2010: 10).

Common Market presupposes the previous characteristics plus the free labor and capital mobility. In economic terms, partners of common market tend to create similar economic structures, such as the E.U. and in political terms, Common Market eliminates the national boundaries for labour. However, it is difficult for governments to lose their autonomy in exercising their own economic policy, that’s why it takes years of negotiations, until the involved states reach an agreement, like in the European Union, for example.

Economic Union maintains the characteristics of the previous types of regionalism plus the harmonization of industrial, regional and monetary policies as well as transportation and fiscal policies. In addition, the Political Union is more a federal political system rather than an agreement among sovereign states, since it maintains all the above elements plus common foreign and defence policy (Salvatore 2016; Ravenhill 2017; Cohn 2016).

However, the answer to the question why regionalism is attractive to states is that they have both economic and political motives joining such groups. Regarding the political motives, states use economic sources in order to achieve a political goal. Enhancing security, upgrading their bargaining power, enhancing their reliability on reforms to foreign investors as well as the fact that negotiations within a regional trade agreement is much easier than those within the WTO (Ravenhill 2017), are some of the political motives which explains why states promote regionalism.

More specifically, security is the major determinant which defines for state’s survival, given that the international system is anarchic, meaning that there is not a superior authority which can impose norms or policies over states or define their behavior. In addition, economic policies are supportive of security issues, since economy is a tool of foreign policy. As Mastanduno (1998) mentions, the state’s strategic principles are primarily based on three variables. The first is the structure of the International System, the second is the role of policy-makers and the third is the state’s position in international economic competition.

However, on one hand, economic cooperation is limited between states, since it creates asymmetric gains for each partner, therefore states care more about relative gains (Grieco 1988) than absolute gains and on the other hand, regional trade agreements do not guarantee state’s security. According to Gilpin, those who agree with the argument that today’s economic interdependence has changed the environment and the nature of international politics, should be more skeptical, since groups and states have managed to increase their gains through economic growth and international cooperation. When the levels of economic interdependence start rising, states become more suspicious regarding the loss of their autonomy and the costs involved, as the result of interdependence. This is due to the fact that societies care more for their gains and they are not willing to sacrifice their welfare in favor of interdependence. The raising levels of economic interdependence make states more anxious about preserving their autonomy, their access to foreign markets and valuable raw materials as well as the cost that economic interdependence entails (Gilpin 1981).

However, a regional trade agreement becomes a useful tool of economic diplomacy in security issues, since it can be used as reward especially from the great powers. For example, the United States in order to reward Israel as a security partner they negotiated their first regional trade agreement in 1985 (Ravenhill 2017) and after the terrorist attacks in 9/11 the Bush administration negotiated RTA's with countries of high strategic significance. Australia and Japan is also one more example (Higgot 2004; Kelton 2008; Ravenhill 2017; Capling 2008; Wesley 2008)

In addition, RTA's can also operate as bargaining tool, since many countries wanted to enhance their bargaining position against transnational corporations. Especially less developed countries not only do they use RTA's in order to secure foreign aid from donor countries but also to create coalitions with other less developed countries and strengthen their negotiating position, achieving goals which would not had been achieved if they had acted individually. Nevertheless, given that power defines negotiations, less powerful states have to face unequal bargaining (Ravenhill 2017; Drahos 2003).

Moreover, FTA's affect state's reliability for inward investments, since they guarantee the implementation of domestic reforms. In particular, compared to WTO, within an FTA less countries are involved therefore, it is easier for them to monitor a state and if this state deviates from its commitments then it will face direct retaliation from other regional partners.

Regarding the economic motives of regionalism, one aspect is that weak producers can be protected and further strengthen in regional level, because they wouldn't survive in international competition. In addition, regionalism creates the necessary conditions for deeper integration. In particular, for some states, regionalism is the opportunity they need in order to secure the implementation of an agreement. For example, in WTO would be more difficult for states to reach a consensus, due to bigger diversity, than in regional level. The reason for this is that some states are willing to proceed in deeper integration including more sectors that the removing of tariff barriers (Ravenhill 2017). In that way, states will achieve the creation of a competitive economic environment under equal terms.

Another economic motive is that through regionalism the creation of bigger markets and the raise of foreign direct investment (FDI) is a realistic goal for the following reasons. First, a regional trade agreement can widen domestic markets because of economies of scale, under the condition that the size of the market is capable of supporting economies of scales. Second, FTA's can increase foreign direct investments because of their impact on the cost of production. That is to say that maybe is more attractive for a company to take advantage of the labour cost within the regional market than before. For example, FDI in Mexico increased from 8 billion USD in 1990 to 14 billion USD in 1997, as well as in ASEAN. This enables governments to advance their economies and become regional hubs. Attracting more companies (Ravenhill 2017).

However, this does not mean that there are no costs in regional trade agreements. Two of the most significant disadvantages are the trade creation and the trade diversion (Viner 2014). The former occurs when imports from a regional partner with higher production cost replace those products which are produced domestically, in

lower cost. To put it simple, when the domestic production is replaced by imports. The later occurs when regional imports from a regional partner replace those imports of a non-regional partner. Due to the common external tariff, imports from a non-regional partner are no longer price competitive (Cohn 2016; Ravenhill 2017).

However, up to now, RTA's seem that they increase the value of trade among regional partners as well as foreign direct investments and it is rather vague that they have significantly affect trade diversion, nevertheless it seems that they have small impact on prosperity.

3 Analytical Framework

The academic discussion on Regional Trade Agreements not only does it focus on economic aspects but also underlines the political aspect of foreign economic policy. In particular, there are many scholars who argue that Regional Trade Agreements are used in order to promote political goals or as a political support among strategic allies. The creation of the European Union is a good example. The outbreak of the Cold War after the end of World War II, emphasized the importance of economic diplomacy in foreign policy. The Marshall Plan was the first program of foreign aid that was implemented in Europe, serving both an economic and a political goal: the economic goal was the economic recovery of European countries and the political was the creation of a field of containment of the Soviet influence (Ravenhill 2017; Cohn 2016).

In addition, European leaders also supported the idea of creating a western alliance against the Soviet Union, however, technological superiority of the US and Japan was an important determinant which led to the Treaty of Maastricht for further economic integration within the EU (Cohn 2016; Salvatore 2016; Baldwin 1997).

According to Moravcsik (2013), European integration is the result of interstate cooperation among states which act rationally in order to promote their economic interests and not the initiative of supranational institutions, such as the European Commission or the European Court (Ravenhill 2017; Baldwin 2008). Moreover, the regionalization process in East Asia, despite the fact that it was initiated autonomously by market forces, it was then institutionalized due to the greater interstate involvement (Cai 2010).

According to Rosen (2004), the US-Israel and US-Jordan FTA's support political and not economic goals, since US political interests in Israel and Jordan are much more important than economic ones. As he mentions "*The United States' foreign policy interests in these countries and the region are much more significant than its economic interests. Although the agreements serve several objectives, the primary reason the United States entered into them was to pursue foreign policy goals.*" (Rosen 2004: 51). The author analyses the strategic goals for the partners involved in the agreements and then focuses on US-Israel and US-Jordan bilateral trade. He concludes that "*Both the US-Israel and US-Jordan agreements unambiguously exemplify the use of free trade agreements as tools of foreign policy. In each case,*

the foreign policy objectives far outweighed the economic objectives as the United States entered into the agreement.” (Rosen 2004: 73).

In addition, Feinberg mentions that *“as the US has engaged in FTA negotiations, it has aggressively pursued a variety of US interests”* (Feinberg 2003: 1019). Examining NAFTA and FTAA analysis the motives of the US administrations to conduct these agreements. The author concludes that *“US diplomats and firms did perceive a plethora of advantages in hemispheric commercial integration, in the economic, political and foreign policy realms, advantages that were both instrumental and strategic in nature”* (Feinberg 2003: 1027–1028).

Weintraub (2004), examined the case of RTA between Chile and Singapore based on the key elements of the agreement as well as the motives which led the two countries to conduct this agreement. The author concludes that RTAs are more likely to remain in bilateral than in global level and cause further discrimination instead of ending it.

Taking the above into consideration, most of the scholars use foreign policy objectives as the dependency path in order to interpret the causes of the creation of an FTA and trade volume between the partners of the regional trade agreement. In this paper the analytical framework is the following:

First, according to the theory, I consider states as the dominant actor and in order to show the causal effect in dependency path I focus the foreign policy objectives and economic diplomacy which is used a tool in order to serve these objectives. Besides, economic diplomacy is the use of economic means for the achievement of political goals. In this way I highlight the framework under which economic tools are in line with political goals.

Second, as another determinant I use macroeconomic indicators in order to show the economic balance of power in relation to the dependency path and then I analyze the main principles of the regional trade agreement between the two partners in order to show the correlation between economic and political motives. However, in this case there is not yet a final agreement, since it has only been declared publicly, therefore we focus only on the fact that it concerns a customs union, that is a common external tariff, between a state and a disputed area.

In addition, it is also important to take into consideration indexes, such as Gross National Income per capita as well as the Human Development Index, since the latter emphasizes people's capabilities in development measuring three key dimensions: a long and healthy life, being knowledgeable and having a decent standard of living. These two indicators will help us create a more accurate view about the potential dynamics that can be developed by the two economies, since customs union by itself is not a panacea for a state's economy and development, since great economic powers existed before the creation of customs union or other form of regionalism. Of course, customs unions and other regional trade agreements promote trade, contribute to the creation of bigger markets and the raise of foreign direct investments, however, economic growth and development depends on many other factors as well as the distributional effects.

Therefore, customs union does not guarantee state's economic growth and development, either among developed or developing countries and there are several examples which support this view. Indicatively, after the formation of the EU-Turkey customs union, there were many tariff losses for Turkey due to trade deflection, there was no significant raise of foreign direct investments (Togan 2015) and the custom union “*has only partially helped Turkey's exporting performance.*” (Akkemik 2011: 273).

Another example is the Southern African Customs Union (SACU), which established in 1910, and consists of Botswana, Lesotho, Namibia, South Africa and Eswatini (formerly known as Swaziland). According to the World Bank (2019d), Lesotho and Eswatini are lower middle-income economies and Botswana, South Africa and Namibia are upper middle-income economies, while their top import and export markets are strong global actors such as the EU, the US and China (SACU 2019). However, according to Table 1, these countries are classified between low and middle HDI. This suggests that the customs union has not critically affected economic growth and development.

Another example is the Economic and Monetary Union of Central Africa (Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC), which established in 1994 and consists of Cameroun, Central African Republic, Congo, Gabon, Equatorial Guinea and Chad. Central African Republic and Chad are low income economies, Congo and Cameroon are lower middle-income economies and Equatorial Guinea and Gabon are upper middle-income economies (World Bank 2019d). As it is illustrated in Table 1, despite the fact that some countries have raised their GNI per capita after the formation of the custom union, they remain at the lowest levels regarding development. According to the Human Development Index, CEMAC countries are classified between low and middle HDI, except Botswana

Table 1 Development indexes

Country	GNI per capita (2017) ^a , USD	HDI (2018)/Rank ^b
Botswana (SACU)	6.730	0.717/101
Cameroun (CEMAC)	1.370	0.556/151
Central African Republic (CEMAC)	390	0.367/188
Chad (CEMAC)	640	0.404/186
Congo (CEMAC)	1.430	0.606/137
Equatorial Guinea (CEMAC)	7.050	0.591/141
Eswatini (SACU)	2.950	0.588/144
Gabon (CEMAC)	6.650	0.702/110
Lesotho (SACU)	1.210	0.520/159
Namibia (SACU)	4.570	0.647/129
South Africa (SACU)	5.430	0.699/113

^aSource World Bank (2019d)

^bSource United Nations Development Programme (UNDP) (2019)

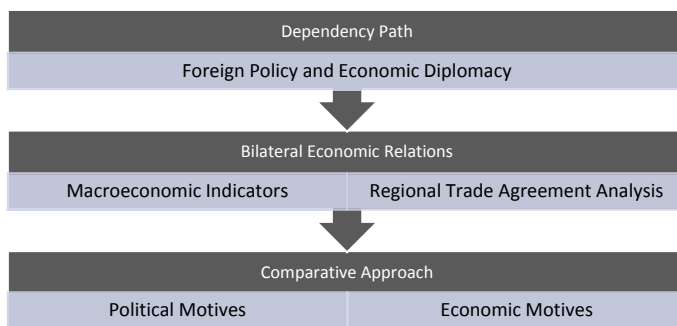


Fig. 1 Analytical framework

which is among countries with high HDI (more than 0.712). Also in this case, the regional trade agreement did not affect significantly its member states, in order to achieve higher rates of economic development and growth.

Third, I follow a comparative approach in order to conclude whether economic, or political or both economic and political objectives are better achieved, in order to conclude which objective, economic or political is better achieved. The analytical framework is illustrated below in Fig. 1.

4 The Publicly Declared Customs Union Between Albania and Kosovo (1244 Security Council Resolution)¹

4.1 Foreign Policy and Economic Diplomacy: The Political Motives

The case of the creation of customs union between Albania and Kosovo is peculiar. Up to now, all regional trade agreements was among states, however, this future agreement will be between a state (Albania) and an area (Kosovo) which is a disputed territory and partially recognized as a state. In the current paper, Kosovo is considered as a disputed area and not as a state.

¹

This resolution provides a framework for the resolution of the conflict in Kosovo by authorising the deployment of an international civilian and military presence that would provide an international transitional administration and security presence that would oversee the return of refugees and the withdrawal of military forces from Kosovo. The resolution also states that the international civilian presence will facilitate a political process to determine the future status of Kosovo. (United Nations Peacemaker 2019)

The political objective which defines Albania's economic diplomacy with Kosovo is the unification between them. Albania has close ties with Kosovo, due to the Albanian population living there, and according to polls, many Albanians are in favor of unification (Sulçebe 2014; Balkan Insight 2019). In addition, both leaders promote unification by 2025. According to the Albanian Prime Minister Edi Rama, Albania and Kosovo need *"to begin working on a common strategic draft that will unite Albanians by the year 2025"* (Greek Reporter 2019). Of course, Albania supported and recognized from the beginning the independence of Kosovo, characterizing it as the *"right decision, which ensures long-term peace and stability in the region."* (Ministry for Europe and Foreign Affairs 2019a).

Albania became a NATO member in 2009 and in June 2014, was awarded candidate status by the EU hoping to become a full member of the European Union with the rest of the Western Balkans. However, Croatia was the only state of the Western Balkans which managed to become the last member of the EU in 2014 and it is rather unclear whether the European enlargement will finally be completed (Vachudova 2019; Ker-Lindsay et al. 2017; Kellermann 2016).

Albania's regional policy is formed in order to increase security, prosperity and economic growth and supports regional cooperation process as well as the European and Euro-Atlantic integration, however, European integration is a common objective for Albania and Kosovo. Thus, Albania helps Kosovo with the establishment of European integration institutions. (Sulçebe 2014). In addition, Albania supports free movement of factors of production, such as labor and capital as democratization, peace and stability (Ministry for Europe and Foreign Affairs 2019a) and it is also member of regional organizations, such as the Adriatic Ionian Initiative, the South-East European Cooperation Process (SEECP) as well as the Regional Cooperation Council (RCC).

On the other hand, economic diplomacy, serves Albanian interests in multilateral and bilateral level. In multilateral level, Albania along with the rest Western Balkans, also known as *"WB6 Contracting Parties"* (Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro and Serbia) established the Western Balkans Fund in order to *"boost cooperation between its members, to strengthen relations and regional cohesion and to advance integration into the European Union."* (Ministry for Europe and Foreign Affairs 2019b). In addition, Albania is also a founding member of the Organization of the Black Sea Economic Cooperation (BSEC). This organization aims to enhance cooperation among member states in several economic sectors, such as transport and communication infrastructure, economic and trade information, energy, tourism, agriculture, science and technology, etc. Moreover, Albania, Bosnia and Herzegovina, Croatia, Kosovo, North Macedonia, Moldova, Montenegro and Serbia established in 2006 the Central European Free Trade Agreement (CEFTA 2019; Ravenhill 2017) in order to promote *"economic development and the EU accession agenda in the region"* (CEFTA 2019).

Of course, we have to mention that Albania's relations with Kosovo also include the cultural dimension, in order to create *"a common cultural "Albanosphere"* (Sulçebe 2014: 8). In addition, common educational programs also reinforce the achievement of this objective, since Albania and Kosovo have agreed to common

school textbooks and try to promote further Higher education and scientific research as well as the teaching of Albanian language, in order to create a common national identity. Needless to say, that all the above can only be supported by strong economic ties.

4.2 *Bilateral Economic Relations: The Economic Motives*

In order to analyze bilateral economic relations, I focus on economic power of each partner in order to define the context under which the regional trade agreement, in this case the customs union, is going to take place. Then I analyze the economic interdependence between the two partners in order to examine the economic dimension, that is to say, the necessity of this agreement. In the case of Albania and Kosovo there are only trade relations and complete absence of foreign direct investments in bilateral level. Therefore, I only examine bilateral trade. Regarding macroeconomic indicators, I focus on GDP, GDP growth, GDP per capita, GNI per capita and Human Development Index.

Regarding GDP, as it is illustrated in Fig. 2, Albania's rates are higher than Kosovo's, not only because of differences in economic structure but also due to population. In particular, Albania's GDP was raised from 2009 to 2017 by 8.2%, reaching 13.039 billion USD. On the other hand, Kosovo's GDP was also raised during the same period by 28.1%, reaching 7.245 billion USD. In absolute numbers, Albania's nominal GDP is higher, however, Kosovo's GDP was raised more compared to Albania's GDP. This is also noticeable focusing on the GDP growth in Fig. 3. More precisely, Kosovo has higher rates especially in the period between 2010 and 2013 and from 2015 onwards. Albania on the other hand, from 2010 to 2013 had a significant decline however, the rest of the years managed to recover. Nevertheless, Albania's GDP growth remains lower than that of Kosovo.

As far as GDP per capita is concerned, according to the data in Fig. 4, it slightly raised for both Albania and Kosovo. More specifically, in 2009, Albania's GDP per capita was 4.114 USD, while Kosovo's was much lower, 3.209 USD, approximately.

Five years later, in 2014, there was a slight increase with the highest rates for both partners. In particular, for Albania, GDP per capita reached 4.578 USD and

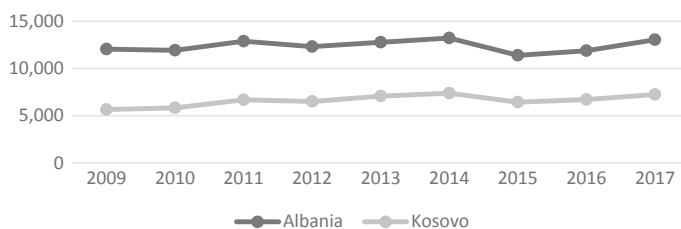


Fig. 2 GDP, billion USD (2009–2017). *Source* World Bank (2019a)

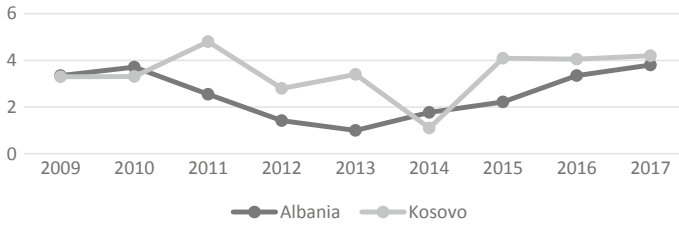


Fig. 3 GDP Growth (annual %). *Source* World Bank (2019b)

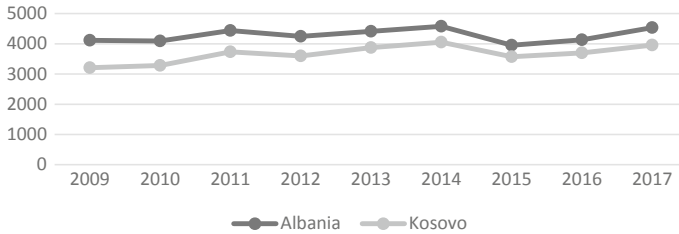


Fig. 4 GDP per Capita (USD). *Source* World Bank (2019c)

for Kosovo 4.054 USD. The next years after some fluctuations, Albania’s GDP per capita reached in 2017 4.537 USD, while Kosovo’s GDP per Capita reached the same year 3.957 USD. Therefore, within eight years, Albania’s GDP per capita increased only by 10.2% and Kosovo’s increased by 23.3%.

Regarding Gross National Income in Fig. 5, Kosovo is classified among lower middle-income economies, with a GNI per capita between 996 and 3,895 USD and Albania among upper middle-income economies, with a GNI per capita between 3.896 and 12.055 USD (World Bank 2019d). According to the available data, in 2018 HDI for Albania was 0.785 (United Nation’s Development Programme 2019) and in 2016 the HDI for Kosovo was 0.741 with “poor performance of the private sector in

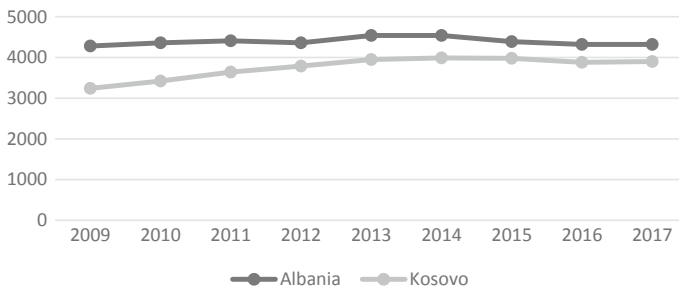


Fig. 5 GNI per capita (USD). *Source* World Bank (2019e)

job creation and the strong link between unemployment and socio-economic exclusion” (United Nation’s Development Programme 2016: 14) meaning that Albania ranked in the 68th and Kosovo in 85th globally.

These two indexes reflect not only the current situation of the two economies but also their potential dynamics. In one hand there are two weak economies with low GDP, GNI and HDI rates and on the other hand, Kosovo receives foreign aid for state-building and peace-building in order to address security issues and poverty.

In particular, in bilateral level, Kosovo has received from USAID, 157 million USD and sectors such as Government and civil society, Business, Banking, Education, Conflict Peace and Security absorbed most of the aid, meaning that these sectors are top priorities (USAID 2019). In multilateral level, the EU Institutions are the top donors for Kosovo, spending 156.5 million USD for the years 2016–2017 (OECD 2019). Albania also receives foreign aid. In multilateral level Albania received from the EU institutions 86.2 million USD and in bilateral level received from Germany 60.32 USD (OECD 2019).

As far as economic diplomacy is concerned, Albania and Kosovo have strengthened their economic ties. Kosovo is Albania’s one of the most important export partners, however, their bilateral economic ties concern only trade and their partnership through CEFTA, since there is absence of foreign direct investments.

In particular, as it is illustrated in Fig. 6, the trade balance between Albania and Kosovo is positive, since Albania’s exports are much more than imports, especially from 2015 onwards, which reached 270 million USD. Imports, on the other hand, also raised from 28.6 million USD in 2015 to 89.9 million USD, however, Kosovo is not a significant import partner for Albania.

As it is illustrated in Table 2, Kosovo is significant mainly for Albanian exports, since from 2009 to 2018 is in top 6 export partners. Regarding import partners, Kosovo, from 2009 to 2015 was in 24th and 25th place respectively and only the years from 2016 to 2018 was in 17th and 16th place respectively.

In the first places is mainly Russia, France, Spain and the USA. This makes sense because, usually, developing economies trade more with developed economies while developed economies trade more with each other. Thus, international trade is

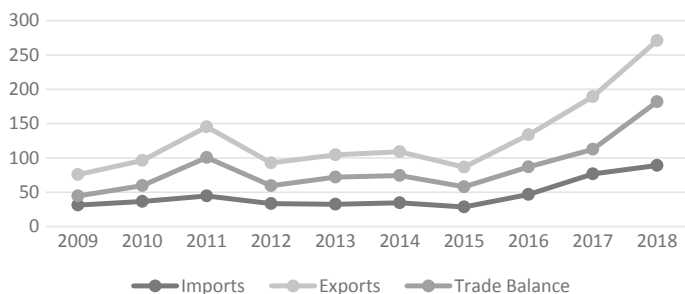


Fig. 6 Albania’s trade in goods with Kosovo, 2009–2018 (mil. USD). *Source* International Monetary Fund (2019)

Table 2 Kosovo ranking place as Albania's import and export partner

Year	Imports	Exports
2009	24	3
2010	27	2
2011	24	2
2012	27	4
2013	25	6
2014	24	5
2015	25	5
2016	17	2
2017	15	2
2018	16	2

Source International Monetary Fund (2019)

dominated more by North-North and North-South relations rather than South-South relations.

5 Conclusions

The aim of the paper was to examine the potential creation of customs union between Albania and Kosovo. The main argument that the motives are rather political than economic seems to be confirmed, because the economic dimension does not support this initiative. More specifically, Albania and Kosovo are already members of a free trade agreement (CEFTA), however, their economic ties have not been developed and only concerns trade relations, while the absence of foreign direct investments is noticeable. Therefore, if their economic capabilities have not been improved through a free trade area, a customs union, by imposing a joint external tariff will not make a difference.

Regional Trade Agreements can be used for political objectives, either to enhance a country's bargaining power or to contribute to security issues, especially from the great powers. US, in particular, conducted preferential trade agreements with countries strategically significant for their interests, such as Jordan or Israel. That is to say, that although states have both political and economic motives in order to join a regional trade agreement, the limits of economic cooperation resulting from the relative gains, strengthen the political dimension of RTAs.

In addition, the effectiveness of customs union and thus the impact on economic growth and development, depends on the economic environment in which takes place. In particular, there are many less developed countries which join customs union or other forms of regional trade agreements, however, the rates of economic growth and development remain low. In the case of Albania and Kosovo, as the

economic analysis showed, they are both weak economies with low national income and production and at the same time Kosovo highly depends on foreign aid, due to the fact that lacks social and economic structures to further support economic activity. Moreover, the adoption of a common external tariff in goods or in goods and services will rather deteriorate Kosovo's weak economy due to trade diversion, since Albania has a continuous and raising trade deficit from 1995 (Trading Economics 2019). This shows that Albania depends more and more in imports, making its production cost higher than others. Consequently, Kosovo cedes its ability to exercise an independent external economic policy, on the contrary, it is further dependent to the weaknesses and vulnerabilities of the Albanian economy.

Third, both Albania is candidate and Kosovo potential candidate for joining the E.U., after they complete the necessary reforms (European Commission 2019). This means that the perspective is to become members of a common market, joining all the benefits with other states. However, Albania and Kosovo tend to create a subsystem which, potentially, is going to competition in the region or cause more instability in an already vulnerable area. The fact that Albania and Kosovo want to create a closer economic cooperation outside CEFTA shows that the two partners are not willing to share their gains. This comes in contradiction with "*economic development and the EU accession agenda in the region*" as it is mentioned (CEFTA 2019). Again, economic data do not support the creation of customs union and as a result, the political cost will be higher than the economic gains. In addition, customs union raises the trade barriers within a region and among its members. However, in this case, Albania and Kosovo seem to use the customs union to impose barriers against others in the region, escalating, thus, the competition.

Last but not least, members of customs union enhance their bargaining power, since they have common interests and they have harmonized their policies. In this case, Albania and Kosovo have the opportunity to negotiate as a unit in international level, using customs union as a soft power in order to promote their interests. This will enable Albania to promote the political and then territorial unification with Kosovo, since there are more factors which support this development, such as the Albanian population living in Kosovo and the common language and national identity. Therefore, the potential creation of a customs union will rather fulfil Albania's political than economic motives, by promoting Albania's foreign policy objectives, since their bilateral economic cooperation is based primarily on "territorial unification" and secondarily on economic issues.

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