Introduction and background

- Kosovo imposed a 100 percent tariff on imported goods from Serbia and Bosnia and Herzegovina (BiH) in November 2018 in retaliation for Serbia’s efforts to block Kosovo’s accession to international organizations. Tariff was lifted in April 2020.
- Kosovo is party to the Central European free trade agreement (CEFTA) along with Albania, Moldova, Montenegro, North Macedonia, and Serbia. Of CEFTA countries, BiH, Kosovo and Serbia are not WTO members, but BiH and Serbia are observers.
- Pre-tariff, Serbia was Kosovo’s second largest trading partner after the EU. In 2017, 15 percent of Kosovo’s imports ($449 million or 7 percent of GDP) were sourced from Serbia and under 2.7 percent ($81 million) from BiH. Serbia was also Kosovo’s second largest export market, and together with BiH absorbed 17.3 percent of Kosovo’s exports ($54 million or 0.8 percent of GDP).
- By early 2019, imports of goods have completely shifted from Serbia to Bulgaria, Croatia, Hungary, Poland and Russia, the next most cost-efficient suppliers in the region.

Research question

- Did the tariff prompt a transshipment of goods from Serbia to Kosovo via neighboring countries?

Literature review

- There is a vast literature on trade diversion and deflection following policy actions. Two papers in particular related to the topic of transshipment.
- Rotunno, Vézina, and Wang (2013) show that the rapid rise of African exports can be explained in part by ethnic Chinese firms using Africa as a quota-hopping export platform during the final years of the Multifiber Agreement (2001–05), when the US imposed quotas on Chinese apparel but gave African apparel duty and quota-free access through the African Growth and Opportunity Act (AGOA).

Data

- Trade data at HS 6-digit level for 2017-19 from Eurostat
  - Kosovo’s imports (value and quantity)
  - Serbia’s and BiH exports (value and quantity)
  - Affected products: products exported by Serbia and BiH to Kosovo in 2017 and 2018.
  - Two-way balanced panel
  - Perversiveness of zeros: apply inverse hyperbolic sine (IHS) transformation to Kosovo imports and Serbian/BiH exports

\[ IHS(x) = \ln (x + \sqrt{x^2 + 1}) \]

Exports to Kosovo (Million euros)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
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<tr>
<td>Affected</td>
<td>105</td>
<td>105</td>
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<tr>
<td>Developed</td>
<td>100</td>
<td>95</td>
</tr>
<tr>
<td>Unaffected</td>
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<tr>
<td>Other EU</td>
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<td>95</td>
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<td>CEE</td>
<td>50</td>
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<td>Other</td>
<td>50</td>
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</tbody>
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Note: Other CEFTA includes Albania, Moldova, Montenegro, and North Macedonia. CEE includes Bulgaria, Croatia, Czechia, Hungary, Poland, Romania, Slovakia, and Slovenia. Other EU includes other EU countries not included in CEFTA and Central Eastern Europe.

Conclusion

- This paper shows that the 100 percent tariff by Kosovo on products imported from Serbia and BiH resulted in exports from these countries using neighboring countries (in particular, Albania and North Macedonia) as export platform to reach the Kosovo market.

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