

# Trade and Country Legislation as a Roadmap for Economic Integration: Focus on Balkan Countries

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**Abstract** - Purpose: This paper focuses on identifying the role of trade and legislation of a country for economic integration. Every Balkan country has claims to integrate into the large family of the European Union- EU. This context besides foreign trade legal infrastructure is one of the main determinants of this process. It is imperative that laws related to the process of economic integration should comply with EU legal directives. Design/Methodology/Approach: Data processing design (for legislation as a roadmap for economic integration) is in line with established international standards. It focuses on data published by the governing institutions of the relevant countries using deductive methods. It also compares data obtained from research in analytical and synthetic terms with direct access to literature, scientific journals, as well as official reports published locally and abroad. Findings: Today, economic integration has become a necessity of recent times. They are influenced by a large number of relevant factors and are received by political actors on the basis of whose political actions will bring about liberal or protectionist policies. Each state has its own legal acts and other legal provisions regulating the functioning of the country's legal system. Free trade and the implementation of economic integration are closely linked to "Fiscal Policy" as part of the overall economic system. Adoption of restrictive fiscal laws that impede the international movement of goods and services has detrimental effects on the development of international trade and impedes the development of good relations between sovereign states. Practical Implications: The elaboration of this paper is based on the legal analysis of contemporary economic integration as well as the economic aspects and modalities for the practical realization of regional integration. The paper presents data - on market performance and legislation that determines economic integration - which shows the current state of affairs of the Western Balkan countries in the context of such integration. Originality/Value: The data in the paper present the real state of commercial economic developments and legislation as determinant of economic integration in the Western Balkan countries. The focus is on the creation of adjacent legislative spaces of these countries, which enables accelerated integration with the ultimate aim of joining the EU.

**Keywords:** Economic Integration; European Union; Fiscal Policy; Legislation; Western Balkans

## 1. INTRODUCTION

Economic integration has become a necessity, this integration depends on a large number of factors, the most important of which are the harmonization of legislation by the economic sphere and the harmonization or adaptation of fiscal policies between certain states that claim to be part of this integration. The focus of the paper will be the analysis of fiscal policy that determines the development of trade and legislation of countries interested in regional and wider integration, the focus of this harmonization will be a cooperative analysis between the countries of the Western Balkans (Kosovo, Northern Macedonia, Montenegro, Albania and Serbia).

## 2. EXTERNAL TRADE AND LEGAL INFRASTRUCTURE AS DETERMINANTS OF ECONOMIC INTEGRATION

External trade is one of the key determinants of economic integration. Trade liberalization, "a part of social reproduction" (Berisha, 2008, p.12), was the beginning of economic integration. From this point of view, foreign trade is the focus of this paper. On the one hand, the increasing liberalization of the global economy undoubtedly requires the harmonization of the legislative systems and fiscal mechanisms of the various countries, as well as the preservation of national fiscal sovereignty. This is in accordance with the specificities of the respective countries. Foreign trade is an important activity of the economy in general, which deals with the economic relations of a country with other countries of the world in the field of selling and buying of goods and the providing of services. "In conditions of contemporary international economic development, there can be no autarkic economy" (Limani, 2003). Each country has its own legislative infrastructure which regulates the legal system of that country. To create bridges to accelerate economic

development and integration in this field, countries should aim to harmonize the legal provisions with countries of the region as much as possible - specifically in the case of the Western Balkan countries. It is well known that the goal of each of these Balkan countries is EU membership, but there are some steps that need to be taken to pave the way for this membership, however, “the countries that have benefited most have been those who have taken responsibility for their own destiny rather than relying on the notion of a self-regulating market that would fix its problem”<sup>1</sup> (Stiglitz, 2007). Also, the Balkan countries (Kosovo, Northern Macedonia, Montenegro, Albania and Serbia) need to be coordinated for regional agreements with the aim of eliminating legal barriers and other fiscal obstacles. These countries have gone through some very difficult stages since the 1990s with the destruction of Yugoslavia. However, the new circumstances created today determine the need to achieve the desired goal of being part of development, prosperity, and welfare of their citizens which in this case is the EU. There is a need for each country to have economic relations with other countries, regardless of socio-economic regulation and the level of overall economic development. This is due to the fact that resources are usually presented in the form of scarcity. Therefore, to meet their needs, states establish bridges of cooperation with other independent states. Driven by the need for economic co-operation as well as regional and global integration, interdependence was established between different countries. This has given rise to the concept of "Globalism", "Globalization has strong economic, cultural, social, environmental, political and technological dimensions and as such must be viewed from different perspectives.", (Sogojeva, 2019). “Foreign trade, like any voluntary exchange action, provides benefits to all parties involved in the process. An analysis of the international economy remains valid for Ricardo's "comparative cost theory", according to which it is expedient for each state to specialize in producing those goods where it has a comparative advantage, goods that are then exchanged between producers and consumers in different countries” (Leccisotti, 2000, p.608).

Table 1. Trend of GDP 2017/18 in Western Balkans countries

Trends (percent) of GDP growth / decline in the Western Balkans		
	Year 2017	Year 2018
Kosovo	3.9%	3.7%
Albania	3.5%	3.5%
North Macedonia	3.3%	3.7%

<sup>1</sup> Joseph E. Stiglitz - “Globalizimi dhe Pakënaqësitë e shkaktuara prej tij”, Zenith, Prishtinë 2007

Bosna and Hercegovina	3.2%	3.7%
Serbia	2.8%	3.5%
Montenegro	3.6%	3.0%

Source: www.worldbank.org/eca/seerer

Postwar developments have forced different countries to look for ways to eliminate double taxation and seek bilateral and multilateral agreements to facilitate trade development. In some regions, “This process has reached its climax, with the creation of common markets, in the true sense of the word, and economic mergers, by implementing fiscal harmonization policies” (Leccisotti, 2000, p.613), the best example of these integrations is the creation of the European Union. Here, member states have removed the barriers to international trade turnover and achieved the creation of a common market, "Common market " is a higher level of integration, including the liberalization of productive factors among the united states around integration", (Çeku, 2012).

### 3. FISCAL POLICY LEGISLATION and It's HARMONIZATION

The legislative activity of states generally depends on the inalienable right of a country to adopt laws and other legal acts. This is in accordance with a legislative strategy drawn up based on the country's needs and general social relations. The adoption of a law is aimed at regulating a certain social sphere with legal norms. The set legal norm should produce productivity and legal certainty, but it should also influence the development of the country's financial and fiscal relations. Each country has its own fiscal policies. "Though fiscal policy impacts in overcoming short-term economic crises" (Kadriu, 2012), Kosovo also regulates this area with functional legal provisions such as:

- Law 05 / L-037 on Value Added Tax - VAT,
- Law 05 / L-029 on corporate income tax,
- Law on Excise Tax in Kosovo 03 / L-220,
- Law 03 / L-109 on Customs Code and Excise, etc.

In what is now called "integration" time, through international agreements, states aim to regulate areas of common interest and adapt them for the common needs. Also, the harmonization of fiscal legislation has special significance as "Fiscal sovereignty is the right and unlimited power of the state" (Gorcic, 2013, p.11). There can be no large tax differences and other fiscal differences because such a change in between countries causes tax evasion. Kosovo is a country of transition and in the last 20 years, Kosovo society has been identified with a weak economy where the focus has been on consumption and very little production. In addition, 100% of imported goods are covered by about 14% of exports:

Table 2. Import-export report 2017-2018 in Kosovo

Value of goods for exp/imp in€,000	2017	2018	percentage change %
Import (IM4)	3.006,455	3,325,693	+9.60%
Export according to value of DUD-ve (EX1)	313,002	329,210	+4.92%
Re-Export according to value of DUD-ve (EX3)	124,269	147,666	+15.84%
Total Export + Re-Export	437,271	476,876	+8.3%
	% e EX ne IM	% e EX ne IM	
	14.50%	14.33%	

Source: Annual Report 2018 - Kosovo Customs, www.dogana.rks-gov.net,

Harmonization of fiscal systems should mean the legislative activity of a country, consisting of the adoption of laws in the field of taxes and other fiscal forms. This is so that the respective fiscal systems of sovereign states are aligned or identical (in the case of set - where possible) or respond to the same common objectives. The state activity for legislative harmonization is preceded by the international agreement between the countries concerned. After the signing and ratification of the international agreements, the states make the necessary legislative changes according to the obligations undertaken. If the signatory states of international agreements on fiscal system adaptation incorporate the provisions of the agreement into their legislation, then we have the harmonization of specific fiscal systems. Therefore, the harmonization of fiscal systems requires legal activity and the adoption of fiscal instruments similar to third countries. This makes the approximation or adjustment of legislation

positive fiscal with that of other independent states. This state activity is based on the autonomous right to adopt and change fiscal policies through the adoption of laws by the parliaments of the respective countries. Consequently, this form of cooperation of sovereign states is not so easy to apply in practice for many reasons. This is based on the fact that each state has its own economic, social, and political specificities. Also, these specifications are not always in line with other countries. The harmonization of fiscal policies is becoming increasingly difficult to express in the Western Balkans, as there are major political divergences, the former war, the rule of Balkan nationalism, etc. In addition to the pressure of the international community, concretely some small progress has been made in the EU, with some agreements being signed to harmonize legislation where possible. Some of these Balkan countries are more developed and some are less developed.

Table 3. GDP per capita in Kosovo and Western Balkan countries,

GDP per capita, according to the IMF	
	Income per capita per year
Kosovo	4,450.00
Bosna and Hercegovina	5,750.00
Albania	5,560.00
North Macedonia	6,200.00
Serbia	7,530.00
Montenegro	8,710.00

#### 4. THE BALKANS AND ECONOMIC INTEGRATION THROUGH THE CEFTA Agreement

All Western Balkan countries are signatories of the free trade agreement known as CEFTA. This Regional Free Trade Agreement aims to prepare the economies of Southeast European countries for EU membership. "Through CEFTA, signatory states undertake:

- "to develop their mutual commercial relations in accordance with WTO rules and disciplines, whether or not they are WTO members;
- abolish all quantitative restrictions on imports and exports and measures having equivalent effect on trade between the parties;

- to eliminate customs duties in breach of Article VIII of the General Agreement on Tariffs and Trade 1994, in their mutual trade and any other similar obligations."

Initially, with the signing of CEFTA, it was thought that trade problems between neighbors would be eliminated. However, political problems soon emerged from countries such as Serbia and Bosnia and Herzegovina, countries that refused to import goods of Kosovo origin because of the sign of the Republic of Kosovo. This anti-liberal policy continued until the signing of the Agreement between the Republic of Kosovo and the Republic of Serbia on the acceptance of Kosovo customs stamps, and then Bosnia and Herzegovina accepted these stamps. We are of the opinion that expectations regarding the signing of this regional agreement have not been met because nationalism

over economic integration has dominated since the signing of this agreement. Targeted economic integration in the Balkan countries has a wide reach in many areas - with a particular emphasis on trade exchanges and the regulation of this area through tax policies. Through harmonized tax policies, countries can have a positive impact on the

movement of goods, services, people, capital, and also create conditions for targeted integration of these countries. "Economic policies at the national level do not can be formulated without assessing their potential impact on the economies of other countries", (Lika, 2012).

**Table 4.** Tax rates in Western Balkan countries

Country	VAT on %	Ear n tax on %	Personal Income Taxes %	Withholding tax on %			Social - health insurance on %		
				On Dividend	On Interes	On Wealth	Total	Employer	Employee
Kosovo	8, 18	10	0,4,8,10	0	10	10	10	5	5
Albania	6, 20	5, 15	13, 23	15	15	15	28	17	11
North Macedonia	5, 18	10	10	10	10	10	27	0	27
Montenegro	7, 21	9	9, 15	9	9	9	34	10	24
Bosna and Hercegovina	17	10	10	10	10	10	23	0	23
Serbia	10, 20	15	10, 25	20, 25	20, 25	20, 25	38	18	20

Source: [www.altax.al](http://www.altax.al), Report-2018 – Tax burden in Western Balkan countries

## 5. CONCLUSION

Globalization (fueled by the need for economic and trade cooperation across the world) has helped hundreds of millions of people achieve higher living standards beyond what they, or most economists, could only imagine. In recent times, globalization has had a huge impact on economy, culture, and socially as well. As such, this modern phenomenon must be viewed from different perspectives. Countries have immensely benefited from the globalization of the economy as they have taken advantage of it by concluding cooperation agreements, seeking new markets for their exports, as well as welcoming foreign investment. However, the countries that have benefited most are those that have adapted to the free market rules. In this context, the countries of the Western Balkans are also trying to adapt to the free trade conditions dictated by globalization - but so far, it has proven more difficult, mostly political difficulty. In order for markets to function more effectively, economics and politics need to be as far as possible away from one another. That is, markets must be free; also, politics should not interfere with trade relations and target common markets. A government's foremost political impact on their country should be: to create legal

infrastructure for the development of free trade, to sign trade agreements to increase inter-state cooperation, to promote inter-state relations and not to dictate trade policy. In this context, the governments of the countries of the Western Balkans should eliminate regional influences, political influences from left or right orientations, and attach importance to their economic integration and, in addition, also aim at European Union integration. The government must ensure basic order in society and economic sustainability (Mings, 2008, p.301). Since economic development is the backbone of overall social development, we are of the opinion that the Western Balkan countries must overcome political and social barriers by eliminating the extreme nationalisms that have emerged for decades, with each one bearing the responsibility in order to focus on a better future together. In this respect, we think that these criteria below will have to be taken into account:

- Adhering to WTO principles, we demonstrate democracy and cooperative commitment to all countries in the region and the world;
- Establish institutional partnerships with European Union countries, benefit from their achievements, and trade with these countries to develop in a liberal spirit;

- To assist the business community in enhancing productive capacity through internal economic policies,
- Fiscal policies for enterprises to help increase production quality,
- To influence export promotion, with the aim of equalizing the trade balance with which all Balkan countries meet,
- Eliminate trade barriers related to quantitative barriers and administrative measures to import goods, etc.

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