Strengthening Kosovo-Serbia Relations Through Economic Cooperation

The Role of Regional Economic Integration

Will Bartlett
LSEE Hellenic Observatory
European Institute LSE

Bernard Nikaj
RIT Kosovo

Nenad Djurdjevic
Regional Center for Strategic and Policy Initiatives

September 2026



RCSPI
Osservatorio balcani e caucaso transeuropa
CENTRO PER LA COOPERAZIONE INTERNAZIONALE
epik.

This research is realized with the support of the Italian Ministry of Foreign Affairs and International Cooperation.

The views expressed in this report are solely those of the authors and do not necessarily reflect the views of the Ministry of Foreign Affairs and International Cooperation.



Table of contents

4 **Abstract**
6 **1. Introduction**
9 **2. Complementaries Between the Economies of Kosovo and Serbia**
13 **3. Regional Economic Architecture and Implementation**
14 3.1. Lessons from other European contexts
17 3.2 The successes and limits of regional cooperation in the Western Balkans

20 **4. The Economic Cost of Incomplete Normalisation**
21 4.1 Trade in goods
25 4.2 Services and digital trade
27 4.3 Investment and value-chain integration
29 4.4 Cross-border payments and financial integration
29 4.5 Labour mobility and human capital
30 4.6 The cumulative cost of economic friction

31 **5. Normalisation Dividends Across Sectors**
32 5.1 Trade facilitation dividends
34 5.2 Sanitary and phytosanitary documentation
35 5.3 Digital and business services as a low-friction entry point
37 5.4 Cross-border business clusters and special economic zones
38 5.5 Financial integration and cross-border payments
39 5.6 Skills development and labour mobility
40 5.7 Business-to-business cooperation and the role of business associations

41 **6. Concluding Policy Summary**
44 References
48 Annex 1: Potential changes to the normalisation governance process
51 Annex 2: Creation of “Regional Vocational Skills Fellowships”

Abstract

The economic relationship between Kosovo and Serbia is closely connected to the wider European integration process influencing regional cooperation dynamics. Both economies are part of the Western Balkans' regional economic architecture and are increasingly being brought into a framework that links regional integration with gradual access to the EU Single Market. At the same time, the unresolved normalisation process between Belgrade and Pristina continues to shape the conditions in which economic relations develop. This affects not only trade and investment, but also the ability of businesses on both sides to build stable and lasting economic relationships.

This paper asks whether economic cooperation can move forward in parallel with political normalisation and, in doing so, create a "normalisation dividend", meaning economic gains from lower uncertainty, stronger business ties and deeper integration into regional and European value chains.

The argument is not that economic integration can substitute for political normalisation; nor does it require replacing the regional frameworks already in place. Targeted new agreements and implementation arrangements can nevertheless fill gaps that those frameworks have not resolved. Kosovo and Serbia are already part of a substantial regional integration framework, including CEFTA, the Common Regional Market, the EU Growth Plan and other regional initiatives. These frameworks provide a solid basis for further economic integration. Their potential, however, remains limited not only by gaps in implementation, but also by the vulnerability of economic relations to political disagreements and bilateral disputes.

The question, therefore, is how existing regional frameworks can be used more effectively to keep economic cooperation moving forward, even when political progress is slow. This means looking beyond formal market access and focusing on the practical conditions that shape trade, investment and business cooperation between Kosovo and Serbia.

This challenge is particularly clear in Kosovo-Serbia relations. Both economies would benefit from more predictable and sustained commercial links, as well as deeper participation in regional and European markets. Yet political tensions and uncertainty raise the costs and risks of doing business, discourage longer-term commercial relationships and make it harder for firms to develop cross-border value chains. The cost therefore goes beyond lost trade. It also includes missed opportunities for investment, business partnerships, skills development and innovation, with wider implications for both economies.
A more resilient approach requires stronger institutions, effective political steering and continued progress through the Common Regional Market and towards the EU Single Mar-

ket. Agreed economic cooperation should not require renewed political bargaining over every transaction. Economic cooperation therefore needs mechanisms that allow integration to move forward even when political relations are strained.

This is the starting point for the paper's analysis. It asks whether economic integration can advance alongside political normalisation, rather than waiting for it to be completed, and whether greater economic interdependence can help create conditions for more sustainable normalisation.

The potential economic gains are significant. Greater predictability can reduce the costs and risks faced by businesses, make longer-term commercial relationships more attractive and encourage firms to invest in cross-border partnerships and supply chains. It can also help Kosovo and Serbia make better use of their complementary economic structures and participate more effectively in regional and European value chains. As both economies move closer to the European market, these opportunities become increasingly important. The political effect is more indirect, but still relevant. As businesses develop relationships, invest in supply chains and depend on functioning economic links, disruption becomes more costly. Over time, these interests can strengthen support among businesses and other economic actors for more predictable relations. Economic interdependence does not automatically lead to political reconciliation, but it can strengthen the incentives for it.

The policy implication is therefore not to create a separate bilateral economic architecture. Rather, existing regional and European frameworks should be made more effective and more resilient to political disagreement. This means better implementation, stronger mechanisms for resolving technical issues, effective political steering where political decisions are needed, and credible monitoring of commitments. Practical cooperation should progressively give effect to equal treatment, acceptance of documents and the exercise of each party's institutional responsibilities. It should support a final, legally binding comprehensive normalisation agreement, not make indefinite non-normalisation more manageable. The annexes propose governance reforms and a regional skills pilot as concrete steps in that direction.

1. Introduction

The relationship between Kosovo and Serbia remains one of the most important unresolved political issues in the Western Balkans. Since the EU-facilitated Belgrade-Pristina Dialogue began in 2011, a number of agreements have addressed technical issues such as freedom of movement, customs, energy, telecommunications and trade. The 2013 Brussels Agreement was a broader attempt to establish the principles for normalisation, while the 2023 Agreement on the Path to Normalisation and its Implementation Annex renewed the focus on cooperation across a wider range of economic and societal areas, paving the way for documents recognition, including passports, diplomas, licence plates, custom stamps and agreeing to deepen cooperation in economy, while the EU pledged to establish "a special investment and financial support package" in the sphere of "economic development, connectivity, green transition and other key areas".

Progress, however, has been uneven. Political crises, administrative restrictions and disputes over documents and procedures have repeatedly affected economic relations. The 100% tariff imposed by Kosovo on goods from Serbia in November 2018 is a clear example. Formal imports from Serbia fell sharply, and the measure contributed to a wider deterioration in relations. Trade later resumed, but the episode showed how quickly political tensions can spill over into economic and administrative processes.

At the same time, economic relations have proved more resilient than the political relationship might suggest. Kosovo and Serbia are geographically close, economically interconnected and part of the same regional market. Kosovo trades significantly with CEFTA partners, while Serbia remains an important source of imports. Commercial links have continued even during periods of serious political tension.

This raises a simple question: **if economic relations can continue despite incomplete political normalisation, can they also be strengthened in ways that support the longer-term normalisation process?**

This paper examines how they may do so, but not because economic integration can replace political normalisation. Rather, closer economic relations can generate what this paper calls a "normalisation dividend" - economic gains that come from reducing political and administrative frictions, making market access more attractive and creating better conditions for investment, supplier relationships and participation in regional and European value chains. There is also a possible political-economy mechanism. As economic relationships become more valuable, firms, workers and business organisations have a stronger interest in predictable conditions and a greater stake in avoiding disruption. Economic

interdependence does not automatically lead to political reconciliation, but it can change the incentives around it.

This is particularly relevant because economic relations between Kosovo and Serbia are no longer shaped only by bilateral arrangements. Both economies are part of a wider regional integration process that has developed considerably over the past decade. CEFTA provides the core framework for trade in goods and services. The Berlin Process broadened the regional agenda to include investment, digital integration and mobility, while the Common Regional Market created a more comprehensive framework for regional economic integration. The EU Growth Plan has added another dimension by linking regional integration with progressive access to parts of the EU Single Market and with financial support for reforms.

The paper therefore looks at where economic integration can move forward despite incomplete political normalisation, and what is needed to make that progress durable. The focus is not on creating a separate Kosovo-Serbia economic architecture, but on strengthening the regional and European frameworks that already exist, including through specific new arrangements where implementation gaps require them.

The analysis identifies substantial potential economic gains from more predictable relations. It does not establish that those gains will necessarily translate into political normalisation. That relationship remains conditional on political incentives, security, implementation and the ability of economic actors to influence public decisions.

Economic incentives do not affect all actors in the same way. Firms and households may bear the costs of disruption while political actors retain incentives to maintain restrictions or contest institutional authority. Business interests may also lack the independence or influence needed to change government decisions. The contribution of economic cooperation to normalisation therefore depends on how benefits and costs are distributed and whether implementation arrangements change the incentives of actors capable of blocking progress.

The idea of parallel integration provides the analytical framework. Economic integration and political normalisation should be allowed to advance alongside one another, rather than being treated as sequential processes in which one has to be completed before meaningful progress can be made in the other.

Parallel progress requires a political destination. Economic arrangements should progressively reduce the practical consequences of non-recognition through reciprocal document acceptance, equal institutional participation and non-obstruction of each other's external economic relations. These steps should contribute to a final, legally binding comprehensive normalisation agreement.. Article 6 of the 2023 Agreement itself envisages further specif-

ic agreements alongside continued negotiations on comprehensive normalisation (EEAS, 2023a).

This means distinguishing between areas where political agreement is genuinely required and those where the main obstacles are administrative, regulatory or technical. Where political divergence makes repeated political consensus difficult, integration mechanisms should allow political decisions to be taken at the appropriate level while technical and administrative cooperation can continue where the necessary conditions already exist.

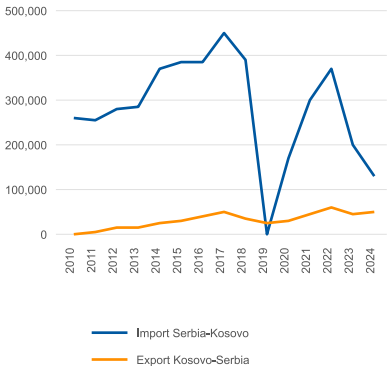
For Kosovo and Serbia, this distinction matters because the economic costs of incomplete normalisation build up through everyday frictions. Border delays, uncertainty over documentation, duplicated inspections, difficulties in recognising qualifications, costly payment channels and limited supplier relationships may each appear relatively small. Taken together, however, they influence firms' decisions about where to source inputs, whom to work with, whether to invest and whether to build long-term cross-border relationships.

The paper therefore focuses on the economic mechanisms through which these frictions can be reduced and on the institutional conditions needed to sustain that progress. The objective is to identify the targeted agreements, institutional reforms and projects through which the existing regional and European integration process can work more effectively for Kosovo and Serbia - and how economic cooperation can become more firmly embedded in the everyday interests of businesses and people on both sides.

2. Complementaries Between The Economies of Kosovo And Serbia

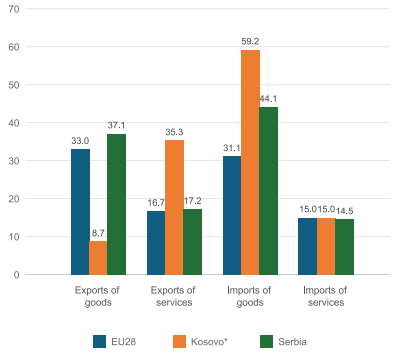
Kosovo and Serbia are closely connected to the wider Western Balkan and European markets, but their economies have different structures and strengths. Serbia has a relatively strong manufacturing base and has attracted substantial foreign investment into export-oriented production. Kosovo's private sector is dominated by SMEs and has developed particular strengths in services, including ICT and business-process outsourcing.

Figure 1: International trade in goods between Kosovo and Serbia, 2010-2024 (thousand euro)



Source: Kosovo Agency for Statistics

Figure 2: Share of exports and imports of goods and services in GDP in Kosovo, Serbia and EU (%)



Source: Eurostat online database

The figures illustrate an important difference: Serbia is more specialised in goods exports, while Kosovo has a stronger position in services exports.

The two economies are also at different stages of integration into European and regional value chains. Serbian exports are concentrated in manufactured goods, particularly automotive products, machinery, tyres and metallurgy. Much of this production is driven by multinational companies, including those operating in Special Economic Zones (known as "Free Zones")[1]. Kosovo has a smaller manufacturing base, but a large private SME sector and growing capabilities in digitally delivered services and other knowledge-intensive activities.

[1] Serbia has 15 free zones, located in Subotica, Pirot, Zrenjanin, Novi Sad, Kragujevac, Šabac, Užice, Svilajnac, Smederevo, Kruševac, Apatin, Vranje, Priboj, Beograd and Kragujevac.

Goods and manufacturing

The structure of goods trade shows both the asymmetry between the two economies and the potential for greater integration. The relationship should therefore not be viewed only through the bilateral trade balance. A more useful question is whether the productive strengths of the two economies can be connected more effectively. Serbia's manufacturing companies, including multinational companies operating in the country, need a wide range of suppliers and business services. Kosovo SMEs could potentially provide some of these inputs if they can meet the required standards, quality, reliability and delivery conditions.

This creates an opportunity to move beyond a mainly buyer-seller relationship towards deeper business and supply-chain linkages. In particular, Kosovo firms could become suppliers to companies that are part of regional and European value chains.

Services and digital trade

The services sectors of Kosovo and Serbia differ in size and structure, but there is growing overlap in areas with potential for cooperation. Kosovo has developed a significant services export base, with travel accounting for the largest share, largely reflecting diaspora-related expenditure, particularly from Germany, Switzerland and Austria. At the same time, ICT and business-services have become an increasingly important source of higher-value export. These include software and web development, systems integration, cybersecurity, digital marketing and other knowledge-intensive services.

Kosovo firms increasingly serve European clients through direct exports and outsourced business models, including customer support and call-centre services for companies in telecommunications, e-commerce and logistics. Other growing activities include remote accounting, graphic design, engineering and architectural services. Together, these developments point to a growing capacity to deliver knowledge-based services across borders.

The structure of Kosovo's private sector is an important part of this picture. Family-owned firms and MSMEs account for a large share of economic activity. Services contributed almost 46% of gross value added in 2024 and accounted for around 70% of employment. Kosovo's Reform Agenda also places emphasis on strengthening the entrepreneurial ecosystem, including support for start-ups and MSMEs in ICT and the green economy. At the same time, firm-level capacity, access to finance, specialised skills and the ability to scale remain important constraints.

Serbia has a broader and more diversified services export base. Alongside established strengths in transport and travel, it has developed significant capabilities in ICT and business services. These are supported by a relatively large pool of highly educated technical

and engineering professionals and continued investment in the digital economy. Its more developed services ecosystem also gives firms access to wider networks of clients, suppliers, technology providers and specialised expertise.

These different positions create opportunities for both competition and complementarity. The two economies increasingly operate in some of the same digital and knowledge-based markets, but their capabilities are not identical. Kosovo firms could provide specialised services to Serbian manufacturers, multinational companies and service businesses. Serbian companies, in turn, could offer complementary technology, expertise, scale and access to wider business networks. Cooperation could include subcontracting, joint service provision, participation in European tenders and integrated services for EU clients.

The potential therefore goes beyond bilateral trade in services. Stronger regional business links could give Kosovo firms a practical pathway into wider European markets. They could build customer relationships, gain sector-specific experience, develop partnerships and strengthen their ability to meet the requirements of larger international clients. For Serbian firms, cooperation with specialised Kosovo companies could broaden access to skills and cost-competitive service capacity. Regional integration can therefore serve not only as an additional market, but also as a way for firms to build the capabilities needed to enter European value chains.

Investment and Multinational Companies-SME linkages

One of the strongest opportunities for complementarity may lie in connecting the two economies through investment and supply chains, rather than simply increasing bilateral trade.

Serbia has attracted multinational companies into export-oriented manufacturing and has developed industrial ecosystems around these investments. These companies operate in increasingly demanding European value chains and need reliable suppliers, specialised services, logistics, maintenance, ICT solutions and other business inputs.

Kosovo's large SME sector could provide some of these inputs. But geographical proximity alone does not create supply-chain integration. Kosovo firms need to meet requirements related to quality, certification, delivery times, digital systems, financing and production capacity. Serbian-based multinational companies also need effective ways to identify and develop suitable suppliers from Kosovo.

This points to a concrete area for regional cooperation: connecting Kosovo SMEs with supplier opportunities in Serbian-based multinational and larger domestic companies. This could include supplier mapping, business matchmaking, information on procurement re-

quirements, technical and quality upgrading, certification support and targeted investment promotion.

Such links should complement Kosovo firms' direct access to European customers, not make access dependent on intermediaries in Serbia. Supplier-development support should also attract investment and higher-value production to Kosovo and enable firms in both economies to diversify their markets.

The benefits would go beyond individual contracts. Successful supplier relationships can create longer-term economic links, support the transfer of know-how and strengthen the capabilities of participating SMEs. They can also create a wider group of companies with a direct commercial interest in predictable cross-border economic relations.

Labour and human capital

The two economies also have complementary labour-market characteristics. Serbia has a more developed industrial base and growing demand for skilled workers in manufacturing, engineering, ICT and technical occupations. Kosovo has a young population and a growing pool of workers with skills relevant to services, ICT and other internationally tradable activities, but faces constraints in creating enough high-productivity employment at home.

This creates opportunities for cooperation in skills development, vocational education and training, professional mobility and business-driven skills partnerships. The aim should not be limited to labour mobility itself, but also to improving the match between skills and opportunities in regional and European value chains.

Practical cooperation could include joint training, company-based vocational programmes, short-term skills exchanges and cooperation between employers, training institutions and professional bodies. Where regulatory and institutional conditions allow, improved recognition of qualifications and professional competencies could further support mobility and cross-border provision of services.

Taken together, the economic structures of Kosovo and Serbia suggest significant potential for complementarity. Serbia's strengths in manufacturing, multinational investment and industrial value chains can be combined with Kosovo's growing capabilities in services, ICT, business processes and a relatively young labour force. Both economies are also developing digital and knowledge-based sectors, creating opportunities for cooperation that depend less on physical cross-border movement.

The policy implication is important. The opportunity is not simply to increase bilateral

trade, but to connect complementary economic capabilities. This means moving beyond a predominantly goods-trade relationship towards deeper cooperation in services, investment, supply chains, digital business and skills.

The next section examines whether the existing regional economic architecture can support this deeper form of integration, what it has already delivered, and where implementation gaps continue to limit its potential.

3. Regional Economic Architecture and Implementation

Kosovo and Serbia are already part of a dense regional architecture for economic cooperation. **The Central European Free Trade Agreement (CEFTA)** provides the main framework for trade in goods and services. **The Common Regional Market (CRM)** extends cooperation into areas relevant to the EU Single Market, while **the EU Growth Plan for the Western Balkans** provides additional financial and political incentives for reform and regional integration.

The key issue is therefore not the absence of regional mechanisms. It is whether these mechanisms are sufficiently effective to deliver when implementation becomes politically sensitive.

The experience of the Western Balkans shows that regional agreements can create a basis for cooperation, but that **commitments do not automatically translate into implementation**. Where implementation requires domestic legislation, administrative action or sustained cooperation between authorities, progress can stall even when the underlying economic interests of the parties are aligned.

This is particularly important for Kosovo-Serbia relations. Technical economic issues can become exposed to wider political tensions, while existing regional mechanisms have limited capacity to ensure accountability for commitments once political relations deteriorate.

The resulting problem is therefore not simply an implementation gap. It is also a governance gap.

A more effective approach does not require replacing the existing regional architecture. It requires strengthening the governance and implementation arrangements around it through clearer responsibilities, realistic implementation timelines, systematic monitoring, structured problem-solving and stronger political oversight where technical issues re-

main unresolved. Where present mandates are insufficient, the parties and the EU should agree the additional powers, procedures or sectoral agreements needed to deliver results. The objective is implementation that advances normalisation, not an exemption from political responsibility.

This approach is consistent with the broader lesson from European integration that ambitious objectives are most likely to produce results when they are matched by clear responsibilities, credible monitoring and mechanisms that create incentives for implementation.

3.1 Lessons from other European contexts

The experiences of Cyprus, Northern Ireland and Moldova-Transnistria are not presented as models for Kosovo-Serbia per se. Their political, legal and institutional circumstances are substantially different. Their relevance lies in showing how specific technical and economic arrangements can allow economic activity to continue in politically sensitive environments.

Cyprus

Cyprus provides an example of how trade can be facilitated without resolving the underlying political dispute. Rather than treating the UN buffer zone as an international border, the EU introduced special trade rules (the EU Green Line Regulation, 2004) delegating origin certification of Turkish Cypriot goods to the Turkish Cypriot Chamber of Commerce (KTTO). Under the EU Green Line Regulation, special arrangements were established for trade across the divide. Origin certification for goods from the northern part of the island was delegated to the Turkish Cypriot Chamber of Commerce, while EU-mandated phytosanitary inspections provided independent verification for agricultural products entering the southern market.

The arrangement allowed trade-related functions to operate without requiring the Republic of Cyprus to recognise the political status claimed by the Turkish Cypriot authorities. It also created regular working relationships between business organisations and helped northern producers meet European supply requirements.

The broader lesson is not the institutional model itself, but the possibility of separating commercial and technical functions from wider political disagreements, with appropriate third-party involvement and verification.

For Kosovo-Serbia, this points to the value of clear technical procedures, objective documentation requirements and appropriate third-party support in areas where political sen-

sitivities can otherwise disrupt routine trade. This is particularly relevant for agricultural and other products subject to sanitary and phytosanitary controls, where predictable procedures and recognised verification arrangements can reduce uncertainty for businesses.

Northern Ireland

Northern Ireland and Ireland provide a different example of how practical economic cooperation can develop alongside a difficult political process. Northern Ireland is a constituent part of the United Kingdom with its own parliament (the Northern Ireland Assembly) and extensive devolved powers. The 1998 Belfast (Good Friday) Agreement established a political framework for peace, power-sharing and North-South cooperation after decades of conflict involving republican and loyalist paramilitaries and state security forces (Belfast Agreement, 1998). Customs controls were abolished on 1 January 1993 with the introduction of the EU Single Market; this was distinct from the removal of security checkpoints and military installations (House of Lords European Union Committee, 2016, paras. 89–93). The 1998 Agreement subsequently committed the British Government to security normalisation, including the removal of security installations, consistent with the level of threat (Belfast Agreement, 1998, Security, para. 2). This sequence does not establish that customs facilitation produced the political settlement: economic integration and political and security commitments played distinct, complementary roles. Since the departure of the UK from the EU (Brexit) took effect in 2020 the status of the border with the Republic of Ireland (an EU member state) has become fraught with difficulty. To maintain an open land border to reduce the risk of a resurgence of violent conflict, post-Brexit arrangements placed certain goods controls on movements from Great Britain to Northern Ireland rather than at the Irish land border; this did not make Northern Ireland a separate state. The Windsor Framework agreed by the UK and EU in 2023 provides simplified arrangements for eligible goods moved by authorised traders from Great Britain for final use in Northern Ireland. These arrangements reduce formalities but retain intelligence-led, risk-based customs checks; goods moving onwards to the EU remain subject to the applicable EU customs requirements (UK Government, 2023). Trusted-trader arrangements and data sharing therefore reduce trade friction within an agreed regulatory framework, rather than eliminate the need for controls.

The experience of Northern Ireland and Ireland demonstrates the importance of risk-based border management, trusted-trader arrangements and digital information exchange. The Windsor Framework illustrates how differentiated controls and the use of digital systems can reduce the need for physical intervention while maintaining the necessary regulatory controls. The broader lesson for Kosovo-Serbia is that border management does not have to rely exclusively on uniform physical checks: trusted traders, pre-arrival information and risk-based controls can allow legitimate trade to move more efficiently while maintain-

ing regulatory oversight. Their effectiveness nevertheless depends on political agreement, trusted institutions and enforceable rules, technology alone cannot substitute for those conditions.

Moldova-Transnistria

The experience of Moldova and Transnistria provides another example of how practical administrative arrangements can support legitimate trade while the political settlement remains unresolved. Transnistria is a region of Moldova created through an unresolved secessionist conflict along the Dniester River. Control of the eastern border with Ukraine long suffered from smuggling and parallel customs stamps. Through the EU Border Assistance Mission (EUBAM), Moldova and Ukraine instituted joint customs posts on the Ukrainian side of the Transnistrian border. Transnistrian export companies were given access to Moldovan customs procedures through a simplified registration system. This helped bring businesses from the region into the formal trading system and supported their participation in Moldova's trade arrangements with the EU.
The broader lesson is the importance of practical administrative solutions that allow businesses to comply with applicable requirements without making the resolution of wider political questions a precondition for economic transactions.

The experiences of Cyprus, Northern Ireland and Moldova-Transnistria are not presented as models for Kosovo-Serbia per se. Their political, legal and institutional circumstances are substantially different. Their relevance lies in showing how specific technical and economic arrangements can allow economic activity to continue in politically sensitive environments.

Taken together, these cases point to four principles that are relevant to Kosovo-Serbia:

- **Clear technical criteria and appropriate third-party support** can help prevent political disputes from disrupting routine economic functions.
- **Digitalisation and data sharing** can reduce reliance on physical intervention and make border and regulatory procedures more predictable.
- **Reliable payment and settlement arrangements** are essential for businesses to participate in cross-border trade.
- **Stronger private-sector involvement** can create sustained commercial interests in predictable economic relations.

These principles do not remove the underlying political differences between Kosovo and Serbia. Their purpose is very practical - to ensure that political differences do not unnecessarily prevent cooperation in areas where technical and economic solutions are feasible.

Any special practical arrangement should respect the competences of the participating institutions, preserve existing achievements in representation and document acceptance, and be reviewed regularly. Status-neutral procedures may serve as interim tools but should not downgrade Kosovo's institutions or recreate arrangements in which another authority represents Kosovo. Regular review should assess progress towards reciprocal institutional acceptance and comprehensive normalisation, as well as economic results.

3.2 The successes and limits of regional cooperation in the Western Balkans

The **CEFTA framework** has provided an important foundation for regional economic integration. Kosovo and Serbia are both participants, and the agreement has helped expand regional trade by reducing traditional tariff barriers and creating a framework for addressing wider trade issues.

At the same time, tariff liberalisation and formal market access do not automatically create deeper economic interdependence. The next stage requires stronger supplier relationships, investment links, services trade and regional value chains. Experience across the wider CEFTA region suggests that foreign investment and export growth have not always created sufficiently strong links between multinational companies and domestic SMEs.

The lesson is therefore not that CEFTA has failed. Rather, CEFTA has shown that regional trade can work and grow, while also showing the limits of market access alone as a driver of deeper economic integration.

The **CRM** provides a broader platform for addressing many of constraints that emerge once regional integration moves beyond trade of goods and services. Its areas of cooperation also include horizontal trade measures, human capital, business competitiveness and digitalisation. It therefore provides a regional framework for closer integration with the EU Single Market.

For Kosovo-Serbia, the relevance of the CRM is therefore about making existing commitments work and filling specific gaps through additional agreements for businesses and citizens. Agreements on mobility, professional recognition, digital services and other areas only create economic value when they are translated into domestic procedures, administrative practice and services that people and businesses can actually use.

This points to a broader lesson from the regional integration experience: **the implementation gap has become at least as important as the policy gap**. Where regional agreements require domestic legislation, institutional coordination or administrative procedures, delays in implementation significantly reduce their practical value.

The **EU Growth Plan**, backed by the €6 billion Reform and Growth Facility for 2024-2027, adds an important incentive to the regional integration process. Its underlying approach is significant because regional integration and EU integration are not treated as separate processes. Progress in the regional market forms part of the pathway towards gradual access to the EU Single Market.

For Kosovo and Serbia, this creates a potentially important incentive structure. Measures that improve the functioning of their bilateral economic relationship are not only bilateral gains. They can also strengthen their ability to participate in wider regional and European markets.

The implementation and governance gap

Across CEFTA, the CRM and the Growth Plan, the Western Balkans does not lack regional strategies, agreements or institutional mechanisms. The more persistent problem is **turning political commitments into sustained implementation**.

This is particularly important for Kosovo-Serbia relations. Technical issues that would normally be handled through regular administrative cooperation can become absorbed into wider political disputes. At the same time, commitments can remain difficult to enforce when implementation depends on multiple institutions and when there is no sufficiently strong mechanism for tracking delivery and addressing non-compliance.

The central weakness is therefore one of **governance and accountability**. Existing regional mechanisms provide platforms for dialogue, coordination and decision-making, but they do not always provide an effective implementation chain.

This matters because the absence of such mechanisms can make implementation vulnerable to political cycles. A technical issue may be agreed in principle but remain unresolved for months or years because there is no sufficiently strong process that compels the relevant authorities to complete the necessary steps.

Three priorities are particularly important.

First, economic functions should be protected from political escalation wherever possible. Customs processing, documentation, sanitary procedures, digital transactions and other operational matters should be governed by clear technical criteria and predictable procedures.

Safeguards should preserve legitimate public-security and regulatory responsibilities while

requiring restrictions to be evidence-based, proportionate and time-limited, with reasons and a review procedure. The objective is to address security concerns through accountable measures rather than allow them to become indefinite barriers to normal relations.

Safeguards should preserve legitimate public-security and regulatory responsibilities while requiring restrictions to be evidence-based, proportionate and time-limited, with reasons and a review procedure. The objective is to address security concerns through accountable measures rather than allow them to become indefinite barriers to normal relations.

Second, implementation should be managed through clear responsibilities, timelines and monitoring. Once a commitment has been agreed, implementation deadlines should be set and progress regularly reviewed and unresolved issues escalated through an agreed problem-solving process.

Third, businesses should have a stronger role in identifying and addressing practical barriers. Chambers of commerce, sector associations, SMEs and larger companies are often the first to experience the effects of delays, unclear procedures or regulatory inconsistencies. Their systematic involvement can therefore improve both the relevance and effectiveness of regional implementation.

The regional architecture consequently provides both a foundation and a constraint. It provides a foundation because Kosovo and Serbia already participate in mechanisms covering most of the economic areas in which deeper integration could be pursued. Yet it is also a constraint because these mechanisms remain weak in ensuring implementation, compliance and accountability for commitments once they are agreed.

The appropriate response is therefore not to choose between "new architecture" and "better implementation". The priority should be to make better use of existing regional instruments while strengthening the governance arrangements that allow them to function despite political divergence. For selected politically sensitive issues, this should include the implementation compact, standing technical secretariat and independent verification arrangements proposed in Annex 1. Their added value would be a clear connection between commitments, operational decisions and consequences for obstruction.
The objective is not to bypass political normalisation. It is to prevent unresolved political differences from unnecessarily blocking economic cooperation where technical and economic solutions are feasible.

This leads to the next question: **what is the economic cost when these mechanisms do not function effectively, and what opportunities are being missed as a result?**

4. The Economic Cost of Incomplite Normalisation

The economic costs of incomplete normalisation are not limited to periods of political crisis. They are also part of the everyday cost of doing business between Kosovo and Serbia. Those are additional administrative procedures, uncertainty over documentation, delays in transport and customs clearance, difficulties in recognising qualifications and technical requirements, higher payment costs and greater uncertainty for companies considering longer-term business relationships.

These costs are difficult to measure in full because some of their effects are not directly observed. A company may choose another supplier, use a different transport route, postpone an investment or decide not to enter the market at all because the expected return does not justify the additional uncertainty. The cost is therefore not only the trade that is delayed or interrupted. It also includes economic activity that never takes place.

At the same time, not every difference in trade or investment between Kosovo and Serbia can be attributed to incomplete normalisation. Market size, productivity, sector structure, infrastructure, investment conditions and domestic economic policies also shape bilateral economic relations.

The relevant question is therefore more specific: which economically viable activities are being constrained by political, administrative or institutional frictions linked to the unresolved relationship?

This distinction is important for assessing the potential normalisation dividend. The objective is not to construct a hypothetical scenario in which all economic differences between the two economies disappear. It is to identify areas where reducing specific frictions could generate additional trade, investment, services, labour mobility and value-chain integration.

The costs also accumulate over time. One additional document or inspection may represent only a small cost. But repeated uncertainty about whether documentation will be accepted, whether a shipment will face additional checks, whether a payment will be processed efficiently or whether a qualification will be recognised can fundamentally change the attractiveness of a cross-border business relationship.

This cumulative effect is particularly important for SMEs. Larger companies are generally better able to absorb additional legal, compliance and logistics costs or to diversify their suppliers and routes. Smaller firms have less capacity to manage uncertainty and are

therefore more likely to avoid cross-border transactions altogether.

The economic cost of incomplete normalisation can be seen across several interconnected areas: trade in goods; services and digital trade; investment and value-chain integration; financial transactions; and labour mobility and human capital.

4.1 Trade in goods

Trade in goods provides one of the clearest examples of how relatively practical improvements in cross-border procedures could generate economic benefits. The available trade data suggest that bilateral trade remains below the level that might be expected given the geographical proximity, existing regional trade arrangements and established commercial links.

Serbia is an important trading partner for Kosovo, while Kosovo's exports to the wider CEFTA market have increased substantially over the past decade. Between 2014 and 2023, Kosovo's exports to CEFTA partners increased by around 299 per cent, while imports increased by approximately 137 per cent (Hadergjonaj et al., 2024). By 2023, CEFTA economies accounted for around 73 per cent of Kosovo's exports and 60 per cent of its imports.
These figures demonstrate that regional integration has created real commercial value for Kosovo. They also suggest that the constraints affecting Kosovo-Serbia trade cannot be explained simply by a lack of commercial demand.

Bilateral trade has nevertheless been repeatedly affected by political tensions and administrative restrictions. Thea tariff episode beginning in November 2018 is the clearest example of how quickly political escalation can disrupt commercial relations. More recent restrictions and disputes have also affected the movement of goods, documentation and transport, creating uncertainty for firms that depend on reliable cross-border logistics.

How disruptive restrictions and bans could be was evident when a ban on the import of Serbian products to Kosovo was introduced on June 14, 2023. The decision was in force until July 8, 2023 when was amended not to apply on raw materials, semi-finished products, mineral fertilizers and animal feed, machinery and equipment, while remaining the final products.

The ban harmed both Serbian and Kosovo companies. According to the analysis of the Chamber of Commerce and Industry of Serbia based on data from the Statistical Office of Serbia, covering the period of imposed ban from June 2023 to October 2024, the estimated damage to Serbian companies was 326million EUR measured only by unrealized export.

The measure affected Kosovo companies too, by interrupting the supply chains of raw ma-

terials and final product, which caused disruptions in the production process, increasing a procurement cost and a cost of final product placed on Kosovo market.
Analysis of the Chamber of Commerce and Industry of Serbia shows that the structure of Serbian export of goods to Kosovo in 2025 is: more than 60 per cent of the exported goods are either semi-finished products destined for further manufacturing or raw materials and commodities, whereas the share of final goods to be placed to retail shops is 38 percent.

One important source of friction concerns the movement of vehicles and freight. Restrictions related to the recognition of documentation can force transport operators to modify routes or use alternative corridors. Where freight is rerouted through North Macedonia or Montenegro, the cost goes beyond the border itself. It can include additional fuel, driver time, tolls, insurance, transit formalities and delivery uncertainty.

For businesses operating on tight margins, these costs can determine whether a transaction remains commercially viable.

Border delays create a second layer of costs. Customs data exchange and risk-management systems have improved across the region, but their value depends on consistent implementation. Where electronic information cannot be used effectively, or where traders face repeated physical checks and additional administrative procedures, the benefits of trade facilitation are reduced.

This matters particularly for time-sensitive goods. For agricultural and food products, delays can affect quality, shelf life and the commercial value of a shipment. For manufacturers, they can disrupt production schedules and increase the inventory needed to manage uncertainty.

The longer-term effect may be even more important. Firms do not assess a market only by looking at tariffs or the average cost of crossing a border. They also ask whether they can reliably deliver to customers, receive inputs on time and plan production.
Persistent uncertainty can therefore discourage regular supplier relationships even where individual transactions would otherwise be profitable.

This creates an important distinction between formal market access and effective economic integration. A market may be formally open while remaining too unpredictable to support deeper commercial relationships.

4.1.1 Estimating unrealised trade potential

The extent to which bilateral goods trade may be below its potential can be illustrated us-

ing the **Trade Intensity Index (TII)**.

The TII compares the share of a country's exports going to a particular partner with that partner's share of world imports. A value above one indicates that the partner receives a larger share of the country's exports than would be expected from its weight in world imports. A value below one indicates the opposite.

The TII is useful as a descriptive benchmark, but it is not a causal measure of unrealised trade. A lower or higher TII can reflect many factors, including geography, historical business links, market structure, regional integration and political or administrative barriers. For this reason, the TII is used here only as an indication of relative trade intensity and is interpreted alongside the wider evidence on trade barriers and bilateral economic relations.

The index is calculated as follows:

$$TII_{ij} = \frac{X_{ij}/X_{it}}{X_{wj}/X_{wt}}$$

X_{ij} = Kosovo's exports to Serbia.

X_{it} = Kosovo's total global exports.

X_{wj} = Total world exports to Serbia (Serbia's total global imports).

X_{wt} = Total global exports (entire world trade volume).

The index scales from 0 to infinity, establishing an unbiased baseline:
TII=1 implies neutral trade so that Kosovo trades with Serbia exactly in proportion to Serbia's size in the global market.
TII>1 implies high-intensity trade in which Kosovo's export relationship with Serbia is more than expected, meaning regional, cultural, or physical factors heavily accelerate the trade flow.
TII<1 implies low-intensity trade in which trade is significantly lower than expected given Serbia's presence in global markets, likely indicating political barriers, high tariffs, or trade friction.

The TII can therefore be used to compare Kosovo–Serbia trade with other bilateral relationships and to assess whether the intensity of trade appears unusually high or low relative to relevant regional benchmarks.

Table 1: Trade intensities in the Southern Balkans, 2025

Direction of Trade	Actual Export Share	Partner World Import Weight	Trade Intensity Index (TII)
Serbia → North Macedonia	3.23%	0.05%	62.64
North Macedonia → Serbia	10.20%	0.19%	54.56
Serbia → Kosovo	1.07%	0.03%	36.40
Kosovo → Serbia	6.42%	0.19%	34.36

Source: UN Comtrade database; Eurostat; World Development Indicators

Table 1 compares Kosovo-Serbia trade with North Macedonia-Serbia trade in 2025. North Macedonia provides a useful regional benchmark because it is a neighbouring Western Balkan economy with close geographical and historical links to Serbia and operates within the same broader regional economic environment.

The two relationships are not identical, however, and the comparison should not be treated as a direct counterfactual for Kosovo-Serbia trade.

The results show high trade intensity in both relationships, reflecting the importance of geography, regional economic ties and established commercial links. However, the TII for Kosovo's exports to Serbia is lower than that for North Macedonia's exports to Serbia: 34.36 compared with 54.56.

This difference should not be interpreted as a direct estimate of the trade that could be created through normalisation. The TII is descriptive rather than causal, and the two bilateral relationships differ in several respects.
Nevertheless, the comparison suggests that the Kosovo-Serbia trade relationship may not be fully exploiting the commercial potential created by geographical proximity and regional economic integration.

Using the North Macedonia-Serbia relationship as an illustrative benchmark suggests that Kosovo's exports to Serbia could potentially increase by approximately €36-39 million annually if trade intensity approached the level observed in the North Macedonia-Serbia relationship. The corresponding potential on Serbia's side is considerably larger.
These figures should be treated as an illustrative indication of possible additional trade, not as a forecast or as a monetary estimate of the value of normalisation.

The broader point is more important than the precise estimate. The economic cost of incomplete normalisation is not only the trade that is slowed or stopped. It also includes

commercial relationships, investment decisions and supply-chain connections that are never established because firms cannot rely on the conditions under which cross-border business would operate.

4.2 Services and digital trade

The constraints affecting services trade are less visible than those affecting goods because many services do not physically cross the border. This also creates an important opportunity as services can often expand without requiring the same level of physical border interaction.

Kosovo's services exports remain strongly concentrated in travel, which accounts for approximately 75.7% of total services exports, while Serbia has a more diversified services export structure.

Table 2: Exports of services by sector – Kosovo and Serbia

Sector	%of total services exports		Cumulative % of services exports	
	Kosovo	Serbia	Kosovo	Serbia
Other business services	7.2%	24.7%	7.2%	24.7%
Travel	75.7%	21.1%	82.9%	45.9%
Telecommunications and IT services	6.5%	20.5%	89.4%	66.4%
Transport	3.9%	19.7%	93.3%	86.1%
Construction	1.4%	3.5%	94.7%	89.6%
Manufacturing services on inputs owned by others	0.5%	3.5%	95.2%	93.0%
Personal, cultural and recreational services	0.7%	3.2%	95.9%	96.2%

Source: CEFTA Secretariat online database

The different structures point to potential complementarities. Kosovo has developed a growing ICT and business-services sector, while Serbia has a larger and more diversified digital and business-services market, as well as strong links to international clients.
The potential therefore extends beyond bilateral service exports. It includes subcontracting, joint service delivery, digital outsourcing and participation in larger European contracts.

However, cross-border digital business still depends on basic institutional conditions such as recognition of electronic signatures and trust services, valid digital contracts, data-protection compliance, professional licensing, recognition of qualifications, online administrative procedures and reliable cross-border payments.

Where companies face uncertainty in these areas, a transaction may be technically possible but commercially unattractive.

This is particularly relevant for SMEs and digital firms. A software company does not need to cross a physical border to provide a service, but it still needs to conclude a valid contract, issue an invoice, receive payment and comply with applicable data and professional requirements.

The potential normalisation dividend is therefore not simply more trade in services. It is a **lower institutional cost of doing business across the borders.**

There is also scope for more sophisticated forms of cooperation. Kosovo ICT companies could provide software development, testing, digital marketing, multilingual support and other specialised services to Serbian companies. Serbian firms, in turn, can provide access to larger contracts and established international business networks.

Joint bidding and subcontracting could allow firms from both economies to participate in European tenders that would otherwise be beyond the scale of individual companies.

The same logic applies to manufacturing. Serbia's industrial base generates demand for software development, automation, data management, system integration and other digital solutions. Kosovo ICT firms could therefore become suppliers not only to Serbian technology companies but also to manufacturers and other productive sectors.

Digital cooperation is particularly relevant because it can deepen commercial links without requiring the same degree of physical cross-border movement as goods trade. It can therefore provide an early channel through which business relationships deepen even when political relations remain difficult

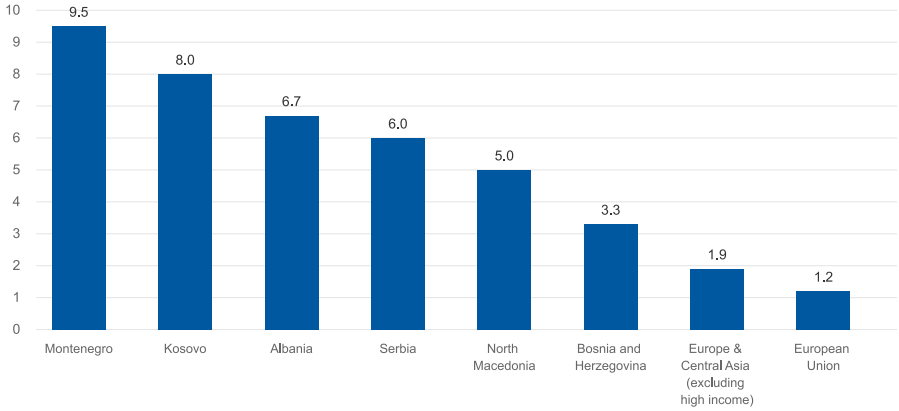
4.3 Investment and value-chain integration

Foreign direct investment has played an important role in connecting the Western Balkans to European production networks. FDI inflows have been substantial across the region, although their sectoral composition differs considerably.

Investment in real estate has accounted for a significant share of inflows in Montenegro, Albania and Kosovo, while export-oriented manufacturing investment has been more concentrated in Serbia and North Macedonia. Foreign investment has created important links with European markets, but the extent to which it generates wider domestic and regional spillovers remains uneven.

In particular, links between foreign-owned companies and local SMEs remain underdeveloped in the region[2]. This limit opportunities for domestic firms to enter production networks, acquire new capabilities and move into higher-value activities.

Figure 3: Net FDI inflow % GDP (average 2021-2025)



Source: World Bank World Development Indicators

The economic significance of FDI depends not only on the capital and employment it brings, but also on the extent to which foreign-owned companies connect with domestic suppliers and contribute to the upgrading of local productive capacity.

[2] These operations have established links with European production networks, but domestic supplier participation remains uneven (Bartlett et al., 2019). The research points to weak backward linkages between multinational enterprises and local economies across the Western Balkans (Krasniqi et al., 2023).

For multinational companies operating in Serbia, for example, the relevant question is not simply where a supplier is located. It is whether that supplier can meet required standards, deliver reliably, provide the necessary volume and quality, comply with environmental and digital requirements and integrate into procurement systems.

For Kosovo SMEs, entering such supply chains requires more than finding a potential customer. Firms may need certification, quality-management systems, environmental compliance, digital capabilities, financing and stronger management capacity.

This is where incomplete normalisation can become an indirect investment constraint.
If a supplier relationship involves uncertain transport arrangements, additional documentation, unreliable payments or political risk, the expected cost of using that supplier increases. A multinational company may then prefer a supplier in another country even if the Kosovo firm is otherwise competitive.

The opportunity is therefore to move beyond a model in which Kosovo and Serbia mainly trade with each other towards one in which companies in both economies **produce together for regional and European markets**.

For Kosovo and Serbia, this could involve identifying supplier needs of larger Serbian and international manufacturers, assessing the capabilities of Kosovo companies and addressing the specific gaps that prevent them from becoming qualified suppliers.

Reciprocity would also involve Serbian suppliers serving Kosovo-based producers and investors supporting production in Kosovo. Joint procurement and supplier-development programmes should build capabilities and market access in both economies, rather than establish a one-directional subcontracting relationship.

The benefits extend beyond individual contracts. Supplier integration can generate repeated transactions, knowledge transfer, technology adoption and investment in productive capacity. It can also create stronger commercial interests in predictable cross-border conditions.

A company that has invested in developing a supplier relationship across the border has a direct economic interest in reliable customs procedures, transport, payments and regulatory cooperation. This creates a potential channel for political-economy change: disruption imposes identifiable business costs, although its political effect depends on whether affected firms can influence decisions and whether those responsible face consequences.

This is one of the strongest channels through which economic cooperation can support normalisation.

4.4 Cross-border payments and financial integration

Financial transactions are a less visible but important source of friction in Kosovo-Serbia economic relations.

Cross-border payments can involve third-country intermediary banks, multiple correspondent relationships, higher transaction fees and settlement delays. For large companies these costs may be manageable. For SMEs operating with limited working capital, delays in receiving payments or paying suppliers can create significant cash-flow problems.
The wider European integration process provides a clear direction for reducing these costs. Greater participation in European payment systems and alignment with European payment standards can make cross-border euro transactions faster, cheaper and more predictable.

The relevance to normalisation is straightforward. Businesses are more likely to establish regular supplier and customer relationships when payments can be made reliably and at reasonable cost.

Financial integration should not be expected to generate political normalisation on its own. Its contribution is more practical as removing one of the everyday frictions that can make cross-border economic relationships unnecessarily difficult.

4.5 Labour mobility and human capital

Serbia faces increasing demand for skilled labour, particularly in manufacturing and technical occupations. Kosovo has a relatively young population but continues to face low labour-force participation, skills mismatches and significant outward migration.

Better regional mobility and cooperation in skills development could therefore improve the allocation of human capital while supporting regional production.

The relevant issue is broader than the physical movement of workers. Recognition of professional and educational qualifications determines whether people can actually use their skills across borders. Where recognition is slow, uncertain or politically contested, firms face difficulty recruiting qualified workers while individuals may look for opportunities outside the region.

Regional arrangements have already established mechanisms for recognition of higher-education and professional qualifications, including arrangements for selected professions. Their economic value, however, depends heavily on domestic implementation and administrative usability.

For Kosovo and Serbia, qualification recognition has remained particularly sensitive because of wider institutional and political disputes. This has implications for sectors such as engineering, ICT, manufacturing and professional services, where employers may face shortages even when relevant skills exist within the region.

The most practical areas for cooperation may therefore be those less exposed to political sensitivities such as vocational education and training, employer-led skills partnerships, common curricula, work-based learning, short-term mobility and cooperation between professional and educational institutions.

Such cooperation can also be linked directly to value-chain development. Employers participating in regional production networks can help define the skills they require, while VET institutions can adapt training accordingly.

Over time, greater portability of social-security rights and improved recognition of qualifications could further reduce the cost of working across borders.
The normalisation dividend in this area is therefore twofold. Better mobility can improve the allocation of scarce skills, while repeated interaction between employers, workers and educational institutions can create another layer of cross-border economic relationships.

4.6 The cumulative cost of economic friction

The barriers described above should not be considered separately. A manufacturer considering a supplier relationship may face several of them simultaneously, including uncertain border procedures, additional certification, expensive payments, difficulty recruiting specialised workers and limited access to reliable business information. None of these barriers may be sufficient to stop the relationship on its own. Together, however, they can change the commercial calculation.

This is why the economic cost of incomplete normalisation is best understood as **cumulative friction**. It affects at least three decisions: whether firms trade, whether they invest and whether they build long-term relationships.

The first affects the volume of existing economic exchange. The second affects productive capacity and capital formation. The third determines whether economic relations develop into deeper integration.

This distinction matters for the policy response. Reducing the cost of one border crossing may improve trade flows. But reducing uncertainty across customs, payments, certification, digital transactions and mobility can change the conditions under which firms decide to build lasting commercial relationships.

The potential normalisation dividend should therefore not be measured only through additional bilateral trade. It should also be understood as the value of more predictable, lower-cost and more durable economic integration.

That leads to the next question: **where are the most realistic opportunities for generating this normalisation dividend, and what would it take to move from occasional economic interaction towards deeper and more resilient integration?**

5. Normalisation Dividends Across Sectors

The analysis above suggests that the main challenge is not the absence of economic cooperation mechanisms, but the difficulty of making them sufficiently predictable and resilient to political disruption. Both economies are already part of a broader regional integration framework that provides channels for cooperation beyond the bilateral relationship. Yet the benefits of this framework remain constrained where agreed arrangements are not fully implemented, procedures remain fragmented, or political disagreements affect otherwise technical economic processes.

This creates a specific normalisation dividend. These gains could come from making existing arrangements more predictable, interoperable and effective, supplemented by new arrangements that solve identifiable problems. Reducing these frictions would lower transaction costs, improve the allocation of goods, services and skills, widen access to regional and European markets, and strengthen the commercial relationships that underpin longer-term economic integration.

The potential dividend is particularly evident across six interconnected areas. Those are trade facilitation and border management; technical and sanitary requirements; digital and business services; investment and value-chain integration; financial integration and skills and labour mobility. These areas differ in their institutional requirements and time horizons, but they share a common feature. Progress can be pursued through existing regional and European frameworks.

The following sections therefore examine where economic frictions remain most significant, what existing arrangements already provide, and where their more effective implementation could generate measurable economic gains. The focus is not on establishing a separate bilateral architecture, but on making regional and European frameworks work in the Kosovo-Serbia context through implementation reforms and targeted additions.

5.1 Trade facilitation dividends

Trade facilitation is one of the clearest areas where better implementation of existing commitments could reduce the economic costs of incomplete normalisation. The available regional instruments and European integration pathways include electronic customs-data exchange through the Systematic Exchange of Electronic Data (SEED/SEED+) framework, Green Lanes, the Common Transit Convention (CTT), the New Computerised Transit System (NCTS) and Authorised Economic Operator (AEO) programmes. These arrangements provide the basis for pre-arrival information exchange, risk-based controls, simplified transit procedures and preferential treatment for trusted operators. Participation is not identical, Serbia is a party to the CTC, while Kosovo is not listed among its contracting parties (European Commission, n.d.). The practical task is both to use available instruments consistently and to negotiate the arrangements needed to extend their benefits.

The border between Kosovo and Serbia remains an important source of friction. Commercial traffic can face lengthy procedures and additional administrative requirements despite the availability of electronic data exchange and other regional facilitation mechanisms. A particular constraint is the treatment of vehicles that have entered Kosovo from a third country, which can prevent onward passage into Serbia because of Serbia's non-recognition of Kosovo. Such restrictions add uncertainty to transport routes and can make otherwise viable supply and distribution relationships more costly.

The costs extend beyond the time spent at the border. Uncertainty over documentation, transit conditions and the acceptance of customs and other official documents increases logistics costs, disrupts delivery schedules and can discourage firms from establishing regular cross-border supplier relationships. The impact is likely to be particularly significant for smaller firms, for which border delays and administrative requirements represent a larger share of total transaction costs. The World Bank estimates that reducing border-crossing times by three hours has a trade-cost effect equivalent to removing an ad valorem tariff of around 2 per cent across the Western Balkans (Gomez et al., 2023), illustrating the wider economic significance of reducing border frictions.

Several existing regional arrangements could help address these costs. An agreed pathway towards Kosovo's participation in common transit, alongside interim arrangements for exchanging transit data and accepting documents, would reduce fragmentation. This would extend the benefits of the CTC and NCTS rather than presume that identical participation already exists. Mutual recognition of AEO programmes, in line with the relevant CEFTA/CRM commitments, could extend simplified and priority treatment to trusted operators on both sides and reduce repeated controls. More consistent use of SEED/SEED+ data and Green Lane procedures could similarly support earlier risk assessment and faster processing.

These measures call for a focused delivery mechanism within the regional framework, with authority to resolve recurring operational bottlenecks and a route for agreeing new transit procedures where necessary.

Trade facilitation also depends on what happens after goods cross the border. Differences in technical requirements, certification, inspection and conformity-assessment procedures can create additional costs, particularly for industrial and agri-food products. In the shorter term, greater alignment with relevant EU requirements in areas such as product safety, standardisation, accreditation, together with the avoidance of duplicate testing and inspections where legally and technically possible, could reduce these barriers and facilitate both bilateral trade and access to EU markets.

In the longer term, conformity-assessment arrangements with the EU, including Agreements on Conformity Assessment and Acceptance (ACAAs), could provide a pathway towards greater acceptance of products assessed and certified in the region. However, ACAAs are not an immediate solution. They require substantial sector-specific alignment with EU legislation and standards, appropriate conformity-assessment capacity and a formal assessment process by the European Commission. Serbia has already initiated such a process in selected sectors, but it remains ongoing. The more realistic approach is therefore to treat conformity-assessment cooperation as a gradual integration pathway, with technical alignment and institutional capacity building preceding any broader agreement with the EU.

The EU Growth Plan strengthens the incentives to address these barriers by linking access to its economic benefits with progress in regional integration and the removal of unjustified restrictions on the movement of goods. For Kosovo, this includes addressing remaining administrative restrictions affecting goods originating from Serbia and ensuring full use of the CEFTA commitments on trade facilitation, sanitary and phytosanitary measures and dispute settlement. For Serbia, it includes the consistent acceptance of Kosovo-issued commercial and transport documentation in line with agreed obligations, together with arrangements to close remaining recognition gaps, as well as predictable transit for Kosovo-originating freight moving towards third markets.

A practical approach would be to establish a focused technical bottleneck mechanism for priority border issues. The mechanism could bring together the relevant customs and transport authorities, CEFTA, business representatives and EU-supported technical experts. Its purpose would be to identify specific bottlenecks, assign responsibility for resolving them, monitor implementation and escalate unresolved technical issues through the appropriate channels.
If agreed commitments are implemented consistently, trade facilitation can deliver one of

the most immediate and tangible normalisation dividends, while laying a stronger foundation for deeper economic integration over time.

5.2 Sanitary and phytosanitary documentation

Border delays are not caused by customs procedures alone. For agricultural and food products, sanitary and phytosanitary (SPS) requirements can create additional costs and uncertainty when certificates, laboratory results and inspection procedures are not mutually accepted or sufficiently coordinated. This is particularly important for perishable goods, where repeated testing, documentation and inspections can result in delays, higher logistics costs and, in some cases, loss of products.

The problem is particularly pronounced where the two sides do not have harmonised certificates or arrangements for mutual recognition of SPS documentation and laboratory results[3]. As a result, goods are often subject to additional checks or testing even where relevant information and test results are already available. These procedures increase the time and cost of moving agricultural products across the border and make cross-border supply relationships less predictable.

The scope for improvement therefore lies primarily in making better use of existing regional arrangements and gradually strengthening the conditions for mutual recognition. Where standards, accreditation and conformity-assessment systems are sufficiently aligned, unnecessary duplication of inspections and testing should be avoided where legally and technically possible. Where recognition is not yet operational, the authorities should negotiate a phased recognition protocol identifying products, accredited laboratories, verification procedures and a review timetable. EU-supported capacity building should accompany reciprocal acceptance of compliant certificates issued by the competent Kosovo and Serbian authorities.

Several measures could already reduce these frictions through existing channels, while a recognition protocol is negotiated. Greater use of pre-arrival electronic information through SEED+, better coordination of border inspections, clearer procedures for perishable goods and more systematic use of results from appropriately accredited laboratories could reduce unnecessary delays and duplication.

Reducing these barriers would also create opportunities for deeper regional food supply chains. Kosovo has competitive producers of berries, grapes, vegetables and other horticultural products, while Serbia has a larger food-processing and storage base. More predictable SPS procedures could make it easier for firms to combine these complementary capacities, for example by linking agricultural production in Kosovo with processing, cold storage and distribution networks in Serbia and, ultimately, with EU markets.

Digitalisation can reinforce these improvements by making SPS information easier to exchange and verify. Existing regional systems such as SEED+ provide a basis for further electronic exchange of relevant documentation and pre-arrival information. Over time, better interoperability of national systems and more digital approaches to certification and traceability could reduce reliance on manual procedures and make compliance more predictable for both businesses and authorities.

The normalisation dividend in this area lies in reducing the duplication, delays and uncertainty while gradually creating the technical conditions for greater mutual recognition. This would lower the cost of cross-border agri-food trade, reduce losses associated with delays and strengthen the ability of producers and processors in Kosovo and Serbia to participate in integrated regional and European food supply chains.

5.3 Digital and business services as a low-friction entry point

Digital and business services offer a particularly promising area for Kosovo-Serbia economic cooperation because many transactions do not require the physical movement of goods across the border. Kosovo has developed a growing ICT and business-process outsourcing sector, while Serbia has a larger and more diversified ICT and business-services base. These complementary capabilities create opportunities for subcontracting, joint service delivery, specialised outsourcing and participation in larger international and European tenders.

The main opportunity is to reduce the regulatory and administrative frictions that still make cross-border digital business more difficult than it needs to be. This includes the recognition of electronic signatures and other trust services, digital contracting, online business procedures, data protection requirements and the ability of service providers to operate and conclude contracts across the border without unnecessary administrative steps. For digital services, where delivery can take place remotely, such barriers can be particularly disproportionate because the underlying commercial transaction does not depend on physical border infrastructure.

The focus should therefore be on interoperability and effective market access rather than on creating a separate bilateral digital regulatory framework. Alignment with relevant EU rules remains important for integration into the European digital market, but the immediate economic benefit would come from enabling companies to contract, exchange information, deliver services and receive payments across the Kosovo-Serbia border with fewer

[3] Harmonization of the certificates for milk and dairy products, meat and meat products is pending, as well as certificates for eggs. Certificates for milk and dairy products, meat and meat products have been formally agreed within the IBM working group, but the decision for its adoption is not implemented yet.

administrative obstacles.

There is also an opportunity to use differences in the structure and capabilities of the two markets to build stronger business-to-business linkages. Kosovo's ICT and business-process outsourcing firms could complement Serbian companies with specialised software development, multilingual support, digital marketing, testing and other business services. Serbian firms with greater scale and established links to European clients could, in turn, provide access to larger contracts and international markets. Joint bidding and subcontracting could be particularly relevant where individual firms lack the scale or range of capabilities required for larger European tenders.

These linkages could extend beyond the digital sector itself. Serbia's substantial manufacturing base creates potential demand for software development, system integration, industrial automation and data services, while Kosovo's ICT firms could provide specialised solutions to companies seeking to digitalise production and supply-chain processes. Digital cooperation can therefore support not only trade in services but also the competitiveness and modernisation of the wider economy.

The regional integration agenda already provides a framework for reducing these barriers. The CRM aims to develop a regional digital area and strengthen the integration of the Western Balkans into the wider European digital market. For Kosovo and Serbia, this includes effective recognition of electronic signatures and trust services, greater interoperability of digital public and business services, and fewer unnecessary restrictions on cross-border digital transactions. Continued alignment with relevant EU rules on data protection, digital services and online markets can further support access to the EU digital economy.

The normalisation dividend in this area is therefore somewhat different from that generated by trade in goods. Digital and business services are less dependent on physical border crossings and can provide an early channel for rebuilding commercial relationships even where political relations remain difficult. More predictable rules for cross-border digital transactions would lower the cost of cooperation, allow firms to combine complementary capabilities and create business relationships that connect the two economies more closely to European markets.

The priority is to make regional digital-integration commitments operational, including through specific arrangements on trust services and document recognition where these are missing. This would allow digital services to serve as a relatively low-friction entry point for deeper private-sector cooperation and, over time, contribute to broader economic integration between Kosovo and Serbia.

5.4 Cross-border business clusters and special economic zones

Deeper integration into regional and European value chains offers a more structural source of economic benefits from normalisation. The CRM seeks to strengthen the industrial and innovation base of the Western Balkans and connect firms more closely to regional and European production networks. Stronger integration into global value chains, combined with investment in skills and productive capabilities, could generate significant gains in regional output and improve the ability of domestic SMEs to participate in these networks (Bartlett & Krasniqi, 2026).

For Kosovo and Serbia, this potential is particularly relevant given the complementarity of their productive structures. Serbia has a larger manufacturing base and a significant presence of multinational companies, including in automotive and other industrial sectors, while Kosovo has a growing base of SMEs in manufacturing, ICT, engineering and business services. Yet these capabilities remain only partly connected. The opportunity lies in strengthening links between companies across the border and connecting them to supply chains that already serve regional and European markets.

Cross-border business clusters could provide one channel for developing such links. Cooperation could build on existing concentrations of firms and focus on supplier relationships, joint investment, technology and knowledge transfer, and shared access to relevant services and infrastructure. Sectors with established production capacity and clear links to European value chains, including automotive components, electronics, food processing and selected green technologies, could offer particular opportunities.

Such integration would also strengthen the economic foundations of normalisation. Production networks depend on predictable transport, customs procedures, technical requirements, payments and access to inputs and services. Once firms establish repeated cross-border commercial relationships, disruptions and administrative barriers acquire a direct economic cost for businesses on both sides. This can create stronger incentives for companies and business associations to support predictable cross-border conditions and to raise persistent obstacles through established regional mechanisms.

The Growth Plan and the CRM provide an important framework for improving the conditions under which firms can participate in regional and European value chains, including through trade facilitation, technical standards, skills, digitalisation and access to finance. These mechanisms can support economic cooperation even where bilateral political relations remain difficult. The objective is not to substitute economic integration for political normalisation, but to create areas of economic interdependence in which cooperation can continue and generate benefits despite unresolved political issues.

Special economic zones or more closely integrated industrial areas could represent a more ambitious form of cross-border economic cooperation, particularly around major transport corridors and locations with complementary production and labour capacities. Areas around Merdare and the Nis-Pristina corridor have previously been identified as potential locations for stronger economic integration (ISP, 2024). However, the viability of such an approach would depend on compatible customs and regulatory arrangements, infrastructure, investment conditions, labour mobility, legal certainty and an agreed governance framework. It is therefore better viewed as a longer-term possibility. Stronger links between existing firms and industrial clusters offer a more immediate pathway towards greater economic integration.

A pilot could link two industrial sites, each operating under its own jurisdiction, through coordinated customs procedures, shared services and joint supplier programmes. A project agreement should provide equal participation in governance, clear dispute-resolution procedures and transparent distribution of investment. This would test integration without creating an extraterritorial enclave or diminishing Kosovo's authority over its territory.

The normalisation dividend in this area would come from creating repeated and commercially valuable relationships between firms in Kosovo and Serbia and embedding them more deeply in wider European production networks. Such relationships would not remove the need for political normalisation, but they could reduce the economic costs of fragmentation and strengthen the business interest in predictable and cooperative cross-border relations.

5.5 Financial integration and cross-border payments

Financial transactions between Kosovo and Serbia currently rely on expensive, multi-tiered international correspondent banking networks. Commercial wire transfers between businesses in Kosovo and Serbia can be routed through third-country European intermediary banks, and high transfer fees and settlement delays, placing a disproportionate burden on SMEs.

The wider European integration process provides a clear direction for reducing these frictions. Serbia has joined the Single Euro Payments Area (SEPA) and Kosovo should also do so. Greater interoperability of payment systems can lower the cost and complexity of cross-border euro payments and make transactions between businesses more comparable to domestic payments. For Kosovo and Serbia, closer alignment with European payment standards would therefore have benefits beyond financial efficiency, by making it easier for firms to establish and maintain regular commercial relationships.
The normalisation dividend in this area would come from making cross-border transactions simpler, faster and less costly. Financial integration is unlikely to drive normalisation

on its own, but reducing payment frictions can remove an important everyday obstacle to doing business and make sustained commercial relationships between Kosovo and Serbia easier to develop.

5.6. Skills development and labour mobility

Human capital is another area in which closer economic integration could generate benefits for both Kosovo and Serbia. The two economies face different, but complementary, labour-market constraints. Serbia has experienced growing demand for skilled workers, particularly in manufacturing and technical occupations, while Kosovo has a relatively young population but continues to face low labour-force participation, skills mismatches and significant outward migration. Better regional mobility and cooperation in skills development could therefore improve the allocation of human capital while strengthening the links between labour markets and regional production.

Kosovo and Serbia should use regional mobility arrangements as a starting point and negotiate a targeted fellowship protocol covering paid placements, qualification recognition and social protection. Annex 2 develops this approach through vocational education and training (VET), with benefits for local firms and workers as well as cross-border mobility. VET offers a relatively practical and less politically sensitive area for cooperation. Employers, VET institutions and professional bodies can cooperate on curricula, work-based learning, short-term mobility and the development of skills relevant to regional industries. Such cooperation is increasingly important as firms across the Western Balkans face shortages in technical, digital and other specialised occupations. Cross-border VET partnerships could help align training more closely with the skills required by regional and European value chains.

Labour mobility should therefore be understood more broadly than the movement of workers across borders. Effective recognition of qualifications, cooperation between education and training institutions, and closer links between employers and skills systems can improve the allocation of human capital across the region. In the longer term, greater portability of social security rights would further reduce the costs associated with working across borders and make regional mobility more attractive to both workers and employers.

For Kosovo and Serbia, the normalisation dividend would come from making regional mobility arrangements more usable and reducing the institutional barriers that prevent skills from moving where they are needed. Its success should be assessed through better employment and productive capacity in both economies, not the volume of outward placements alone. This requires investment in Kosovo-based training and firms, reciprocal opportunities and voluntary return incentives.

5.7 Business-to-business cooperation and the role of business associations

Economic integration ultimately depends on firms being willing and able to do business with one another. Yet private-sector cooperation between Kosovo and Serbia remains limited, particularly in investment, supplier relationships and longer-term business partnerships. Business associations can help address this gap by providing channels for contact, information exchange and problem-solving that are less directly exposed to political relations.

The experience of cooperation between the Kosovo Chamber of Commerce (KCC) and the Chamber of Commerce and Industry of Serbia (CCIS) demonstrates the potential of business organisations to maintain channels of cooperation even when political relations are difficult. Their role can extend beyond traditional business networking to identifying barriers affecting companies, facilitating contacts between potential partners and bringing recurring problems to the attention of the relevant authorities. Cooperation should not be limited to the two chambers. Sectoral associations, SME organisations, professional bodies and other business networks can provide more targeted channels for cooperation in areas where firms face common market and supply-chain needs.

This cooperation cannot replace the role of public authorities where regulatory or legal decisions are required. Business associations can, however, help keep business cooperation moving and ensure that commercial problems are identified and addressed before they become broader obstacles to economic integration. This is particularly relevant in areas such as border procedures, technical requirements, digital services, supplier relationships, skills and investment.

The potential role of business associations is closely linked to the development of regional and European value chains. The CRM aims to strengthen the industrial and innovation base of the Western Balkans and connect regional firms more closely to wider value chains. The IMF estimated that the GDP of the entire Western Balkan region could grow up to 10% if the region were better integrated in global value chains. These effects would also be supported by greater investment in education and training to improve the skills base of workers employed by SME supplier companies to locally based MNCs in such value chains (Bartlett & Krasniqi, 2026). For Kosovo and Serbia, this creates an opportunity to move beyond general business contacts towards more structured cooperation between companies that have complementary capabilities.

Stronger business-to-business linkages can also contribute to normalisation by creating commercial interests in predictable cross-border relations. Supply chains depend on reliable transport, documentation, payments, technical requirements and access to inputs

and services. The more firms depend on such cross-border relationships, the greater the economic cost of disruptions and administrative obstacles. Business associations can reinforce this process by representing these interests collectively and creating regular channels through which companies can raise problems and seek solutions.

6. Concluding Policy Summary

The analysis points to a central paradox in Kosovo-Serbia economic relations. Much of the formal framework for economic cooperation already exists, but the mechanisms for ensuring that agreed commitments are implemented remain very weak. CEFTA, the Common Regional Market and the EU Growth Plan provide an extensive basis for cooperation and integration. The main challenge therefore lies less in the absence of frameworks than in their implementation dynamics. Progress continues to depend heavily on the willingness and capacity of the relevant authorities to follow through on agreed commitments, while accountability remains limited when commitments are delayed, only partially implemented, or not implemented at all.

This means that the regional integration agenda faces not only an implementation gap, but a governance gap. Political commitments can be made without a sufficiently strong implementation chain linking agreement to responsibility, deadlines, monitoring. This weakness becomes particularly consequential in Kosovo-Serbia relations, where technical economic issues can quickly become affected by wider political tensions. Without stronger governance, even economically beneficial and technically feasible commitments can remain only partially implemented. The issue is therefore not simply whether commitments exist, but whether the existing system is capable of reliably delivering them.

The analysis also points to a broader limitation of a trade-centred understanding of regional integration. Increasing trade is important, but it does not necessarily translate into deeper economic integration. The region has demonstrated that reducing traditional trade barriers can expand intra-regional trade. Deepening integration means creating the conditions for investment, supplier relationships, services, digital transactions, skills mobility and participation in regional and European value chains to develop across borders. The policy objective should therefore not be only trade expansion but the reduction of the institutional and economic frictions that prevent trade from developing into deeper and more diversified economic interdependence.

This distinction is particularly important for understanding the potential normalisation dividend in Kosovo-Serbia relations. Reducing economic friction can change the conditions under which economic decisions are made. Lower uncertainty can influence whether a company chooses a supplier, whether an investor establishes a production link, whether two firms jointly bid for a contract, whether skills are developed for a regional value chain,

or whether a service provider can operate across the border.

This also changes how the relationship between economic cooperation and political normalisation should be understood. Economic cooperation should neither be treated as a substitute for political normalisation nor postponed until political normalisation is complete. The two processes can advance in parallel and, under the right conditions, reinforce one another.

Economic interdependence is therefore not merely a potential outcome of normalisation; it can also contribute to creating constituencies with a material interest in predictable and stable economic relations. As firms establish repeated and commercially valuable relationships, the costs of disruption increase, and the benefits of continuity become more deeply embedded in business decisions.

This does not mean that economic integration can resolve the underlying political dispute. It cannot, and economic cooperation should not be expected to substitute for political agreement. The proposition is that economic integration and political normalisation can progress in parallel, with each creating conditions that make the other more sustainable. A more predictable economic environment can reduce the costs of political friction for businesses, while growing economic interdependence can strengthen incentives for stability and continuity.

The evidence supports the potential economic benefits of more predictable relations more clearly than it establishes a political effect. The latter remains a conditional proposition, dependent on security, political incentives and credible implementation. The paper therefore offers a qualified answer to its research question: cooperation can advance before final normalisation and deliver economic benefits, but its contribution to political normalisation depends on changing the incentives and constraints that sustain obstruction. This calls for a political-economy approach that connects economic opportunities to institutional acceptance, accountability and the distribution of benefits.

The normalisation dividend, in this sense, is ultimately the gain from making economic relations more predictable before political normalisation is complete and from using the existing regional and European frameworks to build the conditions for deeper economic integration. Resilience must serve a direction of travel: practical recognition of each other's institutions and documents, non-obstruction and progress towards a final comprehensive settlement. Interim cooperation should not entrench an unequal or permanently unresolved relationship.

Immediate priorities should combine implementation of existing commitments with negotiation of the targeted arrangements needed to make them usable. The parties and the EU

should agree deadlines and publish progress against the following actions.
Document acceptance: customs and competent sector authorities should publish the documents accepted and procedures applied, agree a timetable to remove unjustified refusals and close gaps in reciprocal recognition, and record refusals and their reasons. Progress should be assessed through fewer unexplained rejections and consistent treatment at crossing points.

Transit procedures - transport and customs authorities should specify permissible transit routes and entry requirements, address the restrictions identified in Section 5 and publish operational guidance. Verification should include completed transit movements and documented resolution of complaints.

Inspection coordination - customs and sanitary and phytosanitary authorities should agree coordinated operating hours, risk-based checks and data-exchange procedures at priority crossings. Waiting times, repeat inspections and reasons for delays should be monitored against a baseline.

Business complaints - the responsible existing dialogue or regional mechanism should assign each complaint to a competent authority, set a response deadline and provide an escalation route. A regular public summary should record issues resolved and outstanding responsibilities.

Project preparation - the competent ministries and prospective partners should prepare a costed fellowship pilot and a linked-industrial-sites concept, identifying the agreements, funding and safeguards needed to launch them. A six-month preparation phase should deliver proposals for approval, not become an open-ended substitute for action.

References

Avlijaš, S. (2022). How regional integration agreements can foster inclusive growth: Lessons from exporting SMEs in the Western Balkans. *Economic Annals*, 67(235), 67–94.

Axyonova, V., & Kartsonaki, A. (2025). The European Union's normalisation policies for Kosovo: Contributing to a durable peace? *Ethnopolitics*, 24(4), 461–478.

Barata da Rocha, M., Poitiers, N. & Vujanović, N. (2026). Challenges to the integration of the Western Balkans into European Union supply chains. *Working Paper* 09/2026. Brussels: Bruegel.

Bartlett, W., Krasniqi, B. A., & Ahmetbasić, J. (2019). Attracting FDI to the Western Balkans: Special Economic Zones and Smart Specialisation Strategies. *Croatian Economic Survey*, 21(2), 5–35.

Bartlett, W., & Krasniqi, B. A. (2026). Regional cooperation and competitiveness in the Western Balkans: Alternative approaches to industrial policy and skill formation. *Southeastern Europe*, 1–27. https://doi.org/https://doi.org/10.30965/18763332-20262006

Beha, A. (2025). Sequencing a peace agreement between Kosovo and Serbia: Ambiguity, hybridity and agency. *Journal of Intervention and Statebuilding*, 19(3), 412–432.

Belfast Agreement (1998). Agreement reached in the multi-party negotiations, 10 April. In particular, Constitutional Issues, Strands One and Two, and Security, paragraph 2. https://archive.niassembly.gov.uk/io/agreement.htm

Bjelić, P., Jaćimović, D., Kastratović, R., & Baćović, M. (2025). Export of travel services in Western Balkans: A gravity model approach. *Eastern European Economics*, 63(3), 512–536.

Blouchoutzi, A., Kiohos, A., Nikas, C., & Stoupos, N. (2026). Remittances, trade balance, and the EU integration challenge: Evidence from the Western Balkans and Eastern Partnership countries. *Comparative Economic Studies*, 68(2), 18.

Bonomi, M. (2025). The EU single market in bits and pieces: Limits of the 'New Growth Plan for the Western Balkans'. *RSC Working Paper* 2025/29. Florence: European University Institute.

Dedaj, Z., & Krasniqi, B. A. (2023). Managerial perceptions of export barriers: Insights from the survey with ICT companies in Kosovo. *Ekonomska misao i praksa*, 32(1), 93–111.

EEAS (2023a). Agreement on the path to normalisation between Kosovo and Serbia, 27

February. Articles 1, 4, 6 and 10. https://www.eeas.europa.eu/eeas/belgrade-pristina-dialogue-eu-proposal-agreement-path-normalisation-between-kosovo-and-serbia_en

EEAS (2023b). Implementation Annex to the Agreement on the Path to Normalisation of Relations between Kosovo and Serbia, 18 March. https://www.eeas.europa.eu/eeas/belgrade-pristina-dialogue-implementation-annex-agreement-path-normalisation-relations-between_en

ETF (n.d.). What we do. European Training Foundation. https://www.etf.europa.eu/en/what-we-do

European Commission (2023). *New Growth Plan for the Western Balkans*. Brussels, 8.11.2023 COM(2023) 691 final. Brussels: European Commission.

European Commission (2026). *EU Candidate Countries & Potential Candidates' Economic Quarterly* (CCEQ) *1st Quarter* 2026. Brussels: Directorate General for Economic and Financial Affairs.

European Commission (n.d.). Customs transit. Directorate-General for Taxation and Customs Union. https://taxation-customs.ec.europa.eu/customs/customs-procedures-import-and-export/customs-transit_en

European Parliament and Council (2024). Regulation (EU) 2024/1449 establishing the Reform and Growth Facility for the Western Balkans. Articles 5 and 21. https://eur-lex.europa.eu/eli/reg/2024/1449/oj

Gashi, S., & Novakovic, I. (2020). *Brussels Agreements Between Kosovo and Serbia: A Quantitative Implementation Assessment*. Belgrade: Friedrich Ebert Foundation.

Gómez, M. D., Taglioni, D., & Zarate, R. D. (2023). The Economic Effects of Market Integration in the Western Balkans. Policy Research Working Paper 10491. Washington DC: The World Bank Group.

Hadergjonaj, S., Asllani, G., Shala, S., & Grima, S. (2024). Effects of the Central European Free Trade Agreement (CEFTA) on Kosovo 2014-2023. International Journal of Sustainable Development and Planning, 19(6), 2275–2284.

House of Lords European Union Committee (2016). Brexit: UK-Irish relations. HL Paper 76, Chapter 3, paragraphs 89–93. https://publications.parliament.uk/pa/ld201617/ldselect/ldeucom/76/7606.htm

ISP (2024). *Improving Kosovo-Serbia Economic Relations*. Pristina: Institute for Social Policy & Belgrade: Institute for Philosophy and Social Theory.

Krasniqi, B., Ahmetbasić, J., & Bartlett, W. (2022). Foreign direct investment and backward spillovers in the Western Balkans: The context, opportunities and barriers to the development of regional supply chains. *Southeastern Europe*, 46(1), 1–22.

Leitner, S. M. (2022). A skill-specific dynamic labour supply and labour demand framework: A scenario analysis for the Western Balkan countries to 2030. *Labour*, 36(4), 471–504.

OECD (2021). *Competitiveness in South East Europe 2021: A Policy Outlook*. Paris: Organisation for Economic Cooperation and Development.

OECD (2025) *Economic Convergence Scoreboard for the Western Balkans 2025*. Paris: Organisation for Economic Cooperation and Development.

OECD (2026), *SME Policy Index for Western Balkans and Türkiye 2026 – Economy Profile for Kosovo, SME Policy Index*. Paris: Organisation for Economic Cooperation and Development.

Peci, F., Holzner, M., & Kutllovci, E. (2011). Determinants of Kosovo trade: A gravity model approach. *South East European Journal of Economics and Business*, 5(2), 33-41.

Polovina, N., & Wynne, S. (2026). The effects of EU accession process and firm investment dynamics on Western Balkans sustainable economic growth. *Journal of Environmental Management*, 411, 130124. https://doi.org/10.1016/j.jenvman.2026.130124

Prica, I. (2019). Trade in services in the Western Balkan countries. In: R. Osbild & W. Bartlett (eds.) *Western Balkan Economies in Transition.* [Societies and Political Orders in Transition. Springer]. Cham: Springer.

Regional Challenge Fund (n.d.). Who can apply? https://rcf-wb6.org/who-can-apply-2/
Regional Cooperation Council. (2022). Business Barometer Report. Sarajevo: RCC Secretariat.

Regional Cooperation Council. (2024). Common Regional Market Action Plan 2025–2028. Endorsed at the Berlin Process Summit, 14 October 2024. RCC Secretariat. https://www.rcc.int/pubs/189/common-regional-market-action-plan-2025-2028

RCSPI (2024). A *Proposal for a New Approach to the Western Balkans-EU Relationship*. Belgrade: Regional Centre for Strategic and Political Initiatives

UK Government (2023). The Windsor Framework: The Green Lane. June. https://assets.publishing.service.gov.uk/media/64835d38103ca6000c039c8d/The_Green_Lane.pdf

Uvalić, M., & Barbullushi, O. (2026). The European Union's Growth Plan for the Western Balkans. In: I. Vidačak (Ed.), *The Western Balkans and the Challenges of EU Accession: The Resilient Transformation*. London: Routledge.

World Bank (2026). Adjusting to shocks, mobilizing untapped potential [Chapter 2, Mobilizing underutilized human capital]. *Western Balkans Regular Economic Report* No. 29 Spring 2026.

Zeneli, V., Grieveson, R., Ioannides, I., & Bechev, D. (2025). The European Union Growth Plan for the Western Balkans: A Reality Test for EU Enlargement. *Atlantic Council, Washington, DC.*

Annex 1: Potential changes to the normalisation governance process

To support the above proposed measures and to avoid political hold-ups, the governance mechanism for normalisation ought to be adjusted and reformed[4]. Currently, the governance of the normalisation process is split across the parties' distinct EU integration processes, the EEAS-facilitated Political Dialogue (Technical Agreements, Ohrid/Brussels commitments), and the NGP and the accompanying RGF. This governance arrangement links the EU accession framework with the Belgrade–Pristina normalisation dialogue but suffers from structural defects. By relying simultaneously on top-down political mediation, commitments with unclear implementation arrangements, and contested assessments of compliance, the process remains vulnerable to implementation blockades. To align the domestic reform mandates of the NGP and the RGF with the political objectives of normalisation, the EU and the parties should agree an integrated implementation compact linking political commitments, technical delivery and financial incentives. This would strengthen the present architecture through defined new functions, not establish a rival regional integration system.

The following four recommendations outline how the governance of these dual processes can be restructured to enhance institutional predictability, accountability and execution.

Shift from "constructive ambiguity" to contractual codification

The EU and the parties should codify priority obligations in a public implementation compact specifying responsible authorities, reciprocal actions, deadlines, verification and remedies. The 2023 Implementation Annex distinguishes Serbia's Chapter 35 from Kosovo's Special Group on Normalisation; the compact should use these distinct channels, with comparable evidence standards rather than assume identical accession frameworks (EEAS, 2023b). It should identify the domestic decisions and additional agreements needed for delivery. Status-neutral wording can facilitate an interim procedure but should not leave institutional responsibilities or document acceptance ambiguous. Implementation should progressively strengthen equal participation and reciprocal institutional acceptance while supporting negotiations on final comprehensive normalisation.

Calibrate financial leverage through graduated conditionality

Article 5 of the Reform and Growth Facility Regulation makes progress on normalisation a precondition for support and permits withholding even where reform payment condi-

[4] See also RSPCI (2024) and Barata da Rocha (2026).

tions are fulfilled. Article 21 separately provides for withholding and subsequent reductions linked to unmet payment conditions (European Parliament and Council, 2024, Arts. 5 and 21). Building on that distinction, the EU should publish an obligation-specific assessment method, identify the party responsible for obstruction and specify the steps required to restore compliance. A proposed graduated response would combine notice and a corrective timetable with proportionate financial consequences, while rewarding verified delivery. Protection for essential citizen-facing projects should be designed through separately authorised funding channels or, where needed, an amendment to the Facility, rather than assumed to override its preconditions. This reform should reduce incentives to block progress without allowing either party to secure benefits by preventing the other's compliance.

Decouple technical integration from high-level dialogue deadlocks

A standing technical secretariat under the EU-chaired Joint Monitoring Committee should organise delivery of the compact, drawing on CEFTA and other regional bodies for sector expertise. Kosovo and Serbia should each appoint authorised institutional focal points with equal standing. Sector working groups should have agreed decision procedures, delegated responsibilities and deadlines for resolving operational issues; matters outside their powers should be referred to the competent authorities within a published timetable. Business and worker representatives should submit evidence and propose remedies. The additional capacity would allow routine implementation to continue during political deadlocks while leaving political accountability with governments. Its mandate should be adopted through an explicit agreement, consistent with the monitoring role envisaged in Article 10 of the 2023 Agreement (EEAS, 2023a).

Establish an independent multi-stakeholder Monitoring Commission

Greater transparency and independent scrutiny could strengthen confidence in compliance assessments. Building on existing monitoring arrangements, the EU and the parties should establish an independent verification panel comprising civil society organisations, legal experts, regional statistical agencies and international observers. Publishing semi-annual, evidence-based compliance scorecards on both national Reform Agendas and Dialogue obligations would increase domestic transparency, empower local watchdog organisations, and make the evidence underlying EU funding decisions open to scrutiny. This would supplement the existing Reform and Growth Facility Scoreboard for the Western Balkans.[5]

The panel should have an agreed right to request implementation evidence, publish findings and recommend corrective action. Its members should be selected transparently for

[5] https://reform-monitor.org/database/scoreboard/

expertise and independence, with balanced participation and conflict-of-interest rules. The Commission, EEAS and the responsible authorities should respond publicly within a proposed 30-day period, explaining action taken or reasons for departing from its findings. Funding decisions would remain with the competent EU institutions, but an obligation to respond would give verification practical consequences. The scorecard should track document acceptance, equal institutional participation and non-obstruction alongside economic outcomes and progress towards comprehensive normalisation.

Ultimately, conditionality can only drive transformative reform when its rules are unambiguous, its sanctions proportionate and its enforcement credible. By recalibrating the governance mechanisms connecting the accession and normalisation processes, the EU and the parties can make political bargaining more accountable and build a more predictable framework for Kosovo, Serbia and the wider Western Balkans.

Annex 2: Creation of "Regional Vocational Skills Fellowships"

This project proposes a Western Balkans Vocational Skills Fellowship combining local technical training with paid placements in participating firms. It would begin with Kosovo, Serbia and North Macedonia and remain open to other Western Balkan economies. Occupation-specific assessments, drawing on work such as Leitner (2022), would identify employer demand and skills gaps to guide pilot recruitment. The project would develop compatible curricula for occupations such as CNC operation, mechatronics and IT support, invest in training centres and establish a new mechanism for recognition of the resulting qualifications. Its aim is to strengthen productive capacity in each participating economy and support regional value chains, rather than simply transfer labour from Kosovo to manufacturing centres elsewhere.

The programme should demonstrate benefits for the productive capacity of each participating economy. A ring-fenced Kosovo component should finance placements with Kosovo-based firms, investment in local training capacity, protection of participants' rights and voluntary return grants or business-development support for participants using acquired skills in Kosovo. Comparable components should support the other participating economies, with published allocation criteria and outcomes. Indicators should cover training quality, subsequent employment and benefits retained locally, as well as placement numbers.

The fellowship would translate the Common Regional Market and Growth Plan objectives on skills and productive integration into a concrete project. Regional agreements on academic and selected professional qualifications provide a precedent for cooperation, but a dedicated vocational-recognition protocol should extend that approach to the pilot occupations. By pairing employer placements with investment in training institutions and local suppliers, the project could retain skills and production in the region while supporting direct access to European markets. The proposed protocol would create the necessary recognition arrangements rather than rely on the programme's regional label.

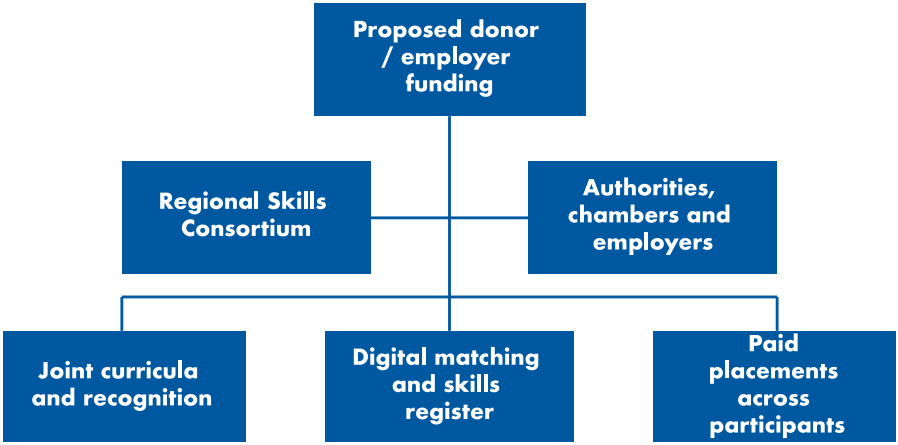
The project should be organised as a Western Balkans Industrial Apprentice Network, with Kosovo participating through its own institutions on an equal basis. A regional consortium would connect accredited training providers, faculties, chambers and employers. The faculties in Bujanovac, Gjilan/Gnjilane and Tetovo could be invited as founding partners, alongside vocational providers able to deliver the technical training. These could join together in a cross-national Centre of Vocational Excellence (CoVE). A CoVE is a collaborative European network that connects vocational education and training (VET) providers, businesses, research centres, and employment services to deliver high-quality, sector-specific

skills[6]. A governing board with equal institutional representation from the participating economies and employer and worker participation would approve the pilot, budget and safeguards. Recognition of Kosovo-issued documents and qualifications should be a reciprocal obligation in the founding agreement, not replaced by certification in Serbia or by an external body acting on Kosovo's behalf.

Participants would complete local training followed by a paid placement of six to twelve months in a participating firm in Kosovo, Serbia or North Macedonia. A digital registry would match candidates to vacancies and record training outcomes, with transparent selection criteria and data protection. Employers in Kosovo should host placements as well as send trainees; return grants, supplier contracts and support for new businesses should make the use of skills in Kosovo an attractive choice. Mobility would be voluntary, with no restriction on participants' subsequent employment choices.

The partners should establish a Regional Skills Consortium with a competitively selected accredited vocational provider as grant lead and a small joint secretariat responsible for delivery. Faculties would contribute curriculum development and evaluation, chambers would organise employer participation, and qualification authorities would approve standards and recognition. ETF should be invited to provide technical advice on qualifications, quality assurance and skills anticipation, consistent with its education-and-training reform role (ETF, n.d.). This assigns ETF an advisory role rather than project ownership or certification powers. The founding memorandum should allocate responsibilities and secure institutional commitments during project preparation.

The proposed structure of the project



[6] See: https://www.copcoves.eu/.
& https://employment-social-affairs.ec.europa.eu/document/afd80ddd-5a8d-437b-8008-b85c187e5e66_en

The consortium should seek a dedicated pilot financing package combining donor support for training infrastructure and coordination with employer contributions to paid placements. Accredited vocational providers offer a credible lead-applicant model: the Regional Challenge Fund supports cooperative-training consortia led by such institutions (Regional Challenge Fund, n.d.). The partners should prepare eligible applications under relevant calls and propose a dedicated regional window where existing programmes do not cover cross-border costs. Growth Plan-linked public investment could support training facilities, while a separately costed grant would cover mobility, recognition and coordination. A funding agreement should allocate costs, match-financing and audit responsibilities before recruitment.

The chambers and training providers should map employer demand and develop common learning outcomes. A vocational-recognition protocol, negotiated by the competent Kosovo, Serbian and North Macedonian authorities, should establish a jointly agreed assessment standard, designate accredited issuing bodies and require reciprocal acceptance of certificates for specified occupations. Each issuing body would retain its own legal identity. The consortium would maintain a public register of approved programmes and a digital vacancy platform open to qualified applicants from all participating economies. This would create a usable recognition mechanism while making the responsibilities of the public authorities explicit.

A parallel mobility and social-protection protocol should create a simplified route for the pilot's paid placements, with mutually accepted identity and training documents, designated contact points and published processing deadlines. It should settle work and residence authorisation, tax treatment, health and accident insurance, social-security contributions and complaints procedures, including the domestic measures needed to give it effect. Safe transport or suitable housing should be funded according to distance and working hours; daily commuting should be used only where practical. Equal pay for comparable work, freedom to leave a placement and access to independent remedies should be standard contractual protections.

Employers should be recruited through an open call based on demonstrated training capacity, paid-placement commitments and co-financing, rather than presumed participation by named companies. Automotive components, electrical engineering, ICT and agri-food processing offer potential pilot sectors. Selection should include Kosovo-based SMEs and firms in Serbia and North Macedonia, with placements and supplier partnerships that strengthen production in all three economies. Participating companies should appoint trained mentors, provide equipment access and agree measurable learning outcomes. Subsidies should reward additional training and transferable skills, not replace employers' normal recruitment costs.

The commercial incentive for employers is a more reliable supply of relevant skills and stronger regional supplier relationships. Public support should be matched by employer investment and assessed against training completion, job quality, skills transfer and benefits to local firms. This provides a clearer rationale than assumptions about particular tax incentives or the willingness of individual multinational companies to participate.

The pilot should use a modular dual-education model combining local instruction with supervised workplace learning. The KfW-supported Regional Challenge Fund offers a relevant precedent for cooperation between training institutions and businesses (Regional Challenge Fund, n.d.). The proposed cross-border recognition and mobility protocols would add the elements needed for regional placements. Delivery would proceed in four phases.

Phase 1: Industry-driven regional curriculum mapping

The consortium should establish a Joint Industrial Skills Committee including vocational providers, qualification authorities, chambers, worker representatives and participating employers. It should identify a small set of pilot occupations and agree learning outcomes, assessment criteria and modular courses. The qualification authorities should adopt the required approvals and recognition decisions under the proposed protocol, with transparent quality-assurance and appeal procedures. This would turn joint curriculum design into qualifications that participants can actually use.

Phase 2: Decentralised local bootcamps

To scale up the program safely and efficiently, initial technical training would take place locally within each worker's home territory. The consortium would use the agreed training-investment budget to equip local vocational schools or specialised training hubs in Pristina, Skopje, and Southern Serbia with compatible equipment suited to the agreed curricula (Industry 4.0 simulation setups). Candidates in each participating economy would complete an intensive, 3-to-6-month local technical baseline programme. This would ensure that when they eventually move to an industrial hub, they already possess fundamental safety certifications and foundational technical competencies, keeping onboarding friction to a minimum.

Phase 3: The Virtual Regional Training Academy

A Virtual Regional Training Academy would create an integrated community and streamline the logistics of cross-border instruction, through a shared digital learning layer. Theoretical components, specialised engineering software training (such as CAD/CAM or PLC programming), and language/soft skills modules would be centralised through a consor-

tium-led Virtual Regional Academy. Instructors funded by the programme, including engineers from participating firms, could teach learners across Kosovo, Serbia and North Macedonia, with appropriate language support. This would maximise resource efficiency and ensure that all candidates receive identical, high-tier instruction regardless of their physical location.

Phase 4: Co-certified "dual-learning" rotations (on-site placement)

This phase would serve as the critical functional bridge where workers would make the transition into the active labour force. Candidates would move into the 6-to-12-month MNC Industrial Fellowship phase with approved host firms in any participating economy, including Kosovo. There would be a hybrid schedule with a rotation that would follow an indicative 70/30 dual-learning split consisting of 70 per cent work-based learning (trainees would spend 3.5 days a week on the factory floor under the direct mentorship of certified MNC internal trainers) and 30 pe cent advanced theory (trainees would spend 1.5 days a week at a localised consortium-supported satellite training centre established near the industrial park to review advanced concepts, analyse operational issues, and complete technical assessments).

Following an independently assessed practical examination, accredited providers designated in the recognition protocol would issue the proposed WB6 Regional Industrial Skills Certificate. A common supplement would record learning outcomes, assessed competencies and the issuing authority. The protocol would require acceptance by the participating authorities for the specified pilot occupations and establish a procedure for resolving recognition disputes. The certificate's scope should be explicit, with a route to recognition in additional economies as they join the arrangement.

A six-month preparation phase should produce the consortium agreement, recognition and mobility protocols, a costed financing package and signed employer commitments. The parties should adopt the necessary domestic measures in parallel, so the pilot can launch with the first approved cohort. An independent review after the first placement cycle should assess employment, worker protection, local capacity and reciprocal institutional acceptance before expansion. In this way, the fellowship would test a practical contribution to normalisation: institutions would recognise each other's decisions and deliver shared benefits without postponing the pursuit of a final comprehensive settlement.



Regional Center for Strategic and Political Initiatives