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Review

Kosovo overview FDI and environment

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Abstract

This paper investigated the performance of FDI in Kosovo. FDI flows continue to be provided for development of Kosovo. Sector restructuring of the economy and allocation of FDI has special importance. The development of manufacturing sector and processing industry and tourism in some territories of Kosovo is also a challenge that must be resolved because it will affect economic development, employment generation continued. Withdrawal of modern technology in these sectors would help in maintaining the balance between the different benefits and a clean environment. Environmental concerns caused by FDI in some territories of Kosovo are fundamental problems that require solutions. Elimination of barriers to FDI, the strengths and weaknesses that were offered to investors are the primary issues that attract investment. Except FDI are in positive correlation with GDP, at the national level factors of human resource allocation are important in the territories where the population movement due to the economic stagnation, and such cases can be found in Kosovo.

Keywords: Flow of FDI, The restructuring of the economy, The allocation of FDI, Environmental concerns.

INTRODUCTION

As a general definition FDI means international movement of goods and services for investment purposes, where the foreign investor has the control over the investment asset. There are a number of empirical studies which have shown that FDI has a positive impact on economic growth and it will play a crucial role in this regard, especially in those countries that have cheap labor force and natural resources. The FDI high level of importance, as well as the demand in implementing of international standards for quality and investment safety by private and public enterprises is a difficult challenge to be successfully overcome. The investments make a global integration and if they are well thought, Kosovo will have a sustainable economic development. Our country as an importing country is dependent on price fluctuations in international markets, so foreign investment temptation affects the growth of production in all sectors of the economy, the growth of safety and quality of products, becoming this way competitive with the others. This opportunity should be used to the extent that does not degrade the environment. Having in consideration that investment temptation is closely linked to the level of reforms in the country, the security of property rights, economic stability, political and transaction costs in many sectors, Kosovo is progressing in its secure steps. Last 20 years Kosovo has experienced profound political, economical and social unrests. During the 1990s, the economy deteriorated with the loss of former markets and the collapse of many social enterprises. Minerals and energy, which previously have been the backbone of the economy in terms of income and employment, have declined significantly, reaching its peak in the 1999 conflict. A number of studies show the economy of Kosovo during the period

1990-1999, where the product has been halved, half of the population was unemployed, and more than half of them were in poverty (World Bank, 2005). After 2001, a wave of support from donors and remittances contributed to a rapid annual development. This progress went on up to 2005, after this period, due to the reduction of international donors. There are positive signals for the economy of the Republic of Kosovo, its FDI flows are increasing and replacing the traditional revenue sources such as remittances and privatizations.

FDI flows and global trends of development

Especially Direct Foreign Investments have become the driving force of economic growth but also environmental concern. From 1980-2000 the total wealth of the developing world became almost four times bigger, FDI flow in developing countries rose for 18 times (World Bank (1999a). Growth in FDI flows are particularly rapid in developing countries that take over 40% of FDI. There are major differences between the developing countries and the developed countries but also in a region. Time needed to double income. Pre-Industrial Revolution 350 years. Britain, 1st Industrial Revolution 175 years. Britain, mid 19th Century 65. Fast Developers, post World War II 10 years or less (Craft, 2000). What is that make this progress too fast? According to some theories, this can be explained as a combination of three factors, capital, labor and increased productivity through the advanced technology. Foreign investments have shown the ability to contribute to these three components. Kosovo hasn't been left out of these global developments. Chance to be incorporated in the global movements for Kosovo is greater than ever before through direct foreign investments as a force and a catalyst for economic growth. The investment performance had this trend in 2001, the value of the investment was 661 million euros, a gradual decline of investments was observed up to 2003, while in 2004 there was a slight increase of 594 million. The year 2005 achieved a significant increase of 600 million euros, while in 2006 the investments as a part of GDP increased to 28.3% which is one of the highest in the region at 618 million euros The global downturn caused a decline of FDI in Kosovo either, the year 2007 ended with 440 million investment, a small decrease in 2008 and 2009. Kosovo has had a positive trend of FDI in recent years. 2010 resulted in 365 million, with 3,523 foreign-owned and mixed registered companies which were able to invest. Year 2011 was followed by 15% more FDI, or 10% of total FDI in South East Europe (SEE). (CBK, 2012). Capital investments have been made in regional and local road infrastructure in Kosovo, improving transport networks with neighboring countries and ensure a competitive business environment. The economy is facing multiple challenges arising from regional instability, but also deficiencies at home. The year 2012 is a turbulent year for many countries around the world. Once again it has been proved that the establishment of sustainable development should be the motto of every government. Sustainability goals should be integrated into sectional practices tempting FDI in strategic sectors: energy, mining and minerals, banking sector, transport, agriculture and manufacturing, for these sectors, through the goods and services they provide, will have positive effects on other sectors too. Foreign investors are present in Kosovo as resource researchers, skilled free and motivated workforce, able to bring technology and experts in various fields. Also foreign investors are present as strategic asset researchers in order to gain a significant asset that improves their competitive position in the market.

Background, the economy of the Republic of Kosovo

Kosovo has achieved stunning success in the political and has removed many obstacles since 1999. New economic laws, transparent policies have borne the first fruit in tempting FDI. In recent years Kosovo has identified a positive change in many sectors of the economy, but few changes in living standards. At the same time, domestic investment and foreign investment are insufficient to meet the country's requirements in infrastructure, which is a priority. Business sector and civil society groups have been actively participating in these reform efforts. Kosovo legislation is harmonized with EU laws. Fighting corruption has become a priority. Liberalized trade policy, Customs and Tax Administration reformed with the lowest tax regime in Europe. A general glance on the evolution of the position of Kosovo in relation to the region, Kosovo has many advantages but it is flawed because it is in its early development and has difficulties to go aside the competitiveness of developing countries. Kosovo's economy continues to be characterized by a positive growth rate of 5 percent in 2011.Slowing down of the economic activity in some Euro area countries led to slowing exports and reduction of remittances (remittance from abroad), this led the economic growth in 2012 to fall to 3.8 percent. Investment increased 14.4 percent, banking loans increased, while merchandise trade is continuously the cause of the trade deficit in 2011 and there are indications that this will go on in 2012 too. 46 percent of active population unemployed presents a challenge. Based on price index, inflation in Kosovo marked a rate of 7.3 percent while in SEE countries average inflation rate was 4.0 in 2011, tending to grow in 2012. Banking system continues to be profitable, consisting of eight banks with 89 percent of assets foreign owned, 20 microfinance institutions, 32 financial assistants, two pension schemes and 13 insurance companies. The

banking sector financed by local deposits and insurance companies has positive performance whereas the pension scheme has reduction of shares. Remittances as income flows financed the trade deficit to about 40 percent of GDP in 2011 and due to capital projects the deficit will continue.

FDI sustainable economic development factor

The purpose of the people of Kosovo is to achieve security, the rule of democracy and long-term prosperity. To achieve this, public goods, well-functioning ecosystems and flexibility to respond to uncertain future shocks should be provided. Tempting FDI is a priority, but often the priorities and objectives of governments and corporations vary but their interaction as a core issue has dynamic development and economic growth. In the context of economic development Kosovo is characterized by inconvenient industrial structure. Kosovo‘s economy sectors are facing a number of challenges. There are many black polluting spots in Kosovo as a legacy of past industrial developments and environmental infrastructure is generally not developed in conformity with EU standards. Kosovo would benefit if it was based on the model of industrial development through the technology transfer. This would increase internal production and reduce import. Kosovo has comparative advantages; the question is what can we do to evolve faster? A logical progression. FDIs are catalysts of sectional transformation and productivity growth amongst the sectors. There are positive signals in the economy of the Republic of Kosovo; the growth of FDI flows is replacing traditional sources of revenue such as income from remittances and privatizations. Such positive signal in tempting the investments has Albania as well, which ranks the second in the region in terms of FDI flows (UNDP, 2010). It is a common characteristic in Kosovo and Albania in terms of providing foreign investors who more require purchasing the public companies and strategic industries, but less in creating new productive and exporting businesses that will generate income and employment. Also FDI outflows from Kosovo and Albania to other countries are modest and targeting each other as well as Macedonia. Cooperation of Kosovo with Albania should extend even more because we honor ourselves and thus provide a sustainable economic development for future generations.

Who are involved in FDI

According to many studies sectors that produce growth are considered to be manufacturing sector and the sector of services. Since the primary sector does not produce growth in Kosovo, this sector should be subsidized by the state or it should gain a public-private partnership. Hirschman (1958:109) stated that the primary sector does not have the same potential to absorb foreign technology or to create links with the rest of the economy. Also, Markusen and Venables (1999) have analyzed the effect of foreign firms in the development of local firms in the industrial sector. Foreign companies competing with local producers create additional demand for intermediate goods through links with local suppliers. This enables local companies to enter the sector of intermediate goods, resulting with lower costs which may benefit domestic firms by producing final goods. Sectors (by activity), which have tempted more FDI in Kosovo from 2007 until the first quarter of 2012 (BQK, 2012), are: dominate the financial sector, transport and telecommunication, real estate, energy, manufacturing, construction and mining sectors.

FDI by geographical distribution: European Union: 877 million euro investment: Slovenia 259 million investments, Germany has invested 194.8 million, UK 168.1 million, Austria 115.4 million, Norway, 94.8 million, and other countries of the Union which are small values.

Other European countries: Turkey has invested 101.5 million euros, Switzerland, 74.8 million, Albania, 34.1 million euros, Macedonia 24.5 million euros, Croatia, Serbia and Norway have participation in 17 million euros.

Other countries: the USA 42.1 million, UAE has invested 27.0 million euros and the others 1.5 million. Important sectors considered to invest: Food processing industry, energy and mining, processing of wood, metals and metal processing, textile, information technology, tourism and construction.

FDI important factors of human resource allocation

Quantitative policies are not problems of Kosovo's economy. It requires the establishment of industries there where they have never been before or expansion and transformation of the existing ones. It helps the treatment of equitable development of the territories within Kosovo. According to neoclassical economic policies, from the economic expansion mainly benefit the richest groups in society. Even in Kosovo there are tendencies in society to form two classes, of rich and poor. After year of '99, as a result of the non-development of projects by the government, there were population movements from western areas of Kosovo to the central ones. Therefore the development and relevant policies focused on these sites are very important. There have not been given the right priorities, causing this way on the one hand congestion and non-standardized construction such as Prishtina with its surroundings, and on the other hand, territories with population migrations due to no prospects for work education and welfare. Gjakova ”coincides" to



Figure 1. Milestones of development policy

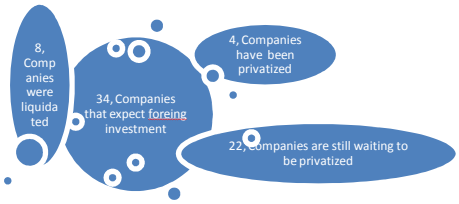


Figure 2. Assets could be privatized

have remained on the margins of the process by failing to share the benefits of economic growth. Foreign investments as well as the clearer platform in the central level, the solution of the stalled privatization process and acceleration would be the key to activate the 39 former enterprises in town. This would turn Gjakova territory with 60,000 inhabitants to economic growth, because the population of this country is characterized by entrepreneurial spirit. Undeniable fact is that each Gjakova family has a family tradition craft which it cultivates with fanaticism, comprising the first cells of a small economy. The synergy of these economies and the stimulation by FDIs would be catalysts of economic growth, but it also stops the movement of the population, which according to the statistics (ESK, 2004), the region of Gjakova has the migration rate 11.5 in 1000 people. Development policies should be careful taking into account sustainable and equal development: (Figure 1)

During the 1970s Gjakova was the leader of industrialization, penetrating European markets, which produced wide range of products. Such are the 34 social enterprises that expect foreign investment. (Figure 2)

Coordination of FDI would affect the development of cross-border trade with special focus on Albania, through border points (Qafa e Morines dhe Qafa e Prushit) relates Gjakova with the port of Shën Gjin on the Adriatic Sea as well as with Shkodra, Albanian Highlands which are traditionally dependent.

Foreign Direct Investment and environmental concerns

The first effects of environmental degradation in Kosovo have been seen In the first post-war decade. Economic growth generated by economic activity facilitated by FDIs, contributes in this direction. The most attractive sectors in Kosovo are those of the mines and minerals, agricultural and chemical industry, food processing, textile production. Unfavorable industrial structure requires restructuring of sectors through the public-private partnership. It avoids irreversible environmental damage and preserves the options for the future generations. Alfaro said that multinational companies can have specific sectional decisions; the government should allocate FDI in the manufacturing sector because they have an indirect impact in other economic sectors. Environmentalists see as a big concern the low level of environmental standards being respected by FDIs in the country. Responding institutions are lagging behind global economic pressures encouraging the temptation of FDIs. FDIs in manufacturing textile industries like garments, leather, and shoes are largely displaced in developing countries because they are known as heavy polluters and the labor force is large and free. Such absorbents of these investments tend to be in Kosovo whereas in Albania they have provided the first effects. During the past 37 years worldwide environmental degradation has been accelerated. Environmental protection requires effective institutions and concrete action in: (Figure 3)

Kosovo has economic giants as: Trepça, Ferronikeli, Sharr-cemi, Obiliq mines, KEK, Llamkos, Energoinvest, and Amortizatoret which are generators of economic growth but also environmental concerns. (Figure 4)

Kosovo takes the fifth place in Europe in coal reserves, but its exploitation has made the environmental pollution three times higher than the permitted standards. It is necessary to change the direction of energy production and replace it with clean energy from hydro powers as in Zhur, Drini i Bardhë, Ibri, Morava, Lepenc, Llap, and 18 potential sources and many other smaller

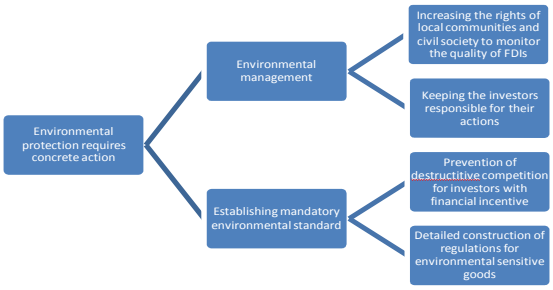


Figure 3. Concrete actions to institutions

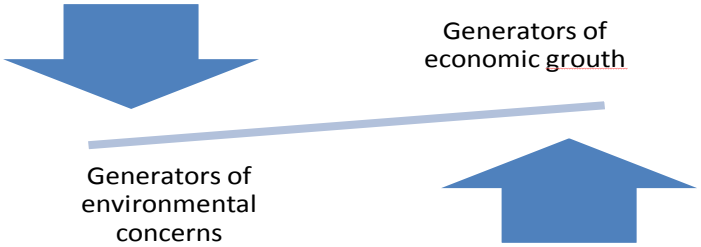


Figure 4. Balance and Counterbalance

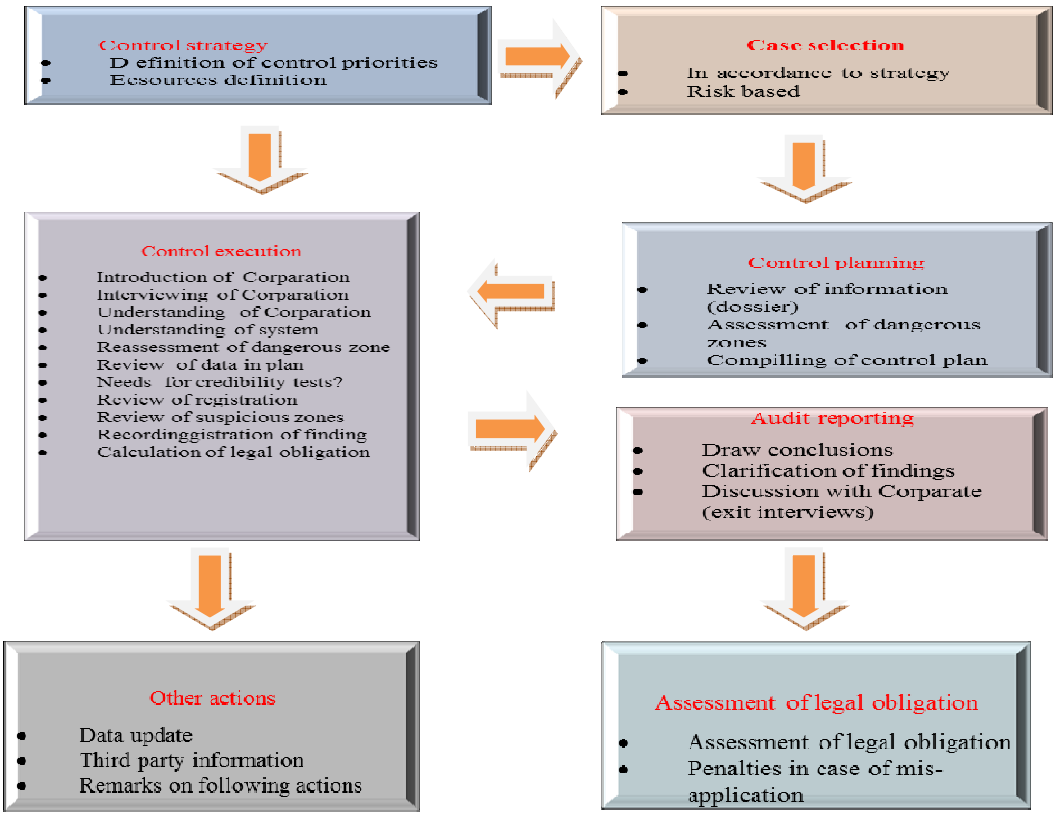


Figure 5. Recommended a legal framework to control more efficient investors

ones. Tourism also represents an important field for foreign investors; Kosovo has many tourist resources waiting to be explored that would generate employment and tourist attractions (Figure 5).

Strong and weak points offered to investors

Strong and weak points offered to investors are the primary issues that attract foreign investors.

Strong point

- Geographical location, business facilities,
- Legal framework compatible with that of the EU,
- Lower taxes in Europe, and loss holding up to seven years, the statement through the Internet,
- Ease of customs procedures and tax,
- Solving the problem of ownership, and financial adequacy of banks,
- Regional economic integration (CEFTA), the wide Diaspora,
- Skilled workforce with a low-cost,
- Multiple natural resources.
- Road infrastructure and industrial parks being finalized, compensation in case of nationalization,
- Guarantee for companies to repatriate profits and capital after they commit taxes and fees, exemption from payment of import duties and reimbursement for machinery and equipment,
- The privatization.
- Reformed banking system where the foreign capital dominates, the elimination of corruption,
- Significant reforms in the agriculture sector,
- Power and telecommunications,
- Law on FDIs.

Weak points

- Frequent changes of laws, corruption, weak rule of law, the economy, also poor image, bureaucracy, nepotism and lack of transparency,
- Slow process of privatization,
- Still a perception of risk from potential political and economic investors, lack of the state,
- Poor functioning of public institutions,
- Frequent power cuts, water,
- High interest rate (the highest in the region) in banking sector,
- Low per capita income,
- Lack of implementation of strategy for environmental protection.

CONCLUSION AND RECOMMENDATIONS

Euro zone economic instability brings a risk in the Balkans countries, including Kosovo. Macroeconomic framework in a way is addressed; priorities are tempting of FDIs and export growth. Kosovo's constitution as a state has had a positive impact on international economic cooperation. Now the investment policy remains one of the most advanced dimensions of the political reform. Kosovo environment has great advantages in a number of issues. Foreign direct investments are mainly oriented in the construction sector, services and telecommunication, which produce short term economic growth. Foreign investments should be oriented in production and manufacturing sector, especially in the growth of productivity within sectors because it would produce long-term economic growth and generate employment. Even though these sectors reduce poverty, they are a source of pollution of the environment. Essential to this should be enforcing environmental standards. Performance of FDI in Kosovo industrialization is a matter of time but priority is the location. It should be relocated onto non-densely populated areas regarding the dense pollution. Kosovo budget deficit is likely to continue in the year to come. A big help would be the growth of performance in local revenues.

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