

Foreign Direct Investments in Kosovo

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Abstract. Purpose: The purpose of studying this topic is because in Kosovo the foreign direct investment has been consistently considered as a key factor in the potential development of the country. Knowing that investments are one of the most important macroeconomic aggregates of a country. Undoubtedly, their study has great importance with a special emphasis on the development of countries such as Kosovo, where economic, social and political circumstances require the continued absorption of investments by other countries. In general, for the country's economy, it is important to know what impact foreign investments have on economic growth, the factors that influence the growth of these investments and the actions of policy makers to attract investors. Design/methodology/approach: The data mainly obtained from the World Bank have compared Foreign Investments with the countries of the region. We consider the information to be accurate. Findings: From the findings we have made we consider that the main obstacles to foreign direct investment in Kosovo are at a high level of corruption, and politics, where we have disclosed several years of small investments due to non-approval of laws in the Assembly of Kosovo. Originality/value: The findings from this study can contribute to the improvement of policies, so that Kosovo as a transition country needs a lot of foreign direct investment that will change the economic conditions of the citizens.

1 Introduction

The impact of foreign direct investments are a very important segment of the economic activity of a country, due to the effects it brings to the economy of a country. Foreign direct investment in Kosovo are often considered as the leading aspect of the country. In our country, FDI is one of the main mechanisms that move the economy, as their focus has been on important sectors of the economy. Foreign direct investment in our country continues to be a very important source of capital growth flows and the economies development. They are an important indicator of the confidence of foreign investors in a country, and they decrease in the conditions of economic and political crises, and increase in the conditions of improving the economic and political environment. Investments are a very strong basis for the economic development of each country, especially countries in transition, such as Kosovo. Foreign direct investment are the most effective way to create new jobs in Kosovo and to create the preconditions for sustainable economic growth in the cities future. Kosovo has great potential to become an attractive place for foreign direct investments as well as to attract capital

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information and advanced technology. The main policies of the country are directed towards the liberalization of the economic framework, the improvement of business conditions and the absorption of foreign direct investments, as an important objective. In this context, our country is also in a constant effort to create development policies and other important measures to create a more appropriate business environment and a more favorable investment climate. In all these efforts, there are many institutions working together with the international community and donor agencies both in human capacity building, as well as in financing and co-financing. Various projects related to the creation of the basis for advancing the production of Kosovo products based on the European standards and increasing competitiveness. Not only in the regional market but also abroad.

2 Literature review

A lot has been said about the investments in Kosovo, especially from foreign investments, knowing the impact it can have on the country's GDP growth. Kosovo has not been doing well in recent years in terms of foreign direct investments. Since 2008, these investments have been steadily declining. Recently, in addition to the political crisis, the instability of institutions at both the local and central level has affected the decline in foreign investment. This situation has created space for this issue to be written and discussed by various economists and institutes. Every investor who wants to invest in Kosovo starts with a basic goal - profit. He or she does not come to invest because it is just Kosovo. They come mainly for profit, so we have to create such opportunities that they do not have in the countries of the regions to stand apart from everyone else and become noticed. This should be Kosovo's differential advantage or competitive advantage over the countries in the region.

There are small differences in the perception and importance given to specific aspects of the business support environment. For current investors, the rule of law, economic stability and political stability are the most important factors in determining the location of investments with 70%, 63%, and 53% of respondents who consider these factors as very important for investment (number 4 on a scale of 1-5). Bilateral trade agreements, double taxation treaties and the quality of infrastructure seem to be the lowest on the list of priorities of current investors, followed by the experiences from other foreign investors and the support services of the government agencies which ranks lower. Private sector development is critical, as it creates enterprises that brings more jobs and empowerment. It's also adds new technologies and innovation. As a result, it increases the country's revenue. In many developing countries, this private sector is considered to be the main driver of economic growth. Despite its important role, the figures of this sector in Kosovo are not very encouraging. Especially when compared to neighboring countries. Since entering the path of transition to a market economy. Kosovo has constantly faced obstacles of various that in one way or another, have reflected the business environment and as a result have hindered the development of the private sector in the country. Despite some recent reforms, Kosovo still ranks 86th out of 189 countries according to the 2014 World Bank Business Report, worse than all other neighboring countries except Albania. Macedonia. For example, it ranks 25th, or 61 places higher than Kosovo. Kosovos businesses operate in an environment where unfair competition, corruption, a dysfunctional judicial system, and other harmful factors constitute the "dominant rules of the game." This unfavorable business climate has been a burden to the cities existing businesses (54 percent of them have seen their sales decline), while at the same time sending negative signals to potential foreign investors, reducing the flow of investments. Direct Loan (FDI). What is the performance of FDI in Kosovo in recent years? In recent years there has been a downward trend in investments and this situation can be considered a major setback in the economic development of the city of Kosovo. According to many economists, the factors for the non-arrival of foreign investments are a lot, but the first and

most important is that Kosovo has never become an attractive place for foreign investors. There is a severe environment of bureaucracy, corruption, non-functioning of the courts. Not only do these problems pose major barriers against the city. But also to the arrival of new foreign investors. In recent years, Kosovo has created an inadequate environment for doing business. As a result of high corruption, lack of more favorable fiscal policies and tax evasion. The high cost of the start of FDI, makes investors very sensitive to uncertainties, including uncertainties arising from government institutions.

What are the factors that have influenced the reduction of FDI in Kosovo? Among the factors that are considered to have influenced the level of low FDI in recent years is the global financial crisis that has gripped Europe and the world in the last 2-3 years. Despite this difficult factor to avoid, there are a number of other factors whose responsibility lies with the functioning institutions in the country. Return of investors can be mainly due to reasons such as improper state of law and order, existence of bureaucracy, high level of corruption, high bank interest rates, improper level of public procurement procedures and others. The problems are starting with law and order, eliminating bureaucracy, fighting corruption and removing conditionalities between different licenses, whether it is between the local level the central one.

3 Determining factors of foreign direct investment

Today FDI is seen as one of the most potential beneficiaries of economic growth, especially for emerging countries, and is sometimes needed to boost a country's economic growth (Adewumi). FDI can assist the host country especially in technology transfers and it is used also for in-house investments, know-how transfers and managerial or professional skills. From a sectoral point of view, the flow of FDI in the private sector depends on macroeconomic factors, development factors, institutional and qualitative factors. Regarding the second and third sectors, in different ways they are influenced by the level of national income, by the change of the exchange rate as well as by development indicators such as financial depth or by institutional factors of such as the independence of the judiciary and labor market flexibility. The effect of each of these factors are different depending on the economies where they occur, developing economies or developed economies. There are a number of factors that depicts the inflow of foreign investment in a country, factors which are different in different countries. Different depending on economic, social or political circumstances.

3.1 General Factors

Foreign Direct Investments are a very important segment of a country's economic activity, due to the effects that it brings. In theory, in the literature and also in practice, the effects of foreign direct investment are recognized. Various economic factors support FDI which include low interest rate loans, tax relief, grants, subsidies, and removal of restrictions and limitations, etc. One of the most determinants important of FDI, is the size and economic growth prospects of the country where it is expected to flow. It is assumed that if the country has a large market, it can grow rapidly. It has also been concluded that investors will be able to increase their investments in that country. In certain cases where FDI is export-based, the dimensions of the host country are important because the opportunities for economies of scale are great. The population of a country plays an important role in attracting foreign investors for direct investment in a country. In such cases, the prospect of a large customer base is an even greater investment attraction. Free labor is also an important determinant of FDI attraction. Infrastructural factors such as telecommunications and railways play an important role in the development of FDI in a particular country. Foreign Direct Investment is of great

importance in developing countries. Their importance is constantly increasing with the growth of the global economy. Not only developing countries but also the developed world also has its benefits from investing abroad, but in a different way from that of host countries. These benefits mainly relate to the expansion and acquisition of mature companies.

3.2 Cost-related factors

Use of foreign factors of production Labor and land costs can vary drastically from one country to another. So often, FDI's tends to shift the production process to those countries where these factors are cheaper, namely labor and land. Use of foreign raw materials often foreign investors buy raw materials from different countries because their cost varies significantly from country to country.

4 Data Methodology

4.1 Organizations and ethical consideration of the study

Knowing that the data included in this study were not obtained from the field, from the survey then we relied on data evaluated from secondary sources. Knowing that the data were mainly obtained from the CBK and KAS, we consider that they are as accurate as they can be, for the fact that the illegal economy is still present, and the data can never be accurate. Data on foreign direct investment are for the last seven years, in order to better compare the change in investment in general. Normally, the paper does not lack the opinions of economics experts, on the state of foreign direct investment in Kosovo and how to improve this situation.

4.2 Description of the study methodology

As a method of data collection for this paper are used secondary data, research on the impact of foreign direct investment on economic growth in Kosovo, there is no way to research otherwise than through the authorities which deal with maintaining their statistics as they are Central Bank of Kosovo and Kosovo Agency of Statistics. In addition to the data provided by the above-mentioned institutions, the paper is intertwined with prior knowledge from studies and beyond, but also from the opinions of connoisseurs of economic issues expressed in books, newspapers or portals.

The data collection is done in such a way as to expose the actors that generally influence the attraction and creation of a suitable environment for foreign investors.

4.3 Data Source

The data used in this paper are provided by the Central Bank of Kosovo and the Kosovo Agency of Statistics. Regarding the Kosovo Agency of Statistics, the statistics in the interest for this paper have been mainly national accounts statistics, to better demonstrate the relationship between GDP and FDI over the years. The Kosovo Agency of Statistics covers almost completely the territory of the Republic of Kosovo, being organized in the structuring of statistical circles and reporting units as the basic and only unit in the country from which it receives first-hand information. All field surveys use the sample size in these statistical circles but also the methodology according to international recommendations. When collecting statistical data and reports from reporting units engage; professionals, technicians, administrators, civilians of the country offices, field registrars from the Regional Offices, etc. As for the Statistics received from the Central Bank of Kosovo, external sector statistics

include balance of payments statistics and statistics on the international investment position. Foreign Trade Statistics include data on imports and exports of goods, as a function of balance of payments statistics. These data relate to general goods (regular import and export), goods in processing, repair. The paper also contains statistics provided by the Bank of Albania and UNCTAD. Regarding this objective we have put forward two hypotheses
Hypothesis 1: Foreign direct investment affects economic growth A country's economic growth is synonymous with real GDP growth. Investment growth has a positive impact on economic growth, especially in developing countries. Investments encourage the consumption of venous products, which in turn has the reduction of a country's imports. Developing countries, such as Kosovo, need to encourage FDI to achieve greater economic growth. If we refer to the latest statistics, the share of FDI in GDP in 2014 was 2.81%, compared to 2007 where it was 12.74%. This means a reduction of FDI for seven years of 78%, while the nominal value of GDP for this period has increased by 55%.

Hypothesis 2: Foreign direct investment increases the level of employment According to the latest statistics, the unemployment rate in Kosovo is 35.5% of the labor force. The increase of foreign direct investments, in addition to bringing new capital, would affect the increase of production and as a result of consumption, will have a positive effect on the increase of the number of employees. Kosovo has a high unemployment rate where about 30.2% of them belong to the age group 15-24; this labor force is an important factor of production and such potential should be exploited more through increased investment, because the private sector has greater opportunities for generating new jobs. • Fiscal policies should be oriented towards creating economic stability, this is the main factor that pushes investors to invest, because if there are large economic fluctuations in the economic cycle then it is not an attractive place and investors do not invest. • Functioning of legislation - judiciary - a state in which the law does not work, investors are not interested in pouring their capital due to facing various problems such as administrative work, bureaucracy, corruption, etc. • Stable currency - we have the advantage of using Euro currency, because it is an indicator of foreign exchange stability that is very important for investors. Policymakers need to create a conducive environment for doing business.

5 Concluding Results

Given that Kosovo is a developing country then we can conclude that the effects of FDI on our economy have a positive result. • Foreign direct investment as a very important indicator of a country's economic growth, in the last decade has been characterized by a continuous increase and decrease. The lowest decrease was from 2011 to 2012 of 155 million euros and in 2014 where compared to the previous year FDI decreased by 129 million euros.

Foreign direct investment has a positive effect on GDP growth, the increase in FDI causes an increase in employment, domestic consumption which as a result has the mitigation of the large gap between imports and exports, economic stability or the achievement of other macroeconomic goals.

Concerning is the fact that Kosovo has a low level of FDI, not because of their non-promotion but because of ineffective policies that encourage the attraction of foreign direct investment.

The sectors most interested in foreign investors are real estate, renting and other business activities, financial services and industry.

The low level of employment in the country is a result of small investments, investments give rise to the creation of new jobs.

The main reasons for this level and FDI situation are:

1. Kosovo has not yet managed to convince investors to invest their capital in this country

2. The political stalemate that lasted six months of 2014 has led investors to hesitate during this period to invest in Kosovo

3. Law and order, elimination of bureaucracy, fight against corruption and removal of conditions through different licenses, whether between the local or central level, reduction of bank interest rates, improvement of infrastructure, stabilization of energy supply, improvement of public procurement procedures.

5.1. Key recommendations Kosovo has attracted a high value of foreign direct investment in recent years. However, foreign direct investment remains low compared to other countries in the region. This suggests that there is room for increased foreign direct investment in the country. To maintain the level of foreign direct investment in the country, or to increase it in the coming years, one needs:

- Improving the institutional, administrative and technical framework for FDI, proper targeting and government support.

- Regulation of law and order, elimination of bureaucracy, fight against corruption.

- At the same time, it is important that the types of foreign direct investment that will come to the country be those from which the domestic economy could benefit. Fiscal policies need to be further reformed to serve the manufacturing sector, as this is one of the sectors in which there is potential for attracting foreign investment. What we need to do is follow the examples of the countries of the region and their offers to foreign investors. Given Kosovo's favorable geographical position, as well as given the low cost of labor, we can say that fiscal favors and efforts others have been low compared to Kosovo's needs as a developing country.

- Further reforms are also needed in the areas of tax and customs administration, land use and building permits, the administrative appeals system, the inspection system and e-government. Kosovo has a lot of potential to attract foreign direct investment, it has resources in energy, it has resources in mineral resources, in the sector of development of agriculture and food products, in the sector of tourism, in the good geographical position it has in the region. Then there are the human resources, the very young population and a very good mood for work, but adequate fiscal policies need to be applied in Kosovo to be very suitable for business development. This can be achieved using • Fiscal incentives, or various tax breaks, through which it could become more or similarly competitive as the countries of the region. Efforts should also be stepped up to strengthen the rule of law, increase the efficiency of the courts and root out corruption. • Fiscal policies need to be changed to enable the competitive advantage of private sector enterprises, especially small and medium-sized enterprises, youth-run enterprises and women. Based on the experiences of the economies of developed countries that have gone through the transition phase in recent times, we can say that FDI is the key and plays a key role in the development of countries in transition such as our country. Therefore, local institutions should make efforts to improve the economic and political situation in Kosovo in order to attract foreign investors and consequently the economic development of the country.

Table 1. Regression results.

	(1)
	FDICapita
o.disctanca	
lfba	-38.293
	(32.958)
lfac	49.709*
	(27.822)
lfie	25.918
	(40.429)
tlf	-0.001
	(0.002)

Table 1. Continued.

gdp	0.000
	(0.000)
gdppcapita	-0.194
	(0.161)
trade	4.373
	(5.462)
lspi	-293.026
	(1004.598)
eri	-175.174
	(545.451)
cogdp	53.686*
	(31.911)
co	-0.000*
	(0.000)
untlf	-18.692
	(52.467)
papun	0.002
	(0.002)
popull	-0.001
	(0.001)
abe	10.645
	(293.477)
emploig	-212.187
	(664.703)
emploiin	-70.853
	(673.485)
emplopopu	18.489
	(97.766)
emploiser	-175.970
	(668.796)
punesimi	0.002
	(0.002)
gdpgro	29.973***
	(11.310)
ggfc	0.000
	(0.000)
ggfcgdp	70.271
	(59.495)
totaxcp	-12.020
	(14.187)
vaaggdp	-36.902
	(102.097)
vaag	-0.000
	(0.000)
produktinindu	0.062
	(0.058)
vaindu	-0.000
	(0.000)
vasergdp	-18.454
	(74.193)
vaser	-0.000
	(0.000)
produktinsher~m	0.070
	(0.092)
produktinbujq~i	0.002
	(0.020)
cons	9528.585
	(68092.455)

Table 1. Continued.

Obs.	122
R-squared	0.542
Standard errors are in parenthesis	
*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$	

Table 2. Summary statistics.

	N	St.Dev	kurto sis	skewne ss	min	max	t- value
fdipcapita	388	410.157	9.39	2.141	-549.302	2557.689	16.336
dislanca	425	430.994	1.726	-0.367	904	2261	82.75
lfba	239	8.164	6.119	1.307	5.2	55.2	42.404
lfae	239	4.739	7.303	-1.22	49.4	86.4	251.795
lfie	239	6.283	11.333	-1.825	22.8	70.3	145.05
tlf	400	4390000	7.234	2.241	243246	1.84e+07	16.338
gdp	389	9.07e+10	15.156	3.26	7.09e+08	5.45e+11	12.613
gdppcapita	389	5855.573	3.206	1.022	218.492	27501.81	25.298
trade	383	32.285	2.79	.478	23.216	185.747	60.415
lspi	362	.88	3.146	-0.962	1	4	66.478
eri	362	.753	2.648	-0.531	1	3.67	64.72
cogdp	375	12.592	9.082	1.565	46.061	152.142	100.783
co	369	7.16e+10	15.605	3.334	9.05e+08	4.29e+11	12.796
untlf	400	7.19	4.054	1.124	3.3	37.3	38.577
papun	400	528000	16.581	3.489	27808.39	346000	15.569
popull	425	9170000	8.015	2.371	604950	3.87e+07	16.589
abe	425	.459	1.751	.867	0	1	13.518
emploia	400	12.665	5.02	1.514	2.6	62.6	26.092
emploiin	400	6.248	3.335	-0.336	13.4	46	97.368
emplopou	400	6.813	2.659	-0.524	30.6	63.9	141.597
emploiser	400	10.512	3.296	-0.596	23.5	77	100.95
punesimi	400	4790000	7.012	2.198	242000	2.04e+07	16.065
gdpgro	382	6.407	86.263	6.321	-14.814	88.958	10.863
ggfc	381	1.68e+10	14.368	3.153	1.40e+08	9.93e+10	12.869
ggfcgdp	376	3.311	4.1	-0.466	9.195	29.941	110.3

