

Foreign direct investment in economic sectors after the war in Kosovo

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Abstract

Direct foreign investment as a concept is a relatively new phenomenon of business thinking, which has had rapid growth in recent years. Economic globalization increasingly requires the integration of countries, regardless of their level of economic development in the global market to participate in the distribution of world GDP. At the time of major technological changes, global competition and market liberalization, FDI can play a key role in the process of global economic integration.

They create effects in host countries as well as in investment economies. Increasing foreign direct investment is a key goal for the economic development of each country, especially those developing and transition countries that are mostly more foreign capital users. The Republic of Kosovo after the war as a new country, its economic development based mainly on the inflow of foreign capital.

The paper deals with the elaboration and clarification of direct foreign investment, the motive of foreign investment, with regard to foreign investment in Kosovo's economic sectors for the past ten years, which represent the main form of the inflow of international capital in the country.

Keywords: International Capital Standards (ICS), Foreign Direct Investment (FDI), Institutional Development, Global Economic Integration.

Introduction

Foreign direct investment is a relatively new phenomenon, evident in the XIX century in the form of loans made by economically developed countries to finance economic development in different countries, especially in developing countries and countries in transition. In the period between the first and second war in the twentieth century, foreign investments had a significant decline. The end of World War II marked the flourishing of the FDI phenomenon.

Foreign direct investment is one of the basic models of world capital movements and, apart from trade, one of the driving engines of the globalization of the world economy in the second half of the twentieth century, with a clear tendency for this trend to

continue in the new millennium. FDI is the model by which companies are deploying their manufacturing processes around the world so that in the best conditions they get the necessary raw materials, labor and energy, on the one hand, and the most profitable use of technology and experience they have in business on the other hand. After major technological changes, global competition and market liberalization, FDI plays a key role in the process of global economic integration. They are considered as a factor in determining economic growth (development), especially for developing countries, which is the part also Kosovo.

Foreign Direct Investment (FDI) is a key element in international economic integration. They create a direct link between long-term and stable economies, and enable economies to promote their products on the international market. FDI is also an additional source of investment funding, which, with the help of appropriate policy, can be an important tool for developing the economy.

The purpose of this paper is to show in theory, FDI related to Kosovo's economic growth and investments in economic sectors over the last ten years in Kosovo. The work is structured in chapters, initially representing the studing methodology, theory of international capital flows, forms of flow international capital, the theory of foreign direct investment, inflow of capital into developing economies and a transition countries which part is Kosovo, foreign direct investment after the war on Kosovo in the economic sectors, and finally the conclusion and the use of literature.

Methodology

The general approach taken in this paper to address the main objective of the work is based on achieving and analyzing mostly quality data. The research work is based on the existing research and existing theoretical materials, in the the writing of this paper the common scientific methods are used, even the work is based on a descriptive method in addition, this study also includes quantitative research elements such as statistical analysis of data.

International capital flows -Theory perspectives of international capital flows

The course of economic development as a consequence of globalization, more and more, has shown that non of the modern economy can be isolated from the need to export and import capital, whether or not it has a net surplus or net deficit in capital, so the movement of capital between countries is bi-directional, whereby in one case certain countries appear as investors and others as capital investment users. Most of the international capital movements take place between developed countries or entities from these countries, which are major carriers and world-wide capital users. Foreign capital has significant role for every national economy, regardless of its level of development. For the developed countries it is necessary to support sustainable development. For the developing countries, it is used to increase accumulation and rate of investments to create conditions for more intensive economic growth (Sumanjeet 2009).

Foreign Direct Investment (FDI) is one of the basic models of world capital

movements and, apart from trade, one of the main motor starter of the globalization world economy in the second half of the twentieth century, with a clear tendency to continue this trend in the new millennium.

Direct foreign investment is a model by which companies are deploying their manufacturing processes around the world in order to reach the necessary raw materials, labor and energy, as well as the most profitable utilization of the technology experience they have in the economy on the other hand. FDI has considerable potential to transfer ideas from industrial to developing countries (Romer 1993) and hence to increase productivity in the latter ¹.

In this context, and taking into account that Kosovo is one of the developing and transition countries, it is a good motive for foreign investment, which will not only affect economic growth and employment, better use of certain resources and improved product and service quality, but also capital profitability. Foreign direct investment is an additional source of investment funding, which, with the help of an appropriate policy and motivation with both parties involved, can be an important tool for the economic development.

Starting from this fact, the purpose of this paper is to present the Foreign Investments in Economic Growth in Kosovo, motivating investment in terms of foreign investment in the economic sectors over the last ten years in Kosovo.

Models of International Capital Flow

Based on economic theory, the flow of capital between different countries is carried out in various forms, of which two are basic:

- International private capital flow involving individuals, private companies, commercial forms of loans and deposits;
- The international movement of public capital is the state budget, the central and the state banks, the capital that flows primarily in the form of bilateral loans, investment portfolio and in the form of non-refundable economic assistance. Special types of public capital are loans from international organizations, such as: IBRD, IMF, IDA, EBRD, IFC and other institutions with similar profile of engagement.

Theory perspectives of foreign direct investment (FDI)

Direct foreign investment is a key element in international economic integration. They create direct long-term and stable connections between economies, and enable economies to promote their products on the international market. FDI is also an additional source of investment funding, which, with the help of an appropriate policy, can be an important development tool.

As part of the gross domestic product (GDP) in national accounts in the country, as well as in relation to the national income equation:

$$Y=C+I+G+(X-M), \text{ where } I \text{ is both domestic and foreign investments}$$

1 International Capital Flows and Economic Growth, Global Development Finance, worldbank.org/GDFINT/Resourc es/334952... /CH3--58-83.

Direct foreign investment is defined as the net investment flow (internal flows minus external flows) to acquire a permanent interest in the entity (s) operating in a country other than the investor, or an investment by the investee (resident direct investor) interest in an entity resident in another country (direct investment units) (OECD, 2013).

With the net inflow we can also understand the inflow of new investments minus disinvestment by foreign investors in the reporting economy. Direct investments do not include investments in the purchase of shares. Thus, FDI differs from the investment portfolio. Portfolio investment is an investment that does not require any control or long-term interests, and FDI includes adequate rights in relation to management and decision-making (Mossa, 2002, 311).

In the broader sense, foreign direct investment is; mergers or acquisitions, construction of new buildings, reinvested earnings from foreign operations and lending within the company. Looking at the aspect of theory and previous research on FDI, the Direct Foreign Investment Classification (FDI) depends on the perspective from which they are studied, these are two main perspectives: from the investor point of view and from the host country point of view.

From an investor perspective, foreign direct investment is classified in horizontal, vertical or conglomerate. (Caves 1971).

FDI by economic sectors after the war in Kosovo

The following table shows direct foreign investments in Kosovo for the period 2007 - 2016.²

Table 1 FDI in Kosovo during the years 2007-2016

Description	Total	Agriculture, hunting, forestry, fishing	Mining and quarrying	Manufacturing	Electricity, gas and water supply	Construction	Wholesale, retail trade, repair of motor vehicles etc	Hotels and restaurants	Transport, storage and communication	Financial intermediation	Real estate, renting and business activities	Other services*	Other not elsewhere classified activities
2007	440.7	7.9	41.5	74.8	2.5	5.2	12.7	12.7	129.2	102.0	30.9	4.5	16.9
2008	369.9	8.5	17.4	53.7	16.7	13.5	10.1	2.1	51.0	109.6	62.2	2.1	23.0
2009	287.4	13.1	7.0	57.6	8.7	35.5	16.2	2.4	21.9	75.3	43.9	2.7	3.2
2010	368.5	0.9	17.7	101.1	...	54.2	6.8	...	-15.9	39.4	75.5	1.3	87.6
2011	384.4	0.6	-5.2	46.9	0.2	133.1	11.6	0.2	29.0	33.0	60.5	11.3	63.2
2012	229.1	0.3	-25.0	27.4	2.2	31.1	9.3	0.5	32.4	22.4	115.7	1.8	11.0
2013	280.2	0.4	-14.1	11.5	48.8	17.3	14.6	0.8	51.0	4.4	136.1	3.3	6.2
2014	151.2	0.2	4.2	-34.0	13.4	-19.9	8.4	0.4	-9.1	41.9	142.1	2.2	1.4
2015	308.8	1.0	-36.9	20.7	11.9	46.3	12.0	0.0	-6.1	64.3	189.6	4.5	1.4
2016	215.9	1.5	-22.1	5.3	3.4	28.2	12.8	0.7	-9.4	19.0	167.6	9.4	-0.6

Analysis and interpretation of data

From the above datas (Table 1), we analyzed the trend of foreign investments for the period 2007 to 2016, the results were obtained as shown in the following table:

² <http://bqk-kos.org/?id=55>

Table 2 The Trend of Direct Foreign Investments in Kosovo for the period 2007 - 2016

(In millions of euro)

No.	Year	Total	Trend	
			Amount	Percentage
1	2007	440.74	-	-
2	2008	369.85	70.88	19.17%
3	2009	287.41	153.33	53.35%
4	2010	368.51	72.22	19.60%
5	2011	384.39	56.35	14.66%
6	2012	229.07	211.67	92.41%
7	2013	280.22	160.51	57.28%
8	2014	151.18	289.56	191.53%
9	2015	308.85	131.89	42.70%
10	2016	215.92	224.82	104.12%
Total		3,036.15	1,371.23	45.2%

Results from Table 2 shows that foreign direct investment in Kosovo has had noticeable fall to more than 45% from the year 2007 up to the year 2016.

In 2009, the fall in FDI is more than EUR 150 million, or more than 53%, and in 2012 and 2016, more than EUR 200 million or around 90 to 100%. The peak of fall is in the year 2014 to about 300 million euros or 200%.

Given the fact that FDI plays an important role in the economic and social development of the countries, the results from the table above show that Kosovo's governance policy on the motivation and stimulation of foreign investment in Kosovo has not been a good result for the past ten years.

Table 3 The Direct Foreign Investments by Sectors of Kosovo's Economy for the period 2007 – 2016

(In millions of euro)

No.	Period	Total	Agriculture, hunting, forestry, fishing	Mining and quarrying	Manufacturing	Electricity, gas and water supply	Construction	Wholesale, retail trade, repair of motor vehicles etc	Hotels and restaurants	Transport, storage and communication	Financial intermediation	Real estate, renting and business activities	Other services*	Other not elsewhere classified activities
1	2007 - 2016	Amount	34.3	-15.5	365.1	107.7	344.6	114.5	19.8	274.0	511.3	1024.0	43.1	213.4
		Percentage	1.13%	-0.51%	12.02%	3.55%	11.35%	3.77%	0.65%	9.02%	16.84%	33.73%	1.42%	7.03%

The results of Table 3 show that most of the foreign direct investment (FDI) in the last ten years in Kosovo has been invested in economic sectors such as real estate rental and business services 34%, financial intermediation 17%, construction 11% and transport and communications 9%. Typical economic sectors in which investments are made, in countries that emerged from the war or in developing and transition countries.

These results show that direct foreign investment in Kosovo had an inflow to sectors with low investment risk, greater profitability and a quick return on invested capital.

Conclusions

International capital flow is one of the forms of international cooperation and achievement of strategic goals. This is how international business diversification is carried out, affecting the strengthening of competitive advantages and the creation of a globally competitive product. At the same time, it has an impact on economic growth, changing the economic structure, employment and economic stability of individual countries.

Given the fact that foreign direct investment (FDI) in Kosovo has seen a noticeable fall over the past 10 years, and the fact that the structure of foreign investments shows that these investments had more of a natural nature of capital inflows with the motive of low risk, greater profit and rapid return investment rather than motivated by attractive forms of country governance policy and management.

The fact that the distribution of foreign investment by economic sectors is not unique and that the country is undergoing a process of re-industrialization based on foreign investment, their participation in higher technology activities is still at a low level.

The scope of foreign investment, the development of human resources, their management and professionalism in sectors still offering opportunities to attract foreign investment is a challenge faced by Kosovo's governance policy and management.

Relying on this opportunity, political decision-makers and governance in Kosovo should continually adapt economic policies in order to stimulate and motivate foreign investment.

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