

Impact of FDI in economic expansion: The Kosovo case

Assoc. Prof. Afrim Loku

MSc. Nadire Loku

MSc. Nora Vizdik

Abstract

The Republic of Kosovo declared independence from Serbia in 2008. Kosovo's neighbor to the north, Serbia does not recognize it as a sovereign state, but has begun to normalize relations in accordance with the Brussels Agreement of April 2013. With a population of 1.8 million and land area 6,765 square miles, landlocked Kosovo is considered Europe's poorest country, yet it does have some mineral and coal deposits.

Kosovo's official unemployment rate is 35.3 percent, although some estimates are as high as 45 percent. Unemployment levels for youth and first-time job seekers are considerably higher than the official rate. According to the World Bank, Kosovo's economy is characterized by: limited integration into the global economy; the success of its Diaspora in foreign labor markets resulting in a steady stream of remittances; pro-growth budgetary priorities; and continued international financial support. Political instability coupled with corruption -- practiced and perceived -- unreliable energy supply, a large informal economy estimated at 35 percent of GDP, and a lack of contract enforcement have created significant barriers to foreign investment.¹

Establishing appropriate policies regarding emigration and the status of the Kosovo Diaspora are of key importance for stimulating growth reducing macroeconomic imbalances in Kosovo. With appropriate policies and incentives, the Diaspora could contribute more effectively, both in terms of human capital and financial resources, to economic growth and job creation in Kosovo.²

Kosovo is at an early stage in developing a functioning market economy. Some progress was made, particularly on supporting export-oriented businesses, improving contract enforcement, especially within the financial sector, and access to finance. However, the fiscally unsustainable decisions related to war-veterans' benefits may have a negative effect on the macroeconomic stability of Kosovo and its relations with international financial institutions. The persistent trade deficit reflects a weak production base and poor international competitiveness. Reliance on remittances and the widespread informal economy additionally decrease employment incentives, resulting in low labour force participation, especially among women, and high unemployment rates, in particular among young and unskilled workers. Kosovo is at an early stage in building the capacity to cope with competitive pressures and market forces within the Union. No progress was made on improving the quality of education, which is a key driver for improving long-term growth and competitiveness.³

Foreign direct investment (FDI) is widely recognized for its positive impacts on economic

¹ U.S Embassy (2016). Kosovo Investment Climate Statement 2016, p.3.

² Riinvest Institute (2007). Diaspora and Migration policies, This study is prepared for Forum 2015 by Riinvest Institute based on the research conducted in Kosovo, Germany, Switzerland, Belgium, UK, Sweden, Austria and The USA, Pristina, p. 13.

³ European Commission – Fact Sheet (2016). "Key findings of the 2016 Report on Kosovo" (file:///C:/Users/Loku/Downloads/MEMO-16-3633_EN.pdf), Brussels.

growth and transformation (Amerasinghe & Modesto, 2012). FDI may facilitate rapid economic growth in developing countries by increasing savings and investment and by transferring experiences, technologies, and know-how from developed countries (Mottaleba, & Kalirajan, 2010). The impact of FDI on growth may also positively affect poverty levels in the host country by increasing employment opportunities and wages (Klein, Aaron and Hadjimichael, 2011). Kosovo is limited in its ability to attract foreign investment due to the lack of information distribution within global markets, poor international communication regarding its economic environment and opportunities for foreign investment, and the absence of a credit rating by a credible foreign rating agency. Foreign investment inflows have also been hindered by high degrees of corruption, slow and ineffective business environment reforms, lack of transparency, economic inactivity in many sectors, negative perception by foreign investors and diaspora populations, and the failure of institutions to implement and achieve their set objectives.⁴

The law has not been implemented because of various factors (such as: bureaucracy costs, long administrative procedures, bribery and favors) and all of them have created discouraging environment for foreign investors. However, in order to reach a greater attraction of FDI, Kosovo needs a systematic improvement of political stability, progress of economic growth, fight against corruption, defining the right of property, strengthening the judicial system, etc;⁵ This research paper will explain the impact of Foreign Direct Investment (FDI) on economic expansion, Kosovo case. The used data in research are secondary data and cover a period from 2013 and 2016.

Keywords: FDI, Economy, Kosovo, Growth.

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