

Reasons Why it is Beneficial to Invest in Republic of Kosovo

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Abstract: The purpose of this paper is to examine the role of Foreign Direct Investment (FDI) in economic development through the development of the country that has the potential sectors. The effect of technology in these sectors had risen sector and area that until then had remained neglected. The paper investigates the impact of foreign direct investment (FDI) in economic growth using detailed sectoral FDI in Kosovo during the period 2000-2013. Sectors considered are: Agribusiness, Tourism, forestry, services, manufacturing, mining, energy, construction, wholesale and retail trade, hotels and restaurants, transport, telecommunications and other sectors. The negative effect of extractive industries in creating income and environmental pollution in Kosovo is not surprising. FDI in manufacturing industries by stimulating exports generate more income. FDI are likely to repatriate their profits but are likely to increase employment. To ensure legal protection for foreign investors, have signed an agreement with the Agency Multilateral Investment Guarantee (MIGA), the avoidance of double taxation, taxes are the lowest in Europe. Investment Promotion Agency of Kosovo (IPAK), the level of government makes the promotion of Kosovo. As a developing country taking the time information is more difficult but efforts in this direction are great.

Keywords: Foreign direct investment; economic growth; potential sectors; Kosovo

1. Introduction

Kosovo has achieved a significant progress in many areas of its development, increasing hope to people of Kosovo for a better life after the declaration of independence on 17 February 2008. Every aspect of life and economy is taking positive direction as: increase of political stability, increase of the level of security, stable economy with continuous growth, supplementation of the legislation, reduction of corruption and organized crime, salary increase etc.

Regional cooperation initiatives, creation of a regional common market, elimination of customs tariffs, and elimination of trade barriers as well as providing of new perspectives has made the gloomy assessments for Kosovo be replaced with good news. Kosovo faces a number of social and economic problems, because:

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- Donations to capital investment have been slowed;
- Limited banking system in Kosovo which lacks to support serious investment;
- Lack of financial markets and securities;
- Poor public infrastructure;
- High rate of unemployment (30.9 %).¹

Kosovo institutions continue to work on meeting the standards required for membership in the European Union. Foreign investments in Kosovo are not sufficient to fully meet the economic needs of Kosovo. FDI to developing countries are considered too important because of their positive and multilateral effects. FDI in developing countries increased from about 1 billion U.S. dollars in 1990 to about 12 billion U.S. dollars in 1998. FDI is likely to increase in favor of developing countries after 2004, Asian countries are an example which tend to dominate worldwide with their products.

At this level of globalization Kosovo finds itself well-positioned through infiltration not only in the EU countries but farther. Due to establishment of modern infrastructure, both inside and outside it, road link with the region² through Kosovo - Albania road, Kosovo already has its Adriatic port through which it connects to shipping³.

All these distinguish Kosovo as an attractive country with investment opportunities for each investor of different sectors. During 2012 are estimated to have been invested € 232 million, whereas the total number of foreign companies operating in Kosovo amounts to about 5018.⁴

2. The Theoretical and Empirical Aspect of Economic Growth

There is no such a powerful conclusion yet that FDI impact on GDP growth, although most countries encourage their inflows. In the most optimistic view FDI provide links with the rest of economy. 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. Hirschman has noted that the presence of two or more industries creates sufficient demand to surpass the threshold required for creation of new industries which in their programs create the

¹ Unemployment rate of youth (aged 15-24) 55.3%. Whereas according to informal assessments unemployment in Kosovo is 45.50%.

² Connection with Albania through the constructed highway.

³ With time distance of only two hours.

⁴ Kosovo Statistics Agency, Ministry of Trade and Industry, 2013.

network of companies from raw material to final product. Rodriguez - Clare assumes that firms in developed economies with higher wages want to take advantage of cheaper labor overseas by establishing a plant in the host country thus creating positive effects on employment in the host country. Economic growth in some Asian countries was driven by investment and exports instead of consumption by the industrial sector and the massive use of resources and energy.¹

Borensztein et al. (1998) finds that FDI is an important tool for adoption of new technologies, contributing more to growth than domestic investment. In addition many authors find a positive link between economic growth and human capital.²

Bulasubramanyam et al. (1996) examined the relationship between FDI and growth in the context of different regimes of trade policy, export and import promotion. Bengo et al. (2003), states that a country can benefit FDI if there is a satisfactory level of knowledge in the use of modern technology. Volatility of FDI is also dependent on regulation of financial markets (De Gregrio and Guidotti, 1995; Alfaro et al, 2004; and Durham 2004).

While, in terms of economic sectors, which of them has more effect on GDP growth, is a question that many authors have analyzed (e.g. Alfaro et al. 2004; Bengoa and Sanchez - Robles, 2003; Durham, 2004; Hsiao and Shen, 2003; Li and Liu, 2005, and Lipset, 2006) and came up with different conclusions, emphasizing in some cases that the primary sector has a limited impact on the economic growth compared with other sectors.³

Nevertheless Kosovo has an important mining sector; it has attracted less FDI, though studies show that attracting FDI in the mining sector has a negative effect on economic growth. It therefore remains an open question for Kosovo, whether priority should be given to this sector in the future.

Kosovo needs investments in energetic technology⁴, as it possesses large reserves of lignite as well as major pollution problems.

As an energetic source it is competitive in the region if well-designed institutions eliminate bad rules. Investment regimes have become quite liberal in developing countries and therefore have a negative imbalance between benefits and costs of FDI in the long term.⁵

¹ Wilton Park Conference WP881. 2007. Title: Report on Willton Park Conference 881. China's Rapid Economic Growth: Internal Impact, External Implications, pp. 2-11.

² Borensztein et al. argues that, in order to gain positive effects (technological), host economies should have educational capacities.

³ This was stated by Alfaro (2003) and Vu et al. (2006) during his analyses in the primary sector.

⁴ Investments in technology (see Agosin, 1996; Riveros et al, 1996; Chudnovsky et al, 1996).

⁵ Agosin MR (1996) dealt with this problem too.

Initially, FDI can provide new capital allowing additional investments on both human and physical capital, which might be too profitable for developing countries (Caves, 1996). Balasubrahmaniyam et al. (1996) states that FDI can increase export if the country is promoted and trade openness is essential for the growth effects of foreign investment.

3. Performance of Vital Indicators of the Economy in Kosovo

Regarding the vital indicators of the economy in 2013 Kosovo performed better than in 2012, but not satisfactory to address the most sensitive issues as the youth employment, which constitute over half of its population.

Orientation in trade is not a good solution.

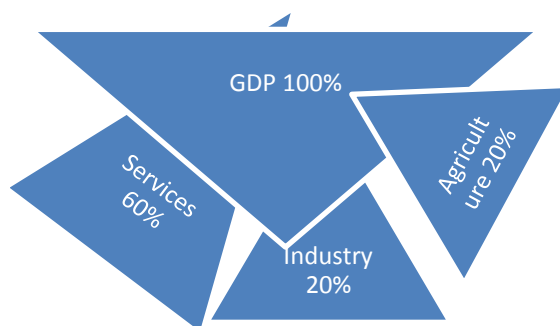


Diagram 1. GDP – Division in sectors

Source: KSA, 2012 (by the author)

GDP in Kosovo has this participation as a percentage of revenue from these sectors: agriculture 20%, industry 20%, services 60%. KSA, 2012 (by the author).

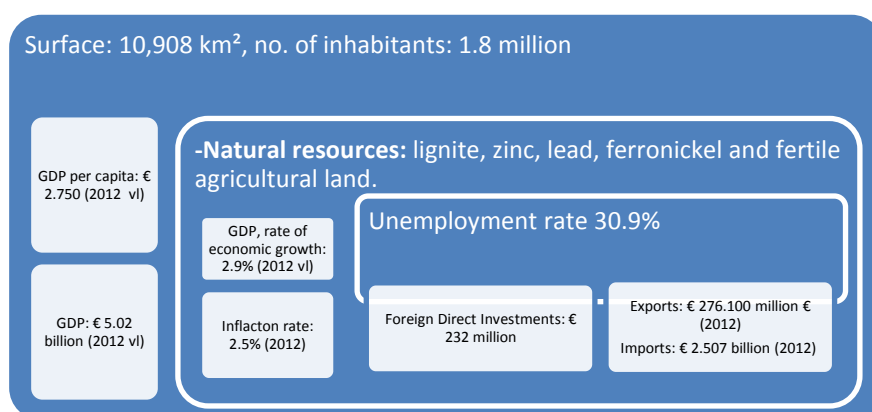


Diagram 2. Statistics of the vital indicators in economy

Source: *Statistics of Kosovo, 2012 (by the author)*

Based on diagram 2, Kosovo in 2012 reached a value of about 2.8 billion euros in trade flows. Main trade partners are the EU countries with participation of about 39% for export and to about 39% for import, as well as the CEFTA countries which participate with 37% for export and 34% for import compared to the total of 2012.¹

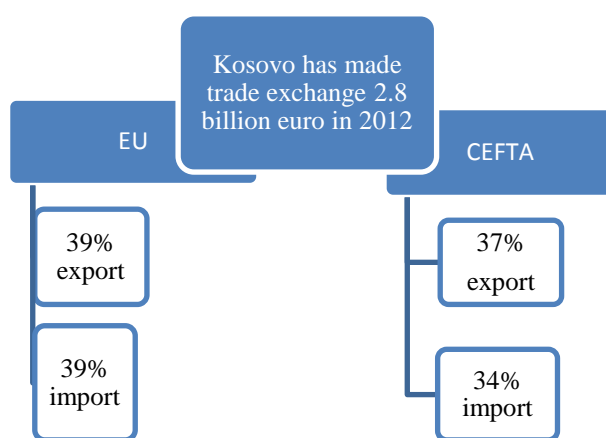


Diagram 3. Kosovo trade exchange

KSA, 2012 (by the author)

Reasons to invest in Kosovo - Kosovo as a country, in the heart of the Balkans, is a bridge among the neighboring and region countries, not only physically but also as a broadcaster of positive human values.

Benefits of potential foreign and local investors are large beginning not only from numerous natural resources but also human ones which can absorb new technology and knowledge brought by investors.

Some of the benefits when you invest in Kosovo are: low taxes, rich resources and supportive business environment. Kosovo is a flower that has just started to give her first nectar and benefits both to the investor and the population of Kosovo will be high. Investing in Kosovo means having an interest in sustainable investment in the long term.

¹ KSA, CBK, 2013.



Diagram 4. Promoting a positive image for Kosovo

By the author

According to diagram 4, the economy of Kosovo is dominated by the service sector, which sector is estimated with a very good performance. But in the long term if the economy of Kosovo does not take radical measures to subsidize other sectors, especially agriculture and manufacturing, will impact on the balance of payments to be negative due to the import of natural capital which remains in stocks without being activated, since their owners have neither concrete plans nor state support to finance through cheaper loans, donations, or rapid legal support procedures for privatization. On the other hand there is the possibility of repatriation of revenue from this sector as the investors are mainly foreigners. An opportunity of this sector to move presents another obstacle, as if not handled well by the government; they can invest their profits elsewhere or run away from Kosovo.

The aspect of security¹ in Kosovo for Foreign Investors creates conditions for their stay to be long, but they must not lose time in implementing a strategy which

¹ Kosovo is a signatory of the International Convention on Safety of investors (MIGA), with an admirable political stability in the region, keeping in mind that only 14 years after the last war, has established rules and laws for foreign investors which treat them equally with internal investiture.

combats the negative sides that are present in society such as corruption, poor law implementation, greater commitment to work with entrepreneurial people, a better infrastructure, sustainable energy and water, low interest rates in banks.¹

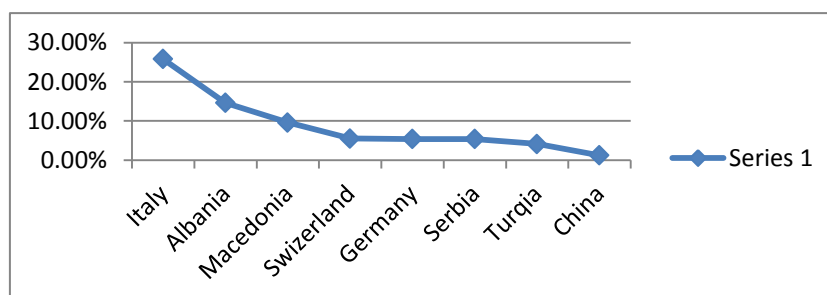


Chart 1. The main export partners, according to statistics of Kosovo, 2012
(formulated by the author)

Main export partners: Italy (25.8%), Albania (14.6%), Macedonia (9.6%), Switzerland (5.5%), Germany (5.4%), Serbia (5.4%), Turkey (4.1%), China (1.2%).

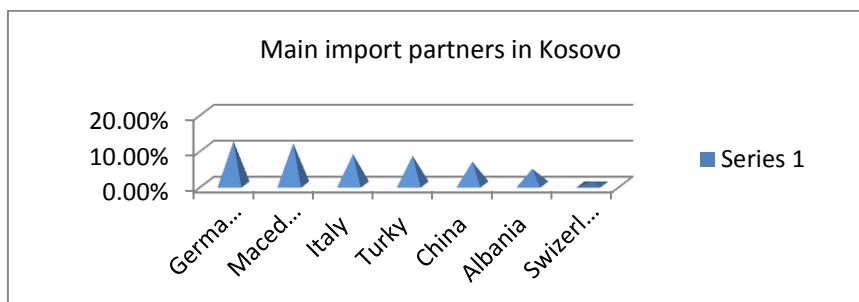


Chart 2. Main import partners in Kosovo, 2012.
(Kosovo Statistics, 2012, by the author).

Source: Kosova Statistics, 2012. (By the author)

The main import partners: Germany (12.1%), Macedonia (11.5%), Serbia (11.1%), Italy (8.5%), Turkey (8.0%), China (6.4%), Albania (4.4%), Switzerland (0.9%).²

Imported goods: machinery and transport equipment (21%), manufactured goods (20%), fuel (16%), food and live animals (16%), chemicals (10%) etc.

Goods exported: processed goods (56%), raw materials (25%), food and live animals 6%, fuel 4%, machinery and transport equipment (3%), etc.¹

¹ All the banks that operate in Kosovo, 90% of them with foreign capital, offer loans with the highest interest rates in Europe (8 % business loans to 13.7 %).

² ASK/KSA, 2013.

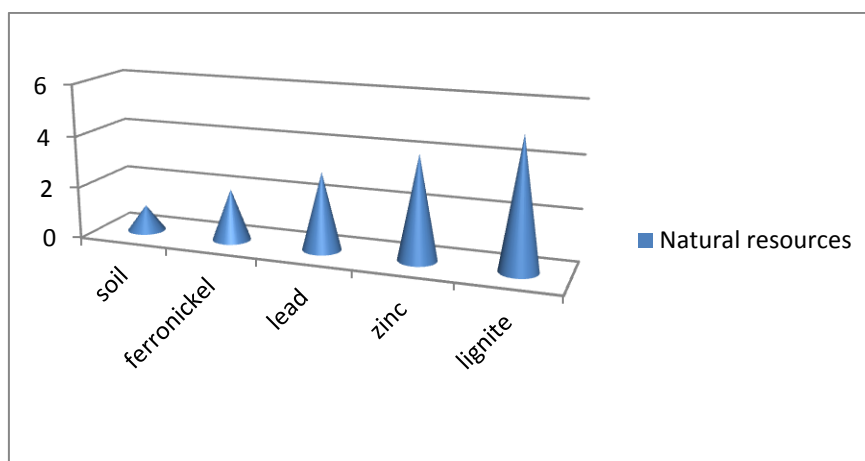


Chart 3. Natural resources in Kosovo, KSA, 2012 (by the author)

Kosovo has large reserves of lignite, zinc, ferronickel, and sufficient base fertile land to develop the mining sector, energy and agriculture.

According to the data in Table 2, 5018 foreign companies are operating in Kosovo bringing 232 million euros.

Most of the companies come from the region especially from Albania.

Table 1. Distribution of foreign investment companies by sectors of the economy

No	Sector	No. of companies	% in total
1.	Trade	1952	38.9%
2.	Production	791	15.8%
3.	Service activities	764	15.2%
4.	Construction	607	12.1%
5.	Tourism and catering	350	7.1%
6.	Transport	181	3.6%
7.	Financial sector	141	2.8%
8.	Telecommunication	121	2.4%
9.	Health care	68	1.3%
10.	Education	43	0.8%
TOTAL		5018	100%

Source, Ministry of Industry and Trade, 2012. Elaborated by the author

According to Table 1, the trade sector leads with 1952 companies or 38.9%, followed by the manufacturing sector, service activities, construction, tourism and

¹ ASK/KSA, 2014.

catering and the rest oriented in sectors which do not create directly but indirectly contribute to the general welfare.

4. Foreign Direct Investments in Kosovo and further

Foreign Direct Investments in Kosovo since 2005 have continued to be an important source of capital flows and economic development.

Based on data from the Central Bank of Kosovo, Foreign Direct Investments include investments of foreign individuals and institutions in the local economy, if the investment makes the investor owner of more than 10% of the capital of an enterprise.

Growth of FDI in million euros over the last decade has changed according to Table 2.

Table 2. FDI inflows: 2005-2011 (million euro-net)

Host economies	2005	2006	2007	2008	2009	2010	2011
World	782 673	1 164 682	1 534 682	1 208 931	802 041	936 640	1 085 242*
SEE	3 870	7 885	9 384	8 663	5 446	3 109	4 745*
Albania	213	259	481	663	717	793	742
R. Kosovo	107.6	294.8	440.7	366.5	287.4	365.8	393.9

Source: UNCTAD, WIR11 and Global Investment Trends Monitor No. 8, Albanian Bank, *UNCTAD.CBK. 2012.

According to data in the table, the world investment performance in 2011 has a growing trend after the negative trend in 2010, but not forgetting that they are far away from the flows of 2007. This can be seen if we make analysis even for SEE, Albania or for Kosovo only that the peak of FDI was made in 2007. So the negative trend started in developed countries due to the economic crisis of 2008 has not saved the developing countries and those in transition by creating a serpentine path of negative effects of the crisis.

Foreign Direct Investment (FDI) measured by euro in Kosovo has been fluctuating over the past 10 years. In late 2007, the value of FDI reached 440.7 million euros, which is the highest value achieved during the period of analysis. The lowest value was reached in 2005, where the amount of foreign direct investment was only 107.6 million euros. Remittances and FDI to the third quarter of 2013 have continued an upward trend. This is an important indicator of the foreign investors'

confidence in a country, and they are in the same growing trend because Kosovo is improving the economic and political environment.

FDI in 2012 reached 178.4 million euros and up to September 2013, the value of FDI reached to 204.9 million euros, representing an annual growth of 14.8 percent. This increase in FDI is mainly generated by reinvested profits of companies operating in Kosovo, which increased by 46.1 percent, reaching a value of 66.9 million euros. Shareholder capital, which in the structure of FDI has the largest share, has increased by 8.1 percent and reached a value of 93.0 million euros.

Other investments, which are mostly inter-company loans, declined by 4.3 percent and reached a value of 45.0 million euros.¹

5. FDI according to Main Economic Sectors

Regarding the contribution in economic development in Kosovo in the past 10 years, trade has been the greatest contributor, which can be seen by large imports and small exports, showing a not very hopeful state for a dynamic development, sustainable growth and employment. Therefore a number of measures have been taken by the government to stimulate the economy of particular sectors such as the manufacturing, agribusiness but no effects for now.

Even bank lending observed under particular economic sectors, are clearly seen the more beneficial sectors, commerce 52 %, manufacturing 11 %, construction 10 %, financial services 6 %, agriculture 4 %, other 17 %. The building and production sector is seen to have had a low credit reflection. The dominance of trade in Kosovo means that domestic sector is weak so it must be oriented to the foreign investiture, who upon their arrival in Kosovo would affect increasing productivity in local firms through the chain network which would be established through provision of experience, employment increase, provision of modern technology, the network of sub-contractors, financial intermediaries, trainings etc.

Economic growth for the short term will automatically be higher thanks to capital inflows, but these entries should be directed to profitable sectors to ensure a long-term economic increase, which sectors the investor wants to possess. Investiture in Kosovo seeks assets knowing that it would find strategic sectors for investment. Kosovo also has a comparative advantage in the primary and energy sectors, which sectors a foreign investor needs to know to invest. Given that we are a country in transition that needs foreign capital, knowledge and above all integration in the global network, then we must create a stable climate for doing business. As a

¹ According to CBK 2014, Quarterly Assessment of Economy No. 5, Quarter IV/2013, p.19.

country that a decade ago started from scratch¹, we have a positive performance of GDP during 2013, which indicates strengthening of economic activity in the country since Kosovo continues to have the lowest public debt in the region with only about 9.0 percent of GDP. Investments, which have a 24.3 percent share of GDP, despite neutral impact on real GDP, the nominal growth of 3.9 percent in 2013 is satisfactory.²

By the end of 2013, FDI grew by about 12 percent and reached the level of about 258 million euros. According to this survey³, wholesale and retail trade reported poorer performance compared with expectations, while the manufacturing sector and that of services reported a better performance.⁴

Sectors with higher inflows of FDI during the period 2000 to June 2012 are: banking, transportation and telecommunication, real estate, construction mining. From table 3 it can be seen the activity of Kosovo economic sectors in percentage up to 2012.

Table 3. Foreign Direct Investment in Kosovo – by economic activity (inflow) in percentage, 2007/Q2-2012, CBK.

Description	Total percentage	Financial services	Production	Real estate	Transport & Telecommunication	Electricity	Mining	Construction	Processing industry	Other
2007	100	23.1	9.0	7.1	29.3	0.6	9.4	1.2	8.0	11.4
2008	100	34.9	6.0	16.8	13.8	4.5	4.7	3.7	8.5	13.3
2009	100	25.5	17.1	14.9	7.4	2.9	2.4	12.0	2.4	35.4
2010	100	77	78.4	44.5	16	0.5	11.1	99.6	27.40	35.4
2011	100	52.5	51.3	65.2	24.9	0.0	3.0	137.1	2.3	81.3
2012 /Q2	100	17.5	14.6	73.5	9.2	0.1	00	53.1	1.7	30.6

Based on the latest data from the Central Bank is shown that in terms of sectors, from January to September 2013, FDI are concentrated in the real estate sector

¹ Considering the last war in 1999, which had destroying consequences on physical and human capital in Kosovo.

² CBK, Report of Financial Stability Number 4, January 2014, pp. 25.

³ KSA, 2013.

⁴ CBK, Report of Financial Stability Number 4, January 2014, pp. 25.

(33.4 percent), construction (17.0 percent), transportation and telecommunications (14.6 percent), financial services (10.9 percent), etc.

Therefore, it is the time when we should be promoting Kosovo, because we have many sectors that have a comparative advantage with other countries in the region. Regarding the cheap labor force and education, it is an indicator that foreign technology invested in Kosovo by Kosovo citizens can be used without additional expenses. Data available for the economic structure by activity are only for the period 2006-2011, but taking into account the economic structure of the country, it is expected that changes for 2012 and 2013 are marginal. Based on changes in the structure of imports as well as the other indicators such as registration of new businesses, FDI, loans from banks for certain sectors, etc. could be suggested that the processing and manufacturing industry, agriculture, construction, and real estate can be increased, while the trade sector is expected to decline. These developments in 2013 are supported by surveys of KCC about the perception of the business climate for enterprises in Kosovo.

According to this survey, wholesale and retail trade reported poorer performance compared with expectations, while the manufacturing sector and the services reported better performance. If we take the FDI performance by countries we will see that more and more countries that have a large market and a stable economic performance are investing in Kosovo. It is also reflected positively in Kosovo, as a healthy Investiture in the long term is likely to reinvest back the capital gains in Kosovo.

Table 4. FDI in Kosovo – by countries (net), in million euros, years 2007-Q2/2012)

Year	Total	AT	DE	SI	GB	CH	TR	NL	AL	LU	RS	Other
2007	440.7	35.4	48.1	56.2	116.2	9.7	5.4	41.2	3.4	13.1	0	112.0
2008	366.5	51.3	44	44.3	36.6	31.1	23.8	22.5	21.9	6	5.5	78.5
2009	287.4	15.5	75.2	50.8	6.2	22.7	14.5	25.1	23.3	8.3	0.6	55.2
2010	365.8	21.1	91.5	34.0	38.9	35.1	4.9	14.5	20.3	0.4	0.4	104.7
2011	393.9	19.6	66.6	16.2	80.1	30.9	34.7	14.2	11.2	0.5	0.4	117.8
6/2012	1854.3	142.9	325.4	201.5	278	129.5	83.3	117.5	80.1	28.3	6.9	468.2

Source: BQK, ASK, 2012.

According to the table until the second quarter of 2012, states with better performance are Austria, Germany, Slovenia, Great Britain, Switzerland, Turkey, Norway, Albania and Luxembourg, while Serbia is present only symbolically. Whereas countries that dominate the participation of FDI in Kosovo and which tend to be dominant in the future are Turkey with 72.8 million euros, followed by

Switzerland with 31.6 million euros, Albania with 18.3 million euros, Germany with 13.4 million, etc.

Given Kosovo collaboration with countries that have higher economic activity in 2013 and 2014 the external sector of the economy is expected to continue its positive performance.

6. Policy for Successful Investments in Kosovo

In successful investment contribute clever policies in certain areas. The framework of these policies in Kosovo is on the right track. Successful policies are shown as follows:

- a) Investment policy, quality;
- b) Competition policy;
- c) Corporate Governance;
- d) Public Governance;

While the most unsuccessful policies are shown:

- a) Infrastructure and financial sector development,
- b) Trade Policy,

Although priority is given to infrastructure construction, financial sector development, but always remembering trade policy, Kosovo remains fragile in these points and it must develop and improve further through promising projects and non-restrictive measures of the private sector.

While effective policies in financial sector facilitate enterprises and entrepreneurs to realize their investment ideas within a sustainable environment.

Also the trade policy (policy in relation to goods and services) can support investments to benefit from economies of scale by increasing productivity and return rates on investment.

In Kosovo operates the Investment Promotion Agency (KIPA), governmental agency, the Economic Initiative for Kosovo (ECIK) in Vienna that develops activities: seminars, advertising investments, conferences, exhibitions, site internet. Activities are centered in three areas (see Figure 1):

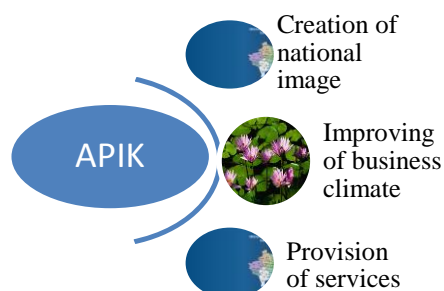


Figure 1. Activity of Investment Promotion Agency in Kosovo (APIK)

Multinational Investment Guarantee Agency (MIGA) guarantees investments in Kosovo up to 20 million euros value.

7. Amid a Gloomy Assessment and Good News for Kosovo

Kosovo has not completely developed the market economy and the emission of money (euro) is not made in it. Few large companies are spread across international markets and they are with joint capital. Banking system is 89 percent of foreign capital and it dictates the interest rates. There is an increase in banking services but there is no sign of economic recovery because over 56 percent of credits are directed in trade. Inflation is moderate due to the exchange rate of the euro and Kosovo has exploited this advantage because it has its own cash.

Kosovo has close trade relations with the European Union countries, region and US. It imports from the EU but as well as from distant China. It has constitutionally defined to be a liberal state (Kosovo Constitution, Article 10), but political barriers (EU disintegration) have prevented the integrated global network investment but it despite that it has realized importation of the advanced technology.

The stagnation of economic development requires reforms in the banking system (interest rate reduction, soft loans for businesses, etc.). The Central Bank will soon define interest rates for commercial banks to increase entrepreneurial activity in the country through loans that can cover the interest with their profits. Kosovo savings are favorable for growth if they are aimed to be invested within Kosovo. It still lacks a social security network even though there is a Pension Savings Fund. Within five years health insurance is likely to operate since many people save for

old age, education of children etc. This will encourage people to save but also to consume. Kosovo's attempt to reduce the deficit by promoting exports through tax and subsidizing the manufacturing sector and agriculture seems to have effects in long terms. The rural-urban division in Kosovo as it existed before the occupation, now more and more is being matched, caring not to remain behind. There are no administrative and legal differences between rural and urban areas including land management, attitude, education, social benefits.

Education, especially primary education is compulsory, free textbooks to encourage parents to send children to school. But health still has remained a challenge, as the lack of a health care scheme. Industry needs to be developed as well as agribusiness to improve the income to the villagers. Infrastructure is underway and it is improving communication and transportation of goods and passengers. There should be set up research centers in remote agricultural areas which would help to modernize working practices and improve productivity. Villagers must be offered an assurance beginning first with a low level of pension being increased after three to five years to ensure health facilities. There is progress towards institutionalization but stability and the continuing need for economic growth remain the main concern in Kosovo.

A radical change will be seen if Kosovo is integrated in international organizations (free movement of people and capital). Although economic growth is stable and positive, it is associated with unstable institutions, frequent elections, corruption and fragile operation of the law. Various government departments use the funds for construction of good offices, salaries similar to neighboring countries, but there are political influences between the servers and civil servants. Performance monitoring is increasingly becoming more realistic after a computing logistics in the workplace. Further reforms in the economy would push the government to be involved in providing services in social welfare management, corruption and law enforcement. The more is GDP generated the greater are the chances to obtain FDI, therefore preferential policies that are being implemented, as industrial free zones, lower taxes etc. are in favor of investors.

8. Potential Sectors in Kosovo in the Context of FDI

Energy and Mines - Kosovo has abundant underground resources, with 14,700 million tons, it ranks the fifth in the world for coal reserves from which it also produces the largest amount of electricity. Kosovo in 2008 produced 4,738 billion kWh and has spent 5,156 billion kW / h electricity.¹

¹ KSA(Kosovo Statistical Agency), MTI(Ministry Trade and Industry), CBK(Central Bank of Kosovo), 2013.

Reserves of this mineral, used as the main source of energy production in Kosovo, estimated to last for 650 years, with the pace of current extraction. Besides lignite, Kosovo is also rich with zinc, lead, gold, cadmium and bismuth, bauxite, nickel, etc.

Agriculture and Livestock - Kosovo is rich in agricultural land, 53 percent of the total surface is arable land. Currently agriculture sector contributes only with 19 percent in Net Domestic Product.

Vineyards - growth of grape and wine production is an old tradition in Kosovo. During the golden years the wine industry, in Orahovac only, had a production capacity of up to 50 million liters a year. In 1989 in Orahovac, wine exports reached 40 million liters¹ which was mainly distributed in the German market.

Construction - the construction industry has recently become one of the most important sectors in the economy of Kosovo. This sector continues to be a great economic potential for Kosovo, taking into account the need for construction of new settlements and road infrastructure.

Textile Industry - Textile sector was the second largest in Kosovo. In this sector there is plenty of room for investors to come back once again and penetrate the Kosovo region.

Tourism - Tourism potential of Kosovo is closely linked to the geographical position of Kosovo, resorts such as Brezovica and Sharr Mountains are good and interesting opportunities for investors. Besides Brezovica, other mountains used for winter tourism are The Cursed Mountains (Albanian Alps) situated in western Kosovo.

Banking system - The banking sector in Kosovo is estimated among the sectors with the best performance in the economy. The commercial banking sector comprises 10 banks. Commercial banks offer the full package of banking services and represent the largest financial sector, characterized by an increased level of financial intermediation.

9. Conclusion

The year 2000 was a turning point in the course of normal life for the people of Kosovo, which for many European countries was turning year for FDI. This is an indication of how far Kosovo was compared to the countries of the region but also how close it is to these countries after a decade. Optimism and vitality that characterizes the people of Kosovo is an example in the Balkans. But what was actual at that time? Challenges that privatization passed made the investment

¹ KSA, 2012.

decrease in 2004. A progress was made in 2007¹, at the same time the level of GDP was positive (moderate economic growth), and average wages were leveled with neighboring countries. A bad situation in the flow of FDI is even today, over 55 % of FDI are trade oriented, bypassing production. Mutual interaction between FDI and the unemployment rate is negative (investors who have bought assets and have not activated them), and in terms of interaction FDI / GDP, it is positive regarding inflows (imports of modern technology and know-how).

Foreign Direct Investments are hope for Kosovo with an unemployment rate among the highest in Europe. Previous literature generally found a positive effect of FDI on economic growth, but it had many conflicting opinions. There will be a faster economic growth in Kosovo when the country will have reached a new phase of development that will even promote the sustainable social, political and environmental growth. Kosovo must continue promotion of exports, industrial production, domestic consumption, efficient use of energy and environmental protection. Social welfare, political stability and the rule of law would affect the growth of capital inflows. When a positive climate and image is created for Kosovo then an increase of FDI inflows can be expected in the mining sector, energy, telecommunications, agribusiness, tourism, manufacturing industry, construction, production etc. While the sector of services has reached the highest peaks of attracting investment and has less to do in the future. This optimism derives from the fact that Kosovo has educated and the youngest labor force in Europe.

Knowledge of foreign languages, numerous natural resources, key geographical position in the Balkans, and the tradition of hospitality to strangers, suitable climate for agribusiness for eight months a year, the construction site, people with a language and culture of ancient tradition are offers that are valued by investors. National willingness to fight organized crime, corruption and lack of the rule of law, which is a prerequisite to integration in the European Union, is becoming reality.

10. References

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¹ 2007 in Kosovo is considered as the peak year of FDI (440.7 million euros).

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