



Research Article

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Foreign Direct Investments and Attracting Policies to be Undertaken by the Government. The Case of Kosovo

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Abstract

This paper focuses on foreign direct investments in Kosovo, based on a comparative statistical analysis of different sectors of economic activity and different countries of the world that have invested in Kosovo during the reporting period under study. We make use of the comparative analysis expressed in (%) by sorts of economic activity and aim to conclude which sector is more invested by foreign direct investment in Kosovo according to its economic activity. Whereas, through comparative analysis by different countries of the world that have invested in Kosovo, we aim to determine which are the countries that have mostly invested in foreign direct investment in Kosovo, and the level of performance of foreign direct investments during the reported period under study. The data were provided by the Central Bank of Kosovo for the period 2007-2019. In this paper we reflect the performance of foreign direct investments by years based on different sectors of economic activities and by different countries that have invested in Kosovo by applying the comparative analysis. It is of particular importance here to mention some of the options we suggest regarding to some of the government policies that should be undertaken in attracting and increasing foreign direct investments in Kosovo.

Keywords: Foreign direct investments (FDI), government policies, comparative analysis

1. Introduction

This study focuses in direct foreign investments in Kosovo by sectors of various economic activities as well as by different countries that invested in Kosovo based on the period of time under study. The data of the foreign direct investments in Kosovo by sectors of various economic activities and by countries were provided by the Central Bank of Kosovo for the period 2007-2019. We used the descriptive method in this study, which is based in the comparative analysis expressed in percentage (%). By elaboration of the given data through statistical methods we highlight how the continuity of the foreign direct investments was in Kosovo, which of the foreign countries invested more in Kosovo and to what extent, as well as which sectors by economic activity had reached higher level of foreign direct investments or which sectors had reached lower level of foreign direct investments. By means of these analyses we also highlight which of the foreign countries invested more in foreign direct investments for the reported period under study.

An important part is given in this study to some options and suggestions regarding to the governmental policies that may be undertaken by the central government so that it can absorb foreign direct investments. We suggest here some governmental policies to be taken into consideration by

reflecting some issues of Kosovo in this aspect. We will suggest some of the government policies for attracting foreign direct investments and improving the performance of foreign direct investments in the coming years.

2. Literature Review

Regarding the literature review, we can say that there are many case studies from various authors who have conducted studies on topics similar to mine. It is worth mentioning here the OECD Development Center (OECD, 2001) and its study on FDI (Foreign Direct Investments), entitled "*Human capital and education in developing countries*". Their study offers an analysis of effective government policies for attracting foreign direct investments. In their study they initially rely on a simple market demand and supply framework to look at how FDI policies affect human capital formation and income inequality. Particular importance is given in this paper to the options of effective government policies to be undertaken by policymakers in order to attract foreign direct investments and to the impact of these government policies on transnational corporations (TNCs).

Also, in their work it is of special importance the human capital which is seen as an important factor in attracting foreign direct investments. Their main focus is to figure out what policies should be followed by host countries of foreign investors so as to improve human capital and attract foreign direct investments. Another author who has made valuable contribution in the field analyzing issues of similar topic to my work is the Asian scholar, Rashmi Banga (Banga, 2003) especially with his article, entitled: "*Impact of government policies and investment agreements on FDI inflows*". He aims to show in his study the way how favorable policies affect the growth of foreign direct investment and economic growth of some Asian countries, including their country India. In his paper he shows what are some important factors that would increase foreign direct investments, mentioning the important role played by labor costs, labor productivity, educational accomplishment, communication, infrastructure enhancement, electricity sustainability, as well as the minimization of tax barriers, that would have a positive effect on attracting foreign direct investments. Also reference can be given to the World Bank Group (World, 2017) reports on foreign direct investment policies, like the one entitled: "*Maximizing Potential Benefits of FDI for competitiveness and sustainable development*."

In the report of the World Bank the importance of foreign direct investment (FDI) as a key factor in the growth of the global economy is emphasized. Here it is shown how countries with developed economies and some countries with developing economies have had economic growth based on favorable policies applied for attracting foreign direct investments. The report shows through statistical analysis how the performance of foreign direct investment flows has been for the period 2015-2017 thanks to the favorable policies applied for attracting foreign direct investments in these countries. The data point out that the global FDI inflows in 2015 increased by 40%, while in 2016 they decreased mainly for countries with developing economies. The purpose of this report is to serve as a guide for developed and developing countries' governments, to achieve measurable results in attracting FDI, as well as to develop strategies and policies in favor of investment attraction of global foreign direct investment flows to both developed and developing countries. Another focus in this report is the economic benefits and advantages that FDI inflows would bring to both developed countries and developing economies.

3. Research Method

We used the descriptive method in this article based on comparative analysis expressed in percentage (%). The comparative analyses are based on the reporting period from 2007 to 2019 taken under study, ranked according to different sectors of economic activity and according to different countries of the world that have invested in Kosovo. Comparative analysis by economic activity aims to determine which sectors in Kosovo gained more investments according to economic activities and which sectors gained less investments from foreign direct investments process.

Comparative analyses by different countries of the world aim to find out which countries invested

the most in Kosovo, and which invested the least. Also, we aim to analyze the performance of foreign direct investments through comparative analysis expressed in percentage (%) regarding the reporting period.

3.1 The purpose of the paper

The main purpose of this paper is to reflect the performance of foreign direct investments by economic activities and by different countries that invested in Kosovo according to the reporting period under study. Another important purpose of the paper is to provide some options and suggestions regarding to effective policies the government should undertake in attracting foreign direct investments in Kosovo.

3.2 The research question

This paper focuses on three research questions, aiming to give an answer to:

1. Which are the sectors by different economic activities where was invested more in foreign direct investments in Kosovo according to the reporting period?
2. Which are the countries that have invested more in foreign direct investments in Kosovo according to the reporting period?
3. What are some of the government policies that are suggested to be undertaken in attracting foreign direct investments?

3.3 Data and choice

Data on foreign direct investments have been provided by the Central Bank of Kosovo for the period 2007-2019. We have received this data regarding foreign direct investments by sectors of different economic activities and by different countries of the world that have invested in Kosovo. We have processed these data, and through the descriptive method we have obtained graphs and comparative analyses expressed in (%) on the performance of foreign direct investments by economic activities and by different countries that invested in Kosovo.

4. Analysis of the results

Table 1: Foreign direct investments expressed in MLN euro according to the reporting period and by various sectors of economic activity.

Descr-ption	Total	Agric-culture	Mines	Indu-stry	Ene-rgy	Buil-ding	Come-rcial	Hotels and restaurants	Transport and communication	Financial services	Real estate, renting and other business	Other services	Other activities not elsewhere classified
2007	440.7	7.9	41.5	74.8	2.5	5.2	12.7	12.7	129.2	102	30.9	4.5	16.9
2008	389.9	8.5	17.4	53.7	16.7	13.5	10.1	2.1	51	109.6	62.2	2.1	23
2009	287.4	13.1	7	57.6	8.7	35.5	16.2	2.4	21.9	75.3	43.9	2.7	3.2
2010	388.5	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	33	60.5	11.3	63.2
2012	229.1	0.3	-25	27.4	2.2	31.1	9.3	0.5	32.4	22.4	115.7	1.8	11
2013	280.2	0.4	-14.1	11.5	48.8	17.3	14.6	0.8	51	4.4	136.1	3.3	6.2
2014	151.2	0.2	4.2	-34	13.4	-19.9	8.4	0.4	-9.1	41.9	142.1	2.2	1.4
2015	308.8	1	-38.9	20.7	11.9	46.3	12	0	-6.1	64.3	189.6	4.5	1.4

Description	Total	Agriculture	Mines	Industry	Energy	Building	Commercial	Hotels and restaurants	Transport and communication	Financial services	Real estate, renting and other business	Other services	Other activities not elsewhere classified
2016	220	1.2	-19.1	4.6	3.4	28.2	14.5	0.7	-9.1	19	167.6	9.4	-0.6
2017	255.4	-1.3	-4.9	5.7	-1	5	10.3	0.8	-7.9	55	187.2	4.9	1.6
2018	272.1	0.1	-2.7	-16	26.2	24.8	20.2	1.8	-16.6	14.5	207.5	10.3	2
2019	271.8	1.5	-0.6	10.5	24.6	-19.9	-7.4	1.4	-6.3	15.8	236.8	7.9	7.3
Total	3897.5	34.4	-22.7	364.5	157.6	354.4	139.3	23.8	243.5	596.6	1655.6	66.2	224.2

Source: Central, Foreign direct investments in Kosovo -according to economic activity, 2020

Table 1 shows the value of foreign direct investment in million euros by reporting period and by different sectors of economic activity.

From the above table we see that the value of foreign direct investments by different sectors of economic activity from 2007-2019 has been declining.

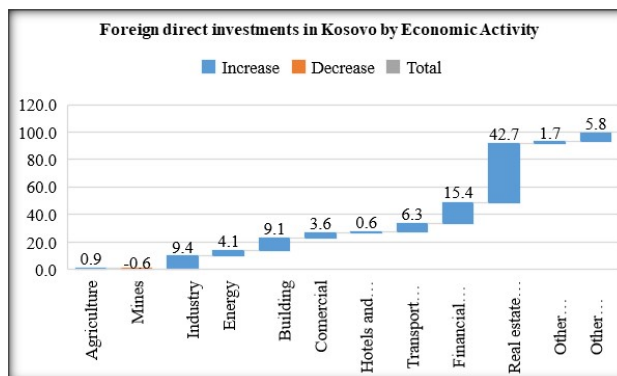
While, regarding to foreign direct investments by activities we can conclude that the activities where more investment was made in foreign direct investments are: real estate, renting and other business activities where in total from 2007-2019 were 1655.6 million euros invested, or 42.7% of the total.

Another activity where foreign direct investments have been invested in a significant value is the financial services sector, where in total 596.6 million euros or 15.4% have been invested from 2007-2019.

As far as the industry and construction sector is concerned, the total value of foreign direct investments from 2007-2019 is respectively 364.5 million euro; or 9.4% of the total in the industry sector, and 354.4 million euro or 9.1% of the total in the construction sector.

The sector where less investment is made in foreign direct investment in Kosovo is the mining one, where the total value of foreign direct investments for this sector from 2007-2019 is negative. This means that foreign direct investments have decreased by 22.7 million euro, or 0.6% of the total for this sector.

Foreign direct investments have had a relatively low value in both the hotel and restaurant sectors, as well as in the agricultural sector. In the hotels and restaurants sector there were invested a total of 23.8 million euros or 0.6% of the total for the period 2007-2019 in foreign direct investment. While in the agricultural sector there was invested a total of 34.4 million euro or 0.9% of the total in foreign direct investments.



Graph 1. Foreign direct investments in Kosovo by economic activity expressed in percentage (%).

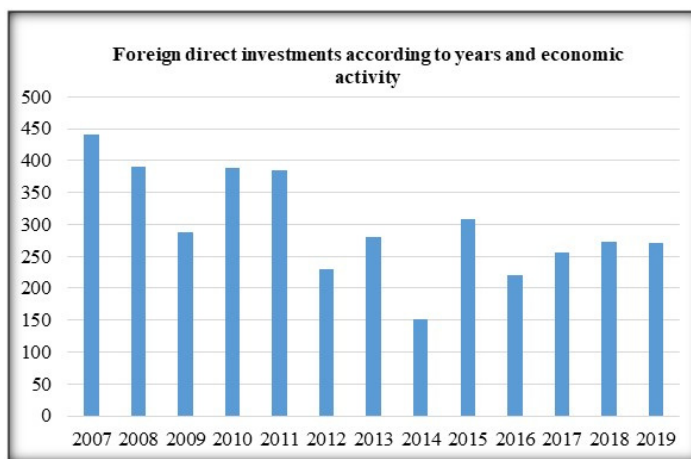
Source: Author

Chart 1. Shows foreign direct investments in Kosovo by economic activity expressed as in percentage. From the graph we can see that foreign investment has had relatively low values, for almost all sectors, except the real estate sector, rental and other business activities where it is clear that more investment has been made in foreign direct investment compared to with other sectors by economic activity from 2007-2019.

According to the economic activity from 2007-2019, in the sector of real estate, renting and other business activities there were invested 42.7% of the total in foreign direct investments. This sector was the most invested one from the foreign direct investments compared to other sectors. Also, in the financial service sector are invested 15.4% of the total in foreign direct investment from 2007-2019. According to the economic activity in the industry and construction sectors, 9.4% and 9.1% of the total value were invested in foreign direct investments, respectively. Also, the sectors where less investment was made in foreign direct investments, are:

The mining sector, which has a negative value in terms of foreign direct investments, meaning that: Foreign direct investment has decreased by 0.6% of the total.

Also, the hotel and restaurant sector, as well as the agriculture sector are part of the sectors where less was invested in foreign direct investments compared to other sectors according to economic activity from 2007-2019. Regarding the figures, there were invested respectively 0.6% and 0.9% of the total value of foreign direct investments, i.e. less compared to other sectors.



Graph 2. Foreign direct investments according to years and economic activity.

Source: Author

Graph 2 shows foreign direct investments by years and by economic activity.

From the graph we see that foreign direct investments from 2007-2019 has been declining for almost all the economic activities. In the year 2007 almost all sectors of economic activity were invested more from foreign direct investments compared to other years. A total of 440.7 million euro was invested in 2007, or 11.4% of the total of foreign direct investments. Also, in the following years 2008, 2010, 2011 there were more investments from foreign direct investments compared to other years. A total of 389.9 million euro was invested in 2008 from foreign direct investments, or 10.1% of the total. Meanwhile, in 2010 there were invested 388.5 million euro, or 10% of the total in foreign direct investments. The following year, in 2011 there were invested 384.4 million euros, or 9.9% of the total in foreign direct investments. In 2014, it was invested less in foreign direct investments in Kosovo by economic activity. Whereas in 2014 there were invested 151.2 million euros or 3.9% of the total, which is less invested sum compared to other years.

Table 2. The value of foreign direct investments within the reporting period expressed in MLN euros

Description	Total	Austria	Germany	Slovenia	UK	Switzerland	Turkey	Netherlands	Albania	USA	France
2007	333	35.4	48.1	56.2	116.2	9.7	5.4	41.2	3.4	8.8	8.6
2008	288.2	51.3	44	44.3	36.6	32.1	23.8	25.9	21.9	4.8	3.5
2009	249.1	15.5	75.2	50.8	6.2	22.7	14.5	23.1	23.3	11.8	6
2010	279.4	21.1	91.5	34	38.9	35.1	4.9	17.2	20.3	12.6	3.8
2011	280.5	19.6	68.6	16.2	80.1	30.9	34.7	4.7	11.2	14.3	0.2
2012	179.6	0.2	49.2	8	14.3	39.7	62.7	-26.7	16.8	8.5	6.9
2013	216.1	10.7	21.7	7	10.7	41.7	88.6	-0.1	19.3	12.7	3.8
2014	99.6	30.3	29.4	-9.4	-39.5	38.2	20	-7.8	20.4	14.7	3.3
2015	271.2	33.5	45.3	5.6	26.6	72.9	55.4	-36.4	40.1	25	3.2
2016	180.5	9.9	25.7	-4.5	13.6	61.8	42.7	-23.1	28.6	23	2.8
2017	196.7	20.3	55.9	1.2	27	50.6	29.5	-14.1	2.4	20.3	3.6
2018	227.1	11.2	60.3	-8.7	57.4	71	12.2	-39.7	22.3	35.5	5.6
2019	184.8	12	72.9	8	2.3	61.9	-17.3	0.8	19.5	21.3	3.4
	2985.8	271	687.8	208.7	390.4	568.3	377.1	-35	249.5	213.3	54.7

Source: Central, Foreign direct investments in Kosovo -by countries, 2020

Table 2 shows foreign direct investments in Kosovo by countries and according to reporting period 2007 – 2019 expressed in MLN euros.

Taking into consideration the values above, we can conclude that foreign direct investment has been declining, considering the period from 2007-2019.

Germany has invested more in foreign direct investments in Kosovo compared to other countries. Considering all the foreign countries in total from 2007-2019, Germany has invested 687.8 million euros, or 23% of the total value. Germany is followed by Switzerland, which has invested the most in foreign direct investments in Kosovo, compared to the other two countries in ranking, United Kingdom (UK) and Turkey.

Respectively, Switzerland has invested a total of 568.3 million euros, or 19% of the total value from 2007-2019.

The UK has invested 390.4 million euros, or 13.1% of the total value from 2007-2019, meanwhile Turkey has invested 377.1 mln euros, or 12.6% of the total value from 2007-2019.

The country that has invested the least in foreign direct investments in Kosovo is the Netherlands. This country has invested at a minimum value for the period 2007-2011. While from 2011-2019 this country has not invested in foreign direct investments in Kosovo at all, so the negative values from 2011-2019 can be considered as a decrease of foreign direct investments in Kosovo from this country by 1.2%. In general, we can say that foreign direct investments in Kosovo by countries has decreased from 2007-2019.

4.1 Analysis and results of graphs related to table 2.

From the graphs presented, we can see foreign direct investments for Kosovo expressed in millions of euros from several countries around the world. The data were provided by the Central Bank of Kosovo for the period 2007-2019. From the processing of these data we have derived the averages of the invested

amount of some EU countries and different countries of the world expressed in million (euros) in Kosovo.

The graphs show the geographical distribution of foreign direct investments in Kosovo, reflecting which countries have invested more in here, and which countries have invested less.

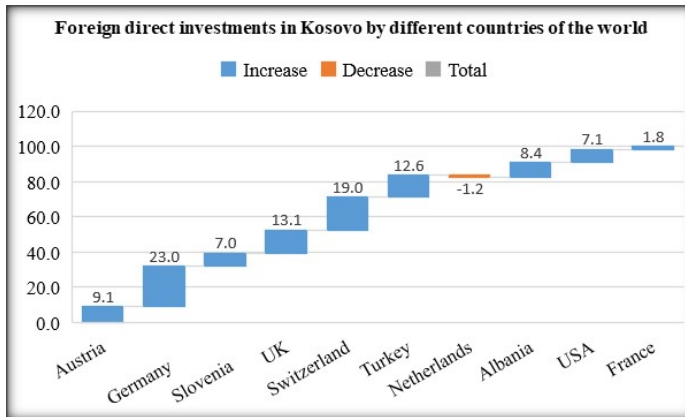


Chart 3. Shows foreign direct investments in Kosovo by different countries of the world.

Source: Author

As it can be seen from graph 3, Germany is the country which invested more in foreign direct investments in Kosovo in comparison to other EU countries. In total, Germany has invested 687.8 million euros according to the reporting period 2007-2019, or on average, Germany has invested 23% of the total foreign direct investments in Kosovo within the reporting period. Germany is followed by Switzerland, the United Kingdom (UK), and Turkey, which have significantly invested in foreign direct investments in Kosovo. Accordingly, Switzerland has invested approximately a total of 568.3 million euros; thus, on average Switzerland has invested 19% of the total in foreign direct investment in Kosovo. While the United Kingdom (UK) and Turkey have invested respectively in total 390.4 and 377.1 million euros; or on average 13.1% and 12.6% respectively of the total of the foreign direct investments in Kosovo.

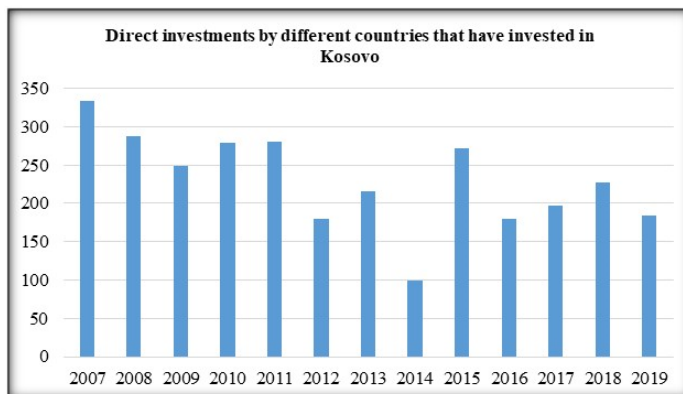


Chart 4. Total foreign direct investments by different countries that have invested in Kosovo based on comparative analysis expressed in% (percentage) by years.

Source: Author

Graph 4, shows the total foreign direct investments by different countries that invested in Kosovo, based on comparative analysis expressed in% (percentage) by years.

From the chart above, we say that in 2007 foreign direct investment had a higher value compared to other years. Thus, in 2007 foreign direct investments were 333 million euros, while expressed in percentage; they made 11.2% of the total total value compared to other years. Also, these investments had a high value in the years 2008, 2011 and 2010. In 2008, foreign direct investments were 288.2 million euros, while expressed in % they made 9.7% higher of the total value compared to the other years. In 2011, and 2010 foreign direct investments were respectively 280.5 and 279.4 million euros; or 9.4% and 9.3% of the total total value compared to other years.

Less investment was made in foreign direct investments in 2014 compared to other years. In 2014, a total of 99.6 million euros was invested or 3.3% less of the total value compared to other years.

5. Conclusions and Recommendations

Concerning the conclusions, we should emphasize that foreign direct investments in Kosovo by sectors of different economic activities and by different countries that invested in Kosovo, the performance of foreign direct investment has been low regarding the reporting period. The sectors where most foreign direct investments were made are: real estate, renting and other business activities, followed by the financial services sector, the industry sector and the construction sector.

Regarding foreign direct investments by different countries that invested in Kosovo, we can say that Germany is the country that invested more in foreign direct investments in Kosovo, followed by Switzerland, the United Kingdom and Turkey. In the broad-spectrum, we can say that foreign direct investment during the reporting period has declined; subsequently we had a low level of foreign direct investments in Kosovo. Regarding foreign direct investments by years the data show that from the period 2007-2019 foreign direct investment has dilapidated. The year 2007 marked the highest foreign direct investment rate in all sectors of economic activity in Kosovo, compared to other years. Regarding foreign direct investment in total, by different countries that have invested in Kosovo during the years, we can say that the year 2007 reached to attract the highest level of foreign direct investments in Kosovo. But from a general overview, we can say that from the period 2007-2019 foreign direct investment in Kosovo have been decreasing.

In order to improve the performance of foreign direct investments in Kosovo for the coming years, the government should take measures to apply favorable policies aiming at attracting foreign investors.

Some of the policies we would propose are:

1. Improve the market by minimizing barriers that hinder free trade and other aspects of globalization.
2. Conduct a detailed study of the domestic market regarding the demand and supply of the domestic market, and the factors influencing foreign direct investment.
3. Improve the infrastructure, and creation of favorable conditions for the host country.
4. Apply favorable policies regarding globalization and market opening, and minimizing customs taxes (Bellak, Leibrecht, & Stehrer, 2008).
5. Apply macroeconomic, fiscal, and monetary and trade policies in favor of the aim of attracting foreign direct investments.
6. Apply favorable policies for a market oriented and liberal procedure for FDI.

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