

# The potentials for Political and Economic Development of Kosovo

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## Abstract

It is rather clear that it is mandatory to understand the potentials of growth for any economy to grow. With globalization taking place, countries in general, have intensified their political, economic and social integration. Kosovo, as the youngest state in Europe, is about to transform from a devastated economy into a developing one. It has not yet been able to tap on its natural resources and neither of its potentials for a faster economic growth. Its backbone economic sectors such as agriculture, textile, mining and metal sectors are still on their initial stages of revitalization, while the privatization of the public companies has not met its expectations.

Whereas, Kosovo is doing a better job on, as its international presence and subjectivity of its political status (Independence) is strengthened. More and more countries are recognizing it as a sovereign country, while the recent initiation of the Stabilization and Association Agreement with the European Union, Kosovo is undergoing through its structural reforms and alliance with the EU standards and regulations.

The future of Kosovo, like of any country, will depend on the way that its human, financial and natural resources are utilized. On this regard, this paper is an attempt to explore the potentials of the economic growth on different political contexts that Kosovo has and is expected to undergo.

**Key words:** economy, politics, development, Kosovo, geostrategic

## **1. Potentials of political development of Kosovo**

Kosovo, after the war and promulgation of independence, must be focused mostly on economic and diplomatic development (Baliqi, et al. 2013).

Kosovo in the first steps of economic development should normally be conducted with the help of political strategy, a strategy which should affect all areas of development, especially the economy, which is the backbone of a stable state.

After the war, Kosovo was entirely destroyed economically, and had a very difficult start-economical development. Assistance in all areas, not significantly lacking from Kosovo friendly states, but they were "nothing" compared to how much Kosovo needed.

On 17 February 2008, the Republic of Kosovo declared independence, and it already has its Constitution, the Constitution that protects the welfare of every citizen.

Now after 5 years from the declaration of independence, the Republic of Kosovo still faces economical problems, where more than 30.9% of the population is unemployed (Statistics Agency of Kosovo, 2012). As the youngest population in Europe, with an average age of 25.9 years, which found a great spirit of optimism, Republic of Kosovo is going with turtle steps towards providing better living of its citizens (Wählisch and Xharra, 2010, pg. 17).

Normally this slow economical development, will encounter problems regarding the route of the Republic of Kosovo to the "home" Euro-Atlantic structures.

Journey to European integration requires development and work in all fields, especially the economy which is the locomotive of the state, and the main bearer of progress for a country.

The Government of the Republic of Kosovo is developing medium-term strategy and long-term economical development, namely the Ministry of Economic Development and the Ministry of Trade and Industry, is working with maximum capacity for economical development of the new republic in Europe, having intended that each year we used about 7-8% economic growth (Demi, 2013). This, though less feasible due to lack of serious investors, as a result of "development" of alarming scale of corruption, non-compliance with laws, especially those who draw, then organized crime, informal work, etc..

Now that we have touched the jubilee year of independence, we already have an historic agreement between the Republic of Kosovo and the Republic of Serbia. (Republic of Kosovo Prime-minister Office, 2013) I think that financial support from the European Union will not miss, for the simple reason, and that is the agreement to be implemented on the ground, should have funds, and those funds Republic of Kosovo doesn't have, so that the EU has the "job" to

help Kosovo in this regard, given that the with application of this agreement on the ground, sends the Republic of Kosovo, but also Serbia, closer to EU, and normally this approach fits the three parties (Republic of Kosovo, Republic of Serbia, the EU) (Kusari-Lila, 2013)

## **2. Potentials of economic development of Kosovo- Geostrategic position**

If we look at Kosovo, which is a relatively small country with only a surface of 10,908km<sup>2</sup>, it really does not dazzle some big investor who is looking for a big market and lots of profits. But that is so only, because of the lack of information, since it doesn't mean that Kosovo fails to offer opportunities to invest and make money. Instead, its natural resources, strategic position at the heart of Balkan, young population and the political ideologies existent pro free market and friendly to foreign investors especially promise for a sound future in terms of economic prosperity. Further, today every investor who is planning to invest in Kosovo, should know that he/she will be investing in a 25 million people market, since Kosovo is part of the Central European Free Trade Agreement (CEFTA); this will enable them to benefit in other aspects such as more opportunities for exportation and investment and stable relations with neighbors. (European Union and UNMIK, 2007)

For these reasons as well as for our pure interest to better know the economic capacities of our home country, we engaged ourselves to research and to show in the following paragraphs the biggest potentials/resources, what is our government doing and some policy examples and strategies from similar countries with the intention to lead toward a well economic development in Kosovo.

## **3. Current economic situation**

Logically someone might ask but how come that we still see a very weak Kosovo in economic terms. Why don't we use all these resources available to end this economic crises?! Why are we still highly dependent on the international community and its Diaspora which makes around 30% of the total GDP, and still continue to have an unemployment rate of over 40% and the lowest GDP per capita in Europe? (Intute, 2009)

The role of the governments as well as other policy actors involved in this long and difficult process of economic revitalization such as international community and interest groups and each citizen after all, is the very important and must accord with reality and the best intellectual ideas and perspectives available. Some of most important actors beside the government included into this process were UNDP, IMF, World Bank and other members of international

community who helped and continue to help the economic growth in Kosovo. So, it is interesting to know their perspective on this issue, since they are deeply occupied about reaching this goal of economic development.

In bold lines we can say that UNDP is more interested to orientate new investments in the agriculture industry, thus lowering the very high unemployment rate, using a lot of idle resources and existing capacities inherited, reducing the negative balance of trade, increasing the income per capita and in the end wellbeing for all the society. However after Kosovo joined the IMF and the World Bank, institutions which enable our government to get long term loans and finance spending on highways, and other capital assets. In the same time this serves as a strategy for reducing the unemployment rate and increases the average income resulting with economic growth. (Bureau of Public Affairs, Office of the Spokesman, 2009) Furthermore, according to the World Bank, some of the common characteristics that the "tiger economies" had, were emphasis on human capital development, dynamic export industries (sometimes from individual economic sectors), stable banking system, etc. (Kusari, 2007)

### **3.1 The young population**

No doubt, the number one resource relevant for the economic growth of Kosovo, is the young population that we have. It represents a huge potential to impact the economic growth and has an immediate need not to be let idle anymore. The approximate population today is around 2.2 million with 500,000 more living outside the Kosovo. It consists of about 90% Albanian, 5% Serbs, 2% Muslim Slavs (Bosniaks, Gorani), 2% Roma and 1% Turks (UNFPA, 2002) Its structure is a true asset and ranks Kosovo as the youngest population in Europe. Moreover, around 33% are younger than 15 years, 70% are below 35, and 61% between ages of 15-65; additionally, it's important to mention that only during the academic year 2006-07 around 88,691 graduates from the tertiary studies entered the labor force (USAID, 2009)

### **3.2 Mining and energy**

Another great potential for the economic is the mining and energy sector. Not just because it is of crucial importance for the whole economy serving as the supplier of other sectors, in particular the energy and metal one, but also due to its high profitability and growth opportunities in Kosovo. The growing demand for electricity within and outside its territory, also represents the backbone of our future economy implied by our natural resources, because Kosovo is ranked as the fifth largest lignite holder in world with around 14.7 million tons of lignite; while the coal reserves in the main power plants A and B in 2006 counted to 1.7 million tons of coal ready for exploitation. (UNMIK,

2006) "In the last 50 years, the number of US coal miners has dropped by 68%, however, the US' total coal production has gone up by 83%;" however there has not been any serious investment for past 20 years, and the current miners work using techniques from 70's (Douglas, 2007)

"While the two lead- and zinc-smelters at the Trepça mining and metallurgical complex (in Mitrovica) remain off line - UNMIK had forcibly closed them down in 2000 due to environmental hazards - output growth at the mines increased at an average of 122.2% per annum during 2005-2010. Labor productivity grew at an astounding 626% per annum". (Uberti, 2013)

Also because of the natural resources that Kosova has been blessed to possess such as minerals of Zinc, lead, silver, gold, cadmium and bismuth which used to be exported during the previous eras, especially while Kosovo was part of the Yugoslavian Federation; thus, there exists a significant potential for developing the magnesia, lead-zinc and ferronickel exploitation. (Park, 2007).

### **3.3 Agriculture**

Agriculture in Kosovo has been the predominant economic sector for the last decades, and it's one of the most sensitive branches bearing in mind its impacts on the overall economy through employment, reducing the trade deficit, national security, that our government has to be a lot more careful how it deals with it. Agriculture offers a great opportunity to immediately employ a large portion of our idle labor, use our high quality idle lands, and produce goods that are very well accepted by the domestic, regional other major international market since even the highest standards are achievable. Because Kosovo has a total surface of 1.1 million ha, while over 50% of which is cultivable land and also taking into account the other fact that the same percentage of the total population lives in the rural areas, working in one form or another related to agriculture contributing up to 25 % of the GDP, it really deserves our leaders and potential investor's attention (Balkan Insight, 2009).

Some of the strengths of this sector are: the Kosovo's proximity to EU and Regional Markets, relatively low taxation, tradition and knowledge among the workers, the increasing number of trading partners, significant donor support, the natural environment appropriate for growing all types of agriculture crops (grown in temperate climates) (Booz, et al. 2010).

### **3.4 Textile industry**

The past of kosovar economy is proud with the strongly developed textile industry, which employed a distinct portion of the population. "At its peak around 1990, each of the 15 SOEs engaged in textile production employed more than 1,000 people and sales totaled some 35 million Euro" (IPAK, 2009). With today's cheap labor, good geographical position, trading agreements and other

stimulating policies for importing raw materials, Kosovo represents a hidden gold related to textile. The other reasons why would such industry be successful today are: fast delivery of different collections within European markets, producing garments and details of latest fashion, and rapid turn-around (Park, 2007). The main strengths of this sector are: "cheap, well skilled and experienced work force; solid base of technology that can be acquired through the ongoing privatization process; numerous subcontracting and outsourcing possibilities" (IPAK, 2009) .

Additionally, although the "recent developments in the region, as a result of which trade ties were broken, an analysis shows that 55 to 65 million Euros could be achieved by exporting, in case of restoration of such ties. In this sector there is plenty of room for investors so that Kosovo once again produces finished garments from textiles produced in the region" (Republic of Kosovo, Ministry of Foreign Affairs, 2010).

### **3.5 Food Processing/Organic products**

This sector has been for a long period of time in the past as one of the strongest economic features of our economy. It consisted of small firms, which due to the destructive war in 1998 has lowered its output dramatically. However, the factors that are needed for this field to prosper are still there such as substantial inherited capital, new tax incentives, cheap labor, sufficient supply of inputs, technical capability and most importantly perhaps a very high chance for returns on the investment. It just needs to meet the other part of the coin which has to do with bringing financial capital and initiating different projects and take advantage of this friendly investing environment in Kosovo that makes any investor well compare to other countries in the region.

Perhaps the most important products that Kosovo can offer to the international market are strongly related to the organic food industry. In particular, cereals and vineyards make the bulk of production within this sector.

Similar to the vegetable processing industry, Kosovo had a fruit processing capacity of 30,000 tons before the conflict, and was therefore able to cover not only local market demand but also to expand to foreign markets. The capacities of the fruit processing industry are currently not significant. Initial movement in this field has only been seen in very recent years. Some small processors have started to produce fruit products such as jam, fruit salads etc (Republic of Kosovo, Ministry of Trade and Industry, 2008). Also, because of huge gap between the domestic supply and demand for farming and especially organic foods, this creates vast opportunities for investment; let aside the fast access to the international markets. : " Almost 100 percent of the concentrates used for the local beverage industry is still being imported. With cost benefits and existing

know-how, foreign companies could therefore immediately take advantage of this flourishing prospects" (Republic of Kosovo, Ministry of Trade and Industry, 2008).

### **3.6 Tourism**

Despite the fact that Kosovo experienced a war just over a decade ago when a bad image was created about it among the international community as a country in deep crises, the blessings of the nature and the long traditions and culture survived in a significant level. Thus, Kosovo represents a good opportunity that in the close future will become a very favorable place for international tourism for different reasons. The first but not the only, there is a great place where the winter tourism can easily be developed is Brezovica. Its very nature enables to do so, while the inherited capacities are actually being offered for privatization. Its geographical position, in the middle of four slopes and very close to more than ten of them, enables Brezovica to become a potential international ski resort. (Tourism Review, 2007)

Furthermore, there are the beautiful mountains of Sharri, in the south of Kosovo where untouched nature offers great views and opportunities for developing ecotourism, paragliding, mountain biking, rock climbing, trekking, kayaking, horse riding, etc.

## **4. Recommendations and Conclusion**

It is of essential importance to say that the Government of Kosovo needs to firstly use those resources that promise a higher return and which impact the highest number of population so that a larger number of people can benefit from such policy. Thus, include the social, environmental, political, legal and cultural issues in the policy decision-making process. In our opinion, in order to accelerate the economic growth in a close future while taking into consideration the before-mentioned resources and the configuration of the population of Kosovo, the government has to create new policies to stimulate the development of the energy and mining, agriculture, and food industry, especially organic food through subsidization and tax neutrality to many of the raw materials and value adding firms of these sectors.

Along the way it should also set policies that would enable the successful development of other sectors of high importance such energy, transportation, farming, textile and tourism.

Further it should invest more on improving the education system and build human capital so that it can create better governing structures and eliminate the situations of having surpluses in the time when the people need big investments more than ever.

If we look at a similar country with Kosovo, for example Slovenia, we find that their economic development strategy consists of the interest for the privatization of public owned companies in large shares, improvement of the quality of education, transformation into less costly but more modern state; also, in their National Program of Economic Development of the Republic of Slovenia, tourism, energy production and consumption, mining, construction, transport were their main sectors on which they designed their strategies (Jürg, 1994). In addition to set some sectors as priorities they have also decided to work on increasing global competitiveness through creating a more dynamic and flexible market, increase the economic growth and employment according to the principles of sustainable development and the preservation of economic, social and environmental balances in the long run, ensure the security, respect human rights and provide equal opportunities (Government of the Republic of Slovenia, 2010).

Our government has to think today for the tomorrow's needs of this country and to introduce some new and creative solutions to accelerate more growth and utilize our resources as much as possible. We think that there are many opportunities for our new population to compete as effectively in regional and global markets as any other emerging market economy, and gain comparative advantages because of natural resources. Moreover, we could produce low-cost energy even for exportation due to our large lignite resources; develop the agriculture through different incentivizing policies to create larger parcels of ownership in order to use the farmland and hillsides even for tourism; metallurgy and mining industry thanks to mineral reserves, wood industry due to large amount of forests and hardwood reserves.

Along the way, our government has to put more effort on solving the private ownership problems, intervene in its physical policies and in the financial sector by enabling long-term investments, continue to improve the infrastructure, and build a more stable political environment.

In conclusion, I have to restate the fact that Kosovo is truly a great place to invest for people with courage, vision and business understanding. It clearly has many advantages and many resources that would enable investor to gain competitive advantage even in the first stages of business life. The great young population, natural resources, strategic geopolitical position, friendly environment serve as attracting factors in the sight of potential investors. Of course it will be up to us how bad we want to reach our goals and which path are we going to follow, thus the steps we will take today will shape our future. Today it is the time to make extra efforts and create a better platform which would better stimulate the economic development through better allocating our resources, increasing their efficiency and effectiveness and making the most out of them so our society will enjoy a better life.

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