

# The Potential of Economic Diplomacy for Kosovo's Economic Growth

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## Abstract

Historically, the wise use of country's economic potential brought conducive political gains. In contemporary times, where the business competition has reached its peak, the creative diplomacy that caters economic concerns, generally called the economic diplomacy is gaining pace. The term of Economic Diplomacy is fairly new, but apparently the research and evaluation of this concept is rapidly increasing, primarily to assess its impact on economic growth. Despite gaining popularity and acknowledgment, many countries are not taking full advantage of economic diplomacy, the Republic of Kosovo is case in point. The aim of this work is to explore the importance of economic diplomacy for Kosovo, a developing country, but with vast potential for growth. The study begins with a brief analysis on Kosovo economic history and the first signs of economic diplomacy. In addition, it discusses the role, importance and the future of economic diplomacy for Kosovo, vis a vis challenges and opportunities. It analysis the level of the use of economic diplomacy in the region, as well as presents data concerning Kosovo trade with world during the period 2004-2014. Finally it offers a number of recommendations for economic development in relations to economic diplomacy and concludes that success of the economic diplomacy largely depends on active, creative and proactive leadership as well as shrewd decision making.

**Key Words:** Economic Diplomacy, Kosovo, Trade, EU and USA.

## 1. Introduction

The Republic of Kosovo<sup>1</sup>, the contested territory between Kosovo's Albanian majority and Serbia, was an self governing unit of federal Yugoslavia until 1989, when Slobodan Milosevic (the former Serbian leader), revoked its autonomous status, and undertook severe other actions that led in the break-up of former Yugoslavia. While traditional political diplomacy played a crucial role during and after crisis the economic diplomacy of Kosovo is still in its infancy. Even though the country encounters severe economic problems, the role of economic diplomacy in Kosovo, key to economic security, tends to be widely ignored as it is not much publicized.

Economic diplomacy, however, is a often defined as a tool of the foreign policy, with the task of aiding and encouraging economic activities outside the state boundaries. Nicholas Bayne and Stephen Woolcock define it as "interaction between international and domestic factors and between political and economic concerns."<sup>2</sup> Through the use of economic tools the economic diplomacy aims at achieving other, non-economic goals.

## 2. Literature Review

Even though the field of economic diplomacy is fairly new, the studies in this discipline are increasing. An interesting work in the subject was conducted by Mursitama et al. (2007) examines the role of Indonesia economic diplomacy vis-à-vis ASEAN China free trade agreement (ACFTA) and the study shows Indonesia's economic diplomacy proved to be vital for country's interest and enhancing leadership in this region. The main agents/actors that shaped the economic diplomacy were identified to

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<sup>1</sup> Kosovo declared its independence on the 17<sup>th</sup> February 2008. It has been recognized by over 100 nations from all parts of the globe but it is not yet a United Nations member.

<sup>2</sup> Bayne N., and Woolcock S., (2011), *The new economic diplomacy: Decision Making and Negotiation in International Economic Relations*, Surrey: Ashgate Publishing Limited, p.5

be country's Ministry of Trade and Industry, Ministry of Foreign Affairs and Chamber of Commerce.<sup>3</sup>

Kesteley (2012) explored the Belgian economic diplomacy in light of public-private partnerships and multinational corporations. The results show that multinational corporations either use their own diplomacy or seek Belgian economic diplomacy where they find Belgian diplomats or Foreign Affairs Ministry of the country constructive and ready to help, even though, the study finds, that certain diplomatic channels may need to be updated.<sup>4</sup>

Ünay (2010) research shows the level of economic diplomacy importance for Turkey's economic security in today's globalised and competitive world. The study reveals that Turkey does not have economic diplomacy tradition thus lacking skilled professionals in this field and need to invest resources in order to develop strategically in economic diplomacy that ought to play a fundamental role in country's future economic development in increasingly challenging and competitive world.<sup>5</sup>

Tsardanidis and Karafotakis (2000) explored that impact of Greece's economic diplomacy in relations to Balkan countries. This study finds that Greece's economic diplomacy played an important role country's successful economic performance, in the Balkan region in the first decade after the communism, with the construction sector and food industry achieving remarkable success and opportunities for expansion.<sup>6</sup>

### 3. Brief Kosovo economic history and the first signs of Economic Diplomacy

The economy of Kosovo, which is still in transition state, has traditionally lagged behind the rest in the region. During communist Yugoslavia, Kosovo was indeed the poorest province. After central federal government intervention with development subsidies during the 1960s and

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<sup>3</sup> Mursitama, TN, Hadi, S., Abdullah I., and Dewanto A.P., (2013), The Intertwining of Domestic Actors and Interests: A Case of Indonesia's Economic Diplomacy and toward ASEAN China Free Trade Agreement, *International Business Management* Vol 7, Issue 4,

<sup>4</sup> Kesteley J., (2013) *Belgian Multinationals and Public-Private Partnerships in Economic Diplomacy*, Ghent Institute for International Studies, Ghent University,

<sup>5</sup> Ünay S., (2010), Economic Diplomacy for Competitiveness: Globalization and Turkey's New Foreign Policy, *Perceptions*, Vol 15, Issue 3-4,

<sup>6</sup> Tsardanidis C., and Karafotakis E., (2000), Greece's Economic Diplomacy towards the Balkan countries, *Perceptions Journal of International Affairs (Ankara)*, Vol 5 No.3,

1970s situation slightly improved.<sup>7</sup> The 1989-1998 Kosovo encountered unstable political situation, and sanctions, which meant limited access to external trade and finance. The early 1990s wars in Yugoslavia and, finally, the 1998-1999 Kosovo war, brought the already-weak economy, to its knees. The 1998-9 war created enormous destruction and major international aid was necessary for reconstruction and development. Kosovo economic diplomacy and related development was left in the hands of internationals who tried to work hard on the vital economic objective - how to start the Kosovo economy.

The trade sector was crucial to economic prosperity and regional trade integration became the main pillar of economic policy, though Serbia staunchly opposed it. The economic diplomacy handled by Kosovo Western allies initially succeeded in opening the door for Kosovo to join the Central European Free Trade Agreement (CEFTA) in 2007. CEFTA is a European trade agreement among the Non-EU countries in Central and South-Eastern Europe.<sup>8</sup> This was among the first and crucial steps towards Kosovo economic development.

However in the meantime, by June 2005 Kosovo made the first minor sign in direction of economic diplomacy by establishing Investment Promotion Agency in Kosovo (IPAK) in order to boost the economic development through FDI.<sup>9</sup> Yet still, international support and encouragement by influential Western powers was necessary to improve the poor state of its economy.

Since 2008 Kosovo independence declaration, the country started to work more aggressively towards the integration in Economic and Financial, both, regional and global. About a year after independence the Republic of Kosovo's, again with outside support and through difficult negotiations, became a full member of the World Bank, the International Monetary Fund (IMF) and a few years later also the European Bank for Reconstruction and Development (EBRD). However, one of main economic aims of the country is joining the World Trade Organisation (WTO), and even though benefits

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<sup>7</sup> Pond, E., "Why Turbulent Kosovo has Marble Sidewalks but Troubled Industries". *Christian Science Monitor*, (15 December 1981). p. B2

<sup>8</sup> Kosovo Ministry of Trade and Industry (2009) Trade Policy of Kosovo Available from: [http://www.mti-ks.org/repository/docs/Trade\\_Policy\\_of\\_Kosovo\\_2009.pdf](http://www.mti-ks.org/repository/docs/Trade_Policy_of_Kosovo_2009.pdf) Accessed 20 April 2015]

<sup>9</sup> European Community Programme,(2015) *Investment Promotion Agency in Kosovo*, Available from: on <http://wbc-inco.net/object/organisation/8788> [Accessed 20 April 2015]

are great, Kosovo government realises that WTO membership is more complex.

Kosovo economic indicators show (see Table 1.1 below) that GDP growth is rather impressive, taking in consideration the global economic crises, however, high inflation (especially in 2011) and the subsequent lowering of the FDI and more importantly the alarming *trade deficit* continues to adversely affect country's weak economy.

**Table 1:** Selected economic indicators for the Republic of Kosovo

	Unit	2011	2012	2013	2014
<b>Real GDP</b>	%	4.4	2.8	3.4	2.7
<b>Consumer prices</b>	%	7.3	2.5	1.8	0.4
<b>FDI (net)</b>	(€ mil)	379	213	286	326*
<b>Trade balance (percent of GDP)</b>	%	-41.1	-40.5	-38.4	-35.6*

**Sources:** IMF Country Report No. 13/113: Republic of Kosovo (May 2013) p.23 and IMF Report (October 2014), *World Economic Outlook: Legacies, Clouds, Uncertainties*, Washington DC.: IMF Publication Services: p.188, 193, 203, IMF Report (April 2015), *World Economic Outlook: Uneven Growth, Short and Long-Term Factors*, Washington DC.: IMF Publication Services, p.174, 179

**Notes:** (\*) FDI net value and the Trade balance (percent of GDP) are projections

Besides the above mentioned indicators the major problem is the high unemployment, and the government is struggling to strengthen domestic productivity despite unreserved efforts. According to the World Bank, Kosovo remains among the poorest countries in Europe with GDP per capita of around €2,700, about one-third of its population living below the poverty line and approximately one-eighth in extreme poverty.<sup>10</sup>

As one can realize from the above table (Table 1.1) the trade deficit is a real worry for country's frail economy. Kosovo latest data on trade show that European Union as a bloc is the main trading partner, while on the trade with individual states, heads Macedonia, followed by Serbia, Germany, Italy, Turkey and China (see Table 1.2 below). In the Balkan

<sup>10</sup> World Bank (2015), *Kosovo Overview* Available from: <http://www.worldbank.org/en/country/kosovo/overview> [Accessed on 18 April 2015]

region, exports to Albania and imports from Macedonia have the highest percentage.

**Table 2: Kosovo trade with the world - 2004-2014 (in Total) Selected countries and blocs**

TOTAL 2004-2014	EXPORTS		IMPORTS		TRADE BALANCE (€)	EXPORTS covering IMPORTS (%)	TOTAL TRADE EXCHANGE (€)	%
	Value (000 €)	% of Total	Value (000 €)	% of Total				
TOTAL	2,262,145		21,111,659		(18,849,514,000)	10.72	23,373,804,000	
EU	797,634.8	35.26	7,327,489.4	34.71	(6,529,854,594)	10.89	8,125,124,270	34.76
Austria	35,996.1	1.59	321,531.2	1.52	(285,535,116)	11.20	357,527,316	1.53
Belgium	57,414	2.54	71,954.7	0.34	(14,540,695)	79.79	129,368,695	0.55
Germany	112,946.4	4.99	2,135,404.3	10.11	(2,022,457,934)	5.29	2,248,350,742	9.62
Greece	34,882	1.54	870,404.7	4.12	(835,522,689)	4.01	905,286,689	3.87
Italy	416,807.87	18.43	1,110,328.5	5.26	(693,520,670)	37.54	1,527,136,404	6.53
Slovenia	34,317.	1.52	649,326.5	3.08	(615,009,532)	5.29	683,643,532	2.92
Bulgaria	30,308.	1.34	437,387.7	2.07	(407,079,746)	6.93	467,695,746	2.00
Croatia	19,462.	0.86	511,901.4	2.42	(492,439,428)	3.80	531,363,428	2.27
CEFTA	149,726.1	6.62	869,233.9	4.12	(719,507,854)	17.23	1,018,960,014	4.36
Albania	249,510.4	11.03	645,679.1	3.06	(396,168,749)	38.64	895,189,459	3.83
Macedonia	201,115.5	8.89	2,680,991.6	12.70	(2,479,876,138)	7.50	2,882,107,040	12.33
Montenegro	64,285.1	2.84	124,391.5	0.59	(60,106,519)	51.68	188,676,637	0.81
Serbia	104,521.7	4.62	2,347,555.0	11.12	(2,243,033,354)	4.45	2,452,076,750	10.49
Bosnia and Her.	32,059	1.42	516,054.2	2.44	(483,995,150)	6.21	548,113,150	2.34
BRIC cntr	109,412.5	4.84	1,578,287.8	7.48	(1,468,875,254)	6.93	1,687,700,352	7.22
Brazil	88,000	0.00	333,368.9	1.58	(333,280,959)	0.03	333,456,959	1.43
China	71,895.6	3.18	1,224,069	5.80	(1,152,173,437)	5.87	1,295,964,599	5.54
Other countries	1,205,371.5	53.28	11,336,647.8	53.70	(10,131,276,298)	10.63	12,542,019,364	53.66
Turkey	61,302.1	2.71	1,458,793.8	6.91	(1,397,491,665)	4.20	1,520,095,891	6.50
USA	2,131	0.09	309,062.6	1.46	(306,931,592)	0.69	311,193,592	1.33
Japan	530	0.02	131,841.2	0.62	(131,311,274)	0.40	132,371,274	0.57

**Source:** Kosovo Agency of Statistics, (2015) *External Trade Statistics*, (from year 2004 to year 2014)

Yet still, one can argue that, since 1999 war destruction, Kosovo has somewhat moved forward. While the road towards the EU membership appears to be rather bumpy, its economic development shows signs of improvement. The World Bank confirms this when it says:

“A potential candidate for EU membership, the Republic of Kosovo is a lower-middle-income country with a solid economic growth performance since the end of the war in 1999. It is one of only four countries in Europe

that recorded positive growth rates in every year during the crisis period 2008–12, averaging 4.5 percent.<sup>11</sup>

Even though certain macroeconomic indicators show that there is improvement, and integration into regional and international institutions is taking place, still enormous high level of unemployment (around 47%),<sup>12</sup> failure of privatization process, and lack of significant Foreign Direct Investment (FDI) justly shows that there is loads of work ahead. Perhaps the time is right to reflect that investing in economic diplomacy could be vital to the economic prosperity of the country.

#### **4. The infancy of Kosovo Economic Diplomacy**

Conventional wisdom shows that nations use both traditional political as well as economic diplomacy to drive foreign policy agendas. In the era of globalization, the economic diplomacy tend to be more acute as political means cannot be achieved if economy is not on sound footing. The strength of country's economy often reflects the political decision in the region and further. While the big powers use economic diplomacy to strengthen further the position they have in global scene and grow domestic economy, small countries encounter enormous problems to consolidate the home economy, and integrate in international financial and economic institutions because their small markets tend to be reflected in inferior manner especially on trade negotiations.

Seven years after the declaration of independence, the Kosovo traditional diplomatic structure is somewhat functional with positive results in terms of country's independence recognitions, though more could have been done. In the economic diplomacy Kosovo is still in its infancy. In July 2011 the office of Kosovo's Prime Minister of Kosovo presented the economic plan for development of Kosovo, within which the Economic Diplomacy plays a an important role. The government was hopeful that Kosovo's strategy for Economic Diplomacy is key to the increase of external trade. In the Economic Diplomacy strategy besides the Office of Prime Minister, Ministry of Foreign Affairs (MFA), and Ministry of Trade and Industry (MTI), also the Ministry of Economic Development (MED), and Ministry of Finance play a critical role. In addition, other

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<sup>11</sup> *ibid*

<sup>12</sup> World Bank, *IDA and Kosovo*, Available from:  
<http://www.worldbank.org/ida/country/kosovo.html> [Accessed on 22 April 2015]

ministries such as Ministry of Diaspora as well as economic and business associations and agencies are conducive to the overall economic diplomacy project.

The general economic plan resulted in formalisation of Economic Diplomacy Task Force with the aim “to gain support of groups, projects and ministries whose activities relate to international commerce and economic diplomacy”.<sup>13</sup> The involvement of MFA, MTI and MED was considered a necessity. The idea behind this strategy is the positioning of Kosovo’s products, resources and services to have closer access to international markets. All in all, identifying foreign opportunities for domestic products and direct investments is conducive to overall economic development. Kosovo’s economic diplomacy also focuses on a unified system whereby databases from MFA, MTI, Kosovo Agency for Business (KAB) and other economic and business associations are combined in order to coordinate the strategy for the economic diplomacy.<sup>14</sup>

Kosovo as a developing transition economy is prone to critics due to high level corruption and uncertainty. Many potential investors feel uncomfortable to consider investments in such an environment.<sup>15</sup> The Kosovo government, is aware of this reality and responds to general public by claiming that is trying to do utmost to fight corruption and create a decent climate for investments. Through IPAK it is aiming pragmatic promotions, constructive negotiations and respective signings of agreements for Protection of Investments, in order the investors feel secure for the investments they make. The role and the function of IPAK is crucial as it intends to improve the image of the country, support economic development as well as encourage and facilitate foreign direct investments. As a promoter of economic and sound business climate of Kosovo, the IPAK leads a global marketing campaign, providing information and services for free to all potential foreign investors.<sup>16</sup>

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<sup>13</sup> Office of Prime Minister (2011) *Action Plan of the Economic Vision of Kosovo 2011-2014*, Available from: [http://www.kryeministri-ks.net/repository/docs/Action\\_Plan\\_of\\_the\\_Economic\\_Vision\\_of\\_Kosovo\\_2011-2014.pdf](http://www.kryeministri-ks.net/repository/docs/Action_Plan_of_the_Economic_Vision_of_Kosovo_2011-2014.pdf) [Accessed on 14 April 2015]

<sup>14</sup> *ibid*

<sup>15</sup> Thompson W., (2012) *World Today Series 2012: Nordic Central & Southeastern Europe*, Lanham: Stryker-Post Publications, p. 488

<sup>16</sup> Wählisch, M., Xharra, B., (2010), *Public Diplomacy of Kosovo: Status Quo, Challenges and Options*, Prishtine: Friedrich Ebert Stiftung, p.37

Already in 2006, IPAK, encouraged by the Economic Initiative for Kosova (ECIKS), launched its first office in Vienna, representing the economic interests of Kosovo abroad. This Office provides the existing and potential new foreign investors from German-speaking nations (Austria, Germany, and Switzerland) with free of charge services.<sup>17</sup>As part of economic diplomacy the Kosovo government gave a significant importance to the establishment of liaison program for Ministry of Foreign Affairs and Ministry of Trade and Industry at foreign embassies in Kosovo.<sup>18</sup> Recently, in April 2015, the Kosovo Foreign Policy office organized a brief training in economic diplomacy and claimed that "Economic diplomacy is Kosovo's foreign policy priority".<sup>19</sup>

## 5. Why is Economic Diplomacy important for Kosovo

Nowadays the role of economic diplomacy is becoming crucial in globalised economy because of its significant impact on the nations' economic development. Studying and training on the field of economic diplomacy is becoming a necessity tool for every diplomat. When dealing with international economic relations a strong background in the fields of foreign trade, finances, international relations and business, as well as in negotiations skills, is not only desired but a necessity. Otherwise a diplomat risks mediocre representation of country economic interests which may be severe repercussions for domestic economy and the penetration into the global markets.

A successful economic diplomat should be shrewd and concise to provide relevant information and related guarantees so that investor's mind on potential investment is at rest. International business knowledge, presentation and negotiation skills are the very essence of economic

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<sup>17</sup>Government of Republic of Kosovo,(2015), *ECIKS*, Available from: <https://www.rks-gov.net/en-US/Bizneset/InvestimetNeKosove/Pages/ECIKS.aspx> [Accessed on 14 April 2015]

<sup>18</sup> Office of Prime Minister (2011) *Action Plan of the Economic Vision of Kosovo 2011-2014* Available from: [http://www.kryeministri-ks.net/repository/docs/Action\\_Plan\\_of\\_the\\_Economic\\_Vision\\_of\\_Kosovo\\_2011-2014.pdf](http://www.kryeministri-ks.net/repository/docs/Action_Plan_of_the_Economic_Vision_of_Kosovo_2011-2014.pdf) [Accessed 3 April 2015]

<sup>19</sup>Ministry of Foreign Affairs,(2015) *Economic diplomacy is Kosovo's foreign policy priority*, Available from: <http://www.mfa-ks.net/?page=2,4,2610&offset=1> [Accessed 3 April 2015]

diplomacy. Often, the outcome of the diplomat's negotiation may have substantial influence on nation's economic development. It is rather fair to say that Kosovo economic diplomacy has long way to go before reaching the desired state, and awaiting subsequent outcomes. Economic diplomacy is the best mode to give necessary information about Kosovo potential and interesting opportunities for investment.

Yet still, one must bear in mind that small and developing nations cannot be equal partners in negotiations with large and developed states, because large market countries often have tendency to impose, in large part, their favourable terms during the negotiations.

In the Balkan region economic diplomacy segment has begun to take shape, although at slow pace. In Albania, already in 2008, the former Albanian Prime Minister Sali Berisha said "the diplomatic missions will be transformed into missions of economic diplomacy. The economic diplomacy should get priority"<sup>20</sup> and those commitments were kept.<sup>21</sup> Unlike Albania and Kosovo, the Republic of Slovenia has a very advanced economic diplomacy. The Official Slovenian MFA web page on economic diplomacy elaborates the significance of economic diplomacy when it remarks that "The Ministry of Foreign Affairs (MFA) protects, pursues and promotes the interests of the Slovenian economy abroad through its network of diplomatic missions and consular posts. Economic diplomacy includes all the relevant activities of the Ministry of Foreign Affairs and the 56 diplomatic missions and consular posts of the Republic of Slovenia with their 23 economic advisors."<sup>22</sup>

The Republic of Macedonia, similar to Albania has been recently engaged in economic diplomacy. During the late years of last decade the Macedonian government claimed that economic diplomacy is being used in "promoting Macedonia's economic interests abroad and attracting foreign

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<sup>20</sup>MFA of Albania (2008) *Premier Berisha: Economic diplomacy should get priority* Available from: [http://arkiva.mfa.gov.al/index.php?option=com\\_content&view=article&id=6599%3Akryeministri-berisha-diplomacia-ekonomike-duhet-te-marre-perparesi-dhe-epersi&catid=112%3Alajme&lang=en](http://arkiva.mfa.gov.al/index.php?option=com_content&view=article&id=6599%3Akryeministri-berisha-diplomacia-ekonomike-duhet-te-marre-perparesi-dhe-epersi&catid=112%3Alajme&lang=en) [Accessed 22 April 2015]

<sup>21</sup>Worldbulletin.net, (2013) *Albania to implement economic diplomacy with Turkey*, Available from: <http://www.worldbulletin.net/haber/105144/albania-to-implement-economic-diplomacy-with-turkey> [Accessed 12 April 2015]

<sup>22</sup> MFA of Slovenia (2015), *Economic Diplomacy* Available from: [http://www.mzz.gov.si/en/economic\\_diplomacy/](http://www.mzz.gov.si/en/economic_diplomacy/) [Accessed 23 April 2015]

investments.”<sup>23</sup> In Bosnia and Herzegovina, the economic diplomacy is rather overlooked and government has not yet put on list of priorities.<sup>24</sup> Serbia, on the other hand, with extensive research, special departments (within Serbian MFA)<sup>25</sup> and institute that explicitly deals with economic diplomacy <sup>26</sup> is way ahead Albania, Kosovo, Bosnia and Herzegovina and Macedonia.

Unlike small countries that encounter enormous problems to consolidate the home economy, and integrate in international financial and economic institutions because their small markets, the big powers use economic diplomacy to strengthen further the position they have in global scene and grow domestic economy. Even among the big powers the economy diplomacy differs. While the USA economic diplomacy focuses on foreign policy objectives to maintain superpower status as well as to generate economic development at home, the UK's economic diplomacy is mainly focused on business interests on Commonwealth and its maintain business market on former colonies. Russia on the other hand uses economic diplomacy as an opportunity to preserve influence in the region.<sup>27</sup>

All in all, as one can see, countries have a tendency to use the economic diplomacy for various economic or political interests or combined both political and economic interests. On the other hand, Kosovo, despite shortcomings, inability to join the UN member yet, and having a frail economy, can and must do more to invest in broad economic strategy. One must point out that like in other post war societies also in Kosovo, the consolidation the economy have been closely connected to politics, reconciliation of communities which meant also social transformation. Political diplomacy can succeed if economy is sound, yet for the latter to

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<sup>23</sup> MFA of Macedonia, (2015), *Macedonian Diplomatic Bulletin* Available from:

[http://micnews.com.mk/files/MDB/MDB %2021.pdf](http://micnews.com.mk/files/MDB/MDB%2021.pdf) [Accessed 13 April 2015]

<sup>24</sup> Nušinović, A., and İlgun, E., (2012), *Economic Diplomacy and Business Negotiation- managerial approach* Available from:

<http://eprints.ibu.edu.ba/1336/1/31.%20Economic%20Diplomacy%20and%20Business%20Negotiation-%20managerial%20approach.pdf> [Accessed 13 April 2015]

<sup>25</sup> MFA of Serbia, (2015) *Multilateral Economic Section*, Available from:

<http://www.mfa.gov.rs/en/foreign-policy/multilateral-issues/economic-diplomacy> [Accessed 13 April 2015]

<sup>26</sup> EconomicDiplomacy.co.rs, (2015) *Institute for Economic Diplomacy* Available from:

<http://www.economic.diplomacy.co.rs> [Accessed 12 April 2015]

<sup>27</sup> SIPA Capstone Project Team (2012), *Exploring Public and Economic Diplomacy*. School of International and Public Affairs, Columbia University.

succeed still traditional diplomacy is fundamental. Combining both, economics and diplomacy, is the key to the lasting success.

## **6. The future of Kosovo Economic Diplomacy and recommendations**

As mentioned above, even before the declaration of independence (in 2008), Kosovo, with the help of internationals, was oriented towards a strategy for economic boost. It developed programs to promote and facilitate exports in region and further as well as to increase FDI. Kosovo, however, does not possess world brand products to promote, but it is raising its voice in trade issues conducive to Kosovo's economic growth and development. As a small country with small market Kosovo realizes that are great challenges ahead, nevertheless this does not stop the country to work hard towards formulating strategies that are shrewd, concise, measurable and rational.

As post war society and having inherited the legacy of poverty in the communist era, Kosovo must double its efforts in order to achieve desired results. One comprehends, however, that sensitive political activities precede over other important segments in post war and newly independent countries. Once the euphoria of independence starts to calm down the new problems, especially economic, surface. As a result the role of economic diplomacy comes to fore. This is the case with Kosovo too.

The short term prospects of economic diplomacy development for the Republic of Kosovo, may not be promising due to uncoordinated economic strategy, no adequate diplomatic network channels established and no adequate training in economic dipomacy. The unresolved UN status, that may last a few years, is an additional challenge, but yet still, should not prevent Kosovo from preparing itself to joining other international mechanisms especially the WTO, though the process may be complicated. Kosovo has impressive resources to succeed but there is a need for shrewd and courageous leaders that make right decisions. On the other hand, once Kosovo becomes UN member, and overcomes the transition period then the road towards further economic and political integration (mainly the EU) may be smoother. The eventual EU membership should set new standards for economic management of Kosovo that ought to stabilize the economy. In such circumstances the role of economic diplomacy would be more and more critical.

Kosovo government should not, however, consider economic development as a race with the countries of the region. Transition and economic development, according to Janos Kornai, an Hungarian economist, should "... be an organic process... Some developments are rapid, others slow... The emphasis has to be on consolidation, stability, and sustainability, not on braking speed records."<sup>28</sup>

## **7. Recommendations**

A focus on economic development must contain the economic diplomacy strategy and should involve the following recommendations.

### **7.1. Economic prosperity**

Kosovo's economic and business interests should become now the main pillar of Kosovo's foreign policy. The strategies developed should focus purely on trade and investment. The main idea should be facilitating Kosovo exports, attracting FDI, and promoting the Kosovo products and image. Government must concentrate on ways to encourage SME to produce qualitative and competitive products for domestic and export purposes. This in turn will be conducive to nation branding campaign effects along with other related promotion mechanisms.

### **7.2. Promotion of FDIs**

Promotion of the Kosovo, however, should be among the most crucial segments of country's economic diplomacy. The promotion should aim at improving country's image abroad by depicting Kosovo as a warm and welcoming country, and providing information about favourable economic policies and improving infrastructure. Kosovo should be promoted across the globe as a small but promising economic partner, a land of culture and tourism with attractive opportunities for investment.

FDI are critical in nature effecting macroeconomic indicators, thus should be promoted in the best way possible. Potential investors, should be identified in different ways and means. Kosovo has indeed organized a number of events and participated in such promotional events, and such organization-hosting and participations abroad should possibly increase

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<sup>28</sup>Gerber, J., (2002) *International Economics*, Boston: Addison Wesley, p. 427 quoting Janos Kornai from *Finance and Development*, September 2000

further. Moreover, branding Kosovo as a bargaining market for cheap labour in such events would be conducive to the FDI promotion. With the youngest population in Europe,<sup>29</sup> Kosovo could indeed be an attractive alternative for potential investors.

In addition, very simple tax system with low taxes and with EU compatible legislation Kosovo can offer free access to a market of 520 million consumers (both CEFTA and EU Markets). These opportunities can make Kosovo compete with low cost countries, such as China.

Such promotion could be done through attendance of investment conferences Business Forums, and direct visits to potentially interested business markets. In addition, IPAK could use media giants such as CNN, BBC, Al Jazeera or famous magazines such the Economist, newspaper such as New York Times to advertise Kosovo's potentials on all parts of the world.

### 7.3. Enhance further relations with the USA

Kosovo is widely acknowledged to be the most pro-American country in Europe and further. This affection comes mainly from the fact that USA supported Kosovo prior, during and after the war. USA-Kosovo political and economic relations have been steadily growing, with an increased intensity since end of Kosovo war.

**Table 3:** Kosovo-USA trade comparison (2004 vs 2014)

	2004		2014	
	TOTAL TRADE (€)	(%)	TOTAL TRADE (€)	(%)
<b>TOTAL</b>	<b>1,119,914,000</b>	<b>100%</b>	<b>2,862,786,000</b>	<b>100%</b>
USA	16,980,000	1.52	49,491,835	1,41

**Source:** Kosovo Agency of Statistics, (2015) *External Trade Statistics*, (from year 2004 to year 2014)

In the economic sphere, between 2004 and 2014, the bilateral trade grew nearly 250 %, from only €16.9 million into 2009 to €40.4 million in 2014 (See the Table 1.3 above). This trend is very likely to increase further in the following years, in various sectors, due to special relationship they have,

<sup>29</sup>Zaum D., and Knaus V., The political economy of statebuilding in Kosovo in Berdal M., and Zaum D., (2013), *Political economy of statebuilding : Power after peace*, Oxon: Routledge, p.242

but also because it is in their mutual interest. Kosovo government is strongly committed to maintaining strong economic and political relations with the U.S. while marketing Kosovo as the best alternative in the Balkan region should be the economic priority.

#### **7.4. Enhance relations with the EU**

Kosovo has good relations with the EU, where 23 of its 28 member states have recognized Kosovo as an independent country. In addition, the European Parliament recently adopted a resolution that requests the five remaining member states (Spain, Slovakia, Cyprus, Romania, and Greece) to recognize Kosovo.<sup>30</sup> Kosovo, however, is fully committed to joining the EU but the obstacle of non-recognition by the five EU countries is jeopardizing the hopes for ordinary steps towards EU integration. On the economic sector, as mentioned above, the EU as a bloc is the Kosovo's main partner in trade. It is interesting that even trade between Kosovo and the EU members that have not recognized Kosovo has experienced solid growth. Indeed, the trade increased from €87.7 mil in 2004 to over €120 mil in 2014. (See Table 1.4 below).

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<sup>30</sup> European Parliament (March 2015), *European parliament resolution of 11 march 2015 on the european integration process of Kosovo* Available from: <http://europeanwesternbalkans.com/2015/03/13/european-parliament-resolution-of-11-march-2015-on-the-european-integration-process-of-kosovo/> [Accessed 29April 2015]

**Table 4:** Kosovo-EU trade comparison (2004 vs 2014). EU in total and selected countries

	2004			
	TOTAL TRADE (€)	(%)	TOTAL TRADE (€)	(%)
<b>TOTAL</b>	<b>1,119,914,000</b>	<b>100%</b>	<b>2,862,786,000</b>	<b>100%</b>
<b>EU TOTAL</b>	<b>394,392,000</b>	<b>35.22</b>	<b>739,772,230</b>	<b>25.84</b>
Austria	28,597,000	2.55	29,662,509	1.04
Belgium	5,513,000	0.49	7,393,000	0.26
Germany	81,509,000	7.28	183,168,302	6.40
Italy	50,061,000	4.47	158,482,137	5.54
<b>EU memb. NOT rec. Kosovo</b>	<b>85,745,000</b>	<b>7.66</b>	<b>120,984,468</b>	<b>4.23</b>
Greece	72,777,000	6.50	78,695,810	2.75
Slovakia	4,431,000	0.40	9,605,000	0.34
Spain	8,537,000	0.76	15,036,629	0.53
Romania	-	-	17,647,029	0.62
Cyprus	N/A	N/A	N/A	N/A

**Source:** Kosovo Agency of Statistics, (2015) *External Trade Statistics*, (from year 2004 to year 2014)

Kosovo-EU trade relations, however, are regulated in September 2000, under the Council Regulation 2007/2000 which recognizes Kosovo as an autonomous customs unit. As a result 95% of Kosovo's products are free from customs tariffs.<sup>31</sup> Kosovo should work hard in fulfilling the criteria derived from ongoing negotiations on Stabilization and Association Agreement (SAA) that makes up the framework of relations between the EU and the Balkan nations. There are additional benefits for Kosovo to gain from SAA.

### 7.5. Reframe relations with BRIC countries - lessons from Taiwan

BRIC is an economic acronym referring to the four big countries - Brazil, Russia, India and China, which is often considered as contender to Western G7. Their potential is vast, as they comprise 40 per cent of the world's total

<sup>31</sup>Holzner M., Peci., F., (June 2012), *Measuring the Effects of Trade Liberalization in Kosovo* Working Paper 85, Vienna Institute for International Economic Studies p.2

population, over a quarter of the planet's surface spreading in three continents, and account for more than a quarter of global GDP.<sup>32</sup> Yet none of the BRIC countries has recognized Kosovo as an independent state.

**Table 5:** Kosovo-BRIC countries trade comparison (2004 vs 2014)

	2004		2014	
	TOTAL TRADE (€)	(%)	TOTAL TRADE (€)	(%)
<b>TOTAL</b>	<b>1,119,914,000</b>	<b>100%</b>	<b>2,862,786,000</b>	<b>100%</b>
<b>BRIC countries-TOTAL</b>	<b>55,815,000</b>	<b>4.98</b>	<b>201,362,262</b>	<b>7.03</b>
Brazil	21,550,000		25,722,836	0.9
Russia	N/A	N/A	N/A	N/A
India	-	-	24,853,029	0.87
China	34,265,000	3.06	150,786,397	5.27

**Source:** Kosovo Agency of Statistics, (2015) *External Trade Statistics, (from year 2004 to year 2014)*

However, as one can see the Table 1.5. above, Kosovo trade with BRIC countries has experienced enormous growth nearly quadrupled from 2004 to 2014. What is more important, the share of the trade increased from 4.58 per cent in 2004 to over 7 per cent in 2014.

Kosovo, should take an example from Taiwan, who has just about 24 international recognitions worldwide but its economic diplomacy is at full steam. Taiwan has been working hard in creating diplomatic channels in order to trigger trade worldwide even with countries that have not recognized. They opened the so called Taipei Economic and Cultural Representative Office (TECRO), respectively Taipei Economic and Cultural Office (TECO) in various important cities, promoting Taiwan economic and

<sup>32</sup>Kavalski E., (2015), *Encounters with World Affairs: An Introduction to International Relations*, Surrey: Ashgate Publishing Limited, p.282

trade potential.<sup>33</sup> Now Taiwan it has trade offices in about 100 different countries, is a major player in international trade, and considered to be the world's top manufacturer of PCs.<sup>34</sup> Since the significance of the BRIC countries is gradually increasing worldwide, Kosovo should learn from Taiwan example, by using different diplomatic channels in order to promote its economic potential through opening offices in these powerful nations and beyond where it deems beneficial for economic interests. Kosovo should design a comprehensive strategy targeting the BRIC countries aiming at reaching mutually beneficial trade and economic cooperation which in turn may be conducive to gradual establishment full diplomatic ties.

#### **7.6. Take private business delegations on diplomatic trips abroad**

The former Turkish Prime Minister (now the President of Turkey) Recep Tayyip Erdogan on most of his diplomatic trips takes with him about 200-500 business leaders, even in some less known world regions.<sup>35</sup> Kosovo's leadership could employ the same practice and get along business delegations on diplomatic trips that could potentially create productive bilateral trade networks. Kosovo's business leaders, by visiting countries, can sense the business climate in those respective nations and more importantly will provide the opportunity for buyer and seller to meet. The essential thing is making contacts and widening the network.

#### **7.7. Training Diplomats in Economic Diplomacy**

In many countries training the diplomats in economic diplomacy is becoming a must-do practice. India is heavily working in the economic diplomacy sector by focusing heavily its efforts on adequate training of its diplomats in order to be both financially and economically literate.<sup>36</sup> Also recently French Ministry of Foreign Affairs made economic diplomacy a priority and economic diplomacy training essential when it said:

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<sup>33</sup> International Business Publications, (2014), *Taiwan: How to Invest, Start and Run Profitable Business in Taiwan Guide: Practical Information, Opportunities3 Contacts*, Washington: International Business Publications, p.33

<sup>34</sup> Ibid p.31

<sup>35</sup>SIPA Capstone Project Team (2012), *Exploring Public and Economic Diplomacy*. School of International and Public Affairs, Columbia University.

<sup>36</sup> Ibid

“Training modules on economic and trade issues are being stepped up. Candidates with economic profiles are sought after, particularly from backgrounds of academic economics and business schools. The presence of diplomats in businesses will be encouraged and developed ”<sup>37</sup>

Kosovo can learn that in today's challenging world having a background on purely international diplomacy is insufficient to reach desired success. Brief training on economic diplomacy, as one undertaken by Kosovo Foreign Policy office recently,(that was mentioned above), will not be sufficient. The evolution of diplomacy necessitates the good knowledge of economic, financial and business sectors. Since Kosovo lacks such Economic Diplomacy centre, training diplomats in famous Western diplomatic academies is crucial for Kosovo diplomacy to succeed in the future.

### **7.8. Reach out to Kosovars living abroad**

Kosovo's Ministry of Diaspora should help Kosovars living in diaspora increase their engagement with Kosovo. It should be wise to reveal Kosovo investment potential in qualitative and presentable manner to Kosovo diaspora around the world with the goal being to promote investment from around the world back home. The MFA, MTI or Ministry of Diaspora should undertake assertive economic and public diplomacy campaign by publishing materials on Kosovo tax and investment regulations, as well as secure climate for FDI projects in Kosovo. Besides, exploiting the professional skills as well as business and technical expertise of overseas Kosovars would also be conducive to reduction of unemployment domestically. Since Kosovo diaspora is rather large, offering them preferable investment conditions would mean attracting further capital back home. This may not be easy, at the moment, due to rampant corruption claims, but at least attempts should be made.

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<sup>37</sup>France Diplomatie (2015), Economic Diplomacy: a policy priority to support France's economic recovery, Available from:

<http://www.diplomatie.gouv.fr/en/french-foreign-policy-1/economic-diplomacy/> [Accessed 22 April 2015]

## 8. Conclusion

This study addresses the relationship between different subject areas in the context of the Kosovo's Economic Diplomacy - organization, opportunities and the future of economic diplomacy, vis-à-vis the challenges it encounters. Economic diplomacy as a relatively new term promotes country's economic and business interests in other countries. Its main focus being economic development through trade, investments, and explorations of business markets around the globe.

Examining the effects of the Kosovo's Economic Diplomacy was the main theme of the paper. The diversities in size and economic strength of nations, and varieties of political and economic systems, tend to develop diverse concepts of economic diplomacy. This research establishes that Kosovo's Economic Diplomacy is still in its infancy but provides the possibility for the country to advocate its economic opportunities in the region and further. Kosovo, lags behind the countries in the region, in the context of economic diplomacy establishment, but it is showing some signs of progress recently.

The study attempted to explained why economic diplomacy is a necessity and with a bright future. This work in final paragraphs lists a number of recommendations for the future of economic development strategy, centered around economic diplomacy context, that conclude that Kosovo has enormous resources to offer but there is a need for shrewd, creative and proactive leaders to take wise decisions. The outcomes of Kosovo economic diplomacy may take time to *concretize* but very likely will be amply rewarded, not only in economic sphere, but hopefully also in the international diplomatic front, which Kosovo desperately needs.

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