Foreign Investment and Export Management and Analysis - Kosovo Case

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Abstract

Foreign Direct Investment (FDI) has a special and specific importance for the Republic of Kosovo taking into account the conditions and economic development, which in turn impact the economic development and social improvement of the country. For the state to have a greater absorption of FDI, significant improvement should be made in improving the management capacity in order to create a motivating environment for foreign investment, which is related to the improvement of macro-factors and microfactors at the country level in order to make the environment as attractive as possible for FDI. This paper's aim is to present the FDI trend, the trend of export centring on Kosovo and to present the correlation of FDI with export. Firstly, at the beginning of the article, we have presented an academic literature review on the definitions of FDI in terms of economics, and also the definitions of export. Secondly, the trend and comparison of FDI and exports over the years is presented. Thirdly, Kosovo's FDI trends were analyzed by the place of origin of these investments, etc. Fourthly, in this paper's context, an analysis regarding investment at the country level management in order to create an attractive investment environment was made. Fifthly, as part of this paper, empirical analyzes showing the relations between FDI and Export in Kosovo have been made. FDI trends in Kosovo have been decreasing over the years, which must be improved by creating a motivating environment for both domestic and foreign investors. This article will contribute to the expanding aspect of FDI research, Export and FDI and export management policies. Another important milestone for further studies is to expand the analysis of FDI impact, export and policy management in terms of economic growth in Kosovo by different sectors of the economy.

Key Words: Foreign Investment; Management; Export; Correlation

JEL Classifications: F21; M12; F1; C33

Introduction

In Kosovo, the country level decision-making institutions should put more effort in producing a motivating setting for FDI by generating the best possible international practices and experiences. FDI is still one of the most important sources when it comes to capital flow and economic development in Kosovo. As stated by the Central Bank of Kosovo (CBK) statistics, during 2018, FDI values amounted to about 121.9 EUR million, making a comparison with 2017, we see that there was a decrease of FDI in Kosovo by about 42.3%. In which we can say that is the worst FDI trend. If we look at the investment balance during 2014 which amounted to 123.9 EUR million, there is a notable decrease in comparison with investments in 2013, where the value of investments reached euros 250.2 million. FDI in 2015 was euros 287.3 million, representing a high increase compared to 2014 where the value of investments was euros 123.8 million. FDI in 2016 was worth € 215.9 million, which represents the lowest level of investment. While FDI in 2017 reached a value of euro 287.8 euros million, which is an increase of 30.8% compared to 2016, compared to 2018 where the value of investments was 121.9 million euros it turns out that we have a significant decrease in investments or about 42.3%. Comparing FDI in Kosovo, we can say that Kosovo has a negative FDI trend. One thing we should pay attention to is also the quality of FDI which affects the added value in the economy, (Bellaqa and Bajrami, 2018). States that have mostly contributed when it comes to FDI were Switzerland, Germany, Turkey, Austria and the United Kingdom, knowing these countries have invested and continue to be the main investors in Kosovo. As stated by the CBK, during 2017, Germany has invested about 55.9 million euros, Switzerland has invested 50.6 million euros, Turkey has invested 29.5 million euros, the United Kingdom has invested 27.0 million euros and Austria has invested about 20.3 million euros, while investments from the other states' in Kosovo have been lower.

Exports represent a very important source of foreign exchange earnings, and consequently reduce the balance of payments' pressure. Intra-industry trade can be increased by exports, help the country integrate into international markets, and thus reduce the impact of external recession's unpredictable events on the country's economy. If we analyze the data of December 2018 with the data of December 2019 from the foreign trade in Kosovo, it results that we have a higher trade deficit of about 12.7 in December 2019, compared to December 2018, respectively in the amount of euros 308.3 million compared to the deficit of euros 273.5 million in 2018. Exports cover 8.0% of imports. Exports of goods in December 2019 amounted to 26.9 million euros, while imports amounted 335.2 million euros, a decline of 8.5% for export and an increase of 10.6% for imports compared to the same period in 2018 (ASK, 2020). Creating a sustainable management system of investment and export policies will induce a situation where we will have more FDI and will result in an export incentives. Therefore Kosovo needs to work harder on advancing management policies in order to improve the investor environment and increase exports, so far Kosovo has become a net consumer rather than a net producer country. The following is an overview of the trends of direct investment in Kosovo for the period 2008 - 2018, export trends in Kosovo for the period 2018 - 2018, empirical data, foreign direct investment and export management, findings, conclusions drawn from the paper as well as recommendations for the future. The interdependent FDI and Export trends have been analyzed and compared for the eleven-year period, and the force of the relations between the independent FDI variable and the Export dependent variable has been measured, Correlational analyzes, etc. have also been used in this article.

Literature Review

An essential factor for integration and industrial growth at the international level that has been and is contributing is FDI. FDI turns into a major source of funding when the prospect of finding other means of financing decreases. Thus, FDI conducts technology advancement, capabilities for managing, also entry into market for export (Moosa, 2002). Foreign investment creates connections for economies in marketing their goods in the world markets. One of the major causes of the wide variety of FDI definitions comes from differences in the importance because of the traits of companies that operate internationally (Hood and

Young, 1979). Foreign investment can create financial stability, affect the advancement of economic development and improve the social aspect. International institutions and a significant number of scholars have the definition of FDI related issues as the epicenter of their studies. The aim of foreign investment is to give substantial influence in another state when it comes to the managing of a local enterprise. As stated by some analysts dealing with FDI, foreign investment is seen as a formula for ending some of the global problems like poverty, destruction of the environment, and other problems, while some analysts state the opposite, meaning they think that FDI is what causes those disasters. (Sezer, 2006).

One of the definitions we can seclude is the one stated by the Organization for Economic Co-operation and Development (OECD), "Foreign Direct Investment indicates the intent of linking sustainable interest rate of a local entity in an economy (direct investor) in a resident unit of another economy (direct investment enterprise) (OECD, 2007). With "sustainable interest" we imply the existence of a long-term relation between the direct investor and the enterprise, as well as a significant influence of the investor on managing the decision-making process in the enterprise. FDI, by classic definition, is when a company in a given country makes a physical investment by building an enterprise or industrial firm of any kind in another country (Rugman & Hodgetts, 1995). FDI has different objectives compared to portfolio ones, where investors generally do not expect to have an impact on enterprise management. (OECD, 2008). As far as the definition of export is concerned, we can present some definitions, one of which we will mention is: Exports support respectively help countries that are poor and have a small market interest rate from scale economies (Helpman and Krugman. 1985). Exports lead to an improved resource distribution and especially improved capital values due to the rivalry in global markets (Balassa 1978).

Exports will cause an enterprise to invest in advanced technology, which will serve as a strategy to engage in increasing output levels (Ghirmay, Grabowski and Sharma 2001). Economic development affects export expansions especially if the output of the country grows more than the demand of that country. (Shan and Tian 1998).

In general, financial flows are characterized by a lack of consistency over the years, which is highlighted in times of economic and financial crises (Chakri and Madani, 2018). The inflows of foreign investors to countries from the Western Balkan that were driven mainly by the search for markets and efficiency. These countries have provided opportunities for the development of new markets in the service sector; investors were also driven by major privatization initiatives undertaken by these countries and a relatively free labor force (Jirasavetakul and Rahman, 2018).

Research and Methodology

This article gives a theoretical presentation in terms of FDI and Export, comparison of FDI and export trends in Kosovo, from 2008 to 2018. The Impact of FDI has done the presentation of empirical correlation analysis in order to measure the link strength of Exports. Based on theoretical analysis and secondary data obtained from relevant domestic and international institutions as well as on empirical research. Statistics by credible institutions have been used. In quantitative methods, data coming from different sources can be used for research, (Fielding and Pillinger 2008). Empirical data and findings are presented between FDI and Export by correlation, determinism, and contingency. The realization of the scientific objectives of this paper has been done using considerable amounts of publications referring to this field, as well as bi-lateral sources that include previous FDI studies and Exports at local and international level, etc.

Direct Investment Trends in Kosovo 2008-2018

FDI in the Republic of Kosovo is and has been one of the main sources in terms outflows of capital and the country's economic growth. From the data from the Central Bank of Kosovo (CBK) we conclude that FDI refers to investments of foreigners and institutions of foreign origin in the domestic economy if the investment makes the investor own more than 10% of the capital of an enterprise. Based on trend analysis, foreign direct investment in Kosovo was the largest in 2007 as well as in 2008, while the decline in investment was observed at the beginning of 2009 which was mostly affected by the financial crisis at the world level.

The expansion of these sort of crisis is particularly noticeable during 2012 in which we have a sharp decrease in FDI, FDI that year being around 229.1 EUR million, during 2013 by euros 280.2 EUR million or as a percentage of 22 % more than in the previous year. In 2014 we face a decline of 46% in comparison with the previous year or about 151.2 euros million. During 2015, the increase continues by 308.8 EUR million. Whereas during 2016 there is a descending trend by about 215.9 EUR million, or in percentage, 25 %, while in 2017 foreign investments amounted to 287.3 million. If we compare 2018 FDI of 121.9 million euros with 2017 we have a decrease of 43% (Central Banks of Kosovo, 2019). Kosovo's investment level is mostly influenced by international level economic growth, and especially in the eurozone countries.

Table 1: FDI inflows (thousand)

Year	IHD
2008	369.9
2009	287.4
2010	368.5
2011	384.4
2012	229.1
2013	280.2
2014	151.2
2015	308.8
2016	215.9
2017	287.3
2018	121.9
Total	3004.6

Source: Authors' calculations

Figure 1: Foreign Direct Investment (Million, Euro)

Source: Authors' data calculations based on statistical data of the Central Bank of Kosovo 2008-2018 statistical time series

The source of origin of FDI income in Kosovo has mainly consisted of consistent contributions from Switzerland and Germany over the years, as Kosovo has more Kosovars in these two countries compared to other countries where they have emigrated. In terms of euro values invested in Kosovo, Turkey leads the

list of source countries by 274 EUR million or 23% of total FDI, next with Switzerland by 258.4 euros million or 22 %, then Germany with about euros 171.6 EUR million (14 percent), and other countries also participate but with FDI of a lower percentage. The highest volume of FDI is from Turkey, where much of it comes from privatizations and investments in privatized assets that happened during these years, especially privatization of distribution and electricity supply, as well as investments made in the new terminal at Prishtina Airport.

Based on comparative analysis it turns out that the total amount of FDI during 2012-2016 show that Kosovo absorbed 1.2 EUR billion of FDI.

Figure 2: FDI flows

Source: Calculations done from the authors according to CBK information for the period 2012-2016

Regarding the FDI trends in countries of the Western Balkan, as stated by the analysis during 2012-2016, it results that the greatest FDI was in Serbia, followed by Albania, while the FDI for other countries of the Western Balkan was much lower during the period of 2012-2016 (World Bank, 2017). This can be seen through the following graph:

Figure 3: Foreign Direct Investment in the Balkans (USD)

Source: World Bank, (2017). Calculation of data by authors

Export development for the period 2008-2018

From 2013 to 2017, the Republic of Kosovo has experienced a small exports increase of goods, from 294 million euros to 378 million euros, recording an average annual growth of 5.17 %. Also there was a negative trade balance in Kosovo, resulting from the substantial increase in imports compared to the marginal increase in exports during the observed period, and therefore the trade deficit is more pronounced in the trade of goods. Kosovo exported services steadily, from euro 875 million in 2013 to € 1,330 million in 2017 (Kosovo Agency of Statistics, 2019).

Based on statistical analysis, it appears that one of the most important sectors contributing to export was the agriculture sector, especially vegetable products, with a steady 39.3 % growth, the category of prepared foods, beverages, alcoholic beverages and d2 tobacco, with growth of 33.4 %, also base metals and articles thereof of 21.8 %. The growth of these sectors has been mainly driven by favorable trade agreements with trading partners, especially with European Union countries. In 2018 export to Kosovo was 367.5 euros million, import 3.347.007 euros million, the trade balance - 2.979.507 euros million, the trade balance is found by subtracting export to import, therefore import coverage percentage was 11%, found by dividing export by import.

Table 2: Exports and imports by the December of 2008 – 2018 (000 €)

Year	Exports	Imports	Trade balance	Percentage coverage
1	2	3	4=2-3	5=2/3
2008	198.463	1.928.236	-1.729.773	10,3
2009	165.328	1.937.539	-1.772.211	8,5
2010	295.957	2.157.725	-1.861.769	13,7
2011	319.165	2.492.348	-2.173.184	12,8
2012	276.1	2.507.609	-2.231.509	11,0
2013	293.842	2.449.064	-2.155.221	12,0
2014	324.543	2.538.337	-2.213.794	12,8
2015	325.294	2.634.693	-2.309.399	12,3
2016	309.627	2.789.491	-2.479.864	11,1
2017	378.01	3.047.018	-2.669.008	12,4
2018	367.5	3.347.007	-2.979.507	11,0

Source: Kosovo Agency of Statistics (2019) Annual Report

Based on the analysis of export data from the 2 Table, it appears that the highest export was recorded in 2017 at about euros 3,347 million, while the lowest in 2009 at about euros 165 million. The highest imports were recorded in 2018 at about euros 3,347 million, and the highest trade deficit was achieved this year at - euros 2,979 million.

Figure 4: Export trends in Kosovo for the period 2008-2018 (Euro, million)

Source: Data analyzed by the authors from the Statistical Report on External Trade 2019 published by the Kosovo Agency of Statistics

Table 3: Exports (000 €)

Country	Exports		
	2016	2017	2018
28 EU countries	69.998	94.228	110.874
CEFTA	144.267	183.033	173.515
EFTA	16.881	21.95	29.23
Other European countries	7.801	7.313	8.383
Other non-European countr	1.81	2.437	2.39
Countries from Asia	21.204	58.394	37.853
Other	47.667	10.656	5.255
Total	309.628	378.011	367.5

Source: Data calculations by the authors from the External Trade Report published by the Kosovo Agency of Statistics, 2019

According to export analysis, the highest export during 2016-2018 was in CEFTA countries, which include Albania, Macedonia, Montenegro, Bosnia and Herzegovina, Serbia and Moldova.

Table 4: Trade balance for all products and all countries from 2010 to 2017 (000 €)

State	2010	2011	2012	2013	2014	2015	2016	2017
Kosovo	-1.112	-1.302	-1.291	-1.19	-1.231	-1.303	-1.348	-1.451
Albania	-754	-963	-1.024	-909	-1.122	-1.06	-1.146	-1.32
Montenegro	-810	-835	-833	-769	-754	-878	-866	-969
Macedonia	-977	-1034	-928	-973	-1.134	-1.266	-1.453	-1.587
Serbia	-2.642	-3.063	-2.519	-2.147	-2.174	-2.386	-2.153	-2.567
Bosnia and Herzegovina	-2.642	-3.063	-1.915	-1.966	-2.166	-1.871	-1.756	-2.005
Turkey	-1.608	-1.95	-43.42	-53.04	-48.41	-43.726	-42.38	-57.88
Iceland	-38.802	-55.45	-1.024	-1.002	-1.014	-1.275	-1.295	-1.658
Liechtenstein	-638	-1.048	974	934	904	904	869	885
Norway	772	911	-831	-2.530	-4.801	-7.782	:	:
Switzerland	30.92	39.653	29.513	92.300	58.69	66.355	33.74	46.937

Source: Eurostat (2019) Your key to statistics

Data Analysis and Results

Correlational analyzes were used for measuring the strength of the relation between the independent variable FDI (X) and the dependent variable Export (Y). Correlation Coefficient (r), Determination Coefficient (r^2) and Alliance / Contingency Coefficient (ka) present indicators of FDI and Export Correlation Analysis. We analyze the impact of FDI on Export based on correlational analyzes. Centering FDI and Export, the correlation analysis covers the 10-year period during 2008-2018.

Table 5: Data are given in euro millions during the period of 2008 - 2018

Year	IHD (X1)	Export (Y1)	$X1-\bar{X}$	$(x1-\bar{x})^2$	$y1-\bar{y}$	$(y1-\bar{y})^2$	$(x1-\bar{x})*(y1-\bar{y})$
2008	369.9	198.4	96.8	9370.24	-97	9409	-9389.6
2009	287.4	165.3	14.3	204.49	-130.1	16926.01	-1860.43
2010	368.5	295.9	95.4	9101.16	0.5	0.25	47.7
2011	384.4	319.1	111.3	12387.69	23.7	561.69	2637.81
2012	229.1	276.1	-44	1936	-19.3	372.49	849.2
2013	280.2	293.8	7.1	50.41	-1.6	2.56	-11.36
2014	151.2	324.5	-121.9	14859.61	29.1	846.81	-3547.29
2015	308.8	325.2	35.7	1274.49	29.8	888.04	1063.86
2016	215.9	306.6	-57.2	3271.84	11.2	125.44	-640.64
2017	287.3	378	14.2	201.64	82.6	6822.76	1172.92

2018	121.9	367.5	-151.2	22861.44	72.1	5198.41	-10901.52
Totali	273.1	295.4	0	75519.01	0	41153.46	-20579.35

Source: Data are calculations by the authors based on the Kosovo Agency of Statistics data on Export as well as the Central Bank of Kosovo data on FDI for 2008-2018

$$r = \frac{\sum(x_1 - \bar{x})(y_1 - \bar{y})}{\sqrt{\sum(x_1 - \bar{x})^2 \sum(y_1 - \bar{y})^2}} = r = \frac{-20579.35}{\sqrt{75519.01 \times 41153.46}} = \frac{-20579.35}{55748.26} = -0.36$$

The covariance calculation is found according to the following formula

$$S_{xy} = \frac{\sum(x_1 - \bar{x})(y_1 - \bar{y})}{n-1} = -20579.35/11 = -1870.85$$

The correlation coefficient is $r = -0.36$ connoting a weak negative correlation, and a negative relationship between FDI and export.

$r^2 = (-0.36)^2 = 0.1296$ meaning 12.96% of FDI variations are explained by Export variations.

$Ka = 1 - r^2 = 1 - 0.1296 = 0.8704$; It emerges that 87.04% are other unexplained factors affecting FDI.

The state of Kosovo needs to do more to have a more sustainable FDI withdrawal management, since investment management has so far not been appropriate. For this, in addition to other measures to induce FDI, an assessment of overall investments in Kosovo and the management of policies of a sustainable economy that impact investment pressure should be undertaken. Improving a business-friendly climate is essential for absorbing FDI and for developing small and medium-sized businesses. For higher FDI attraction, Kosovo needs to improve its investment management policies in order to be competitive regionally and further. Maintaining transparency at higher levels using e-government, publishing and reviewing administrative decisions, and free and independent media play an important role. Lack of transparency, the development of informal economy, corruption, have and are still affecting to the decline of FDI in Kosovo. Export promotion has been and continues to be a main objective for the economic growth of governments and societies globally, as development and growth usually translate into improved labor market per capita income, and so on. Many studies in the field of economics show that export is one of the main factors contributing to economic development. States with higher exports also have higher economic development, have a more stable pattern of economic growth, especially if exports are large.

If we analyze Kosovo's economy at regional level, its economy is quite small and its continuing economic growth depends greatly on the growth of its possibilities to increase exports. Kosovo needs make use of the workforce and enter the market regionally and in Europe because it will give more perspectives for economic development and export growth.

Large ore deposits in Kosovo are lignite, ferronickel, lead, zinc, magnetite, ect., so the development of industries related to these ores would contribute to economic growth via export and jobs. Succeeding in the market of export is very influenced by the governments' capacity to assist in creating the conditions necessary for effective and free trade in services and logistics, so Kosovo needs to improve its export policy management to improve trade balance, which is very negative.

Based upon this analysis of foreign investments in the Republic of Kosovo, it results that these sort of investments are one of the main sources economically and socially. Based upon the analysis of the trends of FDI, the greatest values were in the year 2007 as well as in 2008; the decrease of investment was noted at the beginning of 2009.

Based on comparative analysis for 2017 and 2018 it results that FDI of 2018 were 121.9 million, which when compared to 2017 we see a dramatic decrease in foreign investment or by 43%. Based on export findings during the period between 2008-2018 it results that from 2013 to 2017, there was a slight increase in export of goods in Kosovo, from euro 294 million to euros 378 million, marking an increase annual average of 5.17%. But, Kosovo still faces a negative trade balance. According to the analysis, the sectors that have contributed the most to exports were the agricultural sector, especially crop products. In 2018 export to Kosovo was euro

367.5 million, import euro 3.347.007 million and trade balance - EUR 2.979.507 million. Trade balance is found by subtracting export to import, the import coverage ratio was 11%, found dividing export by import.

When it comes to the emirate data we see that the correlation coefficient is $r = -0.36$, noting a weak negative correlation as well as a negative relation between FDI and export. Regarding foreign direct investment and export management,

Kosovo needs to do more to have more sustainable FDI withdrawal management, which has so far not been appropriate when it comes to investment policy management. Improving the business-friendly climate is essential for attracting FDI and economic growth so improving investment management policies is essential for competitive growth in the region and beyond. Export promotion has been and is one of the most major aims for the economic growth of governments and societies globally, as growth and development usually translate into improved labor market per capita income, and so on.

Conclusion

FDI in Kosovo during 2012 to 2016 mostly originated from Turkey, Switzerland and Germany, while the investment flow from other countries was of smaller participation. Traditional investment supporters in Kosovo are Switzerland and Germany. Turkey is of greater value during the abovementioned period since their investments were focused on the privatization of some of Kosovo's companies. Lack of volatile FDI management, then a regime of unsatisfactory incentives, small local market, unfavorable climate, etc., may give explanations as to why Kosovo doesn't have a great conduct when it comes to FDI.

The need for an increase of support and encouragement of relevant stakeholders in promoting significant investment in order to advance FDI promotion activities is apparent. One of the recommendations for the Ministry of Trade and Industry and relevant stakeholders in investing policies by creating a package of inducements for FDI, particularly in the field of production, in order to secure local production and adjust the trade balance, where Kosovo still faces a markedly negative trade disproportion.

Based on correlational analysis, when it comes to the relationship between the independent FDI variable and the export dependent variable, we find a negative correlation between FDI and Export. Creating a favorable climate for business development is indispensable, which can be achieved through the rule of law, the fight against corruption and organized crime, informality, the rationalization of tax procedures, etc.

Increasing management capacity at the state level must become more involved to create an attractive environment for FDI by generating the best ways of practice and coordination of efforts in addressing issues of FDI. Another recommendation is to make legislation implementation reforms, taxes, to minimize misfeasance, etc. Improving the position of Kosovo's export in competition with other countries requires more investment in infrastructure, improvements in legislation and strengthening of institutional capacity.

To manage the demands that are increasing, by investing in the infrastructure of transport, and also increase the effectivity of the facilities of institutions dealing with trade. We should also emphasize the importance of developing product quality infrastructure in line with the requirements of European Union and global standards. Improving the management of policies to improve the investment environment in Kosovo would help to attract foreign direct investors and would extend the stay of existing investors. Important elements in improving the business climate are reducing the fiscal burden on businesses, facilitating insurance, supplying electricity, combating the informal economy, increasing transparency, combating corruption, etc.

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