

# **CHALLENGES OF WESTERN BALKAN COUNTRIES IN THE PROCESS OF GLOBALIZATION THE CASE OF KOSOVO**

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## **Abstract**

The study paper addresses a range of issues and gives explanations regarding the definition of globalization, problems and challenges, aspects of globalization in economic development, the complexity of this process, countries in Western Balkan and the place of Kosovo in these processes of global integration and the EU. The EU integration process is a tool for strengthening and accelerating the transition process, as these processes are mutually reinforcing. The final goal of the Western Balkan countries is to transform their economies into viable market economies and to achieve integration into the European Union. EU accession is seen as crucial for a successful domestic transformation. Further progress with the EU accession process is of great importance for the continuation of institutional reforms and establishment of a functioning market economy across the Western Balkans.

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**Keywords:** Globalization, EU, Kosovo, Western Balkan

## **Introduction**

Globalization is a very important process which continues to reach the attention of many scientists, policymakers and analysts worldwide. The theory of globalization today is a field of intensive and multidisciplinary debate. It is very difficult to give an appropriate answer having in regard the fact that among the professionals there are many contradictions in determination of the concept of globalization. It is clear that problems constituting the nature of globalization phenomena are extremely complex and multi-dimensional (Alan Stern & Robert, 2001). This complexity enables analyzing the phenomena of globalization in many different views and in this meaning, authors of different theoretical approaches very often emphasize some globalization aspects, ignore others, in order to promote their predetermined opinion. Part of these theories is ideologically-based in order to highlight the benefits of globalization or simply to present

globalization as a natural process independent from other structures of the power. Globalization is an important challenge for economic science. Globalization of world economy is a process consequences of which go beyond economic domain of the society and now is a subject of diversification of the multidisciplinary research.

Globalization is increasingly characterized by growth of interdependence of national economies with global economy (Paul A. Nordhaus, 2000). Globalization can be defined as a process which increases economic openness, economic cohesion and economic integration in the world economy. Many global countries are connected in one multi-dimensional network of economic, social, cultural, and political relations. Integration of specific countries is important driving force for globalization process. This integration has gone through four stages of regional economic integration:

- Establishment of the free trade zone;
- Establishment of the customs union;
- Establishing economic union and
- A common market.

Using the variety of the different sources and factors in different ways, today the globalization and economic growth are two inseparable phenomena.

### **Globalization dimensions**

Globalization is a multi-dimensional process which can be spelled in economical, political, social, cultural, environmental and many other dimensions. Regarding the economic dimension it can be said that it stands on the top of the priorities. In this dimension are treated many different issues as are: growth of the trade and direct investments, globalization of financial markets, international integrated production, local competition of other countries and regions.

Policy and its dimension need to face more massive problems and treat them appropriately only at international or global level. So, European integration as process promises success against challenges of the globalization. The previously organized policy mainly at national and territorial level has increasingly remained behind, comparing to the organized international or global economy. The world is increasingly changing into a “global village“ except the traditional communities as are family or neighbours are emerging new forms of communication (Chat, E-mail) and gradually are replacing traditional areas of communication (Taylor, Andrew, 2002). For the international economy are very important financial and trade relationships among national economies and influence of the

financial and international trade in distribution of incomes, production, resources among the countries in the world.

As a result of changes in economical policy and technology, economies which previously have been split from high transport expenses and artificial trade barriers and fundings are now closely related in the economic interdependence network.

The most pointed attribute of new global economy is increase of cooperation between the countries with high level of development, countries in transition and countries with low level of development.

National economies are becoming more and more integrated in four basic fields:

- Trade
- Finances
- Production and
- An increased network of institutions and treaties.

Trade integration is clearly bigger every year since the World War II. Also it is increased more rapidly global production, resulting in a greater part of export and import and total Gross Production is increased almost in every country in the world. In last fifteen years, financial fluxes beyond national borders have been increased more than trade. Foreign direct investments have been increased more rapidly than capital fluxes.

The emphasized growth of FDI highlights a big role of multinational corporates in global trade, in particular in global production (<http://www.ifg.org>, 2002). Another aspect of globalization is corporation which is in increase among international economical and financial institutions. Implications of globalization for both developing and developed countries are actually subject of intensive research and debate about economical policy.

### **Globalization and Western Balkan**

In the process of political democratization and economical liberalization in the countries with former totalitarian regimes a key role has played the external actors and in particular USA and other economical and political powerful countries. Western Balkan countries have been characterized with many different problems such as: political, economical, social and cultural problems. The period of 90-ies is considered a period of overall changes in the countries of East and Central Europe. First of all these changes have to deal with disintegration of the Union Socialist Soviet Republics, Yugoslavia as federations and Warsava Pact, due to change of the dominant role of the social and state property ownership in these countries.

As a result of these changes appears the process of changing the economic system through overall transformation and privatization of the

state sector, respectively social sector in the economy. The aim of the change of the economical system was to rebuilt and develops market economy (Slavica Penev, 2013).

In the first decade of the Twent one Century Western Balkan countries despite the economical reforms undertaken with the view to excess transition, global crisis after 2008 marked a modest economic growth but this growth is based in high domestic consumption linked with rapid growth of loan and it was associated with expansion of deficit charge account and increase of the debt of the private sector. Short term economic perspectives of the region of Western Balkan countries still remain weak (EBRD, 2010), The last economic crisis has highlighted an environment which supports economic competetiveness and has a great importance in better supporting of the national economies to absorb shocks and to provide solid economic performance. Macedonia and Montenegro are the main economies in the region followed by Albania and Serbia while Bosnia and Herzegovina and Kosovo are far behind the regional average (Slavica Penev, 2013).

A weak physical and institutional infrastructure, relatively low market efficacy, limited innovation and low potential of sophistication are serioz limitations for competiveness of the region. In this context the continuation of the harmonization process of EU legislation and implementation of some segments of EU agenda for better regulations should be main concerns for countries in region (EBRD, 2012).

The main objective of the Western Balkan Countries is to transform their economies into a sustainable market economy and to achieve the integration into European Union and in other global integrations. Transition countries also have to adapt to the requests of globalization. It is to be learned from the experience models of developed countries, the existing instutional structures of transition economy should be taken into careful consideration (Sanjay Kathuria, 2008).

Optimal transition strategy should be directed towards successful connetion to the flows of globalization. To realize these integration objectives, the Governments of these countries should built healthy policies in their governing programs for long term development and also should built strong regulative and supervising structures.

### **Impact of globalization in the economy of Kosovo**

The basic concept of the Kosovo's economy in transition and its integration in the process of globalization, must be oriented in resolving of the paradigm (alternative model), which must be oriented into two directions: in a part which matches with economic and plotical reforms and which have been done so far in all countries in the eastern Europe and the second part of the reform must be adapted and reflect the reality and our

specifics. The membership of Kosovo into two main Institutions of the United Nations: IMF (2009) and World Bank (2009) and European Bank for Reconstruction and Development (2012) among other are big steps which necessarily shall affect for easier transition and comprehensive join in other institutions and organizations. The integration of the Kosovo's economy in the course of the global changes is only a challenge and complex task.

For small countries to avoid isolation and keep their authentic values, it is necessary to use integration and globalization benefits with positive smartness and at the same time to minimize possible negative effects of these processes. In this context of prosperity it is necessary a pragmatic approach which shall enable an establishment of a model of market economy related to social policies and growth of society's wellness. As a new country the Kosovo's state is now facing many socio-economic problems with war consequences as are collapse of the economy and in human including ineffective governing, ineffective judicial system and corruption. Aside from these, problems are deteriorated with global economic crisis which has affected direct foreign investments and remittances.

Our economy still has structural problems which are accompanied with many maladjustments and increase of the aggregate demand only in a limited quantity may respond with production growth. It is still needed to strengthen financial discipline which enables the linkage of public expenses and their real realization.

Kosovo in its way of development should strengthen its development capacities through productive cooperation with world, including here opened environment and exposition against strong influence of the knowledge, understanding of the changes which are manifested or they are to be manifested in environment of new factors which have effect in development through a sustainable transition and well oriented system. National strategies of the development shall be based in a new development approach supported by respectation of the market legitimacies and domination of the economy over policy (Institute Riinvest, 2002). Initially must be provided the application productive and human capital under conditions of the global market and afterwards shall promote a new profile of the development of the national economy, suitable to global conditions, taking into consideration need factors of development (knowledge and technology), expansion of national companies, foreign banks and companies of international reputation. These operations shall impact in acceleration of transition in easier way, in a view to have easier consequences from this stage. So the transition is a transforming process of deep sizes of a social system. A system comes through a new structure which provides higher efficiency and effectiveness.

Some of the development indicators show that Kosovo is still ranked down comparing to countries in transition, but is still far a way from the developed countries. In this way the index of the level of perception of corruption for 2013, from 177 countries monitored, Kosovo was ranked as 112. Countries in region as: Albania, Montenegro, Serbia, Macedonia, Croatia, have a lower rate ([www.transparency.org](http://www.transparency.org), 2013). The index of human development as a measure of human life quality and standard based on the last report of the United Nations of November 2, 2011 a report which covers 185 countries ranks Kosovo as 91 (<http://hdr.undp.org>).

The index of doing business prepared by the World Bank for 2013 shows that Kosovo has made a considerable progress in improving of business environment. Now Kosovo is ranked as 86, comparing to 2012, where it was 98. The World Bank since 2009 has ranked Kosovo in the list of the countries in transition and certainly in our country the transition process has started earlier than in other countries.

The Kosovo still faces many challenges and of most important challenges are those of socio-economic challenges. First of all still needs to work hardly to improve the macro-economic environment through strengthening of the factors and institutions of the market economy, competitiveness, liberalization and regulation of some economic proceses. Monetary, budgetary and fiscal policy represent important mechanisms because they determine the pyramid of the responsibilities and competences in governing of the financial course in Kosovo's economy, having in regard strategic needs and demands of the economy, population and state. Building the fiscal system and establishment of the fiscal policies must be adapted to the economic course of the country.

Now we are in the stage of the fiscal policies reform and we should continue with this course but we must be very careful in this way. These reforms should be adopted with fiscal practices of the other countries in region and with trends of reforms happening into the European Union. A specific attention must be paid to property rights. Property, property pluralism with domination of the private property, property assurance and protection of property must be respected and guaranted as very important segment. The competition policy as a basement of every market economy is a criteria of strategic importance for development processes in Kosovo.

The competition from the international and domestic market makes continues pressure in restructuring of the economy under efficacy criteria. The competition in the domestic market of Kosovo must be encouraged through regulation natural monopolies, public property ownership and regulation of the market from possible disorder. The reduce of the informal economy-non-legal economic sector in countries in transition has a considerable participation within the overall economic activity. According

to the assessments this participation varies from 30-60% of the overall economic activity. There is a high level of the informal economy in Kosovo and that varies over 40 %, which is highest than in other neighbouring countries.

The fight against fiscal evasion and informal economy must not be a strategic priority only at central level, but in this must be involved the local governance as well and all other segments having impact in reducing the informal economy. These economic indicators and other indicators show that we must continue with structural reforms not only in the economy but must be included in the society as well, including legal and institutional reforms with the main strategic objective for democratization of the society and economic order always based legal and constitutional settlements and which are in compliance with European standards.

Based on these laws we must accelerate reforms in economy and society in general as: reform of monetary system, fiscal and trade reform, reform of the social insurances and social policies, health system, police, courts, public prosecution, media, universities, local government, election system and many other reforms. These and other factors shall influence in the economic growth of the country which shall contribute to a better standard of the population and mitigation of unemployment and social progress.

## **Conclusion**

This paper shows that everything related to globalization starts and ends into market as a regulator of the economy and competition as its primary lever. For developing countries, the globalization may play a role of catalyzer in generation of many benefits which bring long-term growth and welfare of the society in general. Positive experiences of many countries with liberalization of the economy suggest that attempts to encourage the globalization shall be more successful when associated with supported reforms in other fields. Apart from other negative aspects of globalization, this process must be seen as a challenge for chances that offers in development, economic growth and prosperity.

The future of our economy depends on growth of competition and skills to achieve competitive progress in the market as a part of the global market. Only with a capable leadership and innovative access our economy shall be able to find a deserved place in this global process.

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