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ECONOMIC CHALLENGES IN KOSOVO 2011

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Abstract

Through this study we will discover what kind of challenges the Kosovo economy faces in the process of economic development. Relying on the scientific side we will suport our study and explain that a country should be able to adapt to changes in the global economy. The world economy is experiencing rapid changes, overall transformation, above all it is showing rapid changes that have been have been qualitative and multi-dimensional. The ability to develop, evaluate and implement these changes is essential for any country that wishes to develop in these days. Trade policies, especially those promoting exports and finding new markets, occupy the central place in the economic policies of a country.

Keyword: Economic development, Informal economy, The Foreign Investments.

Introduction

Deepening economic interdependence and strengthening globalization trends has become even more intensive debate among researchers of the economy for the link between trade openness, investment and economic growth. However, the idea that prevails among the above variables is that there is a positive correlation and that economic openness, trade liberalization ultimately associated with higher rates of economic growth, to increase efficiency of use of diffrent factors, particularly for small countries. A trade is becoming a key of the factor growth and development especially for countries in a modest stage of development or subject to restructuring and transformation processes, as are countries in transition. The role of trade is speacial key in the resource reallocation, becoming a basic

factor for increasing the efficiency of their use. However, if the trade wants to develop the policies and programs should be effective.

Economic Development

Economic development is a broad term that generally refers to sustained efforts, coordinated by policymakers and the community to promote the growth of living standards and economic health in a particular area. Such efforts may include multiple areas, including human capital development, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, and other initiatives. Economic development differs from growth. Economic development is a political intervention on the welfare of people in the economic and social development; economic growth is a phenomenon of market productivity and GDP growth. Consequently, the economist AmartyaSen points out: "Economic growth is one aspect of the process of economic development⁷".

In our days, the world has experienced significant changes, political, ideological and economic. These changes have presented serious challenges to economic analysis and its policy proposals. Historical Evidence and research indicate in a country because if a country has an economic development then it will have also social development. Economic development programs can strengthen and support the economy of the country. Each state has faced political and economic development strategy that may have profound implications on the future of the community. But each country must make strategic choices realistically assessing the strengths and limitations of its jurisdiction.

The steps that policy cycle goes through

Policy Analysis and the identification of diffrent options.

After the issue is discussed at policy-making the step that follows is to evaluate the possible options. Often there are different ways of treating the same problem and this makes it necessary to discuss the possibility of their implementation. Here are included some considerations on the choice of policy instruments and the methods of implementation. This requires thinking of different processes of policy development and choices of diffrent options. For example: in Albania we can distinguish two cases: First case is when we prepar a strategic document as a national strategy of export promotion, those cases where a study was

⁷Sen, A. (1983). Development: Which Way Now? Economic Journal, Vol. 93 Issue 372. p.745-762.

done in advance of the actual situation and possible options and the second one is the construction of the working groups who have not done a detailed analysis of the situation.

The choice of policy instruments

One of the most fundamental decision-making has to do ultimately with the choice of instruments that aime in achieving the objectives defined by the government. Is the word for those who are called policy instruments? Careful choice of policy instruments is in fact an integral part of policy analysis and implementation. Often policies are implemented through combination of a number of instruments. It is important to explore different ways and advise policy-makers on the merits and difficulties of different combinations. The choice of instruments is often a combination of politics and the law. Often the law defines the instrument because of the need to have an institution to implement the process.

Consultation

Consultation is an integral part of the public policy process and should be a normal part of operations of government departments. He can not and should not be viewed as a symbolic activity, expression or appearance of government in public. In fact the consultation process is in itself large. It should be understood as (i) consultation within government, (ii) consultation with scientific experts in the field, (iii) consultation with "affected" by the intervention of the regulatory framework, such as the business community or customer. In this context we receive a special importance of partnership relations and the spirit of understanding the relationship that should be between the state and community entrepreneurship and guaranteeing the independence of the parties participating in this process.

Coordination

Shows the complexity that development process has and it also shows the adoption of trade policies, among others has its source in high demand that is related to the coordination of activity of actors who operate in this process and the way thejseperate there tasks between them. The regulation of the interaction of institutions involved in the process of trade policy is done on an ad-hoc basis.

Approval and implementation

In Albania, the Council of Ministers and the Parliament are the main decision-makers, whose decisions have official effects by through different acts. Since the Council of Ministers is responsible for developing and the coordination of government policy, his decision are important to the policy cycle. After the approval by the government or Parliament, the decisions referre to a implementing agencie.

Monitoring and evaluation

Policy is not static. Circumstances change every day, which entails an examination of policies in order to ensure that they are in compliance with the new conditions. In addition to this policy must be examined in order to ensure us that they are efficient. Assessment is the moment of truth for all policies.

In the current system of trade policy there are institutions that simply missing. Lack of some institutions of the system of trade policy should not be a forgotten. Predominance of budget closely dimension on the development dimension seems to be some times the origin of the problem. But the causes are of a nature more complex than that.

Exports, an important component of economic development

An important feature of the exports, but not the only one, is securing foreign sources for funding Imports of goods and services. One other important feature is the possibility to provide export now considered as a process, with all the links that make it possible, to restructure the economy, for directing resources to use in efficient production, to increase the competitiveness of the economy. Specific features of the Kosovo economy, as small economies in transition give more importance to this second export function. Exports increase the size of the economy by creating space for economy of scale. Extensively involved in the export process, On the other hand, "creates" an opportunity for effective and efficient process of redistribution of resources, also helping to reprovision technological economy. Exports of goods in Kosovo have increased by about 70% in 2010, expected to continue to trend growth even during the period 2012-2014. Exports of goods are related to the movement of world prices of metals, this is because the majority of exports consist of metals. Forecasts for the movement of world prices of metals and the demand for metals in countries that Kosovo exports will have significant impact⁸.

⁸"Kosovo: Natural resources key to the future, say experts".*adnkronos.com*. Retrieved 17 March 2011.

Also exports are important for the economy of a country because:

improve the trade balance

are the right way to be involved in international trade

stimulate the expansion of productive activities

create incentives to increase the level of income

income tax increase

encourage increased investment in production technology

stimulate innovation

impact on increasing productivity and improving the quality

help alleviate the unemployment

Therefore, any country can not neglect the importance of increasing exports. Consequently there is urgent need to promote and develop it.

We should not forget that imports have been the base on which appeared and developed a free private initiative. They have played a decisive role in the crisis period through meeting the needs for consumption. Imports have been increasing and with them the also the domestic production to goods which have been most requested by the customer, emphasizing the role of imports as strange stone marker to track the application and in investment decisions.

Steps that we need to take actions to promote exports

In order to utilize the potential of exporting companies require concrete support to Kosovo escalated according to the field. It requires a development program, which consists of 2 sets of activities:

Programs aimed at Kosovo companies

These should include assistance for the improvement of agriculture and processing methods. Such programs should be aimed at the introduction of new technologies. Measures should be introduced to improve the management and trading, decision makers were presented the Kosovo international quality standards, social and environmental. This can be done through training measures, encouraging partnerships and exchange programs in the framework of technical assistance.

Programs aimed at potential consumers of the EU

In many developed countries are promotional packages that help to attract investors. Such measures may include limiting the tax availability of sites for construction of factories or other measures that create advantages for investors. Two types of consumer-oriented programs potentials are described briefly below:

Export promotion programs

These programs specifically intend to help Kosovo companies to establish new contacts with potential foreign customers and attract potential new customers in foreign countries, through their knowledge of existing products suitable for export and services available.

Appropriate measures in this context include:

sales missions to exit the Kosovo entrepreneurs

presence at important trade fairs and exhibitions, directed especially for products or services offered

invitation to potential clients to meet potential partners in Kosovo (incoming missions)

Programs of Foreign Direct Investment

Which have aims to attract new partners for joint ventures with companies to withdraw Kosovo or direct foreign investment in Kosovo. There are important activities to reduce normativizimit state and administration in the segment of cooperation with the outside world. This exposure will enable the establishment of new partnerships with international financial institutions, and will create the institutional preconditions for the identification of new sources in financing economic development, especially the transition reforms.

Appropriate measures for their implementation are:

- (i) "Direct marketing" in target countries
- (ii) Informative events in the target countries,

(iii) Incoming missions to potential investors

Programs that aim Foreign Direct Investment in the way for joint ventures with external partners, Kosovo companies, in which external partners contribute capital (eg in the modernization of the company and production equipment), with knowledge and established network of consumers, Kosovos partner while providing raw material, land for the company and labor force. They mainly provide financial resources and knowledge for the Kosovo companies. Greenfield investments create new jobs, through the installation of new production lines.

Promotion and development of SMEs

Development of SMEs and their contribution to long-term economic stability depend on their size and structure, which under conditions of well developed markets, allowing them to be flexible and able to adapt to the conditions of fierce competition. Modern economies operate as a complex network of companies in which a firm's competitive position depends in part on the effectiveness of their suppliers. Therefore, the competitiveness of SMEs affects the overall competitiveness of the economy in general. This criterion is of strategic importance to the development process in Kosovo. Competition from foreign markets and domestic markets will put pressure on the restructuring of the economy according to the criteria of efficiency. Competition in the domestic market of Kosovo should be promoted through regulation of natural monopolies, public property, and the phenomenon of bankruptcy, financial and budgetary constraints. Another characteristic is the technological backwardness which is a consequence of the termination of the investment cycle. Given high transaction costs are one of the most important barriers to their development; their reduction will encourage the expansion of SMEs and in particular will encourage micro enterprises⁹. In this context, the development and performance, in the context of market opening is a real challenge.

Strategic priorities for the development of this sector include:

Harmonization with sector strategies that have an impact on SME sector

Ensuring transparency of decisions, actions that affect the business environment

Ensuring fair competition and support for the integration of SMEs in the international market. Developing information technology and entrepreneurship culture.

⁹Atin Muça and Bajram Muca, International Business, p 41

Informality in the economy

The degree of informality is one of the main indicators of a country's economic development. Assessment and monitoring of this indicator is also related to the performance of basic state institutions, law enforcement level, the level of corruption, etc..

Excessive costs and government regulations as well as corruption in areas such as business start-up, granting of business permits and land titles, according to scholars such as Hernando de Soto (a renowned Peruvian development economist), have forced people to remain informal¹⁰. Failure to collect taxes and contributions leads to a poorer state budget and lack of investment in public services. A bill of social responsibility and a threat of any government, and this is particularly evident at the level of pensions and salaries and public services. But in fact the essence of measures for reducing the informal economy, of that kind of informality that with the OECD study considers as "threatening" for purposes of competition, the development and implementation of fiscal and social security. Policies should aim at reducing the fiscal burden, which is the right path that leads to the formalization of the economy. The goal to increase budget revenues to GDP must increasingly rely on the effectiveness of the tax administration. Reducing the informal economy in Kosovo will affect the creation of a better environment for business by helping free market competition.

The economy of 'cash' is one of the most sensitive to the informal sector, which is not channeled through the banking system. A phenomenon where only a small proportion of transactions through the banking system also affects the efficiency of monetary policy. If the money is not channeled in the banking system has a negative impact on economic growth, particularly in promoting investment in production. Cash discourages the private sector, reflecting the ineffective functioning of the credit system, which is the core of growth capital and business expansion. The role of banking and financial institutions needs to be bigger and more active in allocating income where their use would have more profits. Establishment of an efficient payment system should be expanded further, to create concessional terms, to offer more products in the market, which would increase business to banks.

¹⁰De Soto H., Mystery of Capital: Why Capitalism Triumphs in the West & Fails Everywhere Else, 2000

Politics in the fiscal and budget policies

Budgetary policy should be harmonized with fiscal policy, because only then create equal preconditions for the realization of economic activity of economic entities. Budgetary and fiscal policy mechanisms represent a very important part, since the pyramid to determine the responsibilities and authorities in the governance of financial flows in the economy of Kosovo, given the strategic needs and demands of the economy and the state population. During the implementation of the Kosovo budget management, special attention should be paid to eliminating inflationary influences such as deficit financing and the problem of budget deficits. Tax administration relations with the business community itself are the focus of this administration but also the constant demands of business. One of the main concerns that has increased the importance of this relationship is the behavior of tax administration and its relationship with the business. It should be noted that there is considerable progress in this area through the consolidation of dialogue with the business of tax administration and its involvement in joint structures. Besides creating the preconditions for sustainable economic growth, Kosovo should be committed to increasing the efficiency of public spending and continued growth in revenue. On the other hand it is important to establish mutual trust between the tax administration and business to contribute in increased effectiveness of both players that are so important. Efforts and contribution to this problem must be mutual to guarantee the achievement of the target.

Education and unemployment

The education system in Kosovo shows presentation in a very poor fit for a country that aspires to have a sustainable economic growth¹¹. World Bank experts say that the creation of a competitive economy, an economy that is growing and creating jobs oriented toward the future, requires political action in many sectors, including education, especially higher education. Research done by the World Bank in the early 90s; show that the development of higher education is correlated with economic development. These conclusions are reinforced by more recent studies to build knowledge societies. These studies indicate that the ability of a society to produce, select, adapt, commercialize and use knowledge is very important for sustainable economic growth and improving living standards¹². The goal is to analyze the causes, or to propose solutions to the gaps in participation in university or post-graduate courses, but to point out the missed opportunities

¹¹Schuller, 2001, p. 20

¹²Gradanin: Izazovi i mogucnosti. Izveštaj o humanom razvoju.Kosove 2004. Prishtinë, 2004, p.1135

for individuals and for society. If all demographic groups have an education they will have it easier to find a job and going to have a more successful life¹³. Society would function with efficiency enjoying a variety of mutual benefits. we can say that higher education can provide access to much better opportunities to find employment well paid. An important fact to remember is that any money paid to a college or university to study higher education is the only investment that will return in the future, becoming a very good investment and sustainable.

The benefits of education:

Education reduces unemployment

High level of education brings higher profits for all

Income gap between high school graduates and university graduates has increased significantly over the time, individual income high school education are less than the income of highly educated individuals.

Higher levels of education are closely associated with high levels of civic participation, including volunteering, voting, blood donation etc.

Educated individuals have more positive perceptions of personal health have the lowest rate of smoking and a lower rate of incarceration.

Each university experience produces measurable benefits, and then we can say that individuals with higher education possess a high level knowledge.

Conclusion and Recommendations

Informal economy is present in the commercial environment in Kosovo.

Exports have a great importance in the development of a country.

Economic development programs can strengthen and support the economy of the country.

¹³Kvalitetno obrazovanie za sve, Izazovi obrazovanja u Srbiji (2004), Ministarstvo prosvete i sporta, Beograd, p. 101-102.

Education as the indicator of socio-economic has a fundamental role in the overall impact of living in our country. Society in general has a high financial return on investment of higher education.

Higher levels of education correspond to lower levels of unemployment and poverty, so except that individuals contribute more to their income, but they do not need social programs, generating reduced demand for public budgets.

Philosophy and economic policies should consider the cooperation between government and markets as complementary to each other, making clear that markets are the base of the economy and this somewhat limits the role of government.

Business climate in Kosovo need additional measures to promote exports and foreign direct investments, which are necessary components for maintaining external balance and a sustainable economic growth.

The state should support more strongly businesses that are oriented towards export.

The state must develop its capacity in economic analysis in order to maintain macroeconomic and financial stability by promoting economic development.

Media should be accountable and be based on facts and reliable sources.

On review of trade policies should be more transparency, especially for sensitive sectors.

The image problem is an area where efforts will be in the future to ensure a rapid change of the foreign investments in Kosovo.

The level of informal economy is also a direction that will aim to improve in the future, provided for a fair competition in the market.

Creating an effective marketing system and product quality management, ensuring that product standards and norms that markets require, the creation of database and information exchange with foreign markets, the establishment of agencies and consultants for professional business, are some recommended for assignment to the Kosovo market.

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