

# The importance of economic development in the Republic of Kosovo

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## Abstract

Economic development in the Republic of Kosovo is a priority of local institutions but also an international pressure to influence local institutions with regard to economic development. The economic development in our country has got a special care through institutional support by drafting economic scope for a sustainable economic stability, as well as to attract local and international investors, but we cannot have an economic development without opening new job possibilities which can only be done by establishing large factories by domestic and international investors. The positive impact of the Independence of the Republic of Kosovo is the economic development which affects the social welfare of our citizens. With a design for a meaningful institutional policy will have a good socio-economic development in the Republic of Kosovo.

**Keywords:** Economic development, investments, production, Local institutions, Republic of Kosovo

## Preface

The importance of economic development depends on many different factors, but in this assignment I will pay particular attention not only to historical, legal and economic factors but also to national and foreign investors. This assignment pays a special attention to the impact of fiscal policies, price impact and economic competition, positive and negative impact of privatization in the Republic of Kosovo and what measures should be undertaken at this stage. It has also been taken into consideration that these are not the only factors for economic development but recently these factors have influenced economic stabilization or destabilization of a country.

## The importance of overall economic development of the country

The role and importance of economic development in the Republic of Kosovo, in the postwar period has been changed for the better, but still there is space and opportunity to influence development in a much more rapid and more rationally way. Country's economic development depends on many factors such as legal, historical, investment, all these with a good economic management. Legally because to establish a good legal framework by drafting laws in accordance with the Constitution and the EU acquis. Historically, because we cannot be proud of prewar country's economic development because of serbian aggression, the economy was dominated by agriculture. There are some advantages over local investment which has contributed significantly to the economy of the country, but have not managed to attract foreign investors for the privatization of some public enterprises which have a special importance for the development of our country.

## Foreign Joint Venture investments

in terms of integral production and globalization trends, investments in other countries, joint ventures are gaining

more importance and larger dimensions<sup>1</sup>. Large corporations invest in other countries in order to enhance their competitive skills and to more easily penetrate the world market<sup>2</sup>. The lack of capital in the underdeveloped countries, foreign joint ventures represent the main sources of investment<sup>3</sup>. In this regard there is a mutual interest for cooperation between countries and corporations for joint investments<sup>4</sup>. Regarding the underdeveloped countries and the companies and investors in these countries, joint ventures have obvious advantages having loans from the outside world<sup>5</sup>. Committing their financial means, joint ventures participate in the project, depending on the results of the business in profit sharing and the possible risk<sup>6</sup>. Shares and the power of vote during decision making is proportional to the volume of investment participation<sup>7</sup>. In this aspect it engages the knowhow, experience and technology, which in terms of developing countries is of great importance. However, to obtain foreign loans, obligations (annuities) must be returned regardless of business results<sup>8</sup>.

Given these advantages, the various countries undertake incentive measures favoring the promotion of joint investments with foreign partners with tax policy measures, in exchange regimes - export and import, customs fees and the like<sup>9</sup>. But there is always a dilemma if it is correct and in the spirit of equal market competition to favor foreign partners compared with those at home<sup>10</sup>. Therefore, in this respect it is important to create an environment of

<sup>1</sup> Mustafa, Muhamet, "Investment management", Fifth edition. Prishtina, p. 149.

<sup>2</sup> Ibid, p. 149.

<sup>3</sup> Ibid, p. 149.

<sup>4</sup> Ibid, p. 149.

<sup>5</sup> Ibid, p. 149.

<sup>6</sup> Ibid, p. 150.

<sup>7</sup> Ibid, p. 150.

<sup>8</sup> Ibid, p. 150.

<sup>9</sup> Ibid, p. 150.

<sup>10</sup> Ibid, p. 150.

developed entrepreneurship, equal conditions and institutional security for foreign partner. Regarding the safety foreign joint venture it is important that<sup>11</sup>

- The rights and agreements set forth in the contract can not be decreased by subsequent legislation;
- Ensure the right of foreign joint ventures that their profit share can be transferred;
- Provide the right to foreign partners to transfer their invested funds-capital<sup>12</sup>

Forms of cooperation with foreign partners (joint ventures) for funding of projects may be:

- Investing in existing enterprise projects under contract,
  - Joint financial investment of projects-creation of joint ventures,
  - Investment of foreign physical person or legal entity in the creation of a new owned enterprise
- Participation of foreign partners to finance and implement projects can be done in foreign currency, in goods, equipment, industrial property rights (licenses, patents, know how etc.)<sup>13</sup>

Certain states laws may allow the realization of investment projects related to concessions.<sup>14</sup>

### **The impact of fiscal policy on economic growth**

Fiscal policy measures can be oriented to overcome short-term difficulties due to disorders in the economy and return to their previous state, improve, or avoid the shortages that have caused these irregularities and establishing the state's previous stable balanced - the stabilization policy measures but also for long-term growth of the overall income level public revenues, which directly affect revenues in the domestic economy. Short-term fiscal measures are to overcome from one to another state which is required to unlock situations that are necessary for current economic development, but should always be careful when they build those measures how long their negative impact will be on the economy.

Economic growth is measured regularly with increasing percentage of the product state at a time. This increase is to raise the presumption of public revenues and public expenditure and also improve living conditions. Economic policy measures attempt to achieve the maximum rate but not optimal or adequate growth. While the maximum growth rate can be achieved with full extraction of all the factors of production in ideal conditions, the optimal or appropriate rate of economic growth when speaking on the occasion of its' use of factors of production was devoted to the care of other goals .

One of the fiscal achievements of the market economy should count all those measures that affect and contribute to increasing labor and capital, revenue and expenses generated by the country, which contribute to technical progress, which will positively impact the extraction the factors of production. Exemption from the state for customs facilities and reduction of taxes, to finance educational institutions, health care, which directly affect the

advancement of staff and by reforming the reformed framework services, where services should be a priority of every state institution. Also a positive impact on investment is a great advantage if the government lowers taxes or creates certain economic infrastructure to attract investors because first come legal and economical safety, then the power of free labor and natural goods.

### **Fiscal instruments and the impact of employment and the establishment of prices in the domestic economy**

As key principles in country's fiscal building advancement, there are legal employment and employment with international standards respecting international conventions of employment. In a country where labor is not respected under the laws and constitution in force there can not be an economic reform. In employment standards there must be respected working hours, wages, annual leave, medical insurance in case of severe injury on the job , comfort breaks, such as resting in the case of marriage, the death of a family member, maternity leave. Adhering to these rather than positively affects personal/family/state, because when there are sustainable family businesses then the state is discharged to the care of citizens in social cases.

### **The impact of fiscal policy in the distribution of income and wealth**

With the application of fiscal policy instruments can influence the reallocation of income and wealth, can be accomplished several desirable relationships in the economic power of citizens<sup>15</sup>. Changes in the revenue can be decreased and thus few changes can be made which from government's perspective can be accepted with income taxes by applying progressive tax rates with discounts of various facilities in direct taxation and differentiated taxation of certain income, so the one who has greater economic power holds greater burden<sup>16</sup>. Reallocation of revenue can be made even by public expenditure<sup>17</sup>. Thus, scholarships for students given by their parents, whose economic power is smaller, with various social assistance might influence the reduction of the changes in income and in their approach with some specific relationship.<sup>18</sup> Income is mainly drawn from the Kosovo customs, which currently is the main source. The income from real estate can also counted as an income, which is regulated by specific laws for central and local level such as tax law in immovable property where the purpose is to establish a tax on immovable property in Kosovo by establishing standards and procedures that municipalities must respect the property tax administration. This law imposes a tax on immovable property and sets standards and procedures which should be respected by municipalities during administering this tax. The revenue from immovable property tax are collected on behalf of the municipality in accordance with the Law nr.03/L-049 on

<sup>11</sup> Ibid, p, 150.

<sup>12</sup> Ibid, p, 150.

<sup>13</sup> Ibid, p, 151.

<sup>14</sup> Ibid, p, 151.

<sup>15</sup> Jelciq, Bozhidar, " The science of finance and financial law", Prishtina, 1984., p, 660.

<sup>16</sup> Ibid, p, 660.

<sup>17</sup> Ibid, p, 660.

<sup>18</sup> Ibid, p, 660.

Local Government Finance. Revenues from local businesses which until now were also collected from local government, and now starting to create some privileges on registration and management of businesses, and have easier procedures in cooperation with competent institutions, where such a thing also supports the Ministry of Trade and Industry of the Republic of Kosovo.

#### **Supervision by the competent institutions to determine the actual sale price and not the competitive one**

The government should have its own policies in state shared priorities, which for a fixed term should affect the domestic economy, how to determine the price in accordance with legal framework and market in order not to harm SME as a result of movement of the variable fixed prices. An example would be if a company, due to money laundering, puts down prices just to declare higher taxation in order to legalizes money, but on the other hand legal businesses struggle where the profit is very low. In such cases the government should always monitor to ensure that these actions must not affect economic development.

Privatization and its impact in the domestic economy Privatization is becoming the core on regulating economic affairs because it is demonstrated that it is not possible to construct rational paradigm of economic value<sup>19</sup>. Otherwise, the dominance of politics over economy was reflected in the fact that it is intended that with multiple transformations to find the answer to the question how to define clear and effective model of economic system, which will correspond the shape of social adjustment which is not derived from material relationship but has previously been given? Namely, the denial of private property denies basic presumption of private interest and private incentives<sup>20</sup>. Attempts to selectively establish the market economy without private property, enterprenourship and personal interest failed to increase the efficiency, stability and development. Thus, in 90's, in most former socialist countries, it was initiated development efficiency - privatization, because it is empirically proven that enterprise ownership determines the efficiency. Higher level of efficiency was in private enterprises, then mixed ones, whilst social enterprises are the least efficient. This is doubtless testimony to the impartiality of privatization.<sup>21</sup> It should be noted that the process of reform and transition in Central and Eastern European countries are carried out not only without preparing preliminary proper infrastructure, but even without theoretical preparation (this does not exclude Macedonia)<sup>22</sup>. Thus, the lack of theoretical preparations and analysis of problems have been pathetic position at the end of the twentieth century attempt to transform the society.

#### **Conclusion**

The reason of choosing the topic on The importance of economic development in the Republic of Kosovo is because that as we know in the postwar period special attention was paid to the country's independence, politics, and economy, although local institutions have tried to give the maximum to build a stable legal infrastructure and create environment to attract investments, although somehow this is not achieved because even up to this day we do not have a policy to attract investments. State treasure revenues or public revenues are not at a satisfactory level because the main mechanism for revenues is customs.

Obviously, privatization of state owned properties contributed to the lack of economic development because it has not fallen in line with the goal of privatization, and in practice is not the best practice model of privatization I mean for some privatized enterprises, not all but most did not realize the main goal of seeking to positively affect the domestic economy.

In conclusion, same as in my preface, I will mention that all facts used in this assignment are not the only factor to have an impact on country's economic development but are the main and most important ones both in theoretical and practical terms. Our country's main goal is EU accession, but to do so it should harmonize economic standards with standards of EU countrie.

<sup>19</sup> Shabani, Zejnel, "Public Licitaton – tendering as a special form of privatization of state and social property into the private", magazine "E drejta" no 3-4/2008. Prishtina 2008.p, 141.

<sup>20</sup> IbidPo aty, p, 141.

<sup>21</sup> Hetemi, Mehdi, "New economic system and legal framework", p, 1-13, Riinvest, 1998

<sup>22</sup> Shabani, Zejnel, "Public Licitaton – tendering as a special form of privatization of state and social property into the private", magazine "E drejta" no 3-4/2008. Prishtina 2008.p, 142.