THE ROLE OF FOREIGN INVESTMENT IN PROMOTING EMPLOYMENT CASE STUDY: KOSOVO

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Abstract

The problem of this paper is closely associated with the phenomenon of investments and their allocation across economic sectors. Connection and rational management of the investment depends on the economy and acceptable resource of the developed economies. The above problems will be analyzed on the basis of a specific model of statistics in the economy of Kosovo. As for the scope and structure of investment, it is necessary to precisely indicate that the question of the extent of accumulation is very important for economic development but that very often greater importance is the question of its rational use.

The main goal of the research is to explore and identify the elements of institutional support to the idea of foreign investment and their effects on promoting employment in Kosovo.

However, macroeconomic stability and economic openness play statistically significant role on growth of undeveloped country and it was believed that foreign investments inflow will stimulate stronger growth of countries in transition!

Therefore, this paper aims to present the current state affected by foreign investment in promoting employment in transition country of Kosovo, where method of secondary data has been used to get closer to the impact of foreign direct investment in promoting the most important element of a state, employment!

Keywords: Investment, Allocation, Issues, Employment, Demography, Economy, Structure, Kosovo.

JEL Classification: C4, C2, N1.

Introduction

Investment expenditure is an important contributor to economic growth and employment. Therefore it must be emphasized that an essential element for understanding the history of foreign direct investment, is definitely international trade, whose origin dates back to ancient Mesopotamia.

Investments have had a constantly incretion in the period of the two world wars. Foreign investment, after two wars gains importance as it increases the attention of world economists, the issue of a theoretical explanation, as well as the problem of labour and operation of transnational companies, which goes directly from this type of investment. Foreign investment in the broadest sense includes all kinds of investment of foreign companies and individuals in economic activities of a country.

Only a few years ago, the growth of the global economy and investment flows reached record levels. Today the situation is quite different. Almost overnight economic trends have changed. Among investors there is still a dilemma: whether to invest or waiting for better economic conditions? At the same time, direct and indirect benefits that are realized FDI inflows, global economic crisis and numerous disturbances that occurred in the money and capital markets, contributed to the sharpening of competition between countries in terms of attracting foreign investment.

Foreign Direct Investment (FDI) is often seen as a driver for economic development as it may bring capital, technology, management know-how, jobs and access to new markets. Policy-makers have, therefore, tended to emphasize the benefits that FDI can bring to host economies, particularly in developing countries. Accordingly, many governments have developed policies to encourage inward FDI. While FDI and multinational enterprises (MNEs) are often perceived to be beneficial for local development, they have also aroused much controversy and social concerns. For example, MNEs have often been accused of taking unfair advantage of low wages and weak labour standards in developing countries. MNEs also have been accused of violating human and labour rights in countries where governments fail to enforce such rights effectively.

Many candidate states, including Kosovo, believe that the role of foreign investment has a great advantage and opportunity for the stimulation of the development of their economies, which are under average level. So, all countries in transition are taking various measures to attract FDI in their country, trying their luck in their economic development.

That’s why an examination of the positive relationship between FDI and employment is the key objective of this study.So that, based on the objective of this research, which is monitoring role of international investment on employment in Kosovo and also finding barriers during the admission of investment, our priority would be to find the answers on our concerns weather FDI has or has no effect on employment.

1. Literature Review

1.1. The advantages of foreign direct investment

One of the most important and sensitive areas for developing countries is foreign direct investment (FDI). It is now defined as not only a simple transfer of money, but as a mixture of financial and intangible assets such as technologies, managerial capabilities, marketing skills and other assets.

There is a major debate in the literature regarding the impact of FDI on economic growth. The traditional argument states that an inflow of FDI improves economic growth and thereby enhances employment opportunities. (Robert E. Baldwin, 1995)

Foreign Direct Investment refers to investment of funds in enterprises in your country by non-residents that gives these non-residents control over the enterprise in case. FDI often takes the form of local subsidiaries of multi-national or trans-national companies but it is broader than that since it also applies to unincorporated enterprises established by individuals not resident in your country. FDI can take the form of participation (or total ownership) of equity capital, reinvestment of earnings of the enterprise or inter-company loans (coming from the mother or sister companies). Not included under FDI are loans (other than the intercompany loans referred to before), foreign capital supplied to enterprises under official development assistance as part of bilateral or multilateral development aid or other short term capital transfers. (Craigwell R. 2006)

Some other authors says that foreign direct investment is defined as an investment made to acquire a lasting interest by an entity resident in one economy in an enterprise resident in another economy. The investment should allow the investing entity to exert direct control over the management of assets in the invested firm. (OECD, 2008)

The experiences of many countries have shown that FDI inflows are more favorable channel in comparison to the taking of standard loans in the international financial market. As a confirmation of this thesis, we can take the case of Mexico, in which the share capital of credit character was 93.9% or Nigeria with 77%, and to compare them with such e.g. Malaysia in which the participation of funds of credit character was only 22.1% or Singapore with 20.5%.When analyzing the condition of the balance of payments and growth rates in the seventies, we can see that a group of countries which are more reliant on foreign direct investment in faster development. (S. Kurtović 2003:262).

Attracting foreign capital in an undeveloped economy like Kosovo, in terms of unenviable competitive position of domestic companies, is of great importance. What level of attractiveness of Kosovo will have in the eyes of potential foreign investors; will depend primarily on political security, legal regulations, and the level of bureaucracy, the corruption and the respect of the laws who is governing this area. Kosovo's economy is characterized by a low level of competitiveness, efficiency and productivity. Maximum development opportunity is reflected in investments, in those sectors of economy that have significant growth potential. (Ajdarpašić S., 2015)

Since in this section we will talk about the basic characteristics of foreign direct investment, we will briefly indicate, according to our opinion, some of the major benefits of these investments.

From a macro point of view the benefits of foreign direct investment are reflected as follows:

- Improving the trade and balance of payments of the country,
- Faster and more efficient integration of the domestic economy in the world market,
- Improves the supply of the domestic market,
- Increases the number of new jobs, etc.

At the micro level, local companies have the following benefits

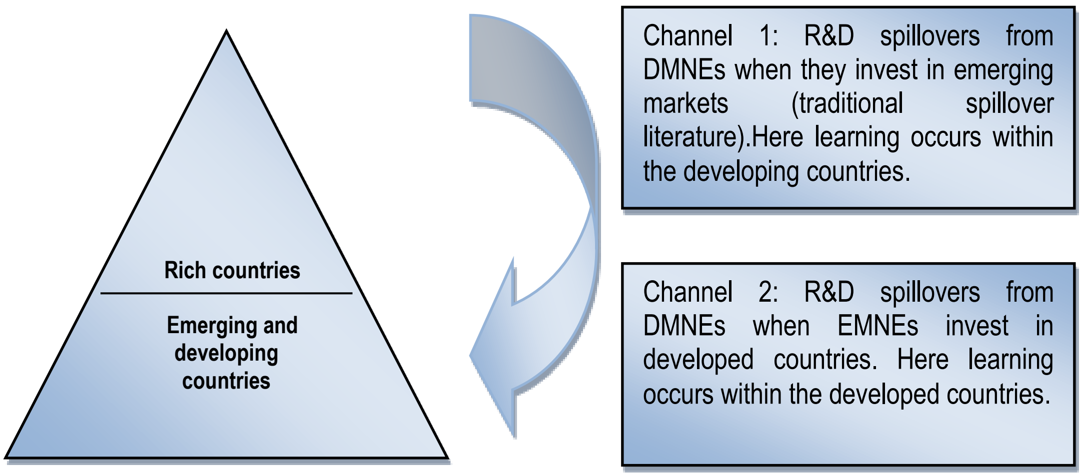
- Faster and cheaper come to more modern technology,
- It Introduces more modern knowledge in the field of marketing,
- Creating conditions for the expansion of cooperation with foreign partners and on third markets, etc.

As we have already pointed out above, it is just about some benefits of foreign direct investment, where we will talk about two most important advantages: **technology** (Micro) and the positive effects of these investments on **employment** (Macro program).

1.1.1. The effects of FDI on technology

One of the most important factors related to foreign investment are transfers of technology, especially if it is a newer, more modern technologies. Here, in any case, it should be emphasized that the underdeveloped as well as developing countries are most interested for attracting the latest technologies. In today's investment, often the foreign firms in developing countries, in joint projects bring in the estimated value of outdated technology. Such experiences we have had enough and in our previous practice. The privatization and a new qualitative approach to the problem of foreign investment, and in particular the fact when the opportunities for foreign investment are allowed in their own enterprises, reduce these negative effects and encourages the foreign investor who is also driven by the desire for the realization of a greater profit to enter to the country the quality technological solutions and in cooperation with other stimulating factors improve their production. Due to the importance of the problem we deal with, we will look in more detail at the technology transfer and connectivity i.e. the effects of that transfer to the economy of the country in which it invests. (S. Kurtović 2003: 263)

Figure 1. Two channels of R-D spillovers



Source: Amann E. and Virman S. (2015)

Accessing foreign technology may also take the form of establishing R-D centres in developed countries. A vast literature surrounds how firms from developed countries generate technology spillovers for developing country firms. Figure 1 identifies two main channels for such R-D spillovers, both focusing on the trickling down of technology from developed to developing countries. The first channel is based on IFDI into the emerging economies from developed countries' firms. This is called the Traditional Channel. The second channel entails the OFDI flows from the emerging economies into the developed countries. As the figure illustrates, the traditional channel overlooks the possibility that Emerging Market Multinational Enterprises (EMNEs) could also capture spillovers from Developed Country Multinational Enterprises (DMNEs), when the former invest in the developed countries. In other words, learning could also occur in the developed economy as a result of investment from EMNEs that are motivated by the desire to obtain intangible assets, such as technology. However, in both cases, the DMNEs act as the so-called "teacher".

1.1.2. The effects of FDI on employment

The second indicator or macro variable that creates social instability is undoubtedly the phenomenon of unemployment, which is present all around the world, especially in countries that are creating and forming their own country (Ajdarpašić S., 2014). According to this *r*ecent developments in the international economy have given rise to concern about effects of international trade and foreign direct investment on domestic employment and wages.

Policy-makers have tended to emphasize the potential benefits that FDI can bring to the host economy, including by improving pay and working conditions. These benefits may be direct or indirect. The former refer to benefits for employees in foreign-owned firms, whereas the latter refer to benefits for workers in domestic firms. MNEs are able to provide higher wages and, possibly, working conditions because of their higher productivity which, in turn, is explained by greater technological know-how and modern management practices that allows them to compete effectively in foreign markets and to offset the cost of coordinating activities across different countries. This transfer of technological and managerial know-how across affiliates of MNEs may give rise to direct benefits. But, it may also lead to indirect benefits by increasing the productivity of domestic firms when the productivity advantage spills over from foreign affiliates to domestic firms. Productivity spillovers represent positive externalities to the host country and may explain why policy-makers have sometimes treated foreign investment more favorably than investment by domestic firms. Although not automatic, increased productivity in domestic or foreign owned firms may lead to higher incomes, better working conditions and more employment. (OECD, 2008)

The positive effects of FDI on employment of the host country will be explained through several practical examples. As a first example we will take Poland, a country that has had a similar socio-economic structure as the ex-Yugoslavia. This country has gone through a substantial portion of the road which now stands before the countries stemming from the former Yugoslavia. By doing dynamic framework for attracting foreign capital into the country and especially revive the privatization process. In the period 1988 - 1999 year Poland has recorded inflows of 29.3 billion US dollars of foreign direct investment. Among the major investors were companies such as General Motors ($ 400 million), Fiat (also $400 million), and Philips ($180 million *dollars) and so on. In addition to the positive effect that this capital left in the country we are talking about, at this point is the fact that in the field of employing during the first five months of 1997 are employed 316,000 new workers.*

In terms of employment, it is illustrated the case of Germany. The companies that have been established by foreign direct investment in the period 1989 – 1992 have employed 1.8 million workers. Of this number, 800,000 workers were employed in firms that have established capital of other EU countries, and 500,000 in the companies in which have been invested US capital. Japanese direct investments have hired 80,000 workers and Asian developing countries about 4,000 workers. Japanese firms in the period 1989-90 enabled an average of about 150, but the number in 1991 year decreased to 100 jobs. (S. Kurtović 2003:264).

Many analyses of trends in FDI in the Balkans during the early 2000s get to a conclusion that the upsurge in FDI has been based on only a few minimal conditions – the restoration of peace and basic security, the beginnings of economic recovery and modest improvements in the business environment (Estrin S. and Uvalic M., 2013). Conflict and instability of Balkan countries have reduced FDI inflows below what one would expect for comparable West European countries and reform and stabilization failures further reduced FDI to the region. The conclusion is that the economic costs of instability in the Balkans in terms of foregone FDI have been quite high.

Despite the FDI, the labour market situation is also unsatisfactory, as most countries have extremely low employment rates, a widespread informal economy and unemployment rates that are amongst the highest in Europe, particularly in Bosnia and Herzegovina 28 %, Kosovo 45 %, Macedonia 31 % and Serbia 23%.

The real picture of transition, over the past twenty-five years, in the Western Balkans can be summarized by looking at the trend in growth rates and comparing real GDP in 2013 and 1989.

2. Research Methodology

There are different methods of research methodology, and each in itself contains certain purposes and in such manner to implement them. The purpose of this study was to analyze the impact of FDI in Kosovo, and to find out the level of the employment impacted by FDI.

For the realization of this paper we have used the quantitative method or collecting secondary data, as it was the most appropriate in terms of working conditions and environment.

2.1. Results

Foreign direct investment is an important element of development when it comes to developing countries such as Kosovo. We know that Kosovo, as a country that has been exposed to many conflicts, from after the war period, it took a long time to recover. A large contribution to this development also brought foreign investment, which came from different countries and in large quantities of money. However, it is also worth mentioning that the movement of foreign investments changed over the years, which means that besides the increase, it also had decline in terms to foreign investment.

What is very important to emphasize is that the current situation in this country has changed dramatically, and as the days slipping away condition is more stable. However, it is up to us to contribute to an even greater development and improvement of the overall nature of the condition of our country.

Table 1. Value of GDP in Kosovo

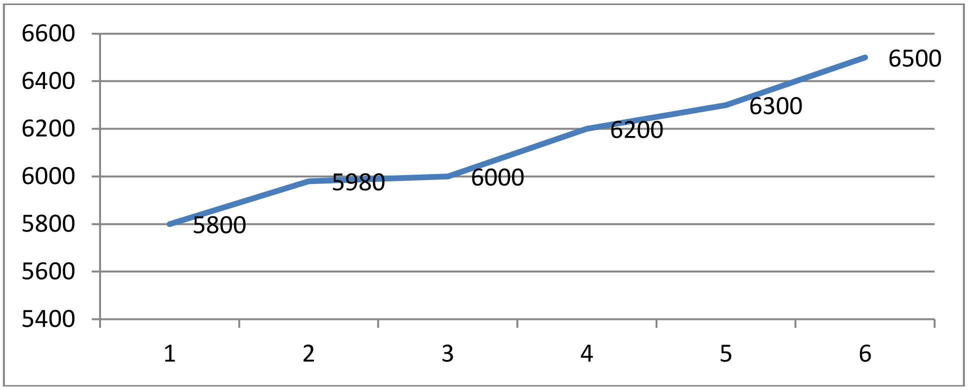
Value of GDP in Kosovo					
Value of GDP in Kosovo		*Year*	*Percentage*	*Valid Percent*	*Cumulative Percent*
Valid	*5800,00*	*2010*	*14,3*	*14,3*	*14,3*
	5980,00	*2011*	*14,3*	*14,3*	*28,6*
	6000,00	*2012*	*14,3*	*14,3*	*42,9*
	6200,00	*2013*	*14,3*	*14,3*	*57,1*
	6300,00	*2014*	*14,3*	*14,3*	*71,4*
	6500,00	*2015*	*14,3*	*14,3*	*85,7*
	6600,00	*2016*	*14,3*	*14,3*	*100,0*
	Total	*7*	*100,0*	*100,0*	

Source: www.bqk.rks

By using many researches and studies we are trying to find out in what way our country have prospered by aspiration of foreign direct investment and what would our institutions should do to attract larger investments.

Based on our average research we can say that the investments in the Balkan countries, especially Kosovo, were large. As can be seen in Table 1, in 2010, the total GDP of Kosovo was 5.8 billion euro while in 2015 GDP reached 6.5 billion. These data make it clear that there was a rapid growth of GDP in the period from 2010 to 2015, and therefore it gives us a right to explore the factors or elements that have contributed to GDP growth.

Chart 1. Value of GDP in Kosovo



Source: www.entistatistikor.org-ks

Average value of Kosovo's GDP in a given period is 6197.1429 euro, where the standard deviation is 29,107,355 euro and a range of maximum and minimum value of Kosovo's GDP is 84,723.810.Therefore it gives us the right to use as much factors in further analyzes of the impact on GDP growth because is evident that there is growth, but also its range is large.

Table 2. Correlation of FDI to Employment and GDP

Statistics		
GDP		
N	Valid	7
	Missing	0
Arithmetic mean		6197,1429
Std. Deviation		291,07355
Variance		84723,810

Correlations				
		GDP	Employment	Investment
GDP	Pearson Correlation	1	,135	-,708
	Sig. (2-tailed)		,772	,075
	N	7	7	7
Employment	Pearson Correlation	,135	1	-,116
	Sig. (2-tailed)	,772		,804
	N	7	7	7
Investment	Pearson Correlation	-,708	-,116	1
	Sig. (2-tailed)	,075	,804	
	N	7	7	7

Source: Data base of the paper

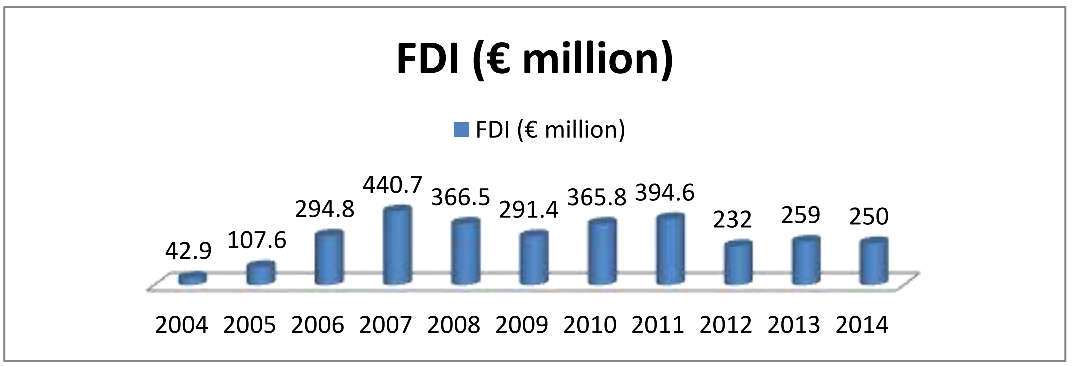
Table 3 shows that for the country of Kosovo, value of FDI has been increasing over the years. Of the 42.9 million euro invested in 2004to 107.6 million euro invested in 2005, 294.8 million euro in 2006 and 440.7 million euro in 2007. After 2007 the value of FDI in Kosovo starts to fall, with some slight increases from year to year. At 2008 the value of FDI in Kosovo marked a slight decrease in the 366.5 million euro, followed by 291.4 million euro in 2009, 365.8 million euro in 2010, 394.6 million euro in 2011, 232 million euro in 2012, 259 million euro in 2013 and 250 million euro in 2014. However, a more detailed presentation of FDI for the period 2000 - 2014 it can be seen on the Chart 2.

Table 3. FDI in millions of €

Year	*€ Million*	*Basic index*	*Indexes chain*
2004	*42.9*	*100*	*-*
2005	*107.6*	*250.82*	*250.82*
2006	*294.8*	*687.18*	*273.98*
2007	*440.7*	*1027.28*	*149.50*
2008	*366.5*	*854.31*	*83.17*
2009	*291.4*	*679.26*	*79.51*
2010	*365.8*	*852.69*	*125.54*
2011	*394.6*	*919.82*	*107.88*
2012	*232*	*540.80*	*58.80*
2013	*259*	*603.73*	*111.64*
2014	*250*	*582.76*	*96.53*

Source: Ajdarpašić S. & Ciriković E., 2015

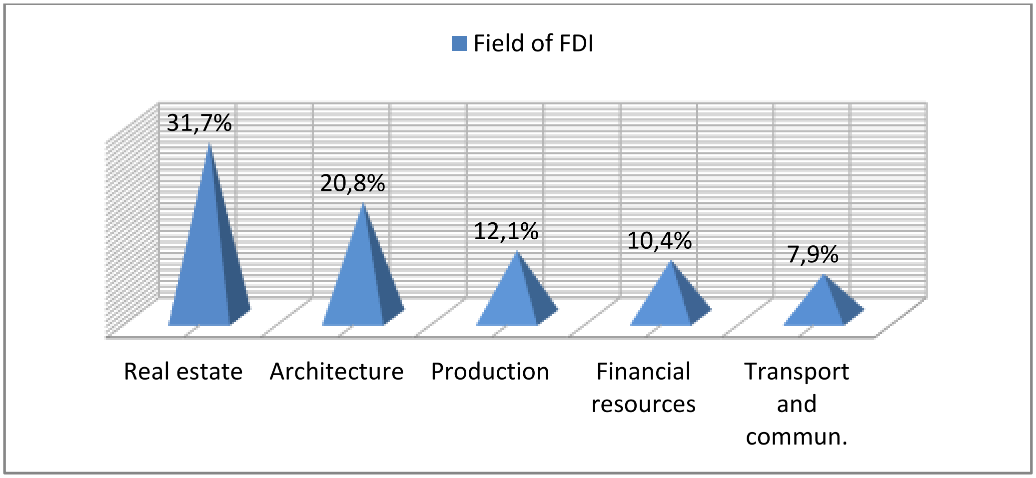
Chart 2. FDI in millions of €



Source: Ajdarpašić S. & Ciriković E., 2015

What we have understood on the basis of the collected data is that foreign direct investment was intended to the fields such as the highest percentage of investment is 31.7% in the field of real estate, followed by 20.8% in the field of architecture, 12.1% in the field of manufacturing, 10.4% in the field of financial resources and 7.9% in the field of transport and communications.

Chart 3. Field of FDI



Source: Ajdarpašić S. & Ciriković E., 2015

On the other hand the origin of all the investments originated from different countries, As it can be seen in Chart 4, the greater part of foreign investments for the year 2007 to 2011 originates from UK (116.16 and 80.1 million euro). In 2008, most foreign investment originates from Austria in the amount of 51.3 million euro. On the other hand, Germany is the country with the largest share of investments during 2009-2010 years. During these years the country has invested in Kosovo 75.15 and 91.54 euro. Unlike previous years, 2012 and 2013 years are characteristic because the major part of its investments had Turkey, with 65.55 and 82.73 million of euro.

According to the collected data it can be said that foreign direct investment was the engine of survival of Kosovo as developing countries. However, one might also notice the great instability in the movement of the level of investment throughout the years.

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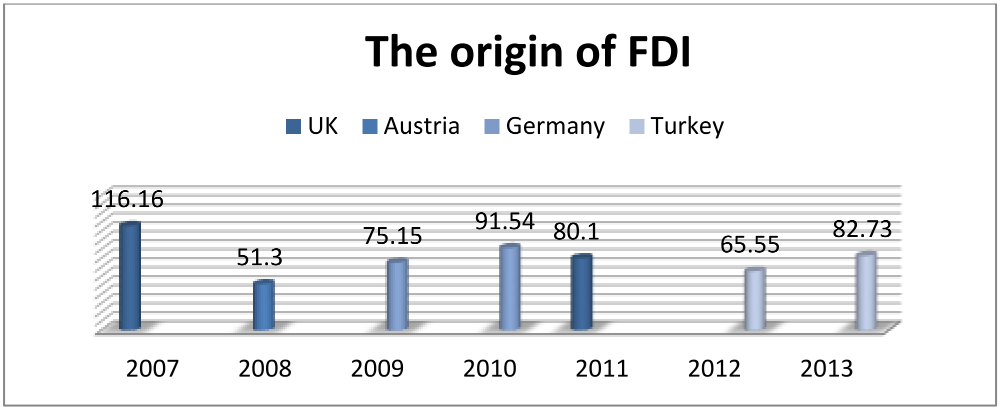
Chart 4. The origin of FDI addressed to Kosovo



Source: Ajdarpašić S. & Ciriković E., 2015

Taking into account that we are witnessing all the happenings in the region, reasons are evident for uncertainty of investors. Based on that there are many reasons why the FDI has been falling over years, starting with the:

- Political risk,
- Corruption,
- Non-respecting the law,
- Not working according to the regulation of the state,
- Economic instability ….

Conclusion

As a conclusion we can say that the political stability in the formation of a stable government policy is very important in improving the economic situation in Kosovo. However, how much government policies can help in attracting FDI is very enigmatically question, especially if we look back at the constant instability? But, the main policy question is whether FDI in the Kosovo has been influenced primarily by exogenous, predetermined, factors such as size, level of development and geographical position, or by endogenous, policy-induced measures? What government can or cannot do to attract more FDI? This is a key issue for the future researches!

Recent experience in the Kosovo indicates, in particular, that there is a need for a stronger link between investment promotion and industrial policy. Policy makers in the Kosovo might wish to consider a more pro-active industrial policy that could accelerate economic development.

Given the present unfavourable global climate for FDI, exhausted privatization opportunities in most Balkan countries and still unsettled political issues, the return of large amounts of FDI is unlikely in the short run.

Kosovo has failed to improve its institutions, for example regarding the protection of property rights or the investment climate, to levels attained by other more advanced economies, and our estimates suggest that this has cost the countries dear in terms of FDI foregone.

The levels of FDI to the Kosovo' economies can be explained by three categories of factors: the size of the domestic economy, their distance from the investing economies of Western Europe and institutional quality. However, the key challenge is the current lack of an industrial policy that would lay the basis for the investment promotion strategy attracting better quality FDI.

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