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**KOSOVA ECONOMICUS: DOES VIABILITY MATTER**

by Muhamet Mustafa

Paper prepared for UNA-USA/IAI Conference on "Kosovo's Final Status"  
*Rome, 12-14 December 1999*

IAI9938

**ISTITUTO AFFARI INTERNAZIONALI**

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## **Introduction**

Economic aspects, very heavy weighted in the Kosova issue, were neglected in the debates about the solutions and gateway. Domination of historical aspects and medieval sentiments were very often used as a camouflage for real problems in the economic matrix.

The economic aspects are reflected on the stands of both sides about:

- Exploiting and managing of natural and other resources which used to be important in former Yugoslavia and are still relevant in the regional relations
- Controlling of the Kosova's market, which especially in the last ten years was restructured and strictly controlled by Serbian regime.

The solution for Kosova's final status is a part of the dissolution process of former Yugoslavia . Within new realities in South- East Europe collapse of socialism resulted the creation of new countries and new movements toward market economies and democratic societies. The solution of Kosova issue means also overcoming its colonial position especially during the last ten years .

Despite practices that newly created states has not been based on feasibility studies or cost benefit analyses it is obvious that economic viability could be affected by political arrangements and that economic considerations have to be taken into account for the decisions on political identity.

In this paper I will review some arguments about the importance of building up open market economy and economic independence of Kosova within regional and European integration for future developments in Kosova and also regional cooperation and stability.

## **1. Viability and Actual Conditions**

Current situation is characterized by the energy of the kosovars shown to return and restart new life. In most of cases that doesn't mean just continuation of the pervious life in the conditions before march 1999, but creating conditions for new businesses and family environment. Really the lack of statistical data and overall post war environment is not a situation for well based estimations on current and future economic viability. But there are some helpful indications . According to our survey with 3500 kosovar families on war consequences on family economies and budgets :

- only 12% of families reminded in their residences during the period march- June 1999 ( 24% were displaced in other parts of Kosova, 64 % deported out of Kosova)

- 92 % of deported / displaced families returned in their municipalities and residences, but more than 40% had to find solution for new housing because of destroying of their houses to the extent that couldn't be repaired
- The sources for family budgets were reduced from 3 ( in average per family) to less than one ( including humanitarian aid which participate 47% in post-war family budgets); the family budget is reduced about 70%
- more than 80% of housing equipment was robbed or destroyed
- Expected sources for reconstruction and rebuilding of houses : 78% humanitarian aid and assistance and 22% own participation
- About 70% of families restarted or wanted to restart private businesses; needed financial assistance 1000 – 20000 DEM in 72% of the cases with participation of their own sources about 24%;
- Three main problems in Kosova are : Kosova's status ( 36%) , economic and social problems (29%) and democratization of Kosova ( 29%)

The role of the protectorate is much more seen in peace keeping and security area 50,2% than integration of Kosova in the region and Europe 20 % and less in the financial assistance near 12% etc.

- Success of the protectorate according to the respondents will depend more cooperation between international and kosovar factors 33%, more by engagements of kosovar subjects 31%, more by international factor 29%
- More than 88% of respondents consider that the situation will improve significantly after 5 years

The main conclusions are :

- There is a large scale of devastation of living conditions and we have to deal with huge and complex reconstruction project
- Strong determination of the population to rebuild new lives to restart and develop economic activities
- Preoccupation with peace and security, and Kosova's status is very high
- The sensitivity toward the economic and social problems, democratization and regional integrations
- The success of protectorate have to be relied on cooperation between international and kosovar subjects
- There is a high degree of optimism

The main problem now is how to accept this readiness and energy and to manage an efficient reconstruction which will activate kosovar resources to overcome emergency stage dominated by humanitarian assistance and "aid economy". That will depend mostly on:

- Enhancing absorption capacities
- Coordination of the activities between different actors in reconstruction
- The reconstruction costs

(a) **Enhancing** absorption capacities will require focusing on improving the knowledge on market economy management, management and entrepreneurship education and building up institutional infrastructure of open market economy. That is connected to the human capital development and to advancement of governance.

**(b)The coordination** of activities between many actors that are participating in the renewal and reconstruction processes is a key factor for more synergy and effectiveness. The experiences during this very early stage in Kosova's reconstruction are that:

- There are many international organizations involved and institutions working in the same issues without many coordination
- Many international NGO and institutions are working in different areas without partnership with local partners which means lost of opportunities for development of local capacities for participation in reconstruction

**(c) The reconstruction costs** are influenced by possibilities for more local suppliers and contractors especially in construction materials, transports and trade. Also the way of reconstruction management and transparency could highly impact reconstruction costs.

The UNMIK activities in creating institutional and legal environment have been started three months ago and are progressing quite slowly. There is a regulation about border taxes and customs and also regulations for banking and payment system. Fiscal authority within UNMIK proposed budget for the year 2000 with estimations for 425 mil DEM expenditures which have to be covered by 225 mil DEM ( or 53%) by tax revenues and 200 mil. DEM ( 47 %) by donations. There are estimations that with further developments of fiscal infrastructure there is more space for reducing budget gap and deficit.

Private sector reached significant results in restarting and development of their activities. Based on some preliminary results from the survey of private companies many of them have reached before the war volume of operation.

Social – state owned companies faced many obstacles due to the mismanagement in last ten years, lack of investments and technological progress. Some companies already restarted with new managerial structures and staff but many others are waiting for legal environment for privatization and restructuring.

Infrastructure reconstruction and rehabilitation is expected to restart next spring.

It can be outlined that after five months we have some promising signals for recovery of economic activities in the private sector , commitments to reshape the social/ state companies and we are in the early stage of establishing legal environment of an market economy.

## **2. Economic Prospects and Viability**

It is obvious that after all that happened Kosova have to built its economic viability versus surviving with aid economy . The process of self-governance and self- determination is in the high development stage and irreversible. There is no lack of the subject and it is quit clear who “ is to make the decision” and take the responsibility for the future after the transitional interim governance in Kosova.

What are the opportunities for economic development ? There are strengthens and weaknesses that should be taken into account.

<b>Strengthens</b>	<b>Weaknesses</b>
(1) Human capital- young population, relatively educated	(1) Low level of economic and social development
(2) Entrepreneurial spirit and energy	(2) Institutional environment and legal framework
(3) Natural resources ( minerals, land)	(3) Political and security condition in Kosova and region
(4) International community commitment	
(5) Positive attitude toward transition and reforms	

Open market economy is decisive for development of competitive economic structure and efficient exploiting of development strengthens. Two main problems for reaching viability are : ( 1) Budget and (2) Payment Balance

(1) Budget imbalances and gaps could be reduced within an medium term after an substantial phase of reconstruction which include : (1) offensive strategy for development of SME sector and family businesses ; (2) Infrastructure reconstruction and development ,(3) technological regeneration , restructuring and privatization of construction, food and export sector. That could create conditions for an GDP about 1,3 bil. US\$ (similarly to 1990), in next 3-5 years. Let us estimate the share of public consumption in GDP about 40% which will be sufficient to cover budget expenditures within an budget gap under 10%. In meantime it is understood that, within reconstruction policy , public infrastructure will improve significantly.

(2) Open economy as a key precondition for economic viability depend on export opportunities . Export sector could include: electricity, metals, metal processing sector, batteries, traditional industries, rubber products and services. Emigrants inflows ( around 300 mil. US\$) and exports ( 250- 300 mil. US\$ ) create conditions for an Payment Balance equilibrium by the end of the mentioned medium term.

Of course these are opportunities . The effectiveness in using these opportunities will depend on creating institutional and legal framework and rule of law, in better political and security conditions. The role of international community in that area is of key importance not only in ground activities but also in assisting for creating modern, competent and responsible administration.

Based on these opportunities and resources it can be concluded that economic viability of Kosova have chances to be built and economic independence could be budgeted. In comparison with neighboring countries these opportunities are not in a bad shape.

### **3. Lessons from the Past**

The development level of Kosova (1997 about 350 / 500 US\$ per capita depending on including the emigrants inflows) is consequence of political reflection of long term unsolved Kosova issue:

- The colonial position of Kosova in so called old Yugoslavia.
- The postponing of industrialization processes in Kosova compared to other parts of former Yugoslavia up to 1967 and especially during the seventies when Kosova reached the same institutional economic infrastructure as other parts of former Yugoslavia's federation .
- The development conflicts which had been reproduced by former Yugoslav economic system with contradictory elements expressed with stimulating measures for economic development (Federal Found for crediting of undeveloped federal units and supplementary budget funds) and on the other side negative impacts of centralist economic system and economic policies measures (price policy, foreign trade regimes and export stimulation's which had influenced unfavorable income redistribution for Kosova
- The abrogation of the autonomy and destroying of legal institutional structure after 1989, by installing authorities which have imposed an typical colonial policy and infrastructure in Kosova, led by repressive apparatus

The reflection of unsolved Kosova's issue since 1912 resulted in preventing Kosova's population to govern its own resources. The progress in building up Kosova's autonomy and development of this autonomy in late sixties and at the beginning of seventies resulted with subjectivity in the former Yugoslavia federation and significant progress in viable economic system of Kosova with the same mechanisms , authorities and position as other members of federation – republics. That was a period of more successful social and economic development, but not sufficient to overcome created development conflicts and obstacles from the previous period of inferior position. Budget was covered by 75% by kosovar incomes and 25% from the federal budget ( not from the serbian) due to the necessity for huge investment in neglected , for a long time, of social infrastructure. The trends in improving economic viability were interrupt by aggravating of the political and economic situation in former Yugoslavia during the eighties which resulted with Yugoslavia's dissolution and de facto putting of the Kosova's under the colonial position. The state companies were occupied, around 70% of Albanians in the state and public sector were dismissed.

After that surviving of Kosova population was managed through development of private initiative and private economy (about 50% of GDP) and funds sent by kosovar emigrants in western countries.

It should be noted that during this time albanian kosovar population being excluded from public sector developed its own budget which covered expenditure for institutions of peaceful resistance ( parallel institutions) during nineties – for 24000 public employees ( mostly in education sector) with similar or better salaries compared to neighboring countries.

It was a period of very specific economic viability of Kosova.

Former Yugoslavia experiences had verified that in the conditions of the significant differences in the economic development level of different entities within a country, with historical burdens, economical problems usually are transformed into national and political problems, generating conflicts and making permanent disintegration focus . In such conditions consensus for economic policy is very problematic and difficult .On the other side centralist governance and measures produce different effects in entities with significant differences in development level, which become source of conflicts. Independent economic

system is a precondition for economic viability, for clear accounts and identifying common interests for economic cooperation.

#### **4. Economic Viability and Political Arrangements**

Different options for future developments in Kosova could have significant impacts on economic viability. Past experiences and other circumstances make not feasible the economic viability within Serbia/ Yugoslavia. Development of open market economy and economic independence within regional and European cooperation is gateway for Kosova issue. Other solutions could result with less effects in activating development resources and energies and create more problems in the region. On the other side regional cooperation is a precondition for increasing economic viability not only for Kosova but also for other South Eastern European countries. This is a precondition for a new era of relations between Kosova and Serbia based on partnership within regional cooperation. It is a precondition for identification of common interests and cooperation free of the historical burdens and animosities.

#### **5. Regional Stability Pact**

Aftermath of Kosova's war and the introducing of the international protectorate creates more relax in the Balkans and more condition for easing of political and ethnic tensions as a precondition for regional cooperation. On the other side the Stability Pact for SEE provide an strategy for overcome many borders and limits in the Balkans tired from the past and history. These two events could interact in inducing positive changes which will create more space for a solution of final status of Kosova based on democratic declaration of the will and self-determination in a process that is less painful . It seems that the role of international community in managing stability pact components have to be decisive, at least in its initial stage, having in mind that Balkan countries hasn't shown enough affinities for economic cooperation. The Stability Pact is an alternative to put up new conditions in the region free from the tendencies of domination. The simultaneous acting in the promoting the development of infrastructure, private sector and SME and democratic institution building is of vital importance for increasing economic development performances of countries in the region. Other alternative is returning in the previous tectonic processes.

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