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Professional paper

ECONOMIC ZONES IN KOSOVO, THEIR IMPACT ON EMPLOYMENT AND EXPORT

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Abstract

Economic zones are one of the most effective tools that allow the state to attract investments in the field of the national economy. The internationalization of economic life, the need for more efficient use of geographical advantages, and other advantages of certain territories led to the creation of special economic zones in many countries. International economic zones contribute to the creation of jobs for qualified personnel, thus contributing to the preservation of intellectual potential in the country, whilst the economic zones also affect the increase of the percentage of exports. The main factor in creating an economic zone is the favorable economic and geographical position and attraction for foreign and domestic investors.

This research is dedicated to the economic zones in the Republic of Kosovo, specifically to four functional economic zones in Kosovo. To identify the main factors and the impact of economic zones I have compiled a questionnaire with 10 closed questions and 1 open question. The questionnaire is a sample of over 50% of economic operators operating in these four areas. The questionnaire was distributed to 64 companies, 22 questionnaires in the Business Park in Drenas, 21 questionnaires in the Shiroka Industrial Zone, 13 of them in the Business/Industrial Park in Mitrovica, and 8 questionnaires in Shtime Technology Park.

If the economy of the state leaves much to be desired and is appealing to foreign investors, then one of the ways out of this situation are economic or special zones organized within the country. Within these individual territories, it is possible to apply a completely different industrial, investment, fiscal, and tariff policy.

Keywords: Economic zones, economic impact, employment, and exports

1. Introduction

The attractiveness and relevance of this paper are extraordinary because less developed and countries in transition that do not have the luxury of natural resources such as oil and gas, lead to the question what other alternatives they must improve the business climate, thus, to be competitive, countries without these resources urgently need to improve the business climate. The topic is attractive also for the fact that it is a topic which is almost very little tackled, studied, and analyzed based on national feasibility, importance, and impact on the economic development of countries in transition. The importance of this paper is that it talks about these economic areas that have or do not have an impact on the macroeconomic, regional, or national environment, and I am convinced that this paper will provide new facts to establish such a thing, which will serve as evidence for the future. Of particular importance is the implementation phase of these projects in the economic zones in the Republic of Kosovo, which has many difficulties starting from the legal, financial, economic, and infrastructural aspects.

Based on the purpose of this study, the basic objectives which will be taken into account are as follows: Encouragement of foreign direct investment in productive activities; Job creation within economic zones; Concentrating businesses in a certain place and promoting them; Small and medium enterprise development; promoting domestic and foreign investments; Attracting modern production technologies and increasing the competitiveness of local products and services; Human resource development to increase the quality of services. Research in this area shows that economic zones are a much more important source of employment in smaller countries, as well as contributing to the development of exports. Therefore, based on this we have drawn two confusing hypotheses:

- **H1:** Economic zones have a positive impact on job creation.
- **H2:** Economic zones have a positive impact on increasing the share of exports.

Based on the findings of the questionnaire, we have ascertained the relevance of the two following hypotheses: “economic zones have a positive impact on job creation, respectively in reducing national/regional unemployment and “economic zones have a positive impact on increasing the percentage of exports.

2. Literature review

The (free) economic zones have their origins in ancient Rome and emerge in parallel with the establishment of trade. Changes and the evolution of the function and structure of world free economic zones need to be analyzed in a systematic approach.

The theory of industrial parks, economic zones is complex, according to this theory industrial parks must be competitive (Saleman & Jordan, 2015). Parks in general and industrial parks in particular are considered an institution and instrument of economic development that can be used by both the state and the private sector (Peddle, 1993). Business parks in the literature are encountered in various terms such as industrial property, commercial property, factory property, office park or employment fields (Keppl, 2001). Some papers of this nature believe that Economic Zones or similar can achieve industrial development efficiently and effectively (Lin and Monga, 2010)²⁶. Ciżkowicz, Ciżkowicz-Pękała, Pękała, & Rzońca (2015)²⁷, identified a positive impact of SEZs on economic development in Poland, as did Ambroziak (2016) who found that state aid granted to entrepreneurs in SEZs has a positive impact on economic development in less-developed districts (*poviats*). Thus, there are some grounds for expecting a positive impact of SEZs on economic development.

In another paper on Economic Zones, it is found that Free Economic Zones can be beneficial for both, creating and generating revenue, and potentially, towards protecting the environment and promoting green growth and eco-friendly cities (Lin & Wang, 2014)²⁸. In China, estimates show that National Economic Free Zones (including various industrial parks) account for more than 30 million jobs and about 22% of national GDP and 46% of foreign direct investment and 60 percent of exports (Zeng, 2010)²⁹. Susan Tiefenbrun (2013) researches the business use and tax advantages of ZTE in the US and abroad, suggests that ZTE could play a role of a system in the growing export economy, increasing industry competitiveness and seeking Direct Foreign

²⁶ https://assets.publishing.service.gov.uk/media/586f9727e5274a130700012d/PEDLSynthesis_Paper_Piece_No_1.pdf

²⁷ Will Bartlett, Besnik Krasniqi and Jasmina Ahmetbašić Attracting FDI to the Western Balkans: Special Economic Zones and Smart Specialisation Strategies Croatian Economic Survey : Vol. 21 : No. 2 : December 2019 : pp. 5-35

²⁸ Ibid

²⁹ Ibid

investments. Givord, Rathelot and Sillard (2013) identified a positive impact of a tax exemption program for entry of new companies in the enterprise economic zones in France.

3. Methodology

This research is dedicated to economic zones in the Republic of Kosovo, specifically to four functional economic zones in Kosovo. In order to identify the main factors and the impact of economic zones, the descriptive methodology was used through a questionnaire, where I have compiled a questionnaire with 10 closed-ended questions and an open-ended questionnaire. To get the closest possible feedback through the questionnaire, the sample represents over 50% of economic operators operating in these four functional economic zones.

The questionnaire was distributed to 64 companies with a random distribution proportional to the number of economic operators operating in the research/functional economic zones with the following distribution: 22 questionnaires in the Business Park in Drenas, 21 questionnaires in the Industrial Zone Shiroka, 13 of them in the Business Park/industrial in Mitrovica and 8 questionnaires in Shtime Technology Park. The research findings of the questionnaire were carefully analyzed and presented in a descriptive/descriptive manner for each area separately in the number of answers and the other figure in the total percentage of all research areas.

4. Functional economic zones in Kosovo

3.1 Drenas Business Park (DBP): The Business Park in Drenas has been declared an economic zone by Decision, No. 06/140 of the Government of Kosovo on 18.08.2010. In 2013, the draft law no. 04 / L-159 for the EZ (economic zones) which aims at the establishment of economic zones, free economic zones, the creation of the basis for drafting the national plan for economic zones, the location of economic zones, the manner of use of the EZ, promotion of the EZ, drafting of the national EZ plan and formation of national council for EZ, “Figure 1”.

In the business park of Drenas, the activity is carried out by 42 economic operators, where 37 are manufacturing, 3 commercials and 2 service.

Based on the official statistical data of the Municipality of Drenas, December 2020, the total number of employees is 388 employees, of which 281 are males and 107 are females³⁰“Figure 2”.



Figure 1. Satellite view from Drenas Business Park

Source: Statistical data from the Business park, Municipality of Drenas/December 2020

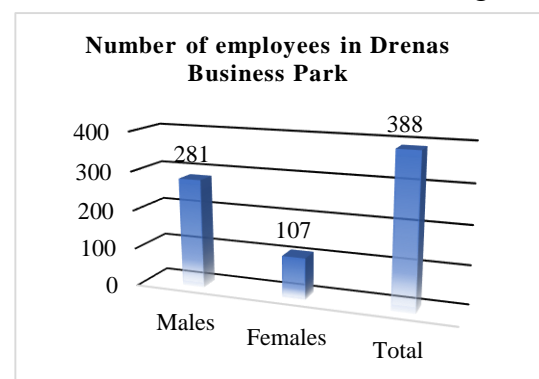


Figure 2. Number of employees in Drenas, 2020

³⁰ Statistical data from the Municipality of Drenas/December 2019

4.1 Mitrovica Business Park (MBP): Based on the emergence of need, the Assembly took the decision no. 215/01 dated 21.05.2002 for the allocation of a location of 3.5 hectares for the establishment of this Park. Therefore, in 2006 the Municipal Assembly of Mitrovica in the meeting held on 13.01.2006 took decision to establish the Business Park in Mitrovica, “Figure 3”.

Regarding the number of employees according to official data from the Regional Development Agency - North, from the total number of operators operating in this park, a total of 299 employees are employed, of which 186 are women and 113 are men, “Figure 4”.



Figure 3. Mitrovica Business Park
Source: Satellite view from Mitrovica Business Park, 2020



Figure 4. Number of employees in Mitrovica Business Park
Source: Municipality of Mitrovica, Directorate of Agriculture and Rural Development, visit September, 2020

4.2 Industrial Zone in Shiroka - Suhareka (IZSH): The foundation of the Industrial Zone in Shiroka of Suhareka is based on the decision of the Municipal Assembly, Decision 01 Ref.no.116. dated 03.03.2017 taken by the Municipal Assembly in 2006. The industrial zone in Shiroka –



Figure 5. Industrial area Shiroka – Suhareka
Source: Satellite view from the industrial park Shiroka - Suhareka, 2020

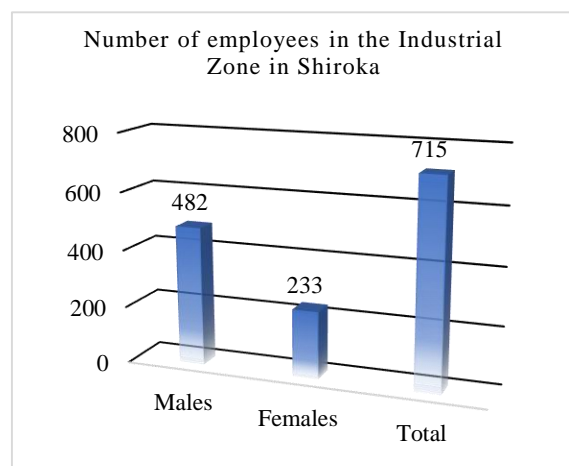


Figure 6. Number of employees in the industrial zone Shiroka
Source: Municipality of Suhareka, Directorate October visit, 2020

Suhareka has established the Business Center, whose main role is the facilitating the exercise of business activity, as in requests, complaints, assistance in completing documents for rent, organization of trainings, notice for application for grants, donations, “Figure 5”. According to official data obtained in 2019 in the Industrial Zone in Shiroka–Suhareka 715 employees are employed, of which 48 are males and 233 females³¹, “Figure 6”.

4.3 Technology Park in Shtime (PTSH): The technology park in Shtime was established on 03.12.2013 by MTI (Ministry of Trade and Industry) which operates within the Municipality of Shtime in an area of 10.70 ha, owned by the Municipality of Shtime. This Park is located on the third kilometer of the R6 Highway/Arbën Xhaferi Pristina - Skopje and on the second kilometer on the highway Shtime-Ferizaj (M-25.3), near the city, the highway and at the crossroads between Skopje - Prishtina and Tirana, “Figure 7”³².

The Shtime Technology Park employs a total of 136 people, of which 94 employees are males and 42 employees are female, see figure presentation, “Figure 8”.



Figure 7. Shtime Technology Park, October 2020

Source: Satellite view from Shtime technology Park, 2020

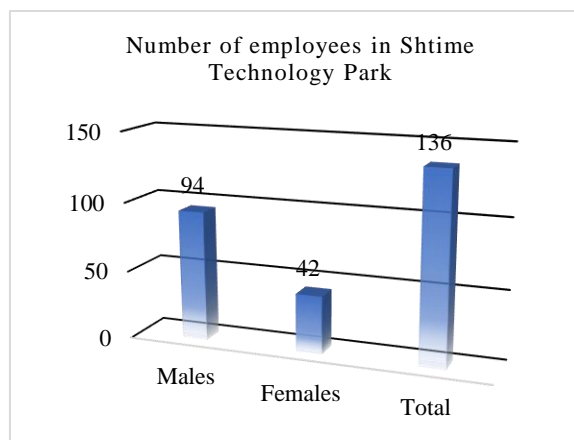


Figure 8. Number of employees in Shtime technology park, 2020

Source: Shtime Municipality, Directorate for Economic Development, visit 08.10.2020

5. Findings based on empirical results taken from the questionnaire related to economic zones in the Republic of Kosovo.

The questionnaire is compiled with 10 questions, which are dedicated to 4 economic zones or business/industrial parks that are functional in the Republic of Kosovo. The questionnaire is distributed according to the pre-determined sample of at least 50% of economic operators who exercise their activities in these certain areas, I have conducted a total of 64 questionnaires.

From 64 questionnaires conducted in the economic zones of Kosovo in the first question "How satisfied are you with the location of the economic zone or business / industrial park", we have the

³¹ Statistical data received by the Municipality of Suhareka, 12 November 2019

³² <https://www.facebook.com/pdknaimismajli/videos/parku-teknologjik-n%C3%AB-shtime-dhe-zona-ekonomike-gllavic%C3%AB/624378304939723/>

following results: 9 operators in the Business Park in Drenas (BPD) and the Industrial Zone in Shiroka (IZSH) stated that they are very satisfied, 2 operators in the Technology Park in Shtime (TPSH) and 1 operator in the Business Park in Mitrovica (BPM), or 33% of the total operators.

29 operators or 45% declared satisfied, neutral were 13 operators or 20% and only 1 operator or 2% declared dissatisfied, while many operators were not very satisfied, "Figure 9/10".

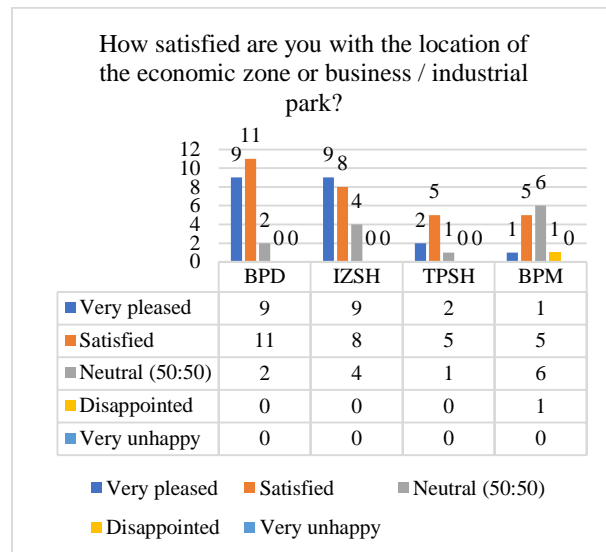


Figure 9. Operators declared according to EZ

Source: Economic zones, author calculations based on research findings.

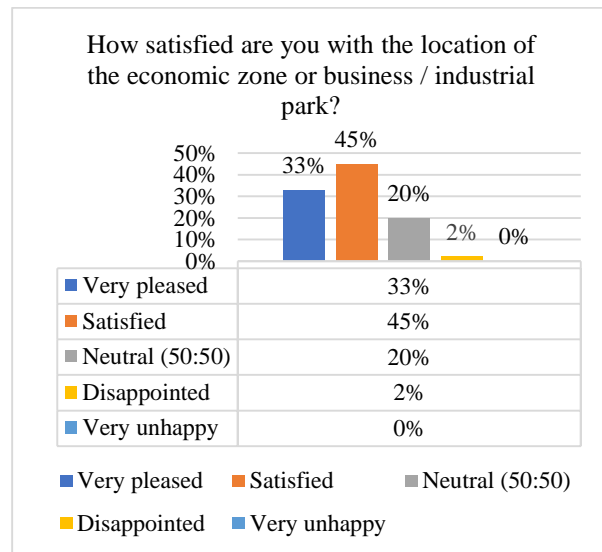


Figure 10. Overall percentage

In the second question *"In your opinion, economic zones are more attractive for FDI than local investments"*, we have the following results: Out of 64 questionnaires, 59 of them or 92% said yes, while 5 operators or 8% said no, "Figure 11/12".

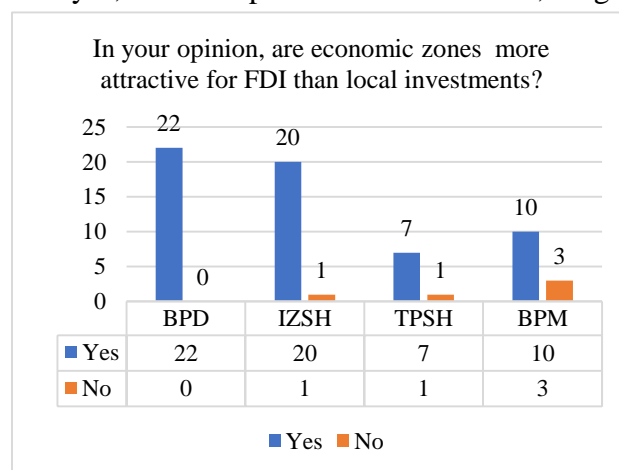


Figure 11. Operators declared according to EZ

Source: Economic zones, author calculations based on research findings.

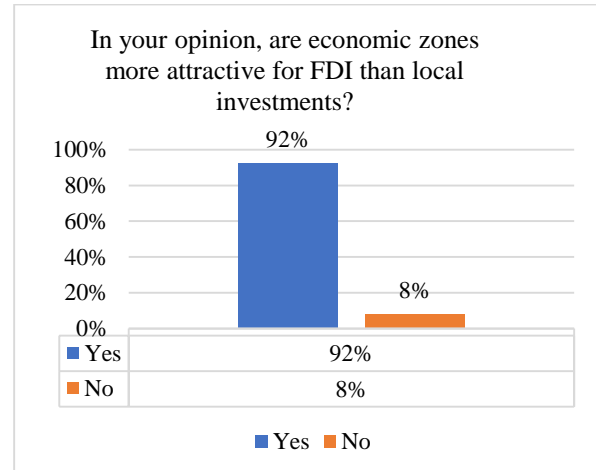


Figure 12. Overall percentage

In the question *"The capital of your company is"*, we have the following results: 7 Foreign operators (FDI) have declared or 2%, while for pure domestic capital 45 operators have declared or 80% and for joint capital (Joint venture), 15 operators have declared or 19%, "Figure 13/14".

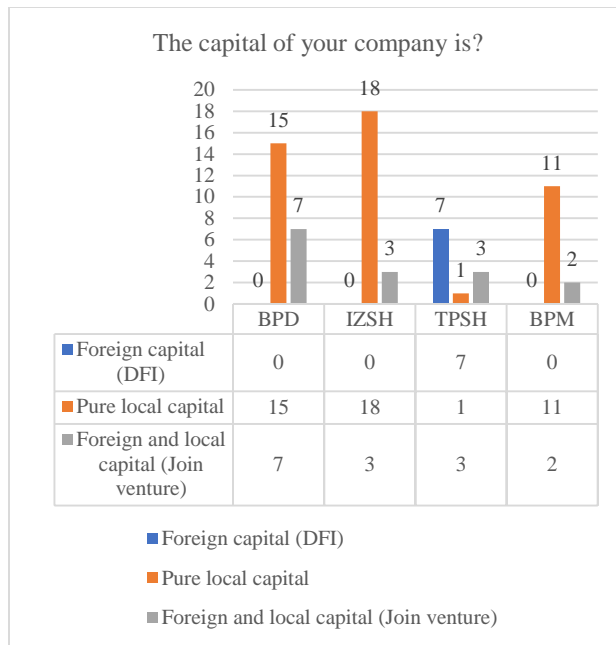


Figure 13. Operators declared according to EZ

Source: Economic zones, author calculations based on research findings

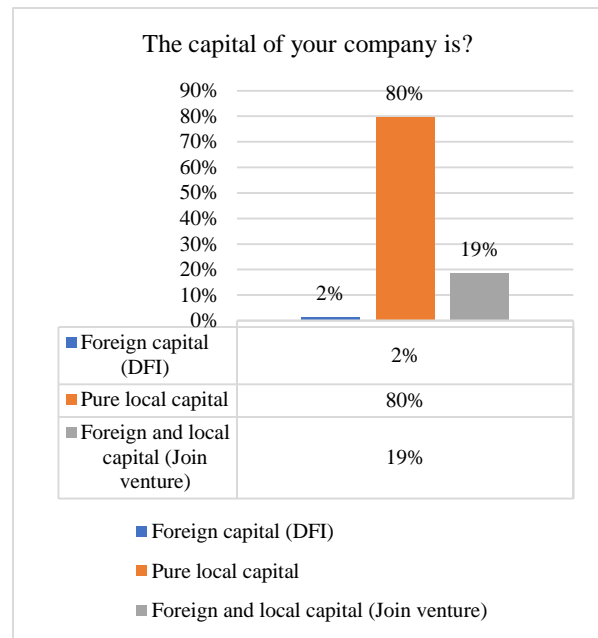


Figure 14. Overall percentage

In the question *"What is the number of employees in your company"*, we have the following findings: Up to 9 employees are declared, 17 economic operators or 27% of them, 10 to 49 employees are declared, 41 operators or 64%, 50 to 249 employees, 6 operators have been declared or 9% of them and over 250 employees no economic operators have been declared, "Figure 15/16".

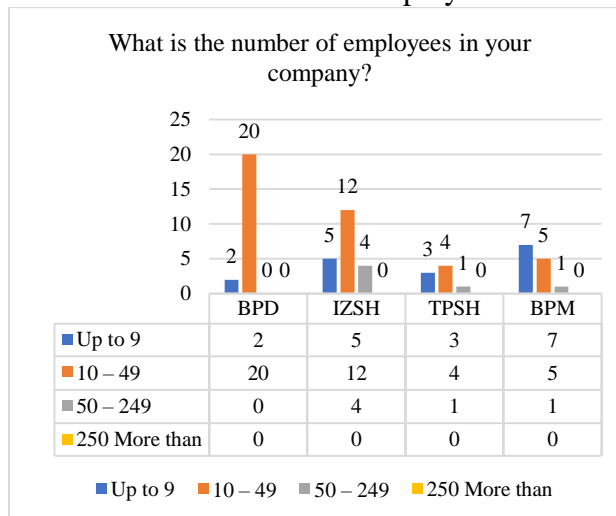


Figure 15. Operators declared according to EZ

Source: Economic zones, author calculations based on research findings

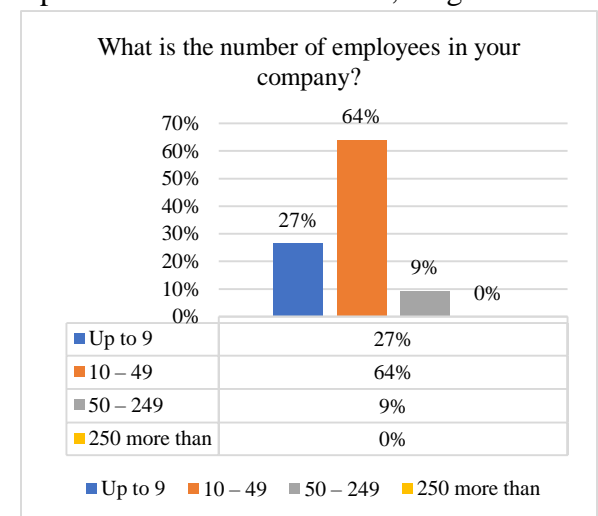


Figure 16. Overall percentage

Regarding the question *"At what level of annual turnover will you classify your company"*, we have the following results: up to 500,000 are declared the most, respectively 42 operators or 68% of them, 500,001 to 2,400,000 are declared, only 18 operators or 28%, while 2,400,001 up to 10 million have declared, only 4 operators or 6% of them, while over 10 million have not declared any economic operators, "Figure 17/18".

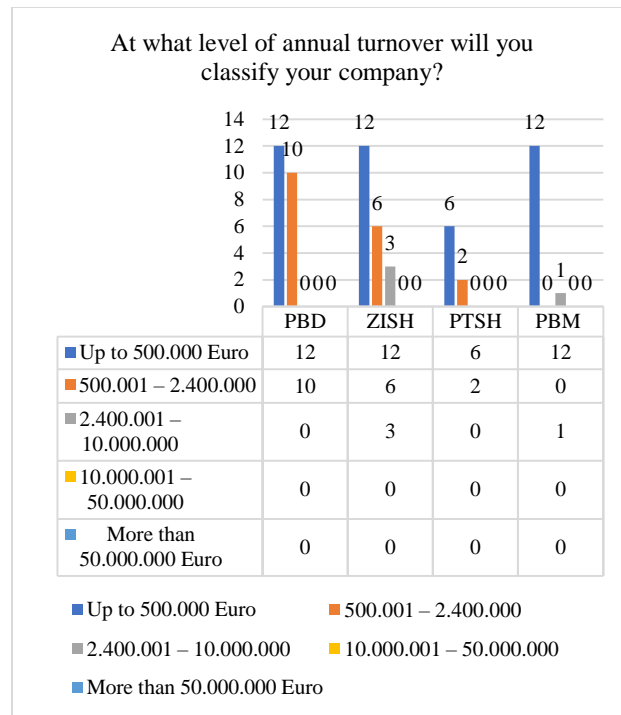


Figure 17. Operators declared according to EZ

Source: Economic zones, author calculations based on research findings

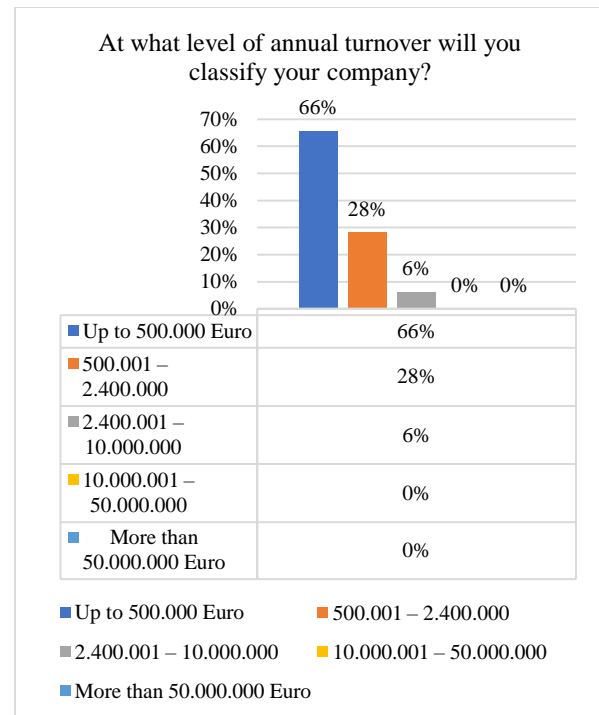


Figure 18. Overall percentage

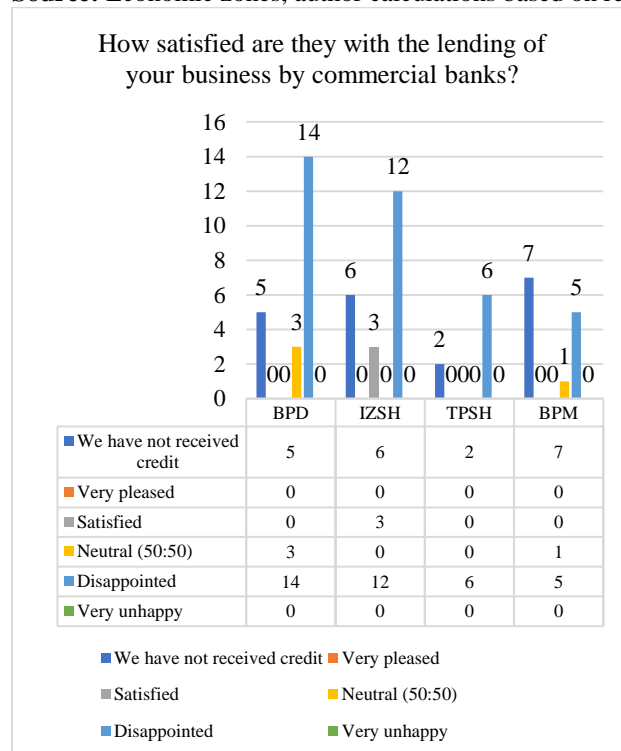


Figure 19. Operators declared according to EZ

Source: Economic zones, author calculations based on research findings

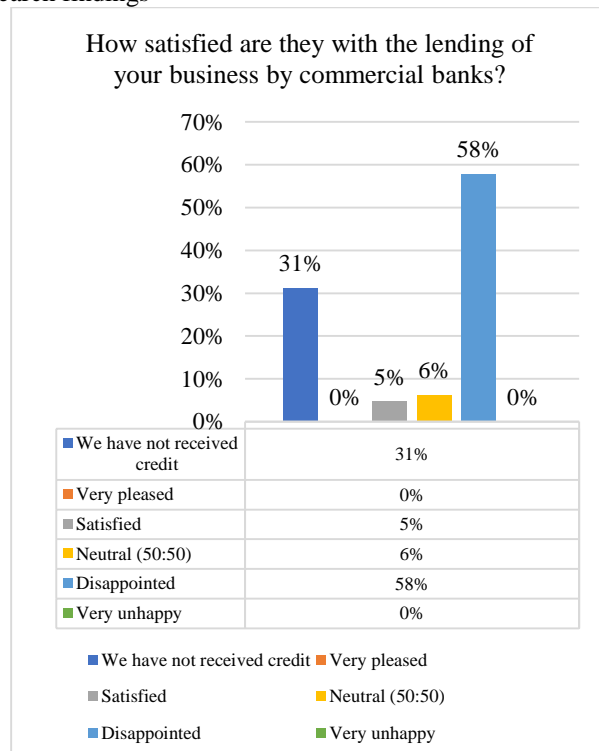


Figure 20. Overall percentage

In the question "*How satisfied are they with the lending of your business by commercial banks*", we have the following results: 20 economic operators or 31% of them have used the loan

scheme, no operator has declared very satisfied, satisfied 3 operators or 5%, neutral were 4 operators or 6%, dissatisfied were 37 economic operators or 58% of them, "Figure 19/20".

In the interest of my research "**Which markets are your company's sales dedicated to**", we have the following data: 33 economic operators or 52% are declared in domestic markets and exports, while 28 operators or 45% are declared in domestic markets, while for exports only 2 economic operators or 3% of them were declared "Figure 21/22".

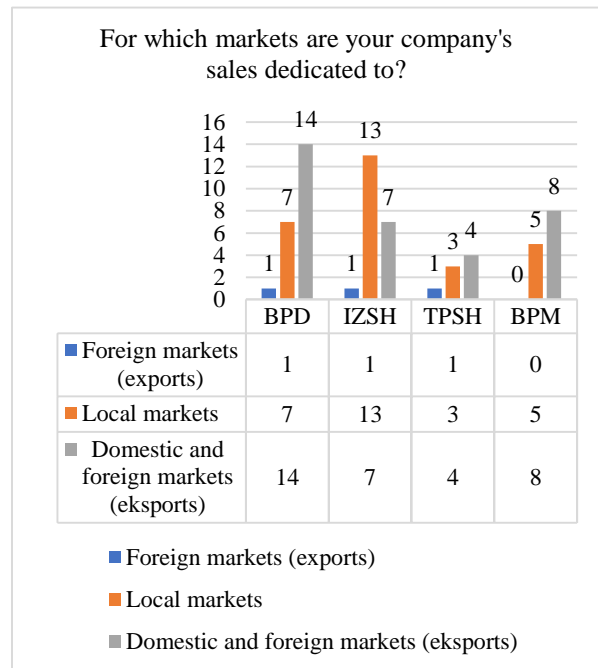


Figure 21. Operators declared according to EZ

Source: Economic zones, author calculations based on research findings

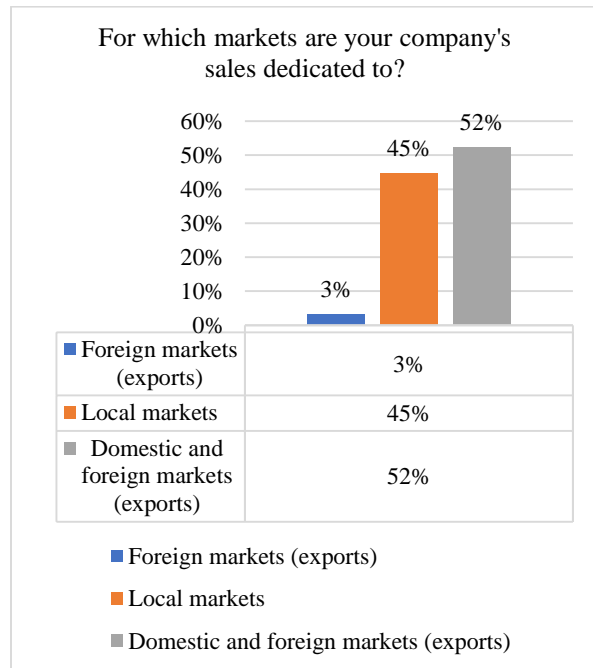


Figure 22. Overall percentage

Given that economic operators need state/government support, I posed the question "**How satisfied are you with government support with fiscal incentives / facilities, in terms of supporting your business**", we have the following findings: 70% or 44 of economic operators declared that they are dissatisfied, 16% have declared neutral, 13% have declared satisfied and 2% have declared very dissatisfied and no economic operator has declared very satisfied," Figure 23/24".

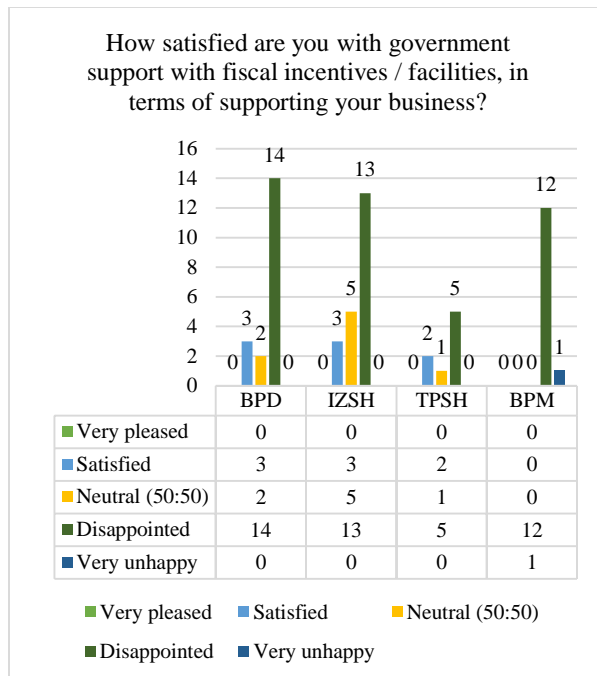


Figure 23. Operators declared according to EZ
Source: Economic zones, author calculations based on research findings.

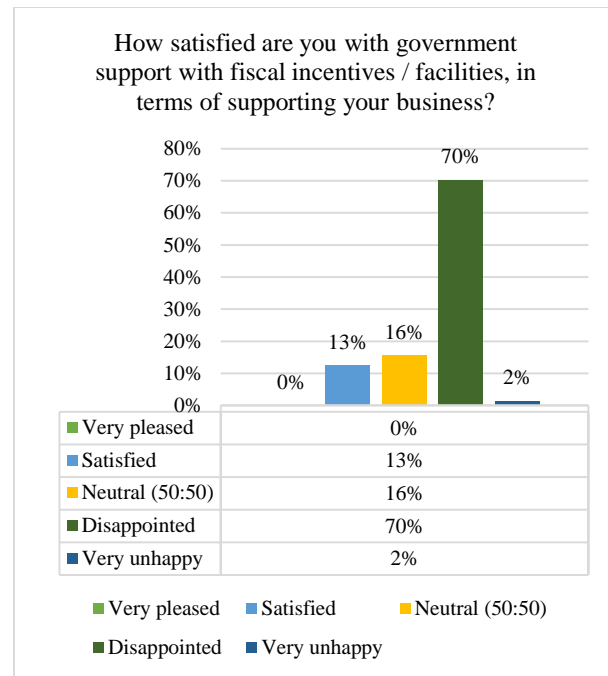


Figure 24. Overall percentage

Since the questionnaire was conducted during the COVID 19 pandemic, I also posed the question *"According to your expectations, what impact will the COVID 19 pandemic have on your business"* we have received the expected results: 61 economic operators or 95% of them stated that had a negative impact, while only 3 economic operators or 5% of them are (mainly pharmaceutical operators), have been declared positive, "Figure 25/26".

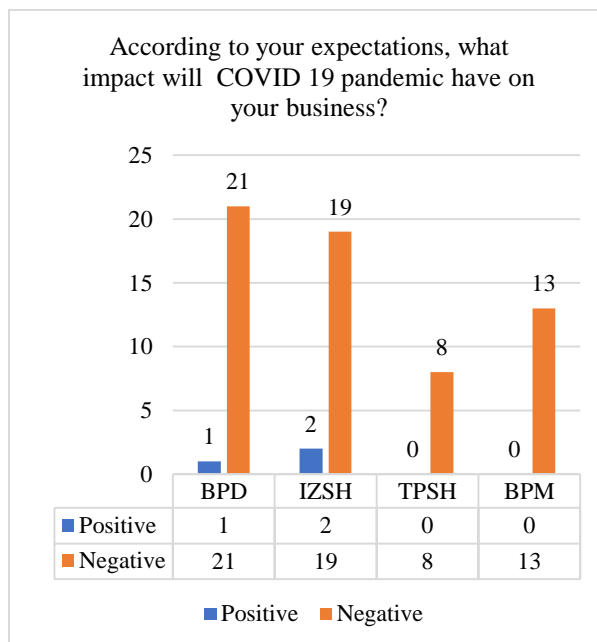


Figure 25. Operators declared according to EZ
Source: Economic zones, author calculations based on research findings.

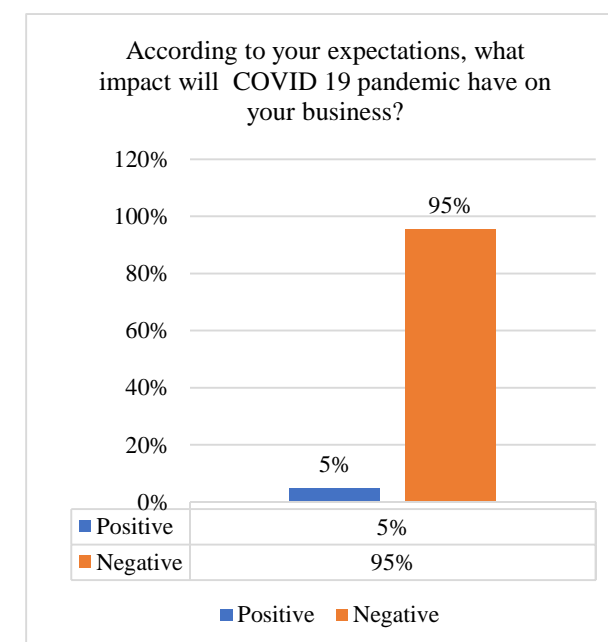


Figure 26. Overall percentage

Regarding the closed question *"In your opinion, mark the 3 main bottlenecks in the area where you operate"*, we have the following answers: Unfortunately, about 51% of all economic operators have stated that electricity is still a problem in the production or services of operators, 21% have declared that high credit interest rates and the grace period of return are not stimulating to expand our activity, 8% have declared unfavorable taxes on import of raw materials, lack of ISO standards by 6%, 5% were declared on non-acceptance of company capital by banks as a mortgage (guarantor) for obtaining loans, non-direct support in exports (fiscal incentives) 4%, while 3% stated that there is a lack of sound long-term strategies, and % have stated that they do not have enough space to develop their operational activity, "Figure 27".

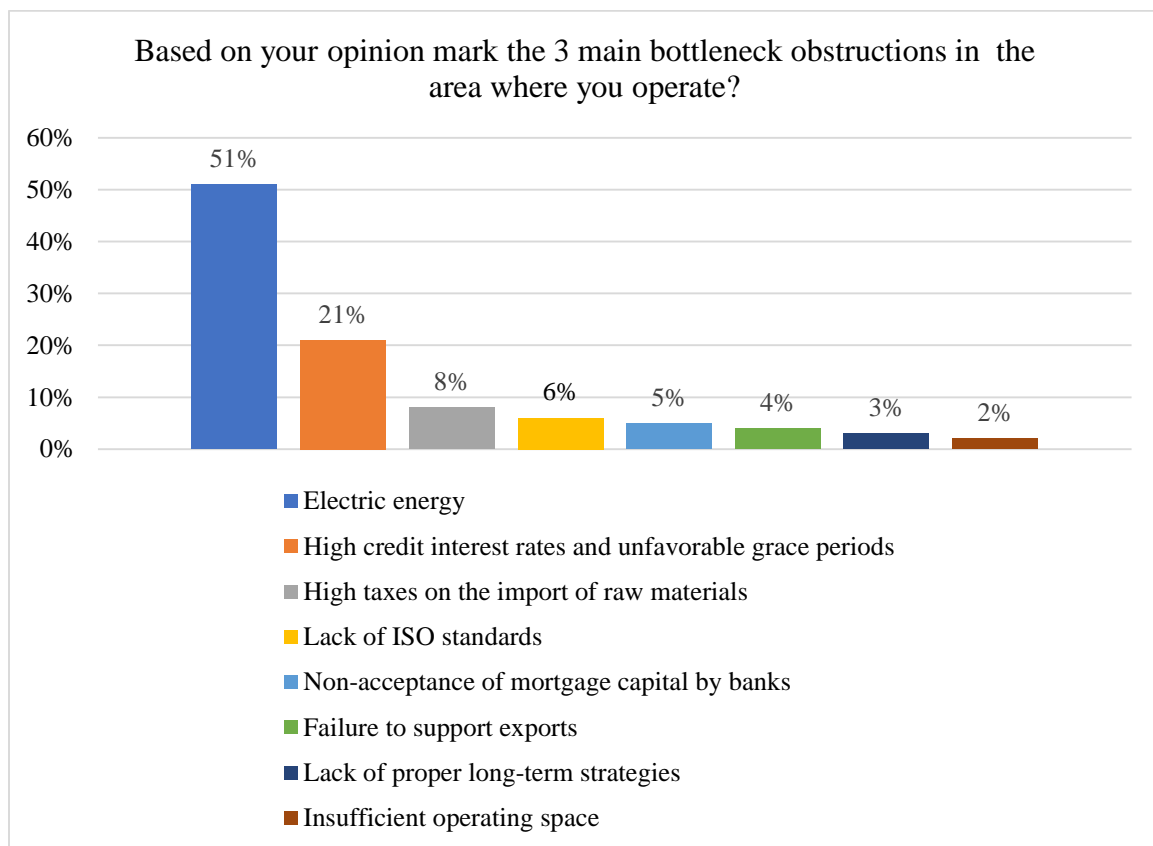


Figure 27. Main bottlenecks in economic zones

Source: Economic zones, author calculations based on research findings

6. Conclusions and recommendations

Economic zones should be in proportionate spread throughout the territory of Kosovo in order to have the possibility of regional benefits both in terms of job creation and general national well-being. Based on the analysis of the questionnaire, i conclude that economic zones have a positive impact on job creation, consequently reducing unemployment, while in terms of the impact of exports of goods and services, Kosovo economic zones have no official empirical data if they have any positive impact or not.

The primary recommendations are;

- Reforming certain bodies according to international and regional best practices, which oversee these areas.
- Harmonization of laws, regulations for economic zones with those of the European Union.
- Reduced or zero tax liability for employment of unemployed, qualified persons, recent university graduates, etc.
- Incentives (facilitations) should be applied in a non-discriminatory manner and should be the same for both foreign and domestic firms.
- Exemption or postponement of the payment of property tax, at least until the beginning of the business activation as well as a quick refund of the VAT.
- Exemption from the rent of foreign investors and domestic investors until the beginning of work/production.

Secondary recommendations are;

- An association of economic zones and industrial technological parks should be established, which will serve as the coordination on a country level towards creating a more sustainable economic development.
- Categorization, specialization, transparent treatment between members, regional state and continues international cooperation.
- Having a strong relationship with the Agency for Foreign Investment and Entrepreneurship Development and regional development agencies.
- All economic zones and industrial/technological parks have much closer cooperation or linkage between themselves and with local and international partners to exchange experiences and best practices of economic development.

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