

DEVELOPMENT TRENDS AND INSTITUTIONAL CAPACITIES IN KOSOVO AND METOHIJA IN THE FIRST FIFTH OF THE 21st CENTURY

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ABSTRACT

This paper is about basic development trends in Kosovo and Metohija during the period 2003-2017. The focus is on the missed opportunities for increasing economic and social well-being in the KiM area. Besides this, an important aspect of the analysis carried out in this paper relates to the quality of the state governance and building institutional capacities. In the empirical analysis, three scenarios were used to show the backlog of the KiM area, i.e. the lost GDP per capita of Kosovo* caused by the inability to take advantage of the wider space of our country. The results of the research show that special attention has to be paid to the rule of law, the efficiency of governance and the control over corruption in Kosovo*. The integration of Kosovo* with the educational, research and economic space of Serbia and the EU could lead to the overall progress of our country as a whole.

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1. INTRODUCTION

Kosovo and Metohija occupy an area of 10.9 thousand km² which borders with the territory of central Serbia, Albania, Montenegro and North Macedonia. This area is characterized by the continental climate, warm summers and cold winters. There are significant differences in terms of the precipitation schedule and the height of the temperature in its parts.

Significant stocks of nickel, lead, zinc, magnesium, kaolin, chromium, bauxite, and especially lignite are present in the territory of Kosovo and Metohija. Agricultural land extends over more than 50% of the territory, half of which are

arable land. Forests occupy 2/5 of the total territory of KiM. The main economic sectors are agriculture, forestry and mining.

The population of Kosovo and Metohija (according to the available “official” data) is about 1.9 million people, of which the most numerous are Albanians (more than 90%), while the rest are Serbs, Bosniaks, Turks, Ashkali, Egyptians, Gorans, etc.

The Muslim religion prevails (more than 95% of the population), and the members of the Roman Catholic and Orthodox religions are much less present. The average age of the population is 29.6, while the age structure is very favorable (from 0 to 14, 24.7%; from 15 to 64, 67.9% and older than 65, 7.4%).

From 1961 to 2011, the total number of inhabitants in KiM increased from around 964 thousand to 1.74 million. During this period there were significant changes in the ethnic structure of the population in this area: the representation of the Albanian population rose from 67% to 93%, the share of the Serbian population decreased from 23.5% to only 1.5%, while members of other ethnic groups also recorded a decline in participation from 9.4% to 5.6% (see: KAS, Kosovo in Figures, 2016, p. 12).

According to the regulations of the provisional authorities in Kosovo and Metohija (which had been declared unauthorized independence of the so-called Republic of Kosovo on February 17, 2008), there are 38 municipalities and 1469 settlements.

The cause of conflict in this part of the Balkans has always been wealth in the ores, waters, land and favorable geographical features of Kosovo and Metohija. The KiM region and its development potentials were of the great importance to our country. The wartime circumstances of the 1990s led to a sort of humanitarian crisis (during the NATO aggression about 13 thousand people lost their lives, hundreds of thousands of them left their homes due to bombings and armed conflicts, while a significant part of infrastructure was destroyed).

Namely, the constant intolerance and conflicts, stimulated by the action of the international factor, resulted in the introduction of protectorate under the United Nations administration, as well as in the current Kosovo crisis.

The fact that natural and built potentials in the territory of Kosovo and Metohija are beyond our jurisdiction, and that fees for importing goods from the territory of Serbia and Bosnia and Herzegovina increased by 100%, can pose (and already does) obstacles to accelerating development in the region.

2. BASIC DEVELOPMENT INDICATORS IN KOSOVO AND METOHIJA (2003-2017)

Table 1 contains some more important development indicators that relate to the conditions of living and doing business in the territory of Kosovo and Metohija. The source of data is the World Bank. The period from 2003 to 2017 was analyzed, with the original annual data being used to calculate the average values of the selected indicators for the whole period observed (2003-2017), as well as for two periods within it - until the so-called independence (2003-2008) and thereafter (2009-2017).

Table 1. Important Development Indicators for KiM, 2003-2017

SELECTED GENERAL INDICATORS	KOSOVO AND METOHIJA		
	Average 2003-2017	Average 2003-2008	Average 2009-2017
Surface area (sq. km)	10,887	10,887	10,887
Arable land (% of land area)	27.56	27.56	/
Arable land (hectares per person)	0.17	0.17	/
Agricultural land (% of land area)	52.36	52.36	/
ECONOMIC INDICATORS			
External balance on goods and services (% of GDP)	-31.75	-36.32	-30.23
Imports of goods and services (% of GDP)	52.07	50.91	52.45
Gross capital formation (% of GDP)	28.79	27.55	29.33
Gross fixed capital formation (% of GDP)	25.70	23.34	26.75
Gross fixed capital formation, private sector (% of GDP)	17.46	17.01	17.61
Export of goods and services (% of GDP)	20.31	14.59	22.22
Gross national expenditure (% of GDP)	131.75	136.32	130.23
Final consumption expenditure (% of GDP)	102.79	108.47	100.90
Personal remittances, received (% of GDP)	16.61	18.41	15.61
Foreign direct investment, net inflows (% of GDP)	6.11	7.21	5.50
ICT service exports (% of service exports, BoP)	14.07	12.44	14.97
Current account balance (% of GDP)	-8.62	-9.70	-8.02
Foreign direct investment, net outflows (% of GDP)	0.47	0.36	0.50
Military expenditure (% of GDP)	0.60	0.02	0.68
Trade in services (% of GDP)	22.41	18.08	24.81
Total tax rate (% of commercial profits)	16.96	/	16.96
Labor tax and contributions (% of commercial profits)	5.60	/	5.60
Interest payments on external debt (% of GNI)	0.47	0.14	0.60

SELECTED GENERAL INDICATORS	KOSOVO AND METOHIJA		
	Average 2003-2017	Average 2003-2008	Average 2009-2017
Firms competing against unregistered firms (% of firms)	64.85	/	64.85
Short-term debt (% of total external debt)	22.67	8.94	32.97
External debt stocks (% of GNI)	23.59	8.15	29.38
Unemployment, total (% of total labor force) (national estimate)	40.13	44.92	34.38
Unemployment, youth total (% of total labor force ages 15-24) (national estimate)	56.60	/	56.60
Gross savings (% of GDP)	20.65	17.62	21.66
GNI per capita, PPP (constant 2011 international \$)	8,527.21	7,593.21	8,838.54
GNI per capita, PPP (current international \$)	8,650.00	7,143.33	9,152.22
GNI per capita growth (annual %)	3.18	4.68	2.84
GNI per capita (constant 2010 US\$)	3,540.51	3,152.71	3,669.78
Domestic credit to private sector (% of GDP)	29.29	20.40	35.96
Inflation, consumer prices (annual %)	1.69	1.80	1.61
Employment to population ratio, 15+, total (%) (national estimate)	25.75	26.75	24.75
Services, value added (% of GDP)	47.98	51.25	46.89
Industry (including construction), value added (% of GDP)	22.75	19.73	23.76
Manufacturing, value added (% of GDP)	10.85	10.20	11.07
Agriculture, forestry, and fishing, value added (% of GDP)	12.21	13.27	11.86
GNI growth (annual %)	3.77	5.53	3.37
GDP per capita, PPP (constant 2011 international \$)	7,929.98	6,840.44	8,656.33
GDP per capita growth (annual %)	3.54	4.39	2.98
GDP per capita (constant 2010 US\$)	3,293.32	2,840.84	3,594.98
GDP, PPP (constant 2011 international \$)	14,078,701,117	11,766,810,744	15,619,961,365
GDP growth (annual %)	4.05	4.84	3.51

Source: author's calculations based on the World Bank database - <https://data.worldbank.org/> (accessed: 10 November 2018).

When considering the economic dimension, it is important to highlight some of the following facts¹. The gross overall and gross fixed investment rates (capital formation) increased in the period after 2008 compared to the interval from 2003 to 2008. In addition, since the gross fixed investment rate from private

¹ One more comprehensive view of economic, but also demographic, social and ecological processes in the area of Kosovo and Metohija is given in: Рикаловић и Молнар (2019).

sources slightly increased, it follows that the main carrier of the investment activity in KiM in the period after 2008 was the public sector, that is, the state.

The foreign trade deficit (expressed in % of GDP) was reduced from 36.32% to 30.23%. Exports of goods and services (expressed in % of GDP) increased from around 14.6% (2003-2008) to around 22.2% (2009-2017), while the share of imports in GDP increased slightly, which was favorable to the improvement of the balance of exchange of goods and services². It should be noted that the share of export of ICT services in total export of services increased from 12.4% to 15.0% in the second subperiod, compared to the first.

However, what probably caused the economic dynamics to be slower was the drop in personal remittances and FDI inflows³. Namely, in the period from 2009 to 2017, the share of remittances in GDP was reduced by almost 3 percentage points compared to the period from 2003 to 2008, while at the same time the share of FDI in GDP fell by close to 2 percentage points.

What is notable is that military spending increased considerably in the period after the illegal proclamation of the so-called independence from 0.02% of GDP (2003-2008) to 0.68% of GDP (2009-2017).

The volume of gross domestic product and gross national income, as well as their per capita amounts increased in the second subperiod compared to the first, while the unemployment rate was reduced. Growth of total GDP and GDP per capita remains relatively high, but slows down in the period from 2009 to 2017, compared to the previous that lasted from 2003 to 2008.

Regarding the economic structure, it is noticed that there is a relatively high share of services (although it is decreasing in the second subperiod relative to the first by about 4 percentage points), while at the same time the share of industry is rising (by around 4 percentage points), and the share of agriculture is decreasing (by about 1.5 percentage points).

In the area of external indebtedness, there are worrying movements: the amount of external debt expressed as a percentage of gross national income increased by about 3.6 times in the second subperiod, compared to the first, and at the same time the short-term debt expressed as a percentage of total external debt rose by 3.7 times, while the amount of interest paid on external debt (expressed as a percentage of gross national income) is higher by 4.3 times.

Regarding demographic and social indicators, the number of inhabitants increased significantly during the period 2009-2017 (by around 84 thousand), with

² For more detailed analysis about interdependence of foreign trade and economic growth in Kosovo* see: Topxhiu and Krasniqi (2011).

³ More about the role and impact of remittances on the economic growth in Kosovo* see: Zogjani and Badivuku-Pantina (2014) and for more detailed insight in the impact of foreign direct investments on economic growth in Kosovo* see: Thaçi and Rushiti (2018).

the population growth rate (annualized) as high as 0.52%. Poverty declined significantly according to available data, as the poverty gap rate (at the level of \$ 3.2 equivalent of purchasing power per day) was reduced from 3.7% to 1.45%. The distribution of income is more equable, as evidenced by the decrease in the Gini coefficient from 30.2 to 28.6. However, there is still a high degree of the informal (grey) economy⁴. The rate of deliberate murders is almost halved. The life expectancy has increased, but fertility rates and birthrates, although relatively high, nevertheless decreased during the period 2009-2017, compared to the period 2003-2008.

As far as energy and environmental performance are concerned, a significant increase in electricity consumption (even by about 25%) in the second observed subperiod (2009-2017) is noticeable compared to the first (2003-2008). What can be drawn as a conclusion from the comparison of the appropriate indicators in these two subperiods is that the share of energy consumption derived from fossil fuels increased (from 87.31% to 88.36%), while the share of energy consumption from renewable sources in total of final energy use decreased from 22.46% to 20.75%. What is, however, positive is that energy intensity is reduced, that is, the GDP unit needs less energy in the second subperiod compared to the first. When it comes to the sectoral structure of carbon dioxide emission sources, it did not change significantly⁵.

3. MISSED OPPORTUNITIES FOR IMPROVING ECONOMIC AND SOCIAL WELFARE IN KOSOVO AND METOHIJA (2003-2017)

To achieve economic development it is important to make it sustainable. Long-term economic growth is an essential prerequisite for achieving a higher standard of living. Sustainable increase in living standards implies an economic policy that even partially affects the rate of long-term economic growth.

In the following Table 2, there are data which show in a very striking way the missed opportunities for Kosovo and Metohija to increase their economic and social well-being. From this point of view, the differences in the dynamics of the growth of the economy and the movement of the population must not be left out, because only in one generation, about 30-35 (2003-2035), dramatic differences in the level of economic development and living standard can arise and/or deepen. We remind that even after the changes in 2000, the circumstances in

⁴ For more details about impact of informal economy on development process in Kosovo* see: Skenderi and Mulolli (2017).

⁵ Author's calculations based on World Bank data, see: <https://data.worldbank.org/> (accessed: November 10, 2018).

which economic life takes place in the KiM area are not particularly stimulating (economic crisis heritage from the past, armed conflicts, bombing, effects of the world migration crisis, energy conflicts between Russia and the EU, slowdown of the integration process of the Western Balkans with the EU, political tensions, weak institutions, high levels of corruption, youth unemployment, etc.). In addition, the dinamizing of the economic development of Kosovo and Metohija is conditioned by the creation of an institutional environment in line with the systemic, economic and political solutions of the European market economies.

In the following table (Table 2), there are data on the lost gross domestic product per capita for the KiM area and characteristic years of the observed period (2003, 2008 and 2017).

Table 2. Volume of lost GDP per capita in KiM

	2003	2008	2017
GDP per capita (dollars, constant prices, 2010)	1,187.57	1,926.10	1,526.93
GDP per capita, PPP (“international” dollars, constant prices, 2011)	2,652.43	4,354.87	3,372.86
GDP per capita, PPP (“international” dollars, current prices)	1,647.28	3,791.64	3,707.78

Note: the author’s calculation based on the World Bank’s database on the value of GDP and the number of inhabitants for Serbia and Kosovo*. We have come to the size of the total gross domestic product of Serbia (including KiM) in a relatively simplified way by adding the values of this aggregate contained in the World Bank database for the territory of Serbia (without KiM) and Kosovo*. Of course, it should be understood here that integration of these territories would have a greater effect on the volume of GDP due to synergistic and other positive integration effects, but for the purpose of this research, this approach, which does not include it, is sufficient.

The data from the previous table (Table 2) enable the identification of the missed opportunities for achieving a higher level of economic development (measured on the basis of real GDP per capita, expressed in dollars, at constant prices in 2010) and living standard (which is expressed in terms of per capita GDP in US dollars, PPPs, “international“ dollars in 2011 and current prices/dollars) in Kosovo and Metohija.

This budget shows that Kosovo*⁶ would be economically more prosperous in the union with Serbia, because (due to separation) its lost GDP per capita is 1,187 in 2003, 1,926 in 2008 and 1,527 dollars in 2017.

The gap in the level of living standard measured by the nominal GDP per capita (in the international current dollars) of the inhabitants of Kosovo* in rela-

⁶ This name is without prejudice to status and is in line with United Nations Security Council Resolution 1244 and the opinion of the International Court of Justice on the declaration of independence of Kosovo. (See: <https://www.srbija.gov.rs/kosovo-metohija/index.php?id=168200>, accessed: April 10, 2019).

tion to the average level of the inhabitants of the community of Serbia (without KiM) and KiM is 24 percentage points in 2003, 35 in 2008 and 26 points in 2017. For example, in 2017 residents of Kosovo* could have had as much as 3,707 dollars more, that is, they were deprived of 3,791 dollars in 2008, that is, \$ 1,647 in 2003. The inhabitants of Kosovo* in real terms (“the international“ dollars, constant prices in 2011) lost \$ 2,652 (2003), \$ 4,355 (2008) and \$ 3,373 (2017). We conclude that in terms of quality of living standard in Kosovo* opportunities for a better life of citizens have been missed.

Starting from the achieved development performance of Kosovo and Metohija and our country as a whole in 2017 and the expected economic growth rates in the years to come, it is possible to construct three scenarios for assessing its lagging behind in the level of development compared to the whole country.

The first scenario implies that Serbia’s (as a whole) GDP per capita will in general increase at the rate of 2.9% and KiM at the rate of 3.5%. In this scenario, the GDP per capita will continue to grow at the same pace as in the period between 2003 and 2017. The second scenario relies on the estimated growth of Serbia as a whole of 2.7% and KiM of 3.4%. It is here assumed that the pace of GDP per capita growth will be the same as previous two years (2016-2017) of the observed period. The third scenario anticipates an average annual GDP per capita growth of Serbia as a whole of 4.2% and KiM of 3.5%. The basis for this scenario is the projection of the GDP per capita growth rates given by the World Economic Outlook for Kosovo* and Serbia (see IMF, 2018, p. 156).

Table 3. Potential loss of real GDP per capita of Kosovo and Metohija

	2023	2035
1 st scenario	1,639.76	1,791.67
2 nd scenario	1,590.36	1,594.49
3 rd scenario	2,179.90	4,277.78

Note: Author’s calculation based on the database in Table 2 and the projected GDP per capita growth rates until 2035. GDP per capita is reported in constant 2010 dollars.

Table 3 gives the results of the calculation of the potential loss of GDP per capita in Kosovo and Metohija for 2023 and 2035. All three scenarios are characterized by the existence of a gap in economic development between Kosovo* and Serbia as a whole.

According to the first scenario, the real GDP per capita lost in 2023 will be \$ 1,640, while in 2035 it will be \$ 1,791. The second scenario predicts a loss (measured by GDP per capita) of \$ 1,590 in 2023, and \$ 1,594 in 2035. In the third scenario, the lost GDP per capita is \$ 2,180 in 2023, i.e. \$ 4,278 in 2035.

Therefore, in 2023, at the level of development, Kosovo* would lag behind the country as a whole, for 8.07 according to the first scenario, 8.14 according to the second, and 10.3 according to the third scenario. This lag would be 6.02 in 2035 according to the first scenario, 5.67 in the second scenario, and 12.7 in line with the third scenario. Considering developmental potentials, institutional assumptions and international relations, the third scenario seems to be most certain. In this respect, it is noted that the development gap of Kosovo* in relation to Serbia is increasing, since in 2017 it was 9.84, whereas in 2023 and 2035 it will reach 10.3 and 12.7, respectively.

In the case of Kosovo* it is not easy to compensate for the decline and delay in development because it is the so-called epoch lag. Kosovo*'s lagging behind GDP per capita will hardly be compensated because of the fact that Serbia's economy is expected to record dynamic economic growth (annual growth rates of 4.5% and more).

4. KOSOVO AND METOHIJA AND THE QUALITY OF STATE GOVERNANCE

The post-cold war era began with the dominance of liberal economic ideas, which dominantly focused on the liberalization and restriction of the role of the state, while the next decade brings a dominant point of view according to which some of the most important variables that affect development are not economic in nature, but are concerned with institutions and politics.

At the beginning of the third millennium for Kosovo*, there is still a problem how to make a distinction between the state's scope, which implies different government functions and the goals, and strengths of the state power, or the state's ability to plan and implement economic policy, apply clear and unambiguous laws (today known as the state or institutional capacity)⁷. Building the state of Serbia (including KiM) is the way to develop in the 21st century, in terms of reinforcing already existing and creating new state institutions. Such public institutions that function well are necessary for our country, and they imply behavioral habits and act in complex ways that resist change. A certain macroeconomic organization and regulation is necessary. It is only then that development

⁷ Useful analyses in this field for Kosovo* can be found in the study of World Bank (2017). Among other topics, this study also deals with the following questions: reprioritizing public expenditures and reorienting taxation to address critical development challenges, a more attractive environment for private sector investment and business expansion in tradable sectors, greater inclusion by building human capital and providing equal opportunities, risks to sustainable shared prosperity and poverty reduction, etc.

can be counted on by the market and the development through the state (see: Рикаловић, 2007, p. 383).

Bearing in mind the importance of the quality of institutions for the sustainability of economic growth, in the following table (Table 4), there is a condition for the most important areas of state governance for Kosovo*, Serbia and the countries of the Region in 2017.

One of the key indicators used for international comparisons is a group of six indicators that measure the quality of governance (Worldwide Governance Indicators – WGI)⁸. They are designed for the needs of the World Bank project, and have been monitored since 1996 (for more than 200 countries). Each of the indicators (voice and accountability, political stability, government effectiveness, quality of the regulatory framework, rule of law and corruption control) can be presented on a scale of 0 (the worst state) to 5 (the best condition)⁹. Table 4 gives the values of this index for the Region in 2017:

Table 4. Worldwide governance indicators (WGI): Kosovo*, Serbia and the countries of the Region 2017

State	AVERAGE VALUES OF INDICATORS, 2017.					
	Voice and accountability	Political stability	Government effectiveness	Regulatory quality	Rule of law	Control over corruption
Albania	2.70	2.90	2.58	2.72	2.10	2.08
Bulgaria	2.88	2.87	2.76	3.13	2.46	2.34
Bosnia and Herzegovina	2.29	2.12	2.02	2.35	2.29	1.98
Croatia	3.01	3.25	3.08	2.92	2.83	2.69
North Macedonia	2.36	2.25	2.64	3.00	2.26	2.19
Montenegro	2.62	2.51	2.65	2.80	2.51	2.41
Romania	3.02	2.56	2.33	2.99	2.89	2.47
Kosovo*	2.38	2.29	2.09	2.37	2.08	2.00
Serbia	2.62	2.60	2.69	2.51	2.31	2.13

Source: <http://info.worldbank.org/governance/wgi/#home> (accessed: January 28, 2019)

⁸ For more information on this indicator, see: <http://info.worldbank.org/governance/wgi/#home> (accessed: January 28, 2019).

⁹ It is a modification that was applied in [Tanasković, 2018], for the purpose of easier understanding and interpretation of the index itself. Namely, the original values of the indicators range from -2.5 to 2.5, but due to the ease of tracking, it is often modified by adding the value of 2.5 to the lowest and highest values of indicators, ranging from 0 to 5.

Based on the previous table, it can be shown that Kosovo* achieves lower values than the average for the selected group of countries, in all 6 dimensions. In particular, the worse position for Kosovo* than the average is in the area of government effectiveness (lag of 0.45 index points), then in the domain of the quality of the regulatory framework (lag of 0.39 index points), and the rule of law (the backlog of 0.34 index points). In addition, it can be seen that in relation to other countries in this group, in 2017 Kosovo* has the worst position in the field of rule of law (2.08).

The position of Kosovo* in the observed six dimensions of the quality of state governance is the worst in the domain of rule of law, government effectiveness and control over corruption. It is noteworthy that in 2017, in terms of the quality of state governance, Kosovo* reached only 87% of the regional average, i.e. it was approximately that much behind Serbia. A particularly worrying thing is the efficiency of the interim authorities in KiM: if the efficiency of the Kosovo* authorities is 100, then this indicator for the countries of the region is on average 129, that is for Serbia 121. The situation is not much better in the area of the rule of law: Kosovo* (100): the average of the countries of the Region (116) and Kosovo* (100): Serbia (111). Regarding the regulatory quality, Kosovo* (100) also lags behind the Region (116) and Serbia (106). Serbia (without KiM) in relation to Kosovo* predominates in all observed dimensions. Therefore, the quality of governance in Kosovo* can be judged to be worse than Serbia (without KiM) and the Region.

The above facts emphasise the important messages to the motivators, creators and actors of the overall public and economic policy in Serbia and Kosovo and Metohija.

5. CONCLUSION

The development pattern applied over the last twenty years and its social and institutional environment have generated an inefficient and noncompetitive economic structure in Kosovo and Metohija.

The economic structure in Kosovo and Metohija has not been adapted to the technological and structural challenges that come from the developed world. So far, the development of Kosovo* has been based on the use of natural resources, capital, insufficiently qualified human resources, with unsatisfactory engagement of highly qualified personnel and modern technologies.

Therefore, the low level of GDP is no surprise, and neither are the low level of (private) investment compared to consumption, low technological level of the economy and the public sector, less competitive economy, high unemployment rate (especially of young people), high foreign trade and balance of payments

deficit, unfinished market environment and the unfinished business system, as well as inefficient legislative, judicial and executive power.

Consequently, it is necessary to overcome a very unfavorable legacy, to face it with profound and comprehensive changes in the world, to further elaborate the vision of the development of the economy and society, to build an internationally competitive and open economy and to actively engage in globalization processes, to establish a new social and economic environment, institutional system, active inclusion in the educational, research and economic space of Serbia and the EU, and to improve the quality of infrastructure and information technology.

Strategically, it is important to achieve and maintain the average annual growth rate of real GDP of 7-8%, increase investment rate, increase export of goods and services, and create conditions for faster employment of young people and their stay in Serbia and KiM.

Bearing in mind the previous analysis and estimates, as the basic prerequisites for building the necessary macroeconomic framework to establish a market business environment in KiM in the years to come, the following will appear: the conduct of solid fiscal and monetary policy, investments, export, new jobs, improving the business climate and creating a competitive environment and the conditions for new investments and changes in the production structure, and in particular for the compensation of significant time lag behind Serbia.

Institutions in Kosovo* have tried to protect foreign investors through the provisions of the Law on Foreign Investments. However, the law was not applied due to various factors (bureaucratic costs, long administrative procedures, bribery, etc.), which all generated a discouraging environment for foreign investors. Therefore, for a faster inflow of foreign direct investments in Kosovo*, systematic improvement is needed in the area of political stability, economic growth, fight against corruption, defining and respecting the property rights, increasing the quality of judiciary, etc.

The main conclusion is that institutions in Kosovo* should provide a favorable investment environment - political stability, justice enforcement, protection of foreign investors' rights, investment safety, fair competition and appropriate institutional support.

Reducing trade imbalances is an indispensable condition for long-term economic growth in KiM, and the increase in exports plays a key role in building an open and free market economy and reducing the huge foreign trade imbalance.

It can be anticipated that the future economic advancement of KiM will most likely not be extremely dynamic, due to the unsatisfactory conditions in the quality of governance, regulatory framework, rule of law, corruption control, participation and responsibility, and political stability.

If a legally binding agreement between Serbia and Kosovo* allowed its more powerful involvement in the economic and social flows of our country as a whole and the EU, then it could contribute to the creation of necessary preconditions for building and strengthening institutional capacity, quality of governance and increasing economic efficiency. This scenario implies more favorable geopolitical circumstances than the existing ones. However, the unresolved status of Kosovo and Metohija, the smouldering tensions and violence, the poor implementation of the rule of law, the high level of grey economy and the unstable situation are the main obstacles for achieving political integration and socio-economic development of this area.

Economic sustainability of Kosovo*'s independence is under question because of its insufficient economic activity, low industrial production, inadequate privatization processes, high import dependence, poor export performance, dependence on financial assistance and remittances from abroad, low FDI inflows, lagging of private investments, high corruption, the lack of rule of law, the presence of organized crime, dangers of strengthening emigration processes, poor conditions for employment of young people, and the unfavorable situation in the domain of social infrastructure, etc.

Both for Serbia (without KiM) and for KiM, from the point of view of adequate assumptions for establishing sustainable growth, it is crucial to build functional and efficient institutions that encourage enterprises and entrepreneurs to increase productivity and competitiveness. In this respect, the protection of proprietary rights, the compliance with contracts, the promotion of profitability, the equality of opportunities for all market actors, strengthening anti-corruption mechanisms and many other factors are important.

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РАЗВОЈНИ ТРЕНДОВИ И ИНСТИТУЦИОНАЛНИ КАПАЦИТЕТИ НА КОСОВУ И МЕТОХИЈИ ТОКОМ ПРВЕ ПЕТИНЕ 21. ВЕКА

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САЖЕТАК

Овај рад се бави основним развојним трендовима на Косову и Метохији током периода 2003-2017. У његовом фокусу се налазе и пропуштене прилике за повећање економског и социјалног благостања на подручју КИМ. Поред тога, важан аспект анализе спроведене у овом раду односи се на квалитет управљања државом и изградњу институционалних капацитета. У емпиријској анализи су коришћена три сценарија како би се показао заостатак подручја КИМ, односно изгубљени БДП по становнику Косова* изазван

немогућношћу да користи предности ширег простора наше земље. Резултати истраживања показују да се посебна пажња мора обратити на владавину права, ефикасност управљања и контролу корупције на Косову*. Интеграција Косова* у образовни, истраживачки и економски простор Србије и ЕУ могао би бити добар пут за укупан напредак наше земље у целини.

Кључне ријечи:

развојни индикатори, пропуштене могућности, квалитет управљања, Косово и Метохија, Србија.