

# Economic overview of the international state-building of Kosovo in the light of liberal peace thesis:

Development trends of the economic system of Kosovo, through UNMIK administration, actuality and the future.

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## **Abstract**

In the aftermath of Cold War, the system of United Nations (UN) Peace Missions assumed new proportions, by adjusting the nature of political developments, which characterized the international relations stage in this period. In the peace-keeping agenda of these missions, special focus was given to issues related to “international state-building” in the post-conflict situations, as well as attempts to prevent and manage consequences of the state’s failure. In pursuit of these goals and as part of this agenda, it is believed that liberal western values, especially as part of the “liberal peace thesis”, have become ever more widespread and commonplace. The models of state-building, according to this thesis, include combination of values of liberal democracy and principles of the market economy, as precondition to overall social development, which would contribute to long-term peace. According to this conception

According to this conception, it is clear that the transitional process from war to peace and that of state-building, in addition to the political dimensions, also has significant economic dimensions. Therefore, the authors of this study are focused on and aim to analyze and explain the role the economic sector plays in the construction and functioning of the state system in a post-conflict society, as is the case of Kosovo. At the contextual level, the study consists of understanding the role played by UNMIK, as international administration, in the direction of this sector. One part of the study is dedicated to analysing immediate and long-term strategies and approaches of the peacekeeping mission, aimed at reconstruction, i.e. the development of the economic sector from scratch, which would impact directly and indirectly on the creation of an enabling socio-political environment for a lasting peace.

But the rest of the study focuses on macroeconomic indicators such as GDP level, monetary policy, as well as import and export situation (trade balance, which realistically reflects the current status of economic development in Kosovo, as well as for measuring the gap between the expected targets and achieved concrete results. This means that these indicators reflect the degree of success or failure of the mission in relation to the fulfillment of this objective. Finally, by analysing the previous and current results, we will try to explain development trends of Kosovo’s economy in the short-term.

**Keywords:** Kosovo; UNMIK; peace-building; state-building; liberal peace; economic development.

## Introduction

More prevalent types of conflicts after the Cold War were of ethnic nature, taking place more within states rather than between them (Hensel, 2001:4), subsequently dozens of serious humanitarian situation were created, the management of which required direct interventionist approach by the international community in the internal affairs of those countries, as was the case with: Somalia, Rwanda, Bosnia and Herzegovina, Kosovo and East Timor (Luck, 2007:206). In the face of new evolving circumstances in the international security environment, *via á vis*, the UN, as the world's largest mechanism of collective security, undertook concrete steps in assuming new responsibilities for addressing and managing conflict situations. Consequently, related to this activity, the UN imposed a need to expand the operational instruments and approaches so that new peace missions on the ground may be more effective in creating favorable conditions to building a lasting peace.

In this context, former UN Secretary General Kofi Annan, in his report of year 2000: "We the peoples", featured a clear distinction between traditional peace operations and modern or complex and multidimensional. He stated that: "While traditional peacekeeping was mainly focused on monitoring ceasefires; today's complex peace operations have very different objectives (Annan, 2000:48)". These UN peacekeeping operations have conducted multidimensional operations, consisting of a wide range of components, including military police, political affairs, civil affairs, humanitarian affairs, rule of law, human rights, etc (UN Handbook, 2003: 1-2). In functional terms, these missions have served various purposes such as election monitoring, demobilization, reintegration of ex-combatants, human rights monitoring, de - mining, etc (Kondoch, 2005:1-19).

Typical examples of multidimensional missions, which can be categorized as the fourth generation (Kondoch, 2005:15-19), may be missions of the United Nations Interim Administration in Kosovo (UNMIK, 1999-present) and the United Nations Transitional Administration (UNTAET, 1999-2002). Moreover, as can be noticed in the following peace operations undertaken by the UN, as in these two cases, have been far more multidimensional missions compared with the previous three generations. One of the key features of this multi-dimensionality, has been expressed by the UN's cooperation with many other international and regional mechanisms (including those of military, political and economic), performing *multiple functions*.

In the theoretical literature, the increased scope of these missions raised the need for addition of the conceptual framework. As Caplan noted, there are difficulties in capturing

the complexity of these activities in a meaningful theoretical way. However, what he observes with these multidimensional peacekeeping operations is their responsibility for the functioning of the territory or the actual state under administration. Their most unique feature is “establishment of temporary structures with broad responsibility for the management of public assets and the provision of public services – they simply exercise some of the core functions of modern government” (Caplan, 2005:86). In discharging such functions, international administrations, as a result, receive functions of state authority, becoming equivalent to a typical state government. These administrations have, *inter alia*, the authority to issue and repeal laws, appoint and dismiss public officials, then they have direct responsibility for public safety, public service delivery, generating revenue from customs and taxes, and developing budget and fiscal policy (Coelho, 2008:16), to the extent that some scholars have termed them state-building missions (Zervaki, 2008:10).

However, a somewhat clearer definition for the multidimensional character of the modern practice of international transitional administrations is provided by Coelho, according to which, the administration demonstrate their effectiveness by performing dual responsibility: that after having met the initial phase of control over the transition trajectory (direct governance), parallel with that, also start building and strengthening the internal institutional self-governance capacities, a process which is widely regarded as the international state-building (Coelho, 2008:70). This dual mandate, conducted by an international administration, consists of and aims to increase the empirical nationhood (or the ability of local authorities under administration to effectively govern their societies) (Coelho, 2008:18).

In the context of UNMIK administration in Kosovo, there is a wide recognition of the fact that the country has been and remains at the spotlight of developments in the state-building and sovereignty in recent years (Howard, 2013:1-3), because, as argued by Richmond, UNMIK has been the first ever, most ambitious project of state-building by UN to date (Richmond & Franks, 2007:1), although this role of UNMIK has not been part of its formal mandate (Stahn, 2008:310), i.e. it had not been specified explicitly in its legal basis, the Resolution 1244<sup>1</sup>. Therefore, it may be argued that the state-building components of UNMIK emerge implicitly from exercise of its legal mandate, which was building democratic governing institutions (Coelho, 2008:295), which were later found to have served as a basis for strengthening the empirical statehood in Kosovo (Zaum, 2007:127-140). Or, as Ignatieff argues, UNMIK was basically a state-building mission, without recognizing the fact that the ultimate goal was the independence of Kosovo (Ignatieff, 2003: 77-109).

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<sup>1</sup> Resolution 1244 authorized the UN "(...), to establish an international civil presence in Kosovo in order to provide an interim administration for Kosovo under which the people of Kosovo can enjoy substantial autonomy within the Federal Republic of Yugoslavia, and which will provide transitional administration while establishing and overseeing the development of provisional democratic self-governing institutions to ensure conditions for a peaceful and normal life for all inhabitants of Kosovo": Resolution 1244 (1999), Paragraph 10.

Therefore, to understand the state-building component of these peace missions or multidimensional administrations in general and the UNMIK administration in Kosovo's case in particular, among the research questions to be raised, the response to which triggers considerable debate, include: how state-building is conceived today, as an activity carried on by a mission of peace? What elements must contain in itself an activity to qualify as a state-building? What constitutes state-building activity, or which are priorities and components that make up the state-building? And what are the prerequisites that must be met, so that this activity be deemed successful?

How is the state-building conceptualized today, as an activity conducted by a peace mission? What elements it needs to contain in order to qualify as a state-building activity? What does a state-building activity consist of, or what are the priorities and components that constitute state-building? What are requirements to be met in order for it qualify as successful?

### **Methodology**

Although researchers generally argue that qualitative methods should be used for study of social and political phenomena (Matthews & Ross, 2009: 95-105), however, depending on the nature of the problems that are studied, it is very important to use a quantitative methodological framework. Therefore, as this study deals with a diversified group of issues of political and economic nature, it is necessary to use a combined multidisciplinary methodology, comprising both qualitative and quantitative methods. Among the qualitative methods applied in this study are mostly explanatory and comparative methods. On the other hand, quantitative methodological framework will be focused on using statistical and econometric methods.

This study, in terms of research proceedings, will be characterized by an initial heuristic approach, to finally move towards using an inductive approach. Thus, starting from an overview of the issues that characterize the new state-building UN peace missions, the overview will be intertwined with an analysis of the economic activity of state-building agendas of these missions. Indeed, the view is further distinguished in analysing key macroeconomic indicators of a country under administration, which enable measuring and extracting conclusions about the performance of this activity within these missions.

### **Scientific debates about the international state-building according to liberal peace thesis**

It is estimated that among the biggest challenges on the agenda of global decision-making centres, in the beginning of XXI century, undoubtedly are matters relating to state-building, particularly in post-conflict situation (Chandler, 2004:70). Furthermore, in terms of importance of state-building, especially in the strategic

plan, it is argued that state-building is one of the most challenging and also the most important for the international community (Fukuyama, 2010:17). This importance, under this plan, can be explained under the approach "Outside looking inside", which in terms of security meant an eventual threat to international security will come directly from insecurity within states, especially those that are fragile and tend to fail (Tansey, 2006:1).

But in addition to these findings, a challenge in itself for the international community remains a clarification of the standard agenda of priorities, which should be implemented, in order to deliver a successful state-building effort. This is made clear, especially given that the literature and theoretical debates do not contain a clear list of priorities, standards and components that must be met by an international administration with state-building mission. This results from the fact that the territories or societies where such missions are carried out, are characterized by different socio-political and unique historical circumstances that any standard criteria of state-building are simply out of the question. But despite this, some authors have somewhat similar views on what components can be implemented as a matter of priority on the ground. For example, researchers (Raris and Sisk, 2009:15; Zaum, 2007:127; Chandler, 2006: 98-101; Coelho, 2008:296) who have promoted the modern theories related to state - building, generally cite a list of four main priorities. These priorities consist of components, upon the fulfilment of which is deemed to produce a successful state-building mission, thus strengthening the empirical statehood in the territory or society under the international administration. The areas primarily deemed a priority by the international community, which must be implemented in societies that aim to strengthen the empirical statehood correspond to typical tasks of a modern state. Namely, these involve the components of security, order and justice, institution building and economic reconstruction and development. Therefore, these components are essential prerequisites that must be functional in societies which aim to consolidate and strengthen their empirical statehood (Raris and Sisk, 2009:15), or even with those who risk forfeiting this nationality, as it has previously been functional.

This state-building components are also contained in the definition on state-building provided by Chesterman. According to him, state-building entails "a broader international involvement directed at building or reconstruction competent governance institutions in order to guarantee physical and economic security as well as support in developing a range of economic, political and security areas" (Chesterman, 2004:5). Furthermore, Fukuyama's classification may also match this definition, according to which "there are three aspects or phases of state-building" (Fukuyama, 2010:150). The first is related to immediate security and reconstruction issues in the post-war period, such as the case of Afghanistan, Kosovo and Somalia. The second phase is related to building sustainable institutions. Whereas the third phase is related to consolidation

and functionalization of state, which means a sustainable economy and a functioning civil society, etc.

Following this more or less consensual line of qualification of these priorities that make up a state-building agenda, we can conclude that among the main components that covered the process of state-building in Kosovo, led by UNMIK, were also those listed above. But, for simplicity of analysis, only components of reconstruction and economic development will be analysed in this study, profiled by conceptions of liberal peace thesis, which aims to promote democratization and the establishment of a market economy, as well as a strong role for civil society and the private sector (Knudsen, 2010:24) (the so-called Washington consensus), as the best guarantor of peace and stability in post-conflict societies (Wennmann, 2010:6). Moreover, in the contemporary debate about state-building, as a factor for a lasting peace, it is believed that the combination of democratic and economic values in conformity with liberal ideals, may serve as an efficient tool in the eradication of conflicting factors. Therefore, in the majority of international administrations, their agendas have been dominated with goals related to recovery and development of the economic sector, as a prerequisite for a lasting peace (Knudsen, 2010:24).

### **Strategic approach of UNMIK in building the reconstruction and economic development component**

Already, it has been found that the transitional process from war to peace as well as the peace-building has distinct economic and transformational dimensions (Raris and Sisk, 2009:129). This becomes clear especially in view of the standard practices, which believes that a society may not be self-government if it does not possess necessary resources to generate revenues in order to support the functionalization of its institutions. Here the support implies funding the expenses for all services provided by the governing state administration of the country. This means that in the absence of institutional infrastructure that would generate a sustainable and productive economy, no transformational processes can occur in the society and consequently no structural changes (Raris and Sisk, 2009:129).

Also in the context of Kosovo's administration, the transitional process to a market economy was an essential element of the state-building effort of UNMIK (Zaum, 2007:153). This duty of the UNMIK authority was managed by the European Union (EU) through Pillar IV (ICG, 2001:12)<sup>2</sup>. Concretely, the aim of the Pillar IV was to effect a general upgrade of legal and institutional economic infrastructure in Kosovo. This structural and infrastructural change was conceived to create opportunities to functionalize a competitive and effective market economy in Kosovo. Moreover, with the introduction

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<sup>2</sup> After the internal structural reorganization of UNMIK in January 2000, Pillars I and II were led by UN, Pillar III by OSCE and Pillar IV by EU. See more in (Zaum, 2007:137).

of commercial legislation in conformity with its standards, the EU aimed to promote economic development but, at the same time, commence the privatization process in Kosovo (Richmond & Franks, 2007:4). However, irrespective of these plans and goals, the establishment and strengthening of this state-building component, as EU's responsibility, was immediately understood as a difficult job right at the start, as the Kosovo's economy in 1999 was completely destroyed and everything had to start from scratch (Kundse, 2010:12).

The decisive elements which were part of the overall international strategy for rehabilitation and development of Kosovar economy, mainly consist of emergency assistance and reconstruction; establishment of an institutional and legal framework; commercialization and privatization of socially-owned enterprises and promote development of private sector (Knudsen, 2010:12).

*Reconstruction.* In 1999, the main focus of the international community and its programs was oriented more towards "reconstruction rather than economic development" (Richmond & Franks, 2007:16). This becomes clear, particularly in view of the fact that 70% of total international funding, coming from EU countries, and coordinated by the European Commission, had reconstruction as its main objective in relation to development goals. Responsible for the management of the main EU assistance in Kosovo, was the European Agency for Reconstruction (EAR), which although in itself a funding agency of the EU was nonetheless detached from Pillar IV. For example, in terms of numbers, EAR in the period from 2000-2001 had been managing 547 million EUR (ICG, 2001:13). Therefore, seeing a totally dilapidated infrastructure of the Kosovar economy, EAR focused on setting up and functioning of this infrastructure. Specifically, it focused on operationalization of the "energy sector, housing, transport and water supply, as well as agriculture support projects, enterprise development, health, and local government/civil society" (ICG, 2001:114). In fact, the international project of state-building in Kosovo, in terms of investment per capita, was one of the most comprehensive to date (Knudsen, 2010:10).

One notable feature that should be noted, in relation to reconstruction support is that bulk of donations from various organizations were dedicated to and tailored for management of emergency assistance rather than development. Only after the year 2000 (ICG, 2001:13) did the emergency assistance turn into development assistance. Therefore, although considerable international economic resources were made available to Kosovo during this period, economic development (beyond reconstruction of physical infrastructure and macroeconomic framework) became a UNMIK policy only at later stages. For example, from the substantive point of view, the regular report of the UNMIK in June of 2003 by Secretary General Annan, until paragraph 42 there is no details that would indicate a concrete strategic plan of UNMIK, which would relate to development of a sustainable economy in Kosovo (Perritt, 2004:268-269).



However, one problem did accompany external international donor assistance was the lack to deliver all assistance pledged. Nonetheless, the gap between the pledged and actual assistance kept decreasing by the year. For example, in the period between June 1999 and late 2003 it is estimated that Kosovo received technical assistance of around 742 million EUR or 29% of donor commitments. In time, specifically in 2004, technical assistance was estimated at 71% of all donor commitments (or 46% of all donations in year 2004) (The World Bank, 2006:15). A breakdown of foreign investment by sectors of Kosovar economy is given below: public services 26%, housing 16%, economy, unemployment, trade and industry 13%, education and health 9%, transport and infrastructure 6%, police and justice 5%, democratic governance and civil society 5%, agriculture 4%, social welfare 3%, other 13% (The World Bank, 2006:16).

After this, the strong international support during the first five years before the external intervention in Kosovo changed substantially from emergency assistance to long-term assistance for reconstruction and development. Concrete change was introduced after 2003 whereby after the Thessaloniki Summit, the EU would assume primary responsibility for economic and financial assistance for all Western Balkans countries, including Kosovo. This EU strategy was harmonized as part of mechanisms under Stability Pact for Southeast Europe” and “Stabilization and Association Agreement”. Therefore, in relation to Kosovo, the burden of economic assistance would be transferred from UN programmes to EU (Narten, 2009:146).

*Institutional and legal infrastructure.* To accomplish the objective of recovery and development of destroyed Kosovar economy, UNMIK, through its Pillar IV, established the following institutions in the economic and financial administration. First, the Banking and Payments Authority of Kosovo (BPK) was established, which in a way, performed the role of the Kosovo central bank, as it assumed responsibility for licencing all financial institutions, along with responsibility and authority over establishing a banking system in conformity with the market economy. In the meantime, the Department of Reconstruction was also established, which was responsible for monitoring and coordinating the EU activities as part of Pillar IV. In addition to these two institutions in the economic area, Central Fiscal Authority (CFA) was also functioning at the time, which incorporated a budget office, tax administration as well as customs services. The list of these institutions was expanded with the Department of Public Services (DPS) and Department of Trade and Industry (DTI) (Narten, 2009:12). All these institutions were covering, to a large extent, the functioning of the institutional economic infrastructure of a typical society, newly emerged from war and under international administration. Furthermore, in relation to establishment of these institutions, in his assessments, Stahn went as far as concluding that in so doing, UNMIK had established the foundations of the state of Kosovo (Stahn, 2008:320).



When it comes to analysing issues related to economic development, undoubtedly the most important factors for creating this sector of Kosovo after the war were the foreign investments and donations of international organizations. However, it was clear that every orientation of investors and external donations to Kosovo were shrouded in two-fold insecurity: the first related to lack of Kosovo's sovereignty and the other failure to specify policies for final resolution of its status. These two uncertainties were inevitably reflected in a sense of insecurity among investors.

In this regard, in the absence of a long-term jurisdictional basis, in terms of providing legal guarantees for foreign investors and temporal uncertainty regarding the resolution of Kosovo's status, alternative ways were devised to provide a kind temporary security. An example in this context would be the practice followed by the World Bank, which justified its activities by relying on the fact that, as Kosovo was administered by UNMIK, whose mandate was based on a UN document such as the Resolution 1244, it was therefore possible to provide assistance to this country (ICG, 2001:16-17). Therefore, in the face of such a challenge, over time, UNMIK began to address the issue by adopting a considerable number of regulations, which enhanced the legal and institutional infrastructure for economic development.

*Privatization and commercialization.* Privatization, as a "fundamentally political" issue became an *economic strategy* of the international state-building project, by advancing it throughout the world as a self-evident component of the liberal peace thesis (Knudsen, 2010:10). In addition, in terms of relevance, it was believed that privatization should be at the top of neo-liberal economic reform efforts (Perritt, 2004:287). On this basis, it was found that the involvement of international community, through UNMIK, in the privatization process in Kosovo was a clear example of international state-building, whereby one of the key goals was to build and functionalize the economy on the neo-liberal principles.

Among the first steps to have been undertaken for privatization and commercialization in Kosovo by the Department of Trade and Industry (DTI) as the responsible authority, was to register and begin the privatization of socially-owned enterprises (SOE). At the beginning of UNMIK's mission, there were around 350 SOEs with over 60,000 employees (ICG, 2001:19) that could be privatized. This process, nonetheless, constituted a serious challenge, as in addition to having to go through a difficult transition of economic sector reforms, from a planned economy to market economy, the challenge was made even more complex as the ownership over these enterprises was unclear: Provisional Institutions of Self-Government (PISG), UNMIK, or FRY. This came as a result of uncertainties surrounding Kosovo's future status as well as reference territorial integrity and sovereignty of FRY over Kosovo referred to in Resolution. This issue, raised an important legal issue over the authority to privatize these enterprises.

With reference to Resolution 1244, FRY threatened law suits against any potential investor, if UNMIK were to continue the further sale of SOEs. For these reasons, international efforts to privatize the SOEs were terminated. This political situation, with such legal problems resulted in reluctance of foreign investors to take chances with their investments in a territory “plagued by uncertainty” (Coelho, 2008:363). However, in spite of these challenges, international lawyers of the western countries promoted a different approach to privatizing SOEs in Kosovo. For example, UNMIK Pillar IV established the Kosovo Trust Agency (KTA) on 13 June 2002. KTA was properly staffed and fully jurisdiction, separate from UNMIK, in order to alleviate the risk of liability associated with UN. KTA had the authority to administer the SOEs and conducted the privatization through two methods: “spin-off” and “liquidation” (Knoll, 2005:652).

Furthermore, an additional way to overcome the legal obstructions of the privatization process was introduced by the Department of Trade and Industry through the application of so-called “commercialization”, as a temporary recovery stage of SOEs. Through this approach, various companies operating in relevant sectors may enter into “managerial contracts” that allowed them a type of ownership over these enterprises, without prejudice to “final ownership” (ICG, 2001:20).

### **Macroeconomic indicators of UNMIK performance in the economic development of Kosovo**

To assess UNMIK’s performance regarding Kosovo’s economic development, it is necessary to do so in the light of analysis of macroeconomic indicators, through which we can conclude easier if the performance of the mission was successful or not as a result of this activity. Thus, among the most important macroeconomic indicators are: GDP level, unemployment and living standards, as well as import and export situation (trade balance).

*GDP*-According to some estimates, gross domestic production (GDP) in Kosovo, during the immediate post - war period, recorded a good growth trend relative to the later period, where the trend of growth has been slightly diminished. For example, in November 2000, GDP was 3 billion Deutsche Mark (DM) or about 1,400 DM per capita. These figures, compared with those of 1999, showed a significant increase compared to 840 DM per capita, in November 1999 (ICG, 2001:2). Over time, during the period 2004-2008, GDP in Kosovo increased from 2,912.5 million EUR to 3,851.4 million EUR. GDP per capita increased from 1,473 EUR in 2004 to 1,612 EUR in 2007 (Enti i Statistikave të Kosovës, 2008:60). However, in spite of significant GDP growth rate per capita, its level remained much lower compared to the growth of GDP per capita in neighbouring countries such as Albania, Macedonia, Montenegro, Serbia (Džihic & Kramer, 2009:11).

*Unemployment and living standards.* Analysing these indicators, it is clear that the most problematic issue that accompanied economic development process in Kosovo has been associated with high poverty levels, which had been the result of high unemployment. In fact this has been the most sensitive point for critics of principals of liberal peace of UNMIK's economic development agenda (Richmond & Franks, 2007:9). The following data represent an alarming situation, where high levels of poverty are tied to high level of unemployment. For example, it is estimated that the unemployment rate in Kosovo during UNMIK administration ranged between 30% - 50%. In 2001, the unemployment rate was around 49%, but fell to about 30% in 2004 (Kosovo Conflict Report, 2006:4), showing a marked increase in 2008, where it amounted to 40% (RIINVEST, 2007:58). As a result of this high level of unemployment, the proportion of the population living in poverty has risen steadily from 37% to 44% in the period between 2000-2004 (RIINVEST, 2007:57), while in 2006 poverty rate reached 48%, with 12-18% of people living in extreme poverty, a trend that remained steady by 2008 (UNDP, 2012:11).

*Balance of exports and imports (trade balance)* - In addition to these indicators, the import and export analysis indicate that Kosovo applied a completely liberalized trade regime during its direct administration by UNMIK (1999-2008), without restrictions on import and export, but also without any incentives for export. Moreover, analysis of import - export ratios indicate that the trade balance during this time was negative (RIINVEST, 2002:24). Even import analysis indicates that Kosovo, due to the collapse of its economy from the war, imports almost all consumer goods and raw materials. Dependence on imports, however, began to fall only when domestic production was slightly stimulated by foreign investment. But notwithstanding, the dependence on imports remained high at all times, even when local economy began to show some signs of growth. In fact, this growth also affected the increase in imports. Expressed in figures, the increase in imports, for example in the period 2005-2008, ranged from 1.16 to 1.93 million EUR, or 66.6% (World Bank, 2009:1). On the other hand, while imports were quite strong, exports in the post - war Kosovo were almost inexistent. Over time, a very slight incentive was noted only after the privatization of some of the leading manufacturing enterprises, such as "Feronikeli", which immediately recorded a sharp increase in exports, but never exceeding more than 6% of Gross Domestic Product. A significant increase was achieved between 2005 and 2008, where exports increased from 56 million EUR to 199 million EUR, an increase of 253% (World Bank, 2009:2) but nevertheless accounting for only 10.3% of the total import (World Bank, 2009). Consequently, this situation resulted in a mostly negative trade balance of Kosovo during UNMIK's administration (Trade Policy of Kosovo, 2009).

Therefore, on the basis of the realistic picture presented by these macroeconomic indicators it is possible to also make an assessment of the developmental performance of UNMIK.

The fact that UNMIK made an attempt at structuring and developing the Kosovar economy in conformity with the principles of the liberal peace thesis, led certain scholars, especially those critical of the principles of the these thesis, to make an evaluation over differences between expectations and results achieved concretely by UNMIK in relation to developing a sustainable economy in Kosovo during the period 1999-2008.

From general perspective, especially in terms of specific macroeconomic indicators, a large gap was found between these expectations and results on the ground (Sen & Kirkpatrick, 2009:2-3). This fact led the critics of this thesis to address a number of challenges that the international community faced and which, according to them, have not been avoided to a satisfactory degree. According to Richmond, economic development in Kosovo was a far cry from matching the principles of liberal peace thesis. Specifically, the international community is deemed to have failed in Kosovo due to its insistence on profound and hasty transformation of economic infrastructure, in order to move from a socialist centralized economy to a capitalist model, under the rules of market economy (Richmond & Franks, 2007:16-17). Furthermore, Richmond connects this failure to political reasons, which mainly related to lack of a strategy by UNMIK to resolve Kosovo's political status. In his view, it was clear that the economic development of Kosovo was caught in a rather paradoxical situation: "no development without status and no status without development" (Richmond & Franks, 2007:16).

What then was the development status of the Kosovar economy after the resolution of its political status (independence) in 2008?

### **Current development context in Kosovo and forecasts for the short-term future.**

After the independence of Kosovo, UNMIK's powers, including those for management of economic sector, were reduced drastically and this role was, almost in full, transferred to Kosovo institutions. In these circumstances, it seemed that political obstacles believed to have prevented economic development of Kosovo were overcome. However, at this time, it did not seem as if there would be a steady progress in economic development. The trend of economic growth remained anaemic for a while, until Kosovo was also able to join the International Monetary Fund (IMF) and The World Bank (WB), as well as several other regional economic institutions. In these newly-prevalent circumstances, Kosovo gradually began to consolidate its status and legitimacy in the sense of being equal to other countries in the region and record some positive achievements in economic development (KIPRED, 2013:4). Notwithstanding, Kosovo has never managed to become an equal trade and economic partner to those countries, either because of the fragility of its statehood, or because of its small economic impact on the region. This is because Kosovo's economic size accounts for only 0.43% of the total economy of the region, or represents less than 1/20 of it (KIPRED, 2013:4).

However, despite the slight transitory progress of the Kosovar economy during these five years (2008-2013), the main development sources for Kosovar economy remain mostly unsustainable. They are primarily made of *public expenditure*, *diaspora remittances* and *international financial assistance*, which account for 20% of the GDP (FES & RIINVEST, 2011:2). In addition, in a more complete reflection of current economic performance of Kosovo, we need to analyse main macroeconomic indicators, which represent an unstable situation in regards to sustainable economic development. Table 1 below provides an macroeconomic overview of the realistic situation of the Kosovo economy.

Selected indicators	2009	2010	2011	2012	2013
Real growth of GDP (%)	3.5	3.2	4.4	2.5	3.1
GDP (million €)	4007.8	4291.1	4769.8	4916.4	-
Inflation (annual average)	-2.4	3.5	7.3	2.5	1.8
Credits (million €)	1289	1458.7	1698.1	1763.4	1805.8
Deposits (million €)	1744.8	1936.9	2104	2279	2449.0
Exports (million €)	165.3	295.9	319.2	276.1	293.9
Imports (million €)	1935.5	2157.7	2492.3	2507.6	2450.4

Table 1. Main macroeconomic indicators in Kosovo 2009-2013.<sup>3</sup>

*GDP.* The actual growth of GDP for 2013 is believed to have reached 3.1%, which is higher than 2012, but lower than the first three years of the independence, 2009-2011 (KCB, 2013:4), and much lower compared to year 2008, where growth of GDP exceeded 5.4%. Regardless, it is believed that the economy of Kosovo still represents an issue and a considerable threat to long-term political stability of the country (UNDP, About Kosovo). In view of this growth rate, Kosovo ranks 93<sup>rd</sup> in the world, which in relation to the neighbouring countries, it is ranked behind Macedonia, Albania, Serbia and Bosnia and Herzegovina, etc (USAID, 2014:1-2), only outperforming Montenegro. Also, during this period, the slow GDP growth rate was dependent on remittances and external financial assistance. For example, in 2011, 19% of GDP (a rather high deficit), was funded by external financial assistance and remittances. As they mostly come from the Western Europe, both of these sources are deemed fragile and are dependent on the economic crisis of the region; and when they retain a stable level, only around 11% are used for investment, the rest being diverted to consumption (USAID, 2014:1-2).

*Unemployment and the standard of living.* From macroeconomic perspective, the unemployment and poverty indicators represent perhaps the most realistic situation of the economic development in Kosovo. In fact, the poverty rate is in direct connection

<sup>3</sup> Source: Central Bank of Kosovo and Kosovo Statistical Agency (2003).

to high unemployment. The unemployment rate in Kosovo is at present 35.1%. From gender perspective, 40.7% of unemployed are male and 56.4% are female, while 60.2% of those are young (age 15 to 24 years). Therefore, the poverty rate in Kosovo is very high at 29.7%. Although there was a gradual improvement to the standard of living, it only moved arithmetically. The Human Development Index saw a very slight increase. In 2007, it was recorded at 0.678 to only rise to 0,700 in 2010, and 0,714 in 2012. It, nonetheless, remains the lowest in the region (UNDP About Kosovo) and Europe (World Bank, 2014:7).

*The export and import status (trade balance)* - In time, especially during the period 2009 to 2013, Kosovo exports have seen a continuous growth. From 165.3 million EUR in 2009 they increased to 293.9 million EUR in 2013. However, the rate of export fails to come even close to high import rate, creating thereby an alarming negative trade deficit. Incentives to exports have been rather pale, as the local production capacity during the period could not meet the internal consumption demand, let alone export. In relation to GDP, Kosovo imports account for 50% of the GDP, while exports account for only 6% of GDP (European Commission, 2013:2).

When it comes to efforts to analyse the short-term development prospects of the Kosovar economy, the best approach in this regard would have to be based on analysing internal and external economic contextual factors. This approach would allow for more objective forecast. For example, the internal factors may include reference to development trend of the past five years. Therefore, as the development trend of the past five years was rather inconsistent, the trend may be expect to exhibit the same traits for the coming five-year period as well. Therefore, the actual indicators of the status of the Kosovar economy indicate that the average rate of economic growth in Kosovo was 3.5%, which represents a rather large gap between the growth rate of Kosovo economy and the other countries of the southeast Europe (USAID, 2014:2). Moreover, according to the World Bank assessment, Kosovo requires a growth rate of 8-10% annually in order to match the penultimate country of Europe, Albania by 2020 (FES & RIINVEST, 2011: 2). Therefore, the internal contextual indicators point to rather meagre expectations of economic development. In terms of external contextual factors, the growth is also expected to be moderate, especially in view of aggravated economic prospects of Europe and the global economic slowdown (United Nations, 2014 p.iii). Furthermore, IMF also points to a modest and steady growth, which in its report, provided some possible estimates of key macroeconomic indicators for the period between 2014-2018. These estimates are provided in Table 2.

	2014	2015	2016	2017	2018
	Projections based on Kosovo authorities and IMF staff (Real growth, percent)				
Consumption	3.0	3.3	3.3	2.9	3.1
Investment	3.4	5.2	7.9	7.5	6.4
Exports	12.1	11.8	11.7	9.7	9.2
Imports	4.4	5.5	6.3	5.7	5.2
GDP	4.2	4.5	5.0	4.5	4.5
Memorandum item (GDP millions of €)	5588	5959	6383	6806	7251

Table 2. Forecast real growth in the economy of Kosovo, 2014-2018.<sup>4</sup>

In view of sombre development short-term prospects there are some recommendations of the potential strategy to be adopted, in order to ensure a more sustainable long-term economic growth. The recommendations mostly consist of using the factors and resources of the Kosovar economy that provide a comparative, or even absolute advantage, compared to the neighbouring countries and the region. For example, as Kosovo is believed to have the youngest population in Europe, large natural resources as well as trade and economic access to a large EU market of 500 million inhabitants, it has been recommended that sustainable growth will be achieved if all these factors and potential development resources are unblocked, made of human resources, unexploited natural resources and private sector development (ECIKS, 2013:6).

## Conclusion

In view of the UNMIK's state-building effort and especially the reconstruction and economic development component discussed above, some findings about this mission may be drawn; namely, the mission in general contributed to a rather developed and effective institutional infrastructure in Kosovo, especially considering that it started everything from scratch. However, largest issues also derived from the legal infrastructure. The most serious challenge in this sense relates to failure to define the final status. Furthermore, issues arising amidst the uncertainties surrounding the final Kosovo status have produced the largest impact on the privatization process.

Also, leaving the issue of Kosovo's final status open generated direct implications on the economic and reconstruction effort of UNMIK. This issue jeopardized the prospects of political and economic progress. In addition, uncertainties surrounding the political status of Kosovo became a large obstacle to the latter, for membership

<sup>4</sup> Source: IMF Country Report No. 222, July 2013, p.26.



into international financial institutions or for attracting foreign investments. The cost of this “political and economic concept” reached alarming proportions, especially when considering the relevance of these factors in promoting employment and poverty reduction.

With regards to UNMIK’s policies on sustainable economic development in Kosovo, it may be stated that these were primarily of an “infusionist” nature. These policies were geared more towards reconstruction rather than creating a basis for sustainable economic development. Therefore, based on these UNMIK policies, we may conclude that the only development component of the Kosovar economy was reconstruction, i.e. “reconstruction as development”.

Seen from a general perspective, based on the main macroeconomic indicators of the Kosovar economy, we may conclude that there was a large gap between the expectations and the results in the field in terms of establishing a sustainable economic development framework in line with the principles of liberal peace. It is this fact that has drawn most criticism of the poor performance of UNMIK, which did not correspond to principles of the liberal peace thesis.

Therefore, this poor development and economic performance of Kosovar economy presented a direct obstruction to improving the status of Kosovo economy in the five years after the independence. Even when a slight progress in development of Kosovar economy was noted, the main resources for development of the Kosovo economy remain mostly unsustainable. Therefore, in view of the current economic situation in Kosovo, it may be stated that the prospects for a sustainable economic development of the country will remain lacklustre and in order to ensure a sustainable growth, investment must be made to utilize all factors and resources which create a comparable advantage to Kosovo.

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