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# The first two years of independence in Kosovo: Links between political systems and business enterprises

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## **THE FIRST TWO YEARS OF INDEPENDENCE IN KOSOVO: LINKS BETWEEN POLITICAL SYSTEMS AND BUSINESS ENTERPRISES**

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### **ABSTRACT**

Systems theory is used to study the relationship between political systems and business enterprises in the new, developing country of Kosovo. Media reports from the first two years of independence are examined to determine how politics impacts business and vice versa. The study found that external conflict has impact on business and commerce appears to be highly dependent on the political system. This would suggest that the connection between the political system and business enterprises is more important in a new, developing country like Kosovo. Two of the authors are lecturers at the University for Business and Technology in Pristina (UBT), Kosovo.

### **INTRODUCTION**

Competitiveness in a global market requires that businesses and organizations have more understanding and become more capable in working within political systems. This paper uses systems theory to examine the association between politics and business in Kosovo. Kosovo declared itself an independent country in February 2008. Media reports from the first two years of independence are examined to determine how politics impacts business and vice versa. The first section of the report provides background information about Kosovo.

Since declaring independence from Serbia in February 17, 2008, the Republic of Kosovo has proved capable of managing its own affairs in an area of the world challenged by economic problems and a high level of political conflict. The global financial crisis seems to have had little impact in this tiny west Balkan state. While small (about the size of Delaware, Lebanon and Jamaica), the nation is rapidly growing in its economy, population and banking sector (Cautious optimism, 2010).

After the Kosovo War and the 1999 NATO bombing of Yugoslavia, Kosovo came under the interim administration of the United Nations Mission in Kosovo (UNMIK), most of whose roles were assumed by the European Union Rule of Law Mission in Kosovo (EULEX). Since declaring independence, the country has been recognized by 71 UN member states (including the United States, Canada, Australia and most European nations) and the Republic of China (Taiwan). Serbia, Bosnia-Herzegovina, Russia and Spain oppose independence. Kosovo joined the International Monetary Fund and the World Bank on 26 June 2009 as the 186th country (BBC, June 30, 2010).

Since 1999 the economy has seen new vigor. Growth in gross domestic product (GDP) has fallen only slightly because of the economic downturn from 5.4% in 2008 to 3.9%, according to a 2009 projection from the International Monetary Fund (IMF). GDP is still low at €3.8 billion or €1,731 per capita for 2009. Inflation is low, partly due to Kosovo's ties to the Euro (Cautious optimism, 2010). Unemployment remains high at 16.6 percent. Unemployment encourages outward migration and black market activity (CIA, 2010).

While Russia views the Kosovo economic and political situation as "untenable," the United States continues to be a major supporter of Kosovo's experiment in democracy (BBC, Nov. 30, 2009). Defense Secretary Robert M. Gates reiterated U.S. support for the newly independent state, despite the opposition from Russia and NATO allies such as Spain. The United States will continue to maintain its troop presence in Kosovo, which provides a boost to the economy (Finn, 2008, A15; Bilefsky, 2008, A16).

With the exception of Serbia and Bosnia-Herzegovina, most Balkan states support Kosovo's independence. Located south of Kosovo, Macedonia has a large trading surplus from its economic relationship with the new country (BBC, Oct. 2, 2008). Turkey is also a major supporter. Kosovo's president has hailed the Turkish community living in Kosovo for making a significant contribution to the country's democratic development (BBC, Feb. 3, 2010).

Serbia continues to oppose Kosovo's independence and with Bosnia-Herzegovina has imposed a blockade of Kosovar products (BBC, Dec. 30, 2008). Northern Kosovo has a large number of ethnic Serbians and is still under the control of Serbian institutions (BBC, May 8, 2010). The Serbian government has not changed its policy towards northern Kosovo, claiming its goals are "preservation of sovereignty and territorial integrity, as well as the economic strengthening of the Serb community in Kosovo-Metohija" (BBC, Oct. 17, 2008).

## **THEORETICAL FRAMEWORK**

Because researchers use the underlying assumptions and approaches of systems theory in studying organizations and institutions, it is important to understand the essential suppositions used in this method (Fisher, 2010a; Fisher, 2010b). These suppositions were used in analyzing politics and business in Kosovo. The findings were used to make recommendations for business and research in Kosovo and other new, developing countries.

Systems theory is suitable for examining organizations or institutions under stress. The system's history of response to stress allows analysts to determine whether a system is able to survive disturbances. Easton claimed that system analysis is especially suited "for interpreting the behavior of the members in a system in the light of the consequences this behavior has for alleviating or aggravating stress upon the essential variables" (1966, p. 149).

Because systems are coupled together, all behavior in society is dependent on each other. To trace the complex exchanges and reduce them to manageable proportions, Easton condensed the main environmental influences into a few indicators. He designated the effects that are transmitted across the boundary of a system toward some other system as the outputs of the first system and as the inputs of the second system. A transaction or an exchange between systems can be viewed as a linkage between them in the form of an input-output relationship.

By focusing on boundary-crossing inputs dealing with the most important effects

contributing to stress, the task of analyzing the impact of the environment can be simplified.

Analysts no longer need "to deal with and trace out separately the consequences of each type

of environmental event.” For this purpose, Easton recommends focusing in two major inputs: demands and support.

As inputs to a system, demands and supports can be of different types: material and political demands as well as material and political supports. By examining the changes in the inputs of demands and support, analysts can determine the effects of the environmental systems transmitted to the political system. Similarly, outputs help interpret “the consequences flowing from the behavior of the members of the system rather than from actions in the environment” (Easton, 1966, p. 151).

One way of isolating elements in the system is to examine the impact of inputs (reflected as demands and support) on political outputs. Easton claimed that “outputs not only help to influence events in the broader society of which the system is a part, but also, in doing so, they help to determine each succeeding round of inputs that finds its way into the political system” (1966, p. 152). By identifying this “feedback loop,” analysts can explain the processes the system can use to cope with stress and make recommendations that alter the systems future behavior.

## METHODS

A LexisNexis search was done of major world publications on the keywords, “business” and “Kosovo.” Of 125 articles from August 4, 2008 to November 2, 2010, 67 were tagged as being relevant to this study because they dealt with both the political system and business enterprises. Of the 67 media reports eleven dealt only with the political system. Fifty-six articles dealt with politics and business and 26 included content about communications. The communications content showed aspects of communication in the relationship between politics and business. Fifty-seven of the articles came from the BBC Monitoring Service for Europe and 10 came from other sources, including *The Guardian*, *Newsweek*, *The Washington Post*, *The Washington Times*, *The Toronto Sun*, *The Banker*, *Euromoney*, *Biotech Business*, and *The Baltic News*. The BBC European Monitoring Service takes reports from European media, translates them into English, broadcasts them and then disseminates them on the Internet.

A content analysis identified the list of themes in Table 1. Forty-one articles were found to have one theme while 26 of the articles were identified with two themes.

TABLE 1. THEMES EMERGING FROM THE CONTENT ANALYSIS

Theme	Number
Investment and business development	13
Financial crisis	2
Economy, economic sustainability, economic development	3
Internal political crisis	4
Conflict with Serbia	18
Cooperation with Balkan neighbors	10
Relationship with countries Russia (1), Spain (1), India (1), France (1), Maldives (1), Turkey (4)	9
Relationship with world organizations, including World Bank, IMF, EU, NATO	5
Aid to Kosovo Serbs, including one mention of US aid	4
US support for Kosovo	6
Other foreign aid	2
Unethical or unlawful actions or loss of press freedoms	4

## ANALYSIS AND FINDINGS

The following findings were developed using questions from the systems theoretical background applied to the content analysis of the 67 media reports.

### 1. How dependent are the political system and business enterprises on each other?

Of the 67 articles found in the LexisNexis search, 56 dealt specifically with business. (The other 11 mentioned the word “business” usually in the context of “business of politics.”) The reports showed government regulation of business. Four articles dealt with the unethical or unlawful actions of business or government and two articles were on the financial crisis. Politics in Kosovo is actively involved in encouraging investment (9 articles), in the business enterprise (4), and economic sustainability and development (3). Unique to Kosovo as a developing country may be the involvement of the political system in initiating business cooperation with neighboring Balkan countries (10 articles), a relationship with other countries (9 articles), and with world organizations such as the World Bank, International Monetary Fund, the European Union and NATO. Also unique to Kosovo may be the United States support for Kosovo (6 articles) and other foreign aid (2 articles). Singular to Kosovo is the conflict with Serbia (18 articles) and aid to Kosovo Serbs (4 articles). In a developing, new country more news articles may focus on the development of relationships with other countries and an economic infrastructure. Kosovo is unique because of its continuing conflict with Serbia.

### 2. What are the stresses between the political system and business environment in Kosovo?

The stresses during Kosovo’s first two years of independence were less between business and politics than between Kosovo and foreign countries. The relationship between Kosovo and foreign countries obviously has impact on business. Only eight articles (about internal politics and unlawful or unethical actions) dealt with internal stresses. Fifty-four articles dealt with external or foreign issues. (Some were stresses and others reports of support for the new nation.) Eighteen articles (about investment, business, and economic development and financial crisis) reported either internal or external impacts.

Articles focusing on internal stresses were about internal political conflicts and crises, election irregularities, unethical or unlawful behavior of businesses, and the lack of press freedom. In municipal elections in 2009 results were slow being reported and accusations were made of irregularities. Kosovo dropped 17 places on the freedom of media index, from 75th in 2009 to 92 in 2010. Kosovo’s public service broadcaster is poorly financed and under direct government control.

Articles focusing on external issues and stresses related primarily to Serbia’s objection and reaction to Kosovo’s independence. Eighteen articles dealt with the conflict with Serbia. For example, Serbia and Bosnia-Herzegovina announced a trade embargo against the country and blockaded products to and from Kosovo from passing through their countries. Also, Russia, as a Serbian ally, has tried to exert its influence in the Balkans. Russia expressed concern about the effect of independence on its energy needs. Russia was also concerned about the destabilization of the region and the influence of Kosovo on other Albanian Muslim countries, including southern Serbia, Macedonia, and Montenegro. Russia’s objections have been balanced by strong U.S. support for the new country. Five EU countries (including Spain, Romania, Slovakia, Greece, and Cyprus) have not recognized the independence of Kosovo. Ten articles described the good relationship with Balkan neighbors. Macedonia, which provides a major transport route from the south, has boosted its economic cooperation, largely because it has a favorable balance

of trade with the country. While Macedonia has a 30% Albanian population, its Slavic majority has strong ties to Russia.

Eighteen media reports deal with both internal and external impacts, related to investment and business development, the economy and economic sustainability, and the global financial crisis. While the financial crisis has resulted in a decrease in the amount of money sent to the country from the Albanian diaspora, the overall impact, particularly in the banking sector, has been less than in many countries. While the amount of investment has decreased, the large amount of foreign aid and investment in the country has lessened the impact of the global crisis.

3. What behaviors result from the relationship and what are the consequences?

The continuing conflict with Serbia and other countries over independence, particularly as it affects trade and transportation, may have long-term economic impact on Kosovo. Kosovo's major transportation route to other European countries is through Serbia. The slowdown in the economy and the infighting among Albanian political parties may cause uncertainty about investing and questions about economic sustainability.

4. What outputs of one system are inputs into the other?

Political system outputs that are business enterprise inputs

- The political system provides a climate of political stability to encourage business and investing.
- It protects the interests, life, and livelihood of the business community.
- It allows all ethnic groups equality under the law to pursue business opportunities.
- By getting recognition for independence and the sovereignty of the nation, it obtains support from other countries and world organizations, thus encouraging investment and business growth.
- It obtains foreign aid and financial investments to support business enterprises.
- It develops relationships that provide markets abroad and tears down trade barriers.

Business enterprise outputs that provide inputs into the political system

- The business system provides jobs and income for citizenry, thus increasing public satisfaction for the political system.
- Business creates an infrastructure to encourage investment, economic growth and sustainability.
- It provides goods and services to citizens and raises their standard of living.
- It provides exports and trade with foreign nations.

5. What demands does each system make of the other?

The political system demands ethical behavior, strong business growth, and jobs, which lead to citizenship satisfaction. While the political system regulates business, it also demands ethical behavior.

The business system demands that government protect business interests and encourage and create a climate for investment, leading to a strong economy. One of the major factors that has led to the success of the Kosovo economy, according to one banker, was the adoption of the Euro as the country's currency. This occurred soon after the country's partition from Serbia.

6. What support is provided from one to the other?

The political system regulates commerce, encourages investment, vitalizes the economy, and protects the business community from internal and external stresses. For example, on July 1, 2009 Kosovo Prime Minister Hashim Thaci and the president of the Overseas Private Investment Corporation [OPIC] in the USA, Lawrence Spinelli, signed in Washington an agreement

guaranteeing investments. OPIC is an US administration agency that assists small US businesses by offering their services and investments abroad (BBC, July 1, 2009).

Business is the machine that runs the economy. It provides jobs for the people, goods and services to consumers, and exports and trade to foreign partners. For example, in September 2010 representatives from Slovenian and Kosovoan businesses and the Chambers of Commerce met to discuss areas of common interest. While Slovenia is a small country, it has major access to the European economy. "Exporting to Kosovo is not the only goal for Slovenia, but also to invest there, not only indirectly with capital, but also directly with know-how, experience and the network we have established in recent years in Europe and the world," a Slovenian business representative said (BBC, September 8, 2010).

7. What is the impact of the business inputs (demands and supports) on political outputs and vice versa?

The major impact of demands and supports from both systems is providing economic growth and stability in the country. The relationship is mutually beneficial for both systems.

8. What feedback is provided to each system that helps them cope with stress and adapt?

Twenty-six of the 67 reports examined (38.8%) included some form of communications or feedback relevant to business and politics. One example of how the media provide feedback is a report from the BBC European Service (November 2, 2010), describing the filing of a non-confidence motion in Parliament by an opposition party. The main reason given for filing the motion against the government was to stop the institutional crisis and the bad governance of ruling coalition.

## CONCLUSIONS

The following conclusions were drawn from the systems analysis of the relationship between politics and business in Kosovo.

1. The number and nature of articles that mention both politics and business suggests that commerce in Kosovo is highly dependent on politics, although the political system may be less dependent on the business enterprise. A search for business articles in developed countries or older countries might show less of a connection between politics and business. Such a finding would suggest that the connection between the political system and business enterprises is higher in a new, developing country.
2. During Kosovo's first two years of independence the major stresses were related to Kosovo's association with foreign countries, particularly Serbia. The relationship between Kosovo and foreign countries has impact on business. New and developing countries seem to be impacted greatly by their relationship to other countries.
3. While internal stress may be important, the focus of news articles was more on external stresses. News coverage generally may focus more on external (foreign) conflicts and stresses rather than internal conflicts.
4. The continuing conflict with Serbia and other countries over independence, particularly as it affects trade and transportation, may have long-term economic impact on Kosovo. External conflict has impact on developing and new countries.
5. The political system has numerous outputs that are business enterprise inputs, including a climate of political stability to encourage business and investing, the protection of business interests as well as the livelihood of its members, support from other countries and world organizations that encourage investment and business growth, and



relationships that provide markets abroad and tear down trade barriers. Business enterprise provides outputs that form inputs into the political system, mainly jobs and income, an infrastructure that encourages investment and growth of the economy, goods and services that raise the standard of living, and exports and trade with foreign nations.

6. The political system demands ethical behavior, strong business growth, and jobs, which are important to citizenship satisfaction. The business system demands that government protect business interests and encourage and create a climate for investment, leading to a strong economy.
7. The political system provides supports to business by regulating affairs, encourages investment, vitalizes the economy, protects from business community from internal and external stresses. Business is the machine that runs the economy; it provides infrastructures for jobs, goods and services to consumers, exports, and trade.
8. At one level media reports by their nature are all communication. However, in this case study a high level of reports (over a third) specifically provided feedback in one form or another. Media reports serve as one measure of feedback and report what is happening and the comments and opinions of opinion leaders.
9. In a developing, new country news reports appear to focus more on the development of relationships with other countries than on internal business affairs.

This study has examined English language articles and reports found on LexisNexis Academic about politics and business in Kosovo for two years following independence. Most of the reports in the study were related to international relations rather than local news coverage. Media reports serve as only one measure of feedback and report what is happening and the comments and opinions of opinion leaders. The study also is limited because it doesn't examine interpersonal nor other public communication nor group dynamics. Further study is needed of reports in Albanian and Serbian from local media. Also, interviews with key stakeholders would allow for a better understanding of relationship of politics and business from the viewpoint of individuals and opinion leaders.

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