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SCHOOL OF ECONOMICS AND BUSINESS

MASTER'S THESIS

**A FIRM-LEVEL EMPIRICAL ANALYSIS OF DETERMINANTS OF
THE EXPORT-ORIENTED DEVELOPMENT MODEL IN KOSOVO**

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FATI SADIKAJ

AUTHORSHIP STATEMENT

The undersigned Fati Sadikaj, a student at the University of Ljubljana, School of Economics and Business, (hereafter: SEB LU), author of this written final work of studies with the title A FIRM LEVEL EMPIRICAL ANALYSIS OF THE DETERMINANTS OF EXPORT ORIENTED DEVELOPMENT MODEL IN KOSOVO, prepared under supervision of Tjasa Redek P.h.D.

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LIST OF ABBREVIATIONS

B2B – Business to Business
 B2C – Business to Customers
 BEC – Broad Economic Category
 CBK - Central Bank of Kosovo
 CEFTA – Central European Free Trade Agreement
 CLU – Cluster
 EU – European Union
 EUROSTAT – Statistical office of the European Union
 FDI – Foreign Direct Investment
 GAP – Institute for Advanced Studies in Kosovo
 GDP – Gross Domestic Product
 H – Hypothesis
 IMF – International Monetary Fund
 KAS – Kosovo Agency of Statistics
 KBRA – Kosovo Business Registration Agency
 KCC – Kosovo Chamber of Commerce
 KIESA – Kosovo Investment and Enterprise Support Agency
 MAKSTAT – Statistical Office of North Macedonia
 MONSTAT – Statistical Office of Montenegro
 N – Sample Size
 PAK – Privatization Agency of Kosovo

RCC – Regional Cooperation Council
SOE – Socially owned enterprises
SORS – Statistical Office of Serbia
SME – Small and Medium Enterprises
TAK – Taxation Agency of Kosovo
UN – United Nations
UNDP – United Nations Development Program
UNMIK – United Nations Mission in Kosovo
USA – United States of America
VS – Versus
WB – The World Bank

INTRODUCTION

The objective of this thesis is to conduct a firm level empirical analysis of the determinants of the export-oriented development model used in Kosovo. In general, the topic will initially be focused on identifying the determinants of export development and then determine their importance to the development model in Kosovo. In essence, the idea is to determine which factors affect a company's ability to trade and to realize whether such factor differences between exporters and non-exporters exist. Additionally, based on the results of the analysis, some recommendations will be provided on the country and company level.

In the past, various theoretical and applied research papers have dealt with comparable analyses of different countries and many of them had similar conclusions. Researchers found evidence that export performance has a positive relationship with company size, productivity, education, foreign ownership and innovation capacities.

Primarily, the evidence showed that exporters are larger in size, more productive, consist of highly educated individuals and have greater innovation capabilities; yet, not all research papers had similar results because in some cases there was not enough evidence to draw such conclusions.

For example, Loose and Ludwig (2007) found evidence that exporters in Germany are larger, more productive, have higher qualified employees, are often owned by foreigners and have higher innovation capacities. Similar findings in Germany were presented by Wagner (2008), Becker and Egger (2010), Lejpras (2010), and Schultz (2010) as well.

In terms of trade, the current situation in Kosovo is no different than it was during the last two decades. Essentially, Kosovo has been an import-led country for the last two decades and its amount of imports still continues to increase. Facing an increasing trend of imports, the extreme trade deficit continues to persist despite the continuous increase in the amount of exports by companies in Kosovo. This phenomenon is still highly discussed among domestic and international economists and, despite various criticisms about the negative trade performance, it is still highly likely that no appropriate alternative was developed to overcome this issue.

Given such an extreme trade deficit and the limited understanding of its cause by economists, it is clear that a huge gap exists which needs to be identified. Thus the importance of this empirical analysis is relatively easy to understand.

As a result, the objective of this empirical analysis is to at least minimally contribute in covering this gap by identifying and analyzing the firm level determinants of export performance in order to determine the causes of such negative export performance by the companies in Kosovo.

In order to achieve the objective of this thesis, it is important to successfully answer the following research questions:

Research Question 1: *How does the size of the company impact propensity to export?*

Research Question 2: *How does education and training affect the company's ability to successfully penetrate foreign markets?*

Research Question 3: *Does the industry type impact the trading potential of a company?*

Research Question 4: *How does the institutional and infrastructure quality impact the propensity to export?*

Research Question 5: *Does high domestic competition force companies to be present in foreign markets?*

Research Question 6: *Do companies in Kosovo export more in neighboring countries rather than in other countries?*

This thesis will start by providing some theoretical background and then it will thoroughly present the development characteristics of Kosovo and the role of exports. In the end, it will present the empirical analysis of export determinants in Kosovo and provide policy and managerial recommendations derived from the results of the analysis.

1. EXPORTS AS A DETERMINANT OF ECONOMIC DEVELOPMENT

1.1 Determinants of economic growth and development

Growth and development determinants have been widely discussed in research literature. In continuing, the determinants are studied in the context of standard growth theories and then the standard model is extended by adding other determinants of growth and development, including the factors of openness with trade and FDI.

Today's most popular theories of economic development were introduced mainly during the 20th century, although the study of growth determinants goes back to the mercantilist, physiocratic and pre-classical eras in the economic literature as well as other classical and Keynesian approaches. The neoclassical growth theory (Solow growth model) was introduced by Robert Solow and Trevor Swan in 1956 and was modified by Robert Solow in 1957. This theory presents how a steady growth rate depends on investment in physical capital, human capital and technology. Essentially, it presents the proximate sources of growth which are about the accumulation of capital, labor and technology (Dimand & Spencer, 2008). This model assumes constant returns to scale, and it considers capital and labor as substitutes. The marginal productivity of this model is diminishing, while the determination of technological progress is assumed to be exogenous. The model treats the investment ratio as a very important factor for short-term growth, while the technological progress important for long-term economic growth. Additionally, the model predicts a convergence in growth rates, which means that it expects underdeveloped economies to grow faster than developed economies (Banton, 2019; Dimand & Spencer, 2008).

The second economic growth theory is called the endogenous theory of growth. This theory was developed during the late 20th century and argues that economic growth comes as a result of internal processes; essentially, human capital leads to economic development through the development of new technology and other forms of efficient production. Romer, as the founder of the modern endogenous growth theory, suggests that technological change is a product of endogenous development. In this case, economic development is achieved through internal forces such as human capital, capital accumulation and innovation rather than external forces only. Therefore, it encourages public institutions to promote R&D and intellectual property rights because it helps facilitate endogenous activities, thus leading to long-term economic growth. This model does not predict any convergence because it assumes increasing returns of scale (Jones, 2019; Romer, 1990; Liberto, 2019).

In sum, the neoclassical model stresses the role of what Acemoglu (2007) terms as the correlates of growth, or proximate determinants, i.e. determinants which successfully provide information behind the economic performance of certain countries; but they fail to provide meaningful

information behind the reasoning of such economic performance. Therefore, fundamental determinants must be researched to create a valid explanation of the economic success or failure of a country, which will be discussed (Acemoglu, 2007).

Physical capital is considered as the determinant that has the greatest impact on economic development by both the neoclassical and endogenous theories of growth. The logic behind this statement is that investment leads to higher supply and demand capacity for a given country. The endogenous theory of growth considers investment to have a permanent role in economic development. Alternatively, the neoclassical theory of growth states that investment has a role in the transitional period, while technological development plays the main role in economic development (Podrecca & Carmeci, 2001).

Human capital is an economic determinant which is considered to be a fundamental source of growth according to various theories. This proximate determinant is established by the level of education, skills, know-how and work experience of all individuals that represent the workforce of a society. This determinant was proven to have a positive impact on economic development by many authors; yet some authors did not find compelling evidence on this matter. For example, Hanushek and Kimko conclude that labor force quality has a stable and strong relationship with economic development (Hanushek & Kimko, 2000). Nonetheless, Lant Pritchett (2001) concludes that education on average contributed much less to economic development than expected in the in Solow's model. He came to this conclusion because education's level of contribution to economic development varies by country. Essentially, in some countries it had positive impact, while in some other countries negative impact (Pritchett, 2001).

Technology is another determinant that is considered to have impact on economic growth. This assumption is based on the idea that innovation and R&D activities enable superior technological development, which in turn contributes to the supply capacity of a country promoting economic development. Many studies confirm a strong relationship between this determinant and economic development. Hulya Ulku (2004) concludes that innovation and GDP per capita have a strong correlation for most of the countries, while only countries with a larger market size can improve innovation through public investment in R&D activities. This supports the conclusion of Acemoglu and Linn (2003), who claim that market size is important when it comes to the effectiveness of R&D activities (Ulku, 2004). A similar conclusion was drawn by Frank Lichtenberg (1992), who stated that private investment in R&D has a positive correlation with the economic development/growth but a negative effect when it comes to public investment in R&D (Lichtenberg, 1992).

Gunnar Myrdal's CCC theory- The Circular Cumulative Causation Theory of Growth (1956) is one of the theories that involves the importance of initial conditions when economic cooperation

between countries takes place. According to him, international economic relations result in economic inequalities, despite the positive spillovers spread from developed to developing countries. It therefore considers policy to be crucial in correcting the market failures which lead to inequalities. This phenomenon is described by the so-called term 'backwardness' (Fujita, 2004; Berger, 2008).

The new economic geography theory concludes that economic growth favors developed economies and it includes the compound effects of increasing returns to scale, imperfect competition and non-zero transportation costs. Essentially, it concludes that economic activity cluster in specific locations because of agglomerate forces such as backward/forward linkages of firms, scaled economies and positive externalities. It is concerned more with the location of economic activity rather than its growth (Fujita & Krugman, 2004). Geography in economic literature is referred to as all the elements of the physical, geographic and ecological environment that are part of a community's way of living. Extensively discussed, this determinant includes also the soil quality, natural resources, climate, disease environment and topography. These factors impact economic development through different proximate determinants by directly or indirectly altering the productivity, wealth and competitiveness of countries. This affects the opportunity and incentives of individuals to accumulate physical capital and technology. Various studies (including Armstrong and Read (2004)) have provided evidence that geography and economic development have a strong positive correlation (Petrakos & Arvanitidis, 2008; Acemoglu, 2007).

Institutions are defined as the rules, regulations, laws and policies that affect economic stimulus; thus, it affects the individual's tendencies to accumulate physical capital, invest in human capital, or contribute to technological development. The economic literature defines institutions as being either contracting or property rights-focused. *Contracting institutions* mainly facilitate contracts between two or more parties involved in a transaction, functioning of the market and allocation of resources. These institutions involve laws, courts and regulations. *Property rights institutions* are about the protection of individuals from the power of politicians, groups of interest, and other elite influences. Proper property rights institutions are expected to positively affect the individuals' incentive to invest; however, since institutions are a product of individual choices and not a product of natural cause, it is believed that institutions lead economic performance rather than follow it. This claim was scientifically proven by the research of Bruinshoofd (2016) as well. Additionally, Bruinshoofd (2016) concluded that states with good institutions enable an economic environment adjustable to technological change and contribute positively to the organization of new economic production. All this being said, individuals' responsibility in electing proper officials to create well-functioning institutions is vital for a society's future (Bruinshoofd, 2016; Acemoglu, 2007).

Culture is defined by economic literature as the beliefs, values and preferences that guide, shape and determine an individual economic style. Unlike institutions, culture is not under the direct control of a society because it is something that has evolved over time. This determinant is extremely important when it comes to economic development and performance of a country because it clearly impacts the people's occupational choices, investment rates, degree of capital accumulation willingness and cooperation between various individuals. In this case, trust is perceived as a very important socio-cultural determinant for economic development. According to Knack and Keefer (1997), trust and other norms of civic cooperation are important for the well-being of a society, economic development included; yet, for other socio-cultural determinants such as ethnicity, language, religion, beliefs and attitudes, the findings are still inconclusive (Knack & Keefer, 1997; Acemoglu, 2007).

Luck is referred to as the varying economic performances of similar countries because of different strategic decisions due to the different levels of uncertainties, or simply due to unique preferences by the responsible authorities or individuals. This determinant can be illustrated by an example of the decision of two different societies when it comes to investment. One society might decide to invest less than the other, and as a result the economic development is much worse in comparison to the society that invests more. However, this determinant alone cannot provide satisfactory explanation about the unequal economic development of various nations because there are many other factors to be considered (Acemoglu, 2007).

Trade is a determinant which has a positive and strong correlation with economic development. A country's openness is usually measured by the ratio of exports to GDP. The strong correlation is assumed due to the transfer of technology, diffusion of knowledge and exposure to competition because of access to regional or international trade. This assumption is supported by various researches which conclude that open economies are usually associated with higher GDP per capita and faster productivity growth (Edwards, 1997).

Foreign Direct Investments (hereafter FDI) are defined as investments made by an individual or a legal entity of one country into business opportunities in a foreign country. According to the OECD, the threshold for an investment to be considered an FDI is to have a minimum of 10% of ownership in a foreign-based company (Chen, 2009). According to various research papers, FDI has a strong and positive correlation with economic growth. Lensink and Morrissey (2006) concluded that FDI has a positive effect on economic development, while the volatility of FDI has a consistent negative effect on economic development. However, nowadays it is clear that FDI plays a crucial role in promoting international economic activity and FDI surely contributes massively when it comes to technology transfer (Lensink & Morrissey, 2006). Hermes and Lensink (2000) argued that the impact of FDI depends heavily on the conditions of the recipient country; essentially, financial system development is a precondition for successful technology dissemination (Hermes & Lensink, 2000).

Demographics conclude this list of economic development determinants. In economic literature, demographics are mainly defined by population growth, population density, migration and age distribution. All of these factors play a major role in economic development according to various researchers. It is assumed that high population growth has a negative impact on economic development because it influences the quality of human capital and the savings/investments ratio. The ageing population has a negative impact on economic development as well because less active human capital equals lower productivity (Petraikos & Arvanitidis, 2008).

Economic policies, political environment and macroeconomic conditions are determinants that are considered to have an impact on a country's economic development. In this case, the economic policies of a country are defined as fiscal and monetary policies. Fiscal policies are highly related to strategic investment decisions such as investment in infrastructure, human capital, research and development, etc. Easterly and Rebelo (1993) concluded that fiscal policies have a huge impact on economic development. They specifically mentioned taxes as a harmful instrument to economic development and public investment as an instrument with high positive contributions to economic development (Easterly & Rebelo, 1993).

Furthermore, the right macroeconomic conditions are vital for the long-term economic growth of a country because the uncertainty/risk is lowered by having stable macroeconomic conditions; thus, a stable macroeconomic environment is defined as an economic environment with low and stable inflation, a low budget deficit, appropriate interest rate, stable fiscal policy, and an undistorted foreign exchange market. Fischer (1993) concluded that inflation reduces economic development because it discourages investment, while a positive budget deficit increases growth through greater capital accumulation (Fischer, 1993).

1.2 The role of exports, trade and FDI for promoting economic development

1.2.1 The role of exports and trade for promoting economic development

Over the last two centuries, various theories have been written and researches conducted with regard to the relationship between the foreign trade and economic growth. The vast majority of such theories and researches came to the conclusion that foreign trade leads to economic growth; but different authors provided various insights about the determinants impacted by foreign trade which lead to economic growth. Some authors even came to the conclusion that there is insufficient evidence that foreign trade leads to economic growth, while a few concluded that there is a two-way causal relationship between the two (Chen, 2009).

Nonetheless, many real-life examples support the theoretical foundations that exports lead to economic growth. As a result, the export-led economic growth model was developed and introduced by various countries. This model focuses the supply capacity of a domestic country mainly on the market demand of the neighbor/foreign countries, aimed at finding efficient and effective ways to reach productivity maximization based on the available external demand (Palley, 2011).

For example, countries like Germany and Japan in the post-WW2 period (1950-1960s) were characterized by an export-oriented approach of economic growth. These countries were the first to follow this economic model, thus having tremendous economic growth. The main idea behind this successful economic model was based mainly on *undervalued exchange rates* (Palley, 2011). Additionally, the successful example of Germany and Japan started to be followed during the 1970-80s by the so-called East Asian tigers, which included South Korea, Hong Kong, Singapore and Taiwan. In addition to the *undervalued exchange rates*, their model included also *foreign technology acquisitions* as part of their strategic planning. This model was thus more sophisticated than the one introduced by Germany and Japan (Palley, 2011).

This model was further developed by Mexico during the early 90s of the 20th century. Added to this model of economic growth was the *integration to the global economy* (initially through NAFTA, corporate globalization and later through the WTO) and the *suppression of wages and social standards*. All in all, this model was focused on making a country attractive to export-oriented multinational corporations (MNCs), or foreign direct investments (Palley, 2011).

Despite the technical differences within particular countries, the objective of this model was unchanged because all of the countries aimed at the maximization of exports in order to achieve massive economic growth.

The successful economic growth of such emerging economies started to decline no later than the early 2000s because the export market was being quickly taken by China. This result occurred because Chinese policies were taking the export orientation growth model in another direction.

China transformed the model by modifying the simple undervalued exchange rate to the *managed undervalued exchange rate*, promoting a *domestic national technological base* via joint ventures, technological sharing, and other means of *technological advancement* (Palley, 2011; Ozawa, 2010).

To conclude, all these practical examples provide real-life evidence (in addition to the evidence provided by the literature) that exports have a huge impact on economic growth and that so far, export-led growth has proven to be a successful mechanism for economic development.

All this being said, one might conclude that the determinants that impact the successful application of such a model are the following:

- The ability to maintain and manage an undervalued exchange rate.
- The ability to acquire new technology.
- The ability to ensure domestic technological advancement.
- Access to international trade.
- Stable monetary policy.
- Stable fiscal policy.
- Attractive taxation policies for export oriented FDIs.
- Minimal regulation of the labor and environment sectors.
- Business friendly institutions.
- Market friendly reforms (Ozawa, 2010; Palley, 2011).

1.2.2 FDIs role in promoting economic development

The role of FDIs in promoting economic development was extremely important throughout the development of the export-led model of growth (Palley, 2011). Broadly speaking, economic literature authors divide FDIs into natural-resource, market, efficiency and strategic-asset seeking FDIs (UNCTAD, 1999; Nordås et al., 2002).

The natural resource and market seeking FDIs are two of the oldest forms of FDIs which resulted from the incapability of a host country to provide various goods/services, or due to trade restrictions between different countries. Both contributed to the increase in trade, which consequently contributed directly to economic development (UNCTAD, 1999; Nordås et al., 2002).

The efficiency seeking FDIs are characterized by a low-cost labor seeking approach. Mainly, multinational companies continuously seek low-cost labor to increase their profits. In this case, the FDI contributes directly to the exports of a host country because of changing export structure or scale due to increased production. It also contributes to its imports by importing all the extra raw materials needed to produce the exported goods (UNCTAD, 1999; Nordås et al., 2002).

The strategic asset seeking FDI has a direct impact on economic development through the creation of trade on the consumption and the production side. For example, a country with attractive human capital may attract these kind of FDIs which further contribute to economic development, because it may directly help one country to increase their exports in various services (UNCTAD, 1999) .

Nonetheless, FDI as a special form of capital inflow has a respectable impact on various aspects of the economy. In the majority of countries, the FDIs impact on investments is still higher than the other forms of capital inflows due to its nature. Essentially, it is a real investment and not just a financial variety; yet there are some negative cases where the FDIs effect was characterized by a higher increase in consumption than in investments and a decrease in domestic savings (UNCTAD, 1999; Alfaro et al., 2004).

Additionally, FDIs are believed to bring a massive contribution to technology transfer, technology usage and innovation. This is mainly expected to contribute to developing economies by introducing new technological products, the development of human capital, and promotion of diverse idea generation environments. These factors contribute massively to economic development by improving productivity and consumption (UNCTAD, 1999; Nordås et al., 2002; Napiórkowski, 2017).

However, FDIs are assumed to have negative impacts on domestic entrepreneurship due to some “crowding out” effects; but these assumptions were not statistically proven because the results varied from one country to the other. On the other hand, FDI contribution is believed to depend massively on the backward/forward linkages it creates with the host country’s SMEs; however, this issue can be managed by some clear policies from the host country (UNCTAD, 1999; Nordås et al., 2002; Napiórkowski, 2017).

When it comes to its effects on employment, FDIs role varies by the type of industry. FDIs created massive job opportunities in those industries where labor activities are required, mainly in manufacturing and services, and have impacted also the salaries of employees. Yet, there are many other cases where its direct contribution to employment was not significant (UNCTAD, 1999; Napiórkowski, 2017).

All this being said, one might conclude that the impact of FDIs on economic development is perceived to be huge because of its successful impact on various countries from the past and in the present. FDIs did not necessarily contribute only through the increase in exports, but through the import of higher value-added products as well, which consequently contributes to greater economic development.

2. DEVELOPMENT CHARACTERISTICS OF KOSOVO AND THE ROLE OF EXPORTS

The history of Kosovo can be divided into the pre-war period (pre 1999), post-war period (1999-2008), and the post-Independence Day period (2008-present). During the post-war period, Kosovo was administered by the United Nations after they established a UN-led interim administration (UNMIK) on June 1999; however, on 17 February 2008, Kosovo declared its independence and thus became the newest state of Europe recognized by the majority of UN and EU member countries, including the USA (Rohan, 2018).

When it comes to economic development, Kosovo has achieved solid economic growth during the past two decades, but it is still at an early stage of a running market economy. Kosovo's market consists of mainly (99%) Small and Medium sized Enterprises (SMEs) and only 1% are large corporations. According to the European Commission, SMEs and large corporations are defined as companies with less than 250 and more than 250 employees respectively. (European Commission, 2019).

The labor market historically presented a huge problem despite the progress during the last decade, especially in terms of unemployment and gender equality. Additionally, further training and education of the labor market must be promoted in order to ensure a competitive labor force (European Commission, 2019; GAP, 2011).

Kosovo has successfully been regionally integrated by signing the CEFTA agreement in 2007. Additionally, Kosovo has signed bilateral trade agreements with Albania, Macedonia, Bosnia and Herzegovina and Turkey. In 2016, Kosovo signed the Stabilization and Association agreement with the European Union (CEFTA, 2016; GAP, 2011).

According to the World Bank, Kosovo has made significant progress in terms of reforming its business environment. The progress was significant mainly in the areas of protecting minority investors, dealing with construction permits, electricity supply, contract enforcement and starting a business. However, the informal economy, corruption, fragile rule of law, poor privatization process and bureaucracy need to be tackled in order to facilitate fair competition and fully utilize the labor force. Overall, Kosovo is considered as part of top 20 reformed countries of 2020 (*Ministria e Tregtisë dhe Industrisë*, 2019; European Commission, 2019).

When it comes to fiscal policy, Kosovo has mainly invested in road infrastructure but lacks railways and energy sector investment; essentially, investment must be about increasing the efficiency of energy usage and developing other forms of renewable energy (European Commission, 2019).

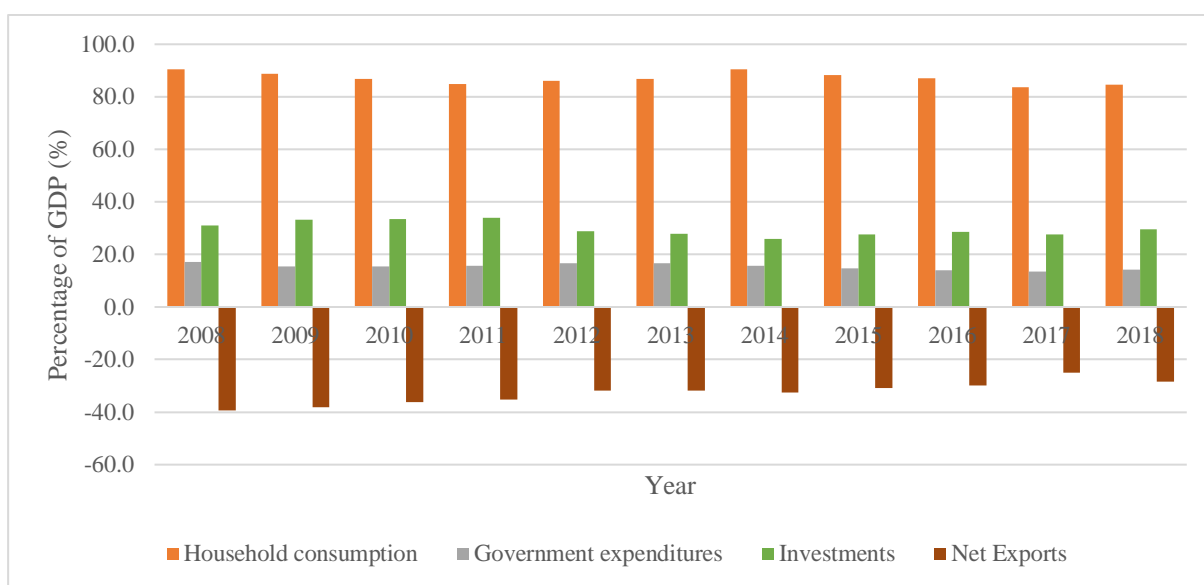
All this being said, the following sections will provide an overview of the main economic development indicators in order to illustrate the characteristics of Kosovo's market economy.

2.1 An overview of Kosovo (economic) development since independence

After gaining independence, Kosovo had to deal with the economic problems caused by the global financial crisis. In that period, Kosovo increased government expenditure reaching approximately 17% of the GDP (higher than exports share) to stimulate investments. However, the economy kept growing (being one of the four European countries to experience constant economic growth since the crisis in 2008), and thus it improved exports significantly reaching approximately the level of investments by 2017; yet, this improvement is still not satisfactory because of the huge trade deficit. Nonetheless, Kosovo is still a consumption-led economy, and this is clearly illustrated by Figure 1, which shows the tremendous share of household consumption as a percentage of GDP (Eurostat, 2020; Kosovo Agency of Statistics, 2020; Theodora, 2019). According to expenditures, Kosovo's GDP components are ranked in the following order:

- Household Consumption
- Investments
- Government Expenditure
- Net Exports

Figure 1: GDP components for the period 2008-2019 (as a percentage of GDP)

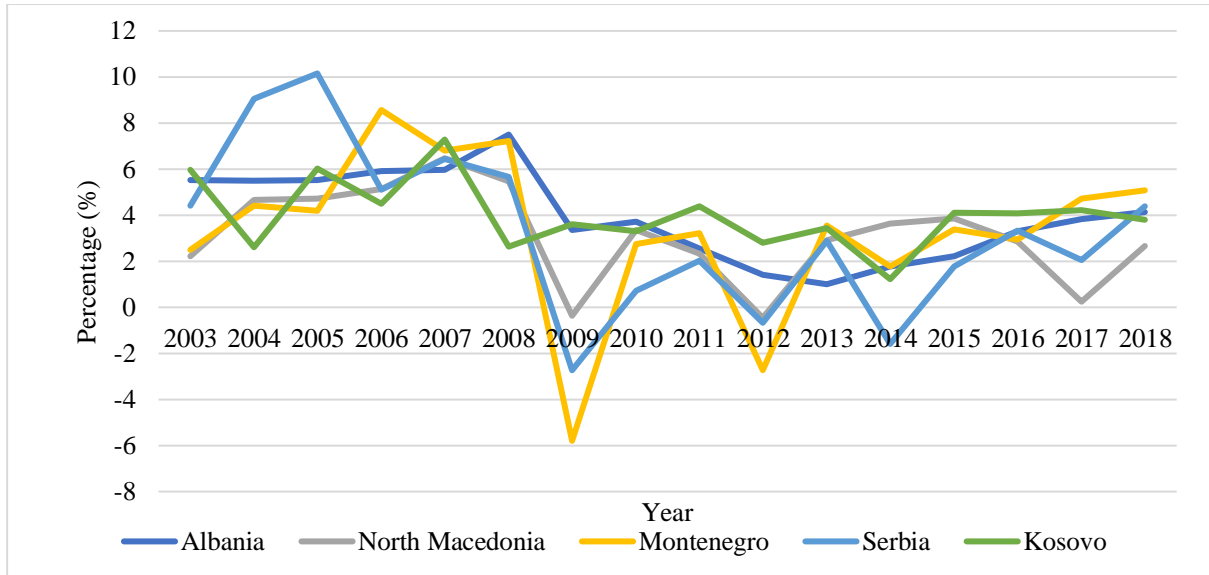


Source: Eurostat (2020).

In Figure 2, it is clearly visible that Kosovo experienced economic development despite the fluctuations over time. Since 2008, the real GDP growth has been typically over 3 percent and above 4 percent during the last three years (Eurostat, 2020). Additionally, an interesting element is that the world-wide economic crisis in 2008 did not much affect its growth, but the negative fluctuation was mainly due to temporary trade restrictions with Serbia and Bosna-Hercegovina

(GAP, 2011). Real GDP per capita has a constant growth trend since 2003, from 2554 USD in 2003 to 4161 USD in 2018 (See Figure 2) (The World Bank, 2019).

Figure 2: Real GDP growth rate for the Western Balkan countries in the period 2003-2018 (in percentages)

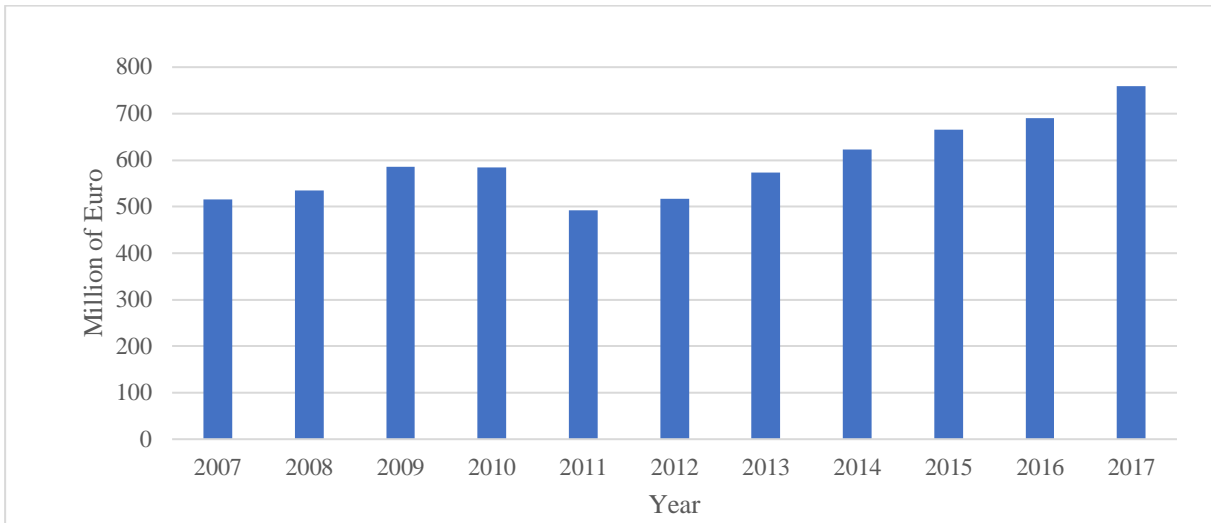


Source: Eurostat (2020); Kosovo Agency of Statistics (2020); The World Bank (2020).

Speaking specifically about contributors to economic growth, remittances have contributed massively since they've been used mainly to support household consumption and some private investment. The remittances mainly come from the European Union member countries (Germany, Italy, Austria, Belgium, France, etc.), Switzerland and Canada. Essentially, remittances are considered as one of the very few positive sides of a constant migration trend from Kosovo towards the western countries (Central Bank of the Republic of Kosovo, 2018).

The following figure presents the inflow of remittances since 2007, and it is important to mention that imports and remittances have similar trends. The sudden increase in remittances after 2011 was associated with an immediate increase in imports. Thus this trend continued for the next several years (See Figure 3). In addition to remittances, Kosovo's economy is also highly dependant on international donor assistance (Kosovo Agency of Statistics, 2020).

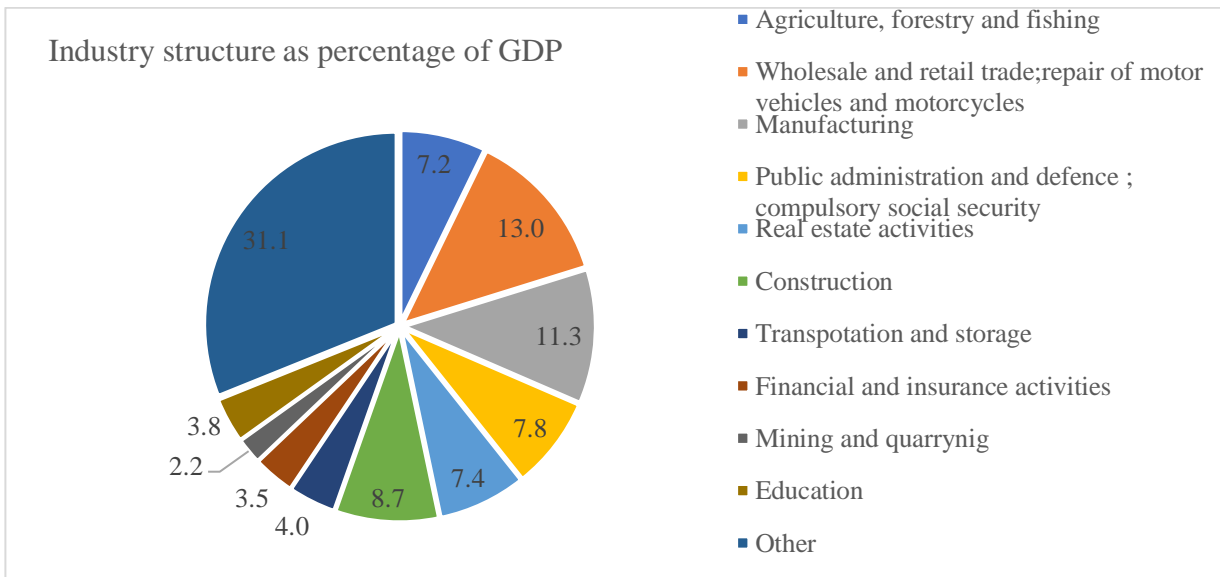
Figure 3: Remittances of Kosovo in the period 2007-2017 (in millions of EUR)



Source: Central Bank of the Republic of Kosovo (2018).

Economic growth according to economic activities is partially presented in Figure 4, which displays the key industries as a percentage of GDP during 2018. The data since 2008 showed that *Agriculture* and *Mining* composed a significant portion, but gradually has lost their share. The industries *Manufacturing* and *Education* had a smaller share in 2008 but gained larger proportion by 2018, similar to the *Wholesale, Retail* and *Real Estate* industries. Additionally, *Construction* and *Transportation* have gained a much larger proportion by 2018 than they had during 2008 (Kosovo Agency of Statistics, 2020).

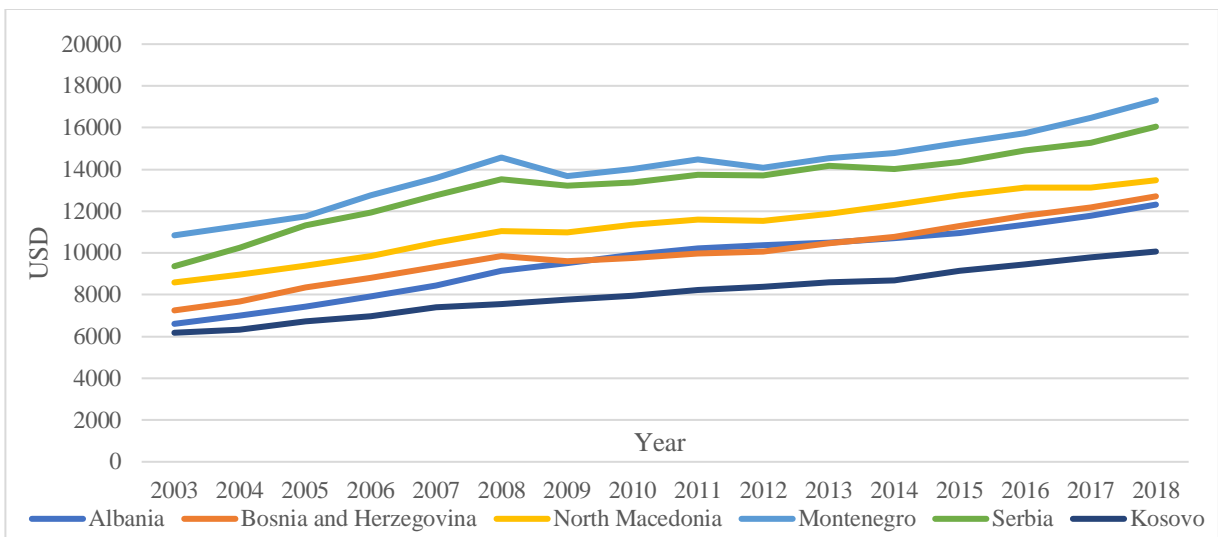
Figure 4: Key industries in Kosovo during 2018 (as percentage of GDP)



Source: Kosovo Agency of Statistics (2020).

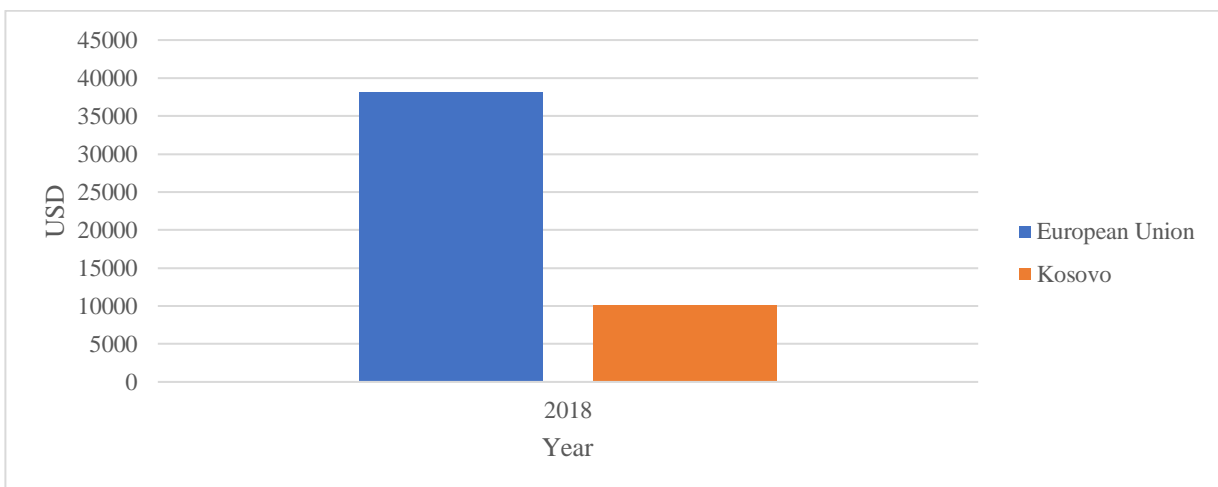
Figure 5 clearly presents the real GDP per capita PPP for Kosovo and its neighbor countries, while Figure 6 provides a comparison between the Kosovo and EU average real GDP per capita PPP in 2018. The trend during the global financial crisis provides an interesting observation in both Figure 2 and 5, because it shows that the crisis impacted Kosovo the least followed by Albania, while Serbia and Montenegro were hit the most. Additionally, the negative fluctuations are almost non-existent for Kosovo, while the trend shows that other neighbor countries have faced frequent recessions in their economic growth. The same holds for the EU average (see Figure 6) (The World Bank, 2019).

Figure 5: Comparison of real GDP per capita PPP of Kosovo with the neighbor countries in the period 2003-2018 (in USD)



Source: The World Bank (2019).

Figure 6: Real GDP per capita PPP of Kosovo and EU in 2018 (in USD)



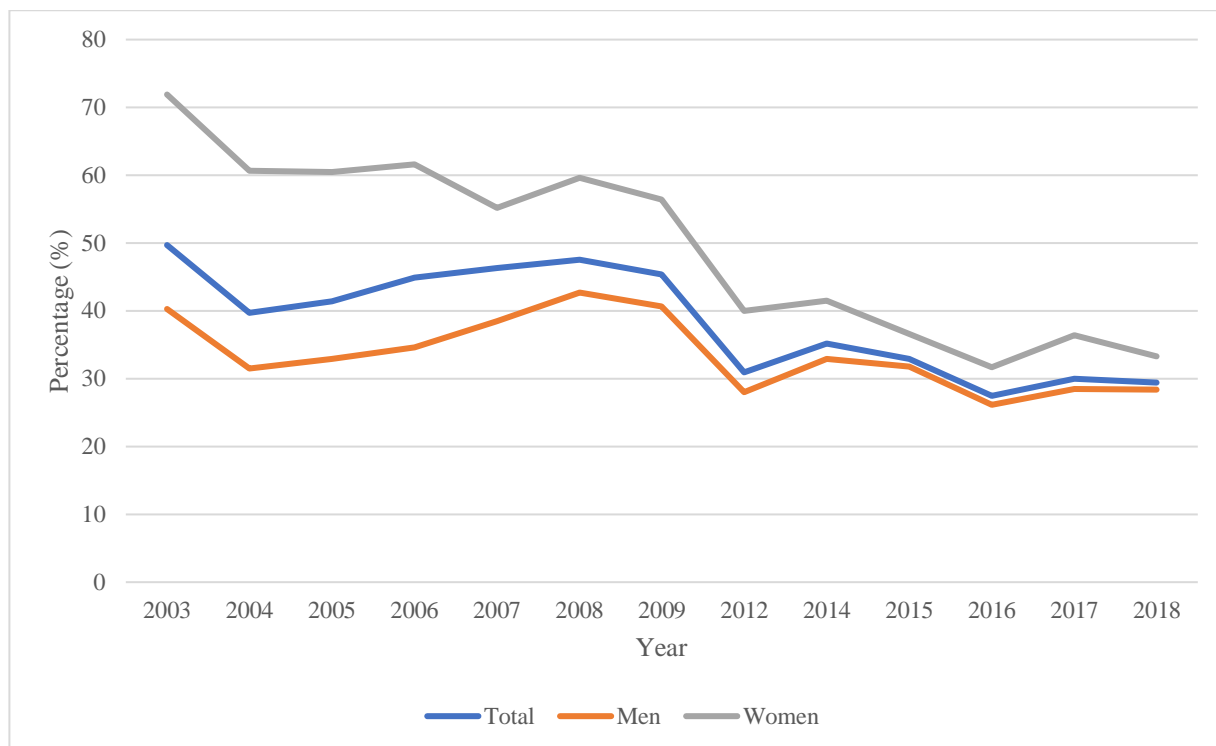
Source: The World Bank (2019).

2.2 Labor Market

Kosovo has continuously faced tremendous challenges when it comes to the labor market because of its massive unemployment rate. Figure 7 provides an overview of unemployment trends in Kosovo and also a demonstration of the massive inequality in terms of men vs women unemployment rates; however, through time a lot of progress has been made with regard to this matter since the gap has been decreased, but both issues still represent a huge threat for economic development (The World Bank, 2020; Regional Cooperation Council, 2020).

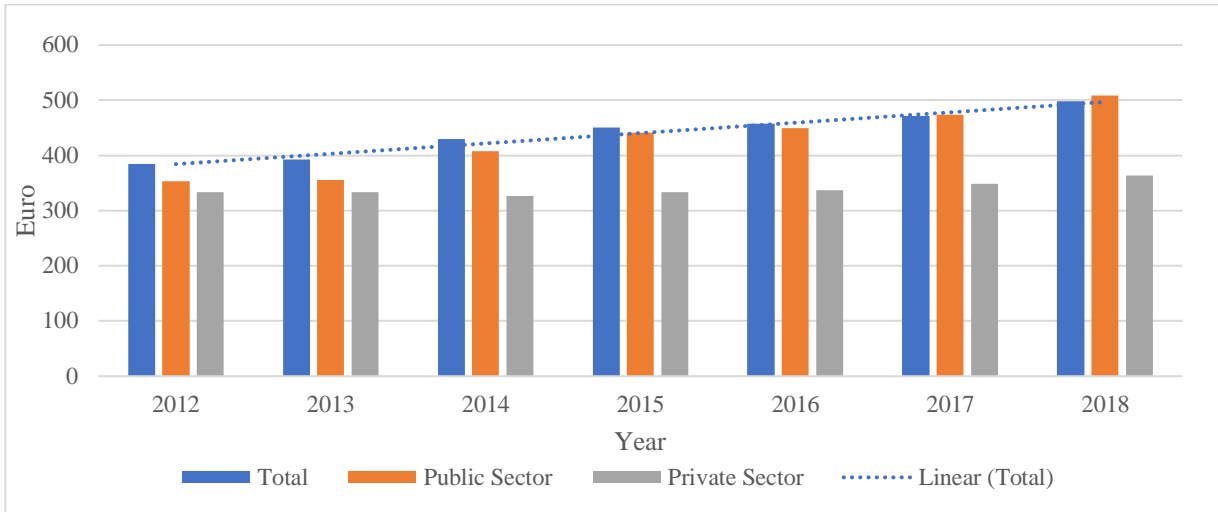
Additionally, the labor market is characterized by a huge inequality between public and private sector employment. Figure 8 illustrates the trends of the net average salary in Kosovo as well as the differences in salaries between the public and private sector, and thus provides evidence for the above-mentioned inequality and a constant increase in the labor cost. This characteristic is assumed to decrease the competitiveness and the productivity of the labor market, thus leading to lower competitiveness of the private sector on the international level (Kosovo Agency of Statistics, 2020).

Figure 7: Kosovo's unemployment rate in the period 2003-2018, excluding 2010, 2011 and 2013 (in percentage)



Source: The World Bank (2020); Regional Cooperation Council (2020).

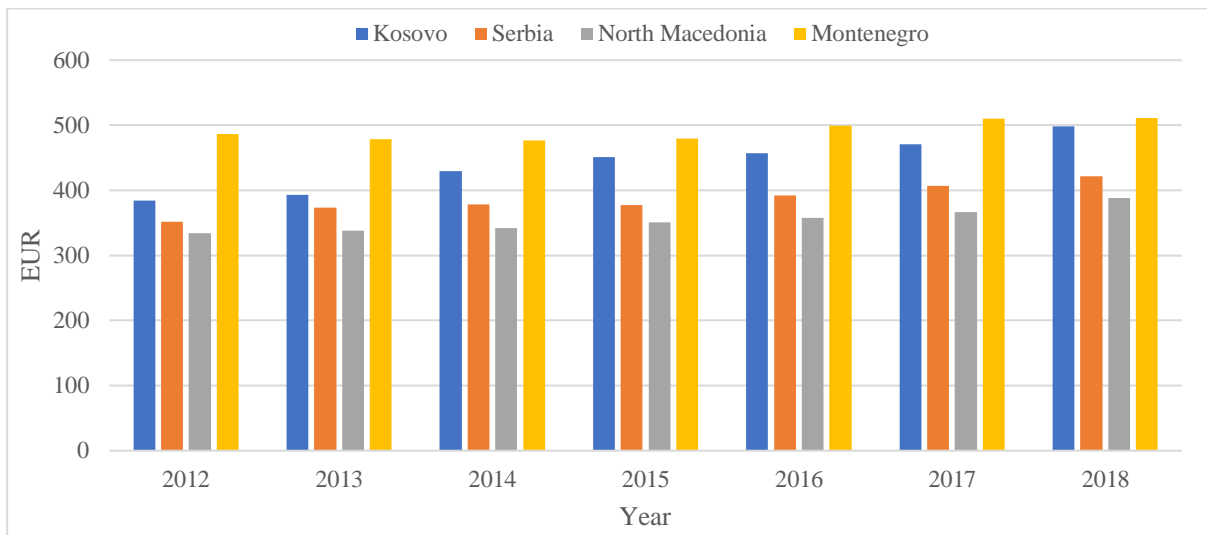
Figure 8: Net average salary in Kosovo for public and private sector in the period 2012-2018 (in EUR)



Source: Kosovo Agency of Statistics (2020).

Furthermore, with regard to the labor market, the salaries of employees in Kosovo are not the most competitive in the region. In some other countries from the Western Balkan region, companies may find cheaper labor than in Kosovo. Figure 9 provides a comparison of the average net salary between the countries from the Western Balkan region in the period 2012-2018. From this comparison one might conclude that Serbia and North Macedonia were on average the most competitive when it comes to labor prices during this period (Kosovo Agency of Statistics, 2020; SORS, 2019; MONSTAT, 2019; MAKStat, 2019).

Figure 9: Comparison of average Net salary between the countries from the Western Balkan region in the period 2012-2018 (in EUR)



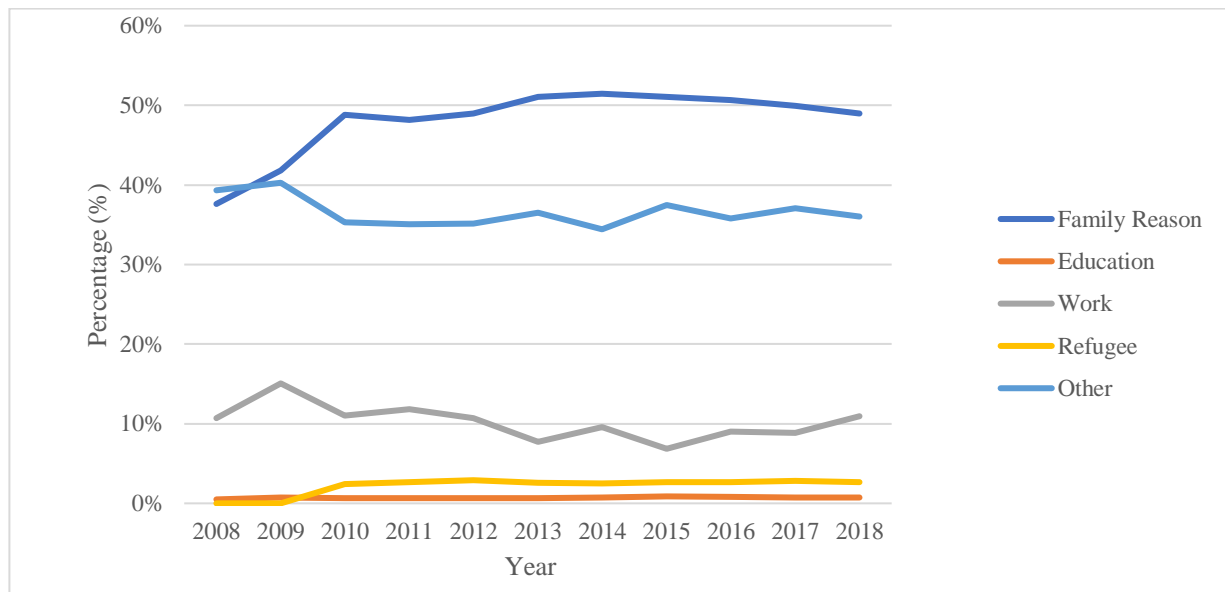
Source: Kosovo Agency of Statistics (2020); MAKStat (2019); MONSTAT, (2019); SORS (2019).

The problems with the labor market go beyond unemployment rates, inequalities, or labor cost. Despite the high increase in population due to a high fertility rate, migration poses a real threat for the economy because massive numbers of people are leaving the country (The World Bank, 2019). The reasons for this are various but are mainly related to family reasons, education, work and refugees. Figure 10 provides an obvious explanation behind the reasons of migration of Kosovars to the European Union. As expected, family reasons dominate the migration, but work-related migration poses a direct threat to the economy because it provides evidence for the ‘brain drain’ phenomenon (Eurostat, 2020).

Yet, according to World Bank (2010), migration may not represent a huge threat of brain drain since the majority of individuals who migrated were not well-qualified. The family reasons are defined as the reunification of families, and this phenomenon is explained by the fact that migration during the 90s of the 20th century was male dominant, while in the recent periods the share of women and children migrating has increased significantly. Additionally, by 2010, over 97% of Kosovo migrants had family reunification and over 80% of them were married (Gashi & Haxhikadrija, 2012).

However, according to the UNDP (2014) report on Kosovo Human Development, migration in Kosovo has been driven primary by family reunification, followed by economic and study reasons. Additionally, during the war period, Kosovo migration was mainly motivated by the war itself (UNDP, 2014).

Figure 10: Reasons for Kosovo migration to EU-28 in the period 2008-2018 (in percentage)

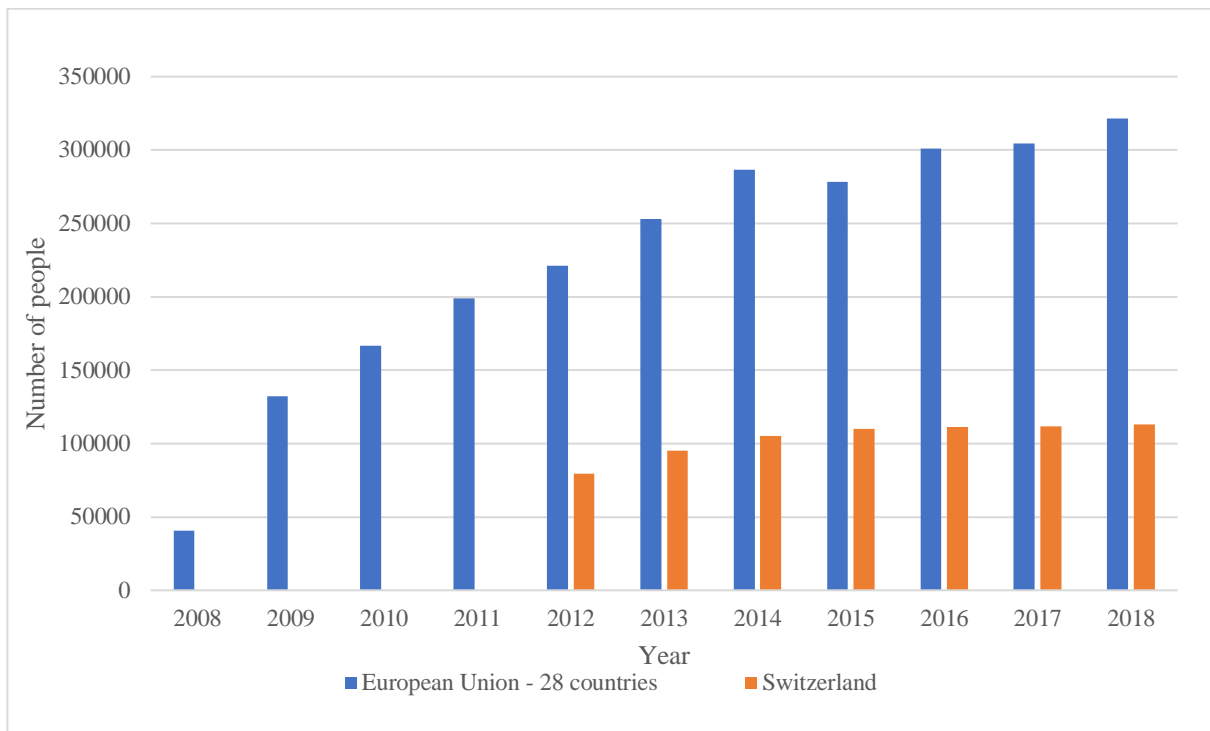


*Eurostat does not provide any additional information regarding the category other.

Source: Eurostat (2020).

Figure 11 displays the number of people from Kosovo with an active foreign residence permit in the European Union and Switzerland for the period 2008-2018. One might realize that over the last 10 years, this number has increased by approximately 200,000 people (Eurostat, 2020). Yet, the number of immigrants in Kosovo is very low on an annual basis (Kosovo Agency of Statistics, 2020).

Figure 11: Kosovo's number of migrants in the period 2008-2018



Source: Eurostat (2020).

*In this figure is important to mention that the data for Switzerland could not be obtained for the period 2008-2011.

The government's strategy with respect to migration has been so far focused on technical guidelines in managing migration; essentially, the mission of their migration strategy has been to prevent illegal migration, management of migration, promotion of legal migration and transformation of migration into a positive economic factor. The fundamentals of this strategy hold also in the current national strategy of migration (Government of Kosovo, 2013).

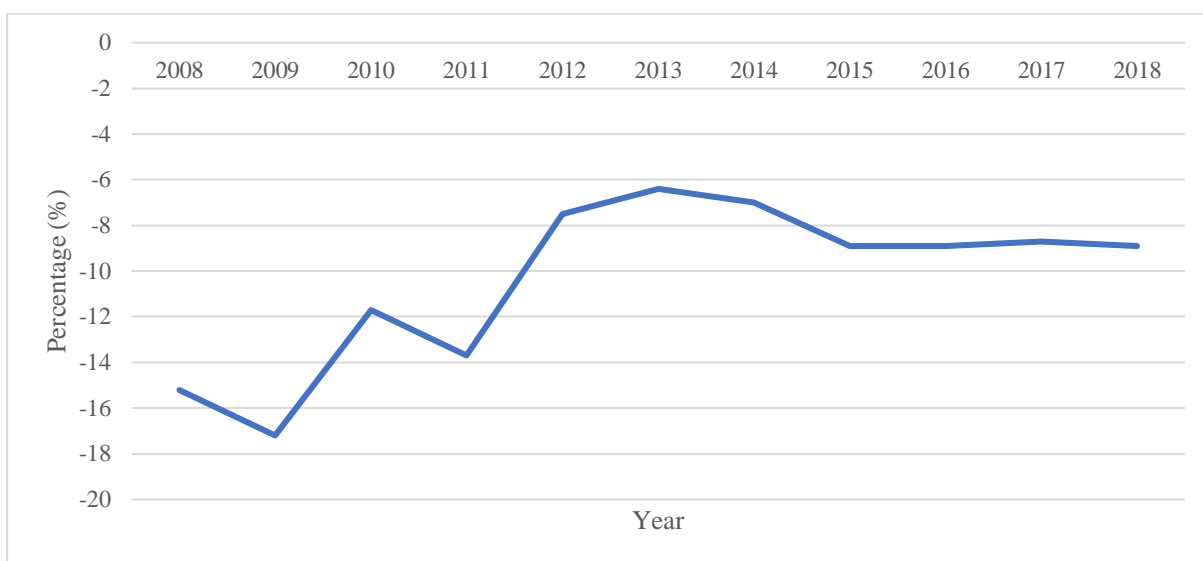
2.3 Kosovo's characteristics of trade

Kosovo is characterized as being an import-led country rather than export one. It mainly imports and exports industrial supplies, food and beverages, and capital goods. Additionally, it imports fuels and consumer goods way more than it exports it (See Appendix 3) (Kosovo Agency of Statistics, 2020).

These imports are mainly financed through remittances and partially through exports. The remittances still play a massive role in financing trade and generally supporting overall economic development (IMF, 2018).

Since Kosovo is an import country, its current account has always been in a deficit. According to the IMF reports, Kosovo has managed to reduce the current account deficit, but it is still expected to persist in the future. This is mainly due to lack of competitiveness, narrow export base and accompanying dependence on imports. Figure 12 provides the current account balance as a percentage of GDP from 2008 until 2018 (IMF, 2018).

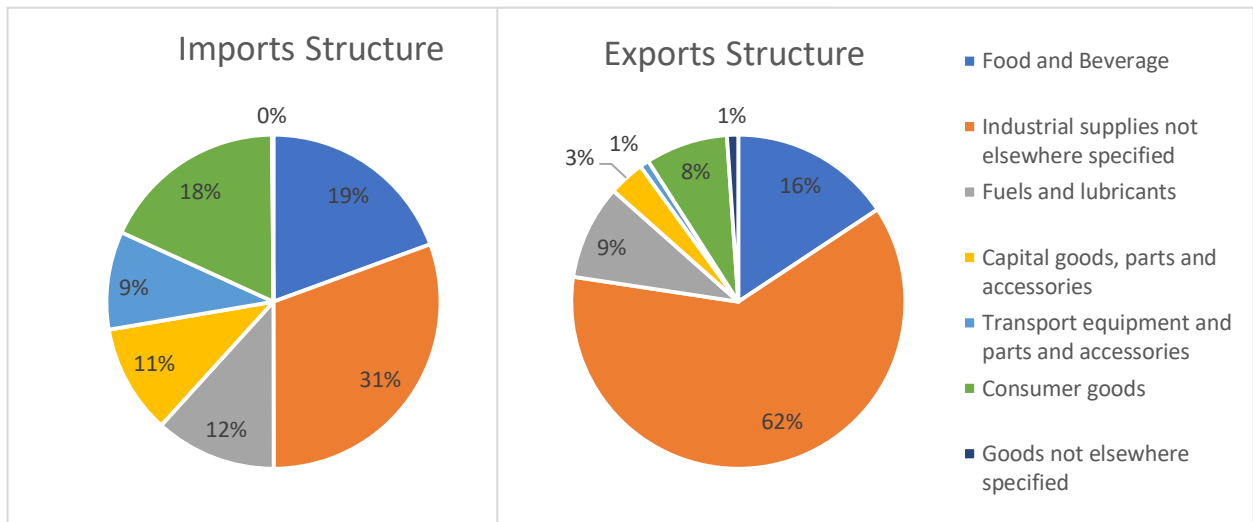
Figure 12: Kosovo's current account balance in the period 2008-2018 (as a percentage of GDP)



Source: IMF (2018).

Figure 13 provides information regarding the structure of trade by industry according to the BEC (Broad Economic Categories) classification during 2017. According to Kosovo's agency of statistics, the structure of imported goods has not changed significantly, but a significant change has happened on the export side. In Appendix 3, one can observe the increase in fuels and transport equipment imports compared to capital goods. Additionally, Kosovo increased more significantly the exports on food and beverages, while a decrease in the proportion of total exports has been observed for industrial supplies (Kosovo Agency of Statistics, 2020).

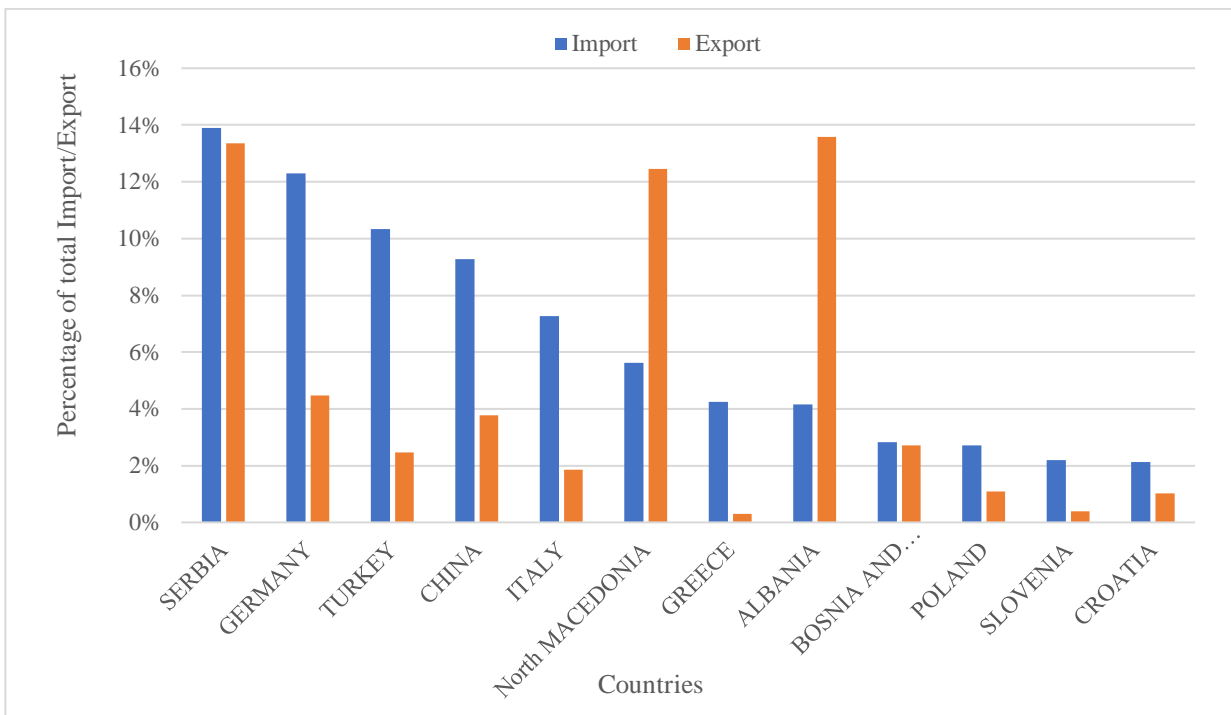
Figure 13: The structure of trade by industry in 2017 (in percentage)



Source: Kosovo Agency of Statistics (2020).

Kosovo has an imbalance in trade with other countries. In the following picture, one can observe the differences in trade as a percentage of total imports and exports respectively in 2016. Except Serbia, massive asymmetric proportions are visible with all the countries.

Figure 14: Percentage of imports and exports of Kosovo with other countries in 2016 (as a percentage of total imports and exports respectively)



Source: Kosovo Agency of Statistics (2020).

2.4 Exports and Foreign Direct Investments in Kosovo

The low-level of exports has been one of the top issues mentioned by many scientific papers with regard to economic development for the Republic of Kosovo. The level of exports has faced continuous slow growth, with minor exceptions for certain years. The regional trading agreements had a significant positive and sometimes negative impact for Kosovo’s exports (IMF, 2018; GAP, 2011).

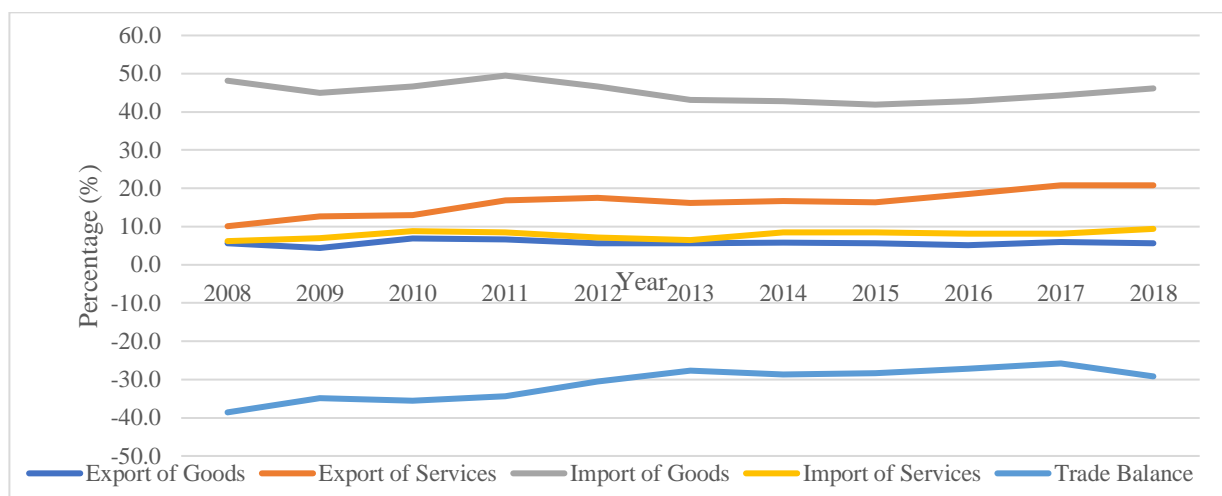
The following figure lays out the trend of exports and trade balance for Kosovo and provides evidence for the effect of the CEFTA agreement; essentially, Kosovo, by becoming part of CEFTA in 2007, increased its exports and imports immediately in 2008. The reasoning is that this agreement ensured access to foreign markets (covering approx. 20 million people) in addition to the domestic market (approx. 2 million people) (GAP, 2011).

However, this “successful marriage” faced a challenge when Serbia and Bosnia-Herzegovina imposed trade restrictions for Kosovo due to political reasons. This strongly impacted Kosovo because its exports declined while imports stayed approximately on the same level (GAP, 2011).

Overall, CEFTA has had a positive impact on exports (especially after the trade issues were solved), but it also harmed Kosovo in terms of gaining a huge amount of imports. Yet, the negative overall trade balance in 2013 comes as a result of a lower positive balance in services compared to a year before (IMF, 2018).

Furthermore, CEFTA has had a massive positive impact on Services, thus it also proves that Kosovo has service companies with sufficient capacity and an adequate labor force to compete in service foreign markets (See Figure 15).

Figure 15: Trade Balance, Services, Export and Import in Kosovo in the period 2007-2018 (as a percentage of GDP)



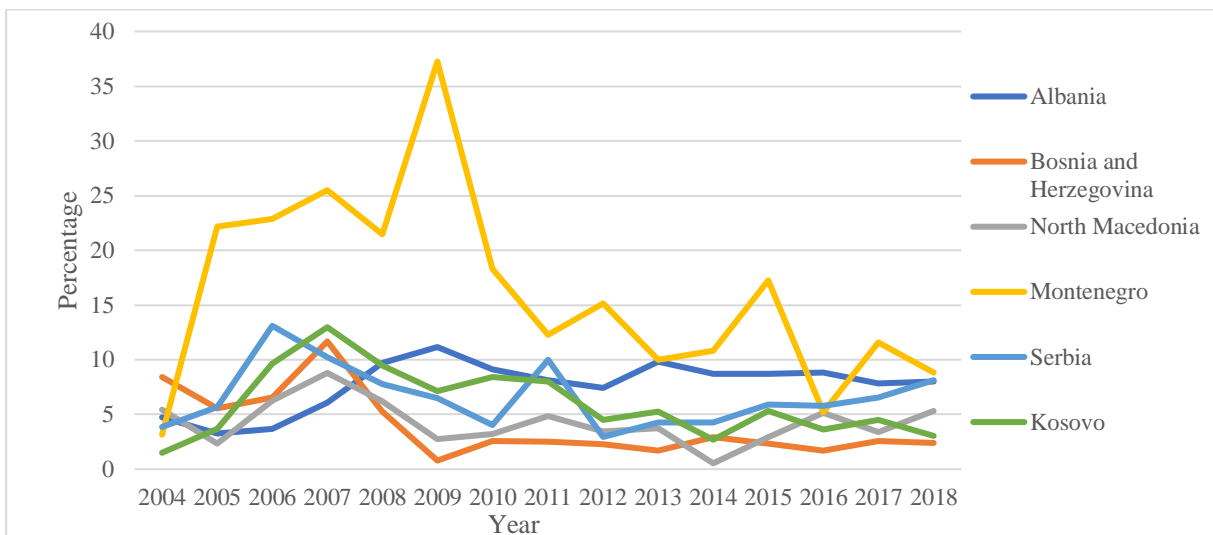
Source: IMF (2018); Kosovo Agency of Statistics (2020).

The effect of CEFTA is very similar also for Foreign Direct Investments because the data provides a similar trend to exports, especially from 2007 to 2010. This period is characterized by the trade conflict between Kosovo and Serbia, where the FDIs in this period started to decline significantly. Surely, foreign direct investors under such uncertainties felt much safer to invest in other neighbor countries (members of CEFTA) with similar trade competitiveness such as Albania and Montenegro (GAP, 2011). In Figure 16, one can observe the net FDI inflows for the Western Balkan region and clearly see the impact of the trade conflict for Kosovo, Serbia and Bosnia-Herzegovina during the above-mentioned period.

One assumption might be that the impact of the trade conflict and global financial crisis was of a long-term nature because the decrease in FDIs has been a trend for the rest of the observed years (European Commission, 2019).

However, the reasons for declining FDIs are also related to the privatization process; essentially, Kosovo’s first round of privatization started in 2003 and until today approximately 327 million EUR (11.5% of GDP) has been transferred to the Kosovo budget by the sale of 1,809 assets, where 269 million EUR is allocated as available funds. The process of privatization was held on different waves and according to PAK (2020), the last sales decision was made on wave 59 which was held in 2013. When observing the FDI inflows for the year 2014, it shows a significant decline immediately after the last wave. Further research is required in order to be able to give a conclusion to this phenomenon.

Figure 16: Net FDI inflow in the Western Balkan region in the period 2004-2018 (as a percentage of GDP)



Source: The World Bank (2019).

Furthermore, the FDIs are mainly focused on the real-estate industry, financial sector, construction, manufacturing and electricity (Collaku, 2018).

2.5 Current Development Strategy of Kosovo, and the promotion of FDI and Exports

Kosovo's latest national development strategy covers a strategic plan for the period 2016-2021. This strategy consists of 4 strategic objectives:

- Improvement of Human Capital,
- Governance and Rule of Law,
- Increased market competition, and
- Infrastructure.

Kosovo aims to further develop its human capital by improving the quality of education, providing additional linkages between education and the labor market, protecting the labor force from inadequate working conditions, and eradicating informal employment.

When it comes to governance, the objective is to minimize bureaucracy and maximize the efficiency of institutions, with a focus on the property rights institutions. By making the judicial system more efficient and effective, Kosovo intends to improve the Rule of Law.

Furthermore, to increase market competition, Kosovo's strategy is to provide access to finance SMEs, promote Foreign Direct Investments, utilize the potential of a diaspora, utilize natural resources, provide additional funds for development and restructure the state-owned corporations.

With respect to infrastructure, Kosovo's objectives are to further develop the road and railway infrastructure, establish a competitive energy market, build other forms of sustainable energy and use natural resources rationally (Government of Kosovo, 2016).

However, this strategy needs the support of local-level governments (municipalities) in order to be successfully implemented. Therefore, the coordination between the federal and local government is a must to achieve the desired outcomes. For this purpose, Kosovo has implemented also a strategy for local economic development which consists of four main pillars, including: Financial sustainability of municipalities, FDI promotion, investment in Human Capital, and utilization of natural resources and improving infrastructure (Ministry of local government administration, 2018).

In the earlier strategies (mainly 1999-2008), privatization was seen as a very important tool for economic development; but, according to UNMIK Pillar IV, the process of privatization of socially owned enterprises (SOEs) cannot be described as a successful one. The reasoning is that this process did not contribute to social-economic development because the enterprises were privatized at a time of low value, contributed to an increase in unemployment, and did not contribute to employment of the post-privatization era. Various other studies concluded that the privatization process did not provide the expected benefits and that it failed in reducing the unemployment. According to those studies, the failure happened due to possible corruption, low

prices and late allocation of funds to ex private shareholders. However, the counter arguments are that privatization of SOEs was a necessity to establish a market economy and to save the values of the SOEs from deterioration (Knudsen, 2010).

On the federal level, Kosovo's plan to promote Foreign Direct Investments relies heavily on the Agency for Investment and Enterprise Support (KIESA). The plan is to increase capacities and restructure KIESA to promote domestic investment opportunities to potential foreign investors by proactively providing them with packaged services and incentives.

Additionally, Kosovo's plan includes the promotion of the diaspora's investments in various sectors, mainly in agriculture and IT services. The plan is to provide matching grant schemes, where the diaspora investors would receive a portion of their investments directly from the state.

Overall, the strategy is to support strategic investments through various direct incentives and direct negotiation based on the Law on Strategic Investments.

The expectations from such a strategy are that the increase in foreign direct investments would provide enough funding to develop the economy and enable technological development through the transfer of technologies. Furthermore, the expectations are that the diaspora investments will be the driving force behind export-led growth, an improved labor market, and the development of a wide-spread business network.

In the past, privatization had an immense impact on attracting foreign direct investments. During 2007, the foreign direct investments reached a peak of 440 million EUR, while privatization is considered as one of the main factors to this achievement (Dervisholli, 2011).

Exports have additional treatment in the development strategy because of its vital importance for the economic growth of Kosovo. Under the fund for development and employment, exports promotion is targeted specifically by providing special support to sectors with high export potential; essentially, the government will support all those high export potential sectors identified by the development of Kosovo's industrial policy. This special support will be exercised through:

- Credit Guarantees
- Wage Subsidies
- Research and Development subsidies
- Through the mechanism for the improvement of competition (Government of Kosovo, 2016).

3. EMPIRICAL ANALYSIS OF THE EXPORT ORIENTATION AND DETERMINANTS OF EXPORT-ORIENTATION IN KOSOVO

This chapter will be divided into three sub chapters that will cover the research goals, data and methodology, the results of the survey, and hypothesis testing.

3.1 Research Goals

The research goals of this thesis are related to the determinants that impact the export orientation of firms in Kosovo. Initially, the research will be focused on characteristics of firms such as size, ownership, partnerships, capacity, productivity, culture and other characteristics that directly or indirectly impact the orientation of companies towards exporting.

Essentially, the aim of this section is to determine whether the company's size, partnerships and competitive advantage impacts its ability to export; in addition, it explores how and to what extent it impacts.

Furthermore, the role of education and training in terms of managers or employees will be thoroughly researched because the aim is to determine whether successful export-oriented companies consist of highly educated managers and employees; essentially, the objective is to prove that a higher level of education leads to the successful penetration of foreign markets.

There are three research questions with regard to firm characteristics:

Research Question 1: *How does the size of the company impact its propensity to export?*

Research Question 2: *How does education and training affect a company's ability to successfully penetrate foreign markets?*

Research Question 3: *How does the industry type impact the trading potential of a company?*

Additionally, the research will be focused on the factors of the business environment by examining the role of institutions, infrastructure, finances, competition, trade integration and cultural proximity in a company's export-orientation.

The aim is to prove that high institutional and infrastructure quality positively influences a company's orientation towards exporting and that high domestic competition followed by trade integration will have a positive impact too.

Moreover, a special emphasis will be given to cultural proximity because the aim of this thesis is to determine whether the export-orientation of companies towards culturally similar countries is stronger than to those that are less similar. The cultural proximity will be measured by the geographical distance of the countries to which Kosovo companies export.

Therefore, the final three research questions are as follows:

Research Question 4: *How does the institution and infrastructure quality impact the propensity to export?*

Research Question 5: *Does high domestic competition force companies to be present in foreign markets?*

Research Question 6: *Do companies in Kosovo export more to its neighbor countries than to other countries?*

3.2 Data, Methodology, and Sample description

The survey consisted of 24 questions which are presented in Appendix 2, and covered topics such as:

- Demographic characteristics of firms (size, location, management, employees, financial performance, productivity, targeted customers, education and training, and ownership).
- Subjective opinions about exports in Kosovo.
- Target markets (the countries in which the companies operate or are present).
- Competitive advantage (the factors that ensure a company's success in a particular market).
- The effects of external organizations' support.
- Motives for trade (reasons for being present or not in the foreign markets).
- Channels for trade (networks used to expand in the foreign market).

The method of data collection was based on a survey that was set up on 1ka.si and distributed electronically and systematically to 14,860 companies in Kosovo. The contact information about the companies was obtained in the webpage of the Kosovo business registration agency (hereinafter KBRA). The number of companies to which the survey was distributed depended on the companies that provided contact information (emails) to KBRA. The period of distribution started on the 19th of February, 2020 and the final answers were received by the end of the 17th of March, 2020. The survey was accessed 1,557 times, producing 501 valid answers. Out of 501 valid answers, 151 (approx. 10% of the total) were completed and 350 (approx. 30% of the total) were partially completed.

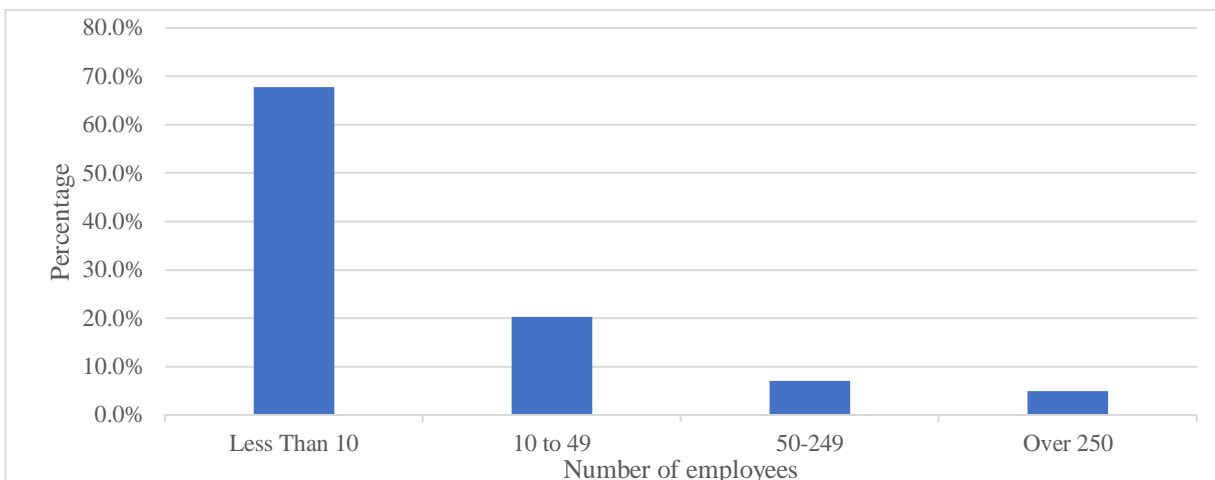
The survey targeted three groups of companies divided into small, medium and large sizes. The small companies (0-9 employees) represented the largest ratio of the population, followed by medium (10-250 employees) and large companies (over 250 employees). The survey was sent to approximately 14,500 small, 240 medium and 120 large companies.

Despite the fact that this sample reflects the population relatively well, its shares based on size differ from the population. The small number of large corporations still presents a problem when it comes to the analysis of the data; in essence, due to technical limitations, it was practically impossible to get more answers from such corporations (despite the three reminders sent to this particular group) given the size of the population and time constraints. However, in this sample

the group of large companies is being over presented by 12%, while the same group represents approximately one percent of the population.

The size of the population is partially reflected by the sample of the respondents, where 97 (67.8%) answers represent the small companies, 29 (20%) medium size and only 17 (12%) came from large corporations (see Figure 17).

Figure 17: The size of the companies in Kosovo based on the number of employees during 2020 (in percentage)

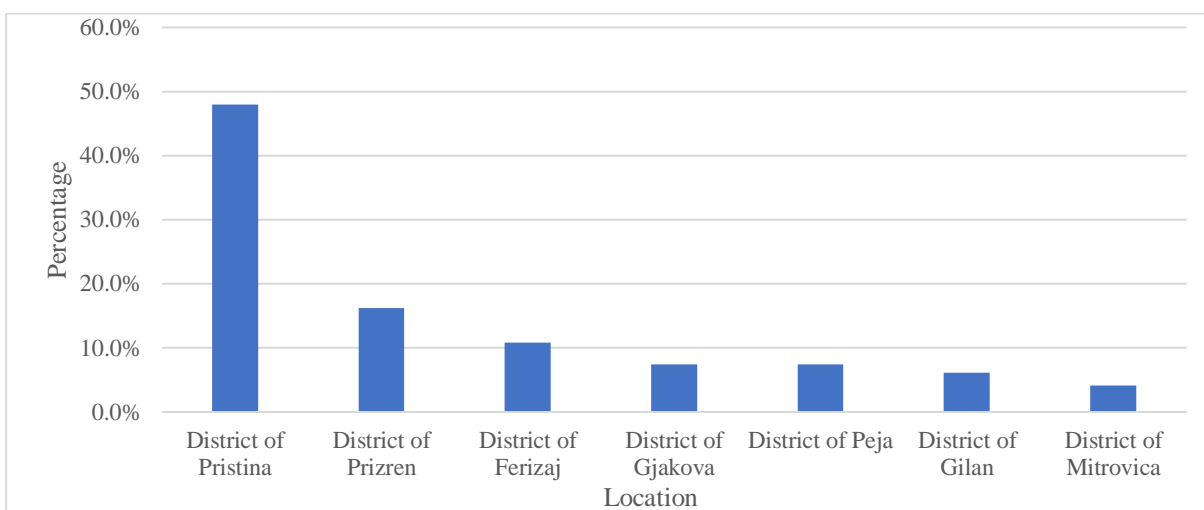


N: 143.

Source: Own work based on the data of online survey.

The companies that participated in the survey were mainly from the District of Pristina (48%), followed by the District of Prizren (16.2%) and Ferizaj (10.8%) (See Figure 18).

Figure 18: The location of companies in Kosovo during 2020 (in percentage)



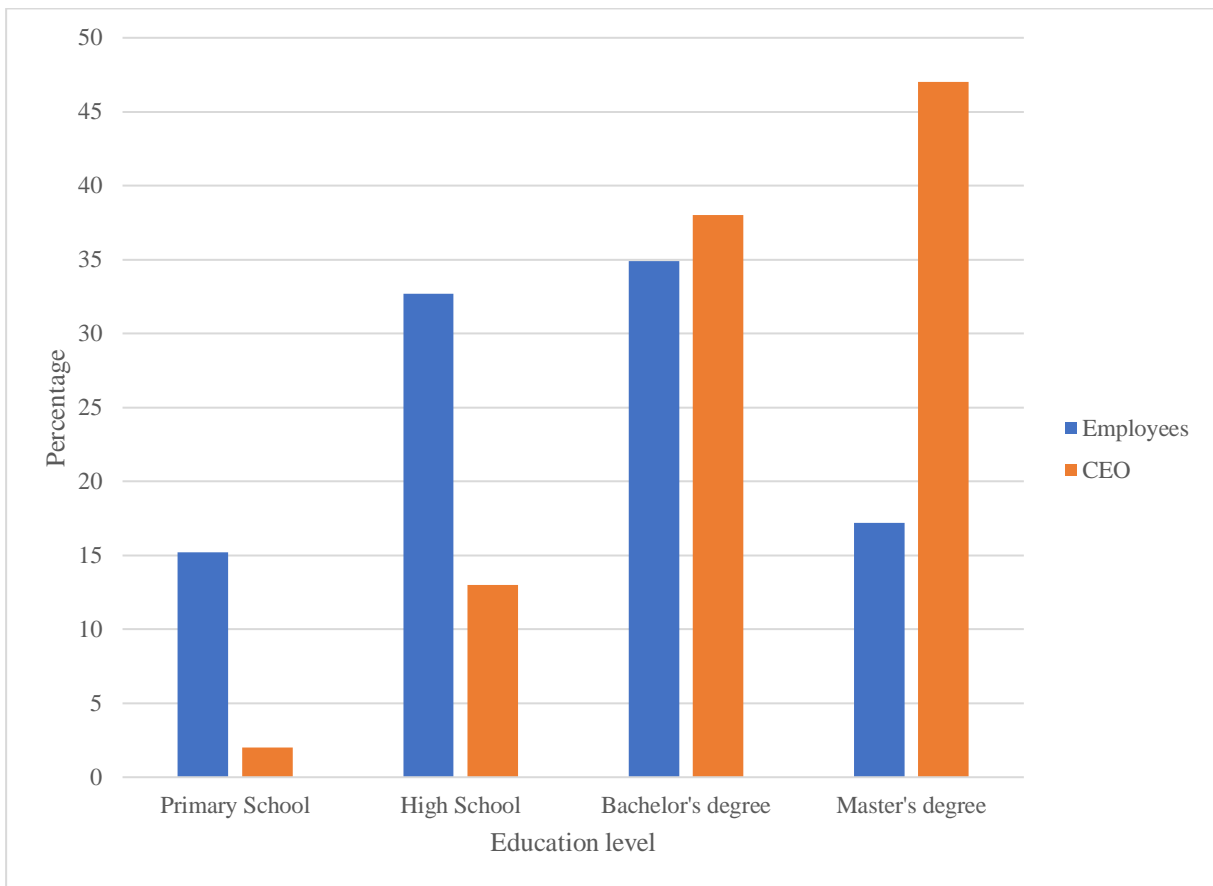
N: 148.

Source: Own work based on the data of online survey.

The companies from this sample are primarily owned by family members (62%), other domestic owners (12%), foreign owners (8%) and the state (2%). Above all, the sample consists of companies (66%) where the main owner has over 75% of the total shares, followed by 25-50% of shares.

In 88% of the companies the CEO is also the owner, while only 12% have CEOs from the outside. The vast majority of CEOs possess a master's and bachelor's degree, while a small minority hold no more than a high school or primary school diploma. However, when it comes to the employees, the bachelor's degree and high school diploma dominate the sample, while master's degree and primary school diploma are held by a minority (See Figure 19).

Figure 19: Education level of CEO and other employees of companies in Kosovo during 2020 (in percentage)



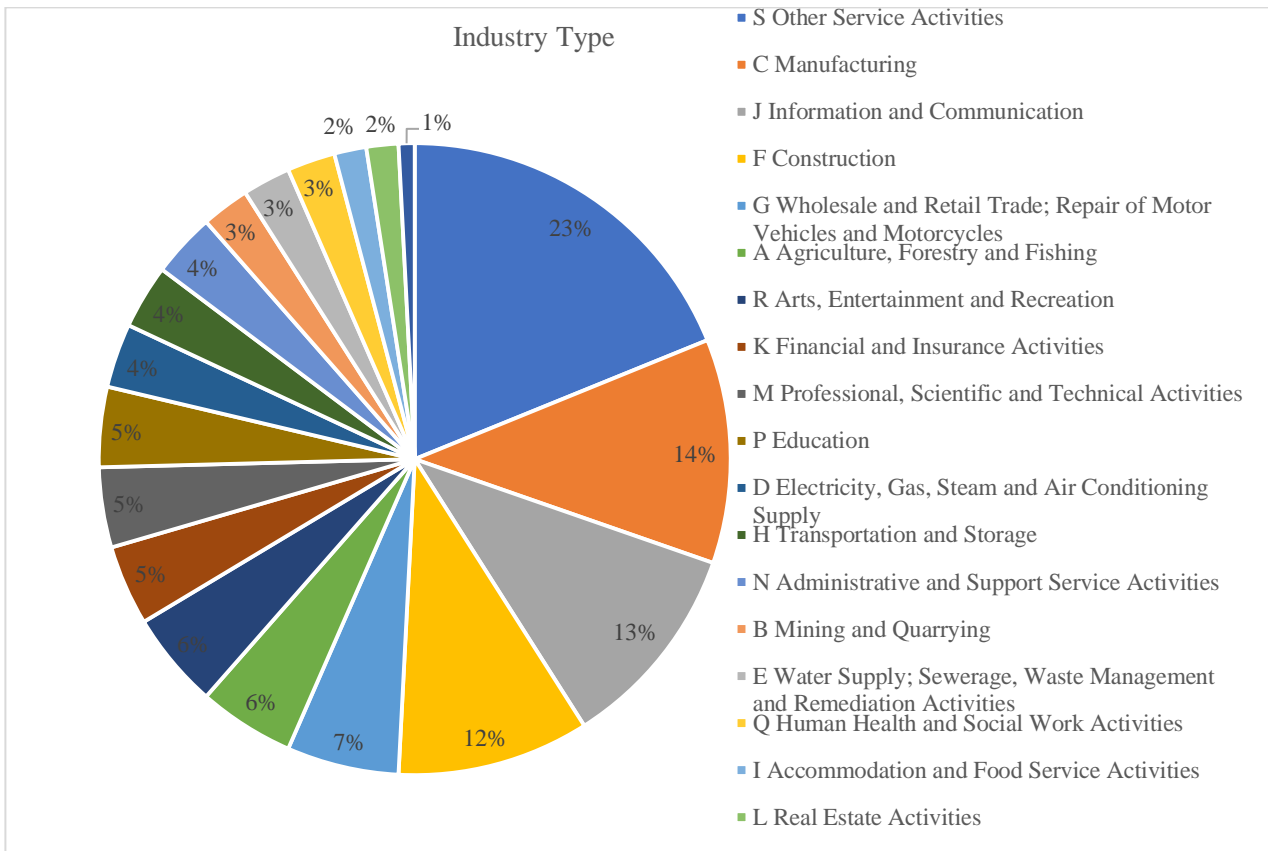
N:148 for CEOs and 93 for other employees.

Source: Own work based on the data of online survey.

Moreover, the companies participating in this survey were from different backgrounds, mainly from other service activities, manufacturing, construction, information and communication, and wholesale and retail industries (See Figure 20). This sample provides a very solid representation of the key industries in Kosovo as represented in Figure 4, with some minor exceptions.

Additionally, only 38% of the sample size are present in foreign markets. As for the targeted customers, over 20% target only end customers (B2C), 30% target only businesses (B2B) and approximately 50% target both (B2C & B2B).

Figure 20: The companies in Kosovo based on their industries during 2020 (in percentage).



N: 498.

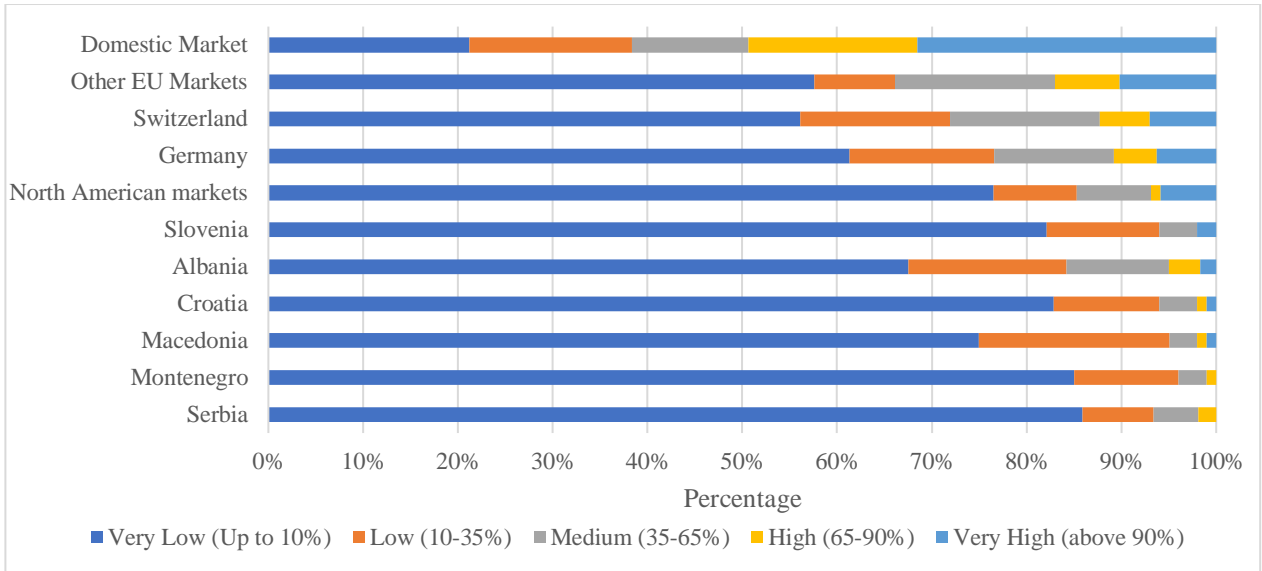
Source: Own work based on the data of online survey.

Speaking about trade, the following figures show the percentage of sales and purchases of Kosovo companies in/from domestic and foreign market/s (See Figure 21 and 22). These tables prove that Kosovo companies are extremely dependent on the domestic market, both in terms of sales and purchases. Given the factor of geographical proximity, surprisingly Germany and Switzerland are more important countries regarding imports than the other neighbor countries such as Albania, Montenegro, Serbia and North Macedonia. In terms of exporting, Swiss, German, Albanian and North American markets seem to be highly important for companies in Kosovo.

An interesting fact is that the information from this table is highly similar to the information provided by the Figure 14 regarding the trade with other countries; essentially, in both cases

Germany, Albania, Serbia and North Macedonia are perceived as highly important trade partners for Kosovo companies.

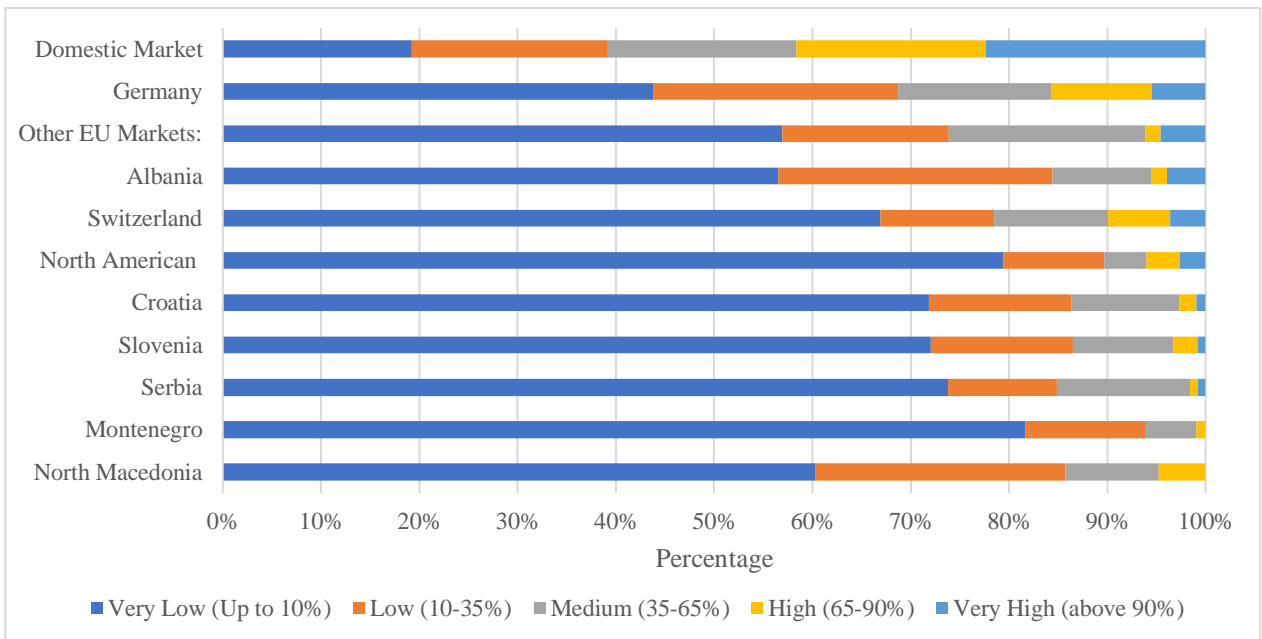
Figure 21: The markets of Kosovo companies based on their importance with regard to export/sales during 2020 (in percentage)



N: 146.

Source: Own work based on the data of online survey.

Figure 22: The markets of Kosovo companies based on their importance with regard to import/purchases during 2020 (in percentage)



N: 161.

Source: Own work based on the data of online survey.

3.3 The attitudes towards exports and trade by companies in Kosovo

This chapter will be divided into two main sub-sections. First, the focus will be on describing the characteristics of companies in Kosovo based on the data provided by the survey. Then, the attitudes of companies towards trade will be presented.

3.3.1 The characteristics of companies in Kosovo

The companies in Kosovo operate mainly in the domestic market, but some of them are present in foreign markets too; however, only very few of them operate only by exporting to foreign markets. These findings are similar to those of another study conducted by Riinvest Institute which shows that exports amount to only 27% of the total sales for large family businesses in Kosovo. Furthermore, this study confirms that over 53% of large companies in Kosovo export (Nixha et al., 2015).

The fact that only few companies in Kosovo export to foreign markets is highly visible also in the data for exports as a percentage of GDP that is presented in Figure 15, because it indicates the low export performance of Kosovo in general. The data provided in Figure 15 also correlates extremely with the sample because it shows that export of services is much higher than of goods as a percentage of GDP; essentially, the sample represents companies from service activities as the largest group which is present in foreign markets.

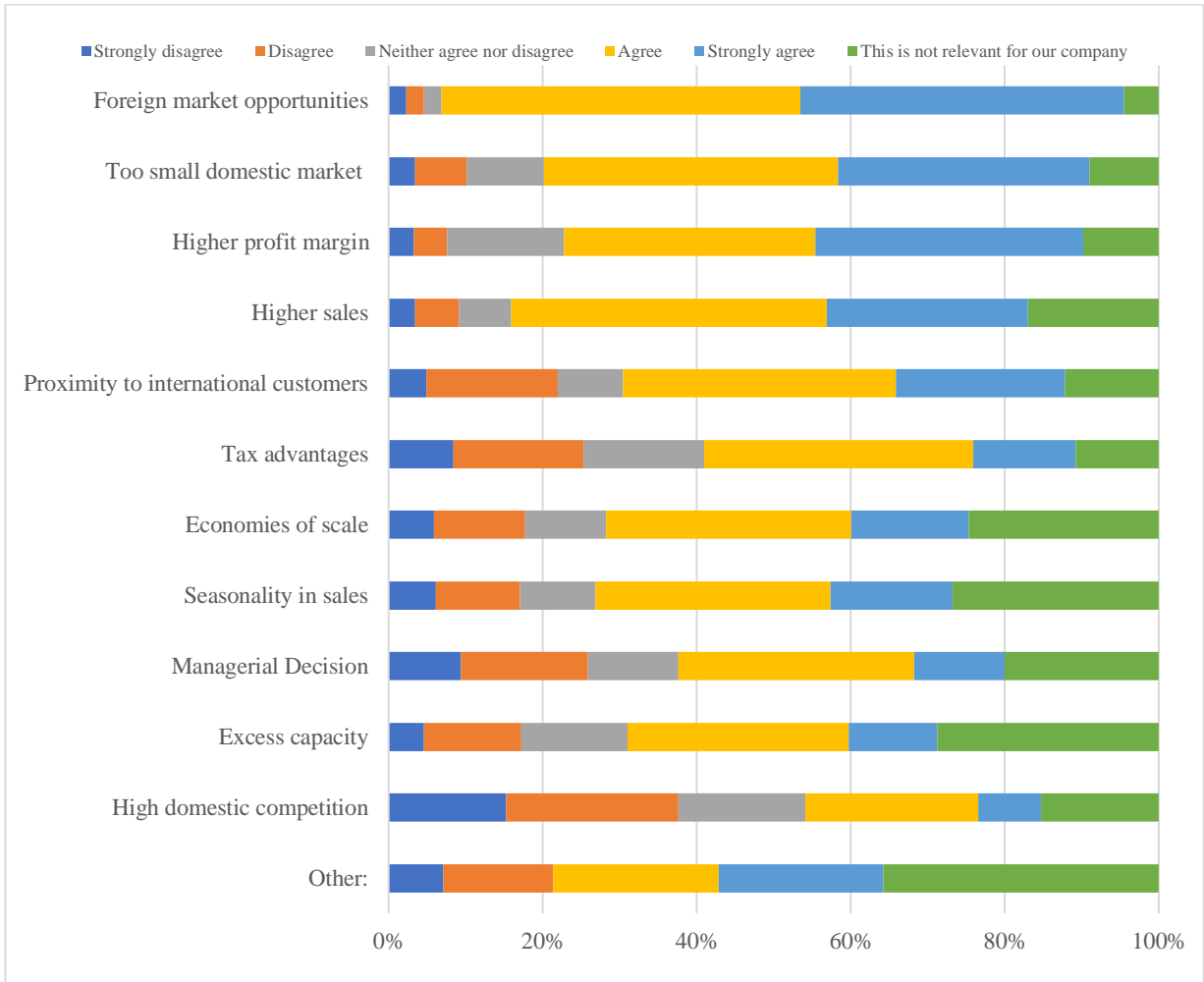
Additionally, the non-presence of companies in foreign markets in terms of exporting is proven by the fact that imports as a percentage of GDP are significantly higher than exports; so, the trade deficit presented in Figure 15 is another explanatory variable that highly matches the sample of the survey on this matter.

However, focusing primarily on those companies that are present in foreign markets, one can clearly understand that there are some specific factors that helped them to successfully penetrate the foreign markets.

Among other factors, the foreign market opportunities are the main driving force behind a company's presence in foreign markets. This factor is closely followed by a small domestic market, and a higher profit margin and sales that a company may achieve abroad.

The proximity to international customers, tax advantages, seasonality in sales, excess capacity and economies of scale seem to be less important than those previous factors; yet, their importance should not be understated (See Figure 23).

Figure 23: The reasons behind the presence of Kosovo companies in foreign markets (in percentage) (Multiple answers)



N:92.

Source: Own work based on the data of online survey.

*The respondents were allowed to select multiple answers.

Interestingly, the companies that perceive the domestic market as too small come mainly from Information & Communication (28.6%), other service activities (28.6%), manufacturing (22.2%), and the construction industry (14.2%). In terms of size, those companies are small (55.6%), medium (31.1%) and large (13.3%) (with N=45). This holds similarly also for those companies that entered foreign markets because of its opportunities, but here 51% are small, 28.1% medium, and 21.1% are large companies (with N=57).

Additionally, it is important to see whether differences between the companies that perceive the domestic market as too small exist. Therefore, Table 1 provides information about the percentage of companies that believe that Kosovo's market is too small based on their size and industry (See Table 1).

Table 1: The percentage of companies that perceive Kosovo's market as too small based on their size and industry

Industry/Size	Small	Medium	Large
Information & Communication/Accommodation & Food	28%	21%	33%
Other service activities/ Wholesale & Retail	32%	14%	33%
Manufacturing	12%	35%	50%
Construction	12%	21%	17%
	N=25	N=14	N=6

Source: Own work based on the data of online survey.

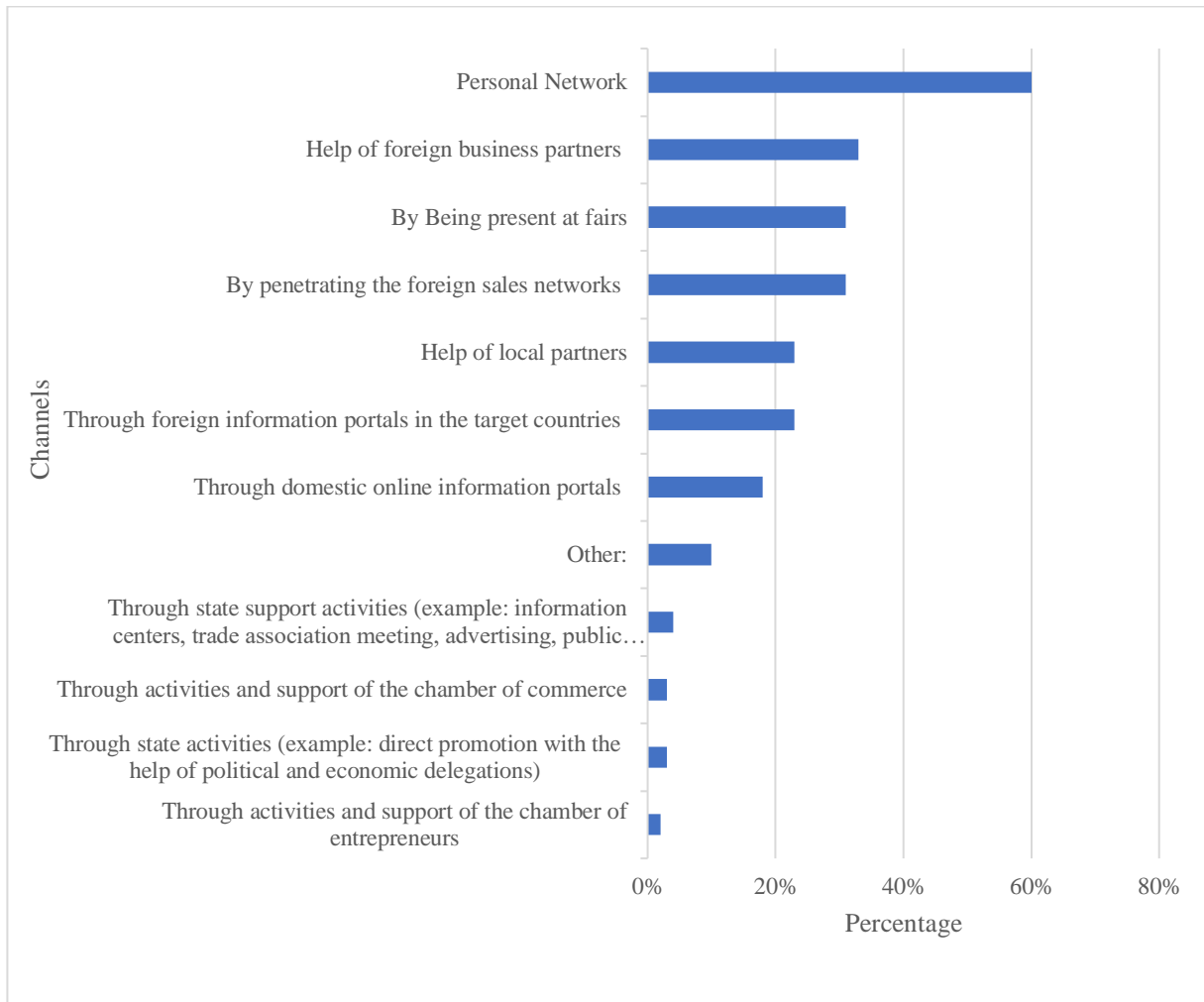
The foreign market opportunities are the most important factors among those that impact the decision for being present in foreign markets. Also, the type of companies viewing the foreign market opportunities as extremely important come from highly similar industries as those presented in Table 1.

Furthermore, the higher profit margin achieved through the penetration of foreign markets is perceived to be extremely important by the companies. As for the previous two cases, companies from similar industries represent this factor too.

On the contrary to the previous three cases, manufacturing companies see their presence in foreign markets as massively important when it comes to increasing their **sales**; essentially, manufacturing companies strongly agree that foreign market ensures higher sales for them.

Regarding companies present in foreign markets, it is worth mentioning that 60% of them used personal network/relationships and 33% used the help of foreign partners to enter the foreign market, while only 31% entered the foreign markets by being present at fairs and entering foreign business networks (See Figure 24). The companies that used personal networks are mainly small-sized (55%), medium-sized (27.5%) and large-sized (17.5%). The share of large-sized companies increases to 29.2% when it comes to the use of foreign partners for such business actions. This is similar for those firms which used fairs as a channel to penetrate foreign markets (See Figure 24).

Figure 24: Channels used to penetrate foreign markets by the companies in Kosovo (in percentage) (Multiple answers)



N: 93.

Source: Own work based on the data of online survey.

*The respondents were allowed to select multiple answers.

Nonetheless, not all companies in Kosovo are present in the foreign market despite the high level of top management's education. The small-sized companies (83.3%) are the major group that is not present in the foreign market, followed by medium-sized companies (12.5%) and only 4.2% of large corporations; in essence, this may indicate that the size of the company matters when it comes to the ability to penetrate foreign markets because those that are present in the foreign markets consist of 20% large corporations.

Additionally, 67.8% of companies not present in foreign markets are under family ownership, followed by outside shareholders (22.8%), state (3%) and foreign shareholders (4.5%); so, this may be another indicator that ownership type influences the company's orientation towards

foreign markets, because 36.5% and 11% of those that are present in foreign markets consist of outside and foreign owners respectively.

As for the targeted customers, the domestically oriented companies target the end-customers at a higher rate than the internationally oriented companies; so, internationally oriented companies are much more focused on doing business with other companies rather than end-customers.

However, one of the main reasons behind the non-presence in any foreign market is insufficient financial resources, regardless of the type of company. Approximately half of the respondents agreed that they do not have adequate internal financial resources; additionally, it is important to mention that approximately half of those did not seek external financial resources, while those who sought external financial resources failed to obtain any. On this matter, the company size mattered because the small companies complained the most about insufficient financial resources, followed by medium and large-sized companies (See Figure 25).

Furthermore, according to this research, the majority of the companies in Kosovo that are not present in foreign markets believe that the government is not providing them with adequate support. In this case, all of the medium and large companies concluded that the government is not providing them adequate support, while only 69% of the small companies agreed with this statement (See Figure 25).

Meanwhile, non-exporting companies regarded fierce foreign competition, high entry costs, insufficient knowledge of foreign markets and bureaucratic barriers as highly impactful in preventing them from penetrating any foreign market.

This group of companies also believes that the domestic institutional quality and political stability is not in better standing than in foreign countries, and that their products would sell in the foreign markets if the above-mentioned barriers are removed. In substance, they strongly believe that there is demand for their products and that they can easily customize their products to meet the standards of the foreign markets (See Figure 25).

When it comes to culture, the research shows that respondents' opinion is that there is solid cultural proximity with foreign customers. In all these statements, there were sufficient differences based on the size of the companies (See Figure 26).

Figure 25: The reasons behind the non-presence in foreign markets of companies in Kosovo (in percentage) (Multiple answers)

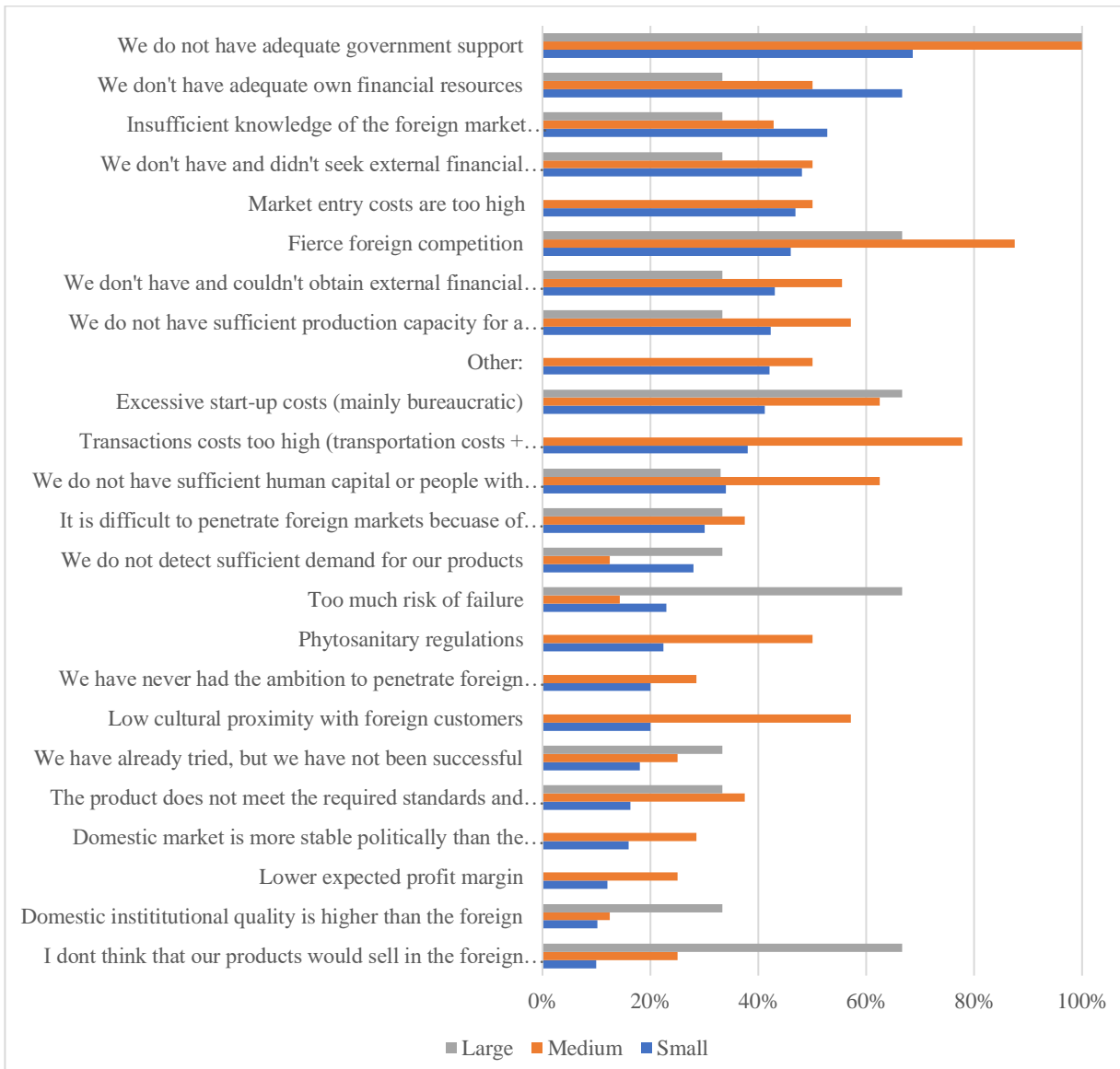


N: 133.

Source: Own work based on the data of online survey.

The respondents were allowed to select multiple answers.

Figure 26: A size comparison between the reasons that prevented non-exporters to be present in foreign markets (in percentage) (Multiple answers)



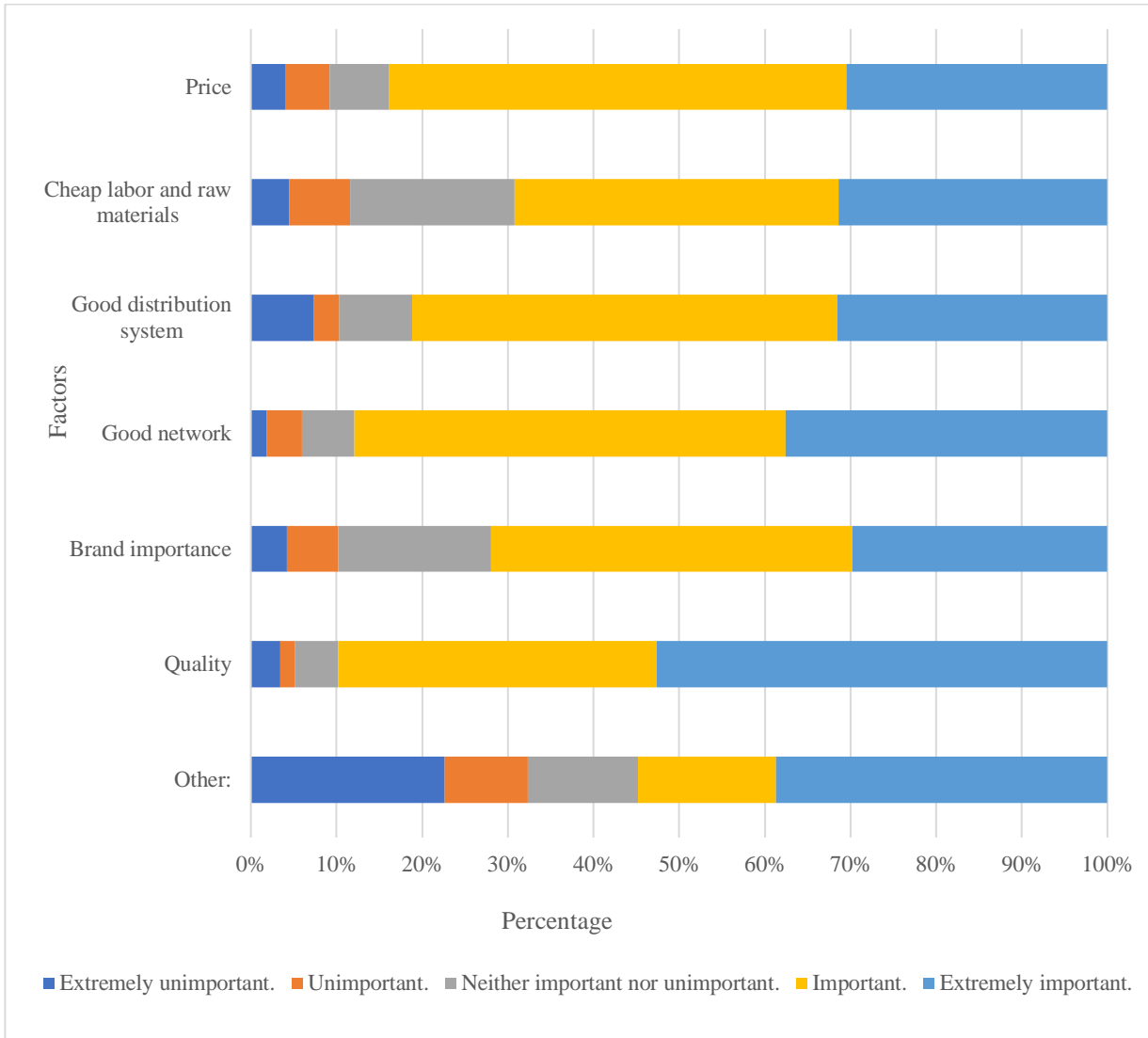
N: 133.

Source: Own work based on the data of online survey.

*The respondents were allowed to select multiple answers.

Not being able to penetrate the foreign markets and being overly dependent on the domestic market (See Figure 21 and 22) makes the survival of the companies too challenging because of the high domestic competition. As a result, companies must have a strong competitive advantage in order to successfully compete within the domestic market and to have a higher likelihood of success abroad. Therefore, this research provides clear information about the factors that lead to a competitive advantage for the companies in Kosovo within the markets that they operate (See Figure 27).

Figure 27: The most important factors for the competitive advantage of exporters and non-exporters in Kosovo (in percentage)



N: 175.

Source: Own work based on the data of online survey.

From Figure 27, one can easily understand that quality is of the utmost importance in terms of being competitive, followed by a good network and price. Surprisingly, cheap labor and raw materials as well as brand seem to be less important for companies in Kosovo in order to be competitive. However, large companies regard the labor and raw material price as more important than the other groups of companies.

It is important to mention that a competitive advantage alone cannot ensure the survival or the success of a company, but once it is properly utilized by the decision makers of the company, the success is guaranteed.

Additionally, it is highly essential to understand which factor is most important for companies from different industries, because only then can a focused strategy be drawn to improve the companies in Kosovo (See Table 2).

Table 2: The companies in Kosovo that selected specific factors as important for their competitive advantage based on their industry (in percentage)

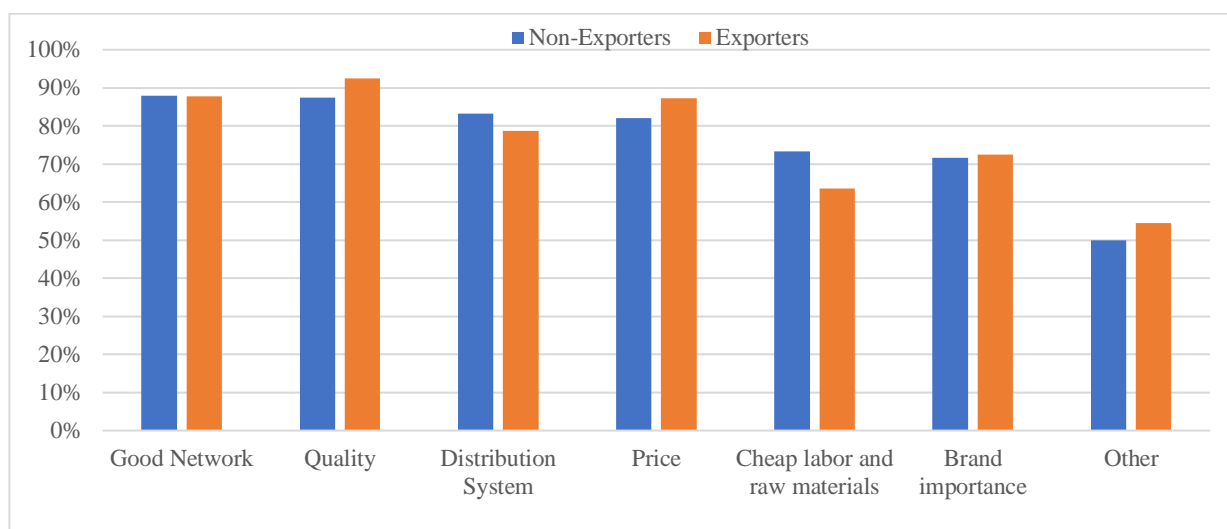
Industry/Factor	Price	Quality	Brand	Network	Distribution	Cheap Labor and Raw Materials
Manufacturing	21%	22%	23%	21%	24%	27%
Construction	13%	12%	14%	15%	14%	18%
Wholesale	11%	12%	13%	12%	13%	13%
Information and Communication	17%	17%	14%	15%	14%	16%
Other Service Activities	23%	22%	24%	23%	22%	17%

Source: Own work based on the data of online survey.

Table 2 shows that cheap labor and raw materials, distribution, brand, and quality are extremely important for the manufacturing companies. For the construction companies, network and cheap labor and raw material are perceived as more important. The companies in the other service industry rank brand name, price, and network as the key factors for their competitive advantage, and surprisingly cheap labor is not as important as the other factors.

Furthermore, only minimal differences on such factors between exporters and non-exporters exist. For example, quality and price are more important for exporters, while good distribution and cheap labor are more important for non-exporters' competitive advantage (See Figure 28).

Figure 28: A comparison between exporters and non-exporters regarding the factors that impact their competitive advantage (in percentage)



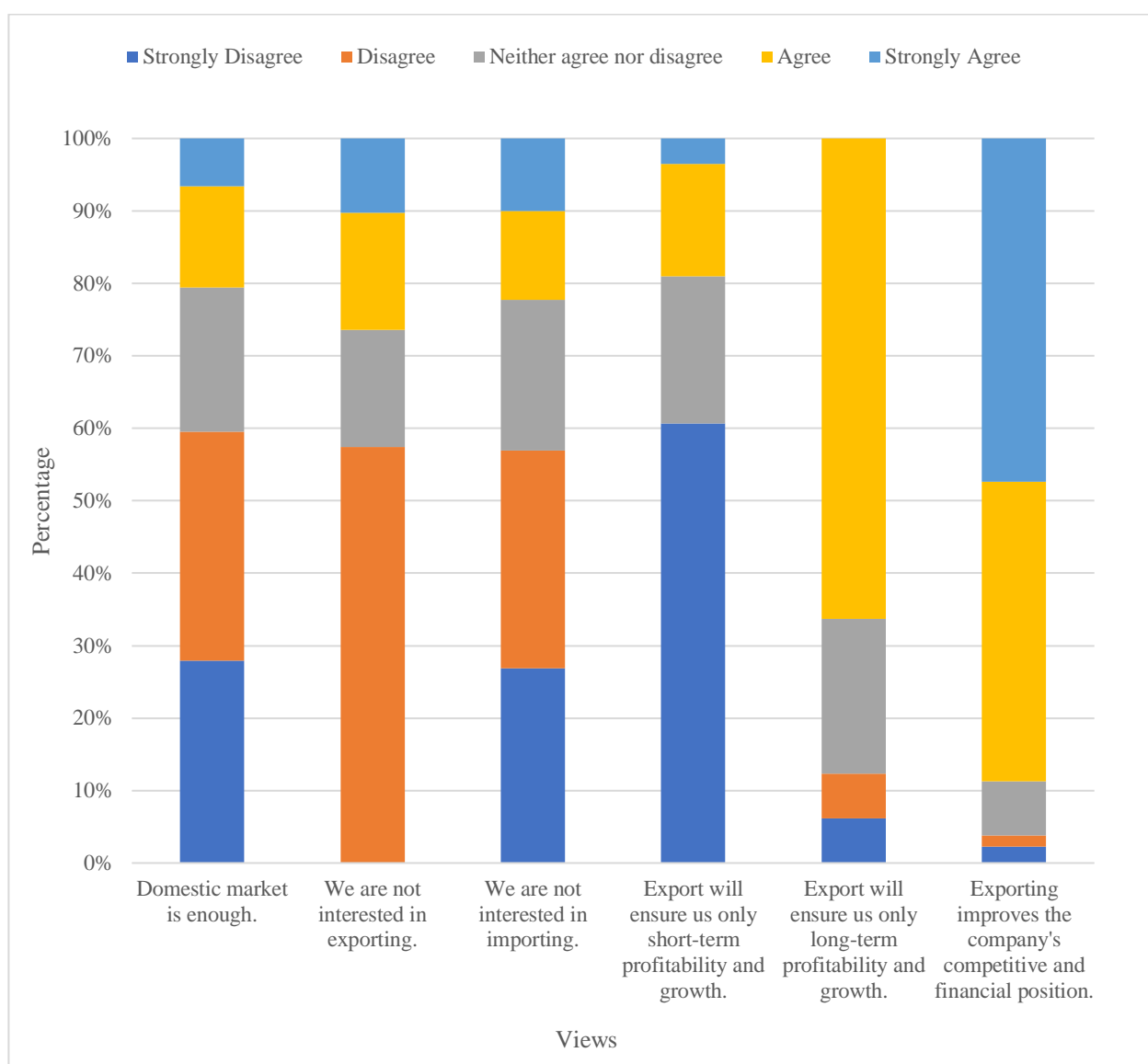
Source: Own work based on the data of online survey.

3.3.2 The attitudes of companies towards trade in Kosovo

In order to be able to fully utilize the competitive advantage and other positive elements of a company, it is important that the managers of a company fully understand the benefits of exports because only then can they be able to succeed in the foreign markets. Therefore, this research was specially focused on understanding the attitudes of managers/companies towards trade.

In Figure 29, one can realize that the respondents are highly interested in exporting. Over 75% are interested in exporting, but there were also some cases where the importance of exports with regard to the long-term benefits is not fully clear.

Figure 29: The view on exports of company managers in Kosovo (in percentage)



N: 136.

Source: Own work based on the data of online survey.

Given that not all companies have similar attitudes towards trade, it is extremely important to determine the reasons behind such differences.

Interestingly, it is evident from the data that companies that are interested in exporting have a larger share of outside domestic owners and are not fully dependent on family funds. This group of companies involves also a larger share of foreign owners in comparison to those that are not interested in exporting.

It is difficult to identify the type of foreign owners involved in such companies since this survey covered only basic demographics. However, according to the Kosovo agency of statistics, in 2012 at least 25% of businesses in Kosovo were solely created or co-created by the Diaspora of Kosovo. Additionally, in 2017, according to the ministry of Diaspora in Kosovo, the direct investments of the diaspora were approximately EUR 180 million. These examples are indications that these companies may not involve only direct foreign investors, but a significant portion of them could be owned partially or solely by the Diaspora (Hadri, 2018) (Matoshi, 2017).

Clearly, the industry in which the companies operate matters because the data shows that companies that are interested in exporting come mainly from the service activities, manufacturing and construction industries, while those that are not interested in exporting operate mainly in wholesale and retail and financial and insurance industries. The information and communication industry represents a larger share among those who are interested in exporting as well.

Furthermore, the large size of a company is a clear indicator that influences the desire to export. The data shows that only 23% of large companies and only 6.8% of medium-sized companies are not interested in exporting. There is a similar low percentage among the small companies as well, but the frequency is much bigger.

Not surprisingly, education level is also relatively important when it comes to realizing the potential of exports. In essence, the share of those managers with primary and high school diplomas is much bigger for those companies who are not interested in exporting. On the contrary, the share of managers with primary school diplomas is inexistent among those companies which show an interest to export.

Moreover, the companies that are interested in exporting invest much more in employee training in comparison to those who are not interested. The data shows that companies who are interested in exporting invest at least 10% of their profit in employee training most frequently (26%), while those who are not interested in exports invest in employee training around 5% most frequently (31%). Additionally, the data shows that companies that are not interested in exporting never invest more than 60% of their profits in employee training, while for the other group it once went up to 100%.

Similar conclusions were made by many studies conducted in Germany as well. Eickelpasch and Vogel (2011) concluded that exporting firms in Germany are larger in size and have more human capital intensity. Additionally, Schultz (2010) concluded that firm size, foreign ownership and human capital intensity positively impact the share of exports as a percentage of total sales. Loose and Ludwig (2006) also found the above-mentioned evidence in Germany, but also that exporters consisted of higher qualified employees than the non-exporters (Wagner, 2010).

The market in which this group of companies operates seems to be of high importance too, because the companies which were not interested in exporting operate in the domestic market mainly. Furthermore, one can realize that such companies export more to neighboring countries than they do to other countries with further geographical distance. On the other side, the companies interested in exporting have the EU market as their main destination to export their products.

Yet, a highly interesting observation is that the companies who are not interested in exporting perceive domestic institutions to have much higher quality and the domestic market as more politically stable than the foreign ones. On the other side, the companies interested in exporting have a totally different opinion; so, this may be one of the reasons behind their desire to export.

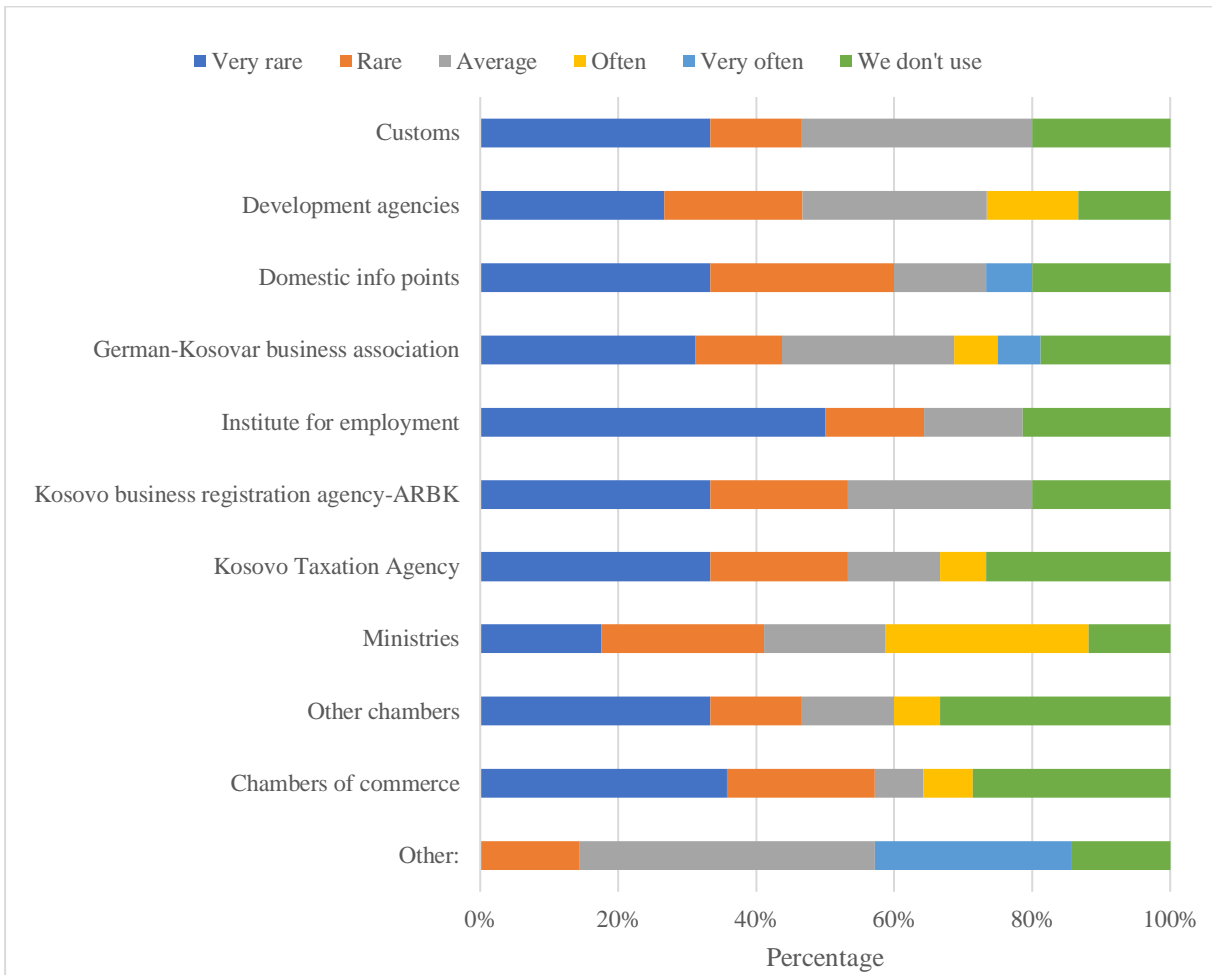
The foreign competition is perceived by both groups of companies to be highly fierce, but the difference is that the export-interested companies do not see the cost of market failure and other entry costs as being too high.

All in all, one can realize that small companies have difficulties in exporting because they lack highly educated individuals and financial resources to overcome the problems of entry costs, training of employees and the development of competitive products to penetrate the foreign markets.

Moving on, this research shows a very troublesome statistic when it comes to the companies' ability to use the help of other organizations when doing business domestically or abroad. In essence, only 13% answered positively when asked whether they use any organization's help when doing business.

Nonetheless, even those who answered positively do not use many key organizations frequently; essentially, the Ministries are the most frequently used by the companies, while the Chamber of Commerce, Taxation Agency, Customs, Domestic info points and the Institute for Employment are used very rarely (See Figure 30). In addition, it is very often the case that some companies use other organizations not covered by this survey.

Figure 30: The cooperation between the companies and other organizations in Kosovo when doing business domestically and/or abroad



N: 17.

Source: Own work based on the data of online survey.

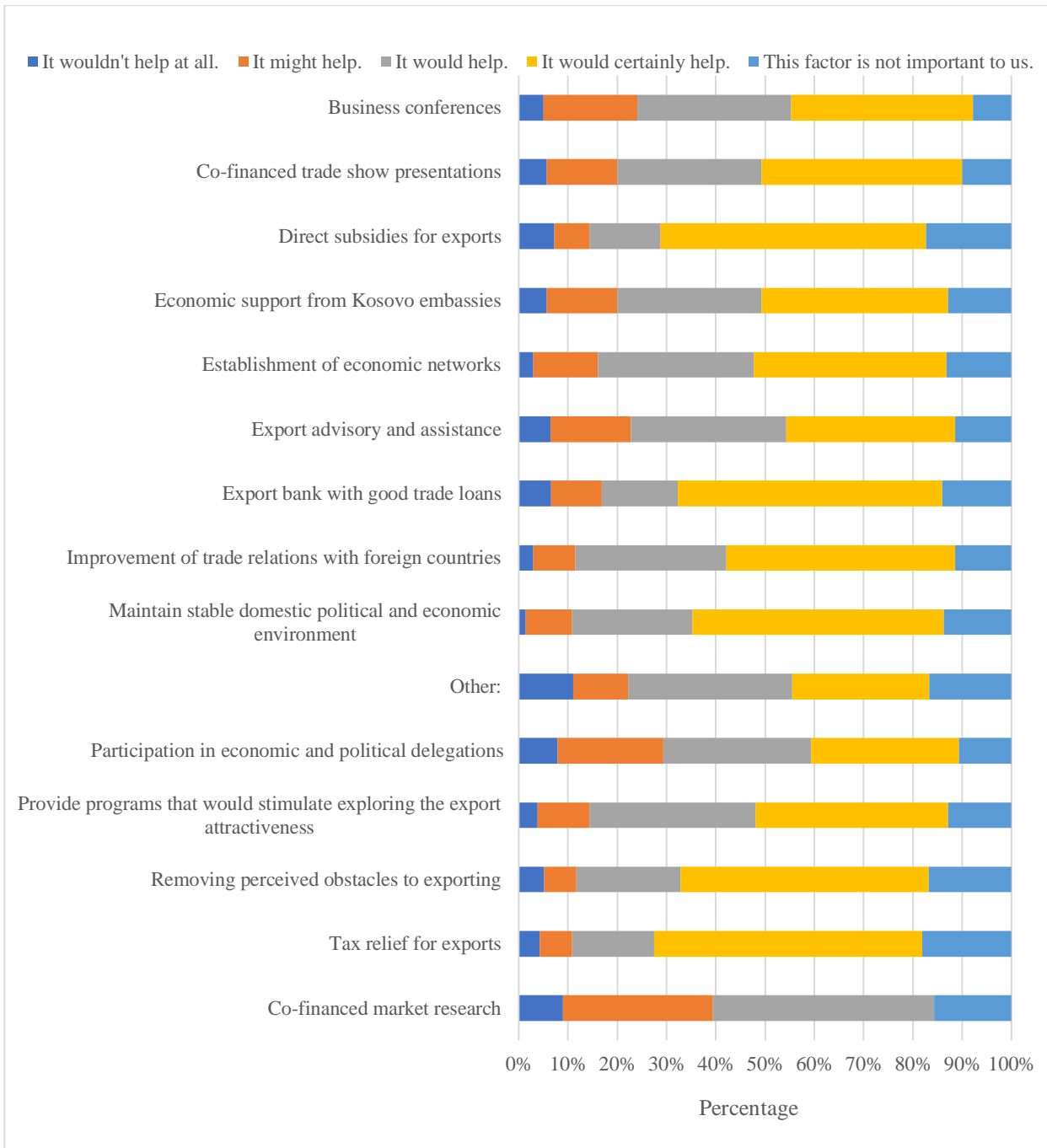
The companies in Kosovo also have a very clear picture about what would help them in penetrating and being successful in foreign markets. Substantially, they believe that the government and other organizations can help them a lot by providing the support presented in Figure 31.

In this case, both export-interested and uninterested companies have almost the same opinion about the activities that would enable companies in Kosovo to penetrate the foreign markets; yet, the number of non-export oriented companies who see such activities as not relevant is much higher than for those who are interested in exports.

In Figure 31, one can realize that tax relief and direct subsidies for exports are perceived as the most important factors to succeed in foreign markets, followed by developing a bank for exports that would provide good trade loans. According to them, maintaining a stable domestic political

and economic environment is also extremely important for their likelihood to succeed in the foreign markets and so does the removal of the perceived obstacles for exporting and the improvement of Kosovo's trade relations with foreign countries.

Figure 31: The activities of the government and other organizations that would help the companies in Kosovo to succeed in foreign markets (in percentage)

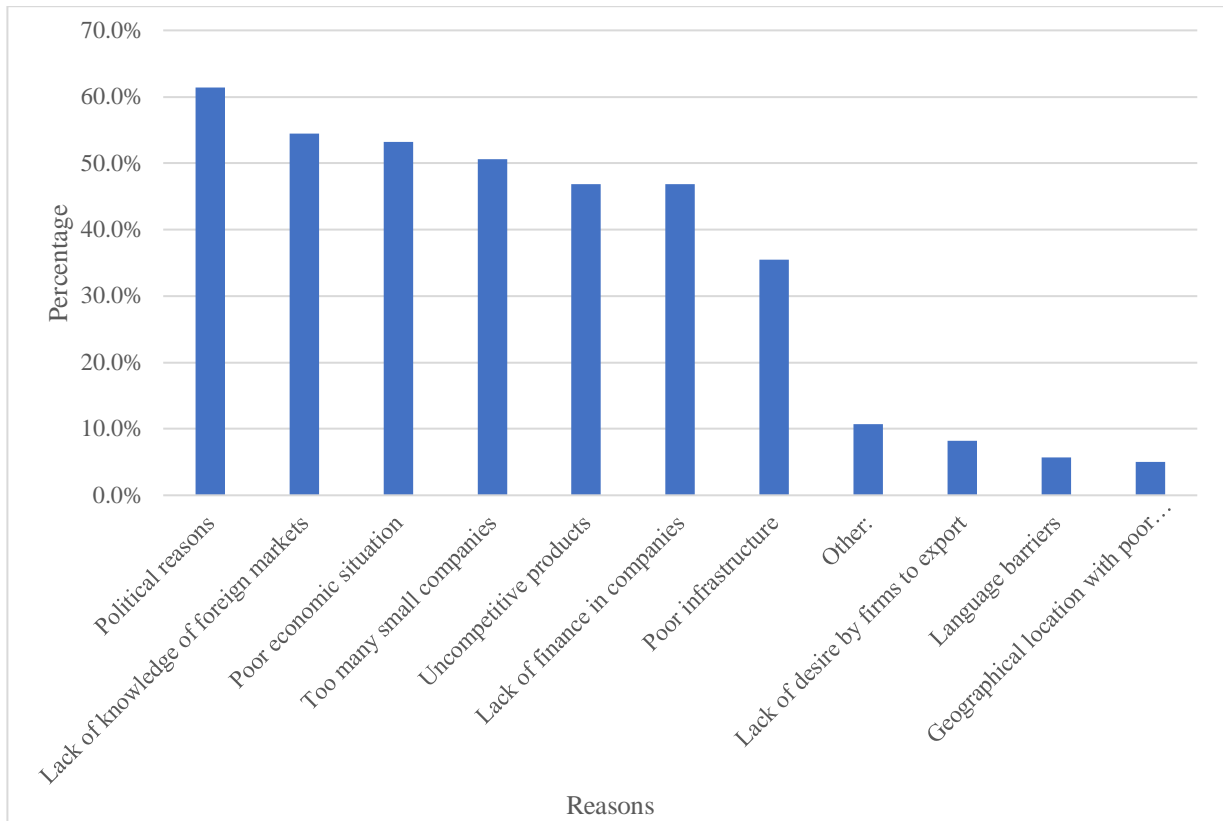


N: 141.

Source: Own work based on the data of online survey.

Moreover, according to the respondents, Kosovo’s lack of exports is primary due to political reasons, poor economic situation, small size of companies and lack of knowledge of foreign markets (See Figure 32).

Figure 32: Reasons that prevent Kosovo from being an export-oriented country according to the companies in Kosovo (in percentage) (Multiple answers possible)



N: 158.

Source: Own work based on the data of online survey.

*The respondents were allowed to select multiple reasons.

3.4 The determinants of export orientation

In this section, the idea is to investigate whether exporting companies:

- are larger in size
- consist of higher educated individuals
- are located in the border regions
- have a larger share of outside and foreign ownership
- are more productive and profitable
- are more innovative
- target mainly B2B customers

To answer these questions, two methods were used:

- Non-Parametric Mann Whitney Test
- Hierarchical clustering analysis

3.4.1 Differences between the exporters and non-exporters

- The method

Obtaining the data based on a Likert-scale means that the types of variables are categorical. Dealing with such variables means that all the assumptions of the parametric tests for the normality of the data are violated. As a result, when having such variables, the non-parametric tests should be used instead of parametric ones for the purpose of testing the differences between the populations.

The method used to analyze the differences between exporters and non-exporters was the Mann-Whitney Test, equivalent to parametric t-test, because it tests the differences between two independent samples.

This method initially ranks the scores of the data. For tied ranks it provides an average, and then sums the ranks for both groups. In the end, it tests for differences between groups by calculating the z-score for all the testing variables (after having calculated the mean and standard error), where the testing variable with Z-score > 1.96 ($p < 0.05$) proves that such a difference exists between the groups (Field, 2009).

In this case, the grouping variable was the *type of the company* (Exporters/ Non-exporters), while the test variables were the following:

- *Company size,*
- *Education,*
- *Border proximity,*
- *Ownership type,*

- *Productivity,*
- *Profitability*
- *Innovation, and*
- *Targeted customers.*

In this case, the null hypothesis is the following:

H0: *There is no difference between exporters and non-exporters in terms of the above-mentioned testing variables.*

While the alternative hypothesis is as follows:

H1: *There are differences between the exporters and non-exporters in terms of the above-mentioned variables.*

- The results

Given the theory, it would be expected that the size, education, border proximity, ownership type, productivity, profitability, innovation, and targeted customers would be different between exporters and non-exporters.

However, the results show that only the size of the exporters differs significantly from the size of non-exporters $U=1723$, $z=4.081$, $p<0.05$; additionally, according to the one-tailed exact significance, higher mean rank and sum of ranks for exporters, we can conclude that exporters are larger in size than non-exporters. Therefore, we reject the null hypothesis for the size of the company (See Appendix 5).

Yet, according to the 2-tailed p-value, the data did not provide evidence that the border proximity and education are different from the non-exporting companies $U=2550$, $z=1.06$, $p>0.05$ and $U=2421$, $z=1.32$, $p>0.05$, respectively (See Appendix 5).

Innovation and targeted customers of the exporting companies are not statistically different from the non-exporting companies either $U=2006$, $z=-1.538$, $p>0.05$ and $U=2515$, $z=-1.192$, $p>0.05$, respectively. Therefore, we cannot reject the null hypothesis for those variables (See Appendix 5).

Additionally, also according to one-tailed exact significance, the data did not provide evidence that exporting companies consist of higher educated individuals, are closer to the border, are more innovative, or target businesses primarily (See Appendix 5).

3.4.2 Clustering

Testing for statistically significant differences between the exporters and non-exporters does not complete the whole analysis because sometimes the data neither provide enough evidence to determine whether the differences exist, nor specifies what those differences are. Therefore, clustering is used to determine the differences between exporters and non-exporters.

- The method

The method used is the Ward Method of Hierarchical clustering analysis because of its ability to group similar objects into groups that are known as clusters. Under this method (Ward), the program makes a cluster which minimizes the variance; therefore, the end of this analysis provides such results that each cluster is different from the other, while the objects of the respective clusters are extremely similar to each other (Field, 2009).

This method starts by identifying each observation as a separate cluster until it merges all the clusters together; essentially, all these clusters are combined into one cluster that contains all the information (Field, 2009).

Here, all the variables of interest were put under the variables section, for which an agglomeration schedule, a proximity matrix and a dendrogram was provided. The variables of interest were as follow:

- *Company size,*
- *Education,*
- *Border proximity,*
- *Ownership type,*
- *Productivity,*
- *Profitability*
- *Innovation, and*
- *Targeted customers.*

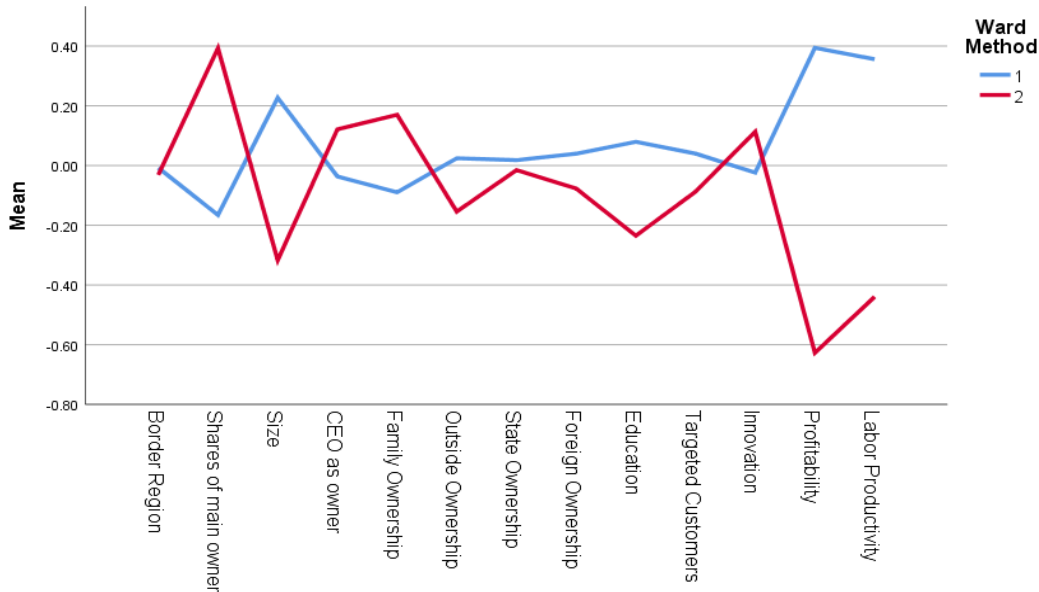
Additionally, the Squared Euclidean distance was used as the measure of the Ward Method. To make sure that the data was internally consistent, the values were transformed into standardized z scores. In the end, a predetermined single solution with a number of 2 clusters was saved on purpose.

– The results

Figure 33 graphically presents the 2 created clusters and then further descriptive statistics are presented in order to determine the characteristics of the clusters.

Initially, the results show that a difference between the two clusters exists in various aspects covered by the variables used for this analysis. Essentially, it shows that a difference in size, border proximity, ownership, education, targeted customers, productivity, and profitability exists between the clusters, but it does not provide any exact information about the source of such differences (See Figure 33).

Figure 33: The results of the clustering analysis



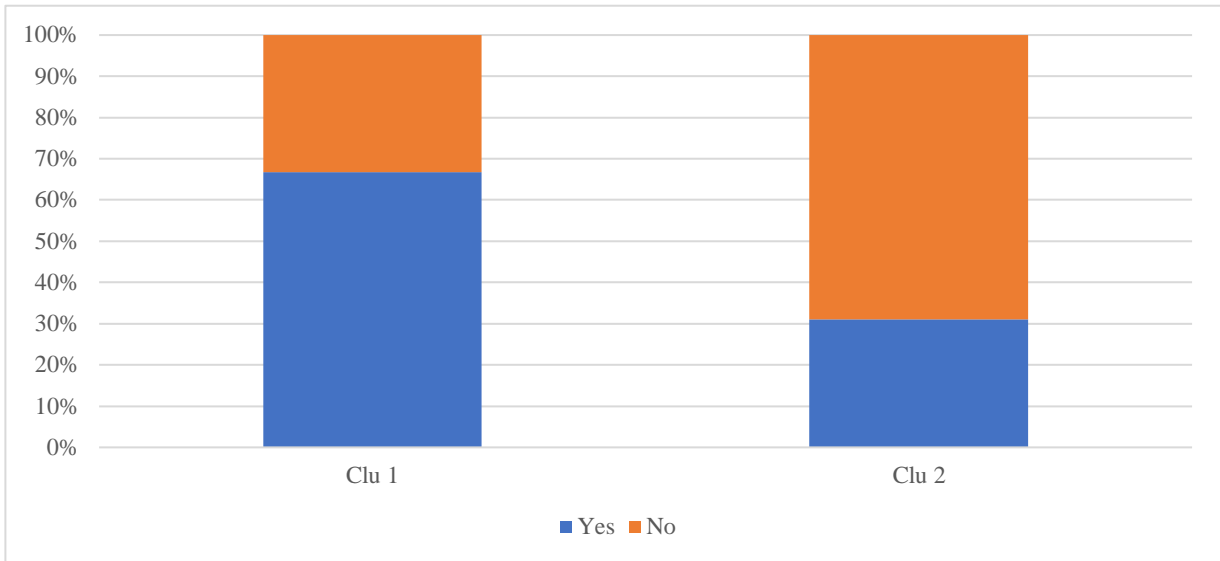
Source: Own work based on the data of online survey.

However, this analysis alone fails to provide information about which cluster represents exporters and which represents the non-exporters. Additionally, it fails to clearly show the characteristics of the export and import-oriented companies.

Therefore, some descriptive statistics was conducted as a supplement analysis to determine the characteristics of the clusters provided by the hierarchical clustering method.

The results provided by the descriptive statistics showed that cluster number one predominantly represents the exporters, while cluster number two predominantly represents importers (See Figure 34).

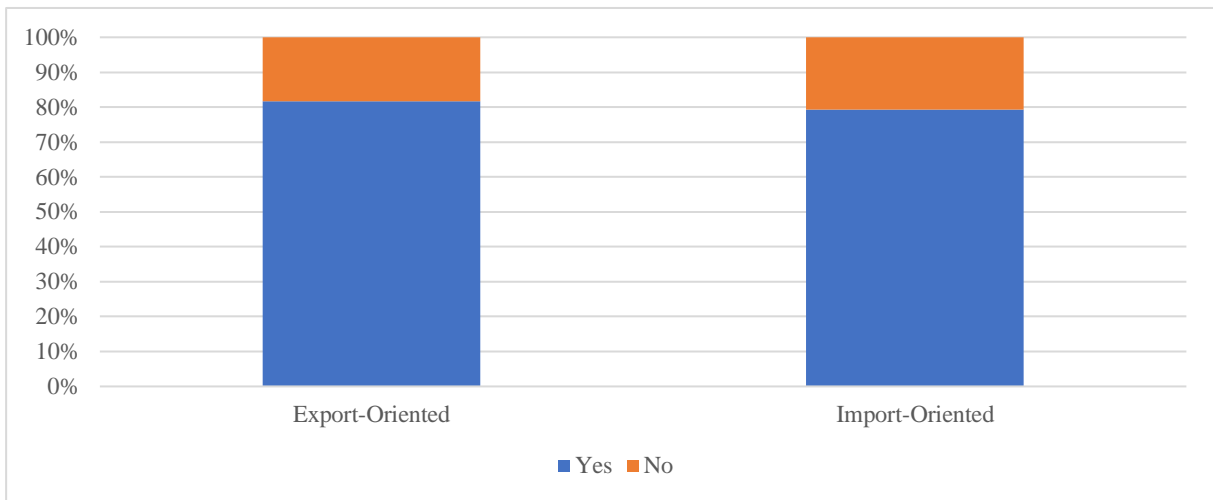
Figure 34: The export-orientation of the clusters provided by the previous analysis (in percentage)



Source: Own work based on the data of online survey.

According to some further analysis between such cluster differences, one can clearly realize that border proximity is important for the export performance of a company; essentially, the exporters were closer to the border than the non-exporters (See Figure 35).

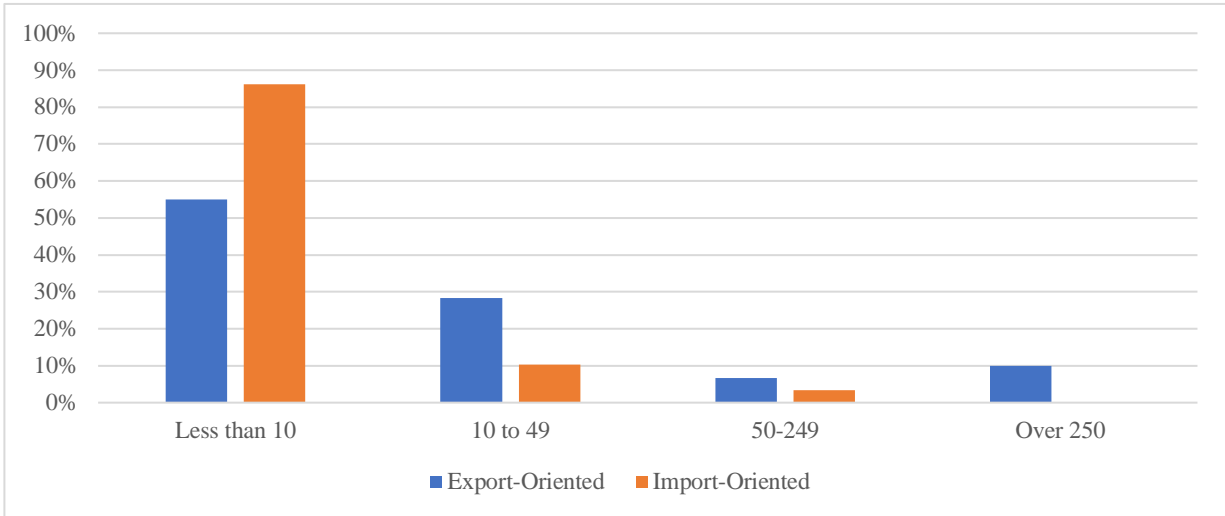
Figure 35: The border proximity of export and import-oriented companies (in percentage)



Source: Own work based on the data of online survey.

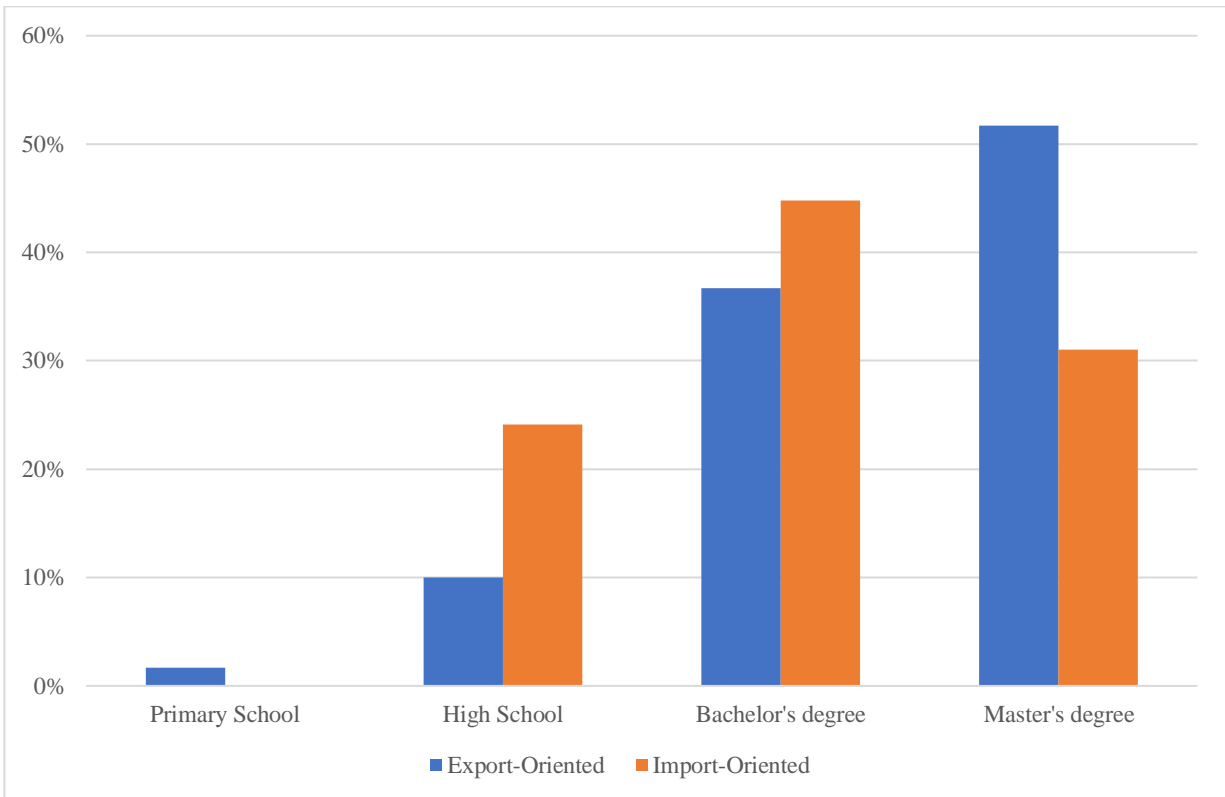
Additionally, exporters were larger in size, more educated and owned by more outside and foreign owners than the importers (See Figure 36, 37 and 38); so, this indicates that the size, education and foreign ownership have a positive impact on export performance. The conclusion is again fully in line with previous researches conducted in this field.

Figure 36: The size of export and import-oriented companies (in percentage)



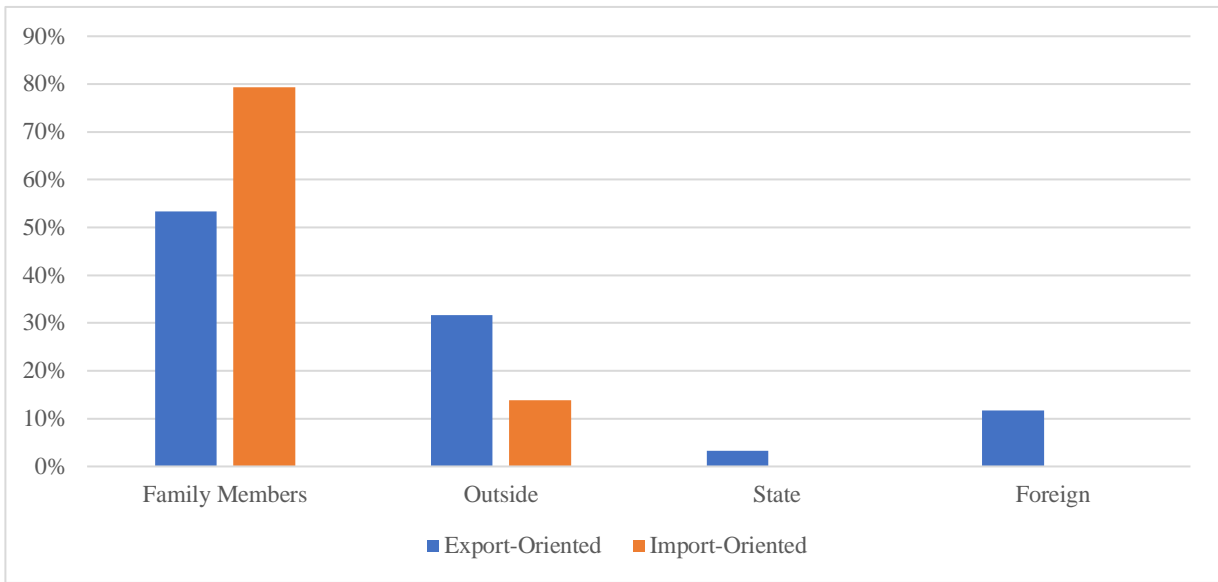
Source: Own work based on the data of online survey.

Figure 37: The education level of export and import-oriented companies (in percentage)



Source: Own work based on the data of online survey.

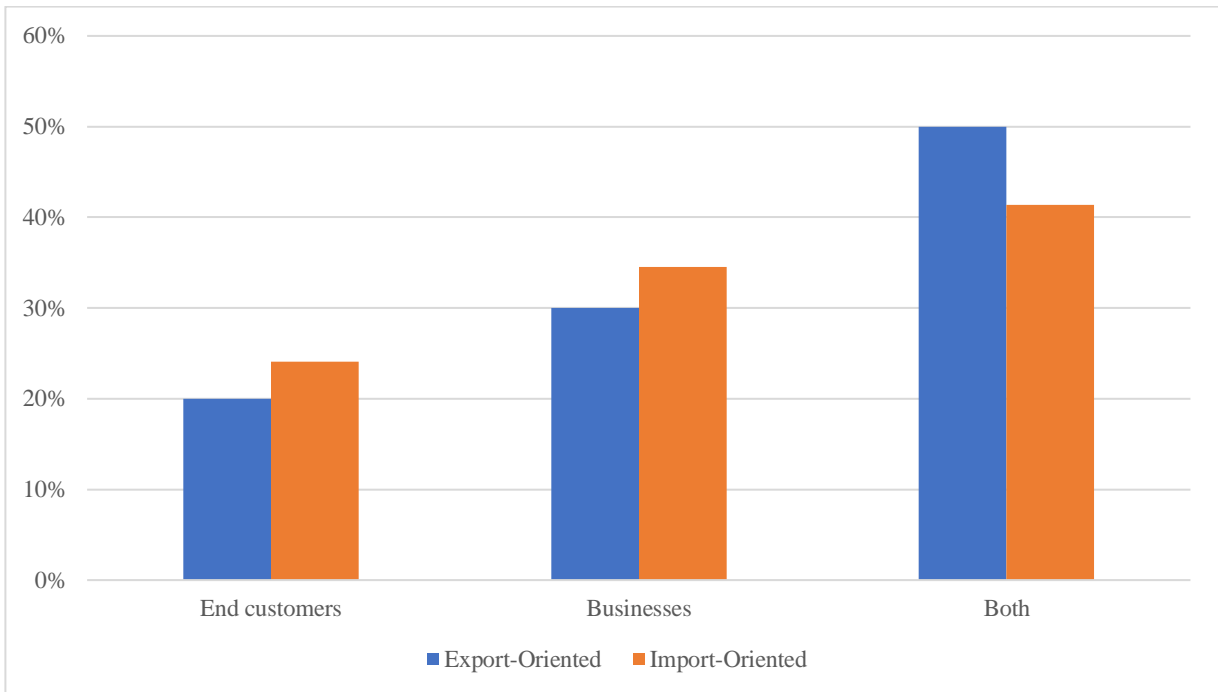
Figure 38: The ownership type of export and import-oriented companies (in percentage)



Source: Own work based on the data of online survey.

Furthermore, the research shows that a wider range of targeted customers leads to higher chances of success in foreign markets because according to the analysis, the exporters in Kosovo sell mainly products/services that are both for B2B and B2C, while the importers sell mainly to B2C, and only a fraction of them sell to B2B and B2C (See Figure 39).

Figure 39: The targeted customers of export and import-oriented companies (in percentage)



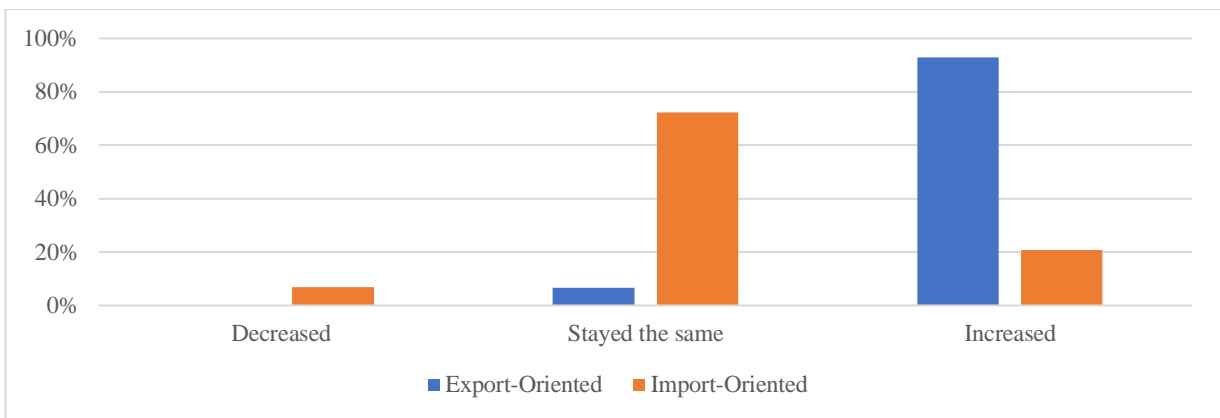
Source: Own work based on the data of online survey.

Interestingly, in Kosovo, there is only a small impact made by innovation capabilities on a company's export performance; in essence, an extremely small difference was observed between export and import-oriented companies when it comes to their innovation capabilities.

Yet, the labor productivity and profitability of the companies were highly different between exporters and importers. The analysis shows that export-oriented companies faced an increasing trend when it comes to labor productivity and company profitability compared to the time when the company started to operate. However, the import-oriented companies seem to have stagnated on such matters since their early beginnings (See Figure 40 and 41).

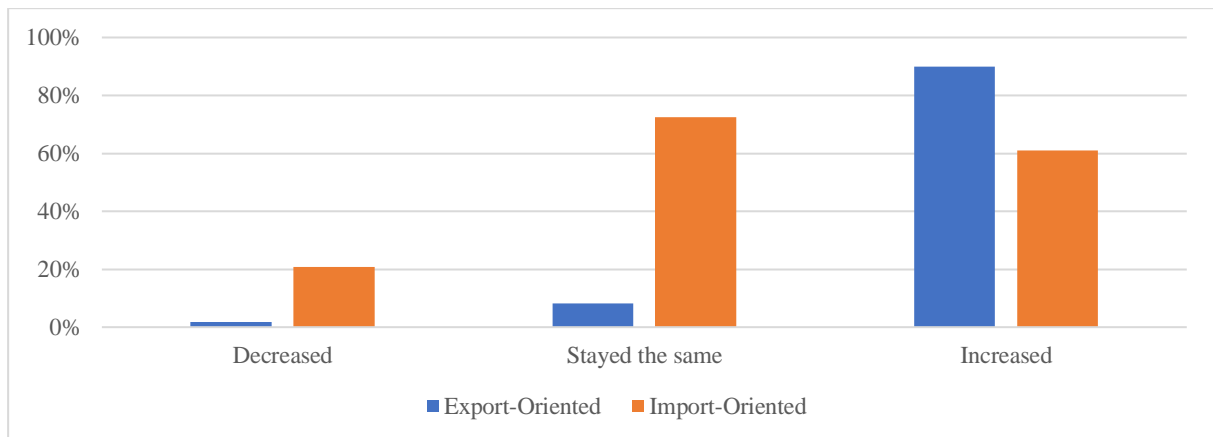
The analysis also showed that import-oriented companies have their owners as top managers more frequently than the exporters, while the exporters' owners were more diverse in terms of the number of shares owned as well.

Figure 40: The labor productivity trend through time of export and import-oriented companies (in percentage)



Source: Own work based on the data of online survey.

Figure 41: The profitability trend through time of the export and import-oriented companies (in percentage)



Source: Own work based on the data of online survey.

Going back to Figure 34, the share of non-exporting companies as part of the exporters group was solid, and therefore it is highly important to understand the characteristics that grouped those type of companies under exporters.

After analyzing the characteristics of those companies, the results showed that despite the fact that they were non-exporters, the majority of them were highly similar to the exporters in terms of performance, ownership, education and location, but not in terms of size.

Essentially, this group of non-exporters was facing an increasing trend of productivity and profitability, consisted of highly educated individuals, had similar ownership structures as exporters, was located in a border region, but was smaller in size compared to the exporters (See Table 3).

Table 3: The characteristics of non-exporting companies that are part of cluster number one (in percentage)

Targeted customers	End customers	25%
	Businesses	30%
	Both	45%
Size	Less than 10	70%
	10-49	25%
	50-249	0%
	Over 250	5%
Education	Primary School	5%
	High School	5%
	Bachelor's degree	35%
	Master's degree	55%
Family Ownership		56%
Outside ownership		28%
State Ownership		11%
Foreign ownership		6%
Border Proximity	No	15%
	Yes	85%

Source: Own work based on the data of online survey.

To conclude, this analysis proved once again that exporters consist of higher educated individuals, are more innovative, have foreign ownership, are closer to the border, and most significantly are larger in size than non-exporters.

3.5 The results of the empirical research

This empirical analysis consisted of 6 research questions which are related to the firm-level determinants of the export-oriented development model. In this study, we tried to answer the research questions by using descriptive statistics, non-parametric Mann-Whitney test, and hierarchical clustering analysis. By using the results of the analysis, in this section will be provided the answers to the 6 research questions.

Starting with the first research question, according to our analysis, there is statistically significant difference in size between exporters and non-exporters and thus exporters are larger in size than non-exporters in Kosovo. Therefore, size of the company is considered to positively impact its export performance.

Additionally, the answer to the second research question is that education positively impacts the export performance of companies and exporters usually consist of higher educated individuals in Kosovo.

As for the third research question, this analysis could not determine exactly the effect of industry type on the export performance of companies, but it showed an indication that there was a higher frequency of exporters coming from some certain industries, while some other industries consisted of lower number of exporters.

The research also showed that the institutional and infrastructure quality are important when it comes to the export performance because the majority of the companies agreed to the fact that infrastructure and institutions are some of the main factors that would help them boost their export performance.

In Kosovo, according to our analysis, domestic competition did not seem to impact the strategic decisions of companies with regard to exports. Essentially, both, exporters and non-exporters, agreed to the same degree that domestic competition is not high enough and thus this indicates that companies' decision to export was not directly influenced by the domestic competition, but rather from other factors.

As for the sixth research question, companies in Kosovo exports more to the neighbor countries rather than to other countries when compared the exports made to each country individually. However, the market of European Union has a very huge importance as well, according to the data of the sample.

4. POLICY AND MANAGERIAL RECOMMENDATIONS

Before presenting the policy and managerial recommendations, it is important to once again mention that the sample size might be one of the limitations that can affect the results of the empirical analysis. Additionally, it is important to mention that a discrepancy exists between the sample size and population when it comes to the share of companies based on their size.

However, the results of the empirical analysis of firm level export determinants in Kosovo suggest that there are changes needed on both the country and company level in order to have a successful export performance.

In essence, it is of the utmost importance that policy makers intervene on the policies of their country and board/managers of the companies intervene inside their companies to achieve a positive export performance.

Therefore, this section will provide some policy and managerial recommendations based on the results of the empirical analysis.

4.1 Policy recommendations

The results showed that the reasons behind the negative export performance of the country are highly associated with the policies on the country level.

As presented in Figure 25, the majority of non-exporting companies have had extreme insufficient financial resources and their ability to obtain external ones was highly limited; therefore it is important to understand the reasons behind such phenomena.

According to the World Bank (2020), the lending interest rate in Kosovo is above 6%, which is approximately 4% higher than the Euro Area average. When comparing with the neighboring countries, Serbia, Macedonia and Albania have lower lending rates for companies in the private sector than Kosovo.

As a result, it comes as no surprise that companies in Kosovo regard the establishment of a bank that would provide good trade loans as an extremely helpful tool to improve their ability to penetrate foreign markets. All in all, these are clear indicators that companies in Kosovo need good trading loans to be able to overcome the problem of inadequate external financial resources. Therefore we recommend the establishment of a bank for exports to provide good trade loans.

Additionally, the non-exporters were lacking adequate government support and facing various bureaucratic barriers and high entry costs. Therefore, tax reliefs and direct subsidies for exports were regarded as the most important offers that the state could provide to companies in order to penetrate the foreign markets.

Not surprisingly, companies in Kosovo perceive politics, poor infrastructure, and poor domestic economic situation as key factors for their unsuccessful export performance. As a result, the stable domestic economic and political environment was perceived as highly impactful by the companies in Kosovo.

Having mentioned all these facts, in line with the opinions of companies in Kosovo and the results provided by the empirical analysis of export determinants, we present the following recommendations for policy makers in Kosovo:

- Establish a bank for exports to provide good trade loans.
- Provide direct subsidies for the companies that export.
- Provide tax reliefs for the companies that export.
- Remove domestic bureaucratic barriers.
- Maintain a stable domestic political and economic environment.
- Improve the trade relations with other countries.
- Attract foreign direct investors.
- Establish business networks that contain domestic and international people.
- Promote the benefits of exporting.
- Improve the education system.

4.2 Managerial recommendations

Surely, the reasons behind the poor export performance cannot be limited to the country level because, in the end, the companies are directly responsible for their own performance.

Similarly to the findings of various authors for different countries (for example: Vogel (2011), Wagner (2010), etc.), this analysis showed that there were significant differences between the exporters and non-exporters in Kosovo as well; thus, it is highly important to specify those differences.

It was evident that exporters in Kosovo are larger in size and are more productive, so an increase in production capacity and labor productivity might positively influence the export capacity of a company because it would enable the company to effectively and efficiently match the demand characteristics of the foreign markets.

Additionally, the exporters consisted of higher educated individuals, invested more in training, and had more foreign and outside owners. For example, Petrakos, 2008 has identified that high quality of human capital is among the top ten factors for economic development.

Furthermore, this might indicate that higher educated individuals in cooperation with the foreign owners might identify the gaps in the foreign markets more effectively because of their knowledge about a particular market, and thus more easily penetrate the market.

Another explanation is that the FDIs have crucial role in internationalizing the economic activities of a company and, as primary source of technology transfer, it might increase the technological capacity of a company, thus becoming more efficient and effective (Petrakos 2008).

As a result, here we provide a summary of the managerial recommendations for the companies in Kosovo:

- Increase the production capacity.
- Increase the labor productivity.
- Invest in R&D.
- Recruit higher educated individuals.
- Invest more in training.
- Attract foreign direct investors.
- Focus on entering foreign business networks.
- Establish foreign personal networks.
- Target a wider range of customers.
- Improve relations with the financial companies.
- Be present at the fairs organized in domestic and international markets.

CONCLUSION

This paper draws on a questionnaire survey to explore the firm level export determinants for companies in Kosovo and assesses whether there is a significant difference in such determinants of exporters and non-exporters. Additionally, it also aims to determine the characteristics and attitudes towards trade by companies in Kosovo.

Starting from the fact that Kosovo historically faces an extreme trade deficit, it is simple to realize that only few of its companies are present in foreign markets. According to the analysis, the foreign market opportunities, small size of the domestic market, higher profit margin, and higher sales are the main driving forces behind the presence of those companies in foreign markets.

However, the majority of companies in Kosovo are non-exporters and the reasons behind their domestically focused performance are closely related to their insufficient financial resources, inability to obtain any external financial resources, inadequate government support, and high entry costs; in essence, it is mainly these factors that prevent them from expansion.

Yet, it is the non-exporters' belief that their likelihood to succeed in foreign markets would increase extremely if the state established a bank for exports that would provide good trade loans, direct subsidies and tax reliefs for exports while maintaining a stable domestic economic and political environment.

Nonetheless, given the theory about firm level export determinants, the expectations were that significant differences between the exporters and non-exporters in Kosovo would be found in terms of their size, education, ownership type, innovation capacities, border proximity, productivity, profitability, and targeted customers.

The findings of this research have met in full the expectations when it comes to the differences in size because the results of the analysis were consistent with the relevant mainstream literature; essentially, the results showed that exporters in Kosovo were larger in size.

Notwithstanding, according to the Mann-Whitney Test, the data did not provide evidence that exporters consisted of higher educated individuals, were closer to the border, have foreign owners, are more innovative, were more productive and profitable, or sold products/services that are for both B2B and B2C more frequently.

Yet, according to the hierarchical clustering method, the predominantly exporter's cluster was characterized by more innovative, productive, and profitable companies which consisted of higher educated individuals, foreign ownership, and were closer to the border.

Therefore, once again, we encourage companies in Kosovo to increase their production capacity, invest in Research & Development, recruit higher educated individuals, and target a wider range of customers.

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APPENDICES

Appendix 1: The summary in the Slovenian language

Cilj magistrske naloge je analiza determinant izvoza podjetij na Kosovem in ocena ključnih razlik med izvoznimi in domače usmerjenimi podjetji. Poleg omenjenega je namen magistrske naloge definirati ključne karakteristike in naravnost izvoznih podjetij na Kosovem.

Naloga zagotavlja natančen pregled literature, ki opredeljuje izvoz kot determinanto ekonomskega razvoja ter podrobno opredeli druge ključne dejavnike gospodarske rasti in razvoja, kot tudi opiše pomen izvoza, trgovinske menjave in direktnih tujih investicij za spodbujanje gospodarskega razvoja.

Skozi podroben pregled razvoja Kosova od razglasitve neodvisnosti, se naloga dotakne specifičnih dejavnikov gospodarstva, kot so; izvoz, trg dela, trgovinska menjava in direktnih tujih investicij.

Zaključek magistrske naloge predstavi rezultate empirične raziskave izvozne usmerjenosti gospodarstva in ključne spremenljivke izvozne orientiranosti podjetji na Kosovem. Empirična analiza se najprej osredotoča na izvozno naravnost podjetij na Kosovem in nato na specifične dejavnike na ravni podjetij.

Pretekli podatki kažejo izjemno visoke vrednosti trgovinskega primankljaja države, zato je logična posledica omenjenih zgodovinskih podatkov, da je le peščica podjetij prisotnih na tujih trgih. Glede na rezultate raziskave priložnosti na tujih trgih, majhnost domačega trga, višje marže in višje vrednosti prodaje so glavni dejavniki za prisotnost podjetij na tujih trgih.

Večina podjetij na Kosovem ni izvozno usmerjena, glavni razlogi za njihovo fokusiranost na domači trg pa ležijo v nezadostnih finančnih resursih, nezmožnostih pridobitve zunanjih virov financiranja, neprimerni državni podpori ter visokih vstopnih stroški na trg. To so glavni dejavniki, ki preprečujejo ekspanzijo takšnih podjetij na tuje trge.

Podjetja usmerjena na domači trg verjamejo, da bi se verjetnost njihovega uspeha na tujih trgih izjemno povečala, če bi država vzpostavila banko, ki bi direktno podpirala izvoz. Takšna ustanova naj bi zagotavljala ugodne trgovinske kredite, direktne subvencije in olajšave davkov ob hkratnem zagotavljanju stabilnega domačega gospodarstva in političnega okolja.

Na podlagi teorije fiksnih spremenljivk izvoza, bi se pričakovanja o pomembnih razlikah med izvoznimi in domače usmerjenimi podjetji na Kosovu nanašala na velikost podjetij, stopnjo izobrazbe zaposlenih, tip lastništva, zmožnost inoviranja, bližine do meja s tujimi državami, produktivnost, profitabilnost in ciljne skupine kupcev.

Rezultati raziskave magistrske naloge so potrdili vsa pričakovanja v zvezi z razlikami v velikosti podjetij, saj so izsledki analize konsistentni z relevantno literature. Rezultati potrjujejo, da so izvozna podjetja na Kosovem večjih velikosti.

Analiza zajetih podatkov z uporabo Mann-Whitney testa je pokazala, da ni dokazov, ki bi potrdili, da imajo izvozno usmerjena v večji meri višje stopnje izobraženih zaposlelih, so bližje mejam s tujimi državami, imajo tuje lastnike, so bolj inovativna, produktivna in profitabilna ali pa prodajajo produkte oziroma storitve, ki so za B2B ter B2C segment kupcev.

Glede na hierarhični model svežnjev, je prevladujoči sveženj izvoznih podjetij zajemal bolj inovativna, produktivna, profitabilna podjetja, sestavljena iz višje izobraženih posameznikov, s tujimi lastništvi in v bližini meja s tujimi državami.

Za zaključek predlagamo podjetjem na Kosovu, da zvišajo svojo kapaciteto produktivnosti, investirajo v raziskave in razvoj, zaposlijo višje izobražene posameznike in ciljajo na širšo skupino potrošnikov.

Appendix 2: Survey Questions

Please take a few minutes to complete the survey by clicking on the Next Page.

Q1 - Please select the activity in which your business operates!

Možnih je več odgovorov

- A Agriculture, Forestry and Fishing
- B Mining and Quarrying
- C Manufacturing
- D Electricity, Gas, Steam and Air Conditioning Supply
- E Water Supply; Sewerage, Waste Management and Remediation Activities
- F Construction
- G Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles
- H Transportation and Storage
- I Accommodation and Food Service Activities
- J Information and Communication
- K Financial and Insurance Activities
- L Real Estate Activities
- M Professional, Scientific and Technical Activities
- N Administrative and Support Service Activities
- O Public Administration and Defense; Compulsory Social Security
- P Education
- Q Human Health and Social Work Activities
- R Arts, Entertainment and Recreation

Q2 - Are you present in foreign markets?

- Yes
- No

IF (1) Q2 = [2]

Q3 - Why aren't you present in foreign markets?

	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Not relevant for our company
We have never had the ambition to penetrate foreign markets, as the markets we work with are sufficient (national, local)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We have already tried, but we have not been successful	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Too much risk of failure	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Market entry costs are too high	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Insufficient knowledge of the foreign market (customers, institutions, regulations, etc.)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fierce foreign competition	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We do not have sufficient production capacity for a larger volume of business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We do not have sufficient human capital or people with adequate competencies to penetrate abroad	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We do not have adequate own financial resources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We do not have adequate own financial resources, we did not seek external ones	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We do not have adequate own financial resources, we could not obtain external sources of funds	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We do not detect	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Not relevant for our company
sufficient demand for our products						
The product does not meet the required standards and the cost of customization is too high	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Transactions costs too high (transportation costs + legislation)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Excessive start-up costs (mainly bureaucratic)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Phytosanitary regulations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Lower expected profit margin	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We do not have adequate government support	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Domestic market is more stable politically than the other markets in the region	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Low cultural proximity with foreign customers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
It is difficult to penetrate foreign markets because of recent political tensions.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I dont think that our products would sell in the foreign market.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Domestic institutional quality is higher than the foreign	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

IF (2) Q2 = [1]

Q22_2 - Why are you in the foreign market?

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Not relevant for our company
Higher profit margin	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Higher sales	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Tax advantages	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Managerial Decision	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Foreign market opportunities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Economies of scale	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
High domestic competition	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Domestic market is too small	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Company has excess capacity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Because of seasonality in sales	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Proximity to international customers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

IF (3) Q2 = [1]

Q4 - How did you expand to the foreign markets?

Možnih je več odgovorov

- By Being present at fairs
- Through activities and support of the chamber of commerce
- Through activities and support of the chamber of entrepreneurs
- Through state activities (example: direct promotion with the help of political and economic delegations)
- Through state support activities (example: information centers, trade association meeting, advertising, public meetings, international education etc.)
- Through domestic online information portals
- Through foreign information portals in the target countries
- Help of local partners
- Personal Network
- By penetrating the foreign sales networks
- Help of foreign business partners
- Other:

Q5 - Estimate the percentage of your firm's total purchase in the markets listed below.

	Very Low (Up to 10%)	Low (10-35%)	Medium (35-65%)	High (65-90%)	Very High (above 90%)
Domestic market	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Very Low (Up to 10%)	Low (10- 35%)	Medium (35-65%)	High (65- 90%)	Very High (above 90%)
North American markets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Germany	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Switzerland	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Croatia	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Serbia	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Macedonia	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Albania	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Montenegro	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other EU Markets:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q6 - Estimate the percentage of your firm's total sales in the markets listed below.

	Very Low (Up to 10%)	Low (10- 35%)	Medium (35-65%)	High (65- 90%)	Very High (above 90%)
Domestic market	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
North American markets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Serbia	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Macedonia	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Albania	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Montenegro	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Slovenia	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Croatia	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Germany	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Switzerland	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other EU markets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q7 - How important is each of the following factors for the competitive advantage in your main market?

	Extremely unimporta nt	Unimporta nt	Neither important nor unimporta nt	Important	Extremely important
Price	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Quality	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Brand importance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Good network	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Good distribution system	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cheap labor and raw materials	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q8 - Do you use any organization's help for doing business domestically and/or abroad?

- Yes
 No

IF (4) Q8 = [1]

Q9 - How often do you use the help of the following organizations?

	Very rare	Rare	Average	Often	Very Often	We don't use
Chambers of commerce	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other chambers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Development agencies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ministries	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Kosovo Taxation Agency	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Customs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Institute for employment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Domestic info points	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
German-Kosovar business association	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Kosovo business registration agency- ARBK	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q10 - What kinds of activities of the country and other organizations do you think would most facilitate the entrance to foreign market and increase your success in that market?

	It wouldn't help at all.	It might help.	It would help.	It would certainly help.	The factor is not important to us.
Co-financed market research	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Co-financed trade show presentations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Participation in economic and political delegations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Economic support from Kosovo embassies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business conferences	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Export advisory and assistance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Improvement of trade relations with foreign countries	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Direct subsidies for exports	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Tax relief for exports	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Establishment of economic networks	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Removing perceived obstacles to exporting	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Provide programs that would	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	It wouldn't help at all.	It might help.	It would help.	It would certainly help.	The factor is not important to us.
stimulate exploring the export attractiveness					
Maintain stable domestic political and economic environment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Export bank with good trade loans	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q11 - Why do you think Kosovo's economy is not so export oriented?

Multiple answers are possible

- Too many small companies
- Poor economic situation
- Uncompetitive products
- Political reasons
- Poor infrastructure
- Geographical location with poor transport connections
- Language barriers
- Lack of desire by firms to export
- Lack of finance in companies
- Lack of knowledge of foreign markets
- Other:

Q12 - Please answer the following questions about the profitability, productivity and financial performance of your company.

	Decreased/Worsened	Remained about the same	Increased/Improved
Through time the number of employees has:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Since the beginning the labor productivity has:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Through time the profitability of the company has:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Since the beginning the production efficiency has:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Since the beginning the financial performance of the company has:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Since the beginning the amount of goods and services produced by this company has:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q13 - Has the company introduced any product/process and marketing innovation?

- Yes
- No

Q14 - Who is your target?

- End Customers
- Businesses
- Both

Q15 - Where is the company located?

- District of Prizren
- District of Gjakova
- District of Peja
- District of Ferizaj
- District of Gjilan
- District of Prishtina
- District of Mitrovica

Q16 - Is the top manager the owner of the company?

- Yes
- No

Q17 - What is the top manager's level of education?

- Primary School
- High School
- Bachelor's degree
- Master's degree

Q18 - What is the top management's view on exports?

	Strongly Disagree	Disagree	Neither agree not disagree	Agree	Strongly Agree
Domestic market is enough.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We are not interested in exporting.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We are not interested in importing.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Export will ensure us only short-term profitability and growth.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Export will ensure us only long-term profitability and growth.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Strongly Disagree	Disagree	Neither agree not disagree	Agree	Strongly Agree
Exporting improves the company's competitive and financial position.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q19 - How many employees does the company have

- Less than 10
- 10-49
- 50-249
- Over 250

Q20 - Employee Education

Primary School	
High School	
Bachelor's degree	
Master's degree	

Total (100 %) 0

Q21 - How many percent of your profit did you invest in employee training during the last year? (in %)

Q22 - Who are the owners of the company?

Možnih je več odgovorov

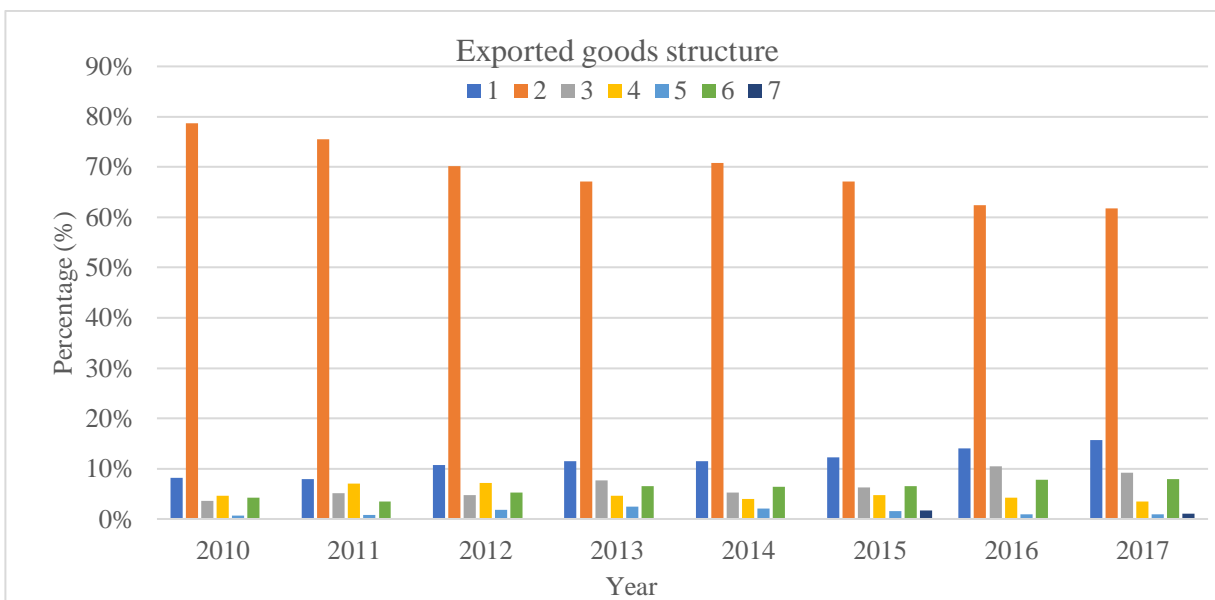
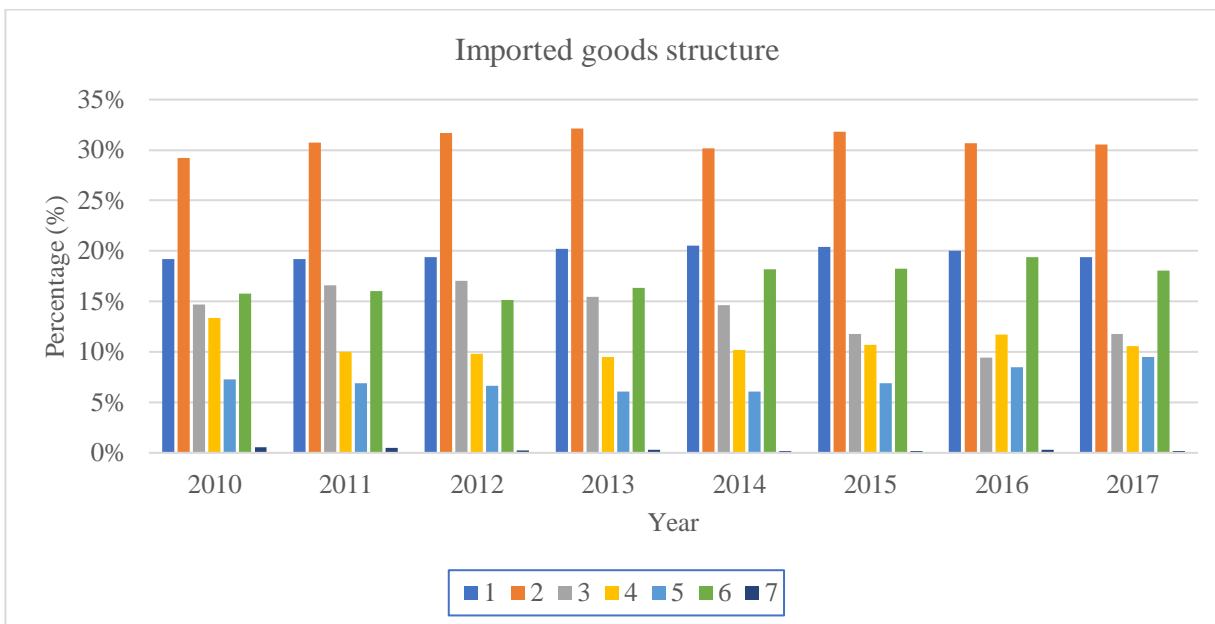
- Family members
- Outside owners
- State
- Foreign owners
- Other:

Q23 - How much shares does the main owner have?

- Less than 25%
- 25-50%
- 50-75%
- Over 75%

Q24 - What would motivate you to start exporting?

Appendix 3: The structure of the imported and exported goods in Kosovo in percentage (2010-2017)

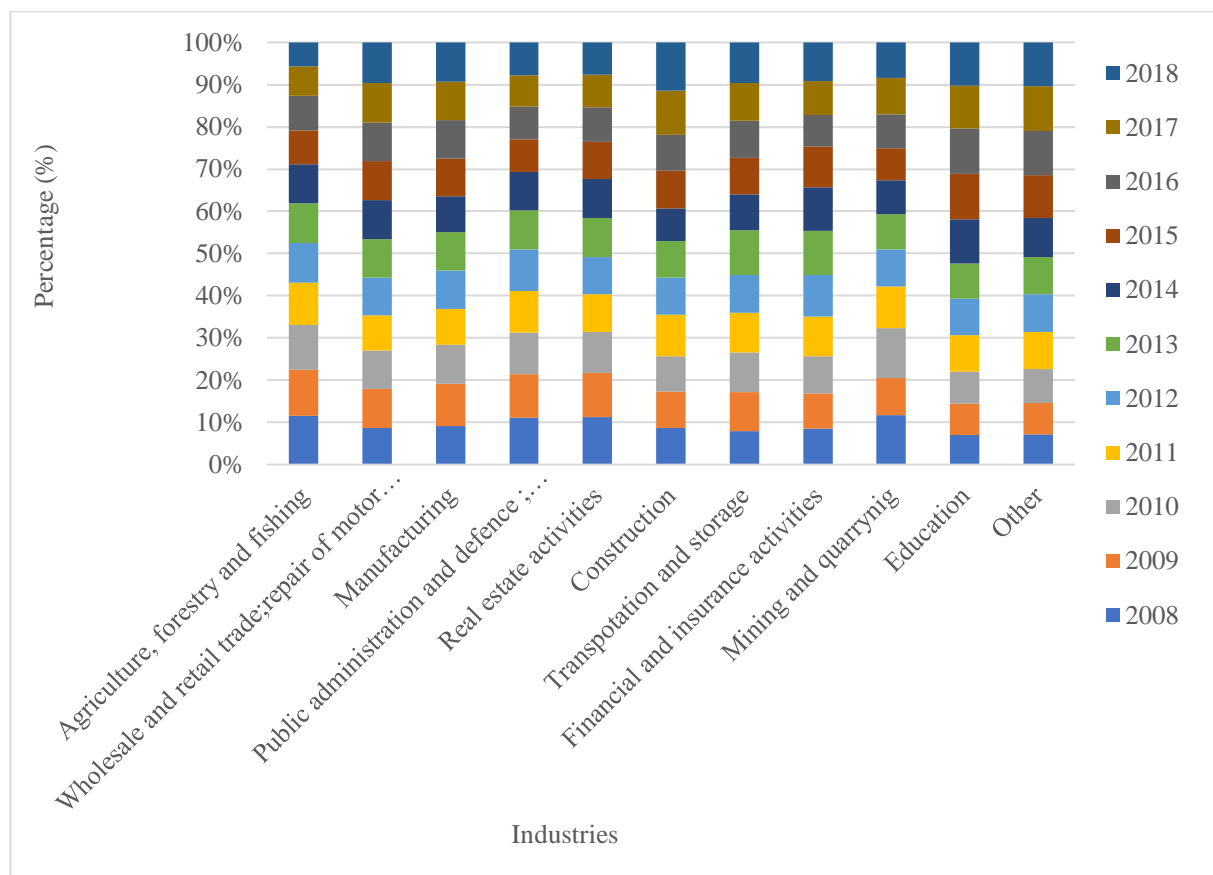


Source: Kosovo Agency of Statistics (2020).¹

¹ Description of the appendix 1

- 1=Food and Beverage
- 2=Industrial supplies not elsewhere specified
- 3=Fuels and lubricants
- 4=Capital goods (except transport equipment), and parts and accessories thereof
- 5=Transport equipment and parts and accessories thereof
- 6=Consumer goods not elsewhere specified
- 7=Goods not elsewhere specified

Appendix 4: Kosovo's industry structure in the period 2008-2018 (as percentage of GDP)



Source: Kosovo Agency of Statistics (2020).

Appendix 5: The results of (non-parametric) Mann-Whitney Test for two independent samples

Ranks				
Are you present in foreign markets?		N	Mean Rank	Sum of Ranks
Size	Yes	71	83.73	5945.00
	No	72	60.43	4351.00
	Total	143		
Education	Yes	72	78.88	5679.00
	No	76	70.36	5347.00
	Total	148		
Targeted customers	Yes	72	79.56	5728.50
	No	78	71.75	5596.50
	Total	150		
Innovation	Yes	68	64.00	4352.00
	No	68	73.00	4964.00
	Total	136		
Border proximity	Yes	71	77.08	5472.50
	No	77	72.12	5553.50

	Total	148		
Family ownership	Yes	63	61.11	3850.00
	No	67	69.63	4665.00
	Total	130		
Outside ownership	Yes	63	70.23	4424.50
	No	67	61.05	4090.50
	Total	130		
State ownership	Yes	63	64.50	4063.50
	No	67	66.44	4451.50
	Total	130		
Foreign ownership	Yes	63	67.72	4266.50
	No	67	63.41	4248.50
	Total	130		
Other owners:	Yes	63	64.16	4042.00
	No	67	66.76	4473.00
	Total	130		

Test Statistics ^a										
	Size	Educa tion	Target ed Custo mers	Innov ation	Bord er proxi mity	Famil y owner ship	Outsi de owner ship	State owner ship	Forei gn owner ship	Other owne rs:
Mann-Whitney U	1723.000	2421.000	2515.500	2006.000	2550.500	1834.000	1812.500	2047.500	1970.500	2026.000
Wilcoxon W	4351.000	5347.000	5596.500	4352.000	5553.500	3850.000	4090.500	4063.500	4248.500	4042.000
Z	-4.081	-1.320	-1.192	-1.538	-1.066	-1.535	-1.762	-1.377	-1.413	-0.758
Asymp. Sig. (2-tailed)	0.000	0.187	0.233	0.124	0.287	0.125	0.078	0.169	0.158	0.449
Exact Sig. (2-tailed)	0.000	0.189	0.250	0.170	0.388	0.149	0.086	0.497	0.197	0.563
Exact Sig. (1-tailed)	0.000	0.096	0.125	0.085	0.197	0.087	0.057	0.264	0.138	0.321
Point Probability	0.000	0.001	0.016	0.042	0.098	0.045	0.033	0.264	0.099	0.175
a. Grouping Variable: Are you present in foreign markets?										

Source: Own work based on the data of online survey.