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**Exploring the Phenomenon of Foreign Direct
Investment: The Impact of Economic Development
and Growth Prospects on Location-Specific
Advantages in Kosovo**

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ABSTRACT :

The Republic of Kosovo is a landlocked country located in Southeastern Europe. After gaining independence in 2008, Kosovo has been determined to develop a prosperous and sustainable economy. Working to boost foreign direct investment (FDI) in Kosovo in order to accelerate growth in the economy and overall progress has been one of the strategies employed to achieve this goal.

The primary objective of this research is to look into how growth and development in the economy prospects influence location-specific advantages sought by foreign companies in Kosovo and to examine how specific market challenges impact the ability of foreign firms to leverage these advantages, using the LSA FDI theory as a theoretical framework. By exploring the factors that impact FDI in Kosovo, this study aims to inform policymakers and stakeholders in developing strategies to promote economic growth and attract foreign investment to the country.

The study is based on qualitative research methods, including in-depth interviews with 10 investors operating in various industries and the data collected is analyzed using thematic analysis. The findings suggest that Kosovo offers several location-specific advantages that are attractive to foreign investors, such as a skilled and highly educated workforce, low labor costs, low tax rates, favorable FDI laws, streamlined registration procedures, and strategic location. However, the market challenges that affect the ability of foreign firms to leverage these advantages include corruption, law enforcement issues, perceptions towards regional stability, international recognition, workforce migration, as well as the educational system's quality.

The study concludes that Kosovo needs to address these challenges to attract and retain foreign investment, including implementing effective measures to combat corruption, strengthening law enforcement, improving perceptions towards regional stability, increasing international recognition, and addressing workforce migration and education issues. Failure to do so could hinder the country's ability to fully leverage its location-specific advantages and achieve greater sustainable economic growth and development.

Lastly, this study adds to the FDI literature by providing important insights into the factors that encourage foreign investment in Kosovo. The study's findings can inform policymakers and stakeholders in developing strategies to promote economic growth and attract foreign investment to Kosovo.

KEYWORDS: Foreign-direct investment, economic development, location-specific advantages, growth prospects, market challenges, investment climate.

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Abbreviations

FDI	Foreign Direct Investment
LSA	Location-Specific Advantage
KIESA	Kosovo Investment and Enterprise Support Agency
SSA	Stabilization and Association Agreement
SME	Small and Medium-Sized Enterprise
CBK	Central Bank of Kosovo
MFT	Ministry of Finance and Transfers
ACA	Anti-Corruption Agency

1. Introduction

Dunning and Lundan (2008) describe foreign direct investment (FDI) as a type of investment that involves acquiring an ongoing interest in a company operating outside of the investor's country. This interest can be obtained by purchasing stock shares or long-term debt, and it indicates that the investor has significant influence over the enterprise's management. Foreign Direct Investment (FDI) is a direct investment made by a company in facilities for manufacturing or marketing in another country. The parameters for defining the volume of FDI investment might differ from country to country. Foreign direct investment (FDI) continues to be an important contributor to capital growth and economic growth in several countries, including Kosovo (Geci, 2021). Despite the potential benefits of FDI, there are still challenges to attract and retain foreign investment, particularly in a post-conflict, transitional country like Kosovo.

The literature has paid close attention to the influence of the economy's growth and development prospects on FDI investment decisions. However, given Kosovo's unique context and challenges, there is need to investigate the factors that influence FDI choice of location. There is a special need to understand how economic development and growth prospects influence the different kinds of location-specific advantages that companies seek in the country, as well as how specific market challenges influence foreign enterprises' capacity for leveraging these advantages.

1.1 Background and context

To address the research questions, this thesis has applied the Location-Specific Advantage (LSA) FDI theory, which emphasizes the relevance of specific qualities of an investment country that might provide companies specific advantages in terms of cost, skills, or resources. This research intends to give insights into the factors that affect FDI

in Kosovo by investigating the link between the economy's development, growth prospects, and LSAs, and to investigate the impact of market challenges on foreign businesses' capacity to leverage the LSAs.

Foreign direct investment (FDI) has become an important engine of economic growth and development in many countries throughout the world, including Kosovo. Over the past decade, FDI has played a vital role in the country's economic growth, creating job opportunities and contributing to the development of various sectors.

According to the Kosovo Investment and Enterprise Support Agency latest report, which is the main government agency responsible for obtaining foreign investment to Kosovo, FDI inflows to the country increased by 5.5% in 2020 compared to 2019, despite the COVID-19 pandemic's global economic slowdown (KIESA, Investment Climate Statements: Kosovo, 2020).

However, attracting and retaining FDI is not an easy task, and requires a deep understanding of the factors that drive foreign investors' decision-making processes (Dunning, 1977). The degree of growth and development of the economy potential in the host nation are important variables influencing FDI inflows. Investors tend to seek out locations with favorable economic conditions that offer potential growth opportunities for their businesses. Hence, it is essential to explore how economic development and growth prospects in Kosovo impact the types of location-specific advantages that firms seek out in the country (KIESA, Investment Climate Statements: Kosovo, 2020).

Another critical aspect that can affect foreign investors' decision-making is the presence of market challenges such as legal or regulatory barriers (Dunning, 1977). While Kosovo has made significant progress toward establishing a favorable business environment, there are still challenges that foreign investors face, which can hinder their ability to lev-

erage location-specific advantages. It is crucial to examine how specific market challenges affect the ability of foreign firms to leverage location-specific advantages in Kosovo.

This study attempts to contribute to a better knowledge of the influence of economic growth and development prospects on location-specific advantages in Kosovo, based on the research questions, as well as how specific market challenges affect foreign firms' ability to leverage those advantages. To achieve this goal, the Location-Specific Advantage (LSA) FDI theory is used as the main theoretical framework. This theory explains how the unique characteristics of a location can offer advantages to firms that invest in that location (Dunning, 1988). By conducting interviews with Investors in Kosovo, this study seeks to identify the specific types of location-specific advantages that firms seek out in Kosovo and how market challenges affect their ability to leverage those advantages.

1.2 Research Problem, Objectives and Research Questions

Foreign direct investment (FDI) topic in Kosovo is of great interest to both policymakers and investors. Although FDI can bring benefits such as job creation and economic growth, there are still challenges the country faces to attracting a higher amount of investment and maintaining foreign investment in Kosovo. One of the key challenges is comprehending how the country's economic development and growth prospects influence the specific advantages of location that foreign companies pursue, and how particular market obstacles impact their capacity to take advantage of these benefits.

The objective of this research is to:

Recognise the different types of location-specific advantages that foreign firms seek in Kosovo, based on the levels of economic development and growth prospects in the country, and to examine how specific market challenges impact the ability of foreign firms to leverage these advantages.

Research questions:

In order to achieve the objectives of this thesis, the following research questions will be explored:

- RQ1: How do the levels of economic development and growth prospects in Kosovo impact the types of location-specific advantages that firms seek out in the country?
- RQ2: How do specific market challenges affect the ability of foreign firms to leverage location-specific advantages in Kosovo?

To answer these research questions, this thesis has employed a qualitative research design, using semi-structured interviews with foreign investors operating in Kosovo. By providing a thorough examination of the influence of economic growth and market challenges on the location-specific advantages found by foreign businesses in Kosovo, this thesis will add to the current literature on FDI choice of location. The findings may provide insights for policymakers and investors seeking to attract foreign investment to Kosovo and other similar upper-middle-income countries.

1.3 Scope of limitations

As previously stated, the goal of this study is to examine the influence of economic development and growth prospects on the types of location-specific advantages that foreign businesses seek in Kosovo. Furthermore, the study investigates how specific market challenges affect foreign firms' ability to leverage these advantages. The study's major focus is on the experiences and viewpoints of foreign investors who operate in Kosovo, which includes both multinational businesses and SMEs. The research, however, does not consider the viewpoints of local companies or government representatives.

While the study aims to provide an in-depth examination of the factors influencing FDI choice of location in Kosovo, its generalizability is limited. The study's sample size of foreign investors in Kosovo is limited, which may restrict the findings' implementation to other situations or sectors. In addition, the study adopts a qualitative research approach, which may limit statistical generalization or causal inference. Finally, because the study was conducted at a specific point in time, the findings may not reflect the current situation in all sectors and industries, as well as future changes.

Despite these limitations, the goal of this study is to contribute to the existing literature on FDI location decisions by conducting a detailed analysis of the influence of economic growth and market challenges on the location-specific advantages sought by foreign companies in Kosovo.

1.4 Significance of the study

The study's goal is to investigate the impact of economic development and growth prospects on the sorts of location-specific advantages that international corporations evaluate when investing in Kosovo. The study also investigates how the country's market challenges impact international company's capacity to leverage these location-specific advantages. The study's findings may have implications for Kosovo policymakers as well as foreign companies looking forward to investing in the country.

Policy makers in Kosovo may adjust their economic development policies and governance regulations to better attract and maintain foreign investment by identifying the most sought-after location-specific advantages and market challenges. This has the potential to improve job creation, economic growth, and the country's competitiveness.

Furthermore, foreign companies can benefit from the study's findings by better understanding the challenges and benefits of investing in Kosovo. This can assist them in making better-informed financial decisions, resulting in more efficient and effective decision making.

Overall, the study's results have the potential to affect policy and practice when it comes to of foreign direct investment in Kosovo.

1.5 Thesis structure

This thesis is structured into five chapters, each of which covers a specific aspect of the research topic.

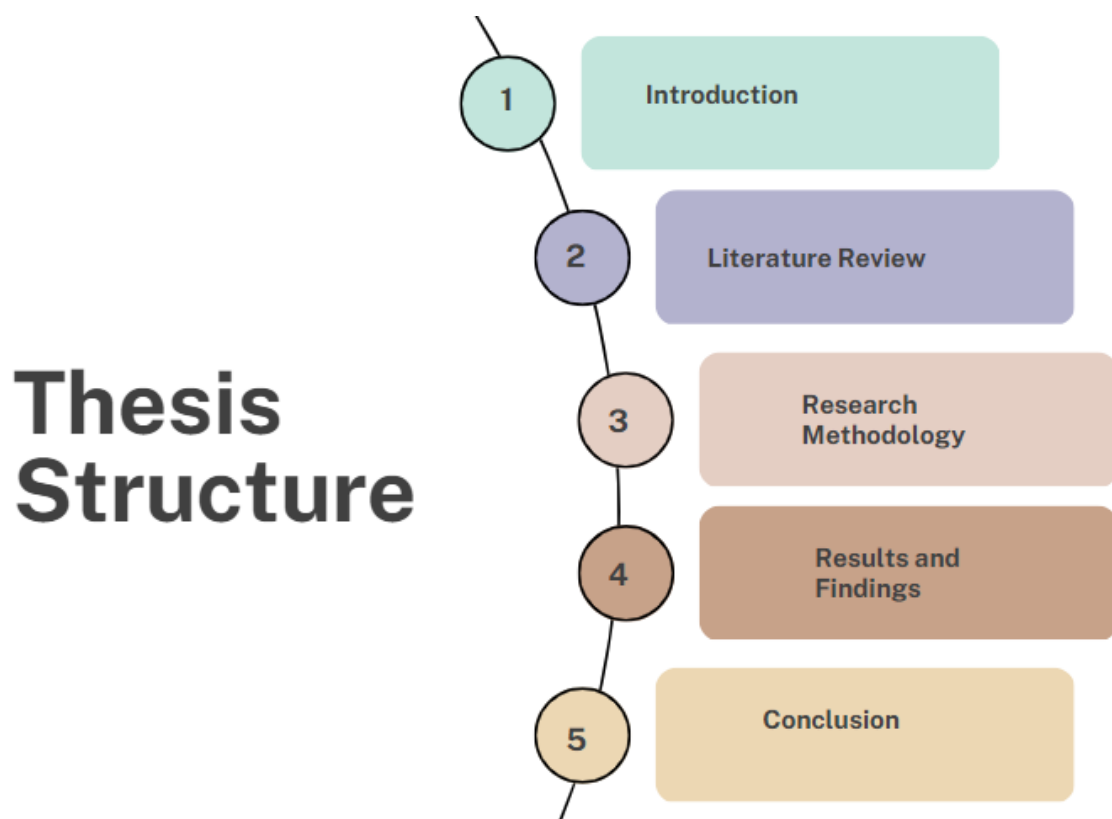


Figure 1: Thesis structure

Introduction (Chapter 1)

The first chapter outlines the research project, giving the reader the context and background information for the study. It defines the research problem, objectives, and research questions that the study attempts to answer. The chapter describes the scope

and limitations of the research, as well as its relevance in the area. Finally, the thesis structure is presented, providing the reader with a summary of the thesis' contents.

Literature Review (Chapter 2)

The second chapter presents an extensive review of the current literature on foreign direct investment (FDI) along with associated theories. It investigates a few FDI theories, including the location-specific advantage FDI theory. Furthermore, the chapter examines literature on FDI in Kosovo and delves into the country's history and evolution of FDI. Then it discusses the economic development and growth potential of Kosovo, as well as the laws and regulations currently in effect that promote FDI, such as laws and regulations in the country. Finally, the chapter analyzes unique market challenges in Kosovo, such as regional economic integration, corruption, political instability, public procurement, weak IPR enforcement, labor market, and infrastructural problems.

Research Methodology (Chapter 3)

The research approach applied to the study is described in Chapter three. It starts by discussing the research philosophy and approach, as well as how the research was designed and conducted. The chapter then focuses into methodology choice and sampling strategy, outlining how the sample was chosen and how the data was collected. It explains the technique for data collecting and analysis, including theme analysis. Finally, the chapter discusses the study's reliability and validity, outlining the steps taken to ensure the research's reliability.

Results and Findings (Chapter 4)

The study's findings and results are presented in Chapter 4. The chapter goes through the analysis of data found from the qualitative research and provides an in-depth explanation of the results and also a comparison with existing literature is done. The chapter examines the key results of the research and how they relate to the research questions stated in Chapter 1. Tables and figures are used throughout the chapter to help in the analysis and presentation of the results.

Conclusion and Discussion (Chapter 5)

Chapter 5 summarizes the key findings of the study and develops conclusions based on the research questions. Based on the study's results, the chapter makes suggestions to policymakers, businesses, and investors. Finally, the chapter identifies possible study areas in the field of research. The conclusion summarizes the important contributions of the research and gives a comprehensive review of the study and its significance for the area.

2. Literature review

The literature review chapter of this thesis explores several areas linked to foreign direct investment, such as the location-specific advantage theory which used as the main theoretical framework, economic development and growth prospects in Kosovo, and unique market challenges in the country as a whole. By analyzing relevant scholarly material, the chapter's goal is to offer a thorough understanding of the factors influencing the location-specific advantages sought by foreign companies in Kosovo, as well as the challenges that they encounter in leveraging these advantages. Finally, this literature review chapter serves as a foundation for the empirical analysis that follows, and it contributes to our general knowledge of foreign direct investment in Kosovo.

2.1 Foreign Direct Investment

The term "foreign direct investment" (FDI) refers to a sort of private external funding that has increased in relevance for both industrialized and developing countries. While FDI is important for countries that are both developed and developing, it has a particularly large impact on developing countries. In these circumstances, FDI can play an important role in promoting economic growth and development by bringing in new capital, technology, and skills, as well as assisting in the creation of jobs and increasing competitiveness in the global marketplace (Zagler, 2023).

According to Hill and McKaig (2015), globalization has contributed to a large increase in both the flow and stock of Foreign Direct Investment (FDI). Foreign direct investment (FDI) is defined as the purchase of physical capital by a corporation in one country from another. FDI assists the receiving country by filling technology deficiencies, providing qualified workers, quality management, and finally supporting job creation, rising GDP, updating infrastructure, encouraging competition, and enhancing productivity (Alfaro et al., 2020). This point of view is supported further by (Demir (2021), who did a comparative analysis of established and developing countries to investigate the influence of FDI on economic growth and argues that FDI helps the development of emerging economies.

Sujit et al. (2020) did a study on the factors affecting FDI, and their findings suggest that, while profitability and openness are major indicators, the degree of government regulation and clarity is the most crucial component. In other words, countries with a more stable and predictable regulatory framework attract more international investment.

The impact of FDI on the host country's economy varies according on the type of investment. Greenfield and brownfield FDI are the two major types of FDI. As defined by Chen et al. (2022), greenfield FDI means creating new business premises in the host country, whereas brownfield FDI entails acquiring or integrating with existing enterprises. Greenfield and brownfield FDI both contribute to economic growth, with greenfield FDI boosting capital stock, employment, and outputs and brownfield FDI enhancing productivity. Furthermore, FDI is classified as horizontal (market-seeking) or vertical (efficiency-seeking), with a broader classification encompassing natural resource-seeking, industry-seeking, productivity-seeking, and advantageous resource-seeking investments (Chen et al., 2022).

FDI (foreign direct investment) is crucial in today's globalized world's trend of global economic integration, also known as globalization. It facilitates the formation of direct, dependable, and long-term economic ties. FDI can be a major driver of local firm growth and boost the competitiveness of both the host and home economies when conducted within a supportive governmental framework. FDI promotes the host economy's goods in foreign markets by facilitating the transfer of technology and know-how between economies. Furthermore, FDI is an important source of funding to the host and home economic growth, and it has a positive impact on the development of international trade (Mamingi & Martin, 2018).

Foreign direct investment (FDI) is described as the process by individuals of one country gain ownership of assets in another country in order to manage a company's manufacturing, shipping, and other activities in the host country (Singh, 2020). In other words,

FDI is a foreign firm obtaining an interest in a business in another nation in order to gain control over its operations.

According to certain scholars, foreign direct investment (FDI) is a complex term that encompasses numerous types of investment activity. Buckley and Ghauri (2019) define FDI as "an investment made by a multinational enterprise or an individual in one country into business interests located in another country". FDI is defined by Dunning and Lundan (2016) as "the process by which a firm from one country acquires ownership of assets in order to control the production, distribution, and other activities of a company in another country".

The idea of "control" is an essential factor to consider while defining FDI. The word "control" in the context of FDI refers to the investor's ability to have discretionary decision-making authority over the management policies and plans of the foreign company or subsidiary. Control can be done through a variety of techniques, such as ownership of stock shares, board member selection, and non-equity structures like as outsourcing, agreements with management, franchises, licenses, and product sharing, according to Buckley and Ghauri (2019).

Foreign direct investment (FDI) is a crucial component of economic development.. According to Agosin and Machado (2019), FDI in the 21st century has evolved, with new patterns such as the increase of services sector investment and the move toward investment in less developed countries. Guo and Jiang (2019) examine China and India's FDI policies, noting differences in their methods to attracting FDI, such as China's focus on large-scale infrastructure projects contrary to India's emphasis on foreign investment in high-tech companies.

According to Li and Zhao (2019), who provide evidence from China, political risk is a significant factor affecting FDI. They revealed that political risk has a negative impact on FDI and that the destination country's institutions decrease the link between political risk

and FDI. Qureshi and Elahi (2020) study the impact of institutional quality on FDI inflows to South Asian countries. They discovered that institutional quality had a positive impact on FDI inflows, with democratic structures outperforming economic institutions.

Rajan and Subramanian (2018) have stated that political considerations, government policies and incentives, institutional quality, and the impact of foreign aid all have an impact on FDI. Understanding these elements is critical for policymakers attempting to attract foreign direct investment and encourage economic development.

(Hoang & Bui, 2015) used panel data analysis to analyze the factors that affected foreign direct investment (FDI) in the (ASEAN) countries from 1990 to 2012. Economic growth, infrastructural development, trade openness, human capital, and institutional quality all have a significant beneficial influence on FDI inflows in both the short and long run, according to the study. However, institutional quality is only discovered to be significant in the long run.

The study also discovers evidence of feedback effects between FDI and its drivers, implying that FDI inflows help to economic growth, infrastructural development, and trade openness, which attracts additional FDI inflows. Finally, the study emphasizes the significance of regional integration in encouraging FDI inflows into the ASEAN region. According to the report, the government in the area should prioritize economic growth, infrastructure development, trade openness, workforce development, and institutional quality in order to attract greater FDI inflows (Hoang & Bui, 2015).

Other studies have investigated the factors that influence FDI in various parts of the world. For example, (Erfani & Berger, 2020) examined the determinants of foreign direct investment (FDI) in a sample of six Asian countries using a semi-log fixed-effects regression model. The study makes use of panel data from Singapore, India, China, Turkey, South Korea, and Malaysia from 1995 to 2013. According to the research, gross fixed cap-

ital formation and labor force are both positive and significant predictors of FDI, but inflation is both negative and substantial. Trade openness and GDP per capita growth are also important factors influencing FDI, although financial development is not statistically significant. The research underlines the importance of increasing labor force participation, education, trade transparency, monetary accountability, and banking and finance growth in attracting FDI inflows.

(Mironko, A., 2018) conducted another study on the link between human capital, talent availability, and the attractiveness of foreign direct investment (FDI) in developing nations. According to the survey, the availability of a skilled workforce is an important element in attracting FDI, especially in high-value-added and service-related industries. The authors found that places with a high level of skilled workforce are more likely to attract international investors because they can instantly acquire the essential human capital to contribute to their success. The study also found that the availability of skilled workers can lead to knowledge spillovers and technology diffusion, increasing a region's attractiveness to FDI. Overall, the study underlines the importance of human capital and talent availability in attracting foreign direct investment and encouraging the development of host cities and regions in developing countries.

In conclusion, these studies have emphasized the importance of economic development, political stability, human capital, skilled labor, education, and trade openness as significant factors of FDI in different parts of the world. As a result, policymakers should work on strengthening these elements in order to attract more FDI inflows, which can ultimately contribute to economic growth and development.

2.2 Foreign Direct Theories

According to (Smith, 1937) and (Ricardo 1817), the origins of FDI theory can be traced back to Smith's early work on foreign specialization of production in 1776. Smith's theory of absolute advantage said that if one country could produce and export items more

effectively than the next rival with a given amount of capital and labor (absolute advantage), then business would occur between the two countries (Smith, 1937). Smith's argument, on the other hand, did not explain how trade could take place between countries when one was not involved in production.

The study of (Ricardo, 1817) on comparative advantage provides an explanation for FDI, focusing on foreign factor movements. He claimed that while labor and capital were mobile within countries, they were not mobile beyond borders. However, his theory had limitations, according to (Makoni, 2015), because it was based on views of perfect factor mobility, two countries, and two products, and could not entirely clarify international capital movements. Furthermore, (Kindleberger, 1969) stated that FDI wouldn't occur in a world of perfect rivalry, which contradicts Ricardo's ideas.

International business, according to (Denisia, 2010), would be the only method to engage in global markets if markets were completely efficient, with no trading or competition barriers. (Hymer, 1976) developed the basis for alternative explanations of FDI when he presented his thesis in 1960. According to (Hymer, 1976), FDI was motivated by the desire to reduce international rivalry among enterprises, as well as (MNCs') desire to increase profits by taking advantage of specific advantages.

Mundell (1957) presented a two-sector model of foreign investment flows in which capital transactions were seen as a substitute for international trade, resulting in cross-country component price equalization. This model expands Ricardo's theory of comparative advantage by integrating two nations, two commodities, two factors of manufacturing, and two identical manufacturing processes in both countries, as outlined by (Denisia, 2010).

Mundell's model (Mundell, 1957) is mainly focused with short-term, portfolio-type investments and fails to fully clarify worldwide production through FDI. Additionally, the majority of the earlier theories were centred on the United States and Europe. (Kojima

& Ozawa, 1984) aimed to solve Mundell's model's limitations by interpreting their unique model in Japan. Their theory was that FDI is occurring when a country has a comparative disadvantage in manufacturing one product, whereas foreign trade is driven by comparative advantage.

Vernon then elaborated on his theory. Vernon's (1966) product life cycle (PLC) hypothesis states that companies go through four phases, which include: creation, development, maturity, and decline. Technical innovation and market expansion are fundamental principles in this ideology. Technology is critical in the development and production of new items, whereas market size influences the amount and type of international business.

The PLC idea, like other FDI hypotheses, has significant flaws. One of the major critiques, as stated by (Boddewyn, 1985), is that it has not been scientifically tested. Furthermore, the theory does not account for all of the determinants of FDI, and it focuses solely on the location of manufacturing infrastructure, ignoring ownership. The theory also implies an easy decision-making process, which is not necessarily the case in everyday situations. As a result, as observed by (Buckley & Casson, 1976), the PLC theory is more suited for industries that leverage technology for innovation.

In the early 1980s, according to (Boddewyn, 1983), numerous scholars, including (Casson, 1979), (Grosse, 1985), and (Rugman, 1980), developed their own ideas on foreign direct investment (FDI). These theories attempted to integrate capital, foreign exchange parity location, market failure, firm growth, industrial organization, investment portfolio, and product lifecycle into a single comprehensive theory that could explain the motives and patterns of FDI (Boddewyn, 1983).

The most well known theory of international production, according to most scholars, is Dunning's eclectic paradigm, sometimes known as the OLI paradigm (Boddewyn, 1983). According to (Boddewyn, 1983), this paradigm is widely acknowledged as the most well-

known theory of FDI and was developed by Dunning in 1979 as it proposes that FDI occurs under a variety of situations including ownership, location, and internalization advantages (OLI).

The theory of FDI, according to (Popovici and Calin, 2014), is a synthesis of three theories: the theory of international trade, international capital markets, and the theory of firms. As a result, it is crucial to examine FDI concepts from both macroeconomic and microeconomic perspectives. There are two approaches to studying FDI theories, according to (Denisia, 2010): macroeconomic and microeconomic.

Macroeconomic FDI theories are concerned with cross-border capital flows as represented in the national balance of payments, as well as the reasons of these transfers. Location-based Approach to FDI Theories, Capital Market Theory, and Institutional FDI Fitness Theory are three well-known macroeconomic FDI theories. While Microeconomic FDI theories, on the other hand, focus on the incentives of investors desiring to invest across borders, with the Eclectic Paradigm theory being the most notable theory (Denisia, 2010).

Because of its relevance to the study questions and the setting of Kosovo, the Location-Specific Advantage (LSA) theory was chosen as the focus subject for this thesis. The purpose of this study is to look into how the level of economic development and growth prospects in Kosovo impacts the types of location-specific advantages that firms seek out in the country, as well as how do specific market challenges affect the ability of foreign firms to leverage location-specific advantages in Kosovo? This study aims to contribute to a better understanding of the factors that impact foreign investment decisions in an upper-middle-income country by analysing the role of LSAs in FDI in Kosovo. Additionally, by investigating the challenges and how they affect foreign companies in Kosovo, the aim of this study is to give significant insights into how Kosovo could more successfully attract and maintain foreign investment via the results and recommendations. The

location-specific advantage (LSA) theory of foreign direct investment (FDI) will be discussed in the next section.

2.3 Location-Specific Advantage FDI Theory

According to (Fengru & Guitang, 2019) the benefits that the hosting country provides to a foreign investor as a result of its unique factors, such as natural resources, work force, and location. position, are referred to as location advantages. Furthermore, such benefits arise as a result of a favorable investment environment, involving economic and political structures, laws, regulations, infrastructure, market capacity, and foreign economies of scale.

Since the 1960s, company-specific advantages, commonly referred to as monopolistic advantages, ownership advantages, or competitive advantages, have formed the foundation of research on foreign direct investment (FDI) (Hymer, 1960). Researchers such as (Dunning, 1980), (Terpstra & Yu, 1988), (Lall, 1980, 1983), and (Yu & Ito, 1988) have extensively investigated the influence of these advantages on a company's decision of engaging with FDI. Scholars such as (Erramilli, 1991), (Agarwal & Ramaswami, 1992), (Gatignon & Anderson, 1988), (Anderson & Gatignon, 1986) and (Kim & Hwang, 1992) have studied the effect of these advantages on parent firms' ownership preferences for foreign subsidiaries, both theoretically and empirically.

Location-specific variables are another significant group of factors that play a crucial part in understanding multinational companies investment decisions. Location-specific factors are a critical collection of factors in understanding multinational companies' (MNCs') investment decisions. Location-specific advantages are the distinct advantages that businesses might receive by operating in a specific location (Erramilli, Agarwal, & Kim, 1997).

Companies are more likely to invest and choose high-equity modes of investment in nations with more locational advantages, according to FDI theories. While both company-

specific and location-specific advantages are recognized to influence parent companies control preferences for subsidiaries abroad, recent theoretical advances have highlighted the impact of location-specific advantages by indicating that firm-specific advantages may be closely linked to a specific location (Erramilli, Agarwal, & Kim, 1997).

Several scholars, including (Buckley, 1990), (Casson, 1987), and (Dunning, 1980), have emphasized the significance of taking into account a foreign company's particular advantages in relation to competing companies and the competitive environment in the recipient nation. This indicates that a given company's characteristic or resource may be advantageous only in the context of a specific host country. For example, a technologically advanced multinational business from the United States may have an advantage over enterprises from emerging economies than companies from developed countries. The host nation is important in FDI studies because varied factor endowments, demand circumstances, and competition in the host country can either increase or negate a firm's advantages (Dunning 1995; Itaki 1991).

According to Dunning's (1988) argument, companies will engage in foreign production when they determine that it is in their greatest interests to incorporate partly applicable intermediary goods produced in their home country with a number of immobile assets of variables or substitute goods from another country. The eclectic paradigm differentiates geographical and ownership advantages and internalizes the requirement for both advantages. However, the decision to locate a mine, the manufacturing facility, or the office is not autonomous of the control over these assets, nor of the mechanism by which they or their privileges as owners are transferred (Dunning, 1988).

To better understand MNE locational decisions, it is necessary to know the difference between different market disadvantages. According to (Guisinger, 1985), structural market inefficiencies, which can come from governmental intervention and effect production costs and revenues across different geographic areas, can either encourage or discourage the flow of direct investment.

As previously said, one of the most significant frameworks used to analyze the elements that impact a firm's location decision is the OLI paradigm, which emphasizes the relevance of location-specific benefits. Natural resources, skilled labor, geographical location, economic and political structures, laws, regulations, and policies, infrastructure, market resources, and global economies of scale are just a few of the advantages that a foreign company examines when investing in a country (Veselova, 2019; Dikova, Panibratov, & Dunning, 2001). This presents an extensive approach to examining multinational firms' international operations by taking into consideration ownership specific advantages, location advantages, and internalization advantages of a possible host country (Lu, Ma, & Xie, 2021; Buckley, Craig, & Mudambi, 2019).

The location-specific advantage, in particular, helps to explain why certain companies choose to invest in particular places based on the distinct advantages the location provides. The first component of the OLI paradigm, O particular advantages, refers to proprietary ownership of specific assets as well as institutional advantages that explain why enterprises participate in international activities (Dikova, Panibratov, & Veselova, 2019). (Lu, Ma, & Xie, 2021) agrees that the OLI paradigm is a good way to investigate MNE international activity.

Dunning (1988) identified two categories of advantages for multinational enterprises (MNEs): transaction advantages (Ot) and asset advantages (Oa). Oa advantages are connected to exclusive possession of certain assets and may occur as a result of market distortions, whereas Ot advantages refer to the firm's capabilities that lower transaction costs and enable efficient use of strategic resources. (Dikova, Panibratov, & Veselova, 2019) have expanded the notion of ownership of specific advantages to include institutional advantages, which focus on preferential advantages in politics of one's own country's government.

The 2nd component, the 'L' advantages, explains why firms prefer to conduct international operations in various nations. It refers to the particular economic, legal, and social characteristics of the home or host country that tempt businesses to invest. Previous research has suggested that geographical variables alone may not provide an advantage over competitors, but only when coupled with business capabilities and assets (Li, Tallman, & Ferreira, 2005). The third advantage, I advantages, is concerned with how companies arrange their international operations, using their fundamental advantage in coordinating firm talents and integrating multinational intermediate goods markets (Xiao & Tian, 2023).

Many empirical investigations have been carried out under the OLI framework to investigate the impact of O advantages on company overseas activities. For instance, political connections (Fernandez-Mendez et al., 2018), technological expertise (Li et al., 2022), and international capability (Kumodzie-Dussey et al., 2022; Spadafora et al.) have been studied. Other areas examined include informal frameworks (Yiu et al., 2022), human resources (Kottaridi et al., 2019), and international cities (Belderbos et al., 2020) as they relate to the role of location advantages in defining businesses' cross-border activities.

Researchers observed that a firm's worldwide benefits can present stakeholders with a variety of possibilities (Dikova et al., 2019). Furthermore, company-specific benefits and factors related to location at both subnational and national scales (Li et al., 2018; Gao et al., 2018), as well as the choice between advanced and emerging nations (Wu & Deng, 2020), influence the location of a business.

According to Bolivar et al. (2019), firms that choose to operate in less developed nations do so for two primary reasons: to utilize natural resources assets and to access a cheap workforce. This approach allows them to leverage their current assets and capabilities to achieve a competitive advantage. Additionally, some firms aim to enter larger markets and offer cheaper products to customers with lower earnings in those markets (Wu et al., 2019). These studies have substantially improved understanding of the causes and

mechanisms that impact enterprises' location decisions between developed and developing nations.

2.4 Literature on FDI in Kosovo

The literature on foreign direct investment (FDI) in Kosovo is relatively limited. The available literature studies the factors that attract foreign investment in Kosovo written by (Kukaj & Ahmeti, 2016), (Mavraj, 2014), (Dobranja, 2014), (Jensen, 2018), (Beqiri, 2017), (Sahiti et al., 2020), (Haliti et al., 2019) as well as the effects of FDI on Kosovo (Badivuku & Zogiani, 2015), (Mustafa, 2014); (Kukaj & Alishani, 2017a, 2017b) (Xhemajli & Kalac, 2015), (Ziberi & Gashi., 2021), (Brava, 2019), (Ziberi & Gashi., 2021) while one of the latest studies by (Krasniqi & Mehmeti., 2021) analyses in particular the role of foreign direct investment in finance sector and their influence on employment. The main consensus among scholars, as summarized in Table 1, international direct investment (FDI) in Kosovo seems to be at an unsatisfactory level, and the government should put more focus on attracting international investments.

This is due to the local political situation with Serbia and Kosovo's socioeconomic standing, which prevents investments from economies that accept Kosovo's independence and restricts capital flows from large corporations from countries that have not yet recognized its sovereignty, such as Russia, Spain, Romania, and China. These findings were reported in several studies conducted by (Kukaj & Ahmeti, 2016), (Mavraj, 2014), (Dobranja, 2014), (Jensen, 2018), (Beqiri, 2017), (Sahiti et al., 2020), (Haliti et al., 2019), (Badivuku & Zogiani, 2015), (Mustafa, 2014); (Kukaj & Alishani, 2017a, 2017b) (Xhemajli & Kalac, 2015), (Ziberi & Gashi., 2021), (Brava, 2019).

According to (Alfaro, 2017), foreign direct investment (FDI) is widely acknowledged as an essential driver of economic growth for the country that receives the investment, with a number of favorable spillover results. This point of view is represented in studies conducted in the context of Kosovo, as indicated by (Dobranja, 2014), who emphasizes the

need of policymakers working together to establish a favorable climate for multinational corporations. Additionally, (Mavraj, 2014) claims that private foreign direct investment is a stronger economic development engine than grants and loans, both of which are quite widespread in Kosovo. According to Mustafa (2014) FDI may enhance exports and have a positive influence. However, (Islami et al., 2016) provides empirical evidence that certain foreign direct investment can result in a negative impact on the trade balance of Kosovo.

Policymakers are taking significant steps to create a favorable investment climate in order to boost Kosovo's investment image internationally (Beqiri, 2017) & (Brava, 2019). Brava (2019) recommends less restrictive monopolistic and fiscal policies, acknowledging the necessity of FDI for upper-middle-income countries like as Kosovo, which lack domestic capital sources. (Xhemajli & Kalac, 2015) emphasize Kosovo's newly adopted legal structure, which places multinational corporations on an equal footing with native enterprises. (Kukaj & Alishani, 2017) investigate the causes for the failure of FDI investment that are done in Kosovo and suggest their results as a foundation for future human investment and infrastructural development as a cause of FDI failure in Kosovo.

(Jensen, 2018) gives a comprehensive examination of the political and economic variables that provide both prospective opportunities and barriers to investment in Kosovo, providing a comprehensive review of the region's investment landscape. Despite the fact that the distance between countries and Kosovo's reputation over unstable political situations and corruption pose significant obstacles for many MNEs, (Haliti et al., 2019) suggest that government policies focus on reducing corruption in order to promote foreign direct investment in-flows.

According to (Sahiti et al., 2020), the regression results show that corporate taxes rates, salaries, GDP growth rates, and interest rates all have a substantial impact on FDI in Kosovo. A lower corporation tax rate attracts FDI, whereas lower labor costs boost FDI.

Further reductions in corporate tax rates may have a negative impact on budget revenues, as the country is already competitive in the region, with the exception of Montenegro. The findings of these studies indicates that decreased costs of labor, as reflected in salaries, can stimulate FDI. This adds credibility to the assumption that advantageous labor cost situation could potentially have a significant role in attracting FDI to Kosovo.

While (Ziberi & Gashi, 2021) suggested that Kosovo should take additional steps to benefit from FDI in areas such as developing its workforce via training, boosting employment rates, offering advances in technology, boosting exports, and improving rivalry in various industries or fields. Additionally they highlighted that it is necessary to implement foreign direct investment regulations in order to provide a secure and appealing environment for investors in Kosovo. Political stability is important for attracting FDI and generating a healthy economic climate for investment in the country, in addition to good laws and a young labor workforce.

According to the findings of (Krasniqi & Mehmeti,2021), human capital has a favorable and considerable influence on attracting FDI to Kosovo. The study emphasized the importance of human capital, both before and after foreign investment in the country. Human capital, however, is not the main factor of investment, according to them. The report also highlighted corruption as a key barrier to attracting foreign investment in Kosovo, which has been recognized by a number of international and local organizations. The authors suggest extending access to staff training would be a more cost-effective and efficient strategy to fostering growth than offering comprehensive university education at all levels.

Author/Year	Focus and Topic	Key Findings
(Dobranja, 2014)	Design, formulation, and implementation of investment policies in Kosovo	Policy -makers must work together to enhance Kosovo's development of policies and FDI environment.
(Mustafa, 2014)	The impact of investment and trade on the economic growth of Kosovo	Investments boost export and growth in Kosovo.
(Badivuku & Zogjani, 2015)	FDI and economic growth (a Kosovo case study)	Foreign direct investment has a favorable impact on Kosovo's economic growth.
(Mavraj, 2014)	The Importance of Foreign Direct Investment in the Development of the Kosovo's Economy	FDI, as opposed to loans, grants, and other subsidies, fosters long-term economic growth in Kosovo.
(Xhemajli & Kalac, 2015)	The impact of FDI on the development of Kosovo's economic transition	Kosovo's legal system, which has been linked with EU legislation since 1999, provides MNEs national treatment.
(Islami et al., 2016)	The relationship between FDI inflows and Kosovo's economic development	In Kosovo, FDI inflows are favorably connected with GDP growth but negatively associated with trade balance.
(Kukaj & Ahmeti, 2016)	The Impact of Foreign Direct Investment on Economic Development in Transition Countries: A Case Study of Kosovo	Human capital development and infrastructural development are critical drivers of FDI in Kosovo.
(Beqiri, 2017)	FI in Kosovo: Factor analysis and business profile from a Swiss viewpoint	The major reasons why multinational corporations (MNEs) choose not to invest in Kosovo include political and legal concerns, as well as a poor international image.
(Kukaj & Alishani., 2017)	Evaluation of foreign direct investment and its influence on the economy of transition nations, including Kosovo	Human capital development and infrastructural development are important factors influencing foreign direct investment (FDI) in Kosovo.
(Jensen, 2018)	Analysis of Foreign Direct Investment in Kosovo	Kosovo's economic and political parameters create both opportunities and concerns for potential investors.

(Brava, 2019)	Importance of FDI in Kosovo; rationale of initiatives for attracting investors	Kosovo's institutions take significant steps to foster a favorable investment climate and to provide favorable circumstances for attracting Foreign Direct Investment (FDI).
(Haliti et al., 2019)	The role of the investment climate in attracting foreign direct investment to Kosovo	Political stability, effective corruption and violence management, and closeness all have a beneficial impact on FDI flows to Kosovo, whereas physical distance is a disincentive.
(Sahiti et al., 2020)	The Factors Influencing Foreign Direct Investment: Evidence from Kosovo	According to the regression results, corporation tax rate, salaries, GDP growth rate, and rates of interest are all drivers of FDI in Kosovo, with a lower corporate tax rate and lower labor costs being major contributors.
(Ziberi & Gashi, 2021)	Foreign direct investment laws: a need for fostering a favorable economic climate in Kosovo	Kosovo should take measures to attract foreign direct investment (FDI) for human capital development, job creation, technical developments, exports, and competitiveness. Enforcing FDI rules and maintaining political stability are critical for developing a positive business climate in Kosovo.
(Krasniqi & Mehmeti, 2021)	The role of foreign direct investment in the banking industry and its influence on employment: the instance of Kosovo	Human capital has a favorable influence for FDI in Kosovo, with corruption perceived as a key challenge, and increasing access to staff training as a more effective strategy to fostering growth than general university education.

Table 1: Available literature in Kosovo related to FDI

In conclusion, the literature on foreign direct investment (FDI) in Kosovo is summarized in the table above. The study emphasizes that existing research on foreign direct investment in Kosovo is focuses on factors that attract foreign investment as well as the con-

sequences of FDI on the Kosovo's economy. Scholars agree that FDI in Kosovo is unsatisfactory level owing to the local political situation with Serbia and Kosovo's socio-economic position on internationally. According to the suggestions, officials must develop a favorable business climate in order to attract more FDI to Kosovo. According to the literature, FDI has the capacity to boost economic growth and have positive spillover effects. Certain FDI, on the other hand, may have a negative impact, such as increasing goods imports. According to the literature, decreasing corruption, implementing a favorable legislative structure, and maintaining low corporate tax rates can all help Kosovo attract more FDI. In order to gain from FDI, the literature highlights the significance of investing in human capital development through training, raising employment rates, offering technical improvements, expanding exports, and enhancing competitiveness in various industries.

2.5 FDI in Kosovo

Kosovo was mostly focused on agriculture during the period as part of Yugoslavia and lacked major cities and sophisticated infrastructure. The lack of urban centers and limited infrastructure has hampered sustainable expansion, resulting in a located population with mainly Pristina as a major population center. Furthermore, Serbia's destruction of property records during the conflict in 1998-1999 has made determining ownership difficult, with multiple individuals frequently claiming partial paperwork for the same property, leading to ownership disputes (Conahan, 2018).

The counter-insurgency and fight for independence from Serbian regime in Kosovo resulted in a significant loss of life, with an estimated amount of 1,600 missing people still in 2023 and approximately 13,000 people being killed, was a significant amount of loss of lives due to the size of the country and its population. Furthermore, approximately 1.2 million to 1.45 million Kosovo Albanians have been displaced and forced out of the country as a result of the conflict (Domanovic, 2014). This significant moving and loss of life had a notable impact on the Kosovo people, which in turn had a negative influence on the region's economy.

The World Bank classifies Kosovo's economy as upper-middle-income. Kosovo's economic development has surpassed its neighbors and, to some extent, been inclusive throughout the previous decade. This development, however, has not resulted in a sufficient number of job opportunities, particularly for females and young generation, nor has it significantly decreased the country's high unemployment rates. Kosovo's growth strategy has historically relied mostly on remittances for consumption within the country, but it has recently shifted to a more incentive to invest- and export-driven approach to accelerate economic growth (Ruxho, F., & Ladias, C. A., 2022).

According to (Bartlett & Uvalić., 2022) Kosovo must focus on increasing productivity and establishing high-quality employment in order to continue its progress. Addressing infrastructure difficulties, investing in human capacity, and establishing a conducive climate for private sector development are all necessary. It is also critical to strengthen governance and the rule of law. It is critical to provide Kosovo's young people with the skills required by a modern economy, as well as to safeguard vulnerable individuals through focused social initiatives. Another concern is closing gender inequities in economic opportunity. Furthermore, actions to promote environmental sustainability are required, including meeting the environmental requirements of the EU. Despite a robust economic rebound in 2021, Kosovo's growth was hampered by global inflationary pressures.

Kosovo's economic climate is becoming more competitive in the area, with advantages such as an attractive tax structure, abundant natural resources, rapid and easy business registration, and clear foreign investment legislation. According to the Kosovo Investment and Enterprise Support Agency information in regard to positive changes in regulations from the government, Kosovo is becoming an appealing and investor-friendly destination for foreign firms. It is now possible to register a business in Kosovo in just two days, free of charge, and with no chartered capital need for LLCs, which is a big improvement.

Kosovo's modest and sustainable improvement in building a favorable business climate and attracting investment is confirmed in the World Bank's Doing Business 2020 report (World Bank, 2020). However, in the 2020 report, Kosovo dropped to 57th place from 44th in 2019.



Figure 2: FDI in Kosovo since independence (source CBK, 2021).

The above graphical illustration of Central Bank data shows that, while the value of Foreign Direct Investments (FDIs) in Kosovo was significantly higher in 2007, it contradicts the widely held belief that the declaration of independence in 2008 would have resulted in an increase in FDI. While political unrest in 2014 may have contributed to the significant decrease in FDI, it does not fully explain the overall trend observed over the entire analyzed period (CBK, Central Bank of Kosovo, 2021).

Another perplexing outcome is the expected growth in Foreign Direct Investment (FDI) in 2020, regardless of the devastating financial effects of the COVID-19 outbreak. Foreign direct investment in Kosovo went up by 34.2 percent over the previous year, totalling 341.7 million euros, according to the Central Bank of Kosovo (CBK, 2021), (Bartlett &

Uvalić, 2022). According to the most recent CBK research, FDI in Kosovo in 2021 would be EUR 415.3 million, representing a 20.1 percent rise (with a 35.8 percent increase in 2020 and a 6.4 percent reduction in 2019) (CBK, 2021).

The leasing and real estate industries got the highest amount of foreign investment in Kosovo. Following these two industries were the energy industry and the financial services or banking industry. These sectors or industries were chosen as possible investment areas due to their growth potential and economic advancements. Bartlett and Uvali (2022). According to these trends, FDI in Kosovo has the potential to be influenced by a range of factors, including as political stability, economic conditions, and global events such as Russia's invasion of Ukraine. These indicators must continue to be monitored and evaluated in order to assess and anticipate FDI potential in Kosovo.

2.5.1 Economic Development, Growth Prospects in Kosovo

Despite the impact of the international crisis, Kosovo has experienced favorable economic development as measured by GDP, with positive and continuously increasing trends in recent years. The major drivers of economic development have been private sector spending and investment, notably in the rapidly expanding financial sector. The Kosovo government has undertaken solid and forward-thinking policies, such as broadening the tax income base, allowing higher government spending to promote economic growth (Krasniqi, Jashari Goga, & Mehmeti, 2022)

With the aid of USAID, the Kosovo government has implemented steps to eliminate challenges, streamline business procedures, and improve government services. According to (Bartlett & Uvali, 2022), Kosovo has been named one of the world's greatest twenty fastest-growing economies, indicating efforts to create a more welcoming business environment for investors and entrepreneurs.

The (KBRA), which is part of the MEETIESI , oversees registering new firms, business closures, and business modifications in Kosovo. As of April 2020, various phases for business registration procedure can be completed online, making it less difficult for investors. Successfully registered businesses receive a business registration certificate, a VAT registration number as well as a fiscal number. Employees of new companies must additionally register with the Taxation Administration, which is part of the government's MFT. Individual businesses usually register in one day, but joint ventures might take up to three days. In contrast to other nations, Kosovo does not require a notary when registering a new business unless it requires the transferal of property (KIESA, 2021).

The high unemployment rate in Kosovo, which peaked at 25.9% in 2021 according to official figures, is a major concern among the general population. Unemployment is significantly higher among first-time job seekers and women, surpassing the official rate. Experts attribute this problem to a variety of issues, including a labor market skills gap and a high reserve wage, which refers to the minimal salary level that job seekers are willing to accept. These difficulties contribute to Kosovo's chronically high unemployment rate and offer major barriers to work prospects for many sectors of the population (Kryeziu & Halili, 2021).



Figure 3: FDI Relationship with the level of employment and unemployment in Kosovo (Source: CBK , 2021).

The graph above compares Kosovo's employment levels (as a percentage) to the value of (FDIs) in millions of euros from 2011 to 2020. There is no obvious direct or continuous link or trend between employment and FDI levels. This is due to a significant percentage of the investment being in the real estate industry, which is not recognized for providing a significant number of employment.

(Murati-Leka and Ajvazi (2021) Kosovo's labor regulations, which include low minimum salaries in compared to European Union (EU) countries, have also played a role in attracting international investment. This, together with the qualities of the labor force, has contributed to Kosovo's attraction as a location for foreign investment. Given the labor market characteristics, it is obvious that Foreign Direct Investments (FDIs) in a variety of industries in Kosovo have the potential to create additional employment opportunities for the country's labor force.

In addition to labor market characteristics, Kosovo's legal framework for FDI, along with government policies and incentives, aims to attract and regulate higher levels of foreign investment by taking into account factors such as investment promotion laws, foreign investment protection laws, streamlined administrative procedures, and various incentives which are explained in more detail below:

Laws and regulations governing FDI in Kosovo

International direct investment (FDI) laws and regulations in Kosovo aim to establish advantageous conditions for international investors while also promoting long-term economic growth. The major rule controlling FDI is the Foreign Investment Law No. 04/L-2202, which establishes essential rights, protection measures, and guarantees for foreign investors and gives them the same rights and obligations as domestic investors.

A further significant element of legislation is Law No. 05/L-079 on Strategic Investments in the Republic of Kosovo, which encourages and creates favorable conditions for strategic investments in Kosovo, as well as establishing regulatory processes and standards for assessing, choosing, executing, and inspecting strategic projects. To coordinate and unify initiatives associated with doing business in Kosovo and funding infrastructure projects, the Kosovo government established the National Council for Economic Development (NCED) and the National Investment Council (NIC) (Lika, 2023).

The Law on Economic Zones, Law on Business Organizations, the Law on Chambers of Commerce, the Law on Arbitration, the Law on Executive Procedure, the Law on the Establishment of the Kosovo Credit Guarantee Fund and the Law on Standardization are also important FDI laws in Kosovo. Furthermore, Kosovo has developed several strategic documents aimed at attracting foreign investors, including the National Development Strategy, the Economic Reform Agenda, and the Economic Reform Program (Lika, 2023).

In summary, these laws and efforts aim to make Kosovo's business climate more transparent, efficient, and competitive, as well as to attract foreign investment to foster long-term economic growth.

Furthermore, through various initiatives, Kosovo has made significant efforts to support sustainable economic growth and strengthen its connection with the European Union (EU). The (SAA) is one of the significant agreements that Kosovo agreed with the EU in 2015. The SAA intends to bring Kosovo closer to the EU by establishing a free trade zone and implementing EU norms and rules in Kosovo (Lika, 2023).

Kosovo is also a part of the EU proposal to create a regional economic zone with other Western Balkan nations such as Albania, Macedonia, Bosnia, Serbia and Montenegro. This effort enhances Kosovo's involvement in the SAA and aims to promote long-term economic prosperity in Kosovo by implementing EU norms and legislation. Moreover, Kosovo has adopted an E-Procurement System to improve openness, efficiency, and

competitiveness in public procurement. This system provides an online platform for tendering, bidding, and contract administration (Lika, 2023).

The corporate income tax rate in Kosovo is set at 10% on taxable profits for companies operating in the country. Meanwhile, Kosovo has a progressive personal income tax system, with tax rates ranging from 0% to 10% depending on income level. Higher income levels equate to higher tax rates. This approach guarantees that those with greater salaries pay a higher percentage of their income in taxes. Furthermore, in Kosovo, individuals are required to contribute 5% of their income to the pension system, which is mandatory and aims to provide a social safety net for retirement. This contribution guarantees that individuals have assets available to them during their retirement years (Lika, 2023).

These efforts aim to enhance the business climate in Kosovo by making it more transparent, efficient, and competitive in order to foster long-term growth in the economy and attracting additional investments from abroad. Furthermore, Kosovo's participation in the SAA, as well as the EU proposal to establish a regional economic zone involving the other Western Balkan countries, strengthens Kosovo's relationship with the EU and promotes long-term economic prosperity.

2.5.2 Specific Market Challenges in Kosovo

Entering a new market may be difficult for any firm, but it gets considerably more difficult when dealing with a country that is still developing and is going through political and economic transformations. Kosovo is a young country that has encountered several challenges since its declaration of independence in 2008. Despite challenges that the country is still facing, Kosovo has made excellent progress in establishing a stable and friendly environment for investments from abroad, and the authorities have made major efforts to attract foreign enterprises. Despite these efforts, foreign companies face a number of challenges when attempting to capitalize on Kosovo's advantages. These challenges can range from bureaucratic procedures, political instability, and a lack of infrastructure, high unemployment rate, mismatch between the skills of unemployed citizens with the needs

of the job market making it challenging for foreign companies to succeed in the Kosovo market (State, 2020), (Džankić, Kacarska, & Keil, 2023).

Kosovo has a number of structural challenges, including limited economic integration into the region, corruption, instability in government, procurement practices, not enough intellectual property enforcement, labor market issues, and infrastructural deficits (State, 2020).

The dissolution of Yugoslavia wreaked damage on the economic infrastructure of its successor governments, including Kosovo, at the time a country that had limited growth in its economy. Regional integration with neighboring countries might increase Kosovo's economic influence and help the successor states manage common economic difficulties. According to trade data, improving economic and commercial links with regional countries, as well as deeper integration with the European Union and participation in supranational economic institutions such as the World Trade Organization, would benefit Kosovo's economy and the region. According to trade, renewing and strengthening significant commerce, manufacturing, and supply networks will contribute to Kosovo's growth, prosperity, and stability (Ylmazata, M., 2022).

(Williams & Gashi, 2022) identified corruption as a significant barrier to attracting investment in Kosovo. Despite the implementation of anti-corruption legislation, corruption is still prevalent in Kosovo's public procurement. The government is having difficulty successfully investigating, prosecuting, and seizing the assets of corrupt individuals. Measures such as required electronic public procurement and the disclosure of contract winners' identities have been adopted to combat corruption. Corruption is combated by government authorities such as the ACA and the General Auditor Office.

Despite political insecurity, (Gosar, 2022) states that there have been legislative and regulatory changes affecting investments and the business environment in Kosovo, there

have been no complaints of business projects or installations being damaged. The present administration has made strides in combating corruption, balancing the budget, and improving the administration of the government. The new administration, on the other hand, is anticipated to reestablish views of political stability and break with Kosovo's history of short electoral cycles. One issue for businesses in Kosovo is the country's lack of international recognition, which makes it difficult to perform regular business projects such as choosing Kosovo as a country in the drop-down options for various business services and activities.

(Krasniqi et al., 2022) states that the labor market in Kosovo confronts a number of challenges that limit its efficiency, including low participation and high unemployment rates, which are influenced by cultural and structural reasons. The low labor-force participation of women and youth is likewise a serious concern. With at least one-third of the population residing overseas, high emigration rates worsen the problem of low labor-market, resulting in remittance inflows that sustain high reservation salaries and contribute to structural imbalances in the labor market. As a result, Kosovo continues to have difficulties in creating an effective labor market with high participation rates as well as low unemployment, especially within those who are vulnerable such as youth and women, emphasizing the need for governmental interventions to address these concerns. Furthermore, almost three quarters of working people in Kosovo have jobs irrelevant to their area of study, demonstrating a significant amount of mis-match in the job market.

To sum up, Kosovo is facing numerous challenges, including corruption, political instability, labor market issues, and international recognition, which hinder its regional economic integration. Nevertheless, despite these challenges, the country has been able to attract investments from international companies indicating its ability to attract significant investments. However, it is worth noting that Kosovo could have achieved greater in terms of attracting investments. The government recognizes this and has taken steps to enhance the investment climate and business environment.

3. Research Methodology

This study's methodology chapter is crucial in describing the methods and procedures utilized to conduct the research. This chapter investigates the study's research philosophy, approach, methodological selection, sampling strategy, data collecting and analysis, thematic analysis, and reliability and validity. It is critical to ensure the study findings' quality and validity. Below in Figure 4 is illustrated the research process according to Saunders et al. (2009).

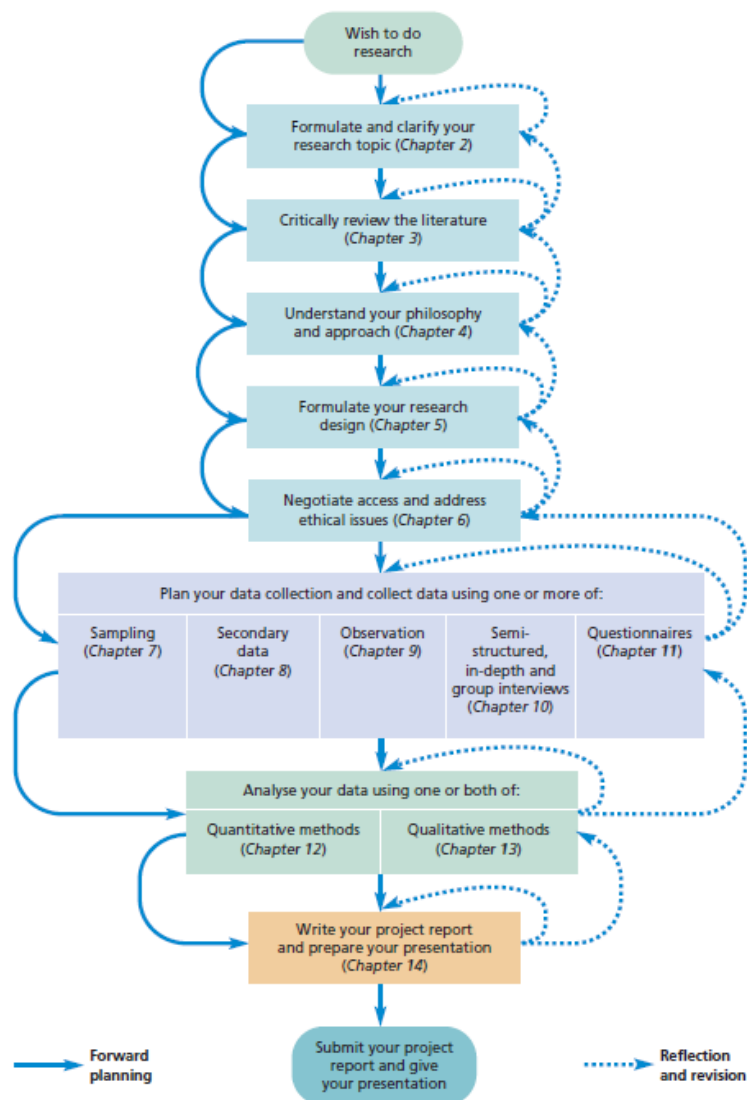


Figure 4: The research process. Source Mark Saunders, Philip Lewis and Adrian Thornhill 2009.

The above illustration shows that research starts with a problem or research question, followed by a literature review to identify relevant theories and concepts. The next step involves selecting a research methodology and designing a research strategy that answers the research questions. Data collection is then carried out, and the data are analyzed using appropriate methods. Finally, the study's findings are presented, and conclusions are made based on them. The arrows in the figure indicate that the research process is iterative, and that adjustments may need to be made at any stage of the process based on new insights or findings.

The fundamental goal of this research is to analyze how economic development and growth prospects influence the location-specific advantages sought by foreign investment companies in Kosovo, utilizing the LSA FDI theory as a theoretical framework. The research questions guiding this study are: RQ1: How do the levels of economic development and growth prospects in Kosovo impact the types of location-specific advantages that firms seek out in the country? and RQ2: How do specific market challenges affect the ability of foreign firms to leverage location-specific advantages in Kosovo??

A qualitative study design incorporating semi-structured interviews with investors was employed to answer these research questions. This methodology enabled a thorough exploration of the factors affecting foreign direct investment in Kosovo, the challenges investors face when leveraging location-specific advantages, and the obstacles they encounter in the market.

This chapter's next sections provide a thorough overview of the research philosophy and approach, methodology selection, sample strategy, collecting and analyzing data, thematic analysis, and the study's reliability and validity. This explanation gives the reader a complete overview of the research methodologies used in this study and explains the steps taken or used to assure the accuracy and reliability of the research findings.

3.1 Research philosophy and research approach

The research philosophy and approach play an important influence when it comes to the research design and methodologies utilized to gather and analyze data in this study. According to Saunders et al. (2009), four research paradigms control research philosophies: positivism, interpretivism, realism, and pragmatism. Each of these paradigms is associated with a study design, which includes data collection methods, data analysis methods, and the nature of research findings.

The selection of an appropriate research philosophy and approach is critical to ensure the accuracy and reliability of the research findings. In this study, an interpretivist research philosophy the inductive research approach have been utilized. This allowed an in-depth exploration of the experiences and perspectives of investors regarding the impact of economic development and growth prospects on location-specific advantages pursued in Kosovo.

Interpretivism, according to Saunders et al. (2009), is a research philosophy that emphasizes the relevance of understanding social processes from the perspective of the persons involved. This concept is especially appropriate for this study since it intends to investigate investors' perceptions on the influence of growth and development of the economy potential on location-specific advantages sought by foreign companies in Kosovo.

The inductive research approach, on the other hand, focuses on studying a small sample of subjects within a specific context to identify patterns and gain insights. As noted by Saunders et al. (2009), this method is appropriate for examining the context within which events occur. In this study, the inductive research approach has been employed to examine the collected data thoroughly, identify patterns, and gain insights into the investors' perspectives. However, the study's primary goal is not to create a novel theory, but to enrich and confirm the LSA FDI theory by providing empirical evidence and insights specific to Kosovo's context.

By utilizing the interpretivism research philosophy and the inductive research approach, this study aims to acquire a deeper understanding of the investors' perspectives and perceptions. The findings of the study have practical relevance for governments and investors interested in attracting investors from abroad to Kosovo. Therefore, the research philosophy and approach adopted in this study help to enhance the existing knowledge of the subject matter and provide useful insights for various stakeholders.

3.2 Methodology choice

The qualitative research method was used for this study in order to acquire a better understanding of the impact of growth and economic development prospects on the specific advantages sought by foreign businesses in Kosovo from the perspective of investors. This method is suitable for this study because it allows for a thorough understanding of the experiences and viewpoints of investors working in the region, which is critical to fulfilling the research objectives.

To collect the data, a semi-structured interview method is used with foreign investors operating in Kosovo. This approach is consistent with the non-standardized interview method suggested by Saunders et al. (2009) for collecting qualitative data in case study research. Thematic analysis, a qualitative data analysis approach that helps to identify themes, categories, and patterns within the data, will be used to evaluate the data acquired from these interviews. Thematic analysis was chosen because of its capacity to methodically evaluate data and uncover key patterns and themes related to the research questions.

Overall, the qualitative research approach, along with the semi-structured interview method and thematic analysis technique, are well-suited to achieve the objectives of this study by providing a comprehensive understanding of the perspectives and experiences of investors on the impact of economic development and growth prospects on the specific advantages sought by foreign firms in Kosovo.

3.3 Sampling strategy

A purposive sampling method was adopted for this study. Purposive or judgemental sampling is a qualitative research approach in which the researcher employs their own autonomy to pick illustrations that assist answer the research question(s) and fulfill the objectives. When working with relatively small samples, such as in research using case studies, and when the researcher wishes to select situations that are significantly informative, this method is frequently employed (Neuman, 2005).

The population of this study consists of investors of foreign firms operating in Kosovo. The purposive sampling technique was used to select ten foreign investors for semi-structured interviews. The author has contacted foreign investors who meet the sampling criteria through relevant associations, networks, or other channels to participate in the study. The author has also leveraged the networks of local business partners or institutions to reach out to foreign investors.

Population and Sampling Information	Description
Target population	Foreign firms operating in Kosovo
Sampling Method	Purposive sampling
Sample size	10 foreign investors
Sampling criteria	Foreign investors who have been operating in Kosovo for at least 2 years, represent a diverse range of sectors and countries of origin, and have experience with location-specific advantages
Recruitment method	Through relevant associations, networks, and local business partners or institutions
Evaluation of sampling strategy	Assessing diversity of sample in terms of investment size, sector, and country of origin, and identifying any limitations or biases that may affect the validity of results

Table 2: Population and Sampling Characteristics

The table presented above provides an overview of the population and sampling approach utilized in this study. The population consists of foreign companies that operate in Kosovo, and the sampling method employed is purposive sampling. This method involves selecting 10 foreign investors who meet specific criteria. The table contains details on the criteria used to select the sample, as well as the recruitment methods and evaluation of the sampling strategy.

Company	Industry	Headquarters	Investment type	Length of Interviews
A	Manufacturing	United States	Greenfield investment	52 mins 18 secs
B	Information technology	United Kingdom	Greenfield investment	49 mins 47 secs
C	Consumer goods	Germany	Brownfield investment	56 mins 32 secs
D	Financial services	Austria	Strategic alliance	47 mins 55 secs
E	Events Management	United Kingdom	Franchising	50 mins 22 secs
F	Construction	Germany	Joint venture	45 mins 41 secs
G	Information Technology	United States	Joint venture	58 mins 09 secs
H	Information Technology	Switzerland	Greenfield investment	51 mins 27 secs
I	Manufacturing	Germany	Greenfield investment	54 mins 13 secs
J	Information Technology	United States	Greenfield investment	59 mins 06 secs

Table 3: Sample Information on Investors and their companies

The above table provides a comprehensive overview of the sample companies included in this study, along with key information such as their industry sector, headquarters, investment type, and length of interviews. This information is crucial in understanding the investment behavior and strategies of companies operating in Kosovo. The table serves as a basis for identifying trends and patterns in the data and allows for easy comparison between different companies. Additionally, the information on investment type was collected via email prior to conducting the interviews, with participants asked to provide details about their investments in Kosovo. Overall, this table plays a significant role in providing a clear and concise overview of the sample companies, facilitating the analysis of their investment behavior and contributing to the overall findings of the study.

3.4 Data Collection and Analysis

Effective data collection is crucial for the success of a research study, as it largely determines whether the research objectives and questions will be answered satisfactorily (Adams, Khan, Raeside, & White, 2007). To ensure a comprehensive study, it is essential to carefully plan and observe the data collection process.

The semi-structured interview approach was chosen as the research method for qualitative data analysis in this thesis. This approach entails a collection of themes and questions that the researcher aims to address, with some flexibility to adjust to the flow of the interview and further investigate the research objectives and questions (Saunders et al., 2009).

To gather data for this study, non-standardized, semi-structured interviews were conducted with foreign investors operating in Kosovo, using a purposive sampling strategy to include a diverse range of viewpoints and experiences. The interviews were conducted online and each interview lasted approximately 45-60 minutes, with the length of the interviews recorded in the table provided above. The participants gave their permission for the interviews to be voice recorded, and detailed notes were taken to document key observations and insights. Detailed notes were also made during the interviews

to capture key thoughts and observations. Since the interviews were recorded, it was possible to go back to investor's answers and analyze better the results.

After conducting semi-structured interviews with foreign investors operating in Kosovo, the data collected was analyzed thematically. Several stages were involved in the thematic analysis process, including getting familiar with data, performing the initial coding, looking for themes, reviewing and examining, processing themes, and producing a written summary. During the analysis, both manual coding and the software tool NVivo were used.

NVivo software has numerous advantages in research, including its ability to assist in planning, data analysis, theory development, and presenting reliable results, as highlighted by Mozzato et al. (2016). In addition, Botelho et al. (2017) emphasized the efficiency of NVivo in establishing relationships between data, ultimately saving time and remaining faithful to the original data. Based on these advantages, it was decided to employ NVivo in the individual analysis of each interview.

3.5 Thematic Analysis

Thematic analysis is the process of identifying patterns or themes in qualitative data. It is regarded as the core way for doing qualitative analysis and is an important skill for many other kinds of analysis (Braun & Clarke, 2013).

Thematic analysis is the procedure of discovering patterns or themes in qualitative data, and there are several techniques to doing so (Boyatzis, 1998; Javadi & Zarea, 2016; Alho-jailan, 2012;). However, the variety of approaches can occasionally lead to misunderstandings about the nature of thematic analysis and how it differs from qualitative techniques such as qualitative analysis of content (Vaismoradi, Turunen, & Bonda, 2013).

In this study, the six-step framework developed by Braun and Clarke (2013) was used to conduct thematic analysis. This framework is widely recognized as an influential ap-

proach due to its clear and practical structure for conducting thematic analysis. It provides an achievable and efficient framework for evaluating qualitative data systematically and detecting patterns or themes that might assist answer research questions or solve topics of interest. Using this framework ensured a rigorous and thorough analysis of the data and allowed for a rich and nuanced interpretation of the findings. The steps for conducting thematic analysis for this thesis are explained below in Figure 5.

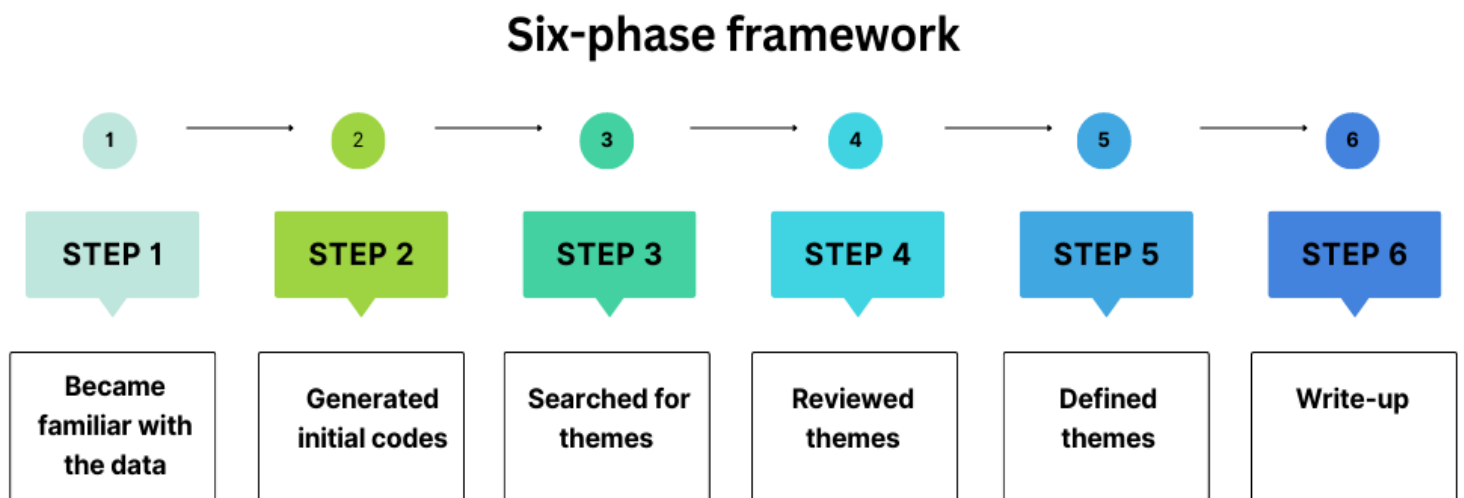


Figure 5: The six-phase framework developed by Braun and Clarke for conducting a thematic analysis.

The initial step taken towards conducting thematic analysis involved thoroughly reading and re-reading the transcripts of all interviews. The primary objective of this step was to achieve familiarity with the complete dataset, including all the interviews, before proceeding with any further analysis. This was a crucial step as it provided a comprehensive understanding of the data and allowed for the identification of patterns and themes.

During the second step, the data was organized in a systematic and meaningful manner through coding, which involved breaking down the data into smaller chunks of meaning. Each transcript was thoroughly examined, and relevant segments of text were coded in

relation to the research question. The codes were then compared, discussed, and modified. To facilitate coding and theme identification, the qualitative data analytic software Nvivo was utilized.

In the third step of thematic analysis, a theme is characterized as a recurring pattern that highlights an important or interesting aspect of the data or research question. According to Braun and Clarke (2013), there are no definitive criteria for determining what constitutes a theme. Instead, the importance and relevance of a theme to the research being conducted is what defines it. In this thesis, the examination of codes revealed that some of them were clearly related and could be grouped together as a theme.

Once all the data was coded, the codes were reviewed and compared to each other to identify common patterns or similarities. The codes were then categorized into larger themes found important and related to the research questions. This process assisted in identifying the most salient and meaningful themes in the data, which provided insight into the research question being investigated.

During the fourth step, the themes were reviewed in detail to ensure that they accurately reflected the patterns in the data. This involved checking whether the themes were internally coherent, fitted together well, and were consistent with the data as a whole. It was crucial to review the data in each theme to ensure that the coding was accurate and that the themes were adequately supported by data.

In the next step, after reviewing the themes, they were defined in a clear and specific way. This involved combining smaller themes into larger ones, refining the definitions of each theme, and capturing the key ideas and insights emerging from the analysis.

The final step of the thematic analysis was to write up the findings, which involved presenting the themes and supporting evidence in a clear and concise manner, as well as discussing their implications for both research questions. It was ensured that the themes

related to the broader literature on the topic, and relevant studies were highlighted, mentioned, or compared to the studies that were made in the same field. The research questions led this process, and the goal was to give a comprehensive and detailed interpretation of the data by also comparing them to the existing literature.

3.6 Reliability and validity of the studies

In the context of this thesis, achieving reliability was a key consideration throughout the research process. As noted by Saunders et al. (2012), there are several factors that can compromise the reliability of a study's findings, including errors or biases on the part of the participants or researcher. Therefore, it was important to take measures to address these issues and enhance the reliability of the study's results. Figure 6 illustrates some of the main reliability threats that were considered, including participant error, participant bias, researcher error, and researcher bias. By acknowledging these potential threats and taking steps to mitigate them, the study was able to achieve a greater level of reliability in its findings.

Threat	Definition and explanation
Participant error	Any factor which adversely alters the way in which a participant performs. For example, asking a participant to complete a questionnaire just before a lunch break may affect the way they respond compared to choosing a less sensitive time
Participant bias	Any factor which induces a false response. For example, conducting an interview in an open space may lead participants to provide falsely positive answers where they fear they are being overheard, rather than retaining their anonymity
Researcher error	Any factor which alters the researcher's interpretation. For example, a researcher may be tired or not sufficiently prepared and misunderstand some of the more subtle meanings of his or her interviewees
Researcher bias	Any factor which induces bias in the researchers' recording of responses. For example, a researcher may allow her or his own subjective view or disposition get in the way of fairly recording and interpreting participants' responses

Figure 6: Reliability threats (Saunders et al. 2012)

This study took several measures to ensure its reliability. Firstly, the interview questions were designed and pre-tested to ensure that they were clear and relevant, and that they provided reliable information to answer the research questions. Secondly, the sample selection criteria were defined and consistently applied to ensure representativeness and minimize bias. Third, the interviews were voice recorded and transcribed to verify that data was accurately collected. Finally, the data analysis involved several stages of thematic analysis using a combination of manual coding and software tools such as NVivo to ensure consistency and reliability of the identified themes and categories. In accordance with the relevance of methodological accuracy to research quality (Saunders et al., 2012), these methods were implemented to improve the reliability of the study's findings.

4. Results and Findings

The key results from the semi-structured interviews performed for this thesis are presented in this chapter. The study's main goal was to identify the various types of location-specific advantages that foreign firms seek in Kosovo, which are based on the nation's current economic situation and growth prospects, and to investigate the impact of market-specific challenges on their ability to leverage on these advantages. The following research questions were addressed in the study:

- RQ1: How do the levels of economic development and growth prospects in Kosovo impact the types of location-specific advantages that firms seek out in the country?
- RQ2: How do specific market challenges affect the ability of foreign firms to leverage location-specific advantages in Kosovo?

Semi-structured interviews were conducted with 10 foreign investors operating in Kosovo. The interviews focused on the investors' experiences and perceptions of the business environment and foreign investment climate in the country. The first set of interview questions pertained to RQ1 and aimed to explore the impact of the levels of economic development and growth prospects in Kosovo on the types of location-specific advantages that firms seek in the country. The second set of interview questions addressed RQ2 and examined the specific market challenges that foreign firms encounter in Kosovo and how these challenges affect their ability to leverage location-specific advantages.

The collected data was analyzed thematically to identify patterns and themes related to location-specific advantages and market challenges sought by foreign firms. This analysis uncovered several key themes related to the types of location-specific advantages sought by foreign firms, such as availability of skilled workforce and low labor costs, favourable tax rates, attractive laws on FDI, streamlined FDI business registration procedures and strategic location. In addition, for the 2nd part, the analysis revealed the key

market challenges faced by interviewed foreign firms operating in Kosovo that affect their ability to leverage LSA which are: corruption, law enforcement, perceptions towards regional stability, international recognition, workforce migration and education system. Each of the themes is further elaborated in the following sections.

The study's findings provide useful insights into the LSA sought by foreign companies in Kosovo, as well as the unique market challenges they face in leveraging on these advantages. These insights can be useful for policymakers and investors interested in enhancing the business environment in Kosovo, attracting more foreign investment to the country and improving business climate.

4.1 Impact of Economic Development on Location-Specific Advantages in Kosovo

To explore the relationship between how the levels of economic development and growth prospects in Kosovo impact the types of location-specific advantages that foreign investors seek out, the typology below was developed based on the thematic analysis.

This typology serves as a vital tool for the classification of various location-specific advantages, and their relative importance to foreign investors, based on the level of economic development and growth prospects in Kosovo. This framework provides a valuable insights for both policymakers and investors, who are interested in driving economic development in Kosovo and increasing the country's attractiveness to foreign investors, thereby enhancing its potential for foreign investment. By utilizing this framework, policymakers and investors will be better equipped to navigate the landscape of foreign investment in Kosovo and ultimately achieve greater levels of success.

Presented below are the location-specific advantages (LSAs) that foreign investors seek out in Kosovo, as found through research, and this part of the findings responds to the

first research question: How do the levels of economic development and growth prospects in Kosovo impact the types of location-specific advantages that firms seek out in the country?

Types of LSA	(n=10)	Company
Workforce	-	
Skilled young people	7	B , C, D, E, G, H and J
Low labor costs	9	A, B, C, E, F, G, H, I and J
Government Incentives	-	
Tax rates	8	A, C, D, E, F, G, I and J
Attractive laws on FDI	5	A, C, D, F, and I
Streamlined FDI registration procedures	5	B, C, E, G, and J
Strategic location	4	A, B, F, and H

Table 4: Investors' answers on how the economic development and growth prospects in Kosovo impact the types of location-specific advantages that firms seek out in the country.

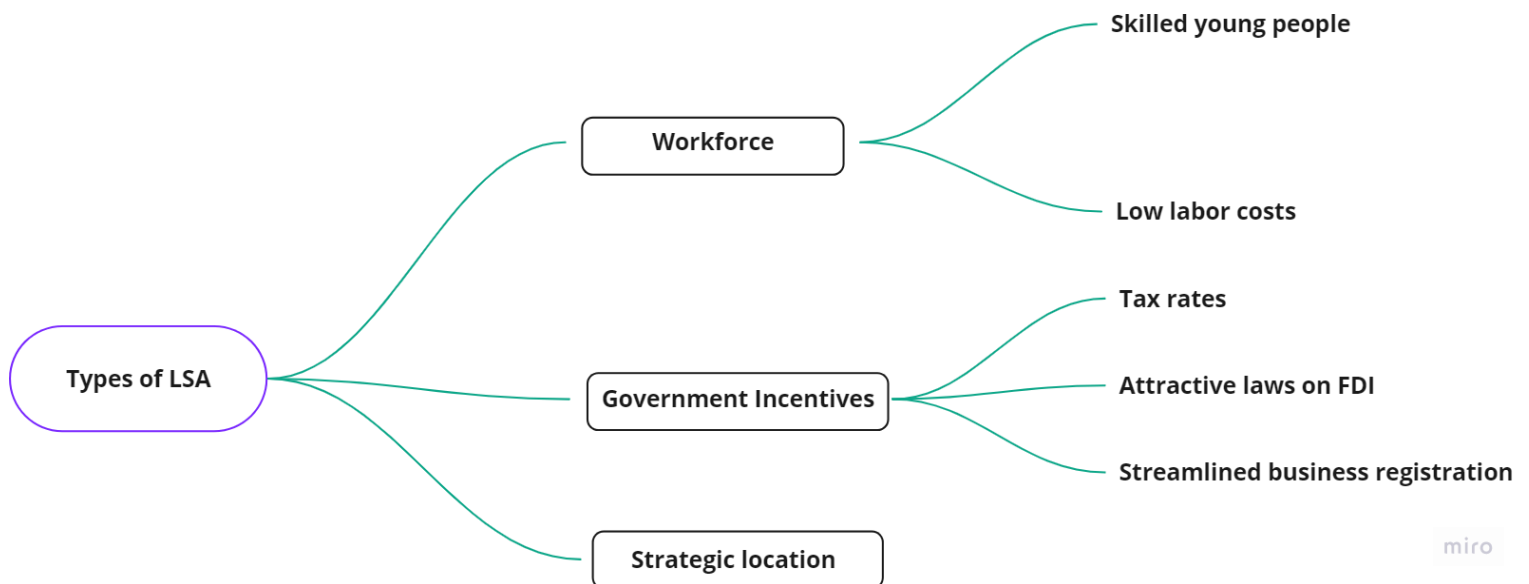


Figure 7: Typology on how the economic development and growth prospects in Kosovo impact the types of location-specific advantages that firms seek out in the country.

Below, the identified location-specific advantages (LSAs) that firms seek out in Kosovo are explored in further detail.

4.1.1 Workforce

According to the thematic analysis of the investors' replies, the most commonly highlighted location-specific advantages (LSAs) were connected to the workforce that Kosovo as a country provides. Investors were particularly interested in Kosovo's skilled young people and the country's cheap labor costs.

The skilled workforce in Kosovo are seen as a valuable asset for investors, as it provides a pool of talented workers who are able to make a contribution to the success and growth of their companies.

'Kosovo surprised us with the dedication and enthusiasm of its young workforce. We were able to find and recruit skilled and talented workers who have played a significant role in the success of our business operations here. The positive attitude and work ethics of the youth workers in Kosovo have made a lasting impression on us. We believe that this bodes well for the future growth and development of the local economy
' (Companies A, B, C, D, E, G, H and J)

This finding is similar with the findings of Mironko's (2018) study, which found that the availability of skilled workers is an important factor in attracting FDI in countries like Kosovo, particularly in strong-value-added and service-related industries. As a result, having skilled workforce is an important aspect in fostering the growth of hosting countries.

Furthermore, Dikova, Panibratov, and Veselova (2019) and Dunning (2001) identified several other advantages that foreign companies consider when investing in a country, Natural resources, geographical position, economic and political structures, laws, rules, and regulations, infrastructure, marketplace capacity, and global economies of scale are

all factors to consider. While the results of the investors' responses in Kosovo specifically emphasized the importance of a skilled workforce and low labor costs, the findings of these studies suggest that there are also other essential factors that companies consider when making foreign direct investments.

The responses from the investors who operate in the manufacturing and construction industries were somewhat different:

'From our experience operating in the manufacturing and construction sectors, we have found that while a skilled young workforce is certainly an asset, it is not necessarily a requirement for success. With proper training and development programs, we have been able to hire individuals who are eager to learn and grow with our company, as having a higher education is not a requirement for the majority of our positions. Of course, for certain positions that require specialized knowledge or expertise, finding skilled individuals was important' (Company A, F and I).

Based on the results, having a skilled workforce may not be a requirement for success in some industries, it is still important for a country to invest in human capital development in order to attract foreign investment.

While the findings from Ziberi and Gashi (2021) emphasized the need for Kosovo to focus on human capital development through training in order to benefit from FDI, seems to contrast with the responses of the investors in the manufacturing and construction industries. The investors stated that while a skilled workforce is an asset, it is not necessarily a requirement for success. However, these two statements do not necessarily contradict each other.

In conclusion, the investors who participated in this study shared their experiences investing in Kosovo, particularly in regards to the young skilled workforce. The majority of the investors found the young workforce to be dedicated and enthusiastic, contributing

significantly to the success of their business operations. However, investors in the manufacturing and construction sectors shared a different perspective, stated that while a skilled young workforce can be an asset, it is not necessarily a requirement for success. With proper training and development programs, these investors have been able to hire individuals who are eager to learn and grow with their company.

Regarding the low labor costs Kosovo as a country offers comparing to developed countries, according to the interviews conducted, 9 out of 10 investors have stated that the low labor costs in Kosovo have influenced their choice to invest in the country. The theme of low labor costs and its impact on the location-specific advantage sought by investors in Kosovo is presented below.

‘Kosovo's cost-competitive labor market has allowed us to reduce our operating costs significantly, thereby strengthening our competitive advantage. This, coupled with other location-specific advantages, has made Kosovo an attractive investment destination for us’ (Company A, B, C, E, F, G, H, I and J).

The comments from the investors reveal that the low labor costs in Kosovo have been a significant factor in their decision to invest in the country. The ability to reduce operating costs and strengthen competitive advantage has made Kosovo an attractive investment destination for many companies, in addition to other location-specific advantages.

The findings from Murati-Leka and Ajvazi (2021) regarding Kosovo's low labor costs and their impact on attracting international investment are consistent with the responses from the investors interviewed in the study where it was stated that low labor costs have influenced their choice to invest in the country. The lower labor costs in Kosovo compared to European Union (EU) countries, as noted in the study by Murati-Leka and Ajvazi (2021), have made Kosovo an attractive investment destination for international companies seeking to reduce their costs and increase their profitability. Additionally, the study by Bolivar et al. (2019), states that firms that choose to operate in less developed na-

tions do so for two primary reasons: to utilize natural resources assets and to access a cheap workforce. In this study, the investors have highlighted that the cost-competitive labor market in Kosovo has enabled them to reduce operating costs, thus strengthening their competitive advantage. These findings suggest that Kosovo's labor regulations, which include low minimum salaries compared to EU countries, have been crucial in bringing foreign direct investment to the country.

However, one investor has stated that the low labor costs were not a deciding factor for them:

'The low labor costs were not a deciding factor for us, but we certainly appreciate the cost savings it has provided for our operations' (Company D).

During the conversation, an investor operating in the IT sector acknowledged the role of low labor costs in Kosovo while also mentioning the upward trend in salaries. The investor emphasized that although salaries are increasing, the quality of work remains high, making Kosovo a cost-competitive destination. However, the investor expressed uncertainty about the future of salaries in the country and the possibility of them reaching the same level as in other European countries in IT sector in particular.

'While low labor costs were a significant factor in our decision to invest in Kosovo's IT sector, we have noticed an upward trend in salaries. While this trend is still manageable, we are uncertain about the future and the potential impact on our cost competitiveness. Nonetheless, for the time being, Kosovo still offers a favorable balance between labor cost and quality, making it a promising investment destination' (Company G).

In conclusion, cheap labor costs have played a big role in acquiring investors to Kosovo, with nine out of ten investors revealing that it was a key factor in their choice to invest in the country. The ability to reduce operating costs and increase competitive advantage

has made Kosovo an attractive investment destination for many companies, alongside other location-specific advantages. However, one investor stated that it was not a deciding factor for them. The IT sector, in particular, has benefited from the low labor costs, but the upward trend in salaries has caused some uncertainty about the future of cost competitiveness. Nevertheless, according to investors, Kosovo offers a favorable balance between labor cost and quality, making it a promising investment destination.

4.1.2 Government Incentives

The government incentives for foreign investors in Kosovo were found to have three main advantages according to the LSA results. Firstly, the low tax rate was considered as an attractive factor for foreign investors. Secondly, the laws related to FDI were considered investor-friendly, making the investment process more streamlined. Thirdly, the FDI registration procedure was found to be an efficient and smooth process, which helped to make doing business in Kosovo easier.

According to the investors interviewed, the tax rates were identified as the second most important factor when considering investing in Kosovo.

"The relatively low tax rate was one of the factors that made Kosovo an appealing investment destination for us.. It was a consideration in our decision-making process, but of course, there were other factors we had to consider as well." (Company A, C, D, E, F, G, I and J).

The corporate income tax rate in Kosovo is set at 10%. This is the rate applied to the taxable profits of companies operating in Kosovo. The low tax rate for foreign investors in Kosovo is a significant advantage for the country, as it makes it more attractive for foreign companies to invest in the country. This not only contributes to the growth of

the economy and creates job opportunities for the locals, but it also enhances the country's reputation as a business-friendly destination. The findings and the study both highlight the importance of tax rates in attracting foreign direct investment (FDI) to Kosovo. The investors interviewed identified tax rates as the second most important factor when considering investing in Kosovo and noted that the relatively low tax rates in the country were a consideration in their decision-making process. Similarly, the study by Sahiti et al. (2020) found that lower corporate tax rates were a significant factor in attracting FDI to Kosovo.

Furthermore, both the results and the study emphasize the crucial role of labor costs in getting FDI. Investors in the research stated that low labor costs in Kosovo were a crucial factor in their choice to invest in the nation, whereas Sahiti et al. (2020) discovered that reduced labor costs increased FDI in Kosovo.

Additionally, two investors had no comments regarding tax rates, which could mean that it may or may not have been a significant factor for them.

Transitioning to another LSA of the investment environment in Kosovo, the favourable laws and regulations linked to (FDI) in Kosovo are examined below. To encourage international investors to invest in Kosovo, the Kosovo government has enacted different laws supporting foreign investment which were presented in the literature chapter. According to the findings of this study, these measures have had a good influence on encouraging investors to invest in Kosovo. Five out of ten investors have emphasized the attractiveness of Kosovo's FDI rules.

"One of the things that stood out for us when considering investing in Kosovo was the legal framework surrounding FDI. We found it to be investor-friendly and it made the investment process more streamlined for us" (Company A, C, D, F, and I).

Additionally, three investors have added:

"We have noticed that the current government is making efforts to improve the investment climate in Kosovo." (Company A, E, and H).

The investors' statement " We have noticed that the current government is making efforts to improve the investment climate in Kosovo " indicates that they have observed a positive trend in the government's attitude towards foreign investment. This observation may be based on recent policies and actions, including the introduction of new investment laws and regulations, which make it easier for foreign companies to do business in Kosovo.

In addition, the investors may have recognized the government's commitment to creating a favorable investment climate is also reflected in its broader economic policies and priorities, including the promotion of a free-market economy and the plan of development of infrastructure and resources that support foreign investment.

Overall, the investors' comment suggests that they hold a positive view of the current government's approach to foreign investment and believe that it is creating a more favorable environment for foreign companies to invest and do business in Kosovo.

The study by Fengru and Guitang (2019) is consistent with the findings of this study since it identifies numerous components of an investment climate that are favorable, such as economic and political structures, regulations, rules, infrastructure, market resources, and global economies of scale. These elements are critical for attracting foreign investment because they offer a stable and predictable environment for firms to operate in.

Moving on to the next LSA, another factor that has contributed to Kosovo's attractiveness for foreign investors is the streamlined FDI registration procedure. Here as well, five out of ten investors have stated that streamlined FDI registration procedures have been a positive factor.

'Overall, we were quite satisfied with the FDI registration process in Kosovo. It has been a smooth and efficient experience for us, and we appreciate the government's efforts to simplify the process' (Company B, C, E, G, and J).

From the investors' statements, they have had a positive experience with the FDI registration process in Kosovo. The study Sujit et al. (2020) supports the results as they have found that while profitability and openness are major indicators, the degree of government regulation and clarity is the most crucial component. In other words, countries with a more stable and predictable regulatory framework attract more international investment. The streamlined FDI registration procedure in Kosovo can be seen as a reflection of a stable and predictable regulatory framework, which is an attractive factor for foreign investors. The findings are also in alignment by (Beqiri, 2017), (Brava, 2019) where it was also found that policymakers are taking significant steps to create a favorable investment climate in order to boost Kosovo's investment image internationally.

However, two investors have stated that having lawyers from Kosovo in the beginning is highly recommended to support with the registration procedure.

'In our experience, having local lawyers from Kosovo who are familiar with the FDI registration procedures can be highly beneficial. They can provide valuable support and guidance in navigating the process and ensure that all necessary documentation is in order. This has helped to streamline the registration process and save us time' (Company I and H).

Three investors stated during the interviews that they were informed about the Kosovo Business Registration Agency's initiative to allow certain steps of the FDI registration process to be done online since April 2020, which they perceived as a beneficial feature due to its convenience.

'Some investors who entered the market in the past three years, they have shared their experience regarding FDI registration process in Kosovo. It's positive to see that ABRK (Kosovo Business Registration Agency) has allowed to complete some of the steps online, making it easier for investors to register their businesses and receive the necessary certificates and numbers ' (Company C, E, and J).

One investor's opinion is that there is further room for the Kosovo government to enhance the investment climate in the country. However, the investor did not offer any precise recommendations when questioned about the specific areas where the government could direct its efforts to improve the investment climate.

In general, the low tax rate, investor-friendly laws related to FDI, and streamlined FDI registration procedure are the three main advantages of the government incentives for foreign investors in Kosovo. The low tax rate was considered the second most important factor by the investors, while the attractive laws and regulations related to FDI were identified by five investors as a reason for considering investing in Kosovo. Additionally, the streamlined FDI registration procedure was positively reviewed by five investors, with three of them mentioning the option to complete certain steps online as a convenient feature. Overall, it can be concluded that the investors hold a positive view of the current government's approach to foreign investment and believe that it is creating a more favorable environment for foreign companies to invest and do business in Kosovo.

4.1.3 Strategic location

Moving to the next LSA: strategic location. Kosovo's geographic location has already been discussed in terms of its benefits for investment. Below, the strategic location is explored in more detail and the statements of the investors are shared. Four out of ten interviewed investors stated that Kosovo's strategic position influenced their choice to invest in this country.

One investor has stated:

'When I first visited Kosovo, I liked the energy and enthusiasm of the people here. What surprised me even more was their proficiency in English, which can be a major asset for any company operating in the outsourcing industry. I believe this gives Kosovo a unique advantage. (Company H)

Another investor has stated that:

'Certainly, Kosovo's strategic location in the heart of the Balkans makes it an attractive destination for investment, as it provides easy access to a market of over 20 million consumers in Southeast Europe, I think there is potential here' (Company F).

The third investor has stated that:

'Kosovo's strategic location provides an excellent connection to Europe and in the Balkans, making it an ideal location for businesses to establish a presence here. In addition, the country has great potential in ICT, agriculture and natural resources, which provides a promising outlook for investment opportunities'. (Company B)

Similarly, in alignment with (Dikova et al., 2019; Dunning, 2001) where geographical location is highlighted as one of the advantages that foreign companies consider when investing in a country, both results emphasize the importance of a country's location for foreign investment.

The fourth investor had an interesting answer:

'Kosovo's location, coupled with its skilled and educated workforce, makes it a desirable investment destination. However, my partners and I were initially hesitant to invest in

Kosovo due to the situation with Serbia and its portrayal in the media. Nevertheless, after visiting Kosovo and meeting people here, we discovered that it is not what we expected. Contrary to international perception, Kosovo is a place with potential. While there may be some slight differences in the municipalities populated by Serbians as well, in general, people lead a normal life, and it is not considered a conflict zone.'

(Company A).

This investor's comment reflects the importance of first-hand experience and personal perspective in understanding the investment potential of a country.

In summary, the results show that the strategic location of Kosovo has been identified as a factor in attracting investors. The country's location in the Balkans provides easy access to a market of consumers in Southeast Europe. Investors have also noted the potential for investment opportunities in ICT, agriculture and natural resources. Additionally, Kosovo's skilled and educated workforce has been identified as a desirable aspect for investment. However, some investors were initially hesitant due to the situation with Serbia and its portrayal in the media. Upon visiting Kosovo, they discovered that it is not what they expected and that it has great potential as a place for investment.

In conclusion for the first part of the findings the location-specific advantages that firms seek out in the country are: skilled young people, low labor costs, tax rates, attractive laws on FDI, streamlined FDI registration procedures, and strategic location, are all location-specific advantages that firms seek out in Kosovo. These advantages are influenced by the levels of economic development and growth prospects in the country. As Kosovo develops and grows economically, it can attract more foreign direct investment and provide a favorable business environment for firms seeking these advantages.

4.2 Market Challenges Impacting Foreign Firms in Kosovo

The second part of the findings focuses on exploring the market challenges that impact the ability of foreign companies to leverage location-specific advantages (LSA) in Kosovo. Specifically, this part aims to answer the 2nd research question: "How do specific market challenges affect the ability of foreign firms to leverage LSA in Kosovo?". The second part of the findings is closely connected to the first part of the findings. In the previous section of the findings, we discussed the location-specific advantages that foreign investors identify as attractive in Kosovo, including low tax rates, skilled young people, low labor costs, streamlined FDI registration procedures, attractive FDI laws and strategic location. The typology and table provided below comprehensively outline the key challenges that foreign firms encounter while operating in Kosovo. The challenges identified through qualitative research are diverse ranging from corruption, law enforcement, perceptions towards regional stability, international recognition, workforce migration, and education system. These obstacles have a major influence on foreign businesses' capacity to profit from on the location-specific advantages of Kosovo outlined in the first part of the results, and hence have a direct impact on their business operations and success in the region

Market Challenges	(n=10)	Company
Political and regulatory environment	-	
Corruption	5	A, B,C,E and F
Law enforcement	4	B, C, E and G
Perceptions towards regional stability	5	A, B, E, G and J
Social and economic factors	-	
International recognition	4	B, D, G, and I
Workforce migration	4	A, C, F and I
Education system	4	A, E, F and I

Table 5: Investors' answers on market challenges that impact the ability of foreign companies to leverage LSA in Kosovo

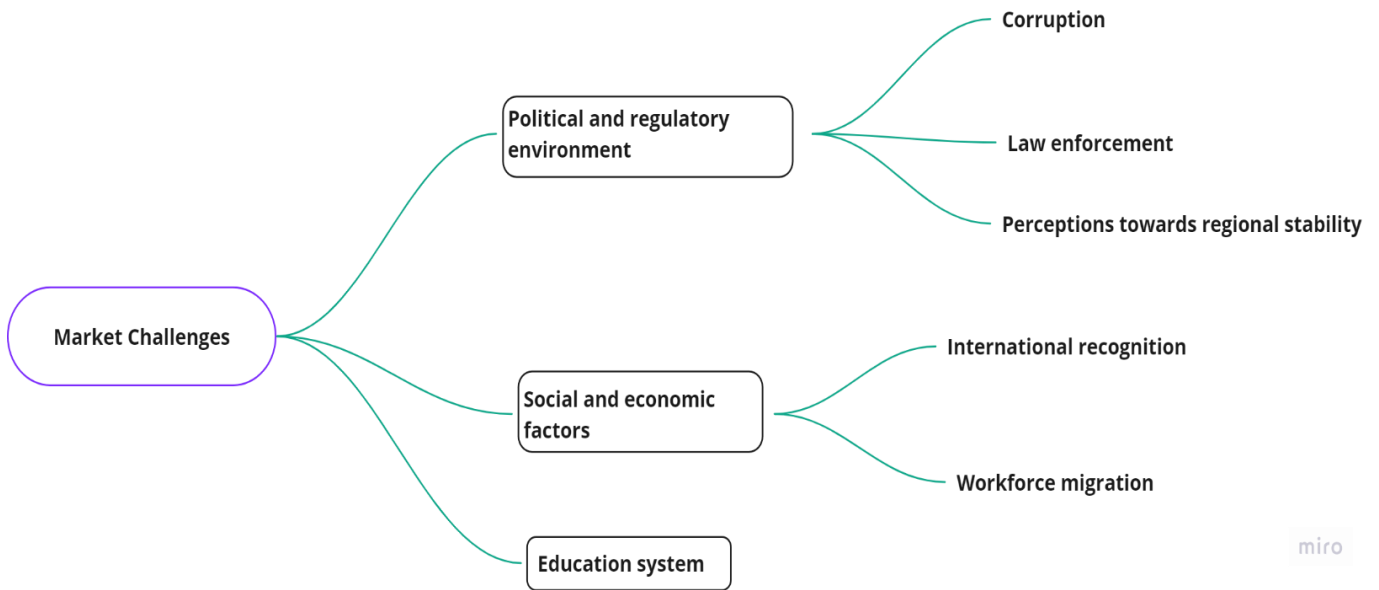


Figure 8: Typology on market challenges that impact the ability of foreign companies to leverage LSA in Kosovo

In the following paragraphs, each of these challenges will be explored and analysed outlining the main findings from our interviews with foreign firms operating in Kosovo.

4.2.1 Political and regulatory environment

This first section investigates the degree and type of corruption in Kosovo from investors' perspective, as well as how it impacts international businesses' capacity to do business in the country.

Five out of ten investors have stated that corruption has been a challenge for them. It is worth to mention that these 5 companies have entered the Kosovo market when previous governments were leading the country, their statements have emphasized that the corruption was an obstacle for their business operations.

'The level of corruption in Kosovo was an obstacle to our business operations when we entered the market. We had to deal with government officials demanding bribes in order to get things done faster even if the bribes were small and this was frustrating. This was not a challenge only to the foreign companies here, the local companies here have told us that they have gone through the same and in the previous years this was quite normal and we can see definitely some improvement but there is still work needed in this regard. Overall, corruption poses a reputational risk for the country, and we hope that the current government will take steps to combat corruption not only in relation to business operations, but in all areas' (Company A, B,C,E and F).

The statement highlights the issue of corruption as a challenge of doing business in Kosovo, which aligns with existing research on corruption in the region. The fact that both foreign and local companies face similar challenges suggests that corruption is a systemic issue in the country, and not limited to specific industries or sectors.

The mention of improvement in recent years indicates that efforts are being made to combat corruption, although it is also noted that more work needs to be done in this regard. It would be interesting to investigate the specific measures that have been taken to combat corruption in Kosovo, and whether these have been effective in reducing the incidence of bribery and other corrupt practices. Additionally, it would be useful to explore the impact of corruption on the overall business environment in Kosovo, including its effect on foreign investment and economic growth.

Similarly, and in alignment with the studies by (Haliti et al.,2019) and (Krasniqi & Mehmeti,2021) where it was found that corruption is a well-recognized problem in Kosovo that has been highlighted by both local and international companies. Their findings also suggest that addressing corruption should be a top priority for policymakers and the government in Kosovo, as it is crucial to create an attractive investment environment and foster economic growth.

The following paragraphs explore the effectiveness of law enforcement in Kosovo and how it impacts the business environment for foreign firms. Four out of ten investors have also stated that law enforcement has been a challenge for them:

'The reputation of law enforcement in Kosovo is a key consideration for us as investors. We believe that the government needs to take a strong stance against corruption within law enforcement agencies to promote transparency and ensure a level playing field for all businesses operating in the country, stronger commitment from the government is very much needed' (Company B, C, E and G).

According to the investors' statements, they express their concerns about the reputation of law enforcement in Kosovo and its potential impact on the business environment. They emphasize that the presence of corruption within law enforcement agencies creates an unequal business environment and undermines the rule of law. Therefore, the investors are seeking a strong commitment from the government to address these issues and establish a fair and level playing field for businesses. Failing to address these concerns could result in a loss of investor confidence and a more challenging investment climate.

Additionally, Sujit et al. (2020) emphasised the importance of government regulation including law enforcement and their findings suggest that, while profitability and openness are major indicators, the degree of government regulation is the most crucial component. In other words, countries with a more stable and predictable regulatory framework attract more international investment. The results support each other in that they both highlight the importance of a stable and predictable regulatory framework for the business environment.

One investor has also shared some specific concerns about law enforcement:

'We have had several employees sharing their previous experiences working in other companies in Kosovo, where they faced discrimination in terms of their workers' rights.

For instance, some of our employees have reported working beyond their working hours without receiving any overtime pay. They stated that this made them feel unprotected as the government does not conduct checks to ensure that companies comply with labor laws' (Company E).

This above statement highlights the issue of possible discrimination against workers' rights in Kosovo which is possible to happen in some companies. The company's employees reported working beyond their working hours without receiving overtime pay, which made them feel unprotected due to a lack of government checks on labor law compliance. While this issue may not have a direct impact on international companies' decision to invest in Kosovo, it is still a crucial factor to consider and it is an example of the lack of the enforcement of labour law in the country which is important. Additionally, these issues may negatively impact the reputation of the country and deter foreign investment.

The section below explores into how foreign firms' investment decisions and operations in Kosovo are influenced by their perceptions of regional stability.

'Prior to making an investment in Kosovo, our company and its management were concerned about the stability of the country in light of its situation with Serbia. The prevailing perception was that the country might not be a safe place to invest and operate in, and there was uncertainty about the potential for a renewed conflict between the two countries. Despite these challenges, we believe that the government can improve Kosovo's image by promoting it as a secure investment destination where people live their lives normally. The negative perception of the country has likely had an adverse effect on its overall reputation abroad, which needs to be addressed' (Company A, B, E, G and J).

The perceptions expressed by the five investors highlight the significance of political stability and safety for foreign investors when considering entering a new market. The findings are in alignment with the study by (Džankić, Kacarska, & Keil, 2023) where it was emphasized that political instability among other challenges has a negative impact on foreign investment.

The perception of potential conflict or instability can discourage foreign investment, despite the absence of actual risks as both countries are working towards a better future in this regard with the assistance of other nations. This underlines the government's role in enhancing the country's reputation as a secure and stable place to invest.

The statement suggests that negative perceptions of Kosovo can lead to a negative overall reputation abroad, ultimately affecting its capacity to attract foreign investment. Therefore, it is imperative for the government to take action to address any concerns or negative perceptions and promote the country as a secure and stable investment destination and a safe place to reside. It is worth noting that this issue was also discussed in the first section of the findings, where Kosovo's strategic location was explored.

4.2.2 Social and Economic Factors

This section begins by investigating how Kosovo's lack of international recognition impacts the country's desirability as a foreign investment destination. Four of out ten investors have emphasized the challenge of international recognition of the country.

'The lack of international recognition is a serious obstacle for companies like ours looking to invest in Kosovo. It creates uncertainty and risk for our business operations. We would like to see more engagement from the government in promoting Kosovo's interests on the international stage and pushing for recognition from other countries. We recognize the potential for growth and development in Kosovo, but it is a shame that

this country is not more widely promoted and international recognition is key to building confidence among investors and unlocking the full potential of Kosovo's economy ' (Company B, D, G, and I).

The lack of international recognition for Kosovo is a major concern for many investors looking to invest in the country. This is supported by the findings of (Gosar, 2022) where it was found that one issue for businesses in Kosovo is the country's lack of international recognition, which makes it difficult to perform regular business projects such as choosing Kosovo as a country in the drop-down options for various business services and activities. The absence of recognition creates uncertainty and risk for businesses operating in Kosovo. Some investors believe that the government needs to do more to address this issue, and they would like to see more efforts made to promote Kosovo's interests on the international stage and push for recognition from other countries.

Despite this challenge, many investors recognize the potential for growth and development in Kosovo, but they believe that the lack of international recognition hinders the country's economic growth. They believe that gaining international recognition is key to building confidence among investors and unlocking the full potential of Kosovo's economy.

Overall, the lack of international recognition remains a significant obstacle for investors looking to enter the Kosovo market, and the government's efforts to promote the country's interests on the global stage are crucial to addressing this challenge.

The following statements investigate the impact of workforce migration on foreign firms operating in Kosovo. The research delves into the causes and consequences of this phenomenon and sheds light on its effects on various industries such as manufacturing, consumer goods, and construction. It was found that these sectors are particularly vulnerable to the challenges posed by workforce migration in Kosovo.

'The rate of workforce migration in our industry is a barrier to long-term investment in Kosovo. It's difficult to build a business when the workforce is constantly shifting and there is a lack of stability. We would like to see more investment in education and training to create a skilled workforce and more efforts to retain talent in Kosovo. We've noticed that people leave Kosovo for a variety of reasons, including the social, education, and healthcare systems and offering an above average salary is not always enough. It's crucial for the government to address these issues to create a more stable and sustainable workforce in the country' (Company A, C, F and I).

One of the investors has also stated that:

'We are at the moment also hiring people from outside Kosovo in order to fill the gaps. This is not an ideal situation as it increases our costs as we would prefer to hire and train local people'' (Company F).

The study founds that workforce migration is a significant challenge for companies operating in manufacturing, consumer goods, and construction industries in Kosovo. migration of the workforce makes it difficult to build a sustainable and stable business environment in these industries. The lack of stability and skilled workers due to migration can lead to increased costs for businesses. According to the investors, the government should invest more in education and training to produce a qualified workforce and identify methods to keep talent in Kosovo. One investor mentioned that they are currently hiring people from outside of Kosovo to fill the gaps, but this is not an ideal situation as they would prefer to hire and train local talent. In general, addressing the issue of workforce migration and retaining talent is crucial for building a competitive and sustainable economy in Kosovo.

4.2.3 Education system

This section examines least market challenge identified in this study which is the quality of the education system in Kosovo and how it affects the availability of skilled labor for foreign firms operating in the country.

'Education is a key factor in building a competitive workforce and economy, and the quality of education in Kosovo is a concern for us. We need to see more investment in education and training to develop a more diverse of talents that can meet the needs of our businesses and drive growth in the country' (Company A, E, F and I).

The investors also added:

'The education challenge is a problem in general for the whole country. There is not that much diversity in different sectors. Let's say we have seen a lack of skilled people in industry sectors. These professions are not of interest to young people. While keeping in mind that Kosovo has potential in different industries, including agriculture, there seems to be a lack of people working in these sectors. The young people have been mostly focused on studying IT, business, justice, and this has created an imbalance between the needs of the job market and the skills of the people' (Company A, E, F and I).

One investor also stated:

'For those who haven't had the opportunity to pursue higher education or receive training in professional schools, it's difficult to find employment. The government should find ways to support and encourage lifelong learning, so that everyone has the opportunity to contribute to the country's development and growth. As much as people would be available for working, it would increase the confidence of foreign investors in the country's workforce and their ability to meet the needs of the market' (Company E).

The findings illustrate international investors' concerns about the quality of Kosovo's education system and its influence on the availability of skilled labor in the country. The job market in Kosovo is facing a challenge due to the lack of diversity in different sectors and the concentration of young people on certain fields of study. This has resulted in an imbalance between the skills of the people and the needs of the job market, which can pose a significant obstacle to attracting long-term foreign investment. Foreign investors seek a stable and sustainable workforce that can contribute to the success of their businesses, and the current state of the job market may not meet their expectations. Therefore, it is crucial for policymakers and education institutions to address this issue and create a workforce that can meet the demands of the job market and, in the long term, contribute to the country's economic progress.

The study by (Erfani & Berger, 2020) similarly emphasizes the significance of education in attracting FDI inflows while (Džankić, Kacarska, & Keil, 2023) also confirm that there is a mismatch between the skills of unemployed citizens with the needs of the job market making it challenging for foreign companies to succeed in the Kosovo market.

Furthermore, the country faces a challenge in supporting and providing opportunities for those who have not had the chance to pursue advanced studies or receive training in professional schools. Support and encouragement of lifelong learning by the government might help address this issue and create greater opportunities for people to contribute to the the country's progress and growth. Increased availability of skilled labor in all sectors would also benefit attracting more foreign investment in Kosovo. Therefore, the education system is an essential component of Kosovo's economic growth and development, and more investment and attention should be directed towards it.

5. Conclusion and Discussion

5.1 Summary of Research Questions

The first part of the findings, based on interviews with investors, provided insight on the location-specific advantages that Kosovo provides, such as its skilled and educated workforce, low labor costs, low tax rates, attractive FDI laws, streamlined FDI registration procedures, and strategic location in the Balkans. These advantages have been considered as important factors for international investors when making investment choices in Kosovo.

The findings imply that Kosovo's economic development and growth prospects have a considerable influence on the sorts of location-specific advantages that companies seek in the country. Kosovo's low labor costs and good FDI legislation, for example, are likely to be attractive to investors than cost of labor and regulations in more developed countries. Furthermore, Kosovo's strategic position and potential in growing industries such as ICT and natural resources could contribute to the country's attractiveness as an investment destination.

Finally, the first part of the research gives useful insights into the factors that impact foreign direct investment in Kosovo. It responds to the first research question by showing that Kosovo's levels of economic development and growth prospects are critical in determining the location-specific advantages that foreign companies seek. These insights can help policymakers design measures to boost economic growth and attract international investment to Kosovo.

The second part of the research shed light on several market challenges that limit foreign enterprises' capacity to leverage on location-specific advantages in Kosovo. Corruption,

law enforcement, views of regional stability, international recognition, workforce migration, and the education system have all been mentioned as challenges.

Corruption and law enforcement challenges were cited as the most significant challenges for international enterprises in Kosovo, affecting their ability to operate. The lack of trust in the legal system, as well as suspected corruption within the government, has made navigating bureaucratic procedures challenging, hindering business operations.

Furthermore, views of regional stability and international recognition have been cited as important aspects that may influence foreign investment decisions in Kosovo. The current political situation in Serbia, as well as certain country's lack of recognition, may hinder investors from entering the market.

In addition to the problems faced, workforce migration and the overall quality of the education system has an impact on the availability of skilled personnel for foreign businesses. The findings show concern about the mismatch between job market demands and the skill sets of the local workforce as a result of a lack of variety in many industries and the concentration of young people in certain subjects of study. As a result, this mismatch may present a barrier to long-term foreign investment in Kosovo, as investors want a skilled and dependable staff to ensure the smooth running and profitability of their firms. This issue requires policymakers' attention to reduce the gap between the skill sets of the local workforce and the demands of the labor market. In the long run, this might improve Kosovo's ability to attract international investment.

To attract and maintain foreign investment, Kosovo must address these difficulties by adopting effective anti-corruption measures, strengthening law enforcement, improving views of regional stability, and increasing international recognition. Furthermore, more emphasis should be placed on enhancing educational quality and managing workforce migration difficulties in order to secure the availability of skilled workers for international companies. Only by addressing these issues will Kosovo be able to take full advantage on

its geographical advantages, achieve sustained economic growth and development, and attract additional foreign direct investments.

5.2 Contribution of the findings

The findings of this thesis offer useful insights into the determinants that drive foreign direct investment (FDI) in Kosovo, as well as market challenges that limit foreign businesses' capacity to capitalize on location-specific advantages in the nation. These findings can help policymakers and investors in Kosovo and other upper-middle-income nations with similar features.

In practice, the findings emphasize the significance of addressing corruption and law enforcement concerns as key challenges for foreign businesses operating in Kosovo. This implies that policymakers must take actual actions to improve transparency and enhance the legal system, and reduce bureaucratic barriers to foreign investment. Furthermore, addressing workforce migration and enhancing educational quality can ensure the availability of qualified workers for foreign enterprises and contribute to the creation of a more varied and sustainable economy.

The study's findings provide additional insight into the variables that influence FDI and the significance of location-specific benefits in investment decisions. The research, in particular, emphasizes the major impact of a country's economic development and growth prospects on the sorts of location-specific advantages sought by foreign companies. This emphasizes how crucial it is to take a comprehensive approach when making investment decisions, by taking into account the distinctive qualities of each country. This knowledge can help policymakers and investors make better informed investment decisions and establish appropriate policies to encourage foreign investment.

In addition, the study offers insight into the significance of views of regional stability and international recognition in investment decisions. This means that policymakers should

go beyond internal concerns and analyze the greater global landscape in which Kosovo finds itself. Finally, the study emphasizes the need for more research on the constraints that upper-middle-income countries like Kosovo face, as well as the importance of location-specific benefits in FDI.

5.3 Theoretical Contribution

Firstly, this study presents empirical evidence and insights relevant to the Kosovo setting on how a nation's levels of economic development and growth prospects influence the types of location-specific advantages (LSAs) that foreign companies seek in the country. The findings support the Location-Specific Advantage (LSA) theory, which asserts that firms seek advantages specific to an area, such as country's resources, workforce, geographical position, economic and political frameworks, regulations, laws, and legislation, infrastructure, marketplace capacity, and global economies of scale (Dikova, Panibratov, & Veselova, 2019; Dunning, 2001). Based on the data, it is possible to conclude that Kosovo offers numerous location-specific advantages that are appealing to international investors. These include a highly educated and skilled workforce, low labor costs, attractive FDI laws, quick FDI registration procedures, and a strategic location. The study's findings confirm and support the Location-Specific Advantage (LSA) theory.

Second, this paper investigates how distinct market challenges impact foreign enterprises' capacity to leverage the location-specific advantages in a country like Kosovo. This helps policymakers understand the issues that foreign companies face when investing in upper-middle-income countries. It also provides useful suggestions for overcoming these challenges with the purpose to attract and retain foreign investment. Furthermore, using the combination of an interpretivist research philosophy and an inductive research technique enabled a more nuanced understanding of investors' subjective experiences and perspectives, which may enrich policymakers' and investors' decision-making.

To sum up the theoretical contribution, this study contributes significantly to Location-Specific Advantage (LSA) theory by supplementing and verifying it with empirical facts and insights relevant to the Kosovo environment. The findings shed light on how economic progress and growth prospects influence the types of LSAs sought by foreign companies in Kosovo. Furthermore, the study provides useful understanding the difficulties that foreign companies face when investing in upper-middle income countries, as well as recommendations for how policymakers might address these challenges in order to attract and retain foreign investment. Furthermore, the study's interpretivist research methodology and inductive research approach provide a comprehensive knowledge of investors' experiences and views, which may assist policymakers and investors in making informed decisions.

5.4 Analysis of the findings

Based on the information collected, it is possible to conclude that Kosovo has many location-specific advantages that are appealing to international investors. A qualified and educated workforce, cheap labor costs, appealing FDI legislation, quick FDI registration procedures, and a strategic position in the Balkans are among them. The degrees of economic development and growth possibilities in Kosovo, on the other hand, have a considerable influence on the sorts of benefits that enterprises seek in the nation.

The data also highlight a number of market challenges that limit international enterprises' ability to take full advantage on location-specific advantages in Kosovo. The most major problems faced by international corporations were highlighted above. Perceptions of regional stability and international recognition have been cited as significant elements that might influence foreign investment decisions in Kosovo. Workforce migration and education system also have an impact on the availability of skilled workforce for international enterprises.

To solve these issues, Kosovo must adopt effective anti-corruption measures, boost law enforcement, improve views of regional stability, and gain international recognition. Furthermore, more emphasis should be placed on enhancing quality of education and managing workforce migration challenges in order to secure the availability of skilled workers to foreign companies. By addressing these issues, investors will be able to fully use their location-specific advantages and achieve long-term economic growth and development.

The analysis of these the data provides important information for both Kosovo policymakers and foreign investors interested in investing in the country. It emphasizes the importance of a favorable business climate and the necessity to resolve issues that may jeopardize the success of foreign investments. Furthermore, by presenting a case study of Kosovo, a nation that has gotten relatively little attention in this field, it contributes to the scholarly literature on FDI and location-specific benefits.

5.5 Managerial Implications

Based on the findings, policymakers and investors in Kosovo might draw numerous management implications:

1. Policymakers should prioritize strengthening the business climate and addressing highlighted issues, particularly in areas like as corruption, law enforcement, views of regional stability, and international recognition. They can do so by creating a more welcoming climate for international investors and increasing the country's desirability as an investment destination. It is also suggested that policymakers and officials visit foreign companies on a regular basis to become acquainted with their issues and to identify strategies to solve them.

2. Policymakers and investors should collaborate to encourage the growth of new industries such as ICT and natural resources, both of which are attractive to foreign investment. This can be accomplished through the implementation of tailored regulations and incentives that stimulate investment in certain industries.
3. When making investment decisions in Kosovo, investors should consider the availability of qualified workers as well as the quality of the education system. They should collaborate with policymakers to create initiatives that address workforce migration and guarantee international enterprises have access to a skilled worker supply.
4. . Policymakers and investors should collaborate to develop ways to streamline and expand FDI registration procedures and other required actions to make it simpler for foreign investors to participate in Kosovo. This may be accomplished by simplifying procedures and developing online portals which streamline the registration process, as well as by offering guidance.

In summary, the findings imply that policymakers and investors should collaborate to overcome the problems that international investors face in Kosovo while also promoting the country's location-specific advantages. They may accomplish so by creating a more attractive economic climate and attracting more foreign investment to Kosovo.

5.6 Limitations of the study

While the study includes useful information regarding foreign direct investment in Kosovo, it has significant limitations that should be considered.

1. Sample size is small: Only ten investors operating in some of the industries in Kosovo were interviewed for the study. This may restrict the findings' applicability to other sectors or countries.

2. Self-selection: The participants in the research do not reflect all foreign investors operating in Kosovo. It is likely that investors who participated in the study had unique experiences or viewpoints that biased the results.
3. Limited scope: The study solely considers foreign investors' viewpoints and does not take into account the perspectives of local enterprises, governments, or other stakeholders participating in the investment process.
4. Time constraints: Because the study was undertaken in a short period of time, it may not have spotted all of the specifics of Kosovo's investment climate.

5.7 Suggestions for future research

Given the study's limitations, further research into foreign direct investment in Kosovo could potentially be conducted. Future research may, for example, look at the influence of cultural differences and social networks in the decision-making process of foreign investors. Furthermore, additional research might be carried out to investigate the influence of the legal and regulatory framework on foreign investment in Kosovo. Furthermore, future research could look at the influence of other macroeconomic factors, such as inflation rates, remittances, currencies, and interest rates, on foreign investment decisions in Kosovo. By investigating these additional aspects, It is possible to obtain a better knowledge of the factors influencing foreign direct investment in Kosovo.

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Appendix

Interview Questions to Investors
Part 1
1. How do you view the current economic development and growth potential in Kosovo for businesses?
2. Why did you invest in Kosovo? How did you decide to invest in Kosovo?
3. How do you evaluate/assess the types of location-specific advantages when you seek out for investing in Kosovo?
4. How important were these location-specific advantages in your decision to invest in Kosovo?
5. In your experience, how have the types of location-specific advantages that firms seek changed over time?
6. How can the level of location-specific advantages in Kosovo be enhanced?
Part 2
7. Can you identify any specific market challenges that your firm has faced in Kosovo?
8. How have these challenges affected your ability to leverage location-specific advantages?
9. If you have faced any challenges, how have you addressed them?
10. How do changes in policies or regulations would help to address these challenges?
11. Have you ever considered leaving Kosovo due to these challenges?
12. How have these challenges affected your decision to stay or leave Kosovo? If they affected your business negatively, why would you or why wouldn't you consider leaving Kosovo?