

COMPETITIVENESS OF THE WESTERN BALKAN COUNTRIES IN ATTRACTING FDI

Darko Marjanović*

Institute of Economic Sciences, Belgrade, Republic of Serbia

E-mail: darko.marjanovic@ien.bg.ac.rs

Ivana Domazet

Institute of Economic Sciences, Belgrade, Republic of Serbia

ABSTRACT

The competitiveness of the economy represents the degree of success of its positioning within global business flows. One of the key factors in increasing competitiveness, and consequently productivity in the business environment, is the inflow of foreign direct investment. A precondition for the inflow of foreign direct investments, which bring with them new technologies and knowledge, as well as the possibility of easier access to foreign markets, is certainly the growth of competitiveness. Foreign direct investment is one of the important factors of sustainable economic development and increasing the competitiveness of each country. The main goal of this paper is to analyze the inflow of foreign direct investment in the Western Balkans and to point out the activities that have led to certain countries attracting more foreign direct investment (per capita) than others in the Western Balkans. The methodology used was based on a quantitative approach, while secondary UNCTAD database data for the period 2010-2019 were used in the analysis. The results indicate that the competitiveness of the Serbian economy, compared to other economies in the Western Balkans, is at a very high level. The countries of the Western Balkans in the coming period, with their overall policy, ensure an environment in which there are stable conditions for smooth and profitable operations will attract foreign direct investment faster and easier than those countries where the investment environment is not sufficiently stable and favorable.

Keywords: Competitiveness, Foreign direct investment, WB countries, Economic growth.

INTRODUCTION

In today's global environment, the competitiveness of the economy is of interest to many economists. As such, it can be viewed through two concepts: micro-competitiveness, which refers to the competitiveness of a company, i.e. their relative advantage over other companies and macro-competitiveness, which implies the competitiveness of one national economy as a whole. The level of competitiveness expresses the capacity of the national economy to, in the medium term, generate sustainable economic growth at the current level of development. The end result of competitiveness is considered to be stable and sustainable economic growth, social development and an increase in standard of living. In order to raise the competitiveness of an economy, it is necessary to improve the general factors of competitiveness. This primarily refers to macroeconomic stability, adequately conducted economic policy, involvement in global processes, the quality of the rule of law and legislation, the development of financial sector institutions and others. Attracting foreign capital plays a key role in increasing the rate of economic growth as well as improving competitiveness. Therefore, it is very important for the state to direct its activities towards creating a favorable investment environment that will contribute to attracting foreign direct investment. This will take advantage of the positive effects that FDI has on economic growth, competitiveness, as well as business and export performance and the economy as a whole. One of the significant factors that can greatly affect the competitiveness of an economy is an adequate tax environment. In order to increase foreign investments, a stimulating tax environment is considered one of the important instruments that countries use to achieve this goal (Marjanović, 2018). Depending on the goals of the economic policy it pursues, the country has an interest in attracting precisely defined investments that contribute to the

achievement of the set goals. Economic growth and development is the goal of almost every country, and they are interested in attracting investments that guarantee that growth.

LITERATURE REVIEW

From a global point of view, it is typical for countries to compete with each other in order to attract as many foreign direct investments as possible. Paren (2017) in his research examines the interdependence of competitiveness and the value of FDI, and concludes that there is a relationship between these variables, i.e. that increasing national competitiveness will increase FDI per capita in the analyzed economies. Foreign direct investment is considered an effective way to raise a country's comparative advantages (Marjanović, & Domazet, 2021). The host country has certain advantages when it attracts foreign direct investment, which is reflected in the growth of competitiveness, as well as its more intensive development. Given that the Western Balkans region is dominated by horizontal FDI, it is to be expected that the competitiveness and economic development of these countries will increase. In order for a country to attract foreign direct investment, it is very important to be competitive in the market. It can achieve this if it implements the necessary reforms and adopts an adequate strategy to attract FDI (Domazet, & Marjanović, 2017b). Higher FDI inflows are expected in those countries where corruption is at lower level. Brada et al. (2019) point out that multinational companies effectively manage to develop skills that can significantly resist corruption in the host country, and thus contribute to these skills becoming a competitive advantage over other countries. The most common form of state intervention in the function of creating competitiveness are fiscal measures, within which various tax incentives stand out. Therefore, in the process of attracting foreign direct investment, it is very important to ensure greater competitiveness in the capital market using tax policy measures (Domazet, & Marjanović, 2017a; Domazet, & Marjanović, 2018). Contractor et al. (2020) in their research deal with the issue of multinational companies, i.e. the conditions that are important for their investment in a particular country. The results obtained clearly indicate that more foreign direct investment attracts countries based on stronger contract enforcement as well as more efficient trade regulations. Each host country seeks to highlight the channels through which foreign direct investment has an impact on its economic development (Roy et al., 2020). Hlavacek and Bal-Domanska (2016) analyzed the impact of foreign direct investment on the economic growth of Central and Eastern European countries and concluded that FDI and the level of GDP are interdependent.

In the last twenty years, there has been a gradual turnaround when it comes to global foreign direct investment. The reason for this lies in the fact that emerging market economies have become an increasingly important factor whether they are source or destination countries (Carril-Caccia, & Pavlova, 2018). The countries of the Western Balkans have integration into the European Union as one of their main goals. In order to achieve this, it is important that they adapt their business strategy to the global market, which will contribute to achieving competitive advantages over the countries in the immediate vicinity (Radović, & Marković, 2019; Marjanović, & Domazet, 2018). In the years to come, the countries of the Western Balkans will be of particular interest to Chinese companies. The reason for that is in the fact that this region is very important for China, considering that it represents one of the main corridors within the global Belt and Road Initiative. One of China's goals is to take a leading role in international economic governance and the process of globalization (Li & Taube, 2018). For this reason, through the implementation of this project, China seeks to expand and build a new infrastructure network that will connect it with European countries and countries from Asia and Africa involved in the global project "Belt and Road" (Cai, 2017). There is no doubt that the Belt and Road Initiative will contribute to the economic growth of these countries, and thus to the faster development of the Western Balkan countries (Huang, 2016). Therefore, it can be concluded that the Western Balkans region will play an important role in connecting China with the European market. For that reason, it is expected that Chinese investments in these countries will increase in the coming period (Zuokui, 2016). However, one must note that the geographical location is not in itself crucial for attracting investments, but that these countries have an obligation to adjust their investment policy to investors. In this way, they will be in a position to be competitive with some other regions, which will reflect through an increasing inflow of foreign investment.

DATA ANALYSIS AND FINDINGS

Foreign direct investment can significantly contribute to the economic growth of the Western Balkans. Based on this, it can be concluded that FDI has a great impact on the development of these economies. The main goal of this paper was to determine the competitiveness of the Western Balkan countries through the analysis of foreign direct investment inflows. When choosing a database, it was very important that the data came from one source in order to be comparable. Secondary data from the UNCTAD database were used in the analysis, as it represents one of the largest information, knowledge and experience databases in international economics and trade. The time period covered by this analysis is from 2010 to 2019.

In a situation where it is very important for developing countries to attract as much foreign direct investment as possible, almost all of them have liberalized the regulations that determine the framework of foreign investment. It is for this reason that countries seek to develop strategies and programs that will enable them to attract foreign companies and their capital. When it comes to the motives of the host countries, they primarily focus on companies and their investment, given that this is one of the ways to increase employment and exports, but also to introduce new technologies. Foreign direct investment in the host country market can usually produce two effects. The effect of competition manifests through the substitution of domestic final products and the strengthening of competition in the market, while the effect of ties leads to the complementarity of foreign and domestic companies in the market. If a country aims to attract as much foreign direct investment as possible, it is very important to provide a favorable investment climate. Such conditions can be provided if there is political and social stability in the country, stable business conditions, access to raw materials, but also cheap labor.

In the past ten years, large companies have been looking for a market that can provide them with good business conditions. On the one hand, countries are obliged to prepare an investment environment that will benefit foreign companies, while on the other hand they expect significant investments, especially in those industries / activities that are not sufficiently developed. Since they are not members of the European Union, the countries of the Western Balkans have a special interest and motive to attract foreign companies to their territory.

However, the goal is not only to attract foreign companies, but also to adapt the market to their needs so that they continue to invest in the future as well as to send a positive image of the country as an investment destination. Table 1 shows the inflow of foreign direct investments in the countries of the Western Balkans in the period from 2010 to 2019.

Table 1: FDI inflows in WB countries (millions of dollars)

Economy Year	Albania	Bosnia and Herzegovina	Montenegro	North Macedonia	Serbia
2010	1,050.7	406.1	760.4	212.5	1,686.1
2011	876.3	496.5	558.1	478.8	4,932.3
2012	855.4	394.9	619.8	142.9	1,298.6
2013	1265.9	276.4	447.5	335.0	2,053.1
2014	1111.4	550.2	497.7	272.5	1,998.8
2015	945.7	361.1	699.4	240.5	2,347.6
2016	1,100.7	349.8	226.4	374.6	2,352.0
2017	1,148.9	449.9	558.6	205.3	2,878.3
2018	1,289.7	472.8	489.8	725.2	4,127.5
2019	1,281.3	528.4	452.8	365.2	4,280.7
Total	10,926	4,286.1	5,310.5	3,352.5	27,955

(Source: Authors - based on the UNCTAD data)

Based on the presented data, Serbia annually received significantly more FDI compared to other countries in the Western Balkans. Most FDI entered Serbia in 2011 (about \$ 5 billion), 2018 (about \$ 4.1 billion) and 2019 (about \$ 4.3 billion). In the observed period, the other analyzed countries had about or less than \$ 1 billion per year. The reason for such a thing is in the fact that those countries of the Western Balkans have not yet fully adjusted their development and investment policy to the needs of foreign investors. Certainly, slow reforms, primarily in the fiscal sector, are the reason for a smaller amount of FDI.

Despite the fact that in 2018 there was a negative trend at the global level when it comes to foreign direct investment, the Western Balkans region recorded a growth of these investments for about 30%. The largest growth of the observed countries was recorded in Northern Macedonia, where the inflow of FDI increased by about 260 percent (from \$ 205 million in 2017 to \$ 725 million in 2018). Serbia, which has the largest inflow of foreign direct investment in the Western Balkans region, recorded a growth of about 44 percent (from \$ 2,878 million in 2017 to \$ 4,125 million in 2018). Montenegro recorded a negative trend, given that in the period from 2017 to 2019 there was a decrease in FDI.

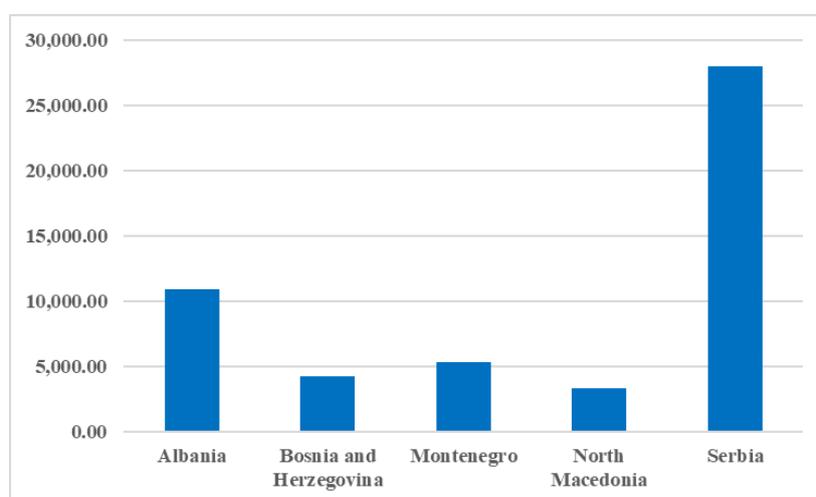


Figure 1: Total FDI inflows in WB countries, 2010-2019 (millions of dollars)
(Source: Authors - based on the UNCTAD data)

Looking at the total inflow of FDI to the countries of the Western Balkans in the period 2010-2019, Figure 1 clearly shows that the largest recipient of these investments is Serbia. In the observed period, investors placed about \$ 27.955 million in Serbia, which is significantly more than in other Western Balkan countries. Serbia is followed by Albania, in which \$ 10.926 million has been invested, while other countries receive significantly less FDI. The total amount of foreign direct investment in the Western Balkans in the period 2010-2019 was \$ 51.829 million. If we compare the inflow of FDI in the Western Balkans region with the inflow of FDI to EU countries, which amounts to about \$ 4,522,822 million, we conclude that only slightly more than 1% of total FDI in that period ended up in the Western Balkans. This is a clear indication that there is a significant amount of free investment globally, but it is crucial that the countries of the Western Balkans continue to adjust their investment policies to market demands, but also to implement reforms efficiently and quickly, which can be a precondition for higher FDI inflows.

Figure 2 shows the extent to which Serbia has adjusted its market to the needs of foreign companies. Looking through the percentages, of the total amount of FDI in the period 2010-2019, more than ½ ended up in Serbia (54%). Albania follows with about 21% of total FDI, while foreign investment in other Western Balkan countries accounts for about 10% or less. In a situation when countries create optimal conditions for foreign investments, the development of the domestic economy occurs as a consequence of the inflow of foreign direct investments. Locating its business in the Western Balkans offers foreign investors significant competitive advantages over some other countries, primarily Central and Eastern Europe. Competitive advantages relate to geographical location, low tax burden, cheap labor as well as availability of natural resources. Therefore, it is very important that these countries respond appropriately to improve the overall business climate by improving business procedures as well as undertaking

comprehensive structural reforms, primarily in the area of legislation while reducing the fiscal burden on businesses. Foreign direct investments accelerate the privatization process but also strengthen the competitiveness of the domestic economy. In addition, they are very important because of their development effects, which relate, inter alia, to export growth, technology and knowledge transfer, GDP growth and lower inflation.

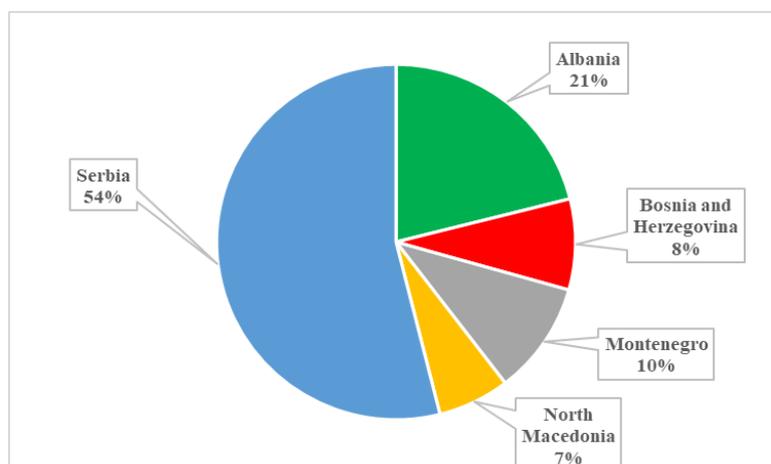


Figure 2: Total FDI share in WB countries, 2010-2019 (percentage)
(Source: Authors - based on the UNCTAD data)

The positive impact of foreign direct investment in the Western Balkans is most pronounced in industry, service market development, trade, business relations and the transfer of new technologies. Industries into which foreign capital has entered usually achieve good business results and act as a stimulus for the overall economic recovery of the country. The negative impact of foreign direct investment most often refers to the growth of unemployment due to layoffs, crowding out of domestic investments, outdated technology and the creation of local monopolies. Achieving sustainable growth requires an economic environment that favors high rates of savings and investments, encourages foreign investors, and enables profitable investments. The experiences of countries that have gone through all stages of economic development and today have become stable and attractive economies for investment can be a good guide for the countries of the Western Balkans. In the past few years, foreign direct investment in the Western Balkans has been largely stable. If attention is focused on Serbia as the country that receives the most foreign direct investments and which is the first in the region in that regard, large investments are primarily the result of the construction of factories that employ relatively cheap and low-skilled labor. However, the advantage of the Western Balkan countries over other regions is that they offer lower wages, lower taxes as well as generous support packages to foreign companies. It is for this reason that the competitiveness of the Western Balkan countries is at a high level, which is reflected in the inflow of foreign direct investments.

CONCLUSION

The strategy towards membership in the European Union, as one of the main goals for the countries of the Western Balkans in the last ten years, implies the necessary fiscal and monetary reforms. In order to attract the attention of foreign investors, it is necessary to provide adequate conditions. Therefore, one of the most important goals of economic policy makers in these countries is to create an investment climate conducive to attracting FDI. In a situation where the globalization of the world economy is taking place, FDI has a very important role for the economic growth and development of the countries of the Western Balkans. In addition, one of the effective ways for a country to create certain competitive advantages over comparative economies is certainly a higher inflow of foreign direct investment. In the last ten years, there has been an increase in FDI in the countries of the Western Balkans, which has automatically reflected on domestic economies. Until the end of the first quarter of 2020, these countries generally recorded significant economic growth. However, the covid-

19 pandemic that hit the whole world also affected the countries of the Western Balkans, which, in addition to the decline in economic activities, are facing declining inflows of foreign direct investment. In the coming period, the countries of the Western Balkans should pay special attention to creating the most favorable economic environment that will be a condition for new investments. More favorable conditions for investment can be provided if the institutional and legal environment is improved, the business of foreign companies is facilitated, the work of the tax and local government is improved and made more transparent, as well as better protection of investors' rights. All this will undoubtedly influence the countries of the Western Balkans to raise their competitiveness to a higher level, which will be reflected through a greater inflow of foreign direct investment.

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