

FDI performance index of Western Balkan countries

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Introduction

Western Balkan is a geopolitical term that refers to countries: Albania, Bosnia and Herzegovina, Croatia, Macedonia and Serbia and Montenegro. The term Western Balkan, has been used for the first time in the beginning of 1990's and is often explained as Yugoslavia minus Slovenia plus Albania. Western Balkan countries are also in a political and economic context described as a "black hole" of Europe as a result of lacking cooperation with the rest of Europe and slow reform process toward modernization and democratization of their societies.

Western Balkan countries occupy an area of 196,047 km², with population of around 21 and a half million citizens. Despite the bloody wars and conflicts during 1990's and heavy downturn of their economies, WB economies in the last 5-6 years have grown fast and predictions are that they will continue to perform well. In 2005 all WB countries have generated an output of 88,816 million of US\$ with an average growth of 4.7%.

Country	Area (km ²)	population 2005	GDP (current 000 US\$) (2005)	GDP growth (annual %)-2005	GDP per capita US\$ in 2005
Albania	28,748	3,129,678	8,380,314	5.5	2678
Bosnia and Herzegovina	51,066	3,907,074	9,948,769	5	2546
Croatia	56,594	4,443,350	38,505,553	4.3	8666
Macedonia	25,713	2,034,060	5,766,178	4	2835
Serbia and Montenegro	88,361	8,064,253	26,215,215	4.7	3251
Total	196,047	21,578,415	88,816,029	4.7 (average)	3995 (average)

Source: own calculations based on World Bank online database and IMF data statistics.

As a result of political stabilization of the region and efforts made by USA and EU, WB countries are attracting more and more FDI every year. During the period of 2002- 2006 stock of FDI has reached 18, 318 million US\$ of which $\frac{3}{4}$ were located in Croatia and Serbia and Montenegro. Other countries, for example Macedonia, still remain non attractive and have attracted less than 500\$ per capita during the period of 2002-2006. However, WB countries compared to the World share are very attractive for FDI and all have ratios above the average.

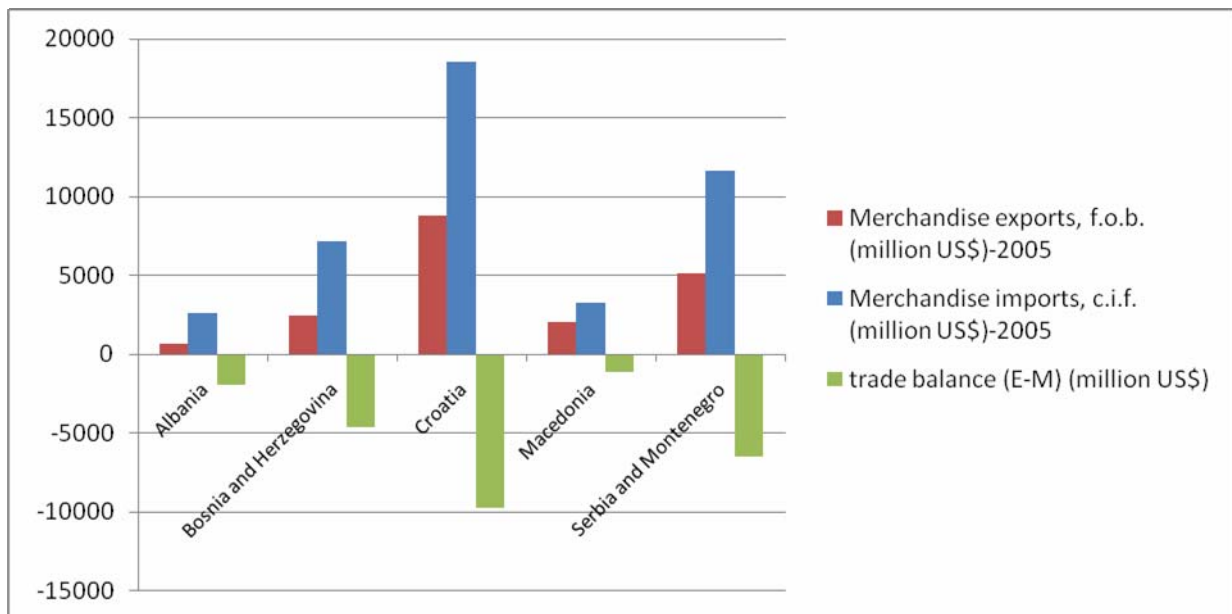
Trade policies and strategies remain weak point of all WB countries and they all prove high trade deficits in the last decade. Trade deficits range as a share of GDP from 20 to 25 %, except Bosnia and Herzegovina where this share was around 47 %. Trade

liberalization and recent signing of CEFTA agreement, probably will increase trade deficits because WB countries had high protective measures of domestic production, especially for agricultural products. Next table demonstrate trade deficits and its share of GDP of the country.

Table 2. Trade balance of Western Balkan countries in 2005

Country	Merchandise exports, f.o.b. (million US\$)- 2005	Merchandise imports, c.i.f. (million US\$)- 2005	Trade balance (E-M) (million US\$)	deficit as a share of GDP %
Albania	658	2618	-1960	-23.39
Bosnia and Herzegovina	2405	7107	-4702	-47.26
Croatia	8772	18560	-9788	-25.42
Macedonia	2041	3228	-1187	-20.59
Serbia and Montenegro	5065	11 635	-6570	-25.06

Source: own calculations based on World Bank online database



Definition of Foreign Direct Investments

Foreign direct investments according OECD are defined as: “lasting interest by a resident entity in one economy or an entity resident in an economy other than that of the investor. The lasting interest implies the existence of a long-term relationship between

the direct investor and the enterprise and a significant degree of influence on the management of the enterprise”. (OECD,1999).

Due to adoption of neoliberal doctrine in the last few decades, many countries have abandoned Keynesian doctrine of state intervention and started to adopt strategies of the new era of globalization. These strategies are mainly based of free movement of goods, services and capital.

After disintegration of Yugoslavia and fall of communism in Albania, WB countries have partially liberalized their economies and new reforms toward marked based economy have started. FDI still vary from year to year, but shows positive trend during the period of 2002-2006.

Table 3. Foreign direct investment, net inflows (million US\$) in WB countries

Country	2002	2003	2004	2005	2006	FDI stock (2002-2006)	population 2005	FDI/per capita (stock 2002-2006)
Macedonia	77	96	157	100	280	710	2034060	\$349
Bosnia and Herzegovina	267	381	612	299	350	1909	3907074	\$489
Croatia	1123	2056	1224	1761	2000	8164	4443350	\$1,837
Serbia and Montenegro	137	1360	966	1481	2450	6394	8064253	\$793
Albania	135	178	341	262	225	1141	3129678	\$365
Total	1739	4071	3300	3903	5305		21578415	
Total FDI stock 2002-2006 WB countries	18318							

Source: own calculations based on World Bank online database and The Vienna institute for International economic studies

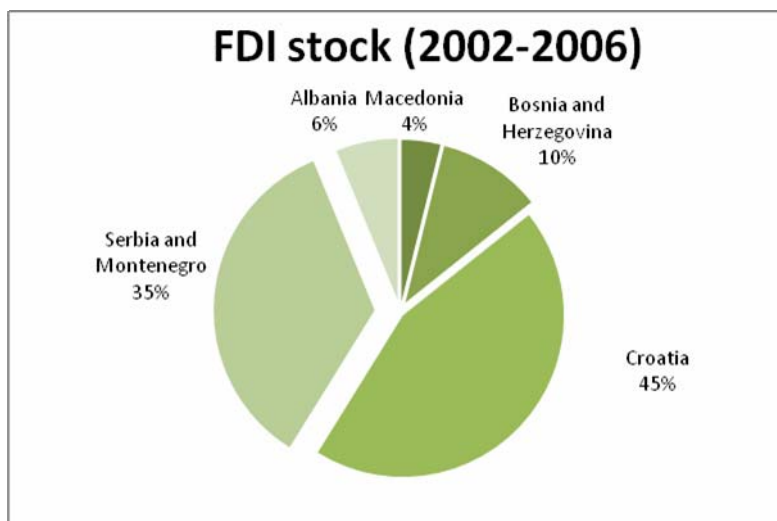
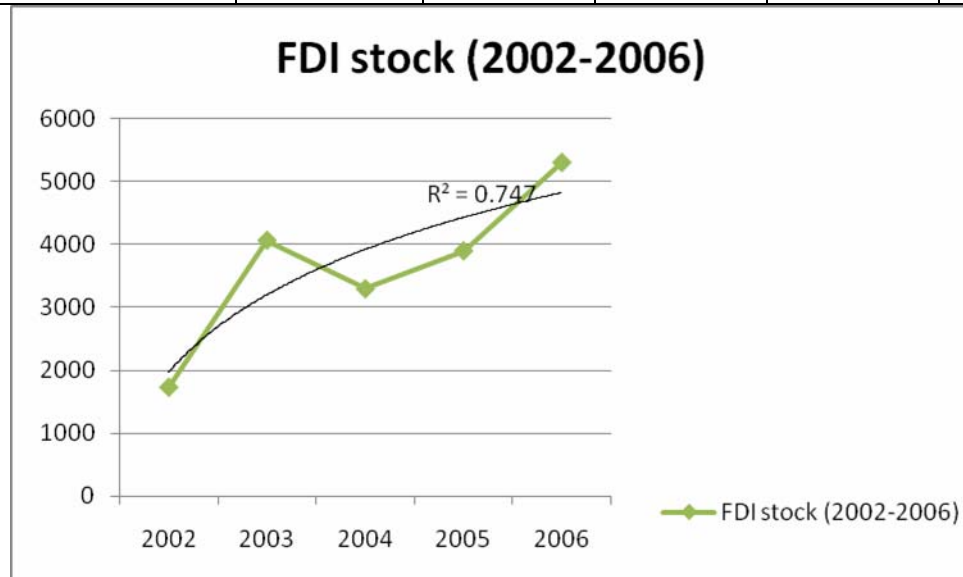


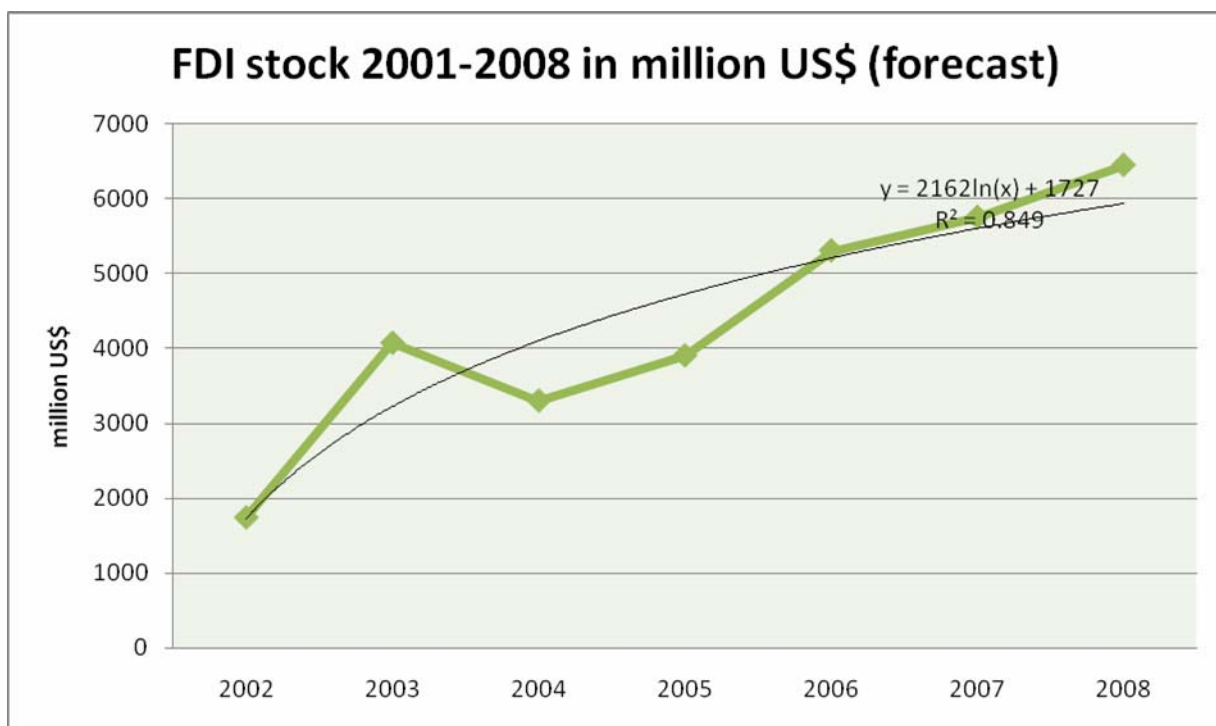
Chart 3: FDI stock (2002-2006) in %

Year	2002	2003	2004	2005	2006
FDI stock WB countries	1739	4071	3300	3903	5305



By using Excel, forecast of FDI in 2007 and 2008 in WB countries, would have the following figures.

Year	2002	2003	2004	2005	2006	2007*	2008*
FDI stock WB countries	1739	4071	3300	3903	5305	5753*	6449*



Performance index of attracting FDI in Western Balkan

Performance index is a simple ratio between country's share of the total world FDI and country's share of total world GDP.

$$\text{Performance index} = \frac{\text{country's share of world FDI}}{\text{country's share of world GDP}}$$

This index can demonstrate three different situations. If the value of the ratio is 1, means the country has no more and no less than world proportion of FDI. If the value is less than 1, means that country can not manage to attract enough FDI proportionally to its share of the world GDP and if the value is bigger than 1, means that country attracts FDI more than the world's average share. In 2005, Macedonia has had the lowest performance index of attracting FDI among WB countries with ratio 1.15. It is interesting that Serbia and Montenegro have attracted FDI almost 4 times more than country's GDP share in the World and rank highest among WB countries.

Almost half of all FDI (2001-2005) in WB countries have been placed in Croatia, but only 6% or 871 million US\$ were invested in Macedonia for the same period. Another interesting figure from the Table 3 is the fact that Macedonia has received half of this sum (441million US\$) only in the year 2001, which is due to privatization of the biggest Macedonian company- Makedonski Telekomunikacii.

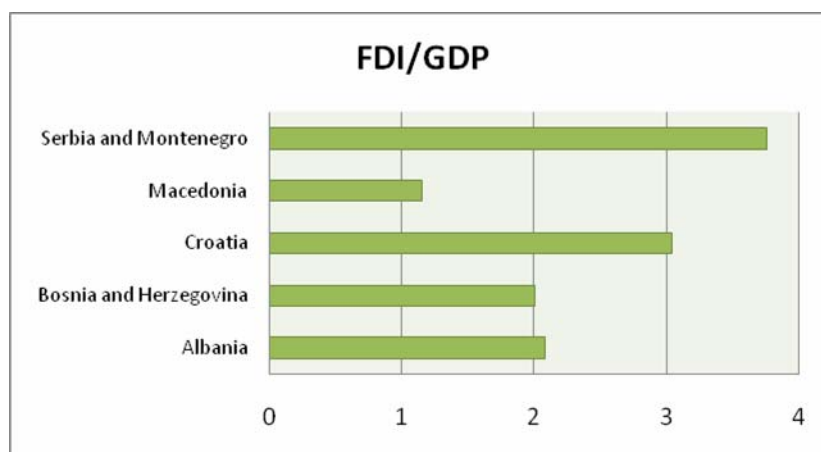


Chart 4: FDI performance index of Western Balkan countries

Conclusions:

FDI plays major role in the western Balkan economies. As far as privatization process has finished and there are less state owned companies, western Balkan governments are facing to run budget deficits that are not sustainable on a mid term. Attracting FDI is top priority to all WB countries not only to finance their budgets, but

Table 4 FDI/GDP index in 2005

Country	GDP million US\$ (2005)	FDI million US\$ (2005)	country's share of the world GDP	country's share of world FDI	FDI/GDP index
Albania	8380	262	0.000137362	0.000285940	2.081648211
Bosnia and Herzegovina	9948	299	0.000163064	0.000326321	2.00117688
Croatia	38505	1761	0.000631161	0.001921908	3.045035031
Macedonia	5766	100	0.000094514	0.000109137	1.154716647
Serbia and Montenegro	26215	1481	0.000429708	0.001616323	3.761449725
World	61006604	916277			

moreover to improve their economic performance and standard of living.

Good geographic position, free market access to EU, closeness to Mediterranean countries and relatively good infrastructure makes WB countries attractive for FDI. The experience of Central European countries in attracting FDI could be repeated in WB countries if new signed CEFTA agreement would be respected. High inflow of FDI can increase efficiency of the production and introduce new products on the markets, but still depends on the reasons of investment and “target” companies.

Stronger economic cooperation among WB countries would uphold stability in the region, increase trade volume and promote the region as a good and safe place to invest.

Promoting deeper cooperation among the countries, (not only trade liberalisation) but building networks among Agencies for promotion of FDI, Business communities and transfer of know how would lead to improved allocation of FDI and possibility for decentralised production sites among the countries.

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