



**THE EFFECTS OF GLOBALIZATION ON THE  
INTERNATIONAL COMPETITIVENESS OF THE  
WESTERN BALKAN COUNTRIES**

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**Abstract:** The Western Balkan countries, which are in the late transition process, fail to take advantage of the opportunities brought by globalization and the removal of restrictions to the free flow of capital, technology, knowledge, people and information. Despite the entry of a significant stock of foreign capital into these countries, they failed to significantly improve the technological level of production and the competitiveness of their economies. The subject of the paper research is the examination of the impact of globalization on the reached level of competitiveness of the economies of the Western Balkan, as well as the countries of Central and Eastern Europe, in the period before the emergence of the COVID crisis. The question raised in the paper is to what extent the process of globalization and the entry of transnational corporations into the Western Balkan countries affected their economies' competitiveness. These two issues permeate each other to a large extent, considering that the governments of the transition countries believe that the foreign capital inflow, in the form of highly sophisticated technology, will simultaneously enable the completion of the transition process and a more decisive integration of the five countries of the Western Balkan in global investment and trade flows. The research confirmed that the degree of involvement in international economic flows has a statistically significant and positive impact on the growth of competitiveness, and that these effects are more pronounced in the Western Balkans than in the Central and Eastern European regions.

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## 1. Introduction

Globalization is a complex phenomenon that has been present on the world's economic and political scene over half a century. The impact of various trends on the shaping of globalization has made it possible for economic globalization and global economic integration to surpass political globalization. Achen (2019) states that contemporary globalization in academic literature and media is understood as openness, in the sense of free access to resources and technologies, undisturbed import and export of goods and services, trade liberalization and the rise of transnational corporations. In short, globalization implies a valuable and free exchange through which wealth spreads and is the engine of global prosperity, economic development and competitive growth.

The Organization for Economic Co-operation and Development (OECD) views globalization as a term used to describe the increasing internationalization of markets for goods and services, production resources, financial systems, competition, companies, technologies and industries worldwide. It initiates rising mobility of labour, capital, ideas and information, faster transfer of technological innovations, better valorization of natural and human resources, expansion of transnational companies and increasing integration and interdependence of national markets.

To improve the living standards of their citizens and to achieve high competitiveness at the international level, nations all over the world must learn to compete in an increasingly complex world market. Achieving sustainable competitiveness in the global market is the task of all national economies and their governments. That is why governments develop competitive strategies considering the economic structure and level of economic development. Today, competitiveness is the most used concept in economic policies, in regional or national strategies and company strategies, especially when economic growth and development are at the center of the analysis.

In European transition countries, competitiveness is understood in the context of overall economic restructuring, which aims to build an economic structure that will contribute to economic prosperity. For the countries of the Western Balkan, the competitiveness issue is closely related to the globalization of the world economy.

The research was carried out on a sample of European transition countries (countries of the Western Balkan region – Albania, Bosnia and Herzegovina, North Macedonia, Serbia and Montenegro, and the countries of the region of Central and Eastern Europe – Bulgaria, Estonia, Latvia, Lithuania, Hungary, Poland, Romania,

Slovakia, Slovenia, Croatia and the Czech Republic). The observation period is defined by the available data provided by the Swiss Economic Institute (*Konjunkturforschungsstelle – KOF*) and World Economic Forum (*WEF*), as well as taking into account some methodological constraints. The methodology used to assess the nations' competitiveness has evolved; as a result, the Global Competitiveness Index was formed in 2004. (*Global Competitiveness Index*) which is still used today. The GCI - Global Competitiveness Index, took values from 1 to 7 until 2017. After that values ranging from 0 to 100, due to a change in SEF's methodology, it was necessary to optimize the data to make them comparable. Accordingly, the research period 2005-2018 was determined.

According to the above, the paper's primary goal is to determine the effects of globalization on the competitiveness of the Western Balkan economies and the countries of Central and Eastern Europe, before the appearance of the COVID crisis. The following research hypothesis was tested in the paper:

**HI:** The degree of integration in global economic flows of the Western Balkan economies, measured through the value of the KOF Globalization Index, has a statistically significant impact on the level of competitiveness of those countries, measured through the Global Competitiveness Index (GCI).

## 2. Literature review

Globalization is a multifaceted concept that includes economic, social and political aspects which exceed indicators such as trade openness and capital movements. It is about a phenomenon that shapes contemporary social and economic trends and became more critical in the 70's and 80's of the 20th century (Potrafke, 2015).

Globalization as a world process that includes all the countries of the world has both positive and negative implications related to economic growth, sociological and political phenomena, cultural occurrences, etc. Vyshnevskaya et al. (2018) emphasize that globalization doubtless has a large number of positive implications, but also that it is also a threat to state sovereignty. This process manifests a global aspiration to integrate all nations into one complete socio-economic system, which inevitably leads to the realization of internationalization, i.e. transnationalization of large and small, developed and undeveloped national economies. Adapting to this phenomenon is especially difficult for small and underdeveloped economies that need to ensure stable social and economic development and preserve the national identity of society.

Numerous economists state that globalization is often identified in the professional literature with the phenomena of internationalization, liberalization and westernization, even though it is not equivalent to any of these concepts and trends. When globalization is interpreted by internationalization, the term refers to the increase in transactions between countries and the countries' interdependence.

According to this perspective, the world realizes a greater degree of globalization if more messages, ideas, goods, money, investments and people cross the borders between territorial units – States (Scholte, 2008). Suppose the phenomenon of globalization is identified with the concept of liberalization. In that case globalization means the process of removing officially imposed restrictions on the movement of resources between countries to create an open economy without borders and barriers. According to this understanding, globalization intensifies when countries reduce or eliminate regulatory measures such as trade barriers, foreign exchange restrictions, and visa regimes. Globalization in the context of Westernization is viewed through the social determinants of the West (capitalism, industrialism, rationalism, urbanism) which are widespread and mostly accepted worldwide. From this perspective, globalization is often interpreted as Colonization, Americanization and "Westoxification".<sup>1</sup> Scholte (2008) concludes that globalization viewed in the light of Westernization represents an ideology of alleged progress that masks far-reaching destruction and subdual.

Under the influence of globalization, there has been greater mobility of labour, capital, ideas, information and technological innovation flows. This trend has led to a tighter connection of different segments of the world economy and more intensive international exchange, but also numerous scientific discussions about the importance of competitive advantages of companies and national economies.

During the 80's and 90's of the 20th century, the concept of competitiveness started to be observed in a much broader context. New factors on which the growth of competitiveness of all economies dominantly depends are gaining importance.

The presence of a large number of definitions of competitiveness indicates the extraordinary complexity of this concept. The World Economic Forum (*WEF*) defines competitiveness as a set of institutions, policies and factors that determine a country's level of productivity. The level of productivity expresses the level of prosperity that an economy can achieve. *WEF* economists argue that growth in total factor productivity allows countries to use their resources more efficiently (Petryle, 2016). They agree that factor productivity is of the most significant importance for national competitiveness and that economic conditions within the country conditioned it. At the same time, as stated by Huggins and Izushi (2015), productivity is the most critical crucial determinant of a nation's long-term standard of living. So that sustainable economic development can be achieved, the focus should undoubtedly be on the sustainable growth of productivity because productivity is at the heart of competitiveness (Petrović-Randjelović et al., 2018). Hanafi et al. (2000) point out that globalization determines the nation as an increasingly important base of competitiveness in conditions of increasing global

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<sup>1</sup> The term was introduced by the Iranian secular intellectual *Jalal Al-e Ahmad* to describe the dependence and fascination with the West to the detriment of traditional, historical and cultural ties. The dangers of cultural imperialism and political domination are at the center of his teachings.

competition. This global competition phenomenon responds to the international market competition of various products and services to satisfy global needs.

According to prominent authors, competitiveness can be understood as the ability of a country to produce goods and services in free market conditions that can meet the test of the international market, with the appreciation of the long-standing request to increase the real income of citizens.

However, in current conditions, macroeconomic competitiveness cannot be focused only on intensifying the performance of world markets through exports. The emphasis is also on strengthening the ability to create wealth permanently. In this sense, competitiveness policy should balance economic imperatives with the social demands of the nation (Garelli, 2002). Similarly, Velloso (1991) points out an important social implication of competitiveness: an increase in competitiveness must be accompanied by an increase in the workers' standard of living. In line with higher productivity, the rise in living standards should be accompanied by a gradual increase in employment and real wages.

Today, global competitiveness is primarily determined and shaped by various integration trends and processes. Under the influence of globalization, there was an intensification of technical and technological progress, which implied the discovery of new and improvement of existing products and services.

Grant points out that Porter's cult book *The Competitive Advantage of Nations* deals with a central theme in developing the world economy over the last few decades: transnationalization. At the enterprise level, the growth in the volume of international transactions confronts managers with more significant risks, opportunities and pressure to drive efficiency. At the industry level, transnationalization has accelerated technical-technological changes, shortened product life cycles, and increased the geographic concentration of industries (Grant, 1991).

The modern process of globalization has drastically accelerated in the last decades of the 20th century. The globalization of the competition of transnational corporations has replaced the global competition of national economies. Companies went beyond the nation's boundaries, used foreign markets to place goods and services, and moved production to countries with more favourable factors of production. The specific structure and dynamics resulting from the activities of TNCs significantly determined relations in the world economy (Stanojević, 2020).

### ***2.1. Transnationalization of the Western Balkans***

The last two decades of the 20th century and the first two decades of the 21st century represent a period in which the global market plays a vital role in regulating the distribution and redistribution of economic activities. New economic and political forces are operating throughout Europe, which is the result of the

process of globalization and economic integration. Petrakos (2002) states that facing these cumulative forces necessitates less developed European countries to formulate and harmonize national development policies with new tendencies. Behind these forces, Petrakos (2002) points out, is mainly the significant capital of transnational corporations (TNCs) that intend to reshape the economic map of Europe and expand the sphere of their influence.

TNCs consist of parent companies and their foreign subsidiaries. Kordos & Vojtović (2016) state that a parent company is actually a company that controls the assets of other entities in countries which are not a home base, usually by owning a share in the capital.

The interaction of two actors, TNCs and States, determines the global economy, regardless of the geographical area they come from and where they operate. It's about entities that operate in a dynamic technological environment. Čulahović (2007) states that TNCs, through their geographically spread operations, and States, through their trade, investment and industrial policies, shape and reshape the global economic map of the world, while dynamic technological changes in information and communication technologies and production processes encourage competition and accelerate globalization and industrialization of the production of goods and services.

Dunning (1992) states that transnationalization directly affects the allocation and use of all types of resources on the planet. Investments undoubtedly represent a channel through which TNCs, in current conditions, exert influence on almost all economies of the world. Accordingly, foreign direct investments of large global companies abroad certainly determine the diamond of competitive advantage.

When talking about the theoretical foundations of the transnationalization process, the Transnationalization Index (IT) is often used as a relevant measure. A country achieves a greater degree of transnationalization if it carries out a more intensive exchange of goods, money, ideas, investments and people with other countries. This Index can be used to examine the relationship between FDI and GDP dynamics. The Transnationalization Index has the following form:

$$IT_{i,t} = \frac{FDI_{i,t}}{GDP_{i,t}} \quad (1)$$

where  $IT_{i,t}$  is the Transnationalization Index of country  $i$  in year  $t$ ,  $FDI_{i,t}$  is the inflow of foreign direct investment in country  $i$  during year  $t$ , while  $GDP_{i,t}$  expresses the value of the total amount of goods and services produced and market realize in the economy during the year  $t$ .

Transnationalization Index of the Western Balkan countries, for the time period 2005-2019, is presented in the following *table (1)*. This Index was obtained by comparing the net inflow of FDI (*table 4, in appendix*) and the total value of GDP (*table 5, in appendix*), in millions of USD.

**Table 1. Transnationalization Index of the Western Balkan economies, 2005-2019.**

	<i>Albania</i>	<i>B &amp; H</i>	<i>N. Macedonia</i>	<i>Serbia</i>	<i>Montenegro</i>
2005	0,033	0,056	0,023	0,058	0,214
2006	0,037	0,066	0,062	0,139	0,231
2007	0,061	0,117	0,088	0,102	0,255
2008	0,097	0,053	0,062	0,078	0,214
2009	0,112	0,008	0,028	0,065	0,373
2010	0,091	0,026	0,032	0,040	0,183
2011	0,081	0,025	0,048	0,100	0,123
2012	0,745	0,023	0,035	0,029	0,151
2013	0,098	0,017	0,037	0,043	0,100
2014	0,087	0,029	0,005	0,042	0,108
2015	0,087	0,024	0,030	0,059	0,173
2016	0,088	0,019	0,051	0,058	0,052
2017	0,079	0,026	0,034	0,066	0,116
2018	0,079	0,024	0,051	0,080	0,088
2019	0,079	0,026	0,038	0,083	0,082

Source: Authors own calculation

By analyzing the data from table (1), it can be seen that the Transnationalization Index of the Western Balkans is below the global average (0.18). During the period 2005-2019, the highest transnationalization index was recorded by Albania in 2012. with a value of 0.75. Of the other countries in the region, only Montenegro in 2005-2009. recorded a value of over 0.2, which is at the level of the world average. The lowest values of the Transnationalization Index in the observed period were recorded by North Macedonia in 2014 with 0.005 and Bosnia and Herzegovina in 2009 with 0.008.

The Transnationalization Index can be calculated both at the level of countries and any company. TNC transnationalization index is calculated as an average of three ratios:

- 1) the value of capital abroad according to the total capital of the TNCs
- 2) the value of foreign sales according to the total sales of TNCs, and
- 3) foreign employment according to the total employment of TNCs.

According to the above, the TNC transnationalization index can be

$$IT_{i,t} = \frac{\frac{IA_{i,t}}{AA_{i,t}} + \frac{IS_{i,t}}{AS_{i,t}} + \frac{IE_{i,t}}{AE_{i,t}}}{3} \quad (2)$$

where  $IT_{i,t}$  is the Transnationalization Index of the company  $i$  in year  $t$ ,  $\frac{IA_{i,t}}{AA_{i,t}}$  is the ratio of the value of the company's assets abroad and the total assets during the year  $t$ ,  $\frac{IS_{i,t}}{AS_{i,t}}$  is the ratio of the value of the  $i$  company's annual sales abroad and the total sales of the same company during the year  $t$ , while  $\frac{IE_{i,t}}{AE_{i,t}}$  represents the ratio of the  $i$  company's employment abroad and the total number of employees during the year  $t$ .

For example, the company *Fiat Chrysler Automobiles - FCA*, which produces vehicles in Kragujevac, has a Transnationalization Index of 77.5, which ranks it among thirty corporations from the list of the 100 largest non-financial TNCs.<sup>2</sup> This company owns capital abroad in the amount of about 88.3 billion USD, which represents 80.14% of the total capital of this company. Total realized sales during 2019 amounted to USD 121.1 billion, of which USD 104.3 billion (or 86.14%) were realized abroad. FCA is a company that employed 191,752 workers in 2019, of which 2/3 are employed outside the home base (127,136 workers). When the relative values of the ratio of sales, employment and capital are averaged, the Transnationalization Index of the FCA company is obtained (UNCTAD, 2019).

During 2019, the internationalization rates of the first 100 TNCs in the world remained unchanged. The decrease in the index (rate) of transnationalization of TNCs from the field of heavy industry was compensated by the increase in transnationalization among technological and telecommunication TNCs. Pharmaceutical companies also expanded their operations abroad, and the British company *GlaxoSmithKline* distinguish itself the most. Other companies that significantly increased business with foreign countries are the American TNC *Amazon.com*, which continued to enter new markets. *Coca-cola* expanded its production network in Africa and joined the European coffee market. French pharmaceutical company *Sanofi* also expanded its operations, as did Chinese technology company *Huawei*, which continued to expand its global operations at a slower pace than in 2018. (UNCTAD, 2020).

### 3. Methodology

The impact of globalization on the Western Balkans' competitiveness will be examined through the Globalization Index of the Swiss Economic Institute (KOF) and the Global Competitiveness Index of the World Economic Forum (WEF). The following hypothesis will be tested in the paper: *The degree of integration in the global flows of the Western Balkan economies, measured by the value of the KOF Globalization Index, has a statistically significant effect on the level of competitiveness of those countries, measured by the Global Competitiveness Index (GCI).*

<sup>2</sup> UNCTAD: Annex table 19 - The world's top 100 non-financial MNE ranked by foreign assets, 2019.

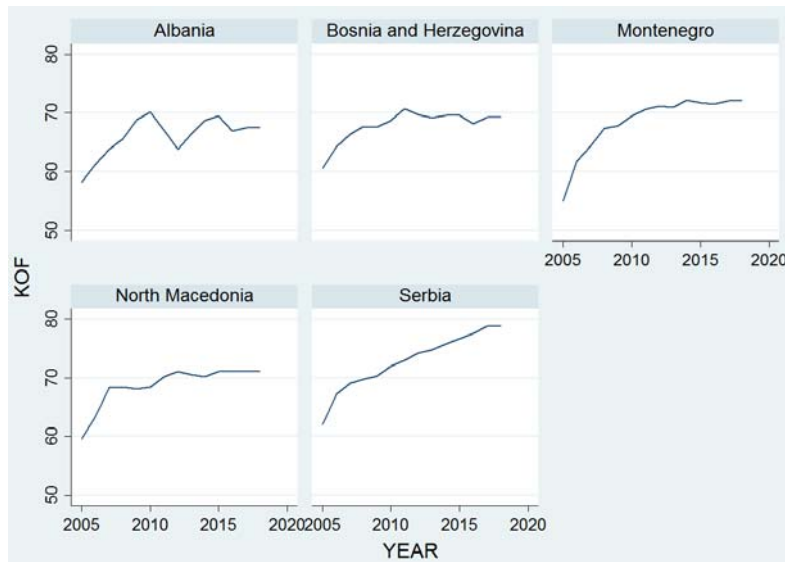


Globalization is a multidimensional phenomenon that affects all aspects of life - economic, social, political, ecological, cultural, etc. Composite indicators, such as the KOF Globalization Index, include and measure different aspects of globalization, which are included in the composite index (Bhandari & Heshmati, 2005; Gozgor, 2017).

The Swiss Economic Institute offered the KOF Globalization Index as a complex composite index that measures globalization's economic, social and political dimensions. Economic globalization looks at the flows of goods, capital, services and information, following market production, distribution, exchange and consumption. At the center of social globalization are people who spread ideas and information. In contrast, political globalization is characterized by implementing and spreading government policies to encourage the globalization process. (Gygli et al., 2018).

The KOF Globalization Index is focused on measuring the phenomenon of globalization of countries from an international perspective. Since 1970, the KOF Globalization Index has measured the degree of globalization of economies worldwide through the prism of economy, politics and society. By optimizing the data, each variable is transformed into an Index that takes a value on a scale from 1 to 100, where 1 is assigned to the country that achieved the lowest value and the lowest level of integration in global flows and 100 to the country that is most integrated into global flows over the year.

**Chart 1. KOF Globalization index of the Western Balkan economies, 2005-2018.**

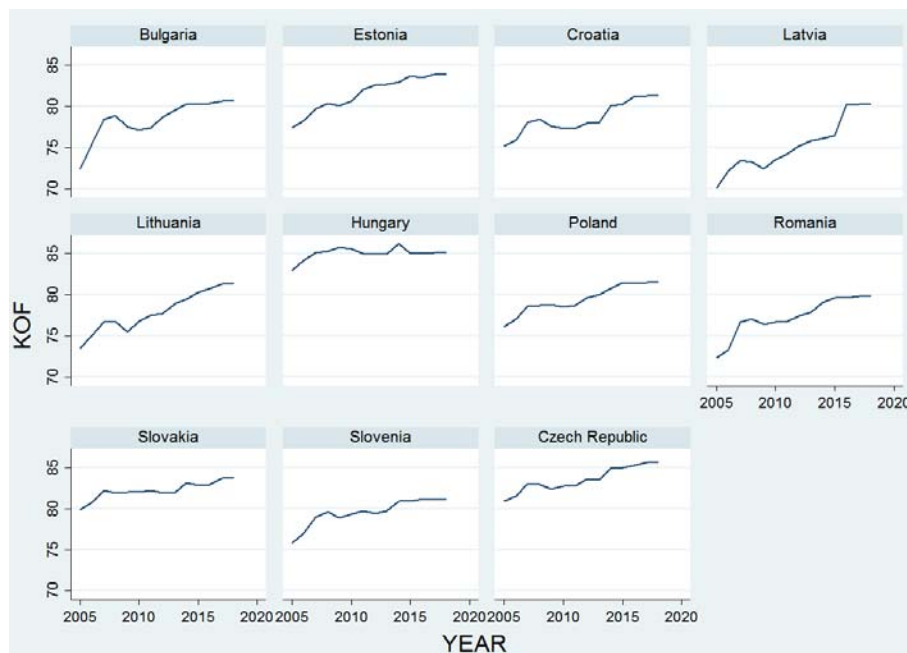


Source: Authors (using statistical software STATA)

The following *chart (1)* shows the KOF Globalization Index for five countries of the Western Balkan for fourteen years (2005-2018). Serbia achieved the highest degree of globalization among the Western Balkan countries, recording constant progress since the beginning of the observed period. Also, it is noticeable that the remaining countries of the region achieved weaker results on the KOF Index.

The following *chart (2)* shows the KOF globalization index for 11 countries of Central and Eastern Europe. The Czech Republic and Hungary, which recorded the best results at the beginning of the 21st century, stand out. The highest level of globalization in the observed group of countries was achieved by Hungary in 2014. (86.2). In addition to these two countries, Estonia and Slovakia achieved notable results. Romania, Latvia and Bulgaria recorded the lowest Globalization Index. It can also be seen that after the economic crisis that occurred in the middle of the observed period, there was an increase in the Globalization Index, which stabilized in the last few years.

**Chart 2. KOF Globalization Index of Selected Central and Eastern European Economies, 2005-2018.**



Source: Authors (using statistical software STATA)

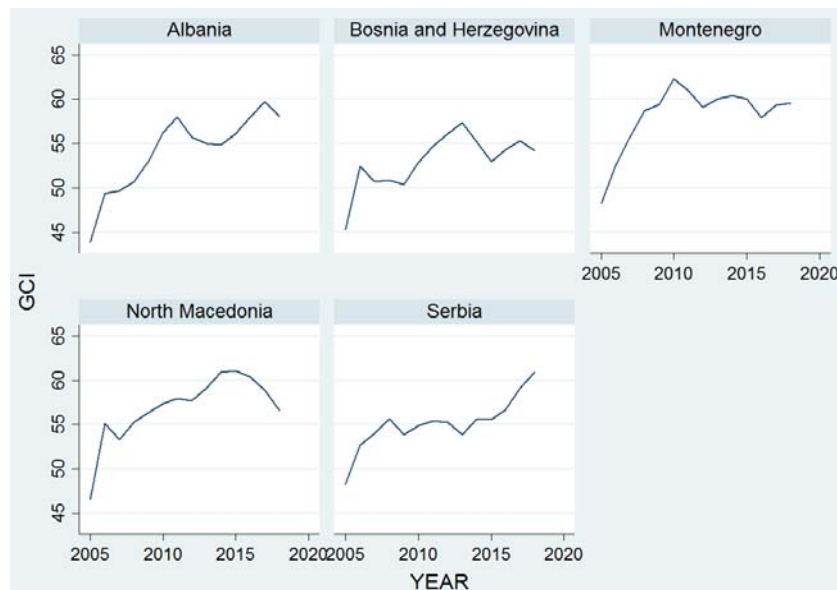
GCI, despite certain shortcomings, measures the factors that drive long-term growth and prosperity. This Index helps policymakers identify challenges and strengths when defining economic growth strategies for their countries. The WEF

publishes the Global Competitiveness Report every year to assess economies' ability to achieve sustainable economic growth. This indicator summarizes a nation's technological strength, characteristics of public institutions and macroeconomic environment (Xia et al., 2012). A group of authors led by Michael Porter (Porter et al., 2008) pointed out that GCI concentrates on the determinants of a nation's sustainable productivity as the ultimate driver of national prosperity and provides practical guidance to economic policymakers.

The World Economic Forum is an international institution that publishes annual Competitiveness Reports to determine the ability of world economies to engage in international trade flows. As opposed to the countries of the Western Balkan, which record a relatively low ranking of competitiveness, the countries of Central and Eastern Europe achieved significantly better results from the global competitiveness aspect during the observed period. The most prosperous countries in this region are Estonia, the Czech Republic, Poland, Lithuania and Slovenia.

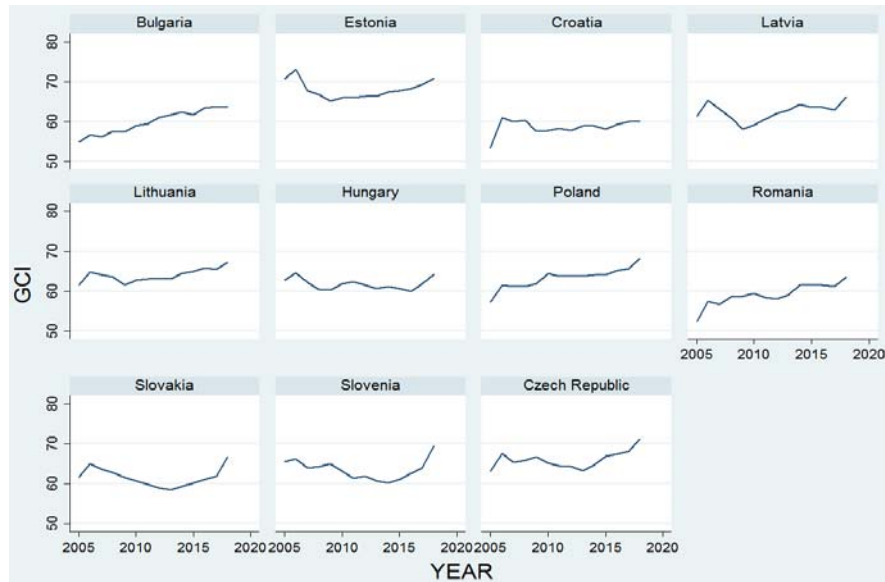
It can be stated that the countries of the Western Balkan region and a number of Central and Eastern European economies (Croatia, Romania and Bulgaria) lagging behind developed countries in terms of global competitiveness (*table 6, in appendix*). The charts below show the trend of GCI in both groups of countries, for the period 2005-2018. year (*charts 3 and 4*).

**Chart 3. Global Competitiveness Index (GCI) of the Western Balkans, 2005-2018.**



Source: Authors (using statistical software STATA)

**Chart 4. Global Competitiveness Index (GCI) of the selected Central and Eastern European economies, 2005-2018.**



Source: Authors (using statistical software STATA)

After the presentation and analysis of the KOF globalization Index and the Global Competitiveness Index (GIC) trends, the influence of the KOF index on the GIK will be examined through the following equation:

$$GCI_{i,t} = \beta_1 KOF_{i,t} + \alpha_i + u_{i,t} \quad i = 1, 2, \dots, n \quad (5)$$

where  $GCI_{i,t}$  is the value of the Global Competitiveness Index for country  $i$  in year  $t$ ,  $KOF_{i,t}$  is the value of the KOF Globalization Index in country  $i$  for year  $t$ ,  $\beta_1$  is the coefficient of the independent variable,  $\alpha_i$  is the unknown segment for each entity (country), and  $u_{i,t}$  is the residual, ie the statistical error.

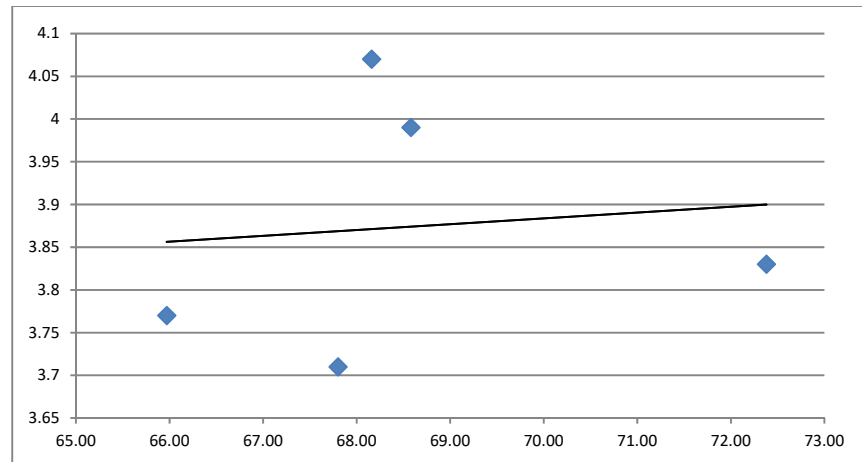
Valorization of the effects of globalization on competitiveness will be carried out for both groups of countries: the group consisting of the Western Balkan economies (5 countries) and the group that includes selected countries of the Central and Eastern Europe region (11 countries).

#### 4. Research results

The research hypothesis was verified with the aim of evaluating the effect of globalization, measured through KOF, on the competitiveness of both groups of economies, measured through GCI, using panel regression analysis.

Chart 5 shows the trend of the analyzed variables for the countries of the Western Balkan region in the time interval 2005-2017. The horizontal axis shows the values of GIK, while the vertical axis shows the value of KOF.

**Chart 5. Comparative analysis of trends in the KOF Globalization Index and GCI in the Western Balkans region, 2005-2017.**



Source: Authors own calculation

The results presented in *table 2* show the effects of globalization, which is observed through the KOF index, on the international competitiveness of the Western Balkans, considered through the GCI.

**Table 2. Assessment of the impact of the KOF Globalization Index on the Global Competitiveness Index of the Western Balkans, 2005-2018.**

VARIJABLE	VREDNOSTI
<i>Broj opservacija</i>	70
$\beta_1$ – koeficijent nezavisne varijable	0,75
$R^2$ within	0,67
$R^2$ between	0,01
$R^2$ overall	0,43
$P > (t)$	0
Probability > F	0

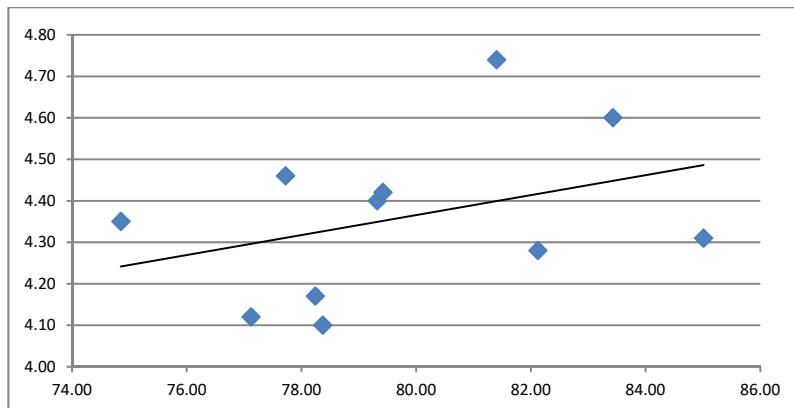
Source: Own calculation by authors using a software program STATA

Table 2 shows that the coefficient of the independent variable is statistically significant because the value  $P(t)$  is 0. Also, the statistical significance of the model was confirmed. Since GCI was optimized in order to the values ranged from 0-100 during the observed period (instead of 1-7), the obtained result indicates that the growth of KOF by one unit affects the growth of GCI by 0,75, and accordingly, integration in global economic flows has a significant impact on the growth of competitiveness. The impact of the KOF Index on the variability of GCI in the observed countries is 67%. Accordingly, it can be argued that there is a positive, statistically significant and strong impact of globalization on the growth of competitiveness.

However, the impact of globalization on the competitive position between different countries within the observed group describes only 1% of the phenomenon. This means that the group of Western Balkans is characterized by very high heterogeneity in terms of the impact of integration in global economic flows on the competitiveness of these countries.

Compared to the Western Balkan countries, the group of countries of Central and Eastern Europe is characterized by slightly greater homogeneity. According to the above, the following chart (6) shows the trend of the observed variables in the time interval 2005-2017. As in the previous chart, the values of the GCI are on the horizontal axis, while the values of the KOF Globalization Index are on the vertical axis.

**Chart 6. Comparative analysis of trends in the KOF Globalization Index and GCI in the selected countries of Central and Eastern Europe, 2005-2017.**



Source: Authors own calculation

In the case where the impact of the KOF Globalization Index on the change in the value of GCI in the Central and Eastern Europe countries is observed, the results presented in table 3 are obtained.

**Table 3. Assessment of the impact of the KOF Globalization Index on the Global Competitiveness Index in selected countries of the Central and Eastern Europe region, 2005-2018.**

VARIJABLE	VREDNOSTI
<i>Broj opservacija</i>	143
$\beta_1$ – koeficijent nezavisne varijable	0,39
$R^2$ within	0,14
$R^2$ between	0,14
$R^2$ overall	0,14
$P > (t)$	0
<i>Probability &gt; F</i>	0

Source: Own calculation by authors using a software program STATA

As in the case of previous analyses, it was confirmed that the obtained results are statistically significant, as well as the model for selected economies of Central and Eastern Europe (*table 3*). The coefficient of the independent variable is 0.39. Since GCI was optimized so that the values range from 0-100 during the observed period (instead of 1-7), the obtained result clearly indicates that the growth of KOF by one unit affects the growth of GIK by 0.39 units. Accordingly, integration in global economic flows significantly impacts the growth of competitiveness. The influence of the KOF Globalization Index on the variability of GCI describes 14% of the phenomenon. The remaining effect on the dependent variable refers to variables not included in the model. Accordingly, it could be considered that there is a positive influence of KOF on the growth of GCI, which is statistically significant. Still, the impact of other variables that are not included in the model is more decisive for the GCI trend.

Based on the research results presented in the previous *tables (2 and 3)* and *charts (5 and 6)*, it can be concluded that the impact of globalization, measured through the KOF Globalization Index, on competitiveness, expressed through GCI, is more significant if the countries of the Western Balkan are observed. At the same time, if the analysis of the groups is carried out, it is observed that the group of countries belonging to the Western Balkans region is more heterogeneous than the group of countries composing the Central and Eastern Europe region. Namely, a positive and statistically significant influence of KOF on the GCI trend cannot be disputed. Still, the effect of other variables that are not included in the considered model should not be neglected. Statistically, the influence of KOF on the growth of GCI of the Western Balkans region is almost twice as considerable in the observed period as the influence of KOF on the growth of GCI of the Central and Eastern Europe region.

In general, it can be concluded that integration in global economic flows has a statistically significant positive impact on the growth of competitiveness of all Western Balkan economies, by which the hypothesis was confirmed.

## **5. Conclusion**

The focus of the research within this paper is on the impact of the globalization process on the international competitiveness of the Western Balkan countries, respectively, on the former and still current European transition countries. Intensive integration in the globalization process should have enabled the countries of the Western Balkan to implement structural changes in the direction of increasing the participation in the GDP of sectors and activities characterized by a higher degree of technological intensity. In that manner, achieving more dynamic economic growth and a significantly higher level of competitiveness in the global market would be possible.

Compared to the more developed economies of Central and Eastern Europe, which are to a much greater degree integrated into international economic flows and which have achieved a higher level of competitiveness, the countries of the Western Balkan region lag behind them both in terms of globalization and competitiveness.

Concerning the set hypothesis, the obtained results showed that the effect of KOF on the growth of GCI is approximately two times greater in the Western Balkans region than in the Central and Eastern Europe region, which is explained by the fact that developed transition economies have already reached a high degree of involvement in global economic and trade flows.

The research confirmed the assumption that the degree of integration in international economic flows had a statistically significant and positive impact on the growth of the competitiveness of the Western Balkan economies in the period before the outbreak of the crisis caused by the COVID-19 pandemic.

Future research of the analyzed phenomena could be extended over the next few years to form a sufficiently long time series and enable the valorization of the effects of globalization on competitiveness in the context of the COVID-19 pandemic that affected the whole world in the last quarter of 2019 and the first quarter of 2020. In this way, the effects of the pandemic on the degree of global integration and the level of competitiveness of the analyzed countries could be reliably determined.



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## EFEKTI GLOBALIZACIJE NA MEĐUNARODNU KONKURENTNOST ZEMALJA ZAPADNOG BALKANA

**Apstrakt:** Zemlje Zapadnog Balkana, koje su u procesu zakasnele tranzicije, ne uspevaju da iskoriste mogućnosti koje sa sobom donosi globalizacija i uklanjanje barijera slobodnom protoku kapitala, tehnologije, znanja, ljudi i informacija. I pored ulaska značajnog stoka stranog kapitala u ove zemlje, one nisu uspele da značajnije unaprede tehnološki nivo proizvodnje i konkurentnost svojih privreda. Predmet istraživanja ovog rada je ispitivanje uticaja fenomena globalizacije na ostvareni nivo konkurentnosti ekonomija Zapadnog Balkana, kao i zemalja Centralne i Istočne Evrope, u periodu pre pojave COVID krize. Pitanje koje se u radu nameće je u kojoj meri je proces globalizacije i ulazak transnacionalnih korporacija u zemlje Zapadnog Balkana uticao na konkurentnost njihovih privreda. Ova dva pitanja se prožimaju u velikom opsegu s obzirom da vlade tranzicionih zemalja smatraju da će priliv stranog kapitala, u formi visoko sofisticirane tehnologije, istovremeno omogućiti okončanje procesa tranzicije i odlučnije uključivanje pet zemalja Zapadnog Balkana u globalne investicione i trgovinske tokove. Sprovedeno istraživanje je potvrdilo da stepen uključenosti u međunarodne ekonomske tokove ima statistički značajan i pozitivan uticaj na rast konkurentnosti, te da su ti efekti više izraženi u regionu Zapadnog Balkana u odnosu na region Centralne i Istočne Evrope.

**Ključne reči:** globalizacija, konkurentnost, tranzicija, transnacionalne korporacije, bruto domaći proizvod, Zapadni Balkan, Centralna i Istočna Evropa

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## Appendix

Table 4. Net inflow of FDI in millions USD, 2005-2019.

	<i>Albania</i>	<i>B &amp; H</i>	<i>N. Macedonia</i>	<i>Serbia</i>	<i>Montenegro</i>
2005	262	624	145	1.609	482
2006	325	846	427	4.499	628
2007	652	1.842	733	4.423	937
2008	1.247	1.005	612	4.056	975
2009	1.345	139	260	2.929	1.550
2010	1.090	444	301	1.693	758
2011	1.049	472	508	4.931	557
2012	918	392	338	1.275	618
2013	1.254	313	402	2.059	446
2014	1.150	545	61	2.000	497
2015	990	383	297	2.343	700
2016	1.044	313	549	2.355	227
2017	1.023	464	381	2.895	561
2018	1.204	489	649	4.072	486
2019	1.209	516	477	4.282	454

Source: World Bank Group – World Bank Open Data; World Development Indicators;  
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Table 5. GDP in millions USD, 2005-2019.

	<i>Albania</i>	<i>B &amp; H</i>	<i>N. Macedonia</i>	<i>Serbia</i>	<i>Montenegro</i>
2005	8.052	11.223	6.259	27.683	2.257
2006	8.896	12.865	6.861	32.482	2.722
2007	10.677	15.779	8.336	43.171	3.681
2008	12.881	19.113	9.910	52.194	4.546
2009	12.044	17.614	9.402	45.163	4.159
2010	11.927	17.177	9.407	41.819	4.143
2011	12.891	18.645	10.495	49.258	4.546
2012	12.320	17.227	9.745	43.309	4.088
2013	12.776	18.179	10.818	48.394	4.465
2014	13.228	18.558	11.362	47.062	4.588
2015	11.387	16.115	10.065	39.656	4.053
2016	11.861	16.913	10.672	40.693	4.374
2017	13.020	18.080	11.307	44.179	4.845
2018	15.147	20.184	12.683	50.641	5.504
2019	15.279	20.164	12.547	51.475	5.543

Source: World Bank Group – World Bank Open Data; World Development Indicators;  
 GDP (current US\$),  
<https://databank.worldbank.org/indicator/NY.GDP.MKTP.CD/1ff4a498/Popular-Indicators#>

**Table 6. Global Competitiveness Index (GCI) of the Western Balkans and selected economies of Central and Eastern Europe, 2005-2019.**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Albania	3,07	3,46	3,48	3,55	3,72	3,94	4,06	3,91	3,85	3,84	3,93	4,06	4,18
B & H	3,17	3,67	3,55	3,56	3,53	3,70	3,83	3,93	4,02	-	3,71	3,80	3,87
Bulgaria	3,83	3,96	3,93	4,03	4,02	4,13	4,16	4,27	4,31	4,37	4,32	4,44	4,46
Estonia	4,95	5,12	4,74	4,67	4,56	4,61	4,62	4,64	4,65	4,71	4,74	4,78	4,85
Latvia	4,29	4,57	4,41	4,26	4,06	4,14	4,24	4,35	4,40	4,50	4,45	4,45	4,40
Lithuania	4,30	4,53	4,49	4,45	4,30	4,38	4,41	4,41	4,41	4,51	4,55	4,60	4,58
Hungary	4,38	4,52	4,35	4,22	4,22	4,33	4,36	4,30	4,25	4,28	4,25	4,20	4,33
Poland	4,00	4,30	4,28	4,28	4,33	4,51	4,46	4,46	4,46	4,48	4,49	4,56	4,59
Romania	3,67	4,02	3,97	4,10	4,11	4,16	4,08	4,07	4,13	4,30	4,32	4,30	4,28
N.Macedonia	3,26	3,86	3,73	3,87	3,95	4,02	4,05	4,04	4,14	4,26	4,28	4,23	-
Slovakia	4,31	4,55	4,45	4,40	4,31	4,25	4,19	4,14	4,10	4,15	4,22	4,28	4,33
Slovenia	4,59	4,64	4,48	4,50	4,55	4,42	4,30	4,34	4,25	4,22	4,28	4,39	4,48
Serbia	3,38	3,69	3,78	3,90	3,77	3,84	3,88	3,87	3,77	3,90	3,89	3,97	4,14
Croatia	3,74	4,26	4,20	4,22	4,03	4,04	4,08	4,04	4,13	4,13	4,07	4,15	4,19
Montenegro	-	-	3,91	4,11	4,16	4,36	4,27	4,14	4,20	4,23	4,20	4,05	4,15
Czech R.	4,42	4,74	4,58	4,62	4,67	4,57	4,52	4,51	4,43	4,53	4,69	4,72	4,77

Source: WEF, The Global Competitiveness Report 2005/2006 – 2019.

**Table 7. KOF Globalization Index of the Western Balkans, 2000-2017.**

	Albania	B & H	N. Macedonia	Serbia	Montenegro
2005	58,2	60,6	59,6	62,1	55
2006	61,2	64,2	63,4	67,2	61,8
2007	63,8	66,4	68,3	69,1	64,4
2008	65,6	67,7	68,4	69,7	67,4
2009	68,8	67,6	68,1	70,3	67,8
2010	70,1	68,7	68,4	72	69,5
2011	67	70,7	70,2	73	70,6
2012	63,8	69,7	71,1	74,2	71,2
2013	66,5	69,1	70,5	74,7	70,9
2014	68,7	69,6	70,2	75,7	72,2
2015	69,5	69,6	71,1	76,6	71,7
2016	66,9	68,2	71,1	77,5	71,5
2017	67,5	69,3	71,1	78,8	72,1

Source: ETH Zürich KOF – KOF Swiss Economic Institute – Data ;  
<https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html>

**Table 8. KOF Globalization Index of the selected economies of Central and Eastern Europe, 2000-2017.**

	<i>BGR</i>	<i>EST</i>	<i>LVA</i>	<i>LTU</i>	<i>HUN</i>	<i>POL</i>	<i>ROU</i>	<i>SVN</i>	<i>SVK</i>	<i>CRO</i>	<i>CZE</i>
2005	72,4	77,4	70,1	73,5	83	76,1	72,3	79,9	75,8	75,2	80,9
2006	75,4	78,3	72,1	75	84,2	77	73,2	80,7	77	75,9	81,6
2007	78,4	79,7	73,4	76,7	85,1	78,6	76,7	82,2	79	78,1	83,1
2008	78,9	80,4	73,2	76,8	85,3	78,7	77	81,9	79,6	78,4	83
2009	77,5	80,1	72,4	75,5	85,8	78,8	76,4	82	78,9	77,6	82,4
2010	77,1	80,7	73,5	76,8	85,6	78,5	76,7	82	79,3	77,3	82,8
2011	77,4	82,1	74,3	77,5	85	78,7	76,8	82,2	79,7	77,3	82,8
2012	78,7	82,6	75,2	77,7	84,9	79,6	77,4	81,9	79,4	78	83,6
2013	79,6	82,7	75,8	78,9	84,9	80	77,9	81,9	79,7	78,1	83,5
2014	80,3	83	76,1	79,5	86,2	80,8	79,1	83,2	80,9	80,1	84,9
2015	80,3	83,7	76,5	80,3	85	81,5	79,6	82,9	80,9	80,3	85
2016	80,4	83,6	80,2	80,8	85	81,4	79,6	83	81,2	81,2	85,3
2017	80,7	83,9	80,3	81,3	85,1	81,5	79,8	83,7	81,1	81,3	85,7

Source: ETH Zürich KOF – KOF Swiss Economic Institute – Data ;  
<https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html>