

## REGIONAL COOPERATIONS OF THE WESTERN BALKANS AND THE INFLOW OF FOREIGN DIRECT INVESTMENTS

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**Abstract:** *The main precondition for successful economic development of every economy in modern conditions business, includes availability of sufficient financial resources which would fund a successful and sustained economic growth and development. Having in mind that the financial capital is very limited resource and that many countries do not have in sufficient quantities, they are forced to seek in the lack of foreign investment as the most favorable conditions financing of its economy. In the case that the amount of foreign investments is insufficient, concrete States are in that situation must manage in other ways that are always uncertain and generally, very expensive. Foreign direct investment is significant for each country because it affects its economic development, increasing employment, increasing exports and increasing the gross domestic product. In this sense, all Western Balkan countries are trying to attract as many foreign direct influences as possible. Is it Region an opportunity or a competitor to increase the inflow of foreign direct investment?!*

**Keywords:** *Foreign direct investment, economic growth, regional cooperation, financial capital, macroeconomic policy, competition, economic development*

### 1. INTRODUCTION

Foreign direct investment as a form of international capital movement is a contribution to a more efficient business of the economy, entering the international market, raising the living standards of the society. Foreign investment is a key development factor in the modern economy, along with trade, the most important means of doing business, organizing production, supplying goods and services on a global scale.

Interest in attracting foreign investment is shown by developing countries, transitional, and developed countries. Foreign direct investment has an impact on economic growth, and the effects depend on the shape of the investment and the investment environment. In the further explanation of the authors' intention is to emphasize the importance of the region in the increased inflow of foreign direct investments and the necessity of cooperation of the Region, in order for the Region and each country separately benefit from the increased inflow of foreign direct investment.

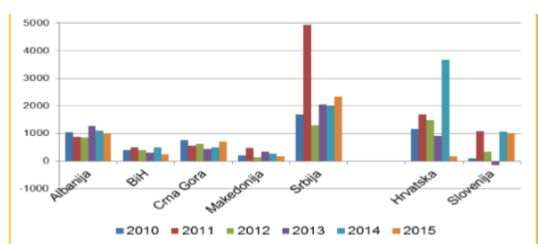
Also, in the continuation of the paper, an overview of the state of foreign direct investments is given to the regions of the Region, the largest investors by countries that come as well as the structure by sectors of economy in which foreign investors have placed capital and by the number of employment. The advantages of the region are highlighted and the reasons for cooperation in attracting foreign direct investment, as well as the place of Bosnia and Herzegovina in these processes.

### 2. SITUATION AND INDICATORS OF FOREIGN DIRECT INVESTMENTS IN THE REGION

At the present moment, the dynamics of the economic development of the Western Balkan region, including Bosnia and Herzegovina, is highly dependent on the inflow of foreign direct investments. The reasons for this lie in the fact that FDI create a number of direct benefits and have strong multiplier effects on the national economy, affecting the overall employment and income growth of employees, through corporate and indirect taxes, increasing the overall tax revenues of the state, facilitating

technological transfers and creating completely new sectors, and contribute to regional development. The countries of the Western Balkans have developed into interesting investment locations, especially due to the open prospect for EU membership. In previous years, some countries have made significant progress in increasing foreign direct investment inflows, while others remain far behind what will be discussed below with the graphs below.

Chart 1: DSI in the Western Balkans, 2010-2105, mil USD



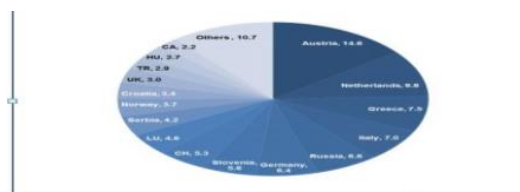
When we analyze this chart, we see that Serbia and Croatia's leaders are in the flow of foreign direct investment in the period 2010 - 2105. Year, and then Albania, which does not have large fluctuations in the inflow of foreign direct investment in this time period. Unfortunately, it is evident that Bosnia and Herzegovina, with Macedonia, has a very small inflow of foreign direct investments.

Chart 2: DSI in the Western Balkans in 2016



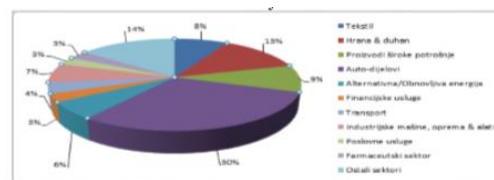
From the preliminary receipts of the inflow of foreign direct investments for 2016, the year is visible that the Republic of Serbia remains the leader in attracting FDI in the region, with close to two billion euros of foreign investments. The Republic of Croatia also increased the inflow of investments in 2106 as well as other countries of the region, excluding Bosnia and Herzegovina.

Chart 3: The country's top investors in the Western Balkans



From this chart, it is evident that the country that invests most in the Western Balkan region is Austria, with a share of 14.6%, followed by the Kingdom of the Netherlands, Greece, Russia, Slovenia and other EU countries. These indicators tell us that countries are investors in the Western Balkans, in fact, countries that are well aware of this region and have a historical connection with this part of Europe and recognize the resources and potentials of these countries in economic terms, regardless of all negative trends and image which the Western Balkans has in the world.

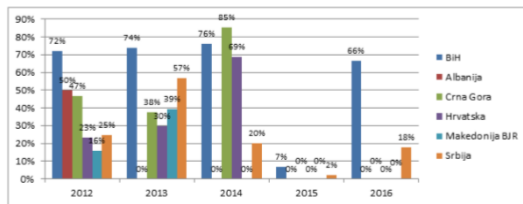
Chart 4: Foreign investment flows in South East Europe for the period 2011-2015. year after creating jobs



Unemployment in the countries of the Western Balkans is a very significant problem, so it is important to know which sector has opened up the most jobs thanks to direct foreign investments in the Region. From this chart, we see that the leading sector of car parts with as much as 30 percent of the share, followed by the food and tobacco sector, textile and consumer goods sectors. As all the countries in the Region were hit by the economic crisis, which also affected the increase unemployment, it can be said that regional cooperation is crucial to attract foreign direct investment and thus contribute to reducing unemployment.

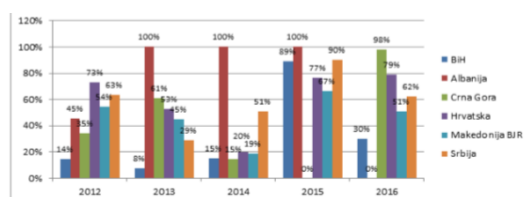
*Chart 5: The share of investments motivated by natural resources in the countries of the region (according to the value of the announced investments) in the period 2012-2016*

Source



This chart shows the motives of foreign investors when it comes to natural resources. Although the countries of the Western Balkans point out that their strengths and natural resources are at their disposal, it should be emphasized that in most countries of the region there is a trend of declining investments that are motivated by the availability of natural resources. Even more, it is evident that in addition to Bosnia and Herzegovina and Macedonia, such types of investments have not been recorded in other countries of the region in the last two years.

*Chart 6: The share of investments motivated by the conquest of new markets in the countries of the region (according to the value of the announced investments) in the period 2012-2016*



When considering investment in certain areas, foreign investors are also considering access to the market, and the availability and "conquest-specific markets" can be a strong motivation for investing. A review of the share of investments motivated by the acquisition of new markets in the countries of the Region according to the number of announced projects shows that Albania is the leading, while all other

countries have approximately the same representation of projects of this type in the overall structure according to the number of projects. Looking at each other, markets in the region are very small. Regional alliances are inevitability and a channel that can enable us to be the main players in big markets and, therefore, to make big foreign companies a worthy competitor. Without combining strength, quality and experience, other big players will overtake us Chart 7



The common problem of the Balkans is a slow and bulky bureaucracy, which makes the countries badly placed on the lists of competitiveness.

The goal of a stronger link is that standards and legal regulations are equal in all countries in order to be shared. From this chart we see how ranked countries of the Western Balkans are in the World Bank's report on ease of doing business. In the above Report, Macedonia is the best ranked, which in recent years has undertaken a number of activities in order to make the investment environment in the country as favorable and simpler as possible, and in the Report it has taken an excellent 12th place in the overall ranking. The Report is also ranked well by Slovenia and Montenegro, while Bosnia and Herzegovina and Albania are in the last places.

A stable and favorable business environment is one of the basic requirements of foreign investors to think about investing in a particular country at all. That is why most Western Balkan countries still have to do a lot more so that the business environment would be favorable and attractive for a foreign investor.

In addition, predictability in the business, the efficiency of the tax system, the reduction of taxes and the good education of employees, are some of the prerequisites for increasing liquidity in the economy and creating a better business environment. Economic and political stability is expected by domestic businessmen, but also by any foreign investor.

The conducted analysis of the regional inflow of FDI mainly leads to the conclusion that the region's poorly exploited potential as an attractive investment space is investment. But significant progress has been made in opening the countries of the Western Balkans to foreign investors. The region no longer has a negative perception among investors. In fact, confidence in this part of Europe and its prosperity is in the ascending path. The countries of the Western Balkans have developed into interesting investment sites, especially due to the open prospect for EU membership.

### **3. COMPETITIVE ADVANTAGES OF THE WESTERN BALKANS FOR FEES INVESTMENT**

It is clear that the future of the region is in the European Union, and regional cooperation reflects this process, but it also leads to the regulation of space and its long-term sustainability, because it is precisely the political and economic development that makes the region more attractive to investors, facilitates trade and speeds up modernization. Cross-regional cooperation, countries practically express unity through a compromise that drives the Region to EU standards and European practice of cooperation.

When we talk about the competitive advantages of the Region, we think that these are the following:

- Traditional connectivity between economies and markets
- Mutual knowledge, common voice and existing cooperation within the countries of the region

□ Existence of the CEFTA free trade agreement

□ Adopting legislation according to EU directives and activities on the path of EU accession. Further strengthening of regional cooperation, stronger linking and deepening of integration have been guided by a clear perspective of EU accession. One of the advantages of the region is precisely the proximity of the EU market.

□ For the purpose of regional cooperation, the European Union will support the transport and energy connections of the Western Balkan countries through projects "Western Balkans" 6.

□ RCC Regional Cooperation Council, South East Europe SEE 2020, I Strategy 2020, was adopted by 7 countries in the region in November 2013. The goal of the strategy, modeled on the EU 2020 strategy, is to support the achievement of national goals through regional cooperation, with the main goal of improving living standards in all countries of the region and contributing to the creation of new jobs. Countries that have adopted the strategy Albania, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, Serbia and Macedonia. Due to joining the EU, Croatia is only partially involved in implementing the measures of this strategy.

□ The size of economies and markets that can only attract large investors and projects, in particular for remote markets (eg Platform 16 + 1, NR China for countries of Central and Eastern Europe)

□ In order to attract investors, Serbia, Macedonia, the Republic of Srpska, Croatia and Bosnia and Herzegovina initiated a joint program - Business Environment Certification Program in South East Europe BFC SEE BFC SEE project establishes the first regional platform for improvement and harmonization of local business conditions in the countries of Southeastern Europe - Bosnia and Herzegovina, Croatia, Macedonia, Serbia, from 2016 and Montenegro

□ Strategic geographic position

□ Low labor costs in combination with a relatively educated population

□ Favorable tax system

It is very important that with the support of the EU we jointly conceive a strategic program of larger investments in regional "binding," "solid" and "soft" infrastructure, in transport, energy, information technologies, knowledge ... This will promote the creation of programs that lead to an increase in employment, especially young people. Such common strategies would make it impossible for themselves to build important road, rail and energy corridors of regional and wider importance, but also a stable path for faster regional development and its essential Europeanization.

## CONCLUSION

Since the work mainly focuses on foreign direct investments, it is enough to say that in the last decade the Western Balkans has not been able to attract even 1% of the total world FDI. Analyzing this data, it is clear that the Region has not used its investment potential, and that with the efforts to achieve and maintain political and macroeconomic stability, weakening labor market rigidity and reforming a bulky bureaucratic state apparatus, it will become a desirable destination for foreign investors.

When attracting foreign investments, it is important that the countries of the Region think how to overcome the presentation of individual advantages, and to think more about the representation of the Region. The great interdependence of the countries of the Western Balkans is reality and inevitability, and the task of all of us, both from the business, public and scientific sectors, is to strategically approach this interdependence and strengthen its positive aspects that are most obvious in the field of economy. To the extent that we further strengthen the positive aspects of economic interdependence and regional competitiveness, the economic prosperity of individual countries depends to the same extent. Coordinated development of strategic economic and infrastructure projects, development of entrepreneurship and joint initiative in attracting foreign direct investments, greater integration of

financial markets represent insufficiently used potentials of regional integration. Tourism, food, energy and financial markets are fields that, for the sake of competitiveness in the European and global markets, require a greater degree of association between the countries of our region. Regional integration processes are also important for attracting foreign direct investment. It should be noted that the regional cooperation of the countries of the Western Balkans is one of the formal conditions for improving the relations of these countries with the European Union, and that initiatives in this area can accelerate the process of approaching it. Bosnia and Herzegovina is making more efforts to contribute to the development and improvement of the region's cooperation, which will undoubtedly contribute to the development of Bosnia and Herzegovina.

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