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IMPACT OF GLOBALIZATION ON FOREIGN DIRECT INVESTMENT AND GROSS DOMESTIC PRODUCT IN WESTERN BALKAN COUNTRIES

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Abstract. *Globalization represents one of the great changes leading to the creation of a global economy without the existence of any borders and obstacles. Countries strive to achieve as much economic growth as possible, so that their population and economy can function better in times of sudden and increasing changes and various instabilities. The main goal of this paper is to determine the impact of globalization on both foreign direct investment and gross domestic product in Western Balkan countries, i.e. whether the processes of increasing globalization of a country can simultaneously be beneficial for that country. Globalization was observed on the basis of the KOF Index of Globalisation, taking into account indices for the economic freedom of countries, foreign direct investment was observed by means of indicators of inflow of foreign direct investments (FDI), and gross domestic product was observed using gross domestic product per capita (GDP p.c.). The study covers the countries of the Western Balkans in the period from 2005 to 2022. The methods of descriptive statistics and correlation analysis, as well as the method of comparison, were used. The results of the study indicate that the KOF Index of Globalisation has a statistically significant and strong positive relationship with the inflow of foreign direct investments and with the gross domestic product per capita. In addition, the results show an increasing trend in the value of the KOF Index of Globalisation and in the growth of gross domestic product per capita.*

Key words: globalization, index of globalization, foreign direct investment, gross domestic product, Western Balkans.

UTICAJ GLOBALIZACIJE NA STRANE DIREKTNE INVESTICIJE I BRUTO DOMAĆI PROIZVOD U ZEMLJAMA ZAPADNOG BALKANA

Apstrakt. *Globalizacija je jedna od velikih promjena koje vode ka stvaranju globalne ekonomije bez ikakvih granica i barijera. Države nastoje ostvariti što veći ekonomski rast kako bi njihovo stanovništvo i ekonomija bolje funkcionirali u vremenima sve većih i naglih promjena i nestabilnosti. Glavni cilj ovog rada je utvrditi utjecaj globalizacije*

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na strane direktne investicije i bruto domaći proizvod u zemljama Zapadnog Balkana, odnosno mogu li procesi sve veće globalizacije neke zemlje biti ujedno i korisni za tu zemlju. Globalizacija je posmatrana temeljem indeksa globalizacije KOF, indeksa ekonomskih sloboda zemalja, dok su strane direktne investicije posmatrane su kroz pokazatelje priliva direktnih stranih ulaganja (u daljnjem tekstu FDI), a bruto domaći proizvod posmatran je kroz bruto domaći proizvod po glavi stanovnika (u daljnjem tekstu BDP po glavi stanovnika). Istraživanjem su obuhvaćene zemlje Zapadnog Balkana u razdoblju od 2005. do 2022. godine. Korištene su metode deskriptivne statistike i korelacione analize te metoda komparacije. Rezultati istraživanja pokazuju da KOF indeks globalizacije ima statistički značajan i jak pozitivan odnos s prilivom direktnih stranih ulaganja i bruto domaćim proizvodom po glavi stanovnika. Osim toga, rezultati su pokazali rastući trend vrijednosti KOF indeksa globalizacije, kao i rastući trend rasta bruto domaćeg proizvoda po glavi stanovnika.

Ključne reči: globalizacija, indeks globalizacije, strane direktne investicije, bruto domaći prizvod, Zapadni Balkan.

JEL klasifikacija (classification): O40, F62, F63

1. Introduction

In a time of increasing social, financial, cultural and other connections, both between individuals and companies and between entire countries, the concept of globalization is becoming more and more prevalent. Due to the great availability of information, societies are beginning to adopt a more global perspective and interpret certain issues differently than before. However, globalization does not come to a country by chance, but requires constant investments in research, development, technology and, above all, knowledge, on the basis of which certain assumptions of development will be put into practice. Countries that do not get involved in globalization processes in a timely manner are often said to be lagging behind in development.

According to Lončar (2005, p. 92), countires across the world are increasingly opening up to other countries and the world is shrinking, so to speak, and for this reason the world is often referred to as a "global village". The term globalization is derived from the word "global" which means totality. Globalism, on the other hand, is a way of looking at events globally or as a whole. In view of this, globalization would imply a social process that strives to achieve the uniqueness and comprehensiveness of the world (Turek, 1999). The process of globalization represents a fundamental transformation of economic life that has resulted in capital, people, products, and the application of technical systems becoming more effective, which results in an increase in production, the circulation of knowledge, and the generalization of the market economy

(Savrul and Incekara, 2017, pp. 16). In any case, globalization is undoubtedly one of the great plans of change and progress (Hudolin, 2018).

Due to the effects of globalization, the phenomenon is most often viewed from an economic perspective, with the term economic globalization often used in this context. Economic globalization means the general liberalization of both trade flows and capital flows internationally, with the simultaneous mobility of factors of production such as labor, capital, information, ideas, or technology (Ljajić et al., 2016, pp. 43). It can be said that economic globalization implies an increasing interdependence of world economies as a result of the growing volume of international capital flows, cross-border trade in goods and services, and the wide and rapid spread of technologies between countries. For this reason, at the same time, economic globalization represents an irreversible trend for the economic development of countries as a whole. The financial sector has embraced globalization in the truest sense of the word, with cross-border capital flows beginning to expand significantly from the 1970s on (Shangquan, 2000). Only countries that have used the influence of globalization to their advantage are successful (Rodrik, 2007, pp. 2). The positive effects of the globalization process can be reduced to faster economic growth, full employment, the emergence of new products and services, the absence of inflation, and a solid monetary policy, while the most common negative effects of globalization are issues of employment and social welfare (Veselica, 2007).

2. Theoretical background

One of the terms frequently mentioned is the concept of globalization on the basis of which relations between individuals, companies, institutions, and countries as a whole are becoming more and more intensive. The adjective global was used at the end of the 19th century to refer to the whole world, while the noun globalization entered Webster's dictionary for the first time in 1961 (Braica, 2004, p. 123). The most frequently discussed aspect of globalization is the economic globalization, which has been described in the previous paragraph.A universally accepted definition of the term globalization has not yet been established and it depends on the respective field of research, whether it is economic, cultural, social, ecological or similar. Definitions of globalization were discussed by Al-Rodhan and Stoudmann (2006), who presented a table with as many as 114 selected definitions of globalization most commonly found in the literature. They proposed the following definition of globalization: "Globalization is a process that encompasses the causes, direction and consequences of transnational and transcultural integration of human and non-human activities" (Al-Rodhan and Stoudmann, 2006; Holy, 2018).

Economic freedoms allow market participants equal participation in the global market. There are different ways of calculating economic freedom, however, depending on the number of countries that are included and the time period observed. In practice, the Index of Economic Freedom of the Heritage Foundation (The Heritage Foundation, 2024) and the index of Economic Freedom of the World (EFW, The Fraser Institute, 2024), are most often used. Each of these has its own methodology and method of calculation, as well as the basic constituent components on the basis of which it is calculated. We measure economic freedom using the Heritage Foundation Index of Economic Freedom based on 5 quantitative and qualitative factors, namely property rights, government integrity, judicial effectiveness, tax burden, and government spending (The Heritage Foundation, 2024). Each of the five components of the index is scored on a scale of 0 to 100, after which the country's overall score is derived by calculating the average of these five economic freedoms, giving each an equal weight (The Heritage Foundation, 2024).

The EFW index measures, with a two-year lag, the degree of economic freedom present in five main areas (The Fraser Institute, 2024): size of government; legal system and security of property rights; sound money (stable currency); freedom of international trade; and regulation. The value of the index ranges from 1 to 10, with a value of 10 indicating greatest economic freedom in the country. In order for the EFW index to be high, the country must provide safe protection of private property, that is, a legal system that treats everyone equally and in which the enforcement of contracts is carried out equally. The monetary environment should be stable. In addition, low taxes must be maintained in the country, and barriers to both domestic and international trade and exchange should be refrained from. At the same time, the country should rely more on market operations and not on government spending and regulation in the distribution of assets and resources.

The KOF Globalisation Index (KOF Swiss Economic Institute, 2023) shows the openness of a country to the global or world market. This index measures the economic, social, and political dimensions of globalization. Each dimension of the index is evaluated on a scale from 1 to 100, with 100 indicating complete globalization. Higher values of this index indicate that the country is more open to global trade. The world average value of the globalization index increased from 38 to 58 points in the period from 1970 to 2021, with the highest growth recorded between 1990 and 2010. Globalization increased moderately in 2021, but has not yet fully recovered from the effects of the COVID-19 pandemic and remains below 2019 levels. Low-income countries have already exceeded the level of globalization achieved before the pandemic, while the overall index is still slightly below that level (KOF Swiss Economic Institute, 2023). Signs of recovery are visible in economic

globalization, while there are still restrictions on social globalization due to the COVID-19 pandemic and its consequences. The shock that this pandemic caused in the economy certainly showed that non-economic and non-financial factors can have very significant economic and financial effects on a global level, and that they can appear as triggers for the start of an economic recession (Prašćević, 2021, p. 20).

On the other hand, economic freedom and globalization processes should occur for some specific reason, for example, to have some specific benefit for countries. When considering the benefits of certain processes for the country, the impact of a certain phenomenon on foreign direct investment (FDI) and gross domestic product per capita (GDP p.c.) is often considered.

FDI can be considered one of the main components of globalization. It shapes economic growth, new technological knowledge, and new employment opportunities. In addition, there are some downsides to this type of investment. This means that when foreign investors enter the market of a country, they usually create too much competition for local companies, which is why small companies with insufficient funds cannot compete in foreign markets (Stiglitz, 2002). The contribution of FDI to economic growth is manifested in two basic effects: FDI increases the overall level of investment in the economy by attracting domestic investment; FDI is more productive than domestic investment and interacts with human capital. There are numerous studies on the impact of FDI on economic growth, and most confirm that it is significant and positive (Almfraji and Almsafir, 2013).

GDP represents the value of all the final products and services produced by domestic production inputs in a specific country in a specific time period (most often a calendar year or quarter). It represents the basic macroeconomic indicator, and if this indicator grows, it means that the country is recording positive growth rates. This paper uses GDP p.c., which is obtained by dividing the total GDP of a country by the number of its inhabitants.

3. Previous research

Škuflić (2000) investigated the impact of globalization on the competitiveness of small transition economies. According to Škuflić, the level of international competitiveness of transition economies is not satisfactory, especially with regard to the countries of Southeast Europe. Since the European Union (EU) is the main trading partner for transition countries, all the changes that occur in this market are automatically reflected in trade with transition countries. This paper analyzes the structure of trade between Southeast

European countries and the EU and assesses the level of international competitiveness of the selected countries.

Škuflić and Vlahinić-Dizdarević (2001) attempted to determine the impact of trade policy on national economies that do not accept the changed conditions on the world market quickly enough. Their analysis showed that due to the inadequate export offer and the low level of competitiveness of national economic entities, the countries of Southeast Europe, which have almost completely liberalized access to the European Union market, will not significantly increase their exports to this market. The authors concluded that without implementing structural changes in the economies of Southeast European countries and without strengthening the quality of export products, the price advantage that these countries gain by accessing the EU market will not significantly affect the growth of their exports.

Read (2004) offered an overview of the basic implications of globalization and growing state regionalism in the context of economic growth for small island states. The paper presents the process of globalization and gives an overview of the empirical literature on critical factors important for the growth of small island states. The importance of this work is reflected in its proposing an agenda for further research on the implications of the impact of globalization on specific growth factors for small island states. It is concluded that globalization represents a significant challenge for any long-term prosperity and development of many countries, especially developing countries. The specificity of small island states is their limited scope for action given the policy restrictions associated with small countries.

In his study, Kilić (2015) tested the effects of globalization (economic, social, and political) on the growth levels of developing countries as well as their mutual causal relationship. The fixed effects least squares method and the Granger causality test were used. The results of the analysis showed that economic and political globalization had a positive effect on the levels of economic growth of selected developing countries. On the other hand, the results also indicated that social globalization had a negative impact on economic growth. The results of the Granger causality test posit a two-way causal relationship between political and social globalization and economic growth and a one-way causal relationship between social globalization and economic growth.

The impact of globalization on FDI was investigated by Shams et al. (2017). They conducted an analysis in ten developing and ten developed countries during the period from 2001 to 2011. Their study indicates that in both developed and developing countries, an improvement in the globalization index leads to an increase in FDI. It also shows that GDP growth leads to a decrease in FDI.

Fejzić (2017) investigated the impact of FDI net inflows on the economic growth of the SEE5 countries, the countries of the Western Balkans, in the period between 2000 and 2014. His analysis showed "that the impact of the net inflow of foreign investments on growth at the aggregate level is positive and strong, in the primary sector it tends to have a negative effect on growth, in the manufacturing sector it has positive effects on growth and in the service sector it has a strong and positive effect on growth" (Fejzić, 2017, p. 87).

Aderemi et al. (2020) examined the relationship between globalization and economic growth in European countries in the period from 1990 to 2018. The results they obtained can be summarized as follows: Net inflows of FDIs and trade openness, as a variable of the globalization index, led to economic growth in the observed European countries. There is a significant positive relationship between the lag value of economic growth and its current value. The authors concluded that in the last four decades, the impact of globalization on the economies of European countries has been positive.

Živković (2021) investigated how countries could strengthen their position on the market in the era of globalization. The index of global competitiveness and its changes were observed, and the countries of Southeast Europe were observed. Globalization was monitored on the basis of its economic, political, and social dimensions, and economic growth was measured using GDP p.c. Despite the fact that the observed countries had different levels of economic development, their level of globalization remained approximately the same. Specifically, the results of Živković's analysis showed that there is a positive impact of increased globalization on the economic growth of the group of countries examined as well as on their competitive position.

Ionascu (2023) sought to determine the relationship between globalization, IT, and economic growth. A bibliometric analysis of existing scientific literature was used with the use of the VOSviewer for bibliometric examination. Articles available in the Scopus database were studied, and the main goal of the research was to determine the thematic core within this academic framework. The results showed that trade and financial globalization, technological innovation, and economic development are the main researched topics. An important finding relates to the observation that the dividends of global trade are not equally distributed among countries around the world. This inequality, coupled with technological advances, such as automation and digital transformation, is fueling growing feelings of skepticism, protectionism, and reluctance toward globalization, regardless of how other scholars extol the myriad benefits of the globalization process.

Javed et al. (2023) expored the globalization and total GDP nexus in Pakistan using the ARDL approach for the period from 1970 to 2019. They concluded that globalization leads to GDP growth in Pakistan. On the other hand, they found that inflation, exchange rate, money supply, and population leads to a decrease in GDP in this country.

Ased et al. (2024) investigated the economic effects of globalization on developing countries. In this way, they sought to find a possible correlation between global interconnectedness and growth. The aim of the study was to reveal the approximate quantitative impact of globalization on the economic performance of developing countries. Eight countries from different parts of the world were arbitrarily selected for the study, and the period examined was 1981–2022. A log-linear regression model was used and the research was focused on three key economic indicators: real GDP, FDI, and trade openness. The results showed a high positive correlation between globalization and growth.

In this study, we will clarify in detail the impact of globalization on FDI and GDP p.c., and endeavor to fill the research gap within the existing literature on Western Balkan countries in recent times.

4. Methodology

In order to successfully carry out the planned research, it was necessary, first of all, to use knowledge from the fields of globalization, international and macro economics, economic growth and development, and finance. In the methodological sense, during the preparation of this work, secondary sources of data were used, data relating to economic growth were taken from the World Bank website (2024), while data relating to economic globalization were taken from the websites of the Fraser Institute (2024), Heritage Foundation (2024), and KOF Swiss Economic Institute (2023). In addition, relevant literature such as books, articles, and studies in the field of globalization and economic growth and development as well as reports and statistical publications of relevant international institutions were consulted for the preparation of the theoretical part of the work.

The spatial coverage of the study is the countries of the Western Balkans, and the time period is 2005–2022. Since data for certain indices are not available for all countries (Kosovo, for example, does not have complete data available) and for all the observed years (EFW index data are published up to the last 2 years), the analysis will be adapted to the available data for certain changes (in the text to be stated when a smaller number of countries and years are observed). The methods of analysis and synthesis, the comparative method,

and the method of generalization, classification, and concretization were used for the preparation of the paper.

The data are presented in tabular and graphical form, so that the changes over time and by country can be observed in the simplest possible way. The paper used a descriptive research method, and correlation analysis was used to present the connection between globalization and economic growth. The following values of correlation coefficients were used to measure the strength of the relationship between the variables (Zahirović and Okičić, 2021, p. 69): 0.10–0.29 low correlation; 0.30–0.49 medium correlation; 0.50–1.00 high correlation, where a value greater than 0 indicates a positive relationship and values less than 0 a negative relationship.

5. Results and discussion

In the results of the study, we will refer to three basic parts that are important for considering the observed dimensions. The first part of the results will explain the movement of the indices of economic freedom and the KOF Globalisation Index for the observed countries. In the second part, the movement of the inflow of FDI and GDP p.c. for the countries of the Western Balkans will be explained. The third part will attempt to establish a connection between these variables through an explanation of the movement of the basic components with descriptive statistics and then with correlation analysis.

5.1. Index of economic freedom and globalization index of the countries of the Western Balkans. In order to consider the level of globalization of the observed countries, their indices of economic freedom and index of globalization as described above will be ascertained. On this basis, it will be possible to conclude whether the countries mentioned are sufficiently globalized and whether their access to the world market is at a satisfactory level, as well as to observe the development of the indices in the periods observed. In the rest of the text, the total Economic Freedom Index of the Heritage Foundation and the EFW index will be presented, followed by the KOF Globalisation Index for the countries of the Western Balkans.

If we consider the individual categories of the Index of Economic Freedom of the Heritage Foundation for the countries of the Western Balkans for 2023, it can be seen that there are certain differences (Figure 1 in Appendix). The highest level of economic freedom for all countries in 2023 was for Tax Burden. All the countries had approximately equal and high values for this index category. The lowest values in the observed year were achieved for the category of Judicial Effectiveness.

If we examine the index of economic freedom, EFW, it can also be seen that the value of this index was quite stable in the observed period. Since the values of this index, as stated earlier, are published with a two-year lag, the period up to which the development could be followed was until 2021. No data were available for Kosovo; therefore this country was excluded from this analysis. The EFW index for the countries of the Western Balkans for the time period from 2005 to 2021 shows the same trend as the Heritage Foundation's Index of Economic Freedom (Figure 2 in Appendix). Until 2014, Serbia had the lowest values of this index, while after 2014 the lowest value was for Bosnia and Herzegovina. For the entire observed period, Albania had the highest values, and was overtaken by Montenegro in the last two years observed. In all the countries, for the period from 2005 to 2021, the score for the Sound Money indicator increased the most.

For the sake of comparison, in 2021, the two most open economies, Switzerland and Singapore, had Sound Money indicator values of 9.85 and 9.45, respectively, while the values for the Western Balkan countries were 9.59 for Albania, 8.21 for Bosnia and Herzegovina, 9.61 for Montenegro, 8.19 for North Macedonia, and 8.02 for Serbia.

Figure 3 in Appendix shows the results of the EFW Index for the Western Balkan countries on the basis of the indicators (components) of the index for 2021. Thus, for example, the highest score of the first indicator – the Size of Government – was that of Albania at 7.73, while the lowest score of this indicator was that of Serbia at 7.27. Of all 5 indicators, the lowest scores for all the countries were recorded for Legal System & Property Rights. For the Sound Money indicator, Albania had the highest value at 9.59, and Serbia had the lowest at 7.48. Fairly high scores for all countries were achieved for the Freedom to Trade Internationally indicator. The highest score of 8.43 was again achieved by Albania, and the lowest score of 7.31 was achieved by Serbia. For the Regulation indicator, the highest score was reached by Serbia at 7.58, and the lowest by Montenegro at 6.72.

Now we turn to the KOF Globalisation Index for the countries mentioned. Again, due to unavailability of data, Kosovo was excluded from the analysis. Once again, the period from 2005 to 2021 was examined. As can be seen from Figure 4 in Appendix, all the countries had an increase in the globalization index. Serbia reached the highest value, while Albania had the lowest value for most of the period observed. What is important to note is that Albania had the largest fluctuations in this index. The value of the index in 2021 was higher for Serbia (78.29) than for high-income countries (73.18). At the same time, of all the countries of the Western Balkans, Serbia also had the largest increase in the globalization index in the period from 2005 to 2021. Analyzing the values of the KOF Globalisation Index, it can be concluded that the general conditions for

economic globalization have remained mostly stable, and a significant growth in trade is evident, mainly due to the sharp increase in the consumption of goods after the pandemic in 2020.

5.2. Foreign direct investment and gross domestic product per capita of the countries of the Western Balkans. As two of the more important indicators of economic growth and development of countries and, on the other hand, as indispensable factors accompanying the process of integration and globalization, the inflows of FDI and GDP p.c. will be considered further in this study. Data for the inflows of FDI into Serbia and Montenegro are not available for 2005 and 2006, while GDP p.c. data for for Kosovo are available only from 2009, so the aforementioned analyses will also be adjusted to take into account these shortcomings.

Figure 5 in Appendix shows the net value of FDI inflows to the countries of the Western Balkans. The highest value of FDI of the six Western Balkan countries is convincingly held by Serbia, where FDI fell sharply from 2011 to 2012, after which it rose sharply again. The peak value of US$ 4,930.53 billion reached in 2011 was not reached in 2022, when it amounted to US$ 4,612.25 billion. In 2022, the other countries of the Western Balkans had rather lower values of FDI inflow than Serbia, namely Albania with US$ 1,414.38 billion, Montenegro with US$ 872.56 billion, North Macedonia with US$ 854.15, Bosnia and Herzegovina with US$ 797.78 billion US$, and Kosovo with US$ 764.16 billion, the lowest value.

Regarding direct foreign investments as one of the main components of globalization, we can see that for the 6 countries of the Western Balkans, annual FDI inflows show a changing trend. The volatility of FDI flows is significantly affected by economic uncertainty associated with crisis periods, which consequently leads to a sharp drop in investment inflows, which is visible in the decrease in inflows after the global financial crisis and the COVID-19 pandemic across all these countries. However, the changing trend in FDI is not only characteristic in the Western Balkan countries, it is also evident in high-income countries.

The economic growth of the Western Balkan countries slowed to 2.6 percent in 2023, compared to 3.4 percent in 2022. This decline is a reflection of the effect of the weak European economy burdened by successive shocks. The ongoing effects of the Russian invasion of Ukraine and the inflationary spike it triggered had a negative impact on growth in the EU, a key trading partner of the Western Balkan countries. The global situation was further complicated by the outbreak of conflict in the Middle East which, together with disruptions in the supply chain in the Red Sea and the Suez Canal, introduced additional layers of global uncertainty (World Bank, 2024). A significant slowdown in growth in

the EU in 2023, falling from 3.6 percent in 2022 to an estimated 0.6 percent in 2023, affected the entire region, affecting trade, investment, and business confidence in the Western Balkans (World Bank, 2024).

Figure 6 in Appendix shows the GDP p.c. in the countries of the Western Balkans. The GDP p. c. of these countries grew steadily over the observed period with corresponding fluctuations in crisis periods. A significant decline occurred in 2008–2009, caused by the global financial crisis, as well as in 2020, caused by the COVID-19 pandemic. All the countries of the Western Balkans are at approximately the same level in terms of their GDP p.c. Only in 2022 did the GDP p.c. of Serbia and Montenegro exceed US$ 10,000; in all other periods observed, the amounts were lower for all countries.

Having seen the trends in both globalization indicators and FDI and GDP p.c. indicators across the Western Balkan countries, we need to examine whether these shared trends are interconnected and mutually dependent. What can be concluded on the basis of the previously presented graphs is that both the globalization index and FDI and GDP p.c. show a slight positive trend with fluctuations during crisis periods. In order to confirm their interconnection, the next section will analyze the possible links between globalization and FDI and GDP p.c. in the Western Balkan countries.

5.3. Analysis of the relationship between globalization and foreign direct investment and gross domestic product per capita of the countries of the Western Balkans. Due to the lack of data, Kosovo and the variable Judicial Effectiveness were excluded from the analysis. However, comprehensive data were available for the remaining countries for the period 2009–2021. Accordingly, the subsequent analysis is based on the available empirical evidence and the contextual conditions established during this period.

In Tables 1 and 2 in Appendix, the following labels are used for the variables: ief hf – Index of Economic Freedom, Heritage Foundation (overall score); pr – property rights; gi – government integrity; tb – tax burden; gs – government spending; ief efw - index of Economic Freedom of the World, EFW; kof gi – KOF Globalisation Index; fdi net – Foreign direct investment, net inflows (BoP, current billion US$); gdp pc – GDP per capita (current US$).

Table 1 in Appendix presents descriptive statistics for selected variables that are considered important for examining the level of globalization and economic growth in countries. Panel data for 5 countries and a period of 13 years were considered, resulting in a total of 65 observations. The average value of the Heritage Foundation's Economic Freedom Index was 63.12, with the highest value being Tax Burden (87.422) and the lowest being Government Integrity (37.865). The maximum value of Tax Burden of 94.9 was reached in

2021 in North Macedonia, while the lowest value of Government Integrity was 28.4 in B&H in 2018. Index EFW had an average mean value of 7.093. Albania had the highest EFW index value of 7.71 in 2019, and B&H had the lowest value of 6.42 in 2009. The mean value of the KOF Globalisation Index was 69.009, with the lowest value of 62.19 achieved by Albania in 2012, and the highest value of 78.51 achieved by Serbia in 2018. On the other hand, the minor components important for economic growth, primarily the inflow of FDI and the GDP p. c., had mean values of US$ 1,112.023 billion and US$ 6,029.267, respectively. The highest value of FDI inflow was US$ 4,930.53 billion recorded by Serbia in 2011, and the lowest was US$ 7.69 billion recorded in North Macedonia in 2020.

Table 2 in Appendix presents the correlation between selected indicators of economic globalization and economic growth of the observed countries of the Western Balkans. Since we are primarily interested in whether there is a connection between globalization and economic growth, we will begin the explanation of the table with this point. The KOF Globalisation Index has a statistically significant and strong positive relationship with both the inflow of FDI and GDP p.c. The above results mean that an increase in FDI and GDP p.c. can significantly increase the globalization index of the observed countries, measured with the KOF index. This is, on the other hand, expected, given that increasing GDP p.c. gives countries more opportunities to invest and connect with other countries in the world. The same is true of FDI, because by investing in another country, the country in question becomes increasingly financially and economically connected to the country to which the FDI is directed or from which it originates. In addition, the KOF index has a statistically significant medium-strong negative relationship with the EFW index. This means that an increase in this index of economic freedom will cause a decrease in the globalization index. On the other hand, the KOF Index of Globalisation does not have a statistically significant relationship with the overall Index of Economic Freedom of the Heritage Foundation (the direction of the relationship is negative), but certain components of this index that we have considered have a statistically significant relationship with the KOF index. For example, the KOF index has a positive statistically significant medium-strong relationship with Property Rights (0.347) and a statistically significant weak relationship with Government Integrity (0.257), while it has a negative statistically significant weak relationship with Tax Burden (-0.254) and a statistically significant medium-strong relationship with Government Spending (-0.376). The overall indices of economic freedom are not statistically significantly related to the indicators of economic growth in the countries of the Western Balkans. GDP p.c. exhibits a statistically significant relationship with three components of the Heritage Foundation's economic freedom index: a strong positive relationship with Property Rights (0.635) and Government Integrity (0.528) and a mo-

derately strong negative relationship with Government Spending (-0.352). The findings of this study indicate that greater and better protection of property rights can contribute to higher GDP in a Western Balkan country by enhancing the sense of security regarding individual and societal interests, thereby encouraging more active economic participation. Greater integrity of government enhances national security and increases its economic influence in the world. Government spending, like any other type of spending, will contribute to a reduction in GDP p.c. in that country. Based on the above, it can be concluded that economic growth can be achieved with a higher globalization index, that is, with a greater connection of the country with the rest of the world. On the other hand, an increase in the globalization index can come with an increase in property rights and government integrity or with a decrease in government spending.

6. Conclusion

Despite the fact that there are numerous studies that have dealt with the concept of globalization, there is still no generally accepted definition of globalization. What can be said is that globalization represents the phenomenon of connecting smaller economies into one large world market. Countries are interested in participating in global processes because these can contribute to the development of a particular country. This paper sought to show how globalization is the basis for the growth of a country, observed through growth of both the inflow of foreign direct investments and the gross domestic product per capita. Six countries of the Western Balkans were selected for analysis, namely Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia. Furthermore, in some analyses, data for high-income countries were used with the aim of comparing indicators with the countries of the Western Balkans. Data from high-income countries were chosen because globalization as a concept is mainly viewed from the perspective of highly developed countries, and this comparison was therefore important.

What was concluded is that the trend in GDP p.c. in the countries of the Western Balkans follows the that of high-income countries. Analyzing the values of the KOF Globalisation Index, it can be concluded that the general conditions for economic globalization have remained mostly stable, and significant growth in trade is evident. If we compare the beginning and end of the period for which data are available using the global average of the KOF Globalisation Index, it is noticeable that the degree of globalization has increased significantly. A significant drop in the GDP growth rate occurred in 2008 and 2020. The results of the correlation analysis showed that economic globalization measured with the KOF Globalisation Index is statistically

significantly and positively correlated with economic growth measured by the inflow of foreign direct investments and gross domestic product per capita. A greater growth effect of globalization can be achieved with an increase in a country's foreign direct investment, while an increase in gross domestic product per capita can be achieved with better protection of property rights and greater integrity of government or a reduction in government spending.

It can be said that globalization sets processes in motion that are felt in all national economies and financial markets. No matter how good they are and whether they enable the prosperity and progress of a country, at the same time, these processes can significantly contribute to increasing the vulnerability of the overall world economy. It is an encouraging fact that the countries of the Western Balkans continue to make significant progress in catching up with more developed economies, primarily Western Europe. However, it is noticeable that the convergence is taking place at a rather uneven speed, which requires targeted reforms in countries in order for the recovery itself to consolidate and grow into sustainable growth.

In the context of future research, it would be desirable to consider the application of panel regression analysis to the observed data, which would significantly contribute to the quality of the research on this topic. A further recommendation would be to compare economic globalization and FDI and GDP p.c. in the countries of the European Union or at least Southeastern Europe, or to compare economic globalization with some other measures important for the economic growth of the country, such as inflation, the unemployment rate, the export and import of goods and services, etc.

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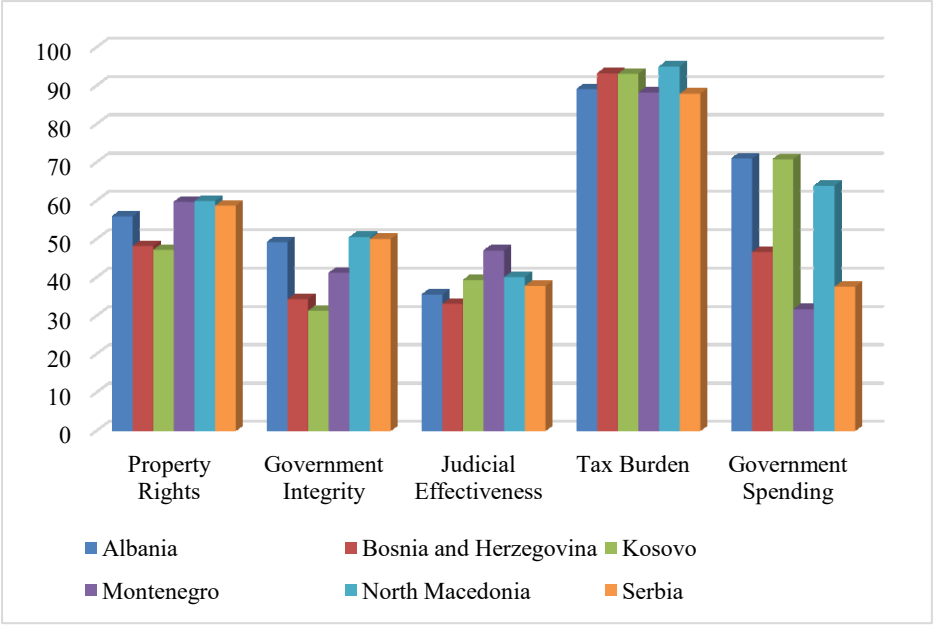
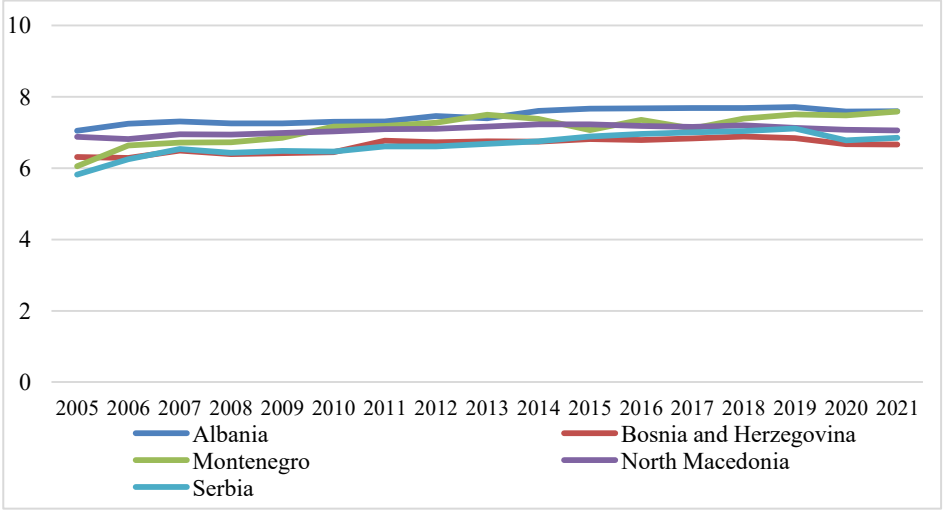
Appendix

Figure 1. Main categories of Index of Economic Freedom in Western Balkan countries in 2023, Heritage Foundation



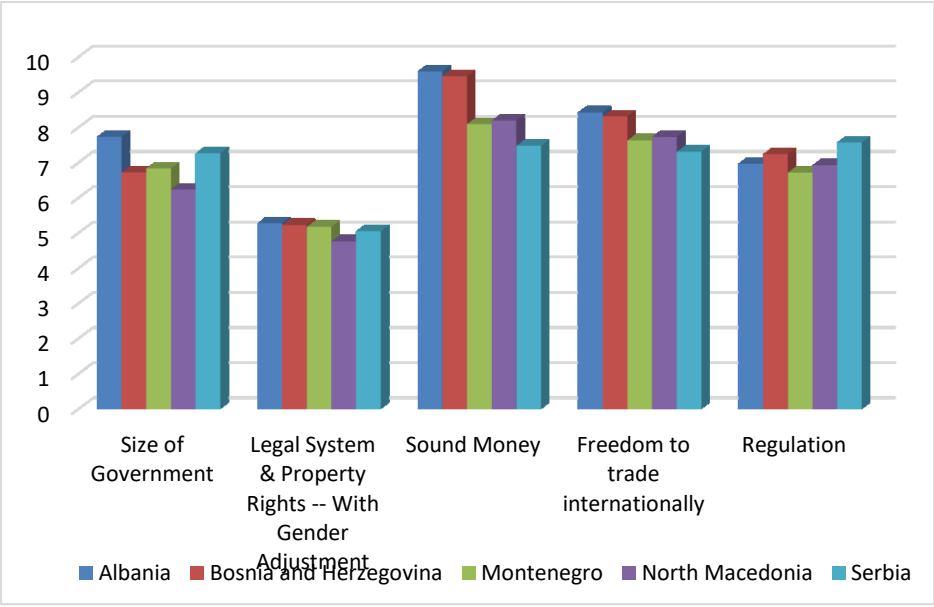
Source: Authors, based on Heritage Foundation (2024) data

Figure 2. Economic Freedom score by year(s) in Western Balkan countries – World Ranking



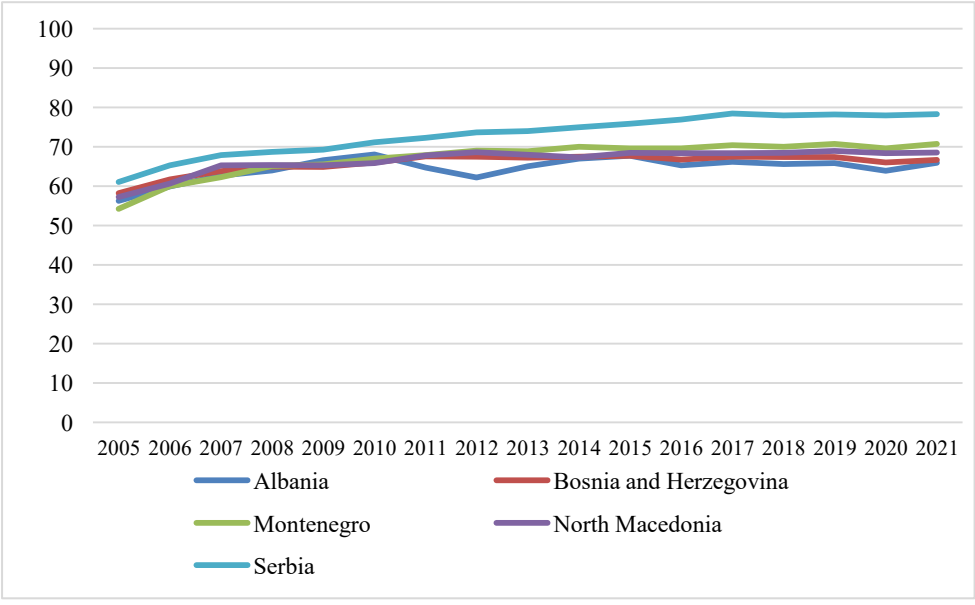
Source: Authors, based on Fraser Institute (2024) dana

Figure 3. EFW Index for 5 WB countries according to Index indicators for 2021



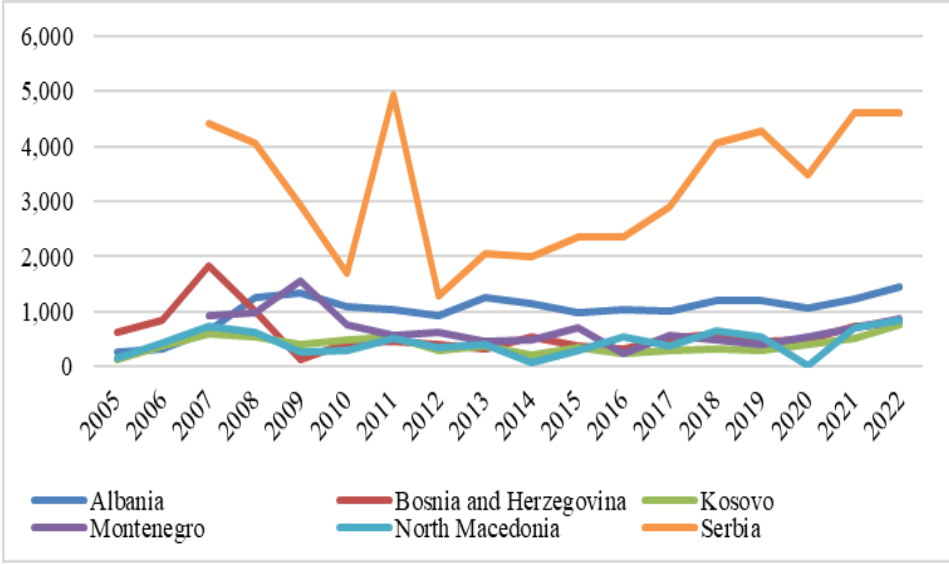
Source: Authors, based on Fraser Institute (2024) data

Figure 4. KOF Globalisation Index for Western Balkan countries



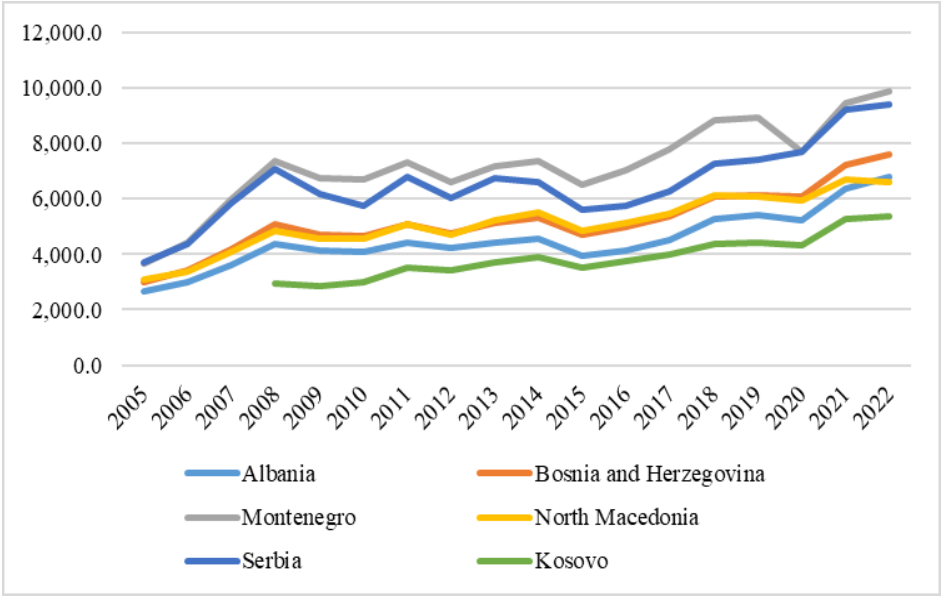
Source: Authors, based on KOF Swiss Economic Institute (2023) data

Figure 5. Foreign direct investment in Western Balkan countries, net inflows (BoP, current billion US$)



Source: Authors, based on World Bank (2024) dana

Figure 6. GDP per capita Western Balkan countries (current US$)



Source: Authors, based on World Bank (2024) data

Table 3. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ief hf	65	63.12	4.077	53.1	71.3
pr	65	41.106	13.253	10	67
gi	65	37.865	5.427	28.4	52
tb	65	87.422	4.365	71.8	94.9
gs	65	51.226	17.528	24.1	76.1
ief efw	65	7.093	.35	6.42	7.71
kof gi	65	69.009	3.798	62.19	78.51
fdi net	65	1112.023	1122.641	7.69	4930.53
gdp pc	65	6029.267	1326.772	3952.8	9465.96

Source: Authors' calculation

Table 4. Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) ief_hf	1.000								
(2) pr	0.542*	1.000							
	(0.000)								
(3) gi	0.492*	0.650*	1.000						
	(0.000)	(0.000)							
(4) tb	0.718*	0.224	0.214	1.000					
	(0.000)	(0.073)	(0.088)						
(5) gs	0.751*	0.246*	0.059	0.584*	1.000				
	(0.000)	(0.048)	(0.640)	(0.000)					
(6) ief_efw	0.612*	0.363*	0.222	0.444*	0.547*	1.000			
	(0.000)	(0.003)	(0.075)	(0.000)	(0.000)				
(7) kof_gi	-0.105	0.347*	0.257*	-0.254*	-0.376*	-0.266*	1.000		
	(0.403)	(0.005)	(0.039)	(0.041)	(0.002)	(0.033)			
(8) fdi_net	-0.138	0.234	-0.035	-0.210	-0.081	-0.207	0.713*	1.000	
	(0.274)	(0.060)	(0.779)	(0.093)	(0.522)	(0.097)	(0.000)		
(9) gdp_pc	0.093	0.635*	0.528*	0.015	-0.352*	0.008	0.538*	0.274*	1.000
	(0.463)	(0.000)	(0.000)	(0.904)	(0.004)	(0.950)	(0.000)	(0.027)	

**** p<0.01, ** p<0.05, * p<0.1*

Source: Authors' calculation

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