NATIONAL COMPETITIVENESS AND FOREIGN DIRECT INVESTMENT IN EMERGING EUROPE

Saša Ranđelović

University of Belgrade, Faculty of Economics, Republic of Serbia

✉ *sasa.randjelovic@ekof.bg.ac.rs*

Nikola Martinović

University of Montenegro, Faculty of Economics, Podgorica, Montenegro

✉ *nikola.m@ucg.ac.me*

Abstract: The paper evaluates the relationship between the indicators of competitiveness of national economies (real unit labour costs and Global Competitiveness Index) and the flow of FDI in Central and Eastern Europe (CEE) over the last two decades. Our results show that from 2000 to 2020, CEE economies had an average annual inflow of FDI of 3.9% of GDP, with significant variation across the region. We have found out that the relationship between the net inflow of FDI and the real unit labour costs was strongly negative, while the results on the link with the Global Competitiveness Index was less conclusive. In 2020, due to pandemic global flow of FDI, shrank by around 40%, while the net inflow of FDI to CEE countries declined on average by 15%. These trends and results of survey-based analyses from other studies suggest that CEE region, and especially the Western Balkans countries, may benefit from the nearshoring process in the future. To exploit that opportunity, they may need to put focus of their policies on efficiency-enhancing tax reforms (that would reduce the unit labour costs) and other structural reforms that would result in improvement of the stock and quality of their physical and human capital.

Keywords: national competitiveness, foreign direct investment; emerging Europe, global competitiveness index, real unit labour costs.

JEL classification: F21, E2, O20, P2, P33.

1. Introduction

Competitiveness is a widely exploited term in modern economics. All participants in the economic framework in a certain system, regardless of whether it is a micro or

macro level, are aimed to achieve a higher level of competitiveness. Despite its frequent use, there is still a number of dilemmas regarding the use of this term given its complexity and comprehensiveness. While some authors, such as Paul Krugman, claim that competitiveness can exclusively be tied to the company level, the competitiveness of national economy is extensively debated in economic literature.

The Organization for Economic Cooperation and Development (OECD) defines competitiveness as a measure of a country's advantage or disadvantage in selling its products in international markets.[1] World Economic Forum (WEF) defines competitiveness as a set of institutions, policies and factors that determine a country's productivity level,[2] while the European Union (EU) defines competitive economy as an economy with a sustained high rate of productivity growth, delivering high levels of employment and social cohesion.[3]

Common to all these definitions is highlighting the important role of the government in the process of creating a stimulating economic environment that will enable the progress of the whole economy, as well as a long-term increase in the living standards, which is based on sound foundations. A special challenge is how to include, through an integrated report or numerical statement, the complexity of all factors that affect the competitiveness of the state, on the basis of which they can be ranked, in order to make a robust conclusion on country performances. International institutions such as WEF, World Bank (WB), Heritage Foundation and the International Institute for Management Development (IMD) rank countries by calculation and publishing the Global Competitiveness Index, the Ease of Doing Business Index, the Economic Freedom Index and the Annual Competitiveness Report respectively, according to the results achieved for each of the observed indicators. The advantage of these indices is the possibility of covering a large number of countries and their ranking according to pre-defined performance criteria. On the other hand, the methodological validity of this way of measuring competitiveness is very often questioned in academic literature (Pérez-Moreno et al., 2016; Im & Choi, 2018). The indices are often based on a survey of economic entities of each of the analysed countries individually, whose perception very often doesn't have to be realistic. Furthermore, the weighting or the way of assigning the importance to each of the individually observed indicators within the overall Index, is no less questionable, as well as the problem of their real significance for decision makers at the macroeconomic level (Moorthy & Jason, 2016). An alternative way to measure national competitiveness is through calculation of the unit labour costs, which are derived as the average labour cost per unit of product produced. Higher performance per worker in a given period of time, reduces the unit labour costs and leads to an increased competitiveness of the national economy, also in terms of capital inflow.

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[1] See more: https://stats.oecd.org/
[2] See more: https://www.weforum.org/agenda/2016/09/what-is-competitiveness/
[3] See more: https://eur-lex.europa.eu/summary/glossary/competitiveness.html

Having in mind the complexity and multidimensional character of this term, it is expected to have numerous factors shaping the country's performances in terms of competitiveness. There is a large amount of research that focuses, which from micro (Delgado et al, 2012; Boulouta & Pitelis, 2014; Paraušić et al, 2014) or macro (Rusu & Roman, 2018; Roszko-Wójtowicz, & Grzelak, 2020; Milović et al., 2021) perspective, determines the level of national competitiveness. These studies show that micro determinants are mainly related to the analysis of the existence of a stimulating environment for business development, as well as the impact of socially responsible business of individual companies on the level of national competitiveness. In addition, the degree of cluster development, the effect of agglomeration, as well as the level of dissemination of best management practices stand out as micro factors. On the other hand, economic growth rates, labour productivity, innovation policy at the national level and the so-called pentagon of macroeconomic stability, are key determinants of national competitiveness from a macro perspective. Common to the most of the research conducted is the focus on the isolation of a particular indicator, which is an integral part of the aforementioned indices, and its special analysis in terms of its competitiveness impact.

In the last two decades, from 2000 to 2019, emerging economies from the Central and Eastern Europe (CEE) have posted significant economic growth, with the average annual GDP growth rate of 3.7%, which is to large extent driven by buoyant investment in fixed capital formation. Both relevant theoretical models and empirical studies suggest that investment in physical capital formation is one of the key drivers of economic growth. Thus De-Long & Summers (1991) show that rise in investment in physical capital by 1pp raises GDP growth rate by 0.33 pp, while Mankiw et al. (1992) conclude that around 1/3 of variation in economic growth by countries is explained by the difference in the total investment volume. Empirical studies for the CEE countries show that around 30% of total investments is attributed to foreign direct investment, which amounted to around 5.5% of GDP on average (Arsić et al, 2019).

These results may suggest that country performances in competing for inflow of capital to large extent shaped the variation in economic growth dynamics. Therefore, in an attempt to improve the chances to attract the capital and to enhance growth perspectives, many CEE countries have shaped their reform agendas around the information derived from the mentioned international competitiveness indicators (e.g. WEF GCI). However, the question on the actual relevance of the information carried by the competitiveness indicators in shaping the FDI inflow and growth dynamics in CEE countries remained open. Therefore, the aim of our paper is to provide empirical facts and discussion on the link between the competitiveness indicators (GCI and unit labour costs) and FDI performances of CEE countries. By means of the analysis of the data for 18 emerging economies from CEE, the paper aims to contribute to the body of

empirical literature on the competitiveness of national economy in CEE region. It should be noted that each of these 18 economies have faced numerous challenges in a transition process from a self-governing to a market system functioning economy. In particular, it is important to differentiate between the "*early adopters*" i.e. the countries that have been more successful in facing the transition process, many of which are already part of the EU, and countries that are still facing many obstacles in the process.

The rest of the paper is structured as follows. Section 2 provides theoretical framework and literature review, while the stylized facts on competitiveness indicators and FDI inflow performances are presented and discussed in Section 3. As COVID-19 pandemic has substantially affected the capital flow dynamics, Section 4 provides brief evaluation on the trends in FDI during pandemic crisis and the discussion of the nearshoring hypothesis, while Section 5 concludes.

2. Theoretical framework and literature review

The last decade of the XX and the beginning of the XXI century have brought accelerated economic changes on all meridians. Globalization, accompanied with the process of digitalization, has conditioned that the borders between the national economies are becoming decreasingly pronounced. The free flow of people, goods, services and capital has further enhanced the cross-border investment process of the world's leading multinational companies. The global share of FDI inflows in the structure of newly created value has increased significantly in the last 30 years. Namely, according to the World Bank in the early 1990s, FDI inflow for the first time took a share of 1% of GDP worldwide, to reach a historic high in 2007 with a share of 5.34%. Over the last decade, before the COVID19 pandemic, FDI inflows averaged 2.62%. Despite negative externalities, in terms that FDI inflows can negatively affect the use of natural resources without adequate compensation, especially in poorer countries, as the United Nations often points out in its reports, there is no doubt that the increased FDI inflows contribute positively to the host country's economic perspective, although for sustainable and more pronounced convergence with developed countries domestic investment also play a significant role. This process has brought special benefits to developing countries, in part that the inflow of foreign capital gradually leads to the creation of better living conditions through positive economic performances, which is a prerequisite for strengthening the competitiveness of the national economy (Domazet & Marjanović, 2018).

A large number of transition economies or developing countries are characterized by limited access to finance. The level of output created in the country itself isn't sufficient to provide higher allocations for capital investments, which in the medium or long term should provide higher rates of economic growth and a better competitive position. Therefore, attracting FDI is imposed as an imperative, without which it is not possible to ensure progress. Foreign investment

is not only important in the part of cash inflows, but also in faster and simpler technology transfer (Hansen & Rand, 2006) which enables faster involvement of developing countries in international trade and flows (Liang et al., 2021).

In order for an investor to decide to invest in a foreign economy, certain conditions have to be fulfilled. It refers to the existence of institutions that protect the rights of capital owners, a stable macroeconomic environment, benefits for hiring domestic labour force, tax reliefs etc. The World Bank (WB) emphasizes in its publications that economic activity requires stimulating legal framework. This refers to the optimization of procedures and bureaucratic performances, i.e. the removal of business barriers, since private sector investments are the basis for the economic growth.

It is important to note that the analysis of legislation, which is often seen as a parameter in decision-making process, isn't sufficient. The application of legislation, which is closely related to the existence of the aforementioned stable institutions, is an important determinant when making a decision on investing private capital. However, it is necessary to point out that there are studies which indicate that for FDI inflows, the quality of institutions is more important in developed countries than in developing countries (Sabir et al., 2019).

According to a study (Kurul & Yalta, 2017) conducted on a sample of 113 developing countries in the period 2002-2012, government effectiveness, control of corruption and voice and accountability were identified as the most important determinants that foreign investors take into account when making decisions on the placement of its funds. Besides, the quality of institutions is an important determinant of FDI inflows, but only in a situation where the necessary threshold is exceeded (Kurul, 2017), which represents a necessary prerequisite.

In addition to the institutional factor, Saini & Singhania (2018) point out that the quality of economic policy (freedom index, trade openness and GDP growth rates) are the ones which trigger higher FDI inflows in developed countries, while in developing countries, FDI inflows are defined by economic factors such as the gross fixed capital formulation and efficiency variables.

Some authors also question whether a higher level of national competitiveness leads to economic growth, or whether economic growth is a prerequisite for national competitiveness (Kordalska & Olczyk, 2015). In addition, does the correlation between the observed phenomena also mean s that there is causality? If so, in which direction is it expressed? Is the existence of the relationship equally present in all countries, or are there differences in the strength of influence? Kordalska & Olczyk (2015) point to the existence of significant one-way causality between economic growth and national competitiveness. On the other hand, except in the case of several larger economies such as the USA, Russia, China and India, a higher level of national competitiveness measured by the GCI index does not contribute to higher rates of economic growth. Korez-Vide & Tominc (2016)

conducted an analysis for a group of Central and Eastern European countries that are members of the EU, indicating that these variables are positively correlated, without specific conclusions about their causality. Alexa et al., (2019) examined the impact of competitiveness measured through the Regional Competitiveness Index (RCI) on economic growth rates measured by GDP per capita. The obtained results and the distinction made for the two groups of countries suggest that for the EU15 competitiveness does not contribute to higher rates of economic growth, while for the CEE group of countries, the existence of a significant positive relationship was found. Against this background, a study by Dadgar et al., (2018) carried out for the group of upper and middle income countries, signals that competitiveness measured by the GCI index has a stronger impact on economic growth rates in the middle income countries than in the upper income countries. Muradov et al. (2019) on the example of Azerbaijan also indicate that the growth of national competitiveness measured by the GCI index by one point, contributes to higher rates of economic growth. Even though there are a number of papers that highlight the impact of some of the determinants of competitiveness on economic growth rates, there is still no consensus on whether competitiveness measured by the composite index contributes to economic growth or represents only its consequences.

In empirical researches, there is a general agreement on the positive impact of FDI inflows on economic growth rates and consequently national competitiveness. Simionescu et al. (2021) on the example of a group of 28 EU countries emphasize the importance of the role of the FDI inflow, innovation and human capital in improving the competitive position of European economies. Zlatković (2016) by a sample of 4 Western Balkan countries suggests that the level of FDI inflows per capita is strongly positively correlated with a large number of GCI index pillars such as infrastructure, education system, health system, technological readiness and innovation. Also, research conducted for South American countries indicates that higher FDI inflows directly positively affect the economic performance of the economy on the analysed continent (Owusu-Nantwi & Erickson, 2019) and the study for the ASEAN group of countries also speaks in favour of a strong positive correlation between national competitiveness and FDI inflows (Raeskyesa & Suryandaru, 2020).

On the other hand, the research conducted on the basis of indicators of macroeconomic performance in Croatia, and the level of FDI inflows as a factor that should contribute to better results in the period from 2002 to 2017 (Skare & Cvek, 2020), demonstrates the limited effect of FDI as a driver of national competitiveness. Namely, the authors point out that the competitiveness of the national economy depends more on the structure of FDI inflows than on a simple amount of investment. Also, according to the research conducted by Stanišić (2017), the positive effects of FDI on economic growth rates in South Eastern European transition group of developing countries are neutralized as a result of structural reforms resulting from the transition process.

In regard to the unit labour cost ratio, the research conducted for 25 African countries shows that unit labour costs are significantly higher than they could be concluded on the basis of GDP per capita (Gelb et al, 2016). In that sense, lower GDP rates do not mean that labour in those countries is cheaper. India's trade liberalization policy has had a positive short-term impact on FDI inflows, but FDI inflows have also contributed to reducing the unit labour costs (Jain et al., 2015). On the other hand, the research conducted for EU countries indicates that there is no correlation between foreign direct investment inflows and average labour productivity for most developed countries, except for the group of most developed EU countries with the highest GDP per capita (Boghean & State, 2015). In this sense, lower unit labour costs, together with other determinants, have a positive effect on FDI inflows depending on the country specifics and market size (Kumari & Sharma, 2017). Hence, through the analysis of 18 Emerging European countries, the paper aims to enhance further discussion in the subject field.

3. Stylized facts

3.1 Net inbound FDI

Inflow of foreign direct investment is particularly important for developing countries, given the limited capital resources at their disposal. In the last two decades, CEE countries have posted a significant inflow of capital by means of FDI, which may have had significant impact on their macroeconomic stability (external liquidity) and economic growth drivers.

Figure 1: Trends in average net inflow of FDI (% GDP) in emerging Europe (2000-2020)
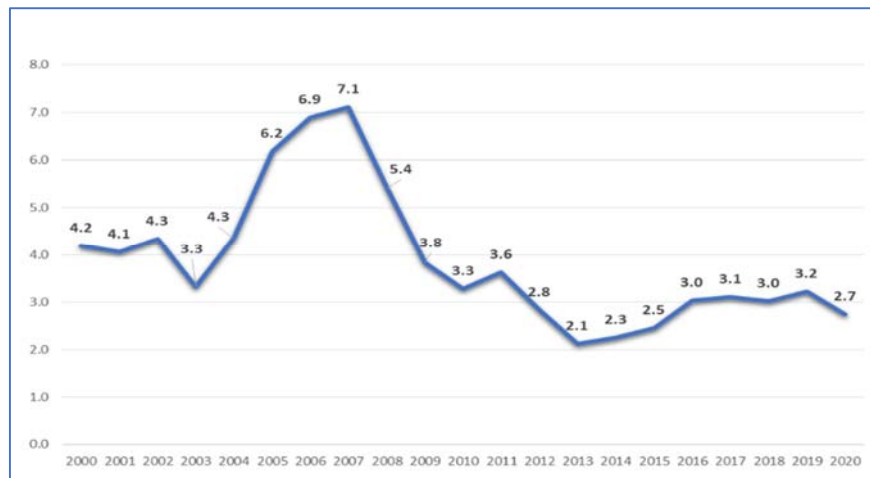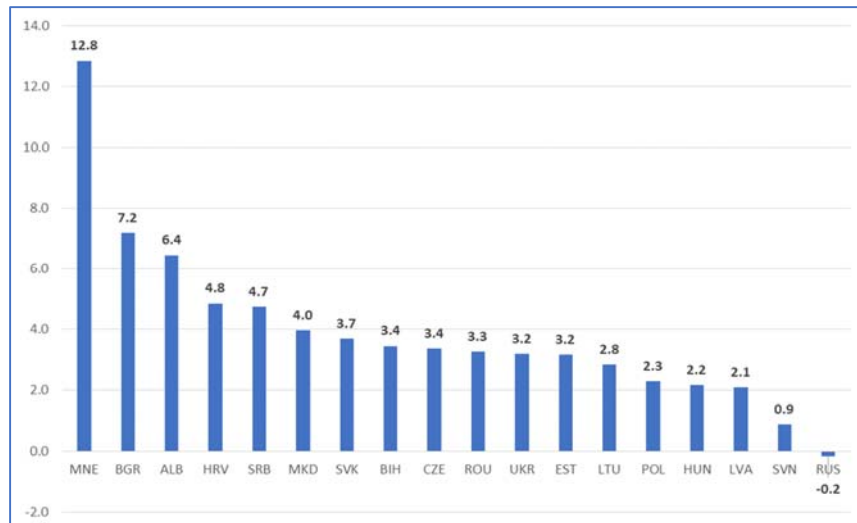

Source: WiiW – authors' calculations

Average annual net inflow of FDI in CEE from 2000 to 2020 stood at around 3.9% of GDP, with a significant time variation. FDI inflow was on the rise until 2007, which was interrupted by the global financial crisis. In the years to come, FDI inflow dropped to around 1/3 of the pre-crisis level (2007), which is the consequence of the global crisis, Greek debt crisis, as well as the saturation of these markets and the rise of their real unit labour costs. Despite the decline in the level of FDI inflow, even in those years, they played a significant role in stimulating economic growth (Jimborean & Kelber, 2017). In the last few years, until 2019, FDI inflow in CEE was on the rise again, which may be explained by strong monetary expansion of ECB and FED that made the supply of capital on the global markets swelling.

When it comes to individual results by country, it is again possible to perform a differentiation according to the data which are shown by Figure 2. CEE countries can be grouped into two cohorts, based on the relative amount of FDI inflow over the last two decades. The first group consist of Southeast European countries, which posted net FDI inflow higher than the CEE average. The second group is composed of the countries of Central Europe and the Baltic states, which performed below the average. This may be explained by the lower RULC in SEE (except in Croatia), the lower stock of physical capital in SEE, caused by low of investment in fixed capital formation in the last decade of XX century, as well as due to structural characteristics of these economies and late transition (including privatization).

Figure 2: Average net inflow of FDI (% GDP) in emerging Europe (2000-2020), by countries

Source: WiiW – authors' calculations

Montenegro achieved convincingly the best results in the analysed group of countries. The reasons should be sought in the simultaneous action of two factors. Primarily, observed from a broader perspective, Montenegro is a small economy, which is why a smaller inflow of investments measured by absolute values of capitals inflows contributes to a larger share in a newly created value - GDP. Investment boom in that country was mostly focused on real estate sector, with the limited impact on exports performances. It can also be argued that for the similar reasons, linked to the buoyant investment in real estate sector in tourism-centered economies, net inflow of FDI in Bulgaria, Albania and Croatia was rather high as well. Serbia also scored relatively well in terms of the inflow of FDI in the last two decades, which could be the consequence of late transition and privatization, but also of other factors (pro-investment reforms, direct and indirect incentives, relatively low RULC, etc.).

On the flipside, Slovenia and Russia have been occupying the bottom of the ranking. In regard to Slovenia, the reasons may be sought to the high level of RULC, while in case of Russia, political factors may be the ones which have a crucial role in these results. However, to make robust judgment on the underlying factors, A thorough quantitative analysis would be required, which is beyond the scope of this paper.

3.2. Global Competitiveness Indicator

In economic theory and practice, the Global Competitiveness Index published by the World Economic Forum is one of the most widely used measures of the competitiveness of the national economy. It is a complex Index composed of 12 sub-indices that represent a combination of microeconomic and macroeconomic indicators. The following figure gives an average summary of the results achieved by the selected group of countries in the observed period.

Although in the entire observed period, it can be concluded that there is a trend of progress towards achieving higher levels of competitiveness, we can also identify several phases. Considerable volatility in the average GCI score until 2010 can be noticed, followed by a stagnation from 2010 to 2013 and a period of strong rise in average GCI from 2014-2019. As WEF GCI has been established as one of the leading international benchmark indicators of national competitiveness, governments have framed their reform strategies, to a considerable extent, also to enhance their respective position at the international rankings. Notwithstanding the fact that the dynamics in mean GCI may also reflect change in methodology[4], the trends in GCI also reflect the actual improvement in the performances of CEE economies. To the extent that it shows the improvement in their competitiveness, we can conclude that it took 10-15 years to CEE for the fundamental reforms they have implemented to start producing the competitiveness dividend.

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[4] The Global Competitiveness Index 4.0 Methodology and Technical Notes
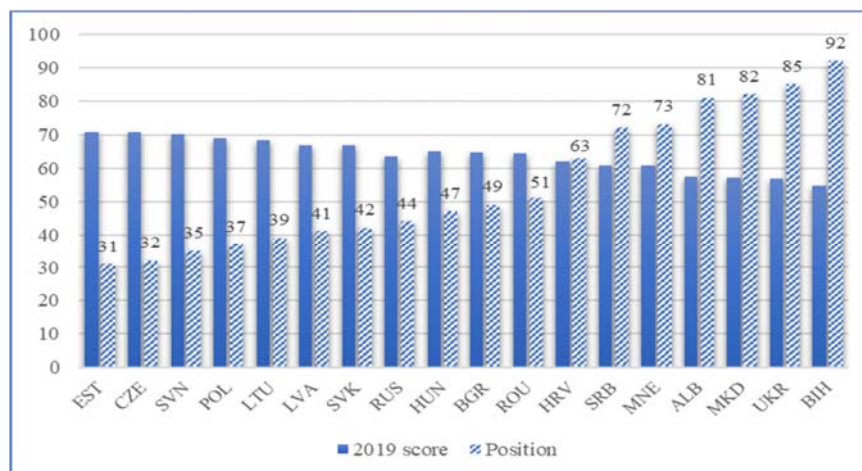
**Figure 3: Trends in average global competitiveness index (GCI) score in emerging
Europe (2000-2019) – CEE average**

Source: WEF – Global competitiveness reports – authors' calculations

It should also be noted that the analysed period is also quite dynamic, in the
sense that it includes the time of the Global Financial Crisis at the end of the first
decade of the current century, as well as the period of the Eurozone crisis
(Valiante, 2011), which consequently had negative consequences on the economic
dynamics in European countries.

**Figure 4: GCI score of emerging Europe in 2019, by countries**

Source: WEF – Global competitiveness reports – authors' processing

In addition to analysing the average trends, the evaluation of the cross-country analysis may also provide valuable insights. Figure 4 shows the results achieved by each of the observed countries in the last analysed year, before the appearance of Covid-19 pandemic.

It is noticeable on the basis of available data that CEE region can be divided into two groups: i) early reformers – Central Europe and the Baltics (CEB), ii) late reformers – South Eastern Europe (SEE). The first group of countries have better faced the challenges of transition, in terms of accepting the market way of the economy functioning, which resulted in a better score and position in the world competitiveness rankings. The second group of countries, of which the countries of the Western Balkans are an integral part, faced considerable socio-political challenges in addition to economic ones, which further complicated the transition process.

Figure 5 provides data for the group of CEE countries in the previous twenty years period, showing the relationship which exists between the FDI inflow and the national competitiveness expressed through the GCI Index. As one can see, the correlation between the two observed variables is negative. Here, however, we should be especially careful bearing in mind that GCI is a composed index that is the result of the interaction of a large number of different determinants. In this sense, these results should be taken cautiously in such a way that the existence of a negative correlation does not necessarily mean the existence of causality, knowing that FDI inflows are influenced by a wide range of various factors.

**Figure 5: Net FDI inflow and GCI in Emerging Europe (2000-2020 average)**
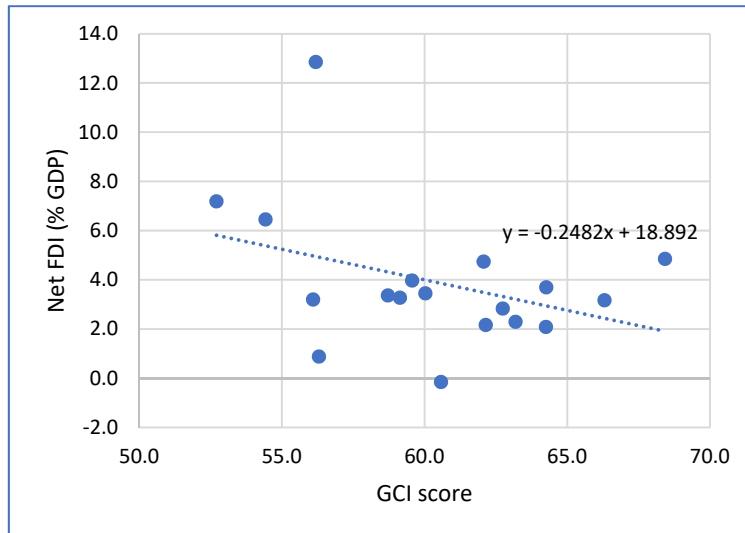
Source: WEF & World Bank – authors' calculations

3.3 Real unit labour costs

It is also evident that CEE countries that have joined the EU, especially during the fifth enlargement, perform better in terms of GCI-measured competitiveness. However, whether it is a matter of causality (EU membership to cause improvement in competitiveness) is a matter of further (econometric) investigation. It can also be the other way around, that they were more likely to join the EU as they were more ready.

**Figure 6: Real unit labour costs (EUR) in 2020**
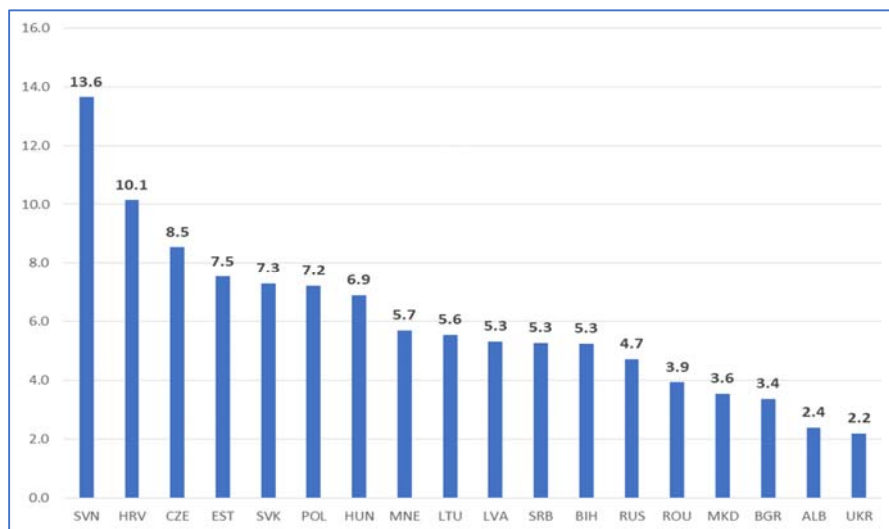
Source: Eurostat, ILO, WiiW

Monitoring the real unit labour costs (RULC) as a determinant of the level of competitiveness of the national economy, is one of the alternative ways to approach the analysis of the subject matter. RULC can be read as an indicator of price competitiveness of the economy, as it shows the average cost of labour per unit of labour produced. In that respect, East and Souteastern Europe outperforms Central Europe and the Baltic countries. Slovenia and Croatia are seen as a sort of outliers, as they have much higher RULC than the other countries, which is a consequence of their wage policies, productivity trends and the exchange rate regime, while the Western Balkans countries, together with Romania and Ukraine have had relatively low RULC.

Based on the presented data, the following graph (No. 7) examines the existence of a relationship between RULC and the average FDI inflow (% of GDP), for the analysed 18 Emerging Europe countries in the previous two decades. As indicated, presented results suggest considerable negative link between the

RULC and net inflow of FDI. Trend analysis signals that rise in RULC by 1 EUR in CEE countries was associated with decline in net FDI inflow by 0.26% of GDP, *ceteris paribus.*

Figure 7: Net FDI inflow and RULC in Emerging Europe (2000-2020 average)
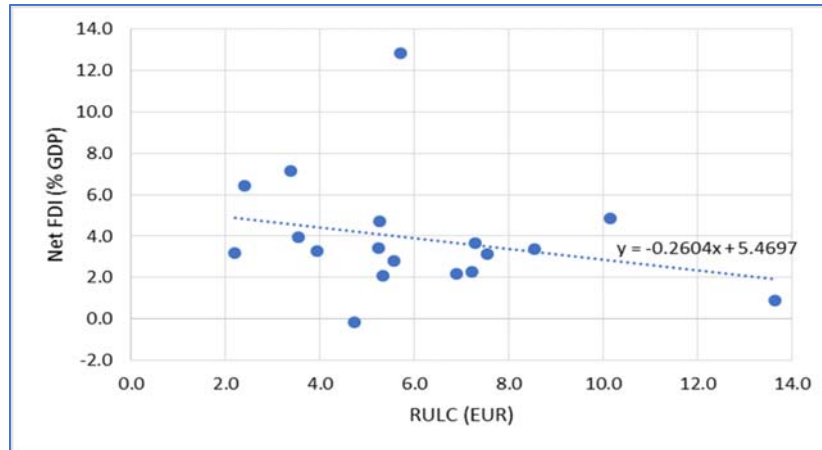
*Sources*: Eurostat, ILO, WiiW – authors' calculations

However, it is important to designate the complexity of net FDI inflow dynamics, as it is influenced by numerous factors such as trends in the global financial markets, monetary policy etc, some of which go in favour, and some of them against the better FDI dynamic. Therefore, in order to make more precise description of this relationship and discussion of causality, it is necessary to conduct further research, which, based on the prior econometric modelling, would control the impact of other factors.

Nevertheless, the result presented in Figure 7 still may serve as a strong signal on the important role of price competitiveness of an economy on its FDI inflow performances.

4. Pandemic COVID-19 and FDI flows

The outbreak of the Covid-19 pandemic, as well as the implementation of a number of restrictive measures to combat the spread of the infection, had a pronounced negative impact on the economic performance of the economies all around the globe. According to the International Monetary Fund, the world economy experienced a decline of 3.1% of real GDP in 2020. Such circumstances of global uncertainty and a drastic reduction in economic activity also affected the international flow of capital. The dynamics of net FDI in emerging Europe is presented in Figure 8.

Figure 8: FDI dynamics in emerging Europe in 2020 (% GDP)
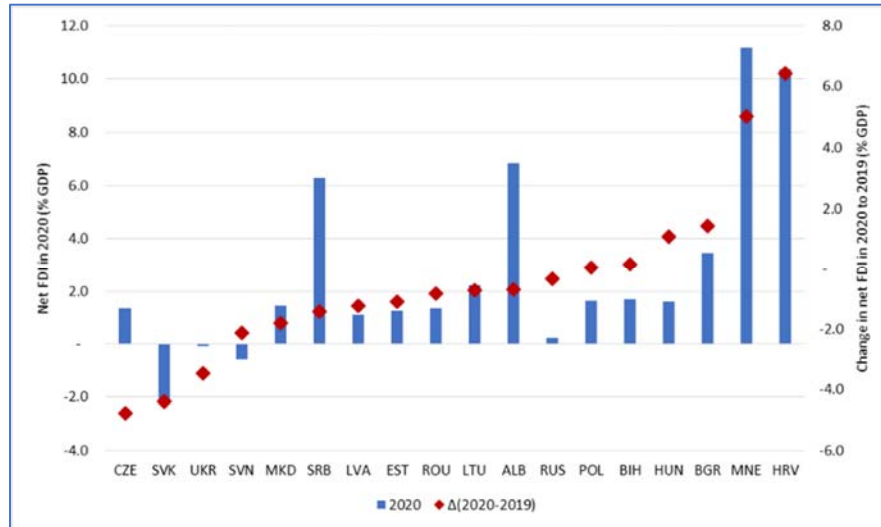
Source: WiiW database - authors' calculations

In 2020, due to COVID-19 pandemic, net inflow of FDI in CEE countries posted a significant decline of around 15% comparing to 2019. In total, 12 out of 18 countries from the CEE region posted decline in net inflow of FDI. More prominent drop in FDI inflow was posted in Central Europe and some Western Balkan countries (Serbia, North Macedonia and Albania), probably due to structure of their economies and the sectoral structure of FDIs, while Croatia and Montenegro posted a salient rise. Still the mean decline in inbound FDI in CEE region was significantly smaller than the global average. The latest figures published in the Global Investment Trends Monitor from the UN Conference on Trade and Development (UNCTAD) show that foreign direct investment (FDI) plummeted in 2020, falling by 42% compared to 2019.

The disruption of global supply chain due to the outbreak of pandemic (re)opened the discussion on the optimal allocation of manufacturing facilities and their distance to relevant target markets. In that sense, there is an increasing discussion on whether the negative experience during the COVID-19 pandemic may encourage nearshoring – by fostering businesses that target European market to (re)allocate their manufacturing facilities closer or in the European market.

While reshoring is the process of returning the production and manufacturing of goods back to the company's original country, nearshoring represents a type of reshoring, but instead of coming back to the country where the firm has its headquarters, it implies a relocation to a nearby area (Piatanesi, 2019). The idea which lies behind this concept is to use advantages of offshoring via lower

production costs, and advantages of reshoring through quick delivery service by reducing geographical distances. In general, transport costs usually do not have the largest share in the total supply costs, but they can be decisive because they determine the delivery time, and thus the costs related to stocks (Hassel et al., 2021).

The new reality created by the health crisis, stimulates the need to strengthen the global economy and multinational companies, in the direction of being more resilient to external shocks (Jovanović et al, 2021). Moving production to a nearby country which belongs to the same macro region (Barbieri et al., 2020) may represent a significant competitive advantage in the near future. As every crisis is a chance at the same time, such a newly created reality can open an opportunity for CEE countries and the countries of the Western Balkans to achieve some benefit from the accelerated application of nearshoring process. Empirical studies, based on the survey data, show that the Western Balkan countries are attractive to companies from developed countries, due to their good geographical locations and competitive wage levels, as well as cultural proximity and the availability of competent workforce (Jovanović et al, 2021). The same study concludes that the Western Balkan countries may benefit from the nearshoring processes in the post-covid era, provided the governments ensure a stable investment environment and make robust (re)orientation to investment in human and physical capital.

5. Conclusion

Majority of CEE countries (except for the Western Balkan countries) commenced the economic, political and social transition in the early 1990s. After the transitionary recession, the most of them experienced a significant growth over the past two decades. The average annual GDP growth rate in CEE countries from 2000 to 2019 was 3.6%, with a significant variation across these countries. Growth dynamics has been shaped by the quality of public policies, global economic trends and country specific factors. Economic growth of CEE countries in the last two decades has been, to a large extent, financed by means of the inflow of capital from abroad (foreign direct and portfolio investment), which have been especially pronounced in the less developed countries from the Western Balkans region. It may be argued that the inflow of FDI may have had a positive direct and indirect impact on GDP growth and economic development, thus promoting the international competitiveness of the emerging Europe economies. On the other hand, it may also be argued that countries with more successful reform records were more competitive in attracting capital at international market, thus promoting their growth perspectives. The latter approach was particularly important, as it has, to large extent, shaped the reform agendas in many CEE countries, which have been oriented on improving their score at relevant international rankings (such as GCI) or reducing their real labour costs (e.g. by means of fiscal devaluation, tax breaks and labour market legislation).

In this paper we have discussed the concepts of national competitiveness and the methods of its measurement. Based on that, we have provided the stylized facts on the main competitiveness indicators (GCI and RULC) and compiled them with the inbound FDI data, to discuss the relationship between the competitiveness indicators and performances of these economies in attracting FDI. The results show that there is a considerable negative correlation between the RULC and the volume of net inflow of FDI in emerging Europe. Although the correlation between the CGI performances and net inflow of FDI was also negative, it may not necessarily imply causality, since the FDI flows are also influenced by the other factors, beyond the parameters encompassed by the CGI indicator.

With average annual net FDI of 4.7% of GDP, Serbia ranked relatively well in comparison to other CEE countries, being ranked as the fifth among the 18 CEE economies in terms of the relative volume of FDI. In respect to the drivers of investment competitiveness, our results show that Serbia was rather competitive in terms of the RULC (as seven CEE countries have had a lower RULC than Serbia), while the performances in terms of the GCI were relatively weak (since 12 out of 18 CEE countries performed better).

The data on FDI flows in 2020 in CEE and the World and exploiting the results of available empirical literature on this topic may signal that the disruption of global supply chains caused by the COVID-19 pandemic may have created the impetus for nearshoring, which may benefit the CEE and especially the Western Balkan countries, if the effective institutional framework is created, including the efficiency enhancing economic policy (e.g. tax reforms aimed to reduce labour taxes, high and efficient investments in public infrastructure, education and innovation, etc.). This is especially important, taking into account that it is expected that negative demographic and migration trends may trigger the rise of the RULC in the Western Balkans in the future, which is why the country competitiveness at the international capital market should not be based mostly on the availability of affordable labour force, but also by other factors.

Our results may be read as a signal that RULC may have played a significant role in shaping the net FDI inflow dynamics in the CEE countries, while the relevance and predictive power of GCI is questionable. To answer the question on the sign and size of impact of GCI and RULC on the net inflow of FDI, it is necessary to control the impact of other factors, which is why a regression-based econometric evaluation would be needed. Therefore, answering this question by using more sophisticated econometric methods sets may be an interesting and relevant topic for further research on this issue.

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NACIONALNA KONKURENTNOST I STRANE DIREKTNE INVESTICIJE U EVROPSKIM ZEMLJAMA U RAZVOJU

Apstrakt: Rad se bavi analizom relacije između indikatora konkurentnosti nacionalne ekonomije (stvarnih jediničnih troškova rada i Indeksa globalne konkurentnosti) kao i priliva stranih direktnih investicija (SDI) u zemljama Centralne i Istočne Evrope (CIE) u prethodne dvije decenije. Dobijeni rezultati pokazuju da u periodu od 2000. do 2020. godine zemlje CIE su imali prosječni godišnji priliv SDI u iznosu od 3.9% BDP-a, sa značajnim razlikama u okviru regiona. Došli smo do zaključka da je neto priliv FDI izrazito negativno korelisan sa stvarnim jediničnim troškovima rada, dok su rezultati manje jasni kada je riječ o korelisanosti sa Indeksom globalne konkurentnosti. U 2020. godini, kao posljedica pandemije, došlo je do globalnog pada priliva FDI za oko 40%, dok je taj pad bio znatno manje izražen u zemljama CIE i iznosio je u prosjeku 15%. Ovi trendovi i rezultati anketnih analiza sugerišu da države CIE regiona, a naročito zemlje Zapadnog Balkana mogu ostvariti značajne benefite od *nearshoring* procesa u budućnosti. U svrhu valorizacije te prilike, države regiona se moraju fokusirati na poreske reforme koje će doprinijeti efikasnosti (odnosno smanjenju jediničnih troškova rada) i drugim strukturnim reformama koje će rezultirati kvalitetnijim kapitalnim potencijalom.

Ključne reči: nacionalna konkurentnost, strane direktne investicije; evropske zemlje u razvoju, globalni indeks konkurentnosti, stvarni jedinični troškovi rada

Authors' biographies

Saša Ranđelović graduated from the University of Belgrade – Faculty of Economics in 2005, where he also obtained the master degree in 2008 and the PhD degree in economics in 2012. Since November 2007 he is employed at the University of Belgrade – Faculty of Economics as teaching assistant and from 2013 as assistant professor, while from 2018 as associate professor. From 2015 he is also the vice dean for finance and international relations at the same faculty. His field of research includes economic policy and development, with the focus on fiscal policy and public finance. Saša is visiting fellow at the LSE-European Institute. He has published papers in reputable peer-reviewed journals such as Economic Systems, Economics of Transition, Empirica, International Journal of Emerging Markets, International Journal of Microsimulations, Prague Economic Papers, Acta Oeconomica, Economic Annals, Ekonomski horizonti, etc. He is author of two monographs and one textbook.

Nikola Martinović finished both bachelor and master program at the Faculty of Economics in Podgorica, University of Montenegro. In November 2020 he enrolled in PhD studies at the University of Belgrade - Faculty of Economics. Nikola is currently employed at the Faculty of Economics - University of Montenegro as a Teaching Assistant in the field of Macroeconomics. The subjects of his interest are the areas of public finance, national and international economy and national competitiveness. Representing Montenegro, he won the silver medal at the EuroSkills competition (2018) in Entrepreneurship discipline. He is a co-author of several scientific papers.