DETERMINANTS OF THE ECONOMIC GROWTH IN WESTERN BALKANS COUNTRIES

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1. INTRODUCTION

The economic growth is the first aim of the economic policy in sovereign countries. Economic policy spends most of the time in searching the means and instruments to realize high growth rates, and increased interest into analysis of economic growth can be seen from mid 80-ies of last century. On a world scale economic growth started slowing down in the first half of the 70-ies and continued during the 80-ies, with a slight improvement of the standard of living in industrially developed countries, whilst a large number of poor countries experienced stagnation. That experience, followed by a few examples in Asian countries which achieved a spectacular economic growth, encouraged economists to pay attention again to the analysis of the economic growth and to the research of factors influencing that growth.

The problem of the economic growth becomes particularly actual in moments of recession and economic crises, as nowadays. The beginning of the new millennium, namely, brought another recession to the world economy and put the question on the economic growth again in the centre of interests of economic researches. The question: Are there limits to the economic growth and has world economy reached those limits, and if not, what determinants are essential for a long-range economic growth? – can also be asked.

The research of the economic growth is of outmost importance for the economic science, first of all due to big differences in the standard of living in single countries, being the direct consequence of the growth. Opposite to the wish for a continuous economic growth, the question is whether there are limits to that growth? The affirmative answer is based on limited economic resources, and the negative answer is based on unlimited human creativity. Low economic growth and stagnation in Eastern European countries in the 90-ies made those countries take the transition way towards democracy and market economy. A large number of developing countries is still on an existential level.
This paper will attempt identifying some determinants that explain why some countries within the region of the Western Balkan have achieved higher rates, while others have realized slower economic growth. In this paper and our sample of countries, we will choose from the pool of traditional and non-traditional determinants used in the literature and, based on the availability of relevant indicators, we will try to estimate the relationship between the growth rate of GDP, unemployment, FDI, trade openness, inflation, and the ICT sector. After the theoretical review of the economic growth presented through historical reflection, we proceed with the analysis of some relevant determinants for economic growth in the above-said region. In the fourth part, we design a regression model for Western Balkan countries but it has some limitations because data were not available. Western Balkan presents a permanently changing area; therefore the long statistical data series are not procurable. Conclusion reflections are presented in the last part of our paper.

2. THEORY OF THE ECONOMIC GROWTH THROUGH HISTORY

The historical survey of economic growth starts with the Smith’s classical theory of growth, continues with Harrod-Domar’s model, goes through the neo-classical theory of growth (Solow) to reach the new (endogenous) theories of the economic growth.

Although seldom connected to the theories of economic growth, Adam Smith is among the first economists that elaborated the growth theory into details. His work *The Wealth of Nations* is the proof of an extraordinary knowledge of the mechanism of economic growth, which Smith considered to be an “integral” process at the microlevel (enterprise) and macrolevel (country). He thought that the economic growth is not conditioned just by the accumulation of capital, human capital, technology, soil, labour, export, but by the totality of those factors simultaneously.

One of the biggest Adam Smith’s contributions to the economic theory is, for sure, the introduction of the term growing returns into economy, based on division of labour, i.e. on specialization. Smith was aware that specialization is stronger in industrial production and, at the same time, very limited in agricultural production, that leading to his theses that countries more oriented to industrial production become richer, whilst those oriented to agricultural production, are and remain poor. Besides the possibilities given by volume economies and specialization, Smith recognized also the importance of international exchange and free trade as engine of economic growth (*An Engine of Growth*), (Smith,1776).

The following contributions to the theory of growth come from (Harrod,1939; Domar,1946) who, independently from one another, starting from different positions, came to the same conclusions, precisely at the turn of the 30-ies and the 40-ies of the 20th century. In the Harrod-Domar’s model of growth, the growth rate of the economy is the function of relationship between the savings rate and the capital coefficient (relationship of capital and output). The implicit assumption of the Harrod-Domar’s model of growth is that there are no decreasing or increasing return on capital, namely that the marginal return on capital is constant and equal to the mean return on capital. According to the said model, the capital coefficient is equal to ICOR, namely to the reciprocal value of marginal return on capital. ICOR is, by definition, the relation between the investment rate (investment share into GDP and growth rate of real GDP). However,
when the balance is impaired, in the Harrod-Domar’ model there are no powers that would bring economy back into balance. Harrod-Domar’s model had an important role in the development economy of the World War II, and was frequently used in planning the development of less developed countries.

In the 50-ies of last century, the neo-classical theory of growth was created by Robert M. Solow (Nobel Prize winner in 1987). It is also called the neo-classical model of growth or Solow's growth model. Using simple functional forms and simplified assumptions, Solow pointed at three elements that should be considered when speaking of growth: technology, capital and labour. R. Solow, using his own analysis method, came to the conclusion: less than half of productivity increase in the USA, both per inhabitant and per real rental fee can be ascribed to the increase of capital itself. Much more than half of productivity increase should be ascribed to technical changes – scientific progress, industrial improvement (know-how) and knowledge on managing methods and education of labourers. It means that more than one half of production increase – as recorded by statistics through history- comes from scientific progress more than from savings and accumulation (Solow, 1956).

After the neo-classical theory of growth, almost nothing important happened in the economy of growth until mid 80-ies, and than, pieces of works that followed the doctoral dissertation of Paul Romer at the University of Chicago in 1983, a lot has changed, both in theory and in empirical analysis of long-range economic growth, also new theories were developed, nowadays called “theories of endogenous growth”. New theories of growth are connected to the names of P.M. Romer, R. E. Lucas, E. Helpman and G. Grossmann, who start from the assumption that single decision-makers learn rationally not adaptively. That means that they do no change their behaviour gradually, reacting to new information or different circumstances, but they learn new rules quickly and discontinuously. It is assumed that people in decision-making are turned towards future, expectations, not towards history, experience (Romer, 1986.; Lucas, 1988.).

Unlike the neo-classical model, newer theoretical contributions point out the economic growth as an endogenous product of the economic system, and not as the product of the powers acting outside the system. Researches in the end of the 80-ies and beginning of the 90-ies of the 20th century, had the necessity to change something in the generally accepted neo-classical model in which the long-range economic growth, in its essence, has been determined by and exogenous rate of technological progress. Besides, the neo-classical theory did non offer adequate recommendations to the economic policy for problems of the real world like the constantly weaker growth in high-income countries and constant stagnation in the majority of poor countries. The new model and theories of economic growth encompassed also the possibility that interventions of the economic policy which influence the level of production in the traditional model, can also influences the economic growth rate, which is not the case with the neo-classical model.

3. DETERMINANTS OF THE ECONOMIC GROWTH

The economic growth is a complex macroeconomic phenomenon, and therefore even today it can not be completely explained what determinants, in what measure and in what way contribute to growth. The historical survey of theories of economic growth has shown that each of the said
theories pointed out one or more determinants, which are key ones for the economic growth. Classicists pointed out natural resources, namely soil and labour, neo-classicists capital and technology, and the new theory of growth stressed human potentials.

3.1. Labour

So far, the labour factor has been considered as the holder of the economic activity, however manpower, namely its broader term *population* is at the same time the user of the product and of the services, i.e. the result of the economic activity. The whole population is not important for the economic activity of a single country, since part of the population does not participate into that activity. Manpower is made up of that share of the population able to work and employed, but not the share that wants to work actively and is actively looking for a job. The essential characteristic of the population determining its power as determinant of the economic growth is the number of inhabitants and its quality. The population by its number and excessive growth can represent an obstacle to economic growth. That particularly is expressed in non-developed countries which have a high increment and limited employment possibilities, leading to *unemployment* problem. The other side of the medal shows lack of manpower that can be an obstacle to the economic growth, and particularly lack of quality, highly educated manpower, being a problem faced by some developed European countries.

3.2. Capital

The basic Solow’s model of economic growth (without technology) favours capital as the basic determinant of the economic growth which was already mentioned in the historical survey of economic growth theories and we can conclude that investments are an indispensable precondition of economic growth. Capital accumulation makes up the largest and most important share of means meant for investments and for that reason it is very important as a source of economic growth. The essence of accumulation is represented by deferred consumption in favour of a faster growth and higher consumption in the future.

Investments into physical capital can be direct (increase of physical capital stocks) and indirect (investments into social and economic infrastructure). Capital accumulation, however, does not imply only the accumulation of physical capital but also investments into the increase of the quality of the soil and investments into human resources (education, health). Human resources, therefore, namely potential, can be examined also as a separate determinant of economic growth.

3.3. Natural Resources

In the triad of the basic production factors “soil, labour and capital”, the soil represents limited natural resources, that contribute significantly to the economic growth of single countries, but their contribution in the capitalistic way of production is neglected and insufficiently researched,
and the obvious reality that natural resources represent the main source of abundance for the economic growth is neglected.

Nature gives to human society various lively maintainable benefits that would be classified by economists as good and services. Main goods are: food which is used to keep persons in life, and building material enabling people to build a shelter. Services are water depuration, stocking and supply, waste assimilation, balance of oxygen in the atmosphere and carbon dioxide and monitoring climatic powers. Goods and services got from the environment are collectively called services of the ecosystem, and benefits of the human race are fully dependent of an uninterrupted flow of services of the ecosystems of the nature. Expenses for the production of goods and services coming from the soil are borne by the soil. Should services of the ecosystem be paid, expenses for the products would be incomparably higher. Due to the fact that the expenses for goods and services coming from the environment are not calculated into the world price system, renewable services of the ecosystem are given only marginal importance when making decisions about economic policy.

3.4. Technology

Besides the increase of the capital/labour ratio, economic growth is particularly influenced by technical progress. Some older growth models treated technological progress as an exogenous variable. In the neo-classical model of growth (Solow, 1956) a small share of economic growth can be ascribed to labour factor, and a part relates to the factor of capital, whilst the rest is ascribed to the technological progress, already treated as exogenous variable hereinabove, the so called Solow residual.

Only a continuous technological progress can assure an important and sustainable economic growth, which is also proved by the mathematical formulation of the economic growth problem. We cannot, namely, expect a constant increment of the labour factor, and a higher growth of the capital in respect to labour leads to the decrease of return on capital and, as ultimate consequence, to slowing down and decreasing growth, even in the case of a constant capital increase. Therefore, every economy must improve its technology continuously and the case here is the so called “intensive growth”. Technological progress of developed countries as the USA, Great Britain, Germany, France and Japan make the most important determinant of their economic growth (from 46% to 71, %), (Ćosić and Fabac, 2001).

The technological progress of a single country or nation is realized by diffusion of new technologies. Those industrial branches or sectors laying on high technologies realize today high profits, namely high sums of money return in respect to investments. Some authors state that for the process of reaching developed, by smaller and transition countries, it is important to fulfil some key conditions: have the possibility and capability to exploit new generic technologies, accept and modify technological innovations of the other, for one’s own development; breaking into a determined narrow “niche” with high quality products (Švarc,1997). For all those three conditions, and in the interest of increasing return on whole national economy, technological policy should focus on stimulating or supporting investments into single industries into research and development.
3.4. Human Potentials

Human capital is created by investing into human resources. Human capital appeared indirectly for the first time in the empiric research of the economic growth in the 60-ies of last century in works written by Abramovitz and Solow. They introduced technological progress into classical production factors soil, labour and physical capital, deeming that the technological factor contributes with 75% into the economic growth. Those authors considered all non-material factors of growth as technological progress, as for example the improvement of existing and introduction of new technologies and production processes, changes into education and competence of the employees and similar. Neo-classical theory of growth, however, did not define clearly what factors cause technological progress and was not able to explain them.

A considerable number of empiric researches of the economic growth tries to state the level and strength of the connection between investments in creating the human capital and the reached rates of economic growth. The majority of the researches show a positive connection between investment into forming human capital and reached rates of economic growth (Nelson and Phelps as far as 1966 and Benhabib and Spiegel in 1994). One part of the researches, by modelling technological progress or modelling growth of the total factorial productivity being the function of the level of education and quality of human capital, explains how investments into forming the human capital influence positively the economic growth. Better educated manpower (higher quality human capital) is more capable to innovate new technological products and processes, it is more ready to accept knowledge indispensable to implement new, highly-sophisticated technologies, and thus generate economic growth. One part of the explanation of the positive impact of investments into forming human capital have on economic growth tries to sow that a better educated and skilled manpower will attract a higher level of investment into physical capital, and investments into physical capital are positively correlated to economic growth.

3.5. Innovations and Research and Development

The theories of endogenous growth give, besides human potentials, the key role in growth to research and development. Adding to some of the Schumpeter’s ideas, (Schumpeter,1942) the first model of sustainable development belongs to the group developed by (Romer, 1990) and followed by (Grossman and Helpman, 1991). Schumpeter thought that research and development carry economic growth, and are stimulated by the conviction that extra profits will be assured. He also recognized the meaning of the market power. Whilst in the conditions of perfect competition enterprises can use innovations free of charge and no one is stimulated for research and development, in markets with monopoly power that stimulus is sure. Due to the origin of basic ideas on which this group of models is based, they are frequently called neo-Schumpeterian models.

The models of this group, characterized by monopoly power, it is basically suppose the existence of a separate technological sector in economy, which supplies other sectors with new technologies. Producers buy technologies and thus get the right to use them. They also pay the price which is higher than the marginal cost of their production, in order to generate sufficient
income to cover the expenses including the initial investment into new technologies. Investments into innovation projects have not the characteristic of decreasing return. Therefore, the productivity of new investments into innovative activities does not decrease and thus enables a constant sustainable growth. In those models growth rate depends on the quantity of means intended for innovative activity, i.e. to research and development, depending on the grade to which new technologies can be used privately (namely on the grade of monopoly power) and on the time horizon of the investor (Mervar, 2003).

Western industrialized countries today compete to attract research and development activities of multinational companies. Transition and developing countries, unfortunately, frequently have just the branches of big companies, like their marketing departments. Some data suggest that foreign investments into research and development generally have the trend of following production just in foreign markets: if more production is located in a foreign country, it is more likely that research and development activities will be located there. Examples of companies that have decentralized their research activities are very rare. The majority of international corporations keep their strategic projects and key technologies in their domestic economies, and abroad they have development and design activities in order to adequate their products to the local market. Various researches have been made on the regularity referring to I&R of single groups of countries. With smaller, developed countries, with export-oriented economy, it has been found that more than one half of research of private sector is done abroad (Regger, 1998).

3.6. Export Capacity

When speaking about economic success of some countries (for example of Far East ones, but also about countries closer to us) analysts, in general, agree that the role of two factors is important: export orientation and investment rates. They are frequently called “growth engines” because, when strengthening, they draw the whole economy forward. A strong positive correlation between those two variables and growth rates of Eastern Asian economies has been stated empirically.

Export has a positive impact on economic growth, and the theoretical argument is that export orientation increases openness of economy and, together with exposition to foreign technologies and competition, makes fast rates of technological progress possible. In the other direction technological progress also enables export orientation. Developing countries being more dextrous in adopting and implementing progressive technologies, have a precedence in world markets based on the possibility to sell their advanced products to other countries.

4. ECONOMIC GROWTH IN WESTERN BALKAN

The last enlargement of the European Union, by two new members Bulgaria and Romania, shifted the focus of Union bodies from South-eastern Europe towards Western European countries. This area includes countries of the former Yugoslavia; except Slovenia (became a member in 2004), with Albania. Western Balkan countries are an extremely politically unstable area where the war was conducted only a few years ago, and in some countries there is still a
potential danger of further conflicts. At the same time, the economic potential of the area is insufficient, so the European Union is putting in an extra effort to include these countries into the European integration area, since the territory is very close to its border, some countries being its bordering countries.

Western Balkan countries are small national economies, Serbia is the biggest and Montenegro the smallest. The whole region has the population of about 21.5 million, accounting for 1/3 of the total population of 10 new members of the European Union. Region’s GDP is around 94 billion Euros (2007) or 0.5% of the total GDP of the European Union. According to World Bank classification, these countries are lower middle-income countries, except Croatia as an upper middle-income economy; therefore the requisite for acceleratory economic growth is very emphasized.

Figure 1. GDP IN PPS PER CAPITA (EU 27=100)

![GDP IN PPS PER CAPITA (EU 27=100)](image)


Starting from the fact that Croatia, as the most developed country of Western Balkan had the highest per capita GDP in all post-war years, which in respect to the EU was around 56.6% in 2005 to 63% in 2008. Albania is the poorest of all Balkanic countries with a share of GDP of only about 6% in respect to the average one in the EU. The best standard of living after Croatia has been recorded in Montenegro (from 31% to 41%), whilst Serbia and Macedonia are very close according to the shown results (33% Serbia and 30% Macedonia). The inhomogeneous development level indicates a heterogeneity of that group of countries, making the whole research more difficult in the sense of prescribing unique instruments of the economic policy. It can be expected that low starting points countries, as on the example of Albania, reached also the highest growth rates, whilst Croatia as leader in the Region probably grew at a slowest rate.
Figure 2 shows that real GDP in all Western Balkan countries in the examined period has constantly grown, expect for Macedonia, which was the only one to record the decrease of the GDP, but only in 2001 (-4.6%). The highest growth rate was in Montenegro in 2007 (10.3%). Also Albania had very high growth rates throughout the whole period (the lowest 4.2% in 2002 and the highest 7.1% in 2001). Serbia also had a fast economic growth, which is seen also by its high annual growth rates (for example 9.3% in 2004 and 7.5% in 2007). Bosnia and Herzegovina records a moderate growth rate, with an average of 5.3% in the examined period. And finally, Croatia as the leader in the Region and the most developed country had an even economic growth with an average of 4.8%. In the examined region, as shown in diagram 2, only Croatia and Albania had an even economic growth (closer to higher levels), whilst the other countries passed through turbulent periods, first of all caused by internal political problems. Instability on a political plan, with insufficiently developed economies, influenced also the weakening of the interests by foreign investors into the region (Appendix, figure 1).

Foreign investors invested the lowest amounts into Montenegro (for example only 10 million € in 2001, and 827 million € in 2008) and the highest ones in Croatia (1,398 million in 2001 up to 4,806 million in 2008). The biggest interest of foreign investors for Croatia is logic considering its leading economic role in the region, as well as its accession into EU in a short time. Out of the examined countries, we must mention Serbia which, after Croatia, attracted the largest amount of foreign capital, an average on 1,760 million € per year, which is justified by the size of its market.

A weak interest of foreign investors with an insufficient domestic savings are, for sure, the main reasons for a weak opening of new jobs and, with the transition problem, restructuring and privatization and dismissing a large number of workers, the unemployment problem in this region is the biggest one in the last time. The highest unemployment rates in the period 2001-

Source: Transition report 2008., p. 13
2008 have been recorded in Bosnia and Herzegovina (more than 40% in all years) and the lowest in Albania (an average of 14.4%). Croatia has a relatively low unemployment rate (average of the period 18%) as opposed to Serbia and Macedonia whose unemployment rates range from 29% for Serbia and 37% for Macedonia. In 2008, Macedonia had an unemployment rate of 16.8% and thus achieved the highest unemployment decrease than all other countries. In 2001 unemployment rate in Montenegro was 40.2% (appendix, figure 2). If that high rate of unemployment should not be the consequence of dismissing workers whose enterprises ceased to operate or were not interesting in the market any more, but the consequence of new entries (friction unemployment) of university educated young persons, it could be a positive impulse to the development process since the quality of human capital is one of the crucial development factors.

Insufficient production on the domestic market and insufficient economic growth are the reasons why this region was also scarcely included into world trends. Albania and Montenegro are the smallest countries in the region, if considered their size and number of inhabitants, so that the smallest share in commodity exports belongs to them. For example Albania exported goods in the value of only 307 USD in 2001, and Montenegro 1,32, million USD. In all examined years Croatia was the most important exporter of the Western Balkan, with more than 12 billion USD of commodity export in 2008. Considering the size of the country Bosnia and Herzegovina, throughout the period, records a very low commodity export (appendix, figure 3). It should also be pointed out that all countries record a constant increase of commodity export, from year to year, except Macedonia that had a slight decrease of export in 2002 and 2003. The highest increase was recorded in Serbia (from 2.2 billion USD in 2001 to 11 billion USD in 2008). Weak export growth influenced also the low openness of the region (share of commodity and export of services in GDP). Available data (appendix, figure 4) indicate that all countries have low shares of export in their GDP. This can particularly be said if those shares are compared with a small developed European country. The sequence of the countries according to export growth in the region in 2007, would be the following: Albania exported the least – 28% of the GDP, the next is Serbia which exported 30% of its GDP, Bosnia and Herzegovina with 36% and Croatia with 42%, the largest shares were those of Montenegro - 46% and Macedonia 53.4%. Significant increase of shares of commodity export and export of services in 2007 in respect to 2001 were recorded by Albania and Macedonia (more than 10%).

5. ESTIMATION METHOD AND RESULTS

The analyzed period covers the years 2001-2008, for six Western Balkan countries: Albania, Bosnia and Herzegovina, Croatia, FYR of Macedonia, Montenegro and Serbia. However, for our sample of countries relevant data are not abundant for long period or the data showed very different movements. This has influenced our choice of explanatory variables, as discussed above, but also a method of estimation. We have applied the panel data analysis method, using the balanced sample to obtain the estimated coefficients. The basic equation is as follows:

\[
GD \ Pr ate = const + \alpha EXpc + \beta FDIpc + \gamma unemrate + \epsilon
\]
For the sample of countries, the fixed effects method is more appropriate than the random effects. This assumption was also formally tested. The value of cross-section F statistics for the redundant fixed effects test is 18.55 with the critical value of 3.34 at 5 percent significance, and the LR test strongly prefers the fixed effects estimation method. Thereby, we have concluded that the fixed effects method should be applied in this case. In our first research we designed a model with more variables according to theory. We try to analyze the impact of budget deficit as representative of government expenditure, export, import, deficit on capital account, inflation, labour market through unemployment rate and investment especially foreign investors. For assessment of ICT sector and technology we could not find data for our sample of countries. Researches made pointed out that inflation and budget deficit as percentage of GDP were not statistically significant, while current account deficit as percentage of GDP showed a strong correlation with export and import. We conclude that the first models as well as the results obtained were not satisfactory due to poor statistical explanation of certain variable so, we designed an adjusted model for Western Balkan and include only three variables significant for that region but we should accept the fact of data absence. The results of the estimation are presented in the following table:

Table 2. Economic growth, export, FDI and labour market – estimation results

<table>
<thead>
<tr>
<th>Regressors</th>
<th>Estimated coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>7.39*</td>
</tr>
<tr>
<td></td>
<td>(4.23)</td>
</tr>
<tr>
<td>Export pc</td>
<td>0.003*</td>
</tr>
<tr>
<td></td>
<td>(4.64)</td>
</tr>
<tr>
<td>FDI pc</td>
<td>-0.008*</td>
</tr>
<tr>
<td></td>
<td>(-4.31)</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>-0.16*</td>
</tr>
<tr>
<td></td>
<td>(-3.06)</td>
</tr>
<tr>
<td>Fixed effects</td>
<td></td>
</tr>
<tr>
<td>Albania</td>
<td>0.061</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>2.78</td>
</tr>
<tr>
<td>Croatia</td>
<td>-1.68</td>
</tr>
<tr>
<td>FYR of Macedonia</td>
<td>-2.18</td>
</tr>
<tr>
<td>Montenegro</td>
<td>-0.43</td>
</tr>
<tr>
<td>Serbia</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.32</td>
</tr>
<tr>
<td>Number of observations</td>
<td>48</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.79</td>
</tr>
</tbody>
</table>

Source: authors’ calculations.
Notes: Coefficients marked * are significant at a level of 1%, ** at a level of 5%, * ** at a level of 10%, while t-values are presented in brackets below the regression coefficients. In GLS, standard errors and covariances are White heteroscedasticity consistent.

According to the results presented above, it can be seen that the overall explanation power of the specified model is quite good. However, due to the shortness of the analyzed period, and the heterogeneity of the analyzed countries, we interpret our results as indicative, and not as a final judgment on the issues analyzed in this paper. The most interesting result is unemployment rate, and it is the most significant variable for the growth process in Western Balkan. Since labour market conditions are usually considered as fundamental determinants of growth, we find this result quite expected. However, unemployment rate exert negative influence on the growth, and
this is in accordance with the economic theory. Western Balkan countries confronted with large number of dismissed workers in middle age with not adequate level of education and skill should launch new program of requalification. In same cases high unemployment rate is positive for companies because they have the possibility to apply a strong selection but after the critical level of unemployed workers, unemployment had a negative influence.

In addition, the export sector, according to theory and many researches, has a positive influence on growth process. In our sample of countries export did not play a significant role. Its impact was small and trivial. We expect that results since, during last decade, some Western Balkan countries recorded negative real growth rate of export like Montenegro, Bosnia and Herzegovina but also a negative nominal growth rate. In many research conducted before export had a very strong influence on the economic growth especially in a small country. Export expansion and openness to foreign markets is viewed as a key determinant of economic growth due to positive externalities it provides. For example, firms with strong export division enjoy some advantage like better resource allocation, efficient capacity utilization, exploitation of economies of scale, and technological improvement stimulated by competitors (Helpman and Krugman, 1985). Furthermore, exports at the same time mean foreign exchange that allows more imports, amongst other, of intermediate goods which in turn raises competitive level of production and stimulate output growth. Several studies have also shown positive relation between growth-led exports (GLE) and development as well as reverse causal flow from economic growth to exports growth. In the GLE case, export expansion could be stimulated by productivity gains caused by increases in domestic levels of skilled-labour and technology (Bhagwati, 1988; Krugman, 1984). Some analysts argue that causality flows from exports to economic growth and denotes this as the export-led growth (ELG) hypothesis (Balassa, 1978; Bhagwati, 1978; Edwards, 1998). In the line with economic theory investment has a strong and positive impact on the process of economic growth. In analysed countries national save is very poor, so they need foreign capital to accelerate the growth process and opening new work places. Foreign investors should also have a positive effect because they beside capital bring also a new technology, know how as well as open new markets. According to the results presented in table 2, FDI per capita exert negative influence on the growth rate of GDP and not the positive as standard growth rate determinants theory would predict. The explanation behind these results is specific for the selected sample of countries. First of all, this region attracted a very small proportion of overall FDI inflows in transition countries and most of foreign investors approved interest for service sector especially for financial sector, trade and telecommunication. Although the FDI inflows increased, the remarkable growth has only been noted since 2003, led primarily by large privatization deals. Despite the positive overall growth of the FDI in the region, UNCTAD data also reveal that the region has attracted only a small share of the overall number of Greenfield investments. This also refers to the main problem with the FDI structure in the Western Balkan – it is not related to the new production processes, which would be welcomed and expected by the host countries. Therefore, we explain that the small amount of foreign investment per capita focused on privatization of existing companies as well as inadequate structure negative contributed on growth process in Western Balkan.

In our researches we also used data on inflation and the model including inflation showed the insignificance of that variable, and therefore that variable was excluded, while to evaluate the
ICT sector it was not possible to find a longer series of data, which limited the construction of a model on the above said variables in table 1.2. At the same time, we tried to include the evaluation of import which also proved to be an insignificant variable, but with a negative impact which is explained by the fact that import was primarily oriented to final consumer products, not on intermediary goods. Endogenous growth models, namely, show that import can be a channel for long-run economic growth because it provides domestic firms with access to needed intermediate factors and foreign technology (Coe and Helpman, 1995). Growth in imports can serve as a medium for the transfer of growth-enhancing foreign R&D knowledge from developed to developing countries (Lawrence and Weinstein, 1999; Mazumdar, 2000).

6. CONCLUSION

The heterogeneous group of Western Balkan countries examined in this paper, had an uneven growth and researches have shown a relative cohesion with Bosnia and Herzegovina, Serbia, Montenegro and Macedonia, and a large dispersion with Croatia as leader and Albania being at the rear of the row. The unevenness in the process of economic growth is the consequence of an uneven macroeconomic situation in some countries, as well as of political instability. The just mentioned events represent also a limitation to this research which are, first of all, evident in the unavailability of a longer series of data because before 2001 data referring to some countries were not available or data in their trends are very divergent as we know that the area got out of the transition crisis later that the other planned economies.

The research proved that foreign market sector did not play an important role in the process of economic growth, and the same can be said for foreign investors, while the heaviest burden in the growth process was the contingent of unemployed workers. In fact, foreign investors showed interest primarily for old companies; thereby new capital came through privatization process without new work places. The share of Greenfield project in Western Balkan was very low. Foreign investors came primarily in a service sector like trade, telecommunication and banking and were motivated to capture the advantage of local market. Therefore, foreign investors did not open a new production process or it was sporadic and the motive for accessing to new market has absented. Low level of export at the beginning of transition process parallel with losing old market resulted with unsatisfactory real growth rate of exports flows. Thereby, the export had a positive but irrelevant impact on the economic growth in Western Balkan.

Unemployment expressed as unemployment rate indicates a negative impact to the economic growth of Western Balkan countries, which is in conformity with the economic theory. The higher unemployment rate makes the burden to the process of economic growth more serious. Only if the contingent of university educated manpower has a large share in the number of unemployed persons, it is possible to feel positive effects at microlevel, looking at that as a big selection of employers, while at macrolevel the necessity to dispose of enforced economic policies oriented towards the labour market has been expressed. Stronger impulses in the labour market should not necessarily be positive for production units in the society.
Data about ICT sector were not available for a longer period; only the number of Internet users was available for some years (appendix, table 1). Data about Internet users show and confirm the heterogeneity of sample countries and direct us to the previous conclusions about the development level of economy achieved. According to data in appendix, Croatia has the highest share of Internet users in total population, while the lowest level is recorded in Albania. At the same time, Albania is the country with highest growth rate, followed by Bosnia and Herzegovina. Slow development of ICT sector analyzed through internet users has noticed in Serbia, but at the same time the share of internet users is more than 40% in population. Thereby, countries with more Internet users achieved lower growth rate of Internet spread, while other with less internet users noticed quickly development of Internet.

Finally, we can conclude that countries in the analyzed region need to direct their economic policies to strengthening the export sector, and for that it is first necessary to strengthen the basic production and make it sufficiently competitive. In the process of strengthening national competitiveness the macroeconomic frame and stimulating measures of the government of each country have an important role, but foreign investors can, for sure, contribute to that. It is important to create this region as a region attractive to foreign investors by applying stimulating measures, and the most important is that they bring new Greenfield projects and thus open new work places, thus making unemployment a lighter burden to economic growth. Besides all previously said limitations this research indicated the guidelines for conducting economic policies, but also pointed out the need for further analyses including other relevant variables when necessary conditions are created which are reflected in the accessibility of data.
BIBLIOGRAPHY:


APPENDIX

Figure 1. FDI in Western Balkan in mln euro, 2001-2008.


Figure 2. Unemployment rate in Western Balkan, 2001-2008

Figure 3. Export of goods and services in Western Balkan in mln US $, 2001-2008


Figure 4. Share of exports of goods and service in GDP in Western Balkan, 2001-2008

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Source: www.internetworldstats.com/stats4.htm