

Foreign Direct Investment in the Western Balkan Transition Economies: Future Perspectives

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Abstract: *The importance of FDI for the economic development of a transition economy is especially pronounced. However, it is necessary to say that the importance of FDI for the Western Balkan countries have the crucial importance especially for the continuation and completion of the initiated reforms. Continuation and completion of structural economic reforms is also one of the key conditions for the accession of the Western Balkan countries to the European Union. So, the central question is what are the key factors that determine the level of FDI flows into the Western Balkan countries in the near future. The notable FDI performance of Central Eastern European countries during their preparation for the EU accession in the last decade and the experience of earlier EU enlargements demonstrate that economic integration can increase FDI inflows. The Western Balkans follows a specific process of economic integration. On the one hand, intra-regional integration aims at normalizing the economic relations after the period of disintegration during the nineties and helps to create a common market. On the other hand, the regions aspire to accede into the EU, as it has been demonstrated by the EU membership application of Croatia. This paper aims to analyze how political stability or instability may affect FDI inflows by creating an index of performance on this variable for each Western Balkan country and relates it to a measure of FDI performance for a particular country. Also, the paper analyzes the impact of the EU accession process on the value of FDI inflows. The integration of the Western Balkan countries with the aim of liberalizing interregional trade represents (such as a CEFTA agreement) a chance for improving their mutual cooperation and it provides the basis for a more intensive trade with the European Union countries. Based on the analysis of the current political situation in the Western Balkans, as well as the current position in the negotiations with the EU, paper indicates the factors which determine the likely direction of potential FDI flows into the Western Balkan countries with the specific recommendations for the economic policy makers.*

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