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P. 65-77

SCIENTIFIC REVIEW ARTICLE

10.5937/ESD2502065S

Received: April 14, 2024

Accepted: September 17, 2024

FOREIGN DIRECT INVESTMENT DYNAMICS IN THE WESTERN BALKANS: ASSESSING THE EFFECTS OF COVID-19 PANDEMIC AND THE RUSSO-UKRAINIAN WAR

Abstract

The paper aims to offer a comprehensive analysis of foreign direct investments (FDI) within the economies of the Western Balkan countries against the backdrop of the COVID-19 pandemic and the ongoing Russo-Ukrainian war. Central to this inquiry is the examination of FDI inflows into the Western Balkans amidst these extraordinary circumstances. Specifically, the study investigates the scope, positioning, and proportion of FDI inflows across individual economies within the Western Balkans in relation to the overall FDI inflows within the region, as well as changes in their dynamics caused by the crisis events. Bearing in mind the level of development and dependence on foreign capital, the economies of the Western Balkan region are intrinsically reliant on the stability and size of FDI for various economic imperatives. Consequently, these countries show increased sensitivity to fluctuations in FDI patterns, necessitating a continuous surveillance of FDI inflow trends. Remaining in an unfavorable and changing macroeconomic environment, the economies of the Western Balkans face permanent challenges that inevitably affect their FDI inflows, thus emphasizing the imperative for continuous vigilance and analysis of them.

Key words: FDI, Western Balkan, COVID-19, Russo-Ukrainian war

JEL classification: F21, P29

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ДИНАМИКА СТРАНИХ ДИРЕКТНИХ ИНВЕСТИЦИЈА НА ЗАПАДНОМ БАЛКАНУ: ПРОЦЕНА ЕФЕКТА ПАНДЕМИЈЕ КОВИД-19 И РУСКО-УКРАЈИНСКОГ РАТА

Апстракт

Рад има за циљ да понуди свеобухватну анализу страних директних инвестиција у привредама земаља Западног Балкана у контексту пандемије COVID-19 и текућег руско-украјинског рата. Централно место у раду заузима испитивање прилива страних директних инвестиција на Западни Балкан услед ових ванредних околности. Конкретно, студија истражује обим, позиционирање и пропорцију прилива страних директних инвестиција по појединачним привредама у оквиру Западног Балкана у односу на укупан прилив страних директних инвестиција у региону, као и промене у њиховој динамици изазване кризним догађајима. Имајући у виду степен развијености и зависност од страног капитала, привреде региона Западног Балкана суштински се ослањају на стабилност и величину страних директних инвестиција за реализацију различитих економских циљева. Сходно томе, ове земље показују повећану осетљивост на флукуације у обрасцима страних директних инвестиција, што захтева континуирано праћење трендова прилива страних директних инвестиција. Задржавајући се у неповољном и променљивом макроекономском окружењу, привреде Западног Балкана суочавају се са сталним изазовима који неминовно утичу на њихове приливе страних директних инвестиција, наглашавајући императив континуираног праћења и анализе истих.

Кључне речи: *стране директне инвестиције, Западни Балкан, КОВИД-19, руско-украјински рат.*

Introduction

A few crises and challenges have occurred on the global scene in recent times, including health and economic COVID-19 crisis and the ongoing Russo-Ukrainian war with all their implications, affecting national economies worldwide (Stojadinović-Jovanović et al., 2020). The good macroeconomic prospects of the Western Balkans for 2020 were disrupted by the COVID-19 (OECD, 2020). The containment measures and external shock resulted in a significant decline throughout the region. "And just as the year 2022 was marked as the culmination of the pandemic recovery" (UNCTAD, 2023a, p. 35), the global scene changed dramatically in 2022 with the onset of the war in Ukraine. The war brought food insecurity, unavailability and high energy prices, as well as difficult international financing due to high inflation and rising interest rates (UNCTAD, 2022). The aftermath of these events precipitated a comprehensive deceleration of economic activity across Western Balkan countries, mirroring the repercussions of Russia's military intervention. This downturn manifested through various channels, including diminished levels of business and consumer confidence, a notable upsurge in inflationary pressures,

pronounced monetary policy tightening measures, and disruptions in energy supply chains. The countries of the Western Balkans have slowed down their economic growth due to high energy prices, disruptions in supply chains and certain restrictive monetary policy measures (WB, 2023).

The paper delves into an analysis of the repercussions of the COVID-19 pandemic and the Russo-Ukrainian war on the FDI dynamics within the Western Balkan economies (WBs). These economies, collectively referred to as the WB5, encompass Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia. The examination situates the FDI trends of the Western Balkans within the broader context of European countries, elucidating the specific impacts of these multifaceted geopolitical and global health challenges on the investment landscape of the region.

1. Literature review

Numerous theoretical models that explain FDI can be classified into: early studies on FDI, the study of FDI and its determinants according to the neoclassical trade theory, ownership advantages as FDI determinants, aggregate variables as FDI determinants, FDI determinants within the OLI model, determinants of horizontal and vertical FDI, FDI determinants according to the knowledge model, FDI determinants according to risk diversification models and variables of the FDI policy of the host country as a FDI determinant (Faeth, 2009). These approaches explain different aspects of FDI by complementing each other. Empirical findings on the FDI determinants are numerous (Blonigen, 2005).

The impacts of FDI on both host and home countries are numerous (Navaretti & Venables, 2004, pp. 151-185, 217-240) and can be as well as positive as negative (Stojadinović Jovanović, 2008, pp. 130-166; Ercegovic & Beker, 2021). The various impacts of FDI indicate the importance and need to monitor their flows and changes in them (Stojadinović Jovanović, 2015, p. 81). The importance of FDI, especially for host countries, is explained by numerous papers that indicate the effects that the inflow of these investments can bring to the country. It is widely believed that FDI increases the growth of host countries through various channels such as: capital inflows and employment growth, stimulating technological change through the adoption of foreign technology and spillover effects, introducing new processes and products, facilitating technology transfer and improving the stock of knowledge in the recipient country through training and education, contributions to the adoption of innovative management techniques and the improvement of the manufacturing process's efficiency. Therefore, FDI can be very helpful in enhancing the national economy and fostering economic growth (Wan, 2010). For the host countries, the positive effects that FDI inflows can bring are particularly significant, such as the positive effects of the transfer of various resources, including capital, technology and management, positive effects on the balance of payments, competition, industrial structure and entrepreneurship, economic growth, employment, trade and connections with the domestic economy and others (Stojadinović Jovanović, 2008, pp. 142-153).

In the predominant role of host countries appears small and less developed economies. Small-scale economies are exposed to numerous risks, encompassing a

reliance on imported essential commodities, susceptibility to external shocks, restricted operational scale, limited infrastructural connectivity, highly concentrated economic frameworks, dependency on external sources of financing, and heightened vulnerability to the impacts of natural calamities and climate variability (WB Group, 2023b, pp. 7-8). These risks contribute to the uneven FDI pattern in these economies and lead to heterogeneous FDI flows. And reliance on external financing through FDI makes these economies sensitive to changes in the value of FDI inflows.

Pandemics, crisis and wars are sources of uncertainty that significantly affect FDI flows and consequently the economies for which FDI inflows are important. There are studies that showed that pandemic and global uncertainty had significant negative effects on FDI flows in various parts of the world. For example, Adarov and Gabor (2020) have reported that FDI in Central, Eastern and Southeastern Europe fell by over 50% in 2020 due to COVID-19; Zhan (2020) has showed the international pandemic's effect on FDI flows; Ho and Gan (2021) have showed that health pandemics matter for FDI; Lee et al. (2022) have shown pandemic i.e. public health as a new country risk measure in context of FDI; Okunoye and Akpa (2023) have showed that COVID-19 have been associated with decreased FDI inflows in Eastern Europe; and Okunoye et al. (2023) have shown that global economic uncertainty affect FDI. There are also studies that showed the war impact on FDI. For example, Li et al. (2017) have shown that the secondary and tertiary sectors of observed countries suffered negative consequences due to war; Witte et al. (2017) have shown varied effect of political risks on greenfield FDI; while Pindyuk (2023) has shown that Russo-Ukrainian war have caused a reversal of FDI trends. The Russo-Ukrainian war has delayed the countries' recovery given the withdrawal of FDI during the pandemic (Okunoye & Akpa, 2023). Therefore, the paper examines WBs' FDI in macroeconomic environment prominently marked with COVID-19 pandemic and the ongoing Russo-Ukrainian war. This group of countries (WB5) primarily appears in the role of FDI host countries. For them FDI inflows are a source of accelerating economic growth, employment creation, technological advancement and other possible positive FDI effects, representing their main source of external financing. Consequently, the economies of these countries are very sensitive to the changes in FDI inflows creating the need for FDI inflows to be continuously monitored and observed.

2. Research methodology

Various research methodologies are employed to fulfil the goals of this study. Specifically, the analysis of FDI flows needs the utilization of an analytical approach. The FDI inflows in WB economies, the differences in positions, volumes and shares of individual WB economies' FDI inflows in total WB region's FDI inflows are examined by applying the method of comparative analysis and the inductive and deductive method. To conduct the comparative analysis and identification, the integrative review method is used. Research methods also include the analysis of official statistical data, scientific and professional literature and databases and publications of international organizations. Data from various sources are used including UNCTAD data, World Bank Group data and OECD data as well as findings from relevant international publications. The selected data are displayed in tables and figures that enable the presentation of the findings.

3. WBs' FDI in macroeconomic environment of pandemic and ongoing war – research results and discussion

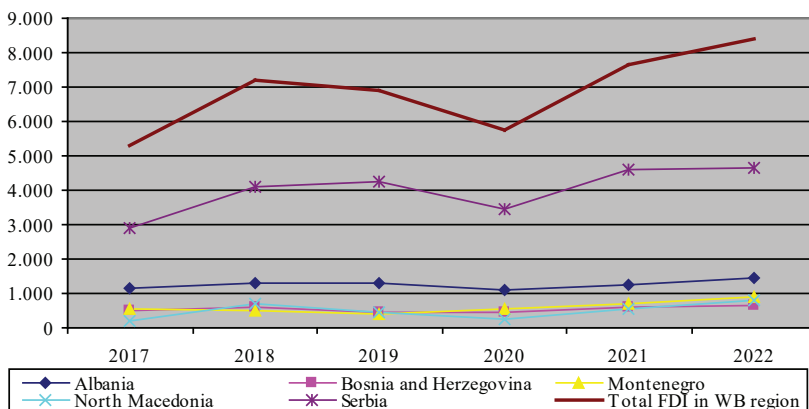
Over the last period 2017-2022, more than 41 billion USD of FDI inflows have arrived in the Western Balkan region. The average FDI inflows in the region amount to 6.9 billion annually (Table 1). The distribution of FDI inflows in the WB region varied among countries and ranged from 58%, which accounts on Serbia, to 7.2%, which accounts on North Macedonia. Its values are also different by country as well as the dynamics of decline, recovery and growth (Figure 1).

Table 1: FDI inflows in Western Balkan economies, 2017-2022

	FDI Inflows (millions of dollars) (share in total WBs' FDI, percentage)							
	2017	2018	2019	2020	2021	2022	Total 2017-2022	2017-2022 average
Albania	1 149	1 290	1 288	1 108	1 234	1 434	7 503	1250.5
	21.7%	18.0%	18.7%	19.2%	16.1%	17.1%	18.2%	18.2%
BiH	492	581	458	429	587	661	3 208	534.7
	9.3%	8.1%	6.7%	7.4%	7.6%	7.9%	7.8%	7.8%
Montenegro	559	490	416	532	699	877	3 573	595.5
	10.6%	6.8%	6.0%	9.2%	9.1%	10.4%	8.7%	8.7%
North Macedonia	205	725	446	230	556	794	2 956	492.7
	3.9%	10.1%	6.5%	4.0%	7.2%	9.4%	7.2%	7.2%
Serbia	2 878	4 091	4 270	3 469	4 590	4 646	23 944	3 990.7
	54.5%	57.0%	62.1%	60.2%	60.0%	55.2%	58.1%	58.1%
Total WBs	5 283	7 177	6 878	5 768	7 666	8 412	41 184	6 864
	100%	100%	100%	100%	100%	100%	100%	100%

Source: Authors' calculations based on FDI country data from UNCTAD (2023). World Investment Report 2023. UN. New York and Geneva, p. 196.

Figure 1: Western Balkans' FDI inflows, total and by economy, 2017-2022 (millions of dollars)



Source: Authors' graphical presentation of the data from Table 1.

Prior to the pandemic, FDI was the main source of economic growth, innovation, and employment rates in the Western Balkans (OECD, 2020). FDI inflows to these countries account for an average of 6% of their GDP (Table 2).

Table 2: Net foreign direct investment inflows of WBs (percent of GDP)

	2017	2018	2019	2020	2021	2022	2023e	2024f	2025f
Albania	8.6	8.0	7.6	6.7	6.5	6.7	6.8	6.8	6.8
Bosnia and Herzegovina	2.3	3.0	2.0	1.8	2.3	2.5	2.4	2.4	2.3
North Macedonia	1.8	5.6	3.2	1.4	3.3	5.2	5.2	4.7	4.2
Montenegro	11.3	6.9	7.0	11.2	11.7	13.2	8.0	8.1	7.9
Serbia	6.2	7.4	7.8	6.3	6.9	7.1	6.1	5.6	5.4
WBs (average)	6.0	6.2	5.5	5.5	6.1	6.9	5.7	5.5	5.3
WBs (average)	5.9			5.5	6.5		5.7	5.4	

Note: e – estimate, f – forecast

Source: Authors' calculations based on country data from WB Group (2021). Western Balkans Regular Economic Report, Spring 2021: Subdued Recovery. The World Bank, Washington, different pages; and WB Group (2023b). Western Balkans Regular Economic Report, Fall 2023: Toward Sustainable Growth. The World Bank, Washington, different pages.

The GDP of Western Balkan economies has been dramatically affected by COVID-19 crisis with real GDP growth decreasing for 8.8 percentage points: from an average of 3.4 per cent in period 2017-2019 to -5.4 per cent in 2020 (Table 3).

Table 3: Real GDP growth of WBs (per cent)

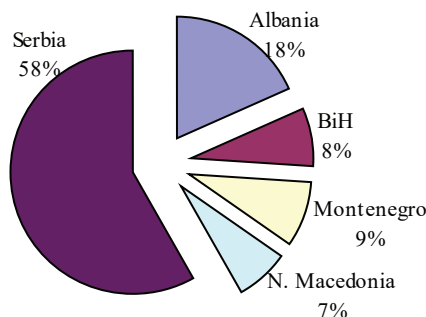
	2017	2018	2019	2020	2021	2022	2023e	2024f	2025f
Albania	3.8	4.1	2.2	-3.3	8.9	4.8	3.6	3.2	3.2
Bosnia and Herzegovina	3.2	3.7	2.8	-3.0	7.4	3.9	2.2	2.8	3.4
North Macedonia	1.1	2.9	3.2	-4.7	3.9	2.1	1.8	2.5	2.9
Montenegro	4.7	5.1	4.1	-15.3	13.0	6.4	4.8	3.2	3.1
Serbia	2.0	4.4	4.2	-0.9	7.5	2.3	2.0	3.0	3.8
WBs (average)	3.0	4.0	3.3	-5.4	8.1	3.9	2.9	2.9	3.3
WBs (average)	3.4			-5.4	6.0		2.9	3.1	

Source: Authors' calculations and graphical presentation of the data from Table 2 and Table 3.

The largest recipient of FDI in the WB region is Serbia, with a total value of FDI inflows of almost USD 24 billion in the period 2017-2022 and with an average annual value of FDI inflows of almost 4 billion USD, which make up 58% of the total FDI inflows to the region (Figure 3). Albania is next, with a total value of FDI inflows of USD 7.5 billion and an average annual value of FDI inflows of USD 1.2 billion, accounting for 18.2% of total FDI inflows to the region; then Montenegro with the total value of FDI inflows of USD 3.5 billion and the average annual value of FDI inflows of USD 596 million, which make up 8.7% of total region's FDI inflows to the region; Bosnia and Herzegovina with a total value of FDI inflows of USD 3.2 billion and an average

annual value of FDI inflows of USD 535 million, which make up 7.8% of total region's FDI inflows; and North Macedonia with a total value of FDI inflows of approximately 3 billion USD and an average annual value of FDI inflows of 493 million USD, which constitute 7.2% of total region's FDI inflows (Table 1).

Figure 3: Share in total Western Balkans' FDI inflows, 2017-2022 (per cent)



Source: Authors' graphical presentation of the data from Table 1

Leading investors in the region have mostly originated from the EU members (Austria, Germany, Greece, Italy, the Netherlands, and Slovenia), the Russian Federation, the United States, and the United Kingdom. This highly concentrated source of foreign investment in the WB5 highlights the region's high dependency as well as vulnerability to the pandemic impact. The decline in FDI inflows in the countries of the Western Balkans was expected because the countries from which the investments come were significantly affected by the pandemic (OECD, 2020).

Anticipated repercussions of the lockdown measures included an expected deceleration in both public and private investments across the WB5, attributable to the adverse impact on enterprise revenues, disruptions in supply chains, and pessimistic economic forecasts prevalent in key investing nations. Nonetheless, the profound uncertainty and economic upheaval induced by the pandemic precipitated a substantial contraction in private investment. Conversely, public investment surged in half of the region, reflective of concerted efforts to stimulate economic activity and mitigate the severity of the economic downturn. Notably, Serbia witnessed a pronounced escalation in public investment, underpinned by a substantial government stimulus initiative that effectively offset the decline in private investment (WB Group, 2021).

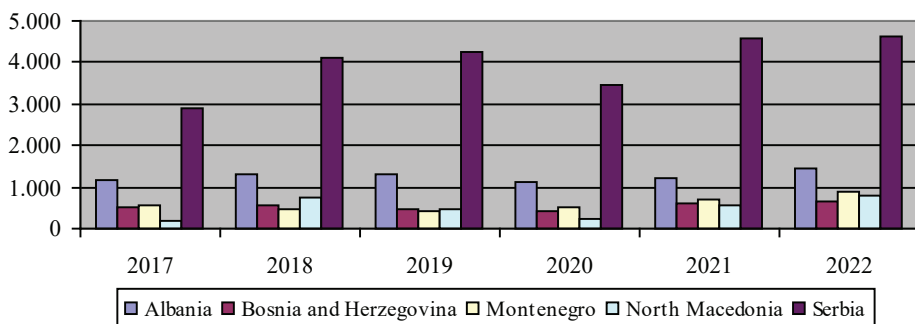
The macroeconomic environment and key economic activities of WB5 were characterized by very unfavorable developments. The disruptions to travel and trade, along with a drop in domestic demand, have reduced imports and exports of goods and services of WB5 (WB Group, 2021). Exports in Serbia fell more than imports, as well as in Montenegro, which is highly dependent on the tourism sector. The tourism sector has experienced severe consequences due to social distancing measures. Wholesale and retail trade declined after the pandemic and in most countries did not return to the previous level by the end of 2020, unlike industry and the construction sector, which already recorded development in the second half of 2020. The construction industry in Albania has held up well due to the investment following the earthquake in 2019 (WB Group, 2021)

The pandemic caused increased budget allocations for the purchase of medical equipment and medicines, as well as for the salaries of health personnel. In addition, the governments of the countries of the Western Balkans closed airports and borders and introduced measures to prohibit gatherings and the operation of restaurants and shops (OECD, 2020). Unprecedented governmental interventions were implemented throughout the region, aiming to mitigate the adverse effects of the pandemic. By April 2020, all Western Balkan nations had enacted measures to keep jobs, which included partial or complete compensation for wage costs (WB Group, 2021). Additionally, health protection initiatives, tax alleviation strategies, guarantee schemes, subsidized credit facilities, and social aid programs were introduced (WB Group, 2021). These measures remained in effect until the conclusion of 2020. Notably, certain countries opted to prolong these measures into 2021, underscoring the sustained commitment to addressing the enduring economic challenges posed by the pandemic.

The weakening of economic activity was a consequence of the measures to suppress the pandemic. The pandemic significantly disrupted the economic conditions of the Western Balkan economies in 2020, leading to a recession. The second quarter of 2020 was marked by a decline in economic activity, but in the third quarter there was a recovery, especially in tourism. Although in the fourth quarter of 2020 infections raised again, the impact of the second wave of the COVID-19 pandemic was mitigated by higher public spending and less rigorous social distancing measures (WB Group, 2021).

In the pre-crisis period of 2017-2019 WB economies' FDI inflows accounted, on average, for 6% of their GDP (Table 2). In the pandemic 2020 year, the share of FDI inflows in the GDP of the WB5 fell to 5.5%. The recovery of FDI inflows in WB5 in 2021 and 2022 led to an increase in their share in the GDP of all WB5 (except Albania) in 2021 and of all WB5 in 2022, reaching the share in their GDP of 6.5% (Table 2). In the pre-crisis period of 2017-2019 a total of USD 19.3 billion of FDI arrived in the WB region, which is an average annual FDI inflow of USD 6.4 billion (Table 1). In 2020, total FDI inflows to the region declined to USD 5.8 billion. Affected by the pandemic, FDI was significantly less in 2020 than in 2019 and 2018 in all WB5 except in Montenegro (Figure 4).

Figure 4: Western Balkans' FDI inflows, by year and economy, 2017-2022 (millions of dollars)



Source: Authors' graphical presentation of the data from UNCTAD. (2023). World Investment Report 2023. UN. New York and Geneva, p. 196.

The main source of external financing for the most WB5 economies, FDI, has been significantly and differently affected by COVID-19 pandemic and Russo-Ukrainian war. For Albania, BiH, North Macedonia and Serbia net FDI (as a share of GDP) was lower in 2020 than in 2019 (Table 2). Only Montenegro recorded an increase in the net inflow of FDI as a % of GDP due to the reduction of outgoing FDI and the repatriation of dividends (WB Group, 2021). FDI finances a large part of the current account deficit in the region (42% in Montenegro, 55% in BiH and North Macedonia and 100% in Serbia) (WB Group, 2021). FDI brings to the country innovative solutions, better paid jobs and innovative methods of production so that they influence faster recovery after crisis periods. The stated positive effects were to the greatest extent in Albania and North Macedonia (WB Group, 2021, pp. 29-30).

FDI fell by more than 58% in the first half of the crisis year 2020 when looking at Central, Eastern and Southeastern Europe. This is certainly a greater drop in FDI than the drop at the world level, which was 49%, but at the same time smaller than the decline in advanced economies (Adarov & Gabor, 2020).

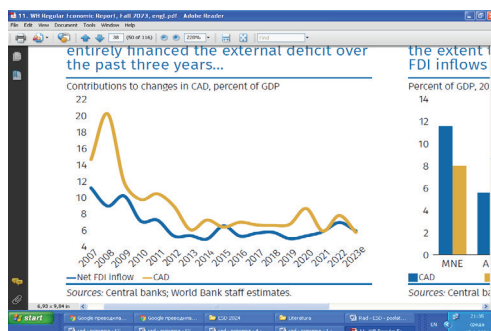
The crisis year of 2020 and following recovery changed the volume of FDI and the share of FDI inflows of individual economies in the total region's FDI inflows in 2022 compared to the level reached in the pre-crisis year of 2019. Thus, in the case of certain countries, the volume of FDI inflows in 2022 increased compared to 2019, but their share in the total, increased, FDI inflows of the region decreased. The increase in individual countries' FDI inflows was lower than the increase in the region's FDI inflows. This is the case with Albania (decline from 18.7% in 2019 to 17.1% in 2022) and Serbia (decline from 62.1% in 2019 to 55.2% in 2022). This decline is the result of both the increase in the volume of FDI inflows of other countries in the region (Bosnia and Herzegovina, Montenegro and North Macedonia) and the increase in the share of their FDI inflows in the total region's FDI inflows on behalf of the share of Albania and Serbia (Table 1).

With the recovery, FDI inflows to the region grew to 7.7 billion USD in 2021, and to 8.4 billion USD in 2022, that is an average of 8 billion USD per year, which is 1.6 billion USD more than in the period 2017-2019.

The year 2021 was marked by a strong post-COVID-19 recovery. And the year 2022 marked the culmination of the pandemic recovery. During 2021 and beyond, FDI inflows to WB5 have been recovering (Table 1). All WB economies increased the value of their FDI inflows in 2021 (Figure 1). Serbia had the biggest recovery in the absolute value of FDI inflows in 2021 (by 1.1 billion USD, reaching 4.6 billion USD of FDI inflows) and further in 2022 (exceeding 4.6 billion USD). North Macedonia had the largest increase in its relative share in WBs' FDI inflows in 2021 (by 3.2%, reaching 7.2% share in total WBs' FDI inflows) and further in 2022 (reaching 9.4% share in total WBs' FDI inflows). FDI in Bosnia and Herzegovina had the slowest recovery (with the smallest increase of 158 million USD in 2021 compared to 2020 and an increase in share in the region's FDI by 0.2%).

As of 2021, net FDI inflows were still essential for financing the current account deficits (CADs) in the Western Balkans (Figure 5).

Figure 5: Western Balkans' CADs financed by FDI inflows



Source: WB Group (2023). *Western Balkans Regular Economic Report, Fall 2023: Toward Sustainable Growth*. The World Bank, Washington, p. 38.

In 2022, the recovery of FDI inflows continued with a further increase in their volume in all WB5 economies (Table 1). FDI inflows in 2022 in all WB5 economies exceeded their pre-crisis volumes in 2017-2019.

However, after a partial recovery from the pandemic, the world faced a major conflict in Ukraine. This conflict has caused consequences around the world, including a crisis in food, fuel and energy supplies (UNCTAD, 2022). The war, with its implications and its rolling effects through sanctions, supply shortages in energy and basic commodities, have broad macroeconomic impact on national economies including WB5 economies.

The countries of the Western Balkans recorded rapid economic growth in 2021. However, global demand slowed down, so in 2022 and early 2023, the economic growth of the WB5 countries began to slow down as well (WB Group, 2023b). Industrial production was particularly affected. The WB5 economies had slower growth in 2022, primarily because of weaker consumption and exports. The economic growth of the countries of the Western Balkans has slowed considerably due to the conflict in Ukraine, inflation and increased borrowing costs (WB Group, 2023b). FDI will remain key in financing the external imbalance in the countries of the Western Balkans (Figure 5).

The industrial sector continues to face adverse impacts from both the COVID-19 pandemic and the energy shock. This predicament is worsened by the limited geographical diversification of trade, wherein a substantial portion of goods exports from Albania, Bosnia and Herzegovina, North Macedonia, and Serbia are directed toward advanced economies in Europe and Central Asia. This trade concentration, compounded by inherent structural challenges, further amplifies the vulnerability of the industrial sector to external shocks. Conversely, the services sector, particularly travel services, has exhibited resilience amidst the prevailing economic challenges. Global demand for services, including travel services, has demonstrated sustained momentum, thereby benefitting countries such as Albania and Montenegro. Notably, these nations have witnessed unprecedented growth in services exports, attaining new record highs, amidst a backdrop of evolving global dynamics (WB Group, 2023b).

However, there are still threats to the economic situation in the Western Balkans. Risks include a prolongation of the war in Ukraine, other geopolitical tensions, continued

interest rate hikes, and further energy uncertainty (WB Group, 2023a, pp. 62-63). In the future, the countries of the Western Balkans will fear a slowdown in the growth of the Eurozone countries, because reduced exports would have negative consequences. Growth should accelerate in the period 2024-2025, due to the recovery of EU countries.

Conclusion

The economies of the Western Balkans have met profound challenges stemming from the dual impacts of the COVID-19 pandemic and the ongoing Russo-Ukrainian war. Within this adverse macroeconomic environment, FDI inflows into both individual economies within the Western Balkans and the region have experienced significant downturns. These shifts have not only altered the volumes of FDI inflows into Western Balkan economies but have also reshaped their relative positions and shares within the broader regional FDI landscape, as well as their contributions to the GDP of these nations and the region at large.

Given the role of these economies as host countries for FDI, the ramifications of fluctuations in FDI inflows are particularly pronounced. FDI plays a pivotal role in driving economic growth and development in the Western Balkans, offering numerous potential benefits to these countries. Consequently, changes in FDI inflows hold substantial implications for their economic trajectories and the realization of these benefits. While there have been signs of FDI recovery in the Western Balkan region since 2020, evidenced by positive trends observed in 2021 and 2022, projections suggest a more subdued outlook, with expectations tempered by prevailing uncertainties.

Despite signs of recovery, the Western Balkan countries persist within an unfavorable and volatile macroeconomic milieu, characterized by ongoing challenges that represent persistent obstacles to economic stability and growth. The cyclical nature of economic disruptions underscores the vulnerability of the Western Balkans to external shocks, highlighting the imperative for sustained vigilance and proactive measures to navigate these turbulent circumstances and bolster resilience against future uncertainties.

Acknowledgments:

This research was financially supported by the Ministry of Science, Technological Development and Innovation of the Republic of Serbia (Contract No. 451-03-66/2024-03/200371).

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