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DEGLOBALIZATION OF THE WORLD ECONOMY AND ITS EFFECTS ON THE WESTERN BALKAN COUNTRIES

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Abstract: This paper analyses trends in three key aspects of economic globalization: international trade, foreign investment and global product chains. The paper points to downward tendencies of the world economic integration in all three segments. The paper finds that causes of these trends are not cyclical, but structural, that is, the process of deglobalization of the international market and transformation of the very foundations of the international economic system is underway. The paper also includes an empirical analysis of the potential effects of these changes on six economies of the Western Balkan. The multiple regression models reveal very strong statistic connection between these economies and the world economy trends. There are direct relations with global foreign trade and production, but inverse relation with FDI share in the world economy. That indicates significant challenges such as declining income and job losses, but also certain opportunities to reduce trade deficits and increase domestic production.

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1. Introduction

Economic globalization defined as the process of integration of the international market of goods, labour and capital, was the most significant development force of the second half of the 20th century. Having started after World War II, the modern

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process of globalization accelerated and intensified over the last decades of the 20th century. The global competition of national economies was replaced by the globalization of competition between multinational companies (MNCs). Companies went beyond national frameworks, used foreign markets to market goods and capital, shifted production to countries with more favourable production factors, and formed international production chains. The specific structure and dynamics arising from their activities significantly determined relations in the world economy.

Economic globalization took place at three interdependent levels: international trade, international investment and international production. The intensification of these activities has produced different effects in different parts of the world, economic sectors and population groups, depending on the degree of involvement in international flows. The beneficiaries of globalization are developed countries as well as Asian developing countries. Openness does not always provide great results in the spite of a developed theory in favour of free trade (Djogo, Prophet, 2018, p. 141). The opening up of an economy results in its exposure to strong international competition, which has inflicted considerable damage on many African countries, most of the population of Eastern and South-eastern Europe, as well as low-skilled workers in developed countries.

The downward trends in international trade, investment and production that have been present since the GFC are indicators that the direction of globalization is changing and are leading to a significant transformation of the international economic order, which we call *deglobalization.* Economic deglobalization does not mean the process of closing down national economies for interactions with the environment. As Djogo and the Prophet (2018, p. 141) point out: "In the world today, the autarchy is not a real threat. The number of countries that exist in some form of autarchy is minor and, for sure, these are not countries that would motivate others to follow the same direction."

Previous declining tendencies in all aspects of economic globalization were short-lived and related to the significant financial crisis. As more than a decade has passed since Global Financial Crisis (GFC), this crisis can no longer be attributed to any weakening in the international economy. Current decline in international economic interaction seems a long-term phenomenon. Therefore, in the second chapter we try to find the cause of these changes and the proof that they are structural in character, not cyclical, which is why we call them deglobalization processes.

Chapter 3 assesses potential consequences on the Western Balkan countries ensuing from deglobalization of the world economy. Small, open economies such as the Balkans are more vulnerable to structural changes than large countries, as they usually do not have sufficient internal resources or the ability to protect themselves from external influences. These changes are new and do not have a significant impact yet, but they are sufficient to statistically assess the degree of sensitivity of the Western Balkan economies to changes in each of the three key aspects of globalization.

Literature review

The term deglobalization was first used by Walden Bello in the *Deglobalization - Ideas for a New World Economy* (2005). Bello does not consider deglobalization as an ongoing phenomenon, since the integration processes in 2005 were at their peak, but he *proposes* deglobalization as a process that would completely change the existing model of global economy governance.

Several authors consider a possibility that economic globalization is a transient process: Sachs and Warner (1995), Taylor (1996), Frankel (2000), Baldwin and Martin (1999), James (2017), Obstfeld and Taylor (2002). Contemporary declining trends in the international economy have been explored by Constantinescu, Mattoo and Ruta (2015), Lewis and Monarch (2016) and Boz, Bussière and Marsilli (2015). These authors conclude that decline in international trade cannot generally be explained by cyclical economic factors. Although these studies do not challenge the mainstream of the world economy, they are a significant starting point for this study, as they reliably eliminate many phenomena that could potentially lead to a *temporary* reduction in the volume of foreign trade.

Very few authors have analysed broader context of current changes in the international economic system. Bordo (2017) notes widespread changes in the world economy: a decrease in the volume of foreign trade and foreign investment, withdrawal of GVC, an increase in regulation, but he concludes that it is a break in the process of global integration, not the end of the process. In contrast, Jacoby (2018) and Evenett (2019) have analysed the current trend of mass trade protectionism, which they consider to be a symptom of serious disturbances in the international economic system and the beginning of deglobalization.

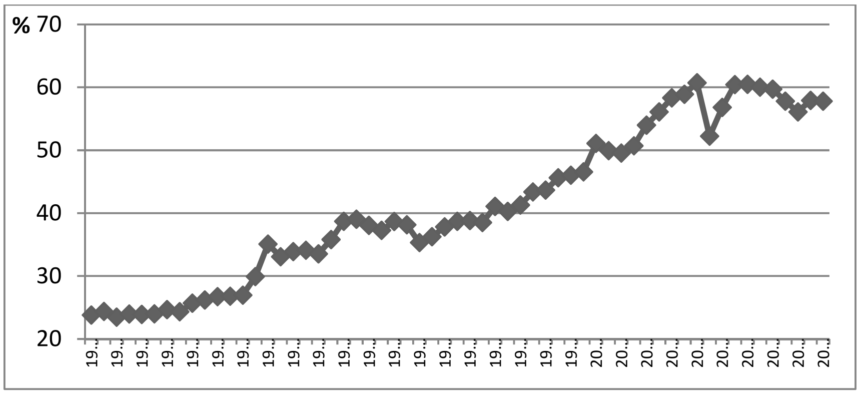
The region we are interested in has been previously analysed in the context of the effects of particular aspects of globalization, foreign trade and most often foreign direct investment (Bandelj and Mahutga, 2010; Estrin and Uvalic, 2013; Curwin and Mahutga, 2013, etc.). Djogo and the Prophet (2018) analysed the negative experiences of small Eastern European economies, such as deindustrialization, due to their rapid involvement in the processes of globalization.

2. The directions of deglobalization

2.1. International trade

The rapid growth of international trade was a key feature of the globalization of the world economy in the aftermath of World War II. The share of trade in the world economy averaged 24% in the 1960s, 35% in the 1970s, exceeded a half of the world GDP in the early 21st century and reached a historic high of 61% in 2008 (Chart 1). In 2009, the Global Financial Crisis (GFC) halted the growth of international trade. In the two years following the crisis, the volume of foreign trade temporarily increased, but then further decreased, so that even a decade later, the level from the previous period has not been reached (Chart 1).

Chart 1. Share of international trade in GDP, 1960-2018



Source: Author according to the World Bank Data
https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS

The reduction of the international trade share in the world economy was not extremely high. Trade was reduced to about 57% of global GDP in 2018 compared to 61% of GDP before the GFC. However, as the decline followed more than five decades of almost continuous growth and lasted for a decade, this global trend indicates a structural change. Decline in trade, whether global, regional or local, is a common symptom of cyclical weakening of export economies or, more often, a fall in the price of export products, and so far, has never been the result of structural disruption of the entire trading system. The current reduction in world trade volume appears to be different.

In the empirical model set by Boz, Bussière, and Marsilli (2015), common cyclical factors were estimated: reduced demand, import prices, and a crisis-induced change in orientation towards domestic rather than import procurement. It was concluded that they accounted for only a half of the causes of international trade decline. Constantinescu, Mattoo and Ruta (2015) also found that only a half of the decrease in international trade volume can be explained by the weakening of economic activity, i.e. a decrease in GDP. Lewis and Monarch (2018) tested a possibility that the decline in trade volume was a reflection of a weakness in certain sectors of the world economy. They created a model in which imports were analysed as a function of consumption, investment and real exchange rates on the sample of several major economies. The results also show that the decline in international trade cannot generally be explained by the weakening of economies. The results of these studies summarize all the cyclical causes of the decline in international trade and suggest that the decline in foreign trade since 2010 is not transient by nature, that is, reflects long-term structural changes.

A major change in the world economy, directly related to the state of international trade, is the sudden rise of protectionism. Any protectionism aimed at protecting the national economy from the environment (increase in customs duties, import duties, export duties, import bans, special security measures) as opposed to integration with the environment reflects an important structural change in the current system of the world economy.

The weakening of economic activity during the GFC prompted a number of restrictive trade measures by developed and developing economies. A number of measures such as increasing tariffs, imposing quantitative restrictions and tightening customs rules escalated between 2008 and 2018. The World Trade Organization (WTO) estimates that import restrictions, imposed only in the period from October 2017 to October 2018, resulted in a decrease in international trade by $480 billion and restrictions in the period from October 2018- May 2019 by $336 billion (WTO, 2019). New restrictive measures on imports, introduced by the G20 economies during this period, are three and a half times higher than the 2012 average, since when the WTO calculates the scope of trade restrictions. According to the Global Trade Alert (GTA), which also includes trade remedies (anti-dumping and other instruments counteracting countries that are considered potentially harmful to the domestic economy), the number of these measures is far greater. According to GTA (2020), there are more than 1000 new restrictive measures each year, or more than 2000 in 2018. The 2019 WTO report states the following as a general feature of foreign trade: "During this period, trade tensions continued to dominate as a major feature and contributed to the uncertainty of international trade and the world economy…. The turbulence continues. A record level of new restrictive measures was introduced in the previous period" (WTO, 2019, p. 2).

What has been particularly in focus is the US-China trade war, which marked international trade in 2018 and 2019. It is estimated that US customs duties have reduced exports of Chinese goods by more than $500 billion, while Chinese customs duties have reduced exports of US goods by approximately $200 billion. The trade war of the two largest economies in the world significantly affected the overall volume of international trade and contributed to the general loss of confidence in international institutions and liberal principles of the world economy.

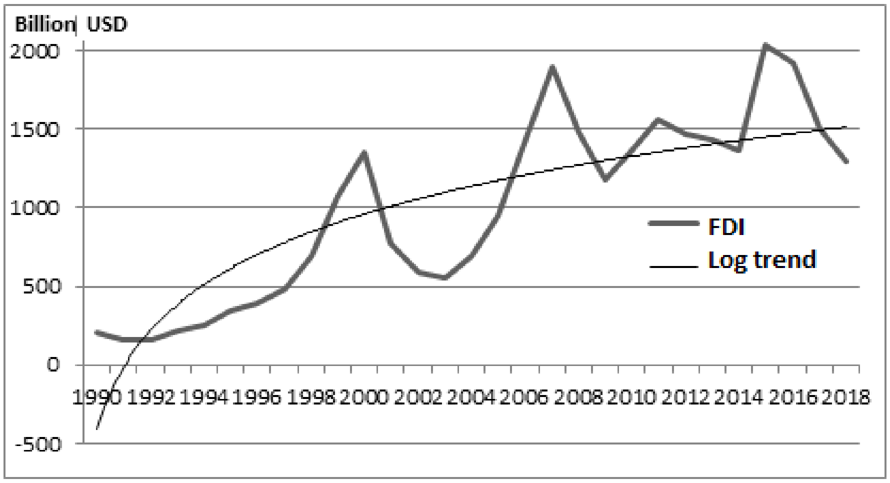
The most affected countries by trade restrictions (at the end of 2019) were: China, with over 6,000 restrictions, Germany with more than 5,000, followed by Italy, the USA, France, the United Kingdom, the Republic of Korea, Spain and the Netherlands with about 4,000 restrictive measures (GTA, 2020). The increasing number and volume of trade restrictions will cause, directly or indirectly, in the coming period an additional, though not significant, decrease in the volume of international trade. However, the key change that makes us talk about deglobalization is not the volume of trade, but the increasing protectionism of national economies. The marginalization of international trade rules undermines the authority and role of the WTO, on which the global trading system relies. There are still few authors who see deep disruption within the international trade system itself, linking it much less to the weakening of globalization processes. Jacoby (2018, p. 60) links these processes to "Brexit" and Donald Trump's economic policies. The passive role of international institutions in these cases, according to Jacoby, points to the need for a complete reorganization and redesign of the IMF, the World Bank, the G20, the General Agreement on Tariffs and Trade (GATT), the WTO and “all other institutions responsible for monitoring trade and taking responsibility actors” (Jacoby, 2018). Evenet (2019, p. 15) points out that the WTO mitigates the state of trade restrictions in its reports by not including the mentioned trade remedies into harmful restrictions since 2017. The weakness and crisis of the WTO are particularly highlighted by the fact that the United Nations (UN) at the end of 2018 adopted the Convention on International Settlement Agreements (Singapore Convention on Mediation), and thus established a parallel model for resolving trade disputes, which is already under the authority of the WTO. This UN act is probably not an attempt at deliberately devaluing the World Trade Organization, but rather a reflection of the real need to end concrete disputes.

2.2. International investments

Foreign direct investment (FDI) was also steadily, though not steeply rising from 1970th to 1990th. The strong rise of FDI globally began in the 1990s, owing to the opening of many new markets in the former Eastern Bloc. FDI volumes increased at the rate of over 20% annually (Chart 2). The period from 2001 to 2003 was marked by a sharp decline in international investment. However, as in the case of trade, this decrease was a result of the recession in the European Union and USA. The economic downturn in this period was cyclical, so, as expected, FDI very quickly reached and exceeded the previous level after the exit of these economies from the crisis. From the recession in 2001-2003 to the GFC 2008, the average FDI growth was 8% (UNCTAD, 2019a, p. 5).

During GFC 2008-2009, FDI growth halved. A few years later moderate growth and short-term growth followed (Chart 2), indicating that global investors have regained confidence in the stability of the world economy or at least in the stability of the economies of the countries they invested in, and secondly that there were still profitable opportunities to invest in foreign markets. The total world FDI inflow in 2015 was 2034 billion, and since then it began sharply declining. FDI decreased by about 2% in 2016, by 23% in 2017 and an additional 13% in 2018 to 1300 billion (UNCTAD, 2019a). In 2018, FDI inflows into Europe were halved again, with some countries registering a negative inflow as a result of the withdrawal of US multinational investment funds. This is the lowest FDI level since GFC. Based on the logarithmic trend line (Chart 2), moderate FDI growth can be expected in 2019 and, probably in 2020, but it is almost certain that a short-term increase will not significantly change the trend line.

Chart 2. Foreign Direct Investment 1990-2018 (in billion $).



Source: Author according to Unctadstat data (2020), https://unctadstat.unctad.org/

The decline in developed countries' investment by 40% in 2018 played a key role in the overall decline in FDI. Their share in total investment dropped to 55%, the lowest share ever recorded (UNCTAD, 2019a, pp. 2-3). Investment originating in developing countries were also reduced, but to a much lesser extent, by 10% (UNCTAD, 2019a, p. 3).

The current decline in FDI, which began in 2016, is not a result of the recession. The decline in FDI is partly due to "natural", i.e. expected flows based on economic laws. Namely, most economies had been open to foreign capital inflows for more than three decades, which led to certain saturation in the global financial market. Profitable opportunities for new investments had been largely exhausted, and decrease in profits led not only to the absence of new investments, but also to the withdrawal of capital from already started international projects.

Another cause of the decline in FDI growth, which could be expected in some parts of the world, especially in East and Southeast Asia, also lies in the very nature, that is, the contradiction of globalization. Due to the openness of the economy, after some time the prices of goods and labour become similar all over the world. Thus, globalization itself gave impetus to the rise of labour prices in the most attractive destinations of foreign capital - the countries of East and Southeast Asia, thereby depriving them of a crucial aspect of FDI attraction. In the context of global investment, this is a cause with less impact because, as the data show, FDI inflows into developing countries have not been reduced, only its growth has been stopped.

Both causes of FDI decline have relatively permanent nature. Although they are the result of market regularities, we cannot consider them cyclical. In addition to market laws that halt global integration processes, restrictive policies of large economies have relatively lasting effects. Since the GFC, the number and scope of restrictive foreign investment measures have been in an upward trend. These measures include a number of instruments, which in quite different ways have adverse effects on foreign investors. The most common measures relate to restricting or prohibiting the inflow of foreign investment into certain economic sectors, but there are also cases where the state restricts its companies from investing in certain countries or sectors. China has introduced direct restrictions on its companies, while developed countries, home of the largest MNCs, are intensifying efforts to stem, reduce and discourage capital outflows. Such measures have been adopted by the US Foreign Investment Committee, the European Commission, Germany, the United Kingdom and Italy. Financial incentives for the domestic economy are also on the rise, one of the measures that limit foreign investment. The number of protected sectors is increasing and the protection is expanding to the most profitable services and products. Most new measures relate to investment restrictions in the areas of telecommunications, the Internet and the production of electrical components.

According to UNCTAD (2019a), the share of restrictive measures in total measures related to FDI increased from 10% to 34% between 2003 and 2018, that is, measures contributing to FDI liberalization were reduced from 90% to 66%. This is the largest share of the restriction since 2003. In addition, the introduction of *screening*, mandatory assessment of each foreign investment by an authorized agency, is common. This mechanism was introduced by 24 countries, which together account for more than a half of the world's cumulative FDI. The direct impact of the new restrictions on the total volume of FDI cannot be quantified. We believe that they are, to a certain extent, a direct cause of their decline, but more importantly they contribute to the creation of negative investment environment, which in the future will contribute to further disinvestment.

2.3. International production

In addition to international trade and foreign investment, as classic forms of economic integration, another key aspect of globalization is a relatively new phenomenon of internationally fragmented production. The internationalization of production processes brought about the segmentation of a production process into different organizational units in different parts of the world, aimed at production with the most cost-effective structure for a particular production segment. Fragmented production, as the core activity of multinational companies, has resulted in almost no final product that does not contain inputs from different countries. In modern conditions, almost all exporting companies, with or without foreign capital participation, in different countries are part of international production chains (global value chains or global supply chains). They have become a dominant feature of the modern world economy.

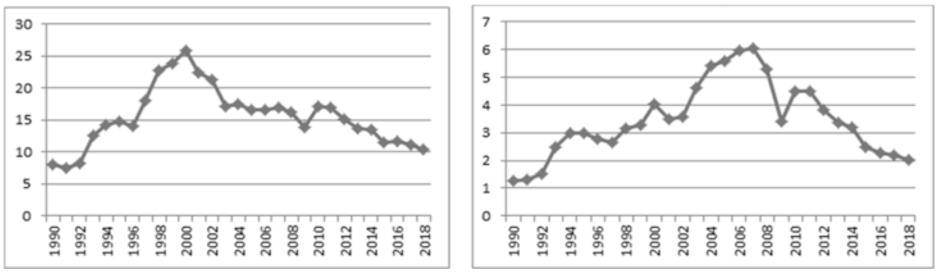
The flow of inputs within international value chains cannot be measured by foreign trade data for a particular product group between the countries involved in its production. Namely, statistics always show the final value of an exported product, not considering that the import value of components for that product is only slightly lower (for added value) than the value of the exported product (Stanojevic, Kotlica, 2018). For more complex final products, it is not unusual for products to cross several borders or the same border several times at different stages of production. Trade statistics, at each border transition, record the entire value of the product. Instead of this data, the indicator of economic integration in international production is foreign value added (FVA). FVA is the value of an imported semi-finished product that is ready for further processing and export. This data is collected by the OECD (Trade in Value Added Database - TiVA) and UNCTAD (Eora Global Value Chain Database) using partially different methods. Both bases provide nominal values. Only by determining the share of FVA in the total GDP of the country, in total exports or in total trade can we get a true picture of the extent of disintegration of international production chains.

The escalation of trade and investment restrictions has adversely affected business confidence and reduced the willingness to engage in global product chains. These changes make current foreign investments unstable and reduce opportunities for future projects. In addition they make new investments in capacity expansion or number of participants irrational.

Over the two decades, from 1990 to 2010, FVA share in exports had grown gradually but steadily (UNCTAD, 2018). FVA, like all economic parameters, fell dramatically in the GFC period. As with foreign trade and investment, there was a temporary and moderate recovery, and then since 2015, the degree of integration into international production if not declining, like in a large number of countries, it definitely stagnated in all other regions of the world. FVA as an indicator of international production decreased globally in 10 years, from 31% in 2008 to 27% in international trade, and UNCTAD estimates that its stagnation or a slight decline will continue in the coming years (UNCTAD, 2018, p 22).

The beginning of the deglobalization of the world economy was marked by a change in China's development strategy, which is partly the cause of deglobalization. China's economic rise, over the course of two decades, has significantly altered the state, structure and potential of China's economy. Once a cheap labour force, as the main motive for the presence of MNCs from all developed countries and the driver of international production, it has risen to a median income level. The production without any environmental and labour regulations is also a matter of the past. That is why many companies started moving production out of China since 2009. This is also indicated by the FVA share in Chinese exports and GDP (Chart 3).

Chart 3. China's Integration into Global Product Chains, 1990-2018.

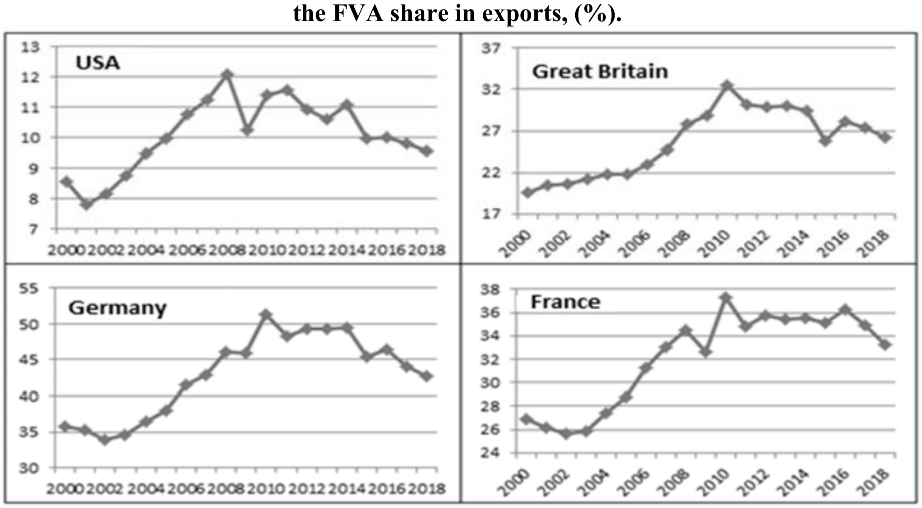


Share of foreign value added in exports (%) Share of foreign value added in GDP (%)

Source: Author according to Unctadstat, unctadstat.unctad.org, and the World Bank,data.worldbank.org/indicator

In addition to China, the host countries of the largest multinational companies are also experiencing a steady decline in foreign value-added. For these countries, we also determined the share of foreign value added in exports. In all the countries, the downward trend in FVA has been observed since the GFC. In the USA, this share decreased from 12% to 9.5%, in the UK from 33% to 26%, in Germany from 52% to 43%, and in France from 38% to 33% (Chart 4).

Chart 4. Integration of major investor countries in global product chains, reflected by the FVA share in exports, (%).



Source: Author according to Unctadstat, unctadstat.unctad.org, and the World Bank, data.worldbank.org/indicator

After the GFC, multinational companies are retreating into national frames, partly because of the world market volatility, and partly because of these changed conditions, which no longer provide extreme profits. Similar to explaining the decline in FDI, several decades of fully open markets for vertical integration have exhausted almost all profitable opportunities for new global value chains, as well. Extraterritorial production may still have justification in lower taxes or geographical proximity to the market, as classic motives. However, we can no longer call this a production chain, because on these grounds, production is moved to one foreign country, while vertical industrial international connectivity is gradually lost.

3. The Impact of Deglobalization on the Western Balkans

In this chapter, the problems that the Western Balkan economies faced during the globalization process will be analysed first. These are: Serbia, Croatia, Albania, Bosnia and Herzegovina (B&H), Montenegro and North Macedonia. Then the impact of the above determined deglobalization trends on the Western Balkan economies will be empirically analysed. The results of the empirical analysis of the relationship between global trade and these economies will show the direction of required measures.

3.1. Western Balkan economies in globalization process

The Western Balkan countries can be considered losers of globalization. A number of circumstances did not support the opening of these economies to the world market in the last decade of the 20th century. These countries:

- did not have cheap enough labour or abundance of resources that would attract multinational companies to produce export goods, which, in return, would provide to these countries access to the world market;
- belong to the group of medium-sized economies. As opposed to poor economies, they served only as a market for multinational companies in the field of telecommunications, trade, then foreign banks, financial agencies and developed activities in non-manufacturing and non-export sectors;
- had relatively developed and diverse industries, but not sufficient productivity to compete with Asian economies in the global market. In most of these countries, many industries were shut down in the face of global competition;
- exhausted internal resources (human, organizational, financial) in the process of transition (transformation) of the entire economic system, with all its characteristics: property relations, distribution models, budgetary solutions, laws, monetary policy, etc.;

- exhausted internal resources to demolish and rebuild political systems, and in the countries of the former Yugoslavia, wars and sanctions were an additional burden.

In addition to the aggravating circumstances described, other governments in the region adopted policies to integrate into the world economy as quickly as possible, which further hampered the position of these countries. They have become dependent on imports, while exports are very small and involve a very limited number of export partners. They have also become dependent on foreign capital, which owns vital parts of the economy. The share of foreign direct investment in these countries has thus become much higher than the world average. In the period 1995-2018, FDI accounted for an average of 14% of Montenegro's GDP, and between 4% and 7% of Serbian, Albanian, Macedonian and Croatian GDP, while the world average in the same period was 2.9% (World Bank, 2019).

The results of the full opening up of these economies in these circumstances are: enormous trade deficit, shutdown of domestic production, takeover of domestic companies by foreign companies, and numerous other economic consequences arising from such conditions. Although globalization has caused significant damage to the Balkans economies, this does not mean that deglobalization will open the way to economic recovery. On the contrary, the new conditions present new challenges for all participants.

The Western Balkan economies still do not suffer from the consequences of the decline in global change that has been discussed. This process is currently affecting the largest economies. In terms of foreign investment and international production chains, there are no major changes. In terms of foreign trade, these economies, as well as all others, are exposed to increasing export restrictions. Most of them are not directed against any particular country, but are part of other countries' general restrictive packages. According to GTA (2020) data, the number of new restrictive measures imposed (directly and indirectly) on Serbian exports each year ranged between 50 and 80 since the GFC, and after the World Crisis that number gradually increased and reached 167 in 2018. With former measures still in force, the total number of restrictions on Serbian exports is over 1100. More than 200 of them refer to the export of cars and parts and accessories for cars, and this has been the most important export product of Serbia (albeit foreign owned) in the last few years. About 90 measures relate to steel exports (the second export product of Serbia), and 60 measures only to corn exports (EU import duties from 2017), etc. B&H exports are limited by about 600 measures, Albanian by 430, Montenegrin by 170, etc. However, we do not expect this to have a particularly negative effect on the Western Balkan economies, because they generally have very low exports and highly negative trade balance.

3.2. Methodology and data

A multiple regression model for each Western Balkan country will be created. The empirical analysis is based on Ordinary Least Squares (OLS) regression which is used for the estimations of parameters of linear equations. A general multiple regression model has the following form:

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n + e_i \tag{1}$$

where: Yi is dependent variable, β_0 is Y-intercept, β_i's (i=1,2…n) are the regression coefficients, x_1, x_2, ... , x_n are independent or explanatory variables, and e_l is the model's error term or residuals.

As stated in the previous chapter, what indicates a tendency towards deglobalization of the world economy is a steady and significant decrease in the *share* of three main indicators in the world economy, i.e. a decrease in their impact on the world economy. The model variables are defined as the share of global *Trade* and *FDI* in global GDP, and the share of *FVA* in global export. So, the independent variables refer to the impact of *global* indicators on the economies of the Balkan countries, not to the effects of *national* indicators of these countries. The only internal parameter is GDP as the dependent variable. Therefore, we cannot assume whether the effects of the individual variables will be positive or negative for these countries. More specifically, one can assume significant positive impact of these countries' involvement in global product chains, and the negative effects of FDI, since those were heavily allocated to non-export sectors of these countries. However, that is not the topic of this research. In this case, we cannot assume whether these global phenomena have any statistically significant impact on small economies at all, no matter how much open they may be.

The model takes the following form:

$$\ln Y_{ct} = \beta_0 + \beta_1 T_{wt} + \beta_2 FDI_{wt} + \beta_3 FVA_{wt} + e_i \tag{2}$$

where Y_{jt} is GDP of a particular Western Balkan country in millions of current US$ in year t, T_{wt} is world trade (export +import) as a share in global GDP in year t, FDI_{wt} is world FDI net inflow as a share in global GDP in year t, FVA_{wt} is foreign value added as a share in world export in year t, $_W$ denotes world data. The model uses time series data for the period 1995-2018, with the exception of Montenegro, which later gained independence, and the first GDP figures available to the World Bank refer to the 2000th.The source of data for the GDP, FDI share in GDP and trade share in GDP is the World Bank indicator database. UNCTAD stat provides the data on FVA statistics which is obtained from the UNCTAD Eora database.

3.3. Results and discussion

The results obtained can be considered statistically reliable and valid by all criteria. The coefficient of determination R^2 in all the countries is very high. It is smaller in Serbia 0.83, and 0.90 to 0.96 in other Balkans economies (table 1). This indicates that more than 90% of variation in the GDP of the Western Balkan countries can be explained by the variation in the selected global indicators, which is far more than expected given that the independent variables are highly aggregated categories. Such a high dependence on global change can be considered an indicator of the extremely high openness of these economies.

P statistics show that all three variables are significant in almost all countries. The P value is the probability that the coefficients in the regression model are not reliable, and this probability is lower than 0.01 for all three variables in five countries, and two variables in one country. This indicates the extreme sensitivity of these economies to changes in the share of international trade, investment and production in the world economy. An exception is the FDI variable in Croatia, with the p value higher than 0.10 (table 1).

The significance F, which shows probability that the model is wrong, is zero in all six models. This probability means that the null hypothesis in the regression model cannot be rejected.

Trade shows strong positive impact on the Western Balkan economies. Further decrease of foreign trade globally by one percent will induce fall of $ 180 million to $680 million in smaller economies (Montenegro, Albania, B&H, Macedonia) and up to $1300 to $1600 million in Serbia and Croatia, respectively.

Table 1. Regression analysis results

Variable	Serbia	Croatia	Albania
Intercept	-104350*	-121347*	-37112*
	(14081)	(13025)	(2111.3)
T	1350.5*	1602.9*	486.7*
	(416.4)	(385.2)	(62.4)
FDI	-3717.4*	-1760.3	-974.5*
	(1431.8)	(1324.5)	(214.7)
FVA	2479.3*	2810.4*	735.4*
	(810.1)	(749.4)	(121.5)
R^2	0.83	0.90	0.96
Adjusted R^2	0.81	0.88	0.96

Standard Error	6201.48	5736.7	929.84
F	33.20	57.65	165.83
Significance F	0.00	0.00	0.00

Variable	B&H	Montenegro	Macedonia
Intercept	-52962*	-16216*	-23763*
	(2947)	(1649)	(2294)
T	682.1*	184.2*	290.7*
	(87.1)	(37.9)	(67.8)
FDI	-965.7*	-369.8*	-967.6*
	(299.7)	(112.3)	(233.3)
FVA	1031.7*	335.3*	608.0*
	(169.5)	(63.0)	(132.0)
R2	0.96	0.91	0.91
Adjusted R2	0.96	0.90	0.89
Standard Error	1297.89	455.28	1010.35
F	174.14	53.22	65.03
Significance F	0.00	0.00	0.00

Notes * represent significance at 1, respectively. Standard Error is given in parentheses.

The impact of the FVA coefficients is also direct and very strong on the selected economies. They are highly involved in international production chains, and further one-percent reduction of the global FVA in exports will lead to the decline of these economies by $330 to $2800 million in proportion to the size of the economy. The stronger effect of the FVA coefficient on trade is due to the fact that GVC involvement means intra-industrial international trade, and it is a significant part of total trade. Also, the FVA share in exports refers exclusively to export products, with positive effects on the economy, while simple trade openness in the case of the WB countries, mostly refers to imports, which do not yield positive effects in these countries.

As the model results show, all the Western Balkan economies are under significant but negative influences of FDI share in the world economy, with the coefficients ranging from -370 to - 970. This strong inverse relation indicates that every 1 percent decrease in the FDI share in global GDP leads to an increase in the GDP of the Western Balkan countries by $370 to $970 million. That negative inverse impact is even stronger on the Croatian economy, but the p value is higher than 0.1, so this impact is not statistically reliable. This is just statistical confirmation of what has been said about the negative effects of FDI on non-export sectors and the takeover of relatively successful domestic companies. An additional expected reduction of global FDI, as a result of the deglobalization process, should improve the Western Balkan economies, probably by restoring a number of economic activities and companies to national frameworks.

4. Conclusions and recommendations

The world economy, which has been operating for several decades on the basis of internationally accepted rules, is gradually returning to the framework of bilateral interactions of economic entities - companies and countries. Trade, investment and production are affected by intensive withdrawal processes from the international to the national level. The recent restrictions on international interactions due to the pandemic of Covid19 have greatly accelerated these processes. After the pandemic, many international trade flows will not be resumed, as each country will find domestic resources or geographically close partners for the most important imported products. It is realistic to expect a long delay in the placement of new FDIs, given that there is very little free capital left.

Some causes of deglobalization processes are rooted in economic laws, but in each of the analysed segments there is one common, probably key factor, namely the political will of the key actors, expressed by the growing number and scope of restrictions. Rising protectionism partly hinders international trade, investment and production, and in part contributes to general instability and mistrust in international relations.

The identified causes of deglobalization are processes that are relatively long and non-cyclical in nature, and therefore will not change in accordance with the trends of economic parameters. There are no new, unconquered markets or resources to encourage capital flow, and growing protectionism is reflection of the interests of developed economies, which are also, by nature, long-term. This is a relatively lasting, fundamental process that is transforming the entire international economic system. In response to the changed rules and circumstances of the global economic system, each country needs to adjust international economic relations strategies and adapt economic policies to new conditions and its own position on the emerging global stage. The empirical study of the effects of deglobalization processes on the economies of the Western Balkans has shown a very strong and statistically significant correlation between the three key aspects of global economic flows and these economies.

Global decrease in foreign trade and foreign value added will have strong negative effects on the Balkans economies. These countries do not have sufficient internal resources (financial, human and production capacity) to launch complex and technologically advanced production. In these sectors, these economies will remain large importers. However, the number of lower-grade products that were produced in these regions before globalization is equally large, whose production was abandoned during the economic opening. These sectors are different in different countries, but they have enormous imports in the fields of chemical products and pharmaceuticals, most of food and textile products, for which there are internal resources. Key measures would be to support these and other strategic sectors, as estimated by each country. Conquering new markets in these circumstances is unlikely, with the exception of the neighbouring Balkan countries.

In view of the expected further decline in international investment, this should have positive effects on Western Balkans economies. An inverse relationship with FDI does not mean that the economies of these countries will spontaneously grow with the reduction of FDI share in the world economy. The direction of a change towards domestic ownership of the most profitable sectors is positive, but a temporary reduction in budget revenues sourced by annual FDI amount is inevitable. New FDIs cannot be expected soon, but when they do, they should be limited to specific projects for which there are no internal resources (infrastructure projects) or those that provide new export markets. The facilities for foreign investors should be made available to domestic investors, especially in the sectors where foreign companies have a dominant position (banks, trade and communications).

According to the results of the research, the tendency of shortening the international production chains is the biggest threat of deglobalization for the Balkan economies. The Balkan countries are involved in the international production of mechanical, automotive, electronic, and food industries. Redundancy in these sectors would result in huge revenue losses and unemployment. Therefore, each country must invest efforts and resources to identify which company to support the increase of their competitiveness, i.e. quality of work and products, increase of efficiency and speed of production, in order to maintain their position in international production.

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DEGLOBALIZACIJA SVETSKE PRIVREDE I NJENI EFEKTI NA PRIVREDE ZAPADNOG BALKANA

Apstrakt: Ovaj rad analizira tendencije u tri ključna aspekta ekonomske globalizacije: međunarodnoj trgovini, stranim investicijama i globalnim proizvodnim lancima. U radu se ukazuje na tendencije opadanja stepena integracije svetske ekonomije u sva tri segmenta. Utvrđuje se da uzroci ovih trendova nisu ciklički, već strukturni, odnosno da je u toku proces deglobalizacije međunarodnog tržišta i transformacija samih temelja međunarodnog ekonomskog sistema. Rad uključuje empirijsku analizu potencijalnih efekata ovih promena na šest ekonomija zapadnog Balkana. Model višestruke regresije otkriva vrlo jaku statističku povezanost ovih privreda sa promenama u svetskoj privredi. Rezultati pokazuju da je GDP balkanskih privreda u direktnom odnosu sa spoljnom trgovinom i međunarodnom proizvodnjom na globalnom nivou, i u inverznom odnosu sa udelom SDI u svetskoj privredi. To ukazuje na značajne izazove poput pada prihoda i gubitka radnih mesta, ali i mogućnosti za smanjenje trgovinskog deficita i povećanje domaće proizvodnje.

Ključne reči: deglobalizacija, Zapadni Balkan, međunarodna trgovina, strane investicije, međunarodni proizvodni lanci.

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Nataša Stanojević has been researcher at the Institute of International Politics and Economics since 2019. She holds a PhD from the Faculty of International Economics in Belgrade (2007). She earned her MA degree from the Faculty of Political Science, University of Belgrade in 2003, where she graduated in 1995. Stanojević is an author of six books and monographs, 30 articles in top-ranking scientific journals and was a participant in international conferences in the country and abroad, among which the conferences in Tehran, Tenerife, New Delhi, Yinchuan and Belgorod stand out. Previous career of Nataša Stanojević is mainly related to work in higher education: Faculty of International Economics, Faculty of Philology, University of Belgrade (Department of Oriental Studies), British Business Academy in Belgrade. The most important area of her research is international economics, with a particular interest in the transition economies in East and Southeast Europe, and the Middle East and North Africa.