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Evaluating the transnationalisation potential of the economies in the countries of South-Eastern Europe

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Abstract: The paper proposes a methodological approach to assessing the potential for transnationalisation of the countries in South-Eastern Europe. The paper presents an integrated indicator of the potential for transnationalisation, which is the average of five standardised variables that characterise the degree of resource potential for internationalisation in the form of transnational development trade, as well as the algorithm of application of these indicators in order to rank countries according to the degree of development and usage of their existing potential. Based on the use of this method, the countries of South-Eastern Europe were ranked according to the actual use of the potential for the transnationalisation of their economies. A comparison of the obtained values of the index of the transnationalisation potential of the countries in South-Eastern Europe with the actual data characterising international investment activity in these countries made it possible to build a matrix for the classification of the countries according to the availability and use of the transnationalisation potential. The analysis makes it possible to state that the level of the actual inflow of FDI to Montenegro is higher than the level of its potential for transnationalisation. The evidence of FDI inflows relative to GDP makes it possible to classify Albania as the leader in transnational business. Evidence of FDI inflows to Bosnia and Herzegovina confirms its characteristics of the transnationalisation potential as an "outsider" to transnationalisation. All other studied countries fell into the category of countries with underestimated investment potential in attracting foreign direct investment, i.e. the potential for transnationalisation (domestic).

Keywords: transnationalisation, countries of South-Eastern Europe, classification matrix, rating methodology, integrated indicator.

Introduction

The countries of South-Eastern Europe currently demonstrate varying degrees of integration into the European Union. Most of these countries began their transformation into market relations in the early-1990s, from almost equal conditions of the current command-administrative system of economic regulation, similar in the structure, current form of ownership, as well as integration into the value chains in the socialist camp. The importance of assessing the potential of transnationalisation in the economies of South-Eastern European countries is conditioned by the need for appropriate policies to involve the national economies of these countries in the joint system of socio-economic development and quality of life, the possibility of benefiting from globalisation of the global economy.

1. Literature review

The concept of Central and Eastern Europe originated after the Treaty of Versailles, but the debate started gaining momentum after the extension of the EU in 2004. The key issue is the very meaning of the concept of "Central and Eastern Europe". Scholars see in it an intellectual construction and an object for research, a historical plane and space, a separate region with a common cultural and historical destiny. Particular attention was paid to the concept by Ukrainian researchers E. Mahda (2015; 2017), Y. Kahanov (2005), I. Piliaiev (2013), who analysed the criteria for distinguishing the region, identifying stages of transformation of the concept, suggesting methodological aspects of using the concept of Central and Eastern Europe.

The Geoscheme for Europe from the UN Bureau of Statistics identifies four regions, including Eastern, Western, Southern and Northern Europe. The countries that are broadly considered to belong to Central and Eastern Europe, have been divided by the UN into the following subregions: Northern Europe: Estonia, Latvia, Lithuania; Eastern Europe: Belarus, Bulgaria, Moldova, Poland, Russia, Romania, Slovakia, Hungary, Ukraine; Southern Europe: Albania, Bosnia and Herzegovina, Macedonia, Serbia, Slovenia, Croatia, Montenegro (United Nations).

The preamble to the "Geoscheme" explains that such a division is quite conditional and not universal. The selection is based on common historical experience and the criterion of homogeneity: climatic-geographical, demographic, confessional-linguistic features. For example, in the explanations of the UN Bureau of Statistics, Eastern Europe includes countries bordering Asia, more or less associated with the "Eastern bloc" of the Cold War and is dominated by Orthodoxy (United Nations).

Despite the large amount of research by both foreign and domestic scholars on global economic integration, the impact of regional economic integration and investment flows requires research based on the latest theoretical and methodological approaches and modern generalisation of economic dynamics, the impact of synergies on regional integration—Eastern Europe. The CIA's directory of Eastern Europe includes the Baltic States and the Caucasus (CIA World Factbook).

In the period of post-communism of the late-20th and early-21st century, Central and Eastern Europe has made the transition to a liberal, socially-oriented economic model by copying the institutions of the market economy and Western democracy in Western Europe, especially Germany, in combination with "catch-up" integration. The region lagged behind Western structures, but today Central and Eastern Europe is a more dynamic region than the so-called "old" Europe. According to the classification of the report "World Economic Situation and Prospects (WESP)" for 2019, most CEE countries are in the group of developed countries (this subgroup in 2014 was tentatively called "new EU member states") (World Economic Situation and Prospects 2019. United Nations, 2019, 102–103). Albania, Serbia, Montenegro, Bosnia and Herzegovina, and Macedonia are described in the report as "transition economies" with above-average incomes and fall into the subgroup of "Southeast Europe" (World Economic Situation and Prospects 2019. United Nations, 2019, 114). In 15 years, the situation has changed significantly, as in 2004 the World Bank identified only Slovenia as an industrialised country, and all other countries in the region were classified as transition economies. At present, the average economic growth rate in Europe is 1.9% annually, but more positive prospects are forecast for Central and Eastern Europe at 3.7% GDP growth in 2019 (World Economic Situation and Prospects 2019. United Nations, 2019, 5).

Central and Eastern Europe is not an international actor, but the common difficulties of the transition period by the countries of the region encourage these countries to cooperate and develop a common approach, especially to foreign policy issues. A Hungarian researcher, A. Ágh, quite critically describes the place of the region of Central and Eastern Europe in modern international relations, which he fits into the "geopolitical crisis". A. Ágh (2016) emphasises a certain destructive role of the region with its characteristic processes of disintegration, deconsolidation and illiberal tendencies, corruption and populism. L. Kabada (2017) hopes that a constructive dialogue is possible through cooperation with all EU members, leadership in some issues and the mediation of "consolidated democracies" in Central and Eastern Europe, such as Slovenia and Estonia.

Despite the large number of scientific papers by both foreign and domestic scholars on global economic integration, the impact of regional economic integration and investment flows requires research based on the latest theoretical and methodological approaches and modern generalisation of economic dynamics, the impact of synergies on regional integration—Eastern Europe.

2. Methodology

The theoretical and methodological foundations of the study are the issues of international economic integration and the impact of synergies of regional economic groups on economic growth, development of European integration processes, the relationship between regional economic integration and foreign direct investment, which mainly reflect the investment attractiveness of BNC, as well as the formation of potential for transnationalisation of countries.

The aim of the study is to assess the potential for transnationalisation of the economies of South-Eastern Europe. Several methods have been used to conduct the study, including: the method of generalisation of the system, the method of induction and deduction, the method of comparative analysis, the graphical method, the method of analysis and synthesis, the methods of economic and mathematical modelling. The study uses data from leading international organisations—the World Bank, UNCTAD (The World in Europe, global FDI flows towards Europe Intra-European FDI Applied Research; World investment report, 2019).

In order to assess the potential of integration of South-Eastern Europe in the process of transnationalisation of the world economy in terms of transnational nature of their own business, the author developed an algorithm and indicators for assessing the potential and motivation of transnationalisation of the national economy.

The methodology for determining the potential for transnationalisation of the economies of South-Eastern European countries is based on the algorithm for assessing and implementing the potential for transnationalisation of the countries (Figure 1).

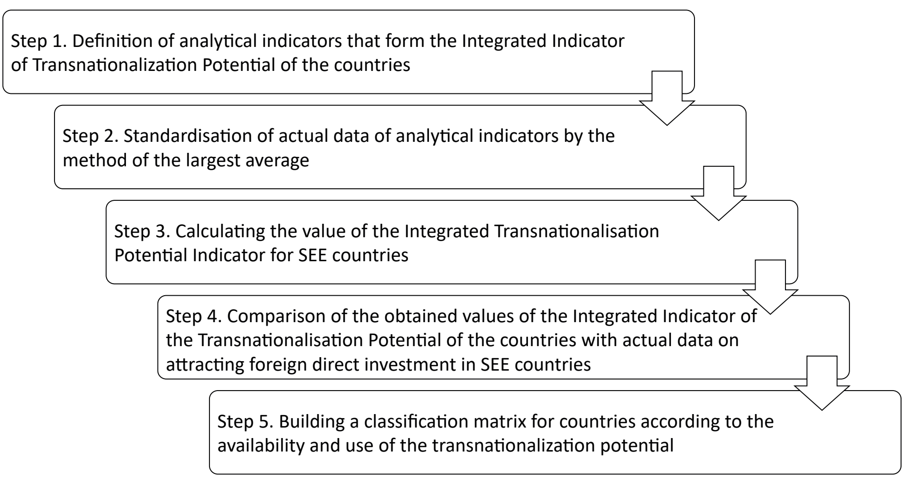

Figure 1. An algorithm for assessing and realising the potential of transnationalisation of countries

Source: Own work.

The constituent stages of this algorithm are the definition of analytical indicators, on the basis of which the integrated indicator of the transnationalisation potential of the countries will be calculated. First of all, these indicators characterise the degree of resource provision of transnational development potential, the size of the national market, the attractiveness of the country's financial sector and its stability, the level of the country's involvement in international labour division and international trade.

The next step is to standardise the actual data of analytical indicators by the method of the highest average. This is necessary to obtain results that will be in the range from 0 to 1, which simplifies the task of their interpretation. Next, the Integrated Indicator of the Transnationalisation Potential of Countries is calculated, which indicates the level of income through the indicator of the average GDP per capita for IPO; the state of the country's financial system through the average real interest rate; the country's participation in the international division of labour through the indicator of the share of exports of goods and services in the country's GDP; the state of labour use, the potential use of labour resources and the problem of the value added through the value of labour; the size of the national market through the country's population and income. The next step of the algorithm for assessing the potential for transnationalisation of countries is to compare the obtained values of the integrated indicator of the countries' potential for transnationalisation with the volume of foreign investment. Based on this analysis, the authors built a matrix of classification of countries by the level of availability and degree of use of the transnationalisation potential.

3. Results and discussion

The macroeconomic model for calculating the integrated indicator of the transnationalisation potential is proposed to be calculated as the average of five standardised variables for each country, which characterise the degree of resource provision of the transnational development potential, market size, financial sector attractiveness, level of trade internationalisation:

$$I_{ITPE} = \frac{\overline{GDP} + \overline{IR} + \overline{EV} + \overline{LC} + \overline{P}}{5}, \tag{1}$$

where

I_{ITPE} – An integrated indicator of the country's transnationalisation potential;

$\overline{GDP}$ – standardised average GDP per capita for PPP;

$\overline{IR}$ – standardised average real interest rate;

$\overline{EV}$ – standardised average share of exports of goods and services in the country's GDP;

$\overline{LC}$ – standardised average labour costs;
$\overline{P}$ – standardised average population of the country.

Standardisation of variables allows us to obtain results that will belong to the interval from 0 (minimum value) to 1 (maximum value), which simplifies the task of their interpretation.

The proposed algorithm for estimating and calculating the indicator of the potential for transnationalisation of industries has been used in the assessment of the relevant indicators of the countries in South-Eastern Europe. The results of the calculation are presented in Figure 2. Calculations were made for the new EU member states, candidate countries and the Eastern Partnership countries.

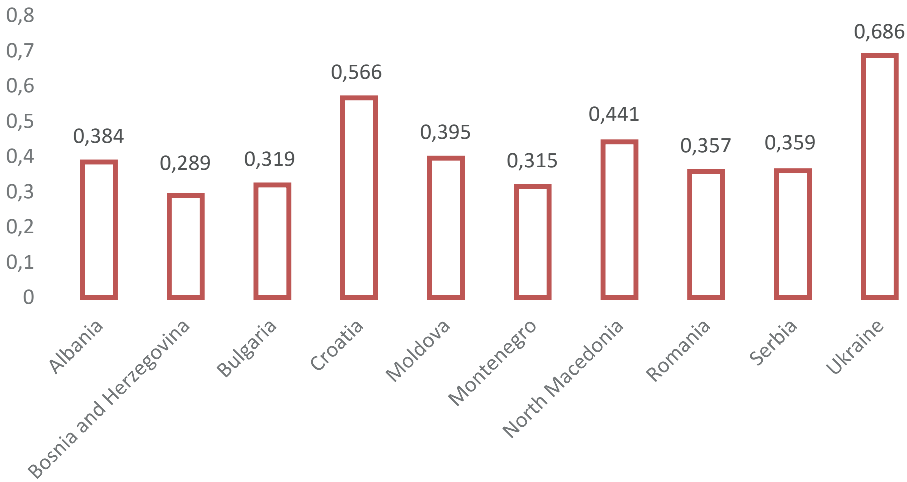

Figure 2. The results of the calculation of the integrated indicator of the potential for transnationalisation of the countries of South-Eastern Europe
Source: Own calculations.

Thus, the leading positions in the proposed indicator are taken by Ukraine and Croatia (0.686 and 0.566 USD, respectively), which is primarily due to Croatia's GDP per capita and the real interest rate, which reflects the real value of funds for the borrower and real profitability of the lender or investor; in Ukraine, the real interest rate and market size (standardised average population) also became the indicators that had the greatest impact on the Integrated Transnationalisation Potential.

A comparison of the obtained values of the index of the transnationalisation potential of South-Eastern Europe with the actual data characterising the international investment activity in these countries (Figure 3-4) makes it possible to build a matrix of classification of SEE countries by the availability and use of transnationalisation potential (Figure 5).

The matrix is a division of countries that have been evaluated into four quadrants: "Countries that have a transnational nature of business above the

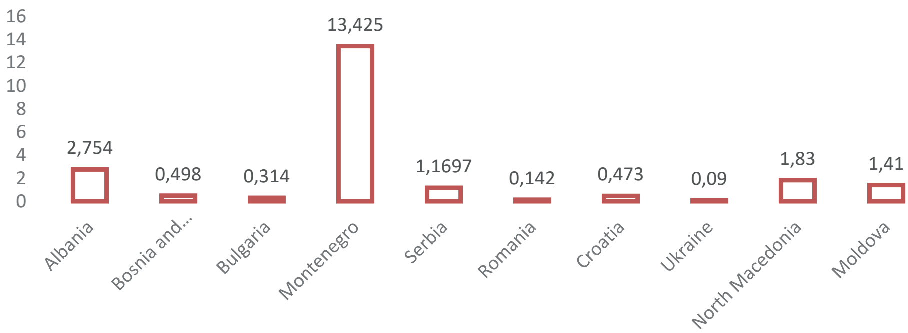

Figure 3. FDI per capita by SEE countries in 2019, million USD
Source: Own work.

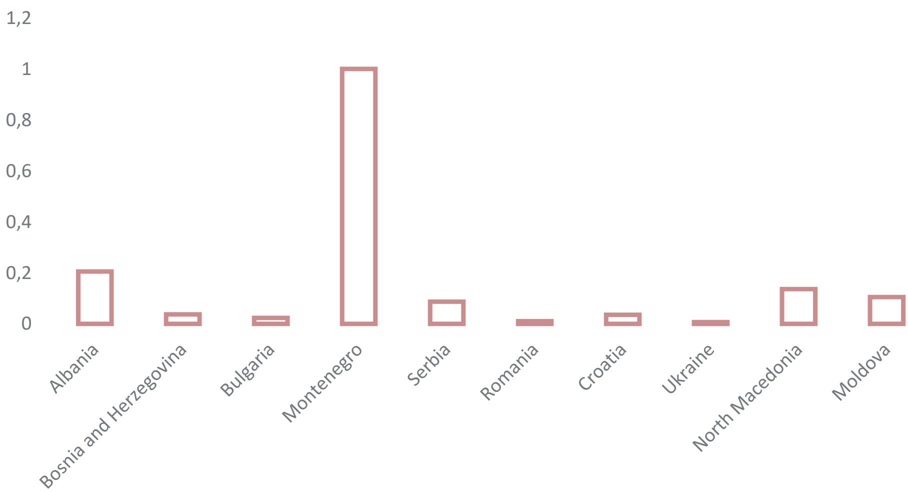

Figure 4. Standardised value of FDI per capita by the method of the highest average, 2019
Source: Own work.

level of potential", "Countries—leaders in the transnational nature of business", "Countries—'outsiders' of business transnationalisation", "Countries which have a transnationalisation of business, a lower level of potential.

Thus, the analysis makes it possible to state that the level of the actual inflow of FDI to Montenegro is higher than the level of its potential for transnationalisation. The evidence on FDI inflows relative to the GDP makes it possible to classify Albania as a leader in transnational business. The evidence of FDI inflows to Bosnia and Herzegovina confirms its characteristics of the transnationalisation potential as an 'outsider' of transnationalisation. All the other countries studied fell into the category of countries with underestimated the

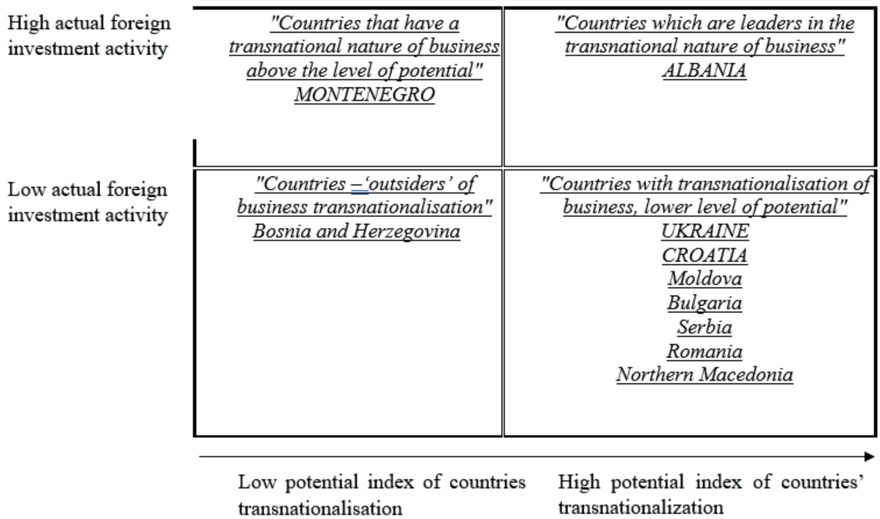

Figure 5. Matrix of classification of SEE countries by the availability and use of the transnationalisation potential
Source: Own work.

investment potential in attracting foreign direct investment, i.e. the potential for transnationalisation (domestic).

Important factors influencing the realisation of the potential of transnationalisation of countries are investment country risks.

Globalisation processes have limited the use of traditional risk assessment methods and the need to develop new ones. Today, the most well-known assessment methods are Moody's Investors Services, Euromoney, Business Environment Risk Intelligence (BERI), FitchIBCA, Credit Risk International, The Economist, Political Risk Services: International Country Risk Guide (IRCG), etc.

The specific nature of country risks has led to the need for systematic analysis of both macroeconomic data and the involvement of some subjective elements.

Modern research allows existing models of country risk assessment to be divided into several groups (approaches). Among them are the following:

The quantitative approach (PSSI; Ecological Approach; Political System Stability Index; Knudsen's Ecological Approach) to country risk assessment compares countries with varying degrees of risk using a single numerical risk indicator that summarises the relative impact of a number of socio-political factors across a set of political and social indicators. The main disadvantages of this approach are the use of a narrow definition of political risk, as well as the choice of factors and determining their weight. Another problem of quantitative assessment methods is the sectoral (project) orientation of most country risks (for example, political instability can contribute to the development of some industries and cause damage to others).

Some of these reports use econometric data, but their main feature is the ranking of a significant number of countries according to a certain logic of analysis. The most well-known service today is BERI (Business Environment Risk Index). The ranking of countries by the risk level includes several stages: selection of variables (political stability, economic growth rate, inflation rate, nationalisation rate, etc.), determination of the weight of each variable (maximum weight has a political stability variable), Delphi processing using an expert scale, derivation of the total index, theoretically located in the range from 0 to 100 (minimum index means maximum risk, and vice versa). Using the BERI model (Business Environment Risk Index), the so-called BERI index is obtained 4 times a year, which is used for the current analysis of the economic and political situation in any country or region. It is determined by surveying 100 experts in economics, sociology, law and psychology. They answer 15 questions anonymously, which are evaluation criteria. Each of these questions has its maximum share in percentage with a total of 100 and is also evaluated in points, having 5 options - from 0 (unacceptable) to 4. The index is synthetic, i.e. includes 15 economic and humanitarian factors. The higher the number of points scored, the lower the country's risk level.

The country risk assessment by the Economist Intelligence Unit is conducted for 100 countries and is based on four components: political risk (22% in the overall assessment; consists of 11 indicators); economic policy risk (28%; 27 variables); economic and structural risk (27%; 28 variables) and liquidity risk (23%; 10 variables). The obtained numerical values of risk, located on the scale from 0 (lowest risk) to 100 (highest risk), are converted respectively into a letter scale: A-E.

Euromoney, in its model of assessing the level of country risk, uses assessments in 9 categories: economic data (25% of the assessment), political risk (25%), debt indicators (10%), outstanding or restructured debts (10%), credit rating (10%), access to bank finance (5%), access to short-term finance (5%), access to capital markets (5%), discount on forfaiting (5%). At the same time, the assessment of political risk is carried out on the basis of expert opinions on a scale from 0 (high risk) to 10 (low risk). The resulting country risk value varies from 0 (highest risk) to 100 (lowest). These numerical values are converted into 10 letter categories: from AAA to N / R.

The measurement of the level of credit risk (more than 135 countries), conducted by the Institutional Investor (II), is based on a survey of experts who identify and assess the most significant risk factors. The obtained estimates are weighed depending on the expert and average. The final rating is in the numerical range from 0 (very high probability of default) to 100 (lowest probability of default).

In assessing sovereign credit risk, Moody's Investor Service analyses both the political (6 indicators) and economic (7 indicators) situation in the country. The risk level assessments obtained during this process take an alphanumeric value on a 21-character scale: from AAA to C.

The rating methodology of Standart & Poor's Ratings Group (S&P) is based on the results of forecasting the ability to service debts, the probability of default. It includes an assessment of political risk (3 factors) as the country's willingness to pay on time and economic risk (5 factors) as the ability to pay off debt. Ranking of countries is based on a 3-letter rating system: from AAA to D.

Another method is to determine the level of risk of the country, which was developed by the Swiss Banking Corporation. According to it, the analysis is carried out in three stages. The first is the definition and collection of key indicators, their evaluation and current (operational) analysis. At the second stage the independent forecast is carried out, and by means of estimations of the results of the first stage the level of risk of the country for the concrete area, region, the state is defined. The last stage of the analysis is to determine the level of aggregate risk of the country and the level of creditworthiness of the country (region, district), its financial stability and business activity of its subjects.

Table 1. Ratings of SEE countries in 2020

Countries	S&P	Moody's	Fitch
Albania	B+	B1	
Bosnia and Herzegovina	B (positive)	B3	B (positive)
Bulgaria	BBB (positive)	Baa2 (positive)	BBB (positive)
Northern Macedonia	BB-		BB+
Croatia	BBB-	Ba2 (positive)	BBB-
Romania	BBB- (negative)	Baa3	BBB- (negative)
Serbia	BB+ (positive)	Ba3 (positive)	BB+
Moldova		B3	
Montenegro	B+	B1	
Ukraine	B	Caa1 (positive)	B (positive)

Source: (Credit Rating. URL: https://tradingeconomics.com/country-list/rating).

As shown by the data presented in Table 1, the most positive and stable are the ratings of Bulgaria, according to the estimates of the three leading rating agencies in the world—S&P, Moody's and Fitch.

Among the most important risk factors that may hinder the investment development of the economies of the SEE countries, and in particular Bulgaria, are the following:

– Political corruption;

– Inefficient public administration;
– Decrease in the inflow of foreign direct investment.

The negative effects of growing corruption on Bulgaria's economic recovery include the following:

– Bulgaria's European partners are losing trust. Bulgaria's doubts have already prompted the European Union to withhold development funds in a number of cases. The economic consequences of the funding delay are likely to become apparent only in the long run. However, Bulgaria missed the opportunity to attract additional resources during the crisis and improve its infrastructure.
– High levels of corruption could negatively affect the efforts of the new centre-right government to implement reforms aimed at stabilising the economy and improving the business environment.
– Corruption makes doing business more expensive in the country, harms free competition and strengthens the position of "unproductive entrepreneurs" over those who actually produce something. This will lead to deteriorating business conditions, especially for small and medium-sized enterprises. They should be the backbone of the economy and can play a leading role in the country's post-crisis recovery.

Another very important aspect of corruption in Bulgaria is vote bribery and election violations. Elections, especially local ones, were overshadowed by widespread election fraud. This often distorts the true will of the electorate and allows the system to manipulate people who pursue business interests. This trend leads to an extreme loss of voter confidence in the political system and seriously impairs the country's democratic image among its international partners. If the authorities fail to address this problem through legislative changes and tighter controls, the loss of confidence at home and abroad could have detrimental consequences for Bulgaria's democratic and economic development.

The risk of instability in the new minority government may also hamper Bulgaria's recovery. Such instability, of course, blocks the necessary reforms. The new cabinet has several policy options to accelerate the exit from the crisis, but they all need stable parliamentary support:

1) reforming key state-funded sectors, such as health care, education and the pension system, along with the tax system and public finances;
2) implementing measures to address concerns in the EU, such as the need for an independent judiciary to ensure the transparent use of EU funds, the fight against corruption and the cessation of huge conflicts of interest within the executive;
3) implementation of urgent anti-crisis measures to prevent the deterioration of the financial condition of Bulgaria and stimulate economic recovery.

The stable and ever-increasing flow of foreign investment in Bulgaria in previous years has been one of the main factors contributing to economic growth.

Bulgarian enterprises are still not independent, strong or developed enough to support the country's economy on its own, making it difficult to obtain foreign loans. The decline in direct investment, combined with the conclusion of investors already in Bulgaria, could seriously hamper the country's economic recovery.

It can be noted that less FDI goes to less developed regions and countries in Europe. This is especially characteristic of the countries of South-Eastern Europe, which receive much less investment than the countries of the European Union. At the same time, countries in the region need special initiatives to attract more foreign firms, expand existing foreign enterprises and increase the diffusion of innovation.

The strength of sectoral clusters and the concentration of FDI are particularly important for less developed countries and regions. The development and restructuring of the sectoral structure of the economy requires joint efforts on the part of public authorities and the involvement of large business structures, including international capital. Therefore, initiatives to improve institutional quality and ensure effective cooperation between different levels of government and international structures are particularly important for countries with smaller preferences.

Regions and countries that are allowed to use financial investment incentives under EU state aid rules are more likely to host non-European firms than countries where incentives are prohibited. Thus, the use of such inflammatory incentives can be one way forward for countries with a low presence of foreign firms to begin building the potential for transnationalisation.

At the same time, incentives for investors should be used selectively and coordinated with other initiatives on the basis of the approach to attracting FDI and regional growth. Whether or not benefits are used to renationalise the economy, it is important that they are adapted to the local context and that incentives do not discriminate against local firms.

The applied value of the offered estimation technique of economy transnationalisation of the South-Eastern Europe countries can be recommendations to increase efficiency of using the transnationalisation potential and carrying out the policy directed on:

- strengthening industry clusters around existing strengths, for example by using a smart specialisation platform to help develop and implement smart specialisation strategies;
- improving the integration of foreign companies into regional value chains;
- improving access to neighbouring markets, for example, by investing in infrastructure that improves the region's connection with more developed regions;
- use of FDI to create jobs;
- integration of foreign firms into the local economy to optimise knowledge diffusion. A framework for cooperation between different national economic actors can foster innovation and expand regional value chains. In addition,

events that bring together people from different sectors and different types of business can facilitate the exchange of knowledge and the introduction of new technologies, products and services. This will be especially beneficial for SMEs;

- support of existing and creation of new foreign firms
- ensuring maximum FDI benefits for the country and building a strong national "brand";

M&A accounts for more than 70% of total FDI inflows to Europe. M&A has a direct positive impact on economic development in European countries, so it is important that foreign firms grow and continue to maintain jobs after the start.

European diversity, where countries have different territorial features, capabilities and needs, requires going beyond the "one size fits all" strategy to attract FDI. The combination of an attractive investment climate created by the EU, national and regional policies and the application of unique "best practice" strategies in line with the territorial context has stimulated FDI inflows to successful countries. It is important to emphasise that it is the countries that need to put these elements into context and add relevant aspects of FDI promotion that are specific to the country.

The basic approach to attracting FDI is in line with the Smart Specialisation approach introduced by the European Commission for the regions. In trying to replicate the success of other countries, policymakers must carefully consider existing territorial factors and the specific strengths and weaknesses of countries. The value of attracting foreign direct investment from intra-European and non-European BNCs is what effects they create for local firms and enterprises.

Thus, the first element of the approach to promoting FDI and using the potential of transnationalisation of the economy of the countries of South-Eastern Europe is the analysis of the economic structure, comparative advantages, as well as drivers of growth and constraints in the country. The purpose of the analysis is to identify the needs that will vary from country to country. Job creation may be a key need in one country, while in another—the growth of skilled labour restrictions. Capital can limit the growth of private firms in one country, while the lack of entrepreneurship limits the number of firms in another. Such an analysis can be used to develop a strategy for national and regional development with features that can stimulate the economic development of countries and regions. Therefore, it is important that the regional development strategy is based on and consistent with national strategies.

Another element of assessing and exploiting the potential of transnationalisation is optimising the benefits of FDI inflows by using synergies between the region's needs and the opportunities inherent in FDI inflows into the region. Synergies from stakeholder involvement in policy development can make countries more attractive to existing foreign companies for further expansion, and thus support even more jobs and improve the quality of life.

Conclusions

Mechanisms to stimulate the development of the potential for transnationalisation in South-Eastern Europe should include synergies from strengthening competitive advantages at the national and regional levels, as well as FDI incentive policies: restrictions in the country that can be used to develop a strategy for national and regional development with features that can stimulate the economic development of countries and regions; the second element is mapping the attractiveness of the country's regions for FDI. Understanding FDI drivers in different sectors, types of FDI and territorial contexts makes it easier for policymakers to develop highly emotional FDI promotion initiatives, and a comparison of regions on these FDI drivers will help achieve the potential; the third element of the mechanism is the optimisation of the benefits of FDI inflows by using synergies between the needs of the region and the opportunities inherent in FDI inflows into the region. Synergies from stakeholder involvement in policy development can make countries more attractive to existing foreign companies for further expansion, and thus support even more jobs.

The comparative analysis of the index of the transnationalisation potential of the SEE countries calculated according to the author's method and the available actual inflow of FDI per capita makes it possible to state that the level of the actual inflow of FDI to Montenegro is higher than the level of its transnationalisation potential. The evidence of FDI inflows relative to GDP makes it possible to classify Albania as a leader in transnational business. The evidence of FDI inflows to Bosnia and Herzegovina confirms its characteristics of the transnationalisation potential as an "outsider" of transnationalisation. All other surveyed countries fell into the category of countries with underestimated investment potential in attracting foreign direct investment, i.e. the potential for transnationalisation (domestic).

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