ECONOMIC FREEDOM INDEX THROUGH RECENT YEARS IN SOME OF THE TRANSITIONAL COUNTRIES—WITH SPECIFIC FOCUS ON EX-YUGOSLAVIAN COUNTRIES

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Abstract: This study discusses some of the factors that potential investors look at when trying to determine whether to invest in a particular country. The focus is on four countries in Southeastern Europe with specific focus countries that were independent from former Yugoslavia. Statistics from the Index of Economic Freedom (2014) for these four countries are examined from the period 2008-2012 to determine the trends. The countries are also ranked for the most current year. We also considered some of the most important macroeconomic variables and compared their increase or decline throughout the years. Along with these variables, we also included foreign direction investment (FDI) restriction rate, as we determined that the foreign direct investment is the most crucial indicator affecting the economic development of these former Yugoslavian countries that had been part of the war. Furthermore, we also compared macroeconomic variables that are related and interpreted from the Index of Economic Freedom (2014).
Keywords: transition, corruption, bribe, Kosovo, public and private sector

INTRODUCTION

Some of the former Yugoslav Republic countries focused on in this article consists of Bosnia and Herzegovina, Croatia, Macedonia, and Slovenia. Some countries are attracting foreign capital by the use of tax incentives. This tool is often effective but tends to be more effective in countries that have good infrastructure and other attributes needed to attract economic freedom and FDI. Engaging in tax competition may not always be beneficial (Mutti, 2004), but it is beneficial to the foreign investors and the local workers. Otherwise, there would be an absence of economic incentive to invest in such country. Economic Freedom that is closely linked to the parent company's strategy tends to be more effective for the developing country than FDI that is hindered by joint venture requirements and domestic content regulations. Delving into the intricacies of the infinite variations of FDI is beyond the scope of this article. However, potential investors consider a number of factors when making a decision of where to invest or whether to invest in a particular country. In fact, the rule of law is very important. Countries that do not have a clear rule of law or those that have unclear legislation or legislation with less Economic Freedom Scale, which is not applied uniformly by an efficient and fair judicial system, are at a competitive disadvantage when competing for FDI. Investors prefer to invest in countries that have gone further down the path of transition than those that have been hesitant to go down that road. Strong and clearly defined property rights are also important in the minds of potential investors. A number of other factors are also important, such as the degree of corruption, general infrastructure, proximity to relevant markets, the education and attitude of the local workforce, relative wage rates, stability of currency, the banking system, regulation, the local bureaucracy, trade policy, and political stability. If any general statements can be made about FDI, it is that funds do not necessarily flow where they are most needed, but rather where the conditions are most feasible for investment. Transitional countries that are further along the road to reform are more successful in attracting FDI than those that are not. Countries that are politically unstable might be in dire need of FDI, but the countries that are politically stable and are in good standing based on the Economic Freedom Index are more likely to secure it. Once political stability is achieved, it still takes time for investors to feel sufficiently confident to invest. The political situations in Albania, Bosnia & Herzegovina, Macedonia, and Serbia and Montenegro have improved in recent years; yet, they experience challenges in attracting foreign funds. Part of the problem is because their economic infrastructure is not sufficiently developed. The bureaucracy, regulation, and corruption level also impede the FDI. Nationalism also poses as a major hinderance, especially in cases where there is the perception that the government is selling national assets to foreigners. The mentality of the local population and the country's political leaders has much to do with the success or failure of attracting FDI.

RESEARCH DATA AND STATISTICAL REPORTS

From the research data, we took in consideration some of the most important economic and general variables, and conducted a comparative analysis among the focus countries mentioned above over a certain period. Statistical reports are derived from Index of Economic Freedom [IEF] (2014). Table 1 through 4 show the economic indicators that have been reported through the years 2008–2011, respectively, from the four countries mentioned.

Table 1: Economic freedom and its scale in 2008

Country	Money growth %	Standard deviation of inflation %	Revenue from trade taxes %	FDI restriction %	Interest rate controls %
Bosnia and Herzegovina	9.1	9.0	10.0	5.1	9.0
Croatia	9.1	9.5	9.6	5.4	10
Macedonia	7.6	9.1	9.0	5.0	10
Slovenia	9.3	9.5	9.6	5.7	10

Source: Authors

Table 2: Economic freedom and its scale in 2009

Country	Money growth %	Standard deviation of inflation %	Revenue from trade taxes %	FDI restriction %	Interest rate controls %
Bosnia and Herzegovina	9.6	8.7	10.0	4.9	10
Croatia	10.0	9.5	9.5	5.1	9.0
Macedonia	7.6	9.3	9.2	4.6	10
Slovenia	9.2	9.5	9.4	5.1	10

Source: Authors

Table 3: Economic freedom and its scale in 2010

Country	Money growth %	Standard deviation of inflation %	Revenue from trade taxes %	FDI restriction %	Interest rate controls %
Bosnia and Herzegovina	9.9	8.6	10.0	5.1	10.0
Croatia	9.6	9.2	9.5	4.4	9.0
Macedonia	8.0	9.2	9.4	4.4	10.0
Slovenia	9.4	9.2	9.6	4.3	10.0

Source: Authors

Table 4: Economic freedom and its scale in 2011

Country	Money growth %	Standard deviation of inflation %	Revenue from trade taxes %	FDI restriction %	Interest rate controls %

Bosnia and Herzegovina	9.5	8.7	10.0	4.9	10.0
Croatia	9.8	9.1	10.2	4.2	8.9
Macedonia	8.2	9.2	9.5	4.4	10.1
Slovenia	9.9	9.1	9.4	4.0	10.0

Source: Authors

It can be seen that Slovenia, as one of the former republics of Yugoslavia, is far better in terms of the indicators shown in the tables. This is due to its previous membership in the European Union and, of course, the close proximity to Central European Countries. In the following tables, we will present the indicators of economic freedomsome based on the main macroeconomic indicators for the four countries for 2014 by referring to IEF (2014). Based on the statistical reports (IEF, 2014), first, we considered these important macroeconomic indicators, and then conducted an analysis and comparison of the economic position of one country over another. In Table 5, the economic freedom variables in 2014 for the four countries are shown. Then, they are contrasted with those from some of the most economically free countries in the world (Table 6).

Table 5: Economic freedom and its scale in 2014 (some other variables)

Country	Income tax rate (%)	Government expenditure GDP (%)	Freedom from corruption (%)	Business Freedom (%)	World Ranking
Bosnia and Herzegovina	10.0	49.2	33.9	55.5	101
Croatia	40	42.5	41.1	61.4	87
Macedonia	10	31.3	39.6	81	43
Slovenia	50	50.8	61	85.4	74

Source: Authors

Table 6: Economic freedom and its scale in 2014 from some of the most economically free Central European countries

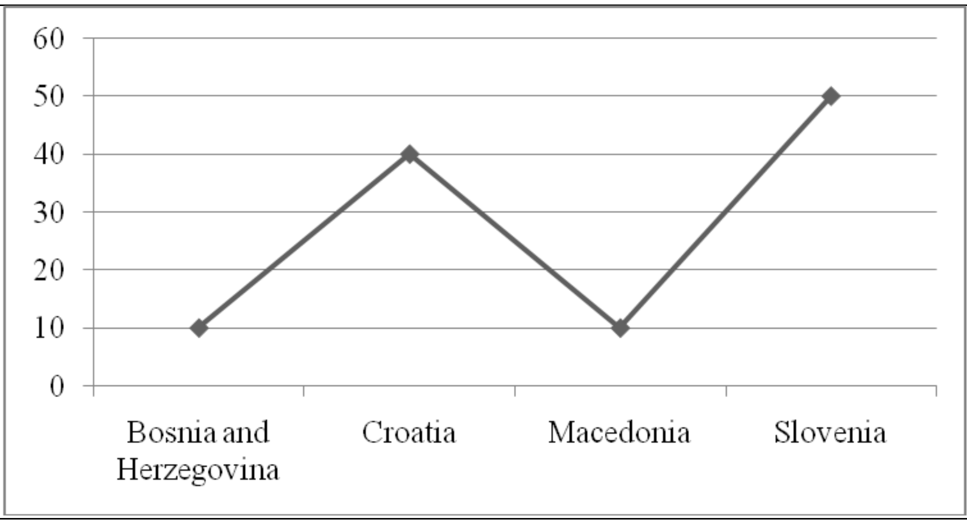
Country	Income tax rate (%)	Government expenditure – GDP (%)	Freedom from Corruption (%)	Business Freedom (%)	World Ranking
Switzerland	41.5	33.8	88.1	75.4	4
Norway	47.8	43.9	88.2	90.9	37
Luxemburg	43.6	41.8	84.1	72.6	14
Germany	47.5	45.4	80.1	89.9	18

Source: Authors

ANALYSIS AND COMPARISON

In follow, we will make analyze and compare each indicator of economic freedom for year 2014, between ex. YU countries that are taken as examples and are case of this study.

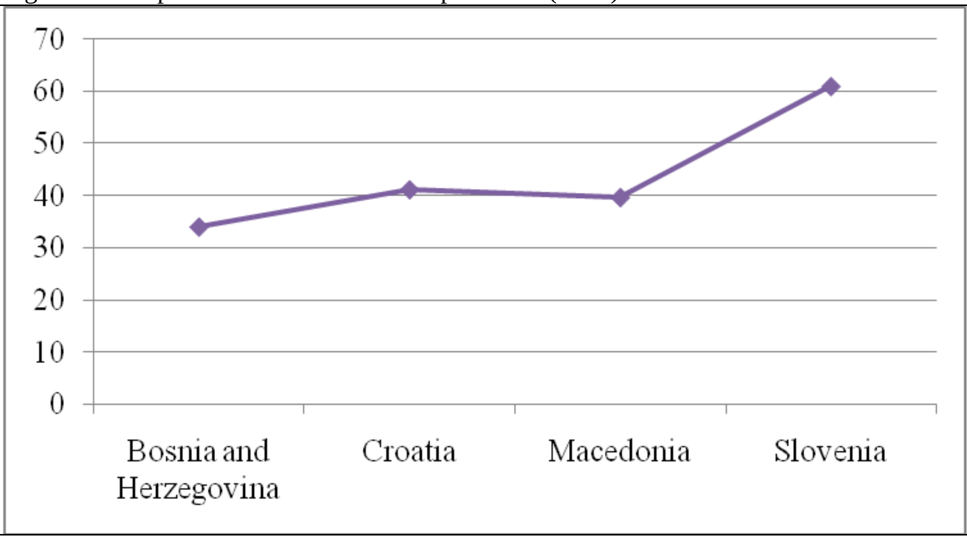
Figure 1: Comparison of Interest Tax Rate (2014)



Source: Authors

In Figure 1, it can be seen that Croatia and Slovenia collect higher interest tax (Croatia at 40% and Slovenia around 50%), while Bosnia and Herzegovina and Macedonia collect much less (both Bosnia and Macedonia at around 10%).

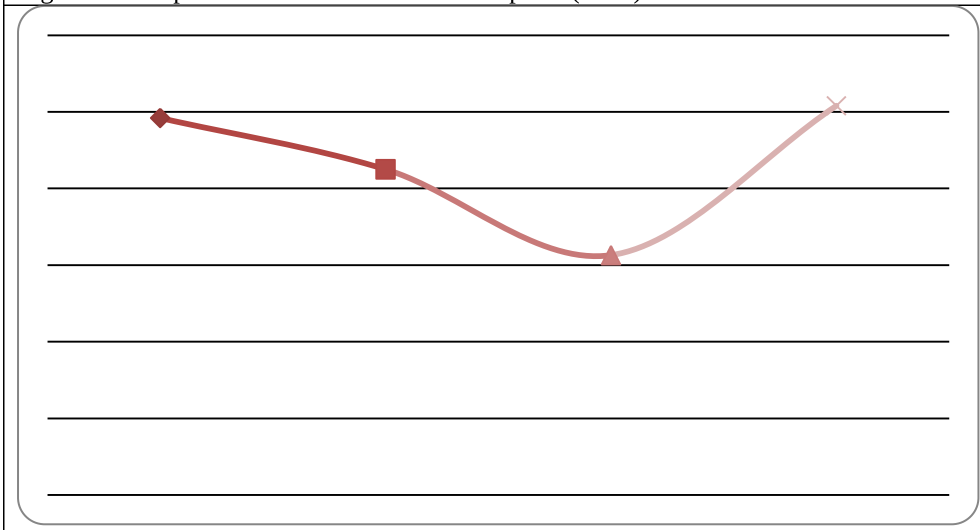
Figure 2: Comparison of Government Expenditure (2014)



Source: Authors

In Figure 2, we can see that the Bosnia and Slovenia Government spends more in expenditures (Bosnia and Herzegovina at 49.2% and Slovenia around 50.8%), while Croatia and Macedonia spend much less (Croatia at 42.5% and Macedonian Government at around 31.3%).

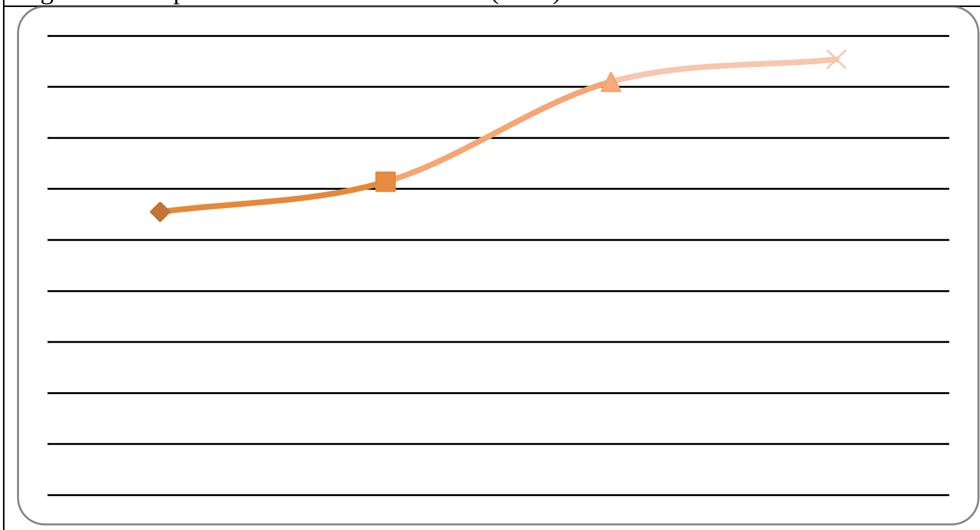
Figure 3: Comparison of Freedom from Corruption (2014)



Source: Authors

Slovenia remains the most powerful country among those analyzed with regard to freedom from corruption. In Slovenia, freedom from corruption is more than 60%, while Croatia remains second, around 40%, Macedonia third – around 39%, while Bosnia remains the last country with only around 32% of FC.

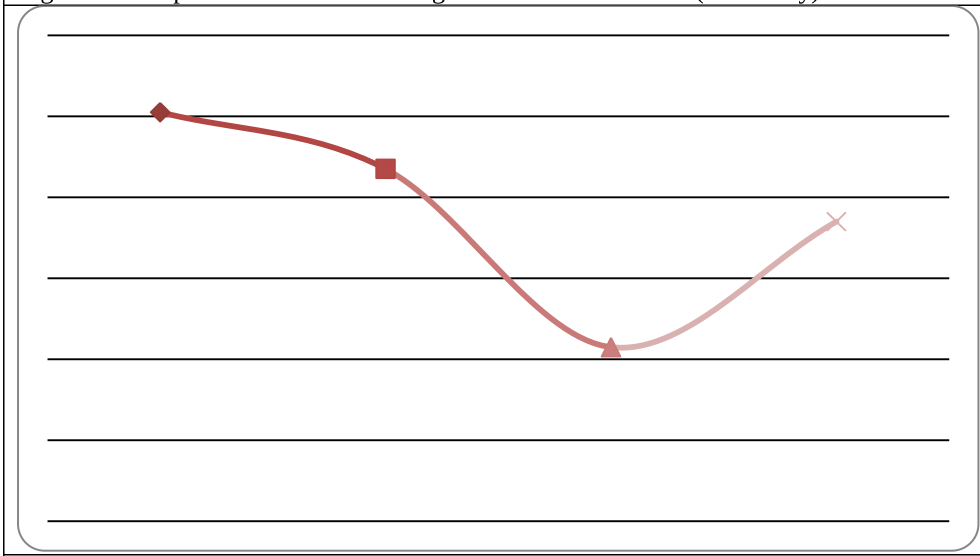
Figure 4: Comparison of Business Freedom (2014)



Source: Authors

In terms of business freedom, Slovenia and Macedonia remain the top two at 85% and 80%, respectively, while Croatia remains third at around 60%, and Bosnia and Herzegovina is last at 55% rate of business freedom.

Figure 5: Comparison of Word Ranking in Economic Freedom (2014 only)



Source: Authors

In terms of global standing, Macedonia remains ahead of the others at number 43, while Slovenia remains second at number 74. Croatia is ranked 87th in global ranking, and Bosnia and Herzegovina came in last at the 101st position.

Upon analyzing the results from the four ex-YU countries in focus using their indicators of economic freedom and comparing them with some of most developed countries in EU, we can see that there is a considerable gap between the two groups of countries. The void exists in such economic variables as income tax rates, freedom from corruption, business freedom, government expenditure of its GDP, world ranking, and virtually all the other variables and statistics as published by IEF (2014). For instance, Table 6 indicates that all of the top Central European Countries are all above 80% in terms of freedom from corruption, whereas the majority of the ex-YU countries are only at 30-40%.

DISCUSSION

Any discussion concerning the advancement of economic freedom is essentially a story of people empowerment. Strengthening and expanding freedom improves each individual's chance to achieve his or her goals and to enjoy the value of what he or she creates. Amartya Sen, a Nobel laureate economist who has made considerable contributions to economics development, once noted that development consists of the removal of various types of constraints that leave people with little choice and little opportunity for exercising their reasoned agency. By reducing the barriers to these fundamentals, the forces of economic freedom will create a framework in which people can fulfill their dreams of success. One of the most important goals of economic policy in almost every country in the world is to increase the rate of economic growth. Since the Index of Economic Freedom is primarily a measure of the economic policy in various countries, the 20-year history of the Index and its database have a lot to say about what really drives economic growth and different aspects related to human progress. There is strong support within the global database for the idea that improvements in economic freedom are an important determinant of the rate of growth. Key drivers of this economic growth and poverty reduction are the high levels of flexibility and resilience that come with economic freedom. More specifically, as documented in the previous editions of the Index and supported by volumes of academic research, vibrant and lasting economic growth results when governments implement policies that enhance economic freedom and empower individuals with greater choice and more opportunities. In fact, the advancement of economic freedom is the most straightforward path to dynamic growth and true progress for the greatest number of people. In pursuing these principles of economic freedom and the policies necessary to realize them over the past 20 years, many governments have facilitated the free flow of goods and services, improved the ease of doing business, established monetary stability, and cut taxes, all the while accentuating greater transparency and accountability under more dependable rule of law.

CONCLUSION

In sum, ex-YU countries, especially their Governments must improve in many aspects, which will directly affect their national level of development, especially in the field of economics and international integration. Not only are the macroeconomic and business freedom indicators discussed crucial, but the other essential ones must be improved and augmented as well, so that these countries can compete in the international aspects including international trade and business. In turn, they will allow free movement of capital, human resources, etc. into these countries. In one statement, countries like Bosnia and Herzegovina and Macedonia, which are still not a part of EU but are in the process of integration, must intensify their efforts.

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