MEASURING GLOBALIZATION IN THE CONTEXT OF TRANSITION PROCESS - THE CASE OF WESTERN BALKAN COUNTRIES

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ABSTRACT

There is no widely accepted definition or methods for measuring globalization and it is one of the most debatable phenomena in recent human history. The focus of this paper is, therefore, on globalization and methods of its measurement. The issue of measuring globalization inevitably involves numbers, and with the numbers one should always be careful, especially when dealing with something so complex and undefined. Also, the interpretation of results obtained by measuring globalization always requires additional interpretation. In this paper we examine the methods of measuring globalization from the macro aspect, i.e. at the level of countries, as well as the analysis of level of globalization in Western Balkan countries. As there is still an ongoing transition process in these countries, the application of globalization indices must be assessed in the overall context and complexity of transition process. The ultimate aim of this paper is to determine how to read and interpret globalization indices (indicators), and their informative power, as well as shortages in the case of transition countries such as the Western Balkans. Our results indicate that Western Balkan countries are not making sufficient progress in the transition process and they are thus not competitive. Therefore, a high degree of globalization does not imply that our countries a priori obtain the positive effects of globalization. We will try to define which additional indicators should be used when interpreting indicators of globalization for the countries of the region. The rationale behind this endeavor is the fact that the process of globalization and the process of transition present two interrelated processes for the countries of the region.

Keywords: Measuring globalization, globalization indices, transition, competitiveness, the Western Balkans

JEL classification: P27, P36

1. INTRODUCTION

Simple things are easy to define, but defining the complex ones is not an easy task, sometimes even impossible. Defining globalization would mean defining a contemporary world in one sentence. It is often said that every attempt to define globalization is doomed to failure because of multidimensionality and complexity of globalization process (Renen, Martens, 2003). Even when they define globalization, researchers usually state that the definition is given for the purposes of their specific research and that the process of globalization is a much broader issue than such defined. Although there is no unique and widely accepted definition of globalization, its existence and influence on human life is indisputable. Some say that globalization is neologism of new millennium (Putko, 2006), or as the magazine *Economist* states "globalization is the most abused word of the

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21st century" (Chanda, 2002). Having this in mind, it is sometimes strange that there is no unique definition for such commonly used expression. However, one can attempt to find the main causes of this. Firstly, scientists do not agree upon all aspects of globalization, i.e. its dimensions. There is no doubt that the economic aspect of globalization is the most obvious one, but disagreement comes when the importance of other aspects is in question. Second, there is hot and lively debate upon benefits and effects of globalization. While some emphasize benefits of globalization describing it as the most powerful force for social good in the world today (Bhagwati, 2004), there are eminent researchers who question this claim (Stiglitz, 2002, 2006). Third, there is a wide gap concerning the comprehension of globalization between those who investigate globalization, i.e. scientists, and "ordinary" citizens. Scientists comprehend globalization as something that is driven by economic and technological changes in today's world, i.e. like something that is self-driven (Friedman, 2005), while the general population perceives globalization as something that is being managed by international institutions such as the IMF, WB and WTO, or certain countries and multinationals. This kind of public attitude is the most obvious during the anti-globalization protests.

The lack of a unique definition of globalization does not eliminate the endeavor and need for [1]. By doing so, the level of globalization of these countries will be determined. As there is still an ongoing process of transition in these countries, the application of globalization indices must be assessed in the overall context and complexity of this process. Therefore, our aim is to determine how to read and interpret globalization indices (indicators), and their informative power, as well as shortages in case of transition countries such as those in the Western Balkans. Also, we will try to define which additional indicators should be used when interpreting indicators of globalization for the countries of our region. The rationale behind this endeavor is the fact that the process of globalization and the process of transition represent two interrelated processes for the countries of our region.

its quantification. The focus of this paper is therefore on methods of measuring globalization, whether economic, social, political and cultural or any other dimension of globalization in question. As the process of globalization does not have only "good" or only "bad" effects, the need for its quantification and reasoning upon some concrete indicators seems to be more than reasonable. It is quite unfounded to discuss something extensively without having any concrete tools such as numbers. The issue of measuring globalization is related to numbers, and with numbers one should always be careful, especially when something so complex is measured. Therefore, it should be stressed that measuring globalization is a very risky task. Also, the interpretation of results obtained always requires additional analysis.

The level of globalization can be assessed at the level of countries or at the level of enterprises, i.e. on macroeconomic or microeconomic level. The subject of this paper is the examination of methods of measuring globalization from the macro aspect, i.e. the analysis of level of globalization of Western Balkan countries. In the first part of the paper we will investigate the premier attempts and methods of measuring globalization, while the second part is related to the application of certain indices of globalization in the case of Western Balkan countries

2. HOW TO MEASURE GLOBALIZATION: REVIEW OF THE PREVIOUS RESEARCHES

Nowadays, there are various indicators which measure the degree of globalization across countries. Since globalization is not a process that has recently appeared, it is somehow strange that these indicators have appeared at the beginning of 21st century.

The first attempts of globalization measures concerned only the economic aspect of globalization. This is not because economists are probably statistically more educated than sociologists or political scientists, but because the economic processes were the driving force in the spread of globalization to other spheres of human life. Moreover, it is easy to quantify and statistically interpret economic flows across countries such as international trade, foreign direct investment, activities of multinational, etc. Although there is no doubt that the economic dimension of globalization has been the main driver of globalization, and that the inclusion of other dimensions of globalization (social, political, technological, environmental dimension) complicates its quantification, there is no doubt that other dimensions must be taken into account when quantifying the globalization. Therefore, the indicators of globalization in this paper are divided into composite and non-composite depending on dimensions that are included in its measurement.

Non composite indicators are mainly related to the economic dimension of globalization. These indicators are principally published by the international organizations such as Organization for Economic Cooperation and Development (OECD), World Bank (WB), International Monetary Fund (IMF) and UN Conference for Trade and Development (UNCTAD). Thus, OECD's *Handbook on Globalization* refers only to the economic aspect of globalization and gives a purely economic definition of globalization (OECD, 2005: 11). International trade, FDI and activities of multinationals are used as the indicators of globalization. But, it should be noted that in the last issue of OECD's *Measuring Globalization* there has been a progress in this sense since internationalization of science and technology measured by investment in research and development (R&D) was included as an additional component in the measurement of globalization (OECD, 2010). Numerous quantitative indicators are also given by the World Bank Group in their publications of World Development Indicators (WB, 2011). These indicators could be used individually or combined in order to establish a kind of proxy which assesses the level of globalization. UNCTAD's data that serve as a statistical basis for assessing globalization degree across countries are given in their publications such as *World Investment Report* and *Trade and Development Report*.

However, besides these non composite indicators, composite indicators that include other dimensions of globalization in their measurement have been recently developed. It is believed that The AT Kearney/Foreign Policy Globalization Index (ATK/FP-GI) is the first example of constructing such a composite index which included other aspects of globalization apart from the economic one (Andersen, Herbertsson, 2003). In the construction of this index the main question was how to overcome the problem of combining several dimensions of globalization in one composite measure. Dimensions of globalization included in this index were: technology connectivity (including number of internet users), political engagement (including foreign aid, treaties, organizations, and peacekeeping), personal contacts (including telephone calls, travel, and remittances), and economic integration (including international trade and foreign direct investment). The index of this kind of structure was inspired by the approach used in construction of the UN Human

Development Index (De Lombaerde, Iapadre, 2008). The last rankings of countries by the globalization level according to ATK/FP globalization index was done in 2007 and it included 72 countries that made 97% of world's gross domestic product (GDP). According to this scale, the first ten most globalized countries were: Singapore, Hong Kong, Switzerland, Holland Dutch, Ireland, Denmark, the USA, Canada, Jordan and Estonia. Also, one of the first attempts of composite measure was done by World Markets Research Center (WMRC). In 2001, WMRC calculated the "G-Index" for 185 countries as a composite measure of globalization (Eurostat, 2007). Although the authors of this index claimed that it was suppose to measure globalization in all its aspects, 90% of variables included in this index were economic components. Only 5% of the components in the index referred to telephone traffic and 5% referred to the number of internet users. Centre for the Study of Globalization and Regionalization (CGRS) also developed one of the known composite indices of globalization. Their index included economic, social and political dimensions of globalization for countries on an annual basis over the period from 1982 to 2004, and combined these into an overall globalization index (Lockwood, Redoano, 2005).

Today most cited and used indices of globalization across countries are KOF Index of Globalization and Maastricht Globalization Index (MGI)[2]. If one looks at the structure of these two indices it could be said that ATK/FP index was their predecessor since both indices are very similar by their structure to ATK/FP index. KOF Index was created for the first time in 2002 by Professor Axel Dreher (Dreher, 2006) and it was published by KOF Swiss Economic Institute. The Maastricht Globalization Index or the "MGI" appeared for the first time in 2003 in its primal form. Afterwards, MGI index was periodically modified and quantitative and qualitative changes of smaller extent were done, but the index mostly kept its primal structure (Martens, Zywietz, 2006; Martens, Raza, 2008 and 2009). Both indices show the rankings of countries according to the countries' globalization level. The higher value of the index means the higher globalization degree of the country. Apart from the fact that these two indices are mostly used by other researchers, both of them are still published.

3. LEVEL OF GLOBALIZATION OF WESTERN BALKAN COUNTRIES

As previously said, the most used globalization indices nowadays are KOF index of globalization and MGI index of globalization. For the purposes of this paper we will use KOF index since all the countries that are in focus of our research are included in the sample of this widely-used index. KOF index of globalization is comprised of several dimensions of globalization. These are economic, social and political dimensions which are measured by certain variables. These dimensions are further divided in sub dimensions. Economic dimension is measured by the intensity of countries' foreign trade, foreign direct investment, restrictions to foreign trade, etc., social dimension by intensity of tourism, internet users, number of McDonald's restaurants, etc. and political dimension is measured by number of embassies, signed international treaties and membership in international organizations[3]. The following table presents globalization level of four countries that are in focus of our research: Bosnia and Herzegovina (BiH), Croatia, Macedonia and Serbia.

Table 3.1. Rankings and scores by KOF Globalization Index (for 2011 and 208 countries)[4]

	Overall Globalization Index	Economic Dimension (rank and score)	Social Dimension (rank and score)	Political Dimension (rank and score)
BiH	62. (score 62.76)	65. (score 64.76)	95. (score 51.61)	70. (score 76.37)
Croatia	31. (score 75.96)	41. (score 74.23)	36. (score 70.47)	44. (score 86.48)
Macedonia	65. (score 62.04)	64. (score 65.87)	53. (score 66.07)	143. (score 50.67)
Serbia	49. (score 66.19)	73. (score 62.27)	52. (score 66.10)	89. (score 71.86)

Source: KOF Swiss Economic Institute, KOF Globalization Index http://globalization.kof.ethz.ch/query/ (accessed 15 November 2011)

At first sight we could say that the achieved overall level of globalization of our countries among other 208 countries is quite high, especially for Croatia which is ranked 31st with the score of 75.96. Globalization indices are commonly used in numerous scientific and expert studies in order to rank the countries according to their level of globalization. But, as it was previously stated, the phenomenon of globalization is not one-sided since it has positive and negative effects as well. Consequently, the problem is how to read and interpret certain level of globalization of each country. Therefore, in the following parts we will analyze and try to interpret the achieved level of globalization of Western Balkan countries. To our knowledge, for transition countries in particular, no one has yet put the level of globalization given by indices of globalization in the context of the transition process.

4. RESEARCH METHODOLOGY

4.1 Research problem and research hypothesis

The main *problem* of the paper is expressed in the question: what kind of informative power do the scores and ranks have when indices of globalization are applied to transition countries. Are the scores and ranks which our countries reached in 2011 "good" or "bad"? What does it imply if the country is higher or lower ranked by the globalization index, i.e. if it is more or less strongly integrated in the global world? Some researchers (Bhagwati, 2004) emphasize the benefits when the country is more integrated in the process of globalization. The policy of the World Bank is also known – the countries that are left behind in the process of globalization can only become poorer, while more integrated countries obtain all benefits of globalization (the World Bank, 2011b). Since we are focused on the countries in which there is still an ongoing process of transition, it is important to analyze how much these countries have progressed in that sense, i.e. how much they are competitive and ready to obtain benefits of the globalization process.

The hypothesis of this paper which will be either confirmed or rejected is formulated as follows: fast opening of Western Balkan countries and strong liberalization of foreign trade regime and the regime of international capital flows have led to a high level of globalization of the region, while slow progress in the transition process, building the institutional environment and internal market liberalization has led to weak competitive economies, which suggests that a high degree of globalization of Western Balkan countries does not imply that these countries will *a priori* obtain the positive effects of globalization.

Hence, we will test the progress of the countries included in the research using four

indicators which are produced by relevant and widely accepted methodologies: progress in transition, progress in institutional environment building, liberalization of internal market and progress in competitive-economy building. These methodologies point to the success of the transition process and competitiveness of the countries which is crucial for the assessment of benefits and disadvantages of globalization. Therefore, the globalization level of the countries which is presented in Table 3.1 will be assessed in the context of these four indicators.

Table 4.1. Measures of progress in transition, EBRD transition indicators

Index/ Country		Enterprises			Markets and Trade		Financial Institutions		Infrastructure
	Share of private sector in GDP	Large-scale privatization	Small-scale privatization	Governance and enterprise restructuring	Trade and foreign exchange system	Competition policy	Bank reform and liberalization of interest rates	Stock markets and non bank financial organizations	Overall reforms in infrastructure
BiH	60	3	3	2	4	2	3	2-	3-
Croatia	70	3+	4+	3	4+	3	4	3	3
Macedonia	70	3+	4	3-	4+	2+	3	3-	3-
Serbia	60	3-	4-	2+	4	2+	3	2	2+
Average	66	3	3.8	2.4	4	2.2	3.2	2.4	2.6

Source: European Bank for Reconstruction and Development, EBRD Transition Report 2010, Recovery and Reform, http://www.ebrd.com/downloads/research/transition/tr10.pdf (accessed 12 January 2012)

For the purposes of testing the hypothesis we use secondary data produced by eminent international institutions such as the European Bank for Reconstruction and Development, the World Bank and the World Economic Forum. Methodologies applied in their studies are world-wide accepted, and to our knowledge, they are the most relevant ones for the indicators that we use. Secondary data used in our research are also widely used in other relevant scientific and expert studies and present a relevant basis for providing results and conclusion. By the method of cross country analysis we will try to determine their common characteristics and, based on that, to form a general conclusion and give an answer to the set problem and hypothesis. This methodology is used in order to interpret correctly the informative power of globalization indices in the context of the overall process of transition.

4.2 Hypothesis testing

The scheme of testing the hypothesis comprises of assessment of the transition indicators and indicators of the competitiveness of Western Balkan countries. Based on that, we will come to the main conclusions about the informative power of globalization indices in the case of Western Balkan countries. We will begin with transition indicators. Good proxies of progress in transition are indicators given in Transition Report produced by the European Bank for Reconstruction and Development (EBRD, 2010). This report gives an insight into four aspect of progress in transition: transition of enterprises (variable called *Enterprises*), transition of market and trade (*Markets and Trade*), transition of financial institutions (*Financial Institutions*) and infrastructure (*Infrastructure*). Furthermore, these four categories are divided into subcategories. Scores in the Report are ranked from 1 to 4+,

Table 4.2. Kaufman et al Governance Indicators in 2010

Indicators/ Country	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
BiH	-0.116	-0.664	-0.734	-0.099	-0.364	-0.318
Croatia	0.441	0.605	0.616	0.562	0.186	0.045
Macedonia	0.086	-0.470	-0.177	0.282	-0.294	-0.059
Serbia	0.290	-0.405	-0.113	-0.019	-0.389	-0.213
Average	0.702	-0.936	-0.408	0.724	-0.861	-0.545
Slovenia	1.016	0.816	1.033	0.753	1.021	0.841

Source: Kaufmann et all (2011), Aggregate Governance Indicators 1996-2010, http://info.worldbank.org/governance/wgi/index.asp (accessed 13 January 2012)

where 1 corresponds to almost complete absence of any departure from a rigid, centrally planned economy and 4+ means the achievement of the standards of market economy typical of industrialized nations.

It is noticeable that the best progress in transition, as said, is made in the section Foreign Trade and Exchange System, i.e. foreign trade liberalization and foreign capital liberalization. This is not surprisingly, since all Western Balkan countries have liberalized their foreign trade and foreign exchange markets. This was a precondition for any contractual relation with the EU. Also, "good" progress is made in the banking sector due to its fast liberalization and privatization mainly by foreign capital. But it can be dangerous if domestic bank capital is mainly owned by foreigners, especially in times of crisis, since banks are exposed to foreign shocks. The worst results, according to other measures, are for overall management and structural reorganization of companies, competition policy, stock market reforms and reforms in infrastructure where average score is around 2.6.

A closely related issue to the progress in transition is the issue of institutional environment building since the progress in transition directly depends on the progress in institutional building of the country. Therefore, the progress in institutional environment building will be assessed and used as a proxy of overall progress in transition of Western Balkan countries. But first we shall define institutions and institutional environment[5]. The word institution has a number of meanings. Douglass North's concept of institutions, frequently used by many authors, defines institutions as the formal and informal "rules of the game" in a society.

According to North's definition, "institutions are the rules, regulations (humanly devised constraints) that structure political economic and social interaction; they consist of both: formal rules (constitutions, laws, property rights) and informal constraints (sanctions, taboos, customs, tradition and codes of conducts)" (North, 1990: 3). As North states: "The purpose of the rules and conventions is to define the rules by which the game is played, monitored and enforced" (Dunning, 2004: 2). Organizations or individuals are entities which devise and implement these institutions. Institutional environment in that sense comprises of institutions (the formal and informal ones) and enforcement mechanism[6]. "Institutions reduce uncertainty involved in human interaction by giving us pattern for our behavior" (Dumludag and Sukruogly, 2007: 142).

Frequently used indicators for assessing the overall institutional progress, which can serve as a proxy for assessing the overall progress in transition, are those given in the report *The*

Worldwide Governance Indicators[7]. The authors of these indicators are Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi under the auspices of the World Bank Institute. "Governance in this sense consists of the traditions and institutions by which authority in a country is exercised. This includes (a) the process by which governments are selected, monitored and replaced; (b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for the institutions that govern economic and social interactions among them." (Kaufmann et all, 2010: 4). This report is published annually for 213 economies. These six governance indicators are measured in units ranging from about -2.5 to 2.5, with higher values corresponding to better governance outcomes.

Comparison with Slovenia, which is the closest neighbor of Western Balkan countries, highlights illuminates bad conditions regarding the quality of institutional environment in countries of the Western Balkans according to these indicators. It is worth noting that the worst overall picture for all countries is in the area of Rule of Law.

We have noticed that remarkable progress has been made in the liberalization of foreign trade and foreign capital regime. A good result registered in this area is certainly commendable. However, the liberalization of international trade and international capital flows indicates nothing about liberalization of internal market and its level of competition. For the purpose of this research, it is interesting to assess development of the internal market and, in that sense, to asses the progress that has been made in the protection of basic market institutions, such as private property rights and protection of competition on the internal market.

Therefore, we will use the indicators given as subcategories of *Global Competitiveness Index* which is created and published by the World Economic Forum (World Economic Forum, 2011)[8]. We will see that this source, as well as the EBRD's Transition Report, gives a very bad picture regarding the protection of basic market institutions is in question. Confirmation of predicted bad results for the variables Property Rights, Domestic competition and Effectiveness of anti monopoly policy, can be seen through subcategories of Global Competitiveness Index (GCI). The scores and ranks given by this index are presented in the following table.

Table 4.3. Rankings and scores by subcategories in Global Competitiveness Index[9]

	For 2011 and 142 countries		
	Property Rights	**Domestic competition**	**Effectiveness of anti monopoly policy**
BiH	126. (2.80)	128. (3.59)	110. (3.40)
Croatia	83. (3.79)	115. (3.82)	94. (3.67)
Macedonia	95. (3.48)	33. (4.56)	96. (3.64)
Serbia	123. (3.00)	123. (3.67)	137. (2.77)

Source: World Economic Forum, Global Competitiveness Report 2011-2012, Global Competitiveness Index Analyzer, http://gcr.weforum.org/gcr2011/ (accessed 14 January 2012)

We can see that the worst results were scored in BiH, Serbia, and Croatia. Bosnia and Herzegovina is on 126th place out of 142 countries in terms of protection of private property rights[10]! Serbia is on 137th place out of 142 countries in terms of effectiveness of anti monopoly policy, while results are very surprising for Croatia, the country that is to join EU in 2013, in all three areas. These results are very poor if we speak about the

transition process and development of condition for market economy functioning. A slightly better picture can be found for Macedonia, but if one carefully analyzes the results, one can see that the achieved scores are not so high.

5. FINDINGS AND DISCUSSION

From the previous indicators we can conclude that the progress in transition is very slow, that the only real progress was made in liberalization of international trade and capital flows and liberalization of the banking sector. Also, progress in institutional environment building is insufficient and for the countries of our region we could say that they are far from secure, regulated and efficient institutional environment.

The question is how these factors – slow progress in transition, insufficient institutional progress and slow progress in development of internal market – influence the competitiveness of the countries. This is interesting to analyze since the countries of the region are solidly ranked by globalization indicators, but the question is how competitive they are to obtain benefits of the globalization process. The previously stated question will be answered using the measure of competitiveness which is given as an overall Global Competitiveness Index. Let us take a look at the ranks and total scores reached by Western Balkan countries in Global Competitiveness Index.

Table 5.1. Competitiveness of Western Balkan countries measured by overall Global Competitiveness Index[11]

	Rankings and scores in GCI (for 2011, 142 countries)
BiH	100. (score 3.83)
Croatia	76. (score 4.08)
Macedonia	79. (score 4.05)
Serbia	95. (score 3.88)

Source: World Economic Forum, Global Competitiveness Report 2011-2012, http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf (accessed 17 January 2012)

In the context of the previously shown, quite solid rank of the level of globalization given by KOF index of globalization, it is worth to summarize the key findings which will help us draw the main conclusions regarding the informative power of globalization indices and to give an answer to the set problem and hypothesis. These findings are:

- *process of transition* is still far from its end, and in that sense, there is still much space for further work in order to build competitive economies
- development of *institutional environment* is insufficient and for the countries of our region we could say that they are far from secure, regulated and efficient institutional environment.
- level of protection of *competition* in the internal market is very low and antimonopoly law and antimonopoly policy are ineffective
- consequently, a very bad picture is evident when *competitiveness* of our countries is in question.

By the above listed findings, we can give an answer to the set problem: Western Balkan countries are not making sufficient progress in transition process and they are not competitive, so the globalization process grasps them unprepared. Furthermore, we cannot say that the countries of the region suffer from the globalization process, but the previous statement leads to the conclusion that countries of the region do not obtain all possible benefits of globalization. We also confirm the set hypothesis which says that the fast opening of Western Balkan countries and strong liberalization of foreign trade regime and the regime of international capital flows

have led to a high level of globalization of the region, while slow progress in the process of transition, slow progress in the building of institutional environment and internal market liberalization have led to weak competitive economies, which suggests that a high degree of globalization of Western Balkan countries does not imply that these countries will *a priori* obtain positive effects of globalization.

6. CONCLUSION

As said at the beginning, there is no consensus on the benefits of globalization in the scientific community, so the results of the countries' level of globalization cannot be interpreted as something principally good or bad. Indicators of the countries' globalization level, used without the analysis of specific circumstances in each country, have a very low informative power. Therefore, it was necessary to use some other indicators in our analysis.

Why is it important for Western Balkan countries to analyze the competitiveness level and progress in transition in the context of globalization? Why is the progress of institutional environment building so important in the context of globalization level of our countries? Simply because it indicates possibilities and capacities of the countries to join the global market, and based on that, to take advantage of the globalization process for its citizens. Since the globalization process is not *a priori* good or bad, our conclusion is that ranks of globalization level of transition countries should be analyzed and interpreted together with some other indicators such as competitiveness of the country or progress in transition.

Also, one important conclusion in this paper concerns globalization indices and their structure. It is always recommendable to thoroughly analyze the methods of calculating indices, as well as included categories in the indices, used data sources, etc. Since globalization indices showed up recently, i.e. at the beginning of 21st century, blind reliance on such complex measures without a detailed analysis is not justified.

Finally, our recommendation to the authors of the KOF index of globalization is to include the protection of competition of the internal market, or protection of private property rights in calculating the economic dimension of globalization. It seems that protection of private property rights is the most appropriate variable in that sense, since it represents the basic institution of every healthy society, regardless of whether they are transition economies, developed economies, emerging economies or any other economies in question. Although, at certain point, the protection of private property rights tells nothing about the globalization level of the country, this indicator could be a good predictor of the future trends. It is hard to expect that the countries, in which private property rights are not protected, will progress on the scale of globalization. This statement directly coincides with the relation between the process of globalization and the process of transition, which represent two symbiotic processes for the countries of our region.

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[1] Our research includes countries which belong to the region of the Western Balkans: Bosnia and Herzegovina, Croatia, Macedonia and Serbia. Apart from these countries, the region of the Western Balkans also includes Albania, Montenegro and Kosovo under UNSC Resolution 1244/99 which are not included in our sample due to the lack of data. The term the Western Balkans is coined by the institutions of the European Union for the countries of the region of South East Europe since the European Union has particular relations with these countries in the context of its enlargement. In more relaxed terminology this region is also known as Albania plus Ex Yugoslavia minus Slovenia.

[2] KOF Swiss Economic Institute, *The KOF Index of Globalization*, http://globalization.kof.ethz.ch/ (accessed 09 January 2012), Pim Martens, International Centre for Integrated assessment and Sustainable development (ICIS), Universiteit Maastricht, *Maastricht Globalization Index (MGI),* http://pimmartens.info/globalisation-index/ (accessed 09 January 2012).

[3] Detailed structure of this index and the rankings of the countries by globalization level can be found on the internet site of KOF index of globalization, Variables and Weights:

http://globalization.kof.ethz.ch/static/pdf/variables_2011.pdf (accessed, January 2012).

[4] Scores are ranging from 0 (not globalized at all) to 100 (fully globalized country).

[5] The section that relates to definition of institutions and institutional environment is taken from Tesic (2010).

[6] If they are not enforced, institutions are ineffective. A state can have intellectual property law, but if it is not enforced by government, organizations and individuals can act as if there is no law.

[7] This Report comprises six dimensions of governance: Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. Detailed definition of each variable can be found on the World Bank web site of indicators:

http://info.worldbank.org/governance/wgi/index.asp

[8] This index integrates macroeconomic and the micro/business characteristics of countries' competitiveness into a single index. Global Competitiveness Index is made annually, in 2011-2012 for 142 countries, where the countries are ranked according to their scores made in 12 pillars which constitute this index. These are: Institutions, Infrastructure, Macroeconomic Environment, Health and Primary Education, Higher Education and Training, Goods Market Efficiency, Labor Market Efficiency, Technological Readiness, Financial Market Development, Market Size,

Business Sophistication and Innovation. Furthermore these 12 pillars are divided into categories and subcategories.

[9] Absolute value ranges from minimum of 1 to maximum of 7 points.

[10] Very bad result in the area of property rights is the consequence of the last war 1992-1995 and still unsolved property rights disputes of the refugees and displaced persons.

[11] Switzerland has the highest score in 2011 with 5.74 points and Chad has the lowest score with 2.87 points.