
Competitiveness and Trade Development of the Western Balkan Country

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Abstract:

At the time of globalization, rapid technological development, narrowing of economic distances between countries and trade liberalization, many authors think about the effectiveness of national policies and the growth of competitiveness. In general, the economy of the countries and the role of competitiveness in trade development, are important in moderate economic growth and fiscal constraints. The purpose of this paper is to analyze the performance of the Western Balkan country's trade, integration and regional cooperation, changing the structure of exports under constant pressure of competitiveness and the measurement of specific indicators. The period from 2000 to 2015 reflects the progress of the Western Balkan countries in terms of trade, but much more remains to be done in the export sector, investment absorption, innovation, technology and human capital training, to be more competitive.

Key words: competitiveness, indicators, Western Balkan country, trade

BALKAN POSITIONING ACCORDING TO THE GLOBAL COMPETITIVENESS REPORT

Trade liberalization is needed, but not a sufficient condition for expanding the volume of trade, moreover in closed countries

such as the Western Balkans. Trade development occurs when export-orientated companies invest in expanding their operations when local firms gain customers abroad and successfully integrate into global manufacturing networks or attract foreign investors to serve the export market. So, to achieve a good economic performance, a favorable business environment is needed (to foster private sector development), a favorable investment climate (to attract FDI) and also the removal of barriers (to facilitate trade relations) (Jaupllari, 2010)

Currently, the competitive edge of the region is the low labor cost and exports are concentrated on low value goods. This is not sustainable in the long run. If the countries of the Western Balkans aim at increasing trade, they should provide new sources of comparative advantages. These resources vary between countries. Croatia has an attractive coastline, which is a very valuable asset for the tourism industry and a human capital necessary for more sophisticated productions such as shipbuilding and pharmaceuticals. Serbia has a different industrial base, having the largest city in the region with many services and plenty of fertile agricultural land in Vojvodina. Kosovo and Bosnia-Herzegovina have mineral resources and heavy industries. Montenegro relies heavily on its natural beauty to develop a successful tourism sector. Albania is the only country in the region with a very low salary level that attracts industries that use intensive work such as textiles.

Given their small size, most of the Western Balkan countries need to be able to find a place in the EU's unique market with few sources of comparative advantages. For all of these sources of comparative advantages to be active, they need to be developed through appropriate policies. For example, the survival of Bosnia's heavy industry will depend to a great extent on the ability to attract foreign investors rather than the modernization of a small part of large public enterprises. (Nikolic, Jovanovic, & Todoric, 2007 - 2010) The same thing

applies for the lignite industry in Kosovo and its potential to generate electricity for export to neighboring countries. The long-term prospect of the tourism industry in Croatia, Montenegro and Albania will depend on the ability to develop a modern hotel infrastructure with the help of foreign investors, as well as sustainable management of the coastal area and the restoration of cultural heritage attractions. (Pere, 2008) The development of agricultural exports from Serbia or Macedonia will require not only efficient transport links in the EU markets, but also the development of a modern agricultural and food processing industry that meets the EU's stringent sanitary and phyto-sanitary standards.

Table 1: Global Competitiveness Index for Western Balkan Countries

	Basic factors		Efficiency		Inovation	
	Ranking (148 countries)	Evaluation (1-7)	Ranking (148 countries)	Evaluation (1-7)	Ranking (148 countries)	Evaluation (1-7)
Montenegro	68	4.59	72	4.01	70	3.61
Macedonia	70	4.55	76	3.96	94	3.37
Kroatia	61	4.69	68	4.05	80	3.46
Bosnja Hercegovina	81	4.44	89	3.80	89	3.40
Albania	94	4.24	100	3.68	119	3.12
Serbia	106	3.96	92	3.78	125	3.01

Source: (Global Competitiveness Report, 2014-2015)

Western Balkan countries to have steady economic growth and increase their income levels should gradually go through the "degrees of comparative advantages", from raw material exports and production that intensively utilizes the work factor in terms of high value-added activities. (Mancellari, 2006)

According to the Global Competitiveness Report of 2015, based on the Global Competitiveness Index, all Western Balkan countries are in the second stage of development, so their economies are driven by increased efficiency. At this stage, competitiveness can be enhanced through higher education and training, efficiency in the market of goods, proper functioning of the labor market, financial market development, the ability to

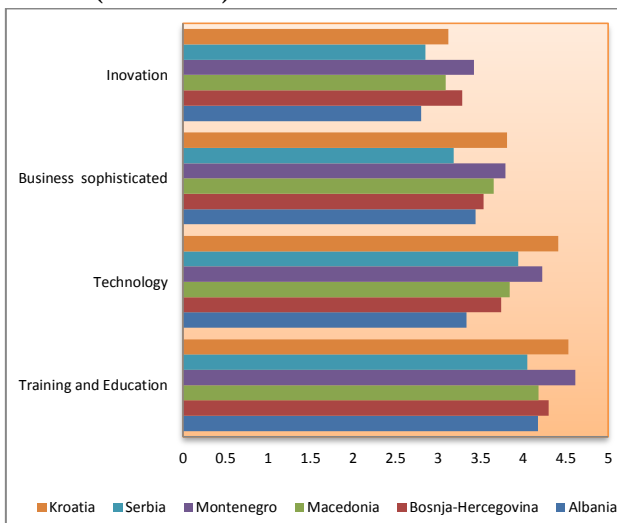
benefit from existing technology and the size of the local and foreign market. (Forum, 2015) Croatia is an exception, which is in the transition period towards increasing innovation. In the ranking of the economies of 148 countries according to the Global Competitiveness Report, GCR 2014-2015, Montenegro is ranked best compared to the Western Balkan countries (67) being positioned five places higher compared to the previous year, followed by Macedonia (73), Croatia (75), while Bosnia and Herzegovina, Albania and Serbia are ranked below the average of the region, respectively in the 87, 95 and 101 place.

Regarding business innovation and sophistication, the Balkan countries are badly positioned (Chart 1). This means that the countries of the region should prioritize human capital training and innovation as two of the most important elements of competitiveness. The OECD Initiative for Regional Competitiveness Enhancement (RCI) aims to assist Western Balkan economies to discover new sources of growth and competitiveness from their potential for innovation and workforce capability. (OECD, 2013)

During 2010-2015, each country in the region selected and implemented an innovative pilot project with the support of local and OECD experts. Albania organized its first competition on business plans. The purpose of the competition was to enable business ideas to create links to funding sources, to inspire potential entrepreneurs, and to stimulate innovation in the private sector. The OECD has worked with Bosnia and Herzegovina to strengthen links between academics, businesses and local governments through a threefold partnership. Croatia set up a national innovation strategy, which included: support for research and development companies, attraction of FDI to high added value sectors, improvement of education and enhancing effectiveness in existing education programs. (Despotović, Cvetanović, & Nedić, 2015) The government of Kosovo and Macedonia sought support from OECD in

developing a strategy and action plan to evaluate their innovation framework. Montenegro wanted to promote innovation in small and medium-sized enterprises through the creation of a national subsidy scheme. Serbia's priority was to focus on technology development. This intends to accelerate innovation and economic growth by facilitating interactions between industry, researchers and the public sector.

Chart 1: Ranking of Balkan countries in relation to some elements of competitiveness (2014-2015)



Source: (Global Competitiveness, 2014-2015)

CALCULATION OF COMPETITIVENESS INDICATORS AND COMPARISON BETWEEN COUNTRIES

In this section we will analyze some of the competitiveness indicators starting with the concentration of exports, competitive advantages of products, level of industry specialization etc, based on export and import values according to the formulas mentioned in the methodology part. Trade indicators can be defined as indices used in order to describe and monitor trade flows between countries, used further as a basis for policy-making at national level. Through the use and

analysis of these competitiveness indicators, we can determine how diversified is the structure of exports, which sectors show more competitive skills and what is the positioning in international markets for each of the countries in the region.

Table 2: Main Indicators on Exports (2014)

Countries	The concentration of exports (TEI)	% which are the three most exported product groups in total of exports
Albania	3.15	85.8%
Bosnja-Hercegovina	2.8	70.8%
Kroatia	2.6	55.8%
Macedonia	2.75	64.6%
Montenegro	3.3	92%
Serbia	2.76	66.5%

Source: (European Commission, 2014) author's calculated

From the results of the table above, we notice a very concentrated export structure for all Western Balkan countries, and this is reflected in the relatively low value of the TEI indicator. According to this indicator, Montenegro is better positioned. Non-diversification of the export structure poses a problem for economic development in the region and beyond as it increases trade dependence on a small proportion of products.

Can we say for these countries that an increase in economic openness, liberalization and trade volume has been accompanied with positive changes in the trade structure?

A positive change in the trade structure implies a change in the comparative advantages to the sectors with the highest added value and the products that have the highest level of specialization. Comparison of comparative advantages for Western Balkan countries is analyzed according to the RCA indicator. The calculations are presented in Table 3. A common feature for all countries is the presence of comparative advantages in low added value sectors. There is also no correlation between the RCA indicator values and the share of products in the export structure. In all the countries analyzed,

products that are exported more often do not have comparative advantages.

Table 3: Calculation of comparative advantages for the 5 most exported products (2014)

<i>Albania</i>	% Eksport	RCA	GL
Fuel	26,63	-25	0,70
Metals	18,25	-14	0,83
Clothes	15,21	-6,3	0,92
Shoes	13,94	42	0,52
Minerals	9,12	53	0,43
<i>Bosnja-Hercegovina</i>			
Metals	23,33	16,5	0,84
Others	13,77	41	0,62
Machinery	10,02	-45	0,59
Woods	9,21	14	0,87
Fuel	8,96	-77	0,37
<i>Kroatia</i>			
Machiney	17,87	-24,5	0,78
Fuel	13,67	-62	0,52
Chemical substances	9,74	-36	0,70
Vehicles	9,19	-13	0,90
Metals	8,69	-32	0,74
<i>Macedonia</i>			
Metals	23,82	26	0,79
Clothes	16,34	16	0,87
Chemical substances	15,58	5,8	0,95
Food products	10,00	2	0,98
Machinery and equipment	8,78	-46	0,64
<i>Montenegro</i>			
Metals	47,51	8,2	0,81
Fuel	13,83	-38	0,26
Food products	10,44	-34	0,31
Woods	5,94	-23	0,48
Machinery	5,23	-48	0,17
<i>Serbia</i>			
Machinery	16,19	-31	0,74
Metals	15,76	-2,2	0,98
Agricultural products	13,12	56	0,56
Food products	8,99	23	0,81
Plastic	8,1	-23	0,81

Source: (WITS), author's calculates

For most countries, more competitive are the sectors based on the use of work factor, because of its cheap price and low-skilled level, as well as sectors based on natural resource management. There is an exception is the case of the Croatian economy, which is demonstrating that it is giving up on the free labor force, with the aim of transferring and increasing competing skills to other sectors of the economy. It has already shifted its comparative advantages from the textile and clothing industry to other industries.

In order to improve the terms of competitiveness and find new comparative advantages, emphasis should be placed on the development of human capital as a factor that promotes competitiveness in the medium-long term. This applies to all countries in the region in order to meet the challenges of European or world markets. Observing market specialization within industries (GL index), even in this case the results show that countries have a high level of specialization in sectors that intensively use the work factor such as clothing, textiles, wood, fuels. Albania is specialized in the clothing sector, Bosnia and Herzegovina in wood, Croatia in transport vehicles, mainly ships, Macedonia in the food sector, while Montenegro and Serbia have a high specialization index in the metal sector.

The comparative advantage analysis and the specialization of intra-industry trade does not reveal a clear conclusion to the general patterns of trade. On the one hand, there are sectors with comparative advantages, while on the other hand there are sectors that do not have comparative advantages. At first glance, the significant ratio of sectors without comparative advantages should not lead to the conclusion that the trade structure is unfavorable. Generally in small countries, comparative advantages and trade specialization are expected to be found in a small number of sectors and products. However, the results of the correlation analysis show that products with a higher level of RCA do not

have a higher ratio between the value of exports and imports. This indicates the unfavorable trade patterns.

The third calculated indicator is the indicator of export competitiveness between the Western Balkan countries and the EU market, as it is the most important trade destination. This indicator shows the export ratio of a product from a country of the Balkans over the total import of this product from the EU. According to the export competitiveness indicator, Croatia has the best position for the EU. The results obtained lead to the conclusion that Croatia has a significantly better position compared to other countries in the following products: raw materials, mineral fuels, industrial goods, machinery and transport equipment. Serbia has a higher level of competitiveness for food, livestock and for vegetable and animal oils.

Macedonia shows the highest level of competition in exports of beverages, tobacco and chemicals. Albania and Montenegro are not distinguished in any of the product groups.

Table 4: Export competitiveness indicator for 2014

SITC	Albania	Bosnja- Hercegovina	Kroatia	Macedonia	Monenegro	Serbia
Foods and livestock	0,055	0,12	0,46	0,144	0,0047	0,84
Drinks and tobacco	0,040	0,237	0,67	1,317	0,013	0,54
Raw materials	0,097	0,55	0,704	0,31	0,04	0,46
Minerals	0,085	0,046	0,122	0,0066	0	0,088
Plant and animal oils	0	0,32	0,046	0	0	1,076
Cimicats	0,0032	0,113	0,248	0,338	0,0013	0,32
Industrial products	0,85	4,910	5,013	2,664	0,588	8,17
Machinery and transport vehicles	0,012	0,123	0,215	0,086	0,0115	0,53
Different items	0,23	0,437	0,388	0,267	0,0014	0,35
Others	0,0098	0,0245	0,34	0,012	0,0098	0,071

Source: (European Commission), author's calculate

CONCLUSIONS AND RECOMENDATIONS

Free trade agreements have contributed significantly to the growth of trade and regional integration of Western Balkan economies in order for them to be prepared to cope with competitive pressures. The signing of CEFTA 2006 was an important step towards foreign trade development because the foundations for free trade between the Western Balkan countries were laid down, replacing the complicated system of bilateral free trade agreements in the region with a single multilateral framework. CEFTA occupies a relatively high share in the foreign trade of its member states, showing the importance of the existing economic ties in the region.

Based on the data, Western Balkan countries still follow the trade pattern that is concentrated only within their region and the European Union. This is a confirmation of backwardness of the economy structure, poor capacity, lack of competition in their industrial output and low productivity. The inability to provide more sophisticated goods to the local and regional markets causes these countries to depend heavily on imports of such products from Western European economies.

Competitiveness in the field of trade shows unsatisfying results. A common characteristic for all the countries analyzed is the existence of comparative advantages and specialization of trade in low added value products such as minerals, metals, fuels, shoes, clothing, wood.

With the purpose of improving the terms of competitiveness and finding new comparative advantages, the emphasis should be on: human capital development as a factor that promotes competitiveness in the medium-long term, attracting advanced technologies, improving infrastructure etc. Also, in order to create a sustainable and continuous competition, we should aim products with a greater added value in the value chain, greater diversification level of products

produced for export, more cost-efficient production, and improvement of business climate and management skills.

Countries in the region need to become more productive, export-oriented, and competitive, and a way to do this is to attract foreign direct investment and export-oriented companies. The Western Balkans should no longer compete on low wages but should aspire to the growth of knowledge. This implies policy development in line with the EU's approach to developing a "knowledge triangle" linking education, research-development and innovation. Undertaking these policies will contribute to achieving high competitiveness and productivity and as a result a faster long-term growth.

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Formula and list of abbreviation

$$I_{xi} = \sum_j b_{ij} \ln \left(\frac{1}{b_{ij}} \right); 0 < b_{ij} < 1; \sum_j b_{ij} = 1 \quad (\text{Trade Entropy Index})$$

$$RCA = \ln \left[\frac{X_i}{M_i} \right] \times \left[\frac{\sum_{i=1}^n X_i}{\sum_{i=1}^n M_i} \right] \times 100 \quad RCA \text{ (revealed comparative advantages)}$$

$$GL_i = \frac{\sum_{i=1}^n (X_i + M_i) - \sum_{i=1}^n |X_i - M_i|}{\sum_{i=1}^n (X_i + M_i)} * 100 \quad (\text{Grubel-Lloyd iNDEX})$$

$$Ic_i(a, c) = \frac{EX_i(a, c)}{\sum_{i=1}^n IM_i(c)} \times 100$$

ACIT – Albanian Centre for Competitiveness and International Trade

CEFTA – Central European Free Trade Agreement

EFTA – Countries of the European Free Trade Association

GCI – Global Competitiveness Index

NIE – New Institutional Economics

OECD – Organisation for Economic Co-operation and Development

RCA – Revealed comparative advantages

RCI – Regional Competitiveness Initiative

SITC – Standard International Trade Classification

TFP – Total Factor Productivity

TPI – Trade Performance Index

WITS – World Integrated Trade Solution