



The wiiw Balkan Observatory

Working Papers | 019 | January
2002

Jane Miljovski and Vanco Uzunov

International and Regional Economic Integration
in South East Europe: The Case of Macedonia





The wiiw Balkan Observatory

www.balkan-observatory.net

About

Shortly after the end of the Kosovo war, the last of the Yugoslav dissolution wars, the Balkan Reconstruction Observatory was set up jointly by the Hellenic Observatory, the Centre for the Study of Global Governance, both institutes at the London School of Economics (LSE), and the Vienna Institute for International Economic Studies (wiiw). A brainstorming meeting on Reconstruction and Regional Co-operation in the Balkans was held in Vouliagmeni on 8-10 July 1999, covering the issues of security, democratisation, economic reconstruction and the role of civil society. It was attended by academics and policy makers from all the countries in the region, from a number of EU countries, from the European Commission, the USA and Russia. Based on ideas and discussions generated at this meeting, a policy paper on Balkan Reconstruction and European Integration was the product of a collaborative effort by the two LSE institutes and the wiiw. The paper was presented at a follow-up meeting on Reconstruction and Integration in Southeast Europe in Vienna on 12-13 November 1999, which focused on the economic aspects of the process of reconstruction in the Balkans. It is this policy paper that became the very first Working Paper of the wiiw Balkan Observatory Working Papers series. The Working Papers are published online at www.balkan-observatory.net, the internet portal of the wiiw Balkan Observatory. It is a portal for research and communication in relation to economic developments in Southeast Europe maintained by the wiiw since 1999. Since 2000 it also serves as a forum for the Global Development Network Southeast Europe (GDN-SEE) project, which is based on an initiative by The World Bank with financial support from the Austrian Ministry of Finance and the Oesterreichische Nationalbank. The purpose of the GDN-SEE project is the creation of research networks throughout Southeast Europe in order to enhance the economic research capacity in Southeast Europe, to build new research capacities by mobilising young researchers, to promote knowledge transfer into the region, to facilitate networking between researchers within the region, and to assist in securing knowledge transfer from researchers to policy makers. The wiiw Balkan Observatory Working Papers series is one way to achieve these objectives.



The wiiw Balkan Observatory

Global Development Network Southeast Europe

This study has been developed in the framework of research networks initiated and monitored by wiiw under the premises of the GDN–SEE partnership.

The Global Development Network, initiated by The World Bank, is a global network of research and policy institutes working together to address the problems of national and regional development. It promotes the generation of local knowledge in developing and transition countries and aims at building research capacities in the different regions.

The Vienna Institute for International Economic Studies is a GDN Partner Institute and acts as a hub for Southeast Europe. The GDN–wiiw partnership aims to support the enhancement of economic research capacity in Southeast Europe, to promote knowledge transfer to SEE, to facilitate networking among researchers within SEE and to assist in securing knowledge transfer from researchers to policy makers.

The GDN–SEE programme is financed by the Global Development Network, the Austrian Ministry of Finance and the Jubiläumsfonds der Oesterreichischen Nationalbank.

For additional information see www.balkan-observatory.net, www.wiiw.ac.at and www.gdnet.org

**Project: International and Regional Economic Integration in South East Europe.
The Case of Macedonia**

I. Trade Potential and Comparative Advantages

Introduction

The analysis of Macedonian trade potential and competitive advantages on the markets of the SEE, EU and CEFTA markets is biased by two separate issues: (1) the historic, political and economic background; and (2) the methodology of analysis.

1. Foreign trade relations among SEE countries have traditionally been relatively weak, as is indicated by data on Tables 1 and 2 in the annex. During 1981-1987 all then existing SEE countries except Albania mutually exchanged on average less than 5% of their foreign trade. Meanwhile, all of them had significantly larger scope of foreign trade with more distant economies, AND with directions primarily dependent on political attitude: ex-socialist SEE countries had largest trade with the "east bloc", while the non-socialist SEE countries traded with the "west bloc". During that period, 5 of the SEE countries that exist today were an integral part of former Yugoslavia, and within that framework their mutual trade, which after 1990 became foreign trade, was very intense. These facts, as well as the results of other research, allow the following conclusions:

- the political relations traditionally determined the basis, scope and directions of the economic cooperation among SEE countries;
- SEE economies are competitive parts of the regional economic entity, since their factor endowments are similar. In such environment foreign trade specialization based on comparative advantages creates weak potential for bilateral and multilateral foreign trade.

After 1990 the political changes in some of the SEE countries wipe out the traditional barriers which, accompanied by the foreign trade regionalization trend, derives the current (at least rhetorically expressed) interest for intensifying foreign trade. Yet, the questions on the economic issues of that process remain open. This analysis has to tackle some of those issues, considering the case of Macedonia.

2. From methodological point of view, the analysis is based on the following:

- export structure is analyzed desegregating exports to 5th-digit level according to the Standard International Trade Classification (SITC), observed as value (USD/product) and as unit value (USD/kg/product);

- comparative advantages are revealed through the "revealed comparative advantages" (RCA) indicator;
- export product specialization is analyzed with standard "GL-index";
- product and market segmentation analysis is done using methodology of the Austrian Institute of Economic Research (WIFO) and Vienna Institute for Comparative Economic Studies (WIIW) [see: Aiginger, 1998, p.98];
- product technology classes analysis is done using methodology proposed by Legler/Schulmeister, used also by the above mentioned Institutes [see: Woflmayr-Schnitzer, 1998, p. 44-48];
- exports labor quality analysis is performed through taxonomy used in the analyses of EU [see: The Competitiveness of European Industry 1999 Report, p. 56 and 66].

In the 1990-2000 period the foreign economic trends of Macedonia were very unstable, as is verified by data on Chart 1 in the annex. During the whole period, and especially until end of 1995 (during UN sanctions towards FRY and Greek embargo to Macedonia) as well as in 1999 (during Kosovo war), Macedonian economy exhibits highly unstable foreign economic trends. All until 1995 large amounts of certain products - copper, chairs, raspberries, blackberries, blueberries and so on - which are scarcely produced in Macedonia were evidenced as exports. Their origin was FRY, and they were only exported as Macedonian exports [source: Export Strategy of the Republic of Macedonia. Macedonian Academy of Arts and Sciences, 1999, p. 45]. The export/import balance of 1992 is result of enormous decrease in imports, (a trend during the entire 1990-1993 period), but not result of increase in exports. This justifies the fact that Macedonian foreign trade relations analysis has to be performed very carefully. Any latest analysis can only verify the stated facts and not bring to reliable long-term conclusions.

Hence, the most appropriate methodological approach appears to be the selection of one year between 1995 and 2000 as rational and representative target. Analyzing the foreign trade characteristics in that particular year means discovering the correct long term determinants of Macedonian foreign trade. Such approach is accepted in this paper, with 1997 being considered as the adequate year. This selection bears wide and thorough argumentation that the trends precisely during 1997 can be considered as representative, due to various reasons. Trends after 1997, in fact after 1999/2000, and in the case of MACEDONIA especially during 2001, can not bring to deeper change in conclusion's suitability.

Export competitiveness of Macedonia on SEE, EU and CEFTA markets

1. The starting point of Macedonian export competitiveness analysis is the market structure of foreign trade, presented on Chart 2 in the annex. That data leads to several interesting conclusions.

- In 1997 Macedonia exported:

- (a) 46% of total exports to "wide SEE region", which included 31% to "narrow SEE region" and 15% to the rest SEE countries¹;
- (b) 49% of the total exports to OECD member states, among which are all EU countries in which Macedonia exported 38% of total exports;
- (c) 0.5% to CEFTA countries (without Slovenia and Hungary which are considered among "wide SEE region" countries in this analysis);
- (d) 2% to EEC countries and the rest of the World together.

- Considering the import market structure the picture is not identical and, most notably, in Macedonian import market structure EEC and rest of the World countries have higher portion - 22%. The differences in export and import structures reveal Macedonian high dependence on imports of oil from EEC and Arab countries (evidenced here as "rest of the World"), as well as the weak domestic potential to absorb technology intensive products (equipment) originating from EU and OECD countries. In relation to CEFTA countries, (without Slovenia and Hungary), Macedonia has neglectable foreign trade - imports as well as exports.
- On the markets of the "narrow SEE region" Macedonia is net exporter, and this is due solely to the surplus in the trade with FRY. FRY is the market that absorbs most Macedonian export products in terms of number, and holds second or third place as market that absorbs Macedonian exports in terms of value. Macedonia also has surplus in the trade with Albania and Bosnia. Yet, in the foreign trade relations with rest of the countries here considered as "narrow SEE region" (Bulgaria, Croatia and Romania), as well as in the trade relations with all countries of the "wide SEE region" (Greece, Hungary, Slovenia and Turkey), Macedonia has trade deficit. Hence, the overall trade balance with SEE countries is negative.
- The foreign trade of Macedonia with EU and OECD countries in 1997 is characterized by small surplus of exports over imports. As it was pointed out, Macedonian domestic market is not capable to absorb imports of technology intensive products originating from EU and OECD countries.

2. Chart 3 in the annex shows a segregation of Macedonian exports into two large product groups: (a) products classified in digits 0 to 4 by SITC - natural resources based products: agricultural products, raw materials, ores and so on, and (b) products classified in digits 5 to 9 by SITC - manufactures. Both groups are also separated by different regional markets. This picture points to one peculiarity (or paradox): natural resources based exports of Macedonia in most part (70%) are directed towards SEE markets, while the exports of manufactures, on the contrary, in most part (60%) are directed towards EU and OECD markets. This creates an instant but false conclusion that Macedonian exports are more competitive in the technology intensive product classes since being sold on competitive markets, and are less competitive in the resource intensive product classes since being sold on less competitive markets. Yet, this conclusion, in fact, only highlights the specific foreign trade (non) specialization of Macedonia, as is explained further on.

¹ "Narrow SEE region" in this study comprises: Albania, Bosnia, Bulgaria, Croatia, Macedonia, Romania and FRY, while "wide SEE region" comprises those countries plus Greece, Hungary, Slovenia and Turkey.

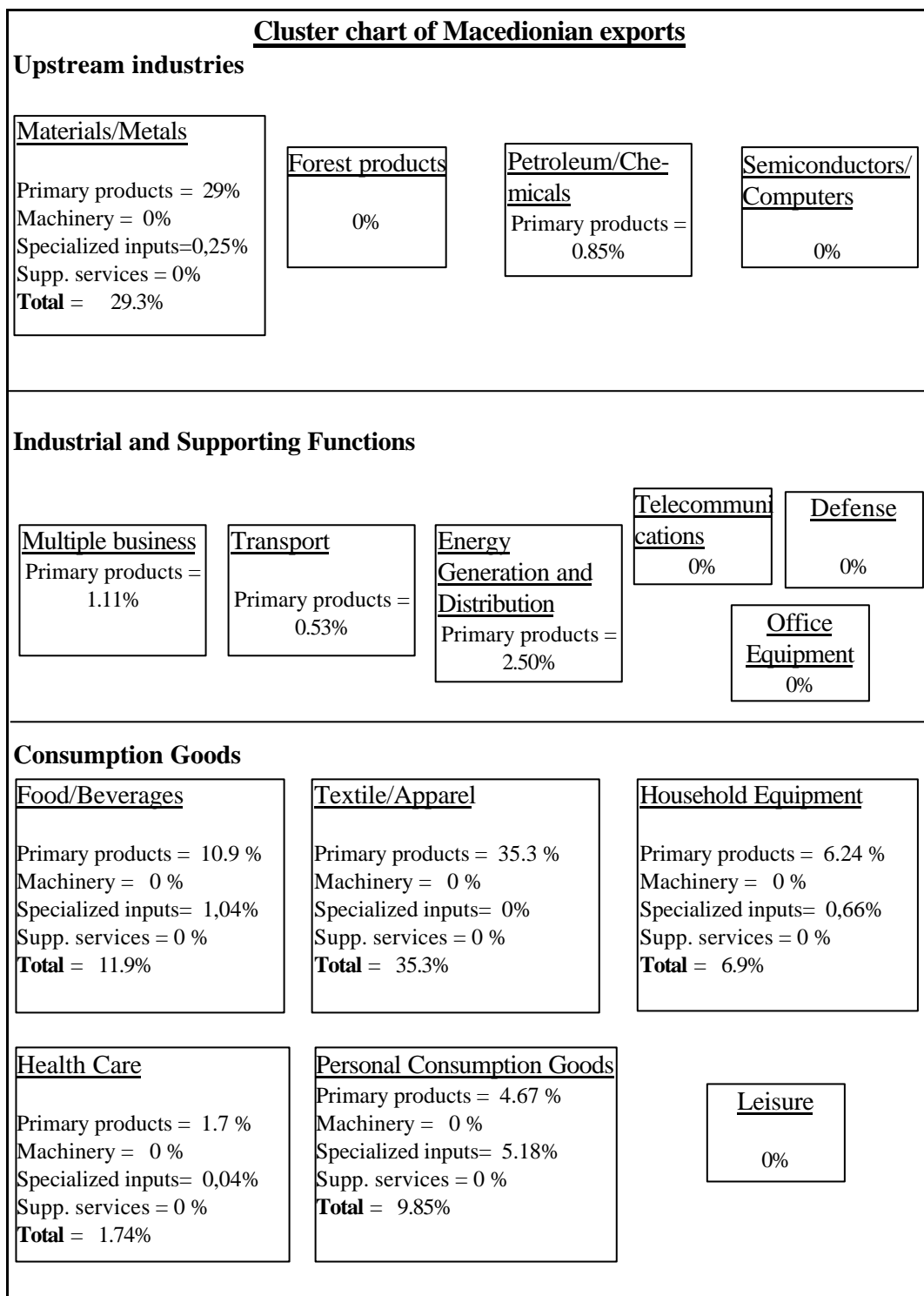
3. A more detailed insight in Macedonian export competitiveness can be gained through detecting the industries with revealed competitive advantages (RCA industries) separated by markets. This is enabled by data on Table 3 in the annex, and brings to the following conclusions:

- Macedonian "RCA export industries" are found among almost all industries which have exports, and their share in total export is 90%. This is due to the nearly entire non specialization and disintegration of Macedonian economy from international markets in terms of two-sided import-export relations. Since the RCA indicator captures the relationship between the share of a country's particular export in an industry in total world export of the same industry compared to the share of the respective country's import related to the total world import in the same industry, in the case of Macedonia the high RCA indexes for exports in certain industries are derived primarily due to the low import levels within the same "RCA export industries". In other words, the Macedonian economy does not import the products it exports. This conclusion is further evidenced by the measure of Macedonian degree of intra-industry trade;
- Widely observed (according to widely defined industries - 1st- or 2nd-digit levels of SITC), Macedonian exports display relatively diversified structure. Yet, observed according to specific products (Table 3 shows 3rd-digit levels of SITC but the analysis is performed by 5th-digit level of aggregation), it appears that the overall export of Macedonia is concentrated in small number of products within wider product segments;
- Despite the relatively wide overall market dispersion of Macedonian exports, within certain products the exports are heavily concentrated to few (up to 5) markets at which each product is sold. In this context, the conclusion appears about the extent to which the economic relations with the regional countries are important for Macedonia.

4. More detailed conclusions can be gained through the construction of a cluster chart of Macedonian industries with revealed competitive advantages following the cluster chart model introduced by Prof. Michael Porter, [Porter, 1990]. The diagram that follows points out that:

- Macedonian industries with revealed competitive advantages are concentrated in only few areas - 1/3 in upstream industries, and 2/3 in consumption goods. Within the scope of such wide industry clusters the export products are mostly concentrated in: materials/metals cluster, textile/apparel cluster, food/beverages cluster and in personal goods cluster (in this last case such are only tobacco and cigarettes);
- Within the mentioned clusters, Macedonian exports are mostly (almost 100%) primary goods for further use in multiple-phased production, or for further distribution within the same clusters (for example, in the textile cluster Macedonian exports are rarely the final product, they are, within that particular cluster, primary products (inputs) which are packed and/or distributed). Not any of Macedonian export products is machinery for production, specialized inputs, nor services (tourism and catering are omitted from this analysis since no comprehensive data is available);

- This whole analysis shows the rudimentary character of the international specialization of Macedonian economy, since it shows specialization solely in the domains where certain given (not created) advantages exist.



5. Further analysis is concentrated on analyzing Macedonian exports from the point of view of its specialization - inter-industry or intra-industry trade. The column labeled "GL index" in Table 3 provides the starting indication about the specialization of particular industries. The

overall "GL index" of Macedonian economy is 0.18, and it shows (only) 18% matching between the export and import structure of the trade of Macedonia. The conclusion is evident: Macedonian economy exists as a "semi autarkic" economy with an old fashioned model of foreign trade specialization; it is an economy with foreign trade relations based on attempts to sell (export) what it has in abundance and buy (import) what is not produced at all, or is scarcely produced. The relatively high rate of import penetration (the rate of apparent import penetration in Macedonian economy in 1997 is 43.7% - calculated according to the data in the publication: "Gross Domestic Product 1997-1998", Announcement of the Statistics Bureau, No. 217, 31.12.1999), is due to the fact the economy is small in general, hence many products from domestic origin do not exist. Yet, Macedonian export products do not meet firm competition on the domestic market, because they are often not even sold on the domestic market, but instead are products whose production is result of constructed (under "the plan") production capacities, and whose market destination has never been quite verified on the market, and even less induced by the market. This economic structure of Macedonia is inherited from the previous (socialist) period, and it has not been changed thoroughly during the '90es. This model of foreign trade specialization can only be qualified as rudimentary and an old fashioned one.

6. The further analysis in this context, besides the low aggregate index of intra-industry trade, means detecting Macedonian export industries with higher intra-industry specialisation (horizontal specialization), and rest of industries with vertical specialization. Then, the vertically specialized industries are separated to those with qualitative export competitiveness (at least compared to domestic imports of such products), and to industries with lower export quality than corresponding imports. The final aim of this detection is revealing the sources of export competitiveness - qualitative or price competitiveness.

The results of this analysis are presented in Table 4, with "RCA industries" separated into 4 quadrants: (1) industries with "successful" qualitative competitiveness; (2) industries with successful price competitiveness; (3) industries with deficit in the price competitiveness; and (4) industries with structural problems. Besides this segmentation, the industries within each quadrant are ranked according to their importance, not as "pure value" of exports in USD, but according to the magnitude of their influence on the balance of payments. The data derive the following conclusions:

- Almost all industries which show "qualitative" competitiveness are either: (a) industries with very little imports (the products of the metal cluster, marble, gypsum and other non metals); (b) industries of which the products are exported but hardly at all sold on the domestic market due to the low purchasing power of the domestic demand, which is mostly satisfied by imports of lower quality than the domestic production (textiles, footwear, etc.); and (c) few industries where real qualitative advantage of the exports over the imports exists due to the specific natural advantages (typical for the tobacco, while in the case of the cigarettes, beverages, rice, raw vegetables and fruits and so on, their qualitative competitiveness is only in relation to neighboring countries from former Yugoslavia, as is shown by the data in the previous table). Hence follows the fact, that the industries in this quadrant express a sort of "fictitious" qualitative competitiveness,

qualitative only compared to the quality of the imports, but are industries whose competitive advantages are also the low-price (cost) parameters.

- Almost all industries where this analysis finds revealed (real) price competitiveness are products mostly sold in the neighboring markets (from former Yugoslavia), and which can only be sold as cheaper products on markets near by due to the high unit costs of transportation (raw vegetables and fruits, cement and so on). Yet, these industries do not create huge revenues as it would be expected, which also means that there are unexplored possibilities in this area.
- The industries grouped in the deficit in the price competitiveness quadrant are "problematic", mostly producing products in production capacities constructed in the socialist past of the country as parts of the value chains of the businesses in former Yugoslavia. After the disruption of that market those products remain without possibilities to be exported elsewhere, and can only be sold on the small domestic market at prices lower than the similar imports. The most specific industry in this group is pharmaceutical, which is the only human capital intensive - high tech industry in FYR Macedonia, but which is only able to sell products on the neighboring markets of former Yugoslavia and in the EEC markets (Russia).

7. All conclusions of this analysis demonstrate the fact that biggest part of Macedonian exports is consisted of goods produced in production capacities constructed "under the plan" (during the socialist past of the country) which, in the absence of other goods, simply have to conceive current export, at least because of the enormous import needs. It also means that their sources of competitiveness are weak in sustainability terms. Macedonian exporters are stuck at disadvantageous position in every respect: (a) in respect to the relatively high degree of rivalry in their product segments on international markets where their direct rivals are businesses of large number of less developed economies; (b) in respect to the huge potentials for new entrants due to the weak barriers to entry; (c) in respect to inferior bargaining power towards their own suppliers of equipment, specialty inputs, and so on, as well as towards their buyers; and (d) in respect to the threats of substitutes which the dynamic process of technology development permanently creates. This also shows why there should not be any astonishment about the weak export achievements, and about the frequent expectations and requests for currency devaluation as a business survival strategy in Macedonia.

8. Two more topics remain to be analyzed: the combinations of production factors contented in Macedonian exports, and their quality. Such an insight is attainable by the remaining charts and tables the annex.

Chart 4 is visualization of Macedonia revealed export competitive advantages by technology classes of manufactures (SITC 5 to 9) on all world markets in 1997. The classification of the technology classes of manufactures classifies the industries into: (a) "human capital intensive industries", subdivided into "high-tech" and "medium-tech", and furthermore into labor and capital intensive (on Chart 4, which has to be considered from the starting axis clockwise, those are the first 6 axes counting from the starting axis where the scale is presented); (b) "physical capital intensive industries" (axis vertically below the starting axis); (c) "resource

intensive industries", subdivided into strong and weak resource intensive groups (next 3 axes towards left); (d) "labor intensive industries" (next axis); and (e) "other industries" (last axis, or the first one counterclockwise from the starting one). The RCA indicator shows in which of the technology classes the economy reveals competitiveness. In this context, the results clearly indicate that Macedonian exports within the technology classes of manufactures (SITC 5-9) reveal competitiveness in the realms of labor intensive industries, strong resource intensive industries, and within physical capital intensive industries, but not at all within human capital intensive industries. In other words, considering the industrial products "quality ladder", Macedonian exports indicate certain specialization in those products at lower levels of the "quality ladder". Even more, within the group of manufactures the strongest generator of competitiveness in the case of Macedonia are the basic production factors: labor and physical capital - basic manufacturing of raw materials and textile sewing.

Chart 5, which shows Macedonian export and import structure by technology classes of products, indicates that besides exports Macedonia also imports mostly labor intensive products, and very scarcely products which contain higher portion of human capital. This means that Macedonian economy, besides not being able to produce, can not also absorb technology intensive products. A closer look at the structure (which is not presented separately) of the scarcely imported human capital intensive products in Macedonia indicates that they are, above all, consumption goods (cars, computers, pharmaceuticals and so on), but very rarely products like machinery, specialty inputs, specialized equipment, etc. This information confirms that Macedonian economy is not heading to self-improvement, and that there are background factors which actually halt this process.

The next set of charts in the annex (from 6 to 11) are based on the same methodology and type of analysis, and are aimed at revealing Macedonian export competitiveness according to technology classes of manufactures viewed towards different markets - separately towards the EU and OECD markets, CEFTA markets, EEC markets, as well as towards "narrower" and "wider SEE region" markets. These data indicate that:

- On EU and OECD markets Macedonian exports reveal competitiveness solely within labor intensive products, strong resource intensive products, and physical capital intensive products. This means that the exports are consisted only from the metal and textile clusters (basic metals, primary metal fabrications and textile sewing). From these markets Macedonia mostly imports technology intensive products, but yet this import, in this case, is not the reason for the unrevealed Macedonian corresponding exports competitiveness, since such exports on these markets simply do not exist. On the contrary, exactly the fact there is almost not any immense import of labor and resource intensive products from this markets in Macedonia allows the export to reveal competitiveness. This points out the fact that sustained economic relations of Macedonia concerning these markets have to be created from scratch, and on quite different bases than the existing ones. In most part these relations have to be based on attracting FDI from these countries, which can lead to different future economic relations.
- Considering CEFTA markets Macedonian exports mostly follow the same picture, but also a rather weak component of competitiveness in the human capital intensive products

technology class is revealed. This is an interesting point, and at most this revealed competitiveness is due to the rather small imports of goods with higher component of human capital from this group of countries into Macedonia. Besides that, this market niche can be important in the future strategic targeting of Macedonian exports, since it indicates that this group of countries are not too much technologically advanced compared to Macedonia and, on the other hand, they are way ahead in the process of their integration into EU.

- Considering EEC markets (Macedonian exports are almost entirely directed toward Russia and Ukraine), the picture of Macedonian revealed export competitiveness is completely contrasting: highest export competitiveness is revealed within the technology classes of goods with higher component of human capital (this is mostly due to exports of pharmaceuticals), and also in the weakly resource intensive products technology class. This point indicates that labor intensive exports (textiles) from Macedonia on these markets practically do not exist, and resource intensive exports, as well as physical capital intensive exports (from the metal cluster) from Macedonia on these markets also do not exist. Yet, this is not due to lower level of technology advancement of Macedonian economy compared to these economies, but precisely due to their even level of technology development. It appears that such competitive (non complimentary) relations between these economies are not very suitable for more intensive trade, especially under inter-industry and not intra-industry relations, as are the existing ones between these economies.
- The next group of markets in consideration is the "narrower SEE region". In this case Macedonian exports reveal relatively weak competitiveness solely within the physical capital intensive and strongly resource intensive products technology class. This fact shows that Macedonian economy still remains a "raw materials base" of former Yugoslavia, which was a well known fact during the socialist past. These markets absorb 85% of Macedonian exports on the "narrower SEE region" markets. For Macedonian economy as very important remains the fact that in this case, besides the not highly revealed export competitiveness, these markets are the destination of the biggest number (not value) of exported items. This point as well shows that, due to geographical proximity, the businesses in Macedonia will find their clustering partners within this region.
- The last group of countries at who's markets Macedonian exports are analyzed according to technology classes of manufactures are "wider SEE region" markets. The picture here is the most unusual and surprising: as it appears, no product of any technology class of Macedonia reveals competitiveness, for which there are well argued reasons. On one side, as all analyses and considerations so far clearly express, Macedonian exports reveal certain competitiveness within labor intensive, physical capital intensive and resource intensive technology classes of manufactures on markets of the more developed ("western-type") economies, and within human capital intensive (high-tech and medium-tech) technology classes of manufactures on markets of the ex-socialist economies (not so much towards the CEFTA countries), because exports related to imports determine such relations. On the other side, the group of

countries within the "wider SEE region" is comprised of both, more developed countries (Greece and Turkey, as well as Slovenia and Hungary - which are technologically advanced compared to Macedonia), but also several ex-socialist countries (actually the whole group of "narrower SEE region"). Hence, the aggregated outcome, especially in economic relations based on intra-industry trade and complementary economic structures, is such that the feasible advantages towards one part of markets are abolished with the disadvantages towards the other markets, in case they are observed as a totality. This is the explanation and it does, in fact, points to the typical "mediocre position" of Macedonian economy in relation to the wider regional surrounding, and a position of entire lack of real identification and differentiation which is not a very favorable picture. This also means that Macedonian economy has to redefine and reposition it's economic relations with the neighboring countries, towards the creation of a structure which can make this economy as undeniable at certain specific domains. The regional surrounding is the largest source of clustering partners for Macedonian businesses. Yet, Macedonian economy has to create some specificity by which it will be "recognized", and thus base it's economic positions on more sustainable positions.

9. The final issue that remains to be analyzed is the quality of the production factors which determine the largest part of Macedonian export price (cost) competitiveness. Actually, the issue here is the analysis of the quality of the labor embedded in exports, since in relation to physical capital (the technology level of the equipment utilized in Macedonia) and to resources (the raw materials) the ad hoc conclusion that they can not contribute to export competitiveness can be almost undoubtedly accepted.

The aggregate results of the labor quality analysis of Macedonian exports are presented on Chart 12 in the annex. The analysis itself is performed with the use of a taxonomy according to which the quality of the labor embedded in the exports is separated into "high skills", "medium 'white collar' and 'blue collar' skills" and "low skills". The results are entirely respondent to the previous conclusions: less than 2% of entire Macedonian exports contain highly skilled labor and only 25% are contain medium skilled (blue and white collar) labor. On the other side, 74% of exports contain low skilled labor measured by international standards.

When the analysis penetrates deeper certain differences in relation to different markets are being discovered (Charts 13 through 16): (1) on EU markets the share of Macedonian exports containing high skilled labor is 0.4%, of medium white collar skilled labor 5.8%, of medium blue collar skilled labor 12%, and of low skilled labor 81.7%; (2) on CEFTA markets the share of higher qualified labor rises versus low qualified labor, or the share of Macedonian exports containing high skilled labor is 2.9%, of medium white collar skilled labor 22.7%, of medium blue collar skilled labor 10.9%, and of low skilled labor 63.4%; (3) on "narrower SEE region" markets the share of higher qualified labor rises even more, and here the share of Macedonian exports containing high skilled labor is 3.6%, of medium white collar skilled labor 25.7%, of medium blue collar skilled labor 8.9%, and of low skilled labor 61.8%; (4) finally, considering Macedonian exports on the "wider SEE region" markets the average level of labor qualification is again profiled as in the case of CEFTA markets - 2.8% high skilled, 21.1% medium white collar skilled, 12.3% medium blue collar skilled, and 63.8% low skilled.

These data derive the following conclusions:

- Macedonian economy amply uses the high price-elasticity impetus of low skilled labor for creating low price (cost) competitiveness. This mechanism, in fact, is the only one left to be exploited in case when all other domains that should induce the same effect are practically non existing, or are underutilized. Simply stated, an economy (like the one of Macedonia) which has based it's relations with the international surrounding on the exploitation of the existing (dispensed) background factors and not on the creation of contemporary competitiveness factors, in conditions when finds itself with "no exit", and when other factors (abundant natural resources for example) do not exist, has no other opportunity except to exploit the part of domestic cheaper (low skilled) labor force for creating low priced export products.
- The data also point to the idea (thesis) that Macedonia does not possess sufficient high skilled labor. Yet, such a conclusion can not be hold entirely true, because the overall labor qualification level in Macedonian economy is not very low. This is a fact also stipulated in other analyses. The thesis can also be debated that Macedonian labor qualification structure is relatively fictitious, or that Macedonian formal higher labor qualification does not finds it's verification on foreign markets. A point can be also made that the businesses in Macedonia do not utilize sufficiently the higher skilled labor, which is also true. Actually, all the questions might mean "turning around", and pointing towards the "different sides of the same coin". The conclusions are not supposed to amaze since they are concerned with, as the whole analysis has shown, an economy which bases it's international competitiveness and positioning on a incorrect paradigm.

II. Foreign Trade and FDI Regulatory Environment

Introduction

Macedonia is one of the most liberal among SEE countries considering the regulatory framework. Macedonia has six Free Trade Agreements, five of which with countries of SEE region: Slovenia, FRY, Croatia, Bulgaria and Turkey, plus an FTA with Ukraine. There are ongoing negotiations with Bosnia and Herzegovina and Albania, and it is considered that these two FTAs could be signed by end of 2001 or during 2002. Above that, Macedonia has Stabilization and Association Agreement with EU, and Free Trade Agreement with EFTA countries.

Speaking in terms of Macedonian entire foreign trade relations, among the top twenty foreign trade partner-countries of Macedonia only four are outside the established free trade area. For example, in the period of the first six months of 2001 among the top twenty foreign trade partner-countries of Macedonia nine are EU member states, one is EFTA member-state (Switzerland), six are the countries with signed FTAs mentioned above, plus the Russian

Federation, USA, the People's Republic of China and Bosnia and Herzegovina (with whom there are ongoing FTA negotiations).

Import and Export Procedures

Macedonia is undergoing liberalization of export and import regime guided by WTO. This has resulted in a lowering of tariffs and the introduction of a harmonized tariff system. [Source: Doing business in Southeast Europe, Ernst & Young, 1999]:

- Import duties are levied at rates ranging from 0% to 60%. Special duty may be levied in addition to the standard rate of import duty, giving an effective maximum rate of 80%.
- VAT is applied on imported goods value together with associated import duties. The same thing is done for any excise tax which is payable, and for any related costs such as: packing expenses, transport and insurance costs.
- Maximum import duty of 60% is levied upon items such as: fruit and vegetables, cereals, alcoholic and non-alcoholic beverages and tobacco. Examples of other import duty rates include fish products (13%), bricks (16%), wheat (20% plus special duty), milk and dairy products (25% plus special duty), oil derivatives (20%), chemical industry products (2% to 15%), iron and iron alloys (2%), electrical generators (16%) and clothes and textile products (35%).
- The lowest import duty rate of 0% is applicable on raw wool, cotton, chemical fibers for the textile industry etc. In addition, any equipment which is imported during the first three years of operation by a newly established company, which has at least 20% foreign ownership of its share capital, is also exempt from customs duties upon import.
- The weighted average rate for import duties applying on all types of goods is currently 10.5%.
- Importers of certain agricultural products and foodstuffs are required to pay special duty on certain items in addition to standard import duties, which is justified as protection of domestic production as well as ensuring greater stability of these commodities markets. Items upon which special duty apply include: meat, livestock, milk and dairy products, some vegetables, fruits, chocolate, cereals, bread and bakery products, wines, juices and tobacco. The special duty levied amounts of up to 20% of the import value of a product, and is calculated with reference to the price differential arising between imported products and the average prices for similar products on the domestic market.
- Export duties are only levied on certain products which are regarded as being of vital importance to the Macedonian economy, such as certain agricultural products, oil and oil derivatives and wood products. The rate of export duty is currently 0.1%.

Free Trade Zones

Free Trade Zones are a relatively new concept in Macedonia, since the Law on Free Economic Zones was enacted in October 1999. There is only one confirmed Free Trade Zone at "Bunardzik" near Skopje. Two new zones should be established at "Prdejci", near Gevgelija (for food industry, packaging materials, biotechnological processes etc.) and at "Novo Lagovo", near Prilep, (for telecommunication equipment, computer technology, domestic appliances, heating and cooling devices, devices for utilization of solar energy, engineering materials etc.).

Companies established in Free Trade Zones, which meet necessary qualification criteria, are entitled to receive the following benefits [Source: Doing business in Southeast Europe, Ernst & Young, 1999]:

- VAT exemption for products sold within the Free Trade Zone, or for products which are imported for processing and subsequent re-export;
- Profits tax exemption for 10 years;
- Property tax exemption for 10 years;
- General tax exemption on transfers of property and rights between founding parties and companies within the Free Trade Zone;
- Exemption from paying contributions, taxes and other duties for the utilization of urban land, connection to the water supply, sewerage, heating, gas and power supply network;
- Land may be leased for up to 50 years, with the possibility of an additional 25 year extension.

Foreign Direct Investment

In Macedonia foreign (direct) investment is permitted in all sectors of the economy, without any restriction. No restrictions are imposed upon the type of business in which a foreign company can invest, and no limitation is imposed upon the amount of capital of a company in Macedonia that can be owned by a foreign person. Foreign companies freely participate in privatization .

In Macedonia foreign investors receive same business opportunities as those available to local investors, including the right to operate in the Free Trade Zones. In addition, foreign investors enjoy the same legal and regulatory protection as domestic ones. In order to conduct business in Macedonia, foreign company can own and acquire buildings, and has limited rights over immovable property.

In addition to enjoying equal treatment as domestic investors, foreign investors in Macedonia are entitled to certain incentives, especially with regard to the payment of tax and customs duties. Profits tax reduction is available for the first three years following registration to

companies with more than 20% foreign investment in their share capital. The potential profits tax reduction is calculated as proportionally to the amount invested by the foreign company in the new company. Equipment imported as foreign investment in a domestic company is also exempt from customs duties. There are tax incentives for research and development expenditures made in Macedonia as well.

These facts, considered together with the issues stated in sub-project 1, derive an important conclusion: despite the relatively explicit and advanced foreign trade and FDI regulatory environment, Macedonian foreign trade relations have not improved considerably and FDI inflow is modest. During 2000 (as well as 2001), Macedonian foreign trade deficit has increased enormously [Source: Bulletin of Ministry of Finance, No 3, 2001]. Total FDI inflow until first half of 2001 amounts 250 US\$ per capita without considering the FDI in Macedonian Telecom, and it rises up to almost 550 US\$ per capita when this FDI is added [Source: Calculated based on different sources of information on FDI inflow in Macedonia]². It appears that the quality of the regulatory environment is not enough itself, and it has to be accompanied by appropriate policy issues. Above that, one of the biggest obstacles in Macedonia is not the regulation itself, but its implementation.

III. Public Capacities for Policy Formulation and Implementation

Introduction

This sub-project shall try to record the institutional side of policy making which constrains or (potentially) facilitates an "outward oriented" development strategy of the countries in the region. In order to accomplish this goal, we will try to analyse the situation through the rule of law and respect of democracy, the strategy for functional market economy and the approximation of legislation, as well as building institutions that can carry this processes.

Macedonia is one of the countries in the region that considers the EU integration as one of their prime goals. This stance can be found in almost all political declarations and statements. However, our interest here is to see whether Macedonia is taking the right steps towards EU integration and whether the measures it takes are really headed in that direction.

The thesis we want to prove is the following: although there is no doubt that the desire for EU integration is a sincere one, the particular steps that the Macedonian institutions are taking do not have the clarity and direction towards this goal.

The necessary assumption for the integration of Macedonia in the EU goes through a regional integration within SEE region. Precisely the correlation between these two goals does not seem very clear in Macedonia.

² It is rather difficult to calculate the most exact figure on total FDI inflow in MACEDONIA until now, since there are no aggregated data available officialy, and every ministry or public institution involved in FDI issues uses somewhat different methodology.

The SEE integration is not a goal imposed by a third party, by the EU, it is of a real interest of Macedonia and the entire region. Therefore, the question is: why the economic forces that should certainly, even without a deliberate and organized action of the countries, lead towards a spontaneous cooperation between the countries of the region, have not done so?

It is obvious that this sort of cooperation has been obstructed by several factors such as: political instability of the entire region and the constant insecurity concerning future movements in the region; constant change of policy (domestic and foreign) of the countries in the region; absence of national nor regional institutions that would really see to a deeper binding of the region; the economic policy is not linked to the problems of regional cooperation. Additionally, despite the liberalization, which can be seen through the average customs burdening and the new free-trade contracts, the actual trade and investment flows are not sufficiently liberalized.

Additional problem to this are differences in the transition process:

- o Differences in type and flow of privatization
- Differences in level of state interference in the economy
- Divergent development of legal framework in certain countries

If we let the Copenhagen criteria to lead us into our research of the institutional capacities, at this point we can see that there is an absence of the rule of law; there is a high degree of corruption in most of the countries of the region; there is a high degree of monopolization of entire sectors and an inherited mistrust towards the neighboring countries and a policy of opening towards them.

Colaboration in the region – not a strategic goal?

We will here treat only the some problems we consider most significant for Macedonia's involvement in a more intensive exchange and cooperation with the neighbors. The basic thesis in this part of our research is that the most important strategic goal for Macedonia is the establishment of firmer relations with the SEE countries. This conclusion cannot be challenged by the results from our own research, which shows that the countries in the region have not in fact developed complementary industries which would actually, through a deeper cooperation, achieve synergetic effects. On the contrary, the supply of production factors and the industry structure in the region make these industries competitive between themselves. This thesis, which is apparently opposed to the results of our research, shows only that the *existing structure* of the SEE economies has been built on a basis of a similar structure of production factors and with a competitive type of production structure. What this production lacks is a higher degree of specialization and involvement in a broader production cooperation, which from the present state of the industry or from the extrapolation of the present structure, cannot be seen. Therefore, we can expect effects from the economy of scale only if there is clustering of the industry in the region.

The importance of regional association for the Macedonian economy can be seen from the GDP data before and after the breakdown of Yugoslavia. Namely, GDP data show that the crisis in Macedonia obtained a violent manifestation with the separation from Yugoslavia, and that the transition process had, on contrary, no negative effects in the usually expected scope. The negative effects from the breakdown of the Yugoslavian market are far more significant.²

This conclusion is based on the fact that the implementation of the privatization program begun even after 1994. The drop of the GDP reached its bottom in 1995 when we see a beginning of a certain economic recovery. It is noteworthy that the increase of the GDP after the privatization is not developing at the usually expected tempo. The reasons are again in the exceptionally narrow market and the political encirclement of Macedonia.

The unemployment data best show the problems from the transition.

The data show that the main increase of unemployment occurs after 1995 (in 1996 and 1997), when we can actually feel the consequences from the privatization. Together with the privatization, the companies were restructuring and thus releasing the surplus of employees.³

This process in Macedonia is nowadays almost completely over. We here show the data from the privatization process.⁴

The number of companies is not the same from the beginning of the process, because during the privatization there has been a number of spin off-s. The same happened with the number of employees and the capital. The already privatized companies have started investing and hiring new employees. Still, since the monopolies and utilities were excluded from the privatization, their restructuring is a source of new unemployment.

So, we think that the unemployment, as an excellent indicator of the state of the economy, shows that in Macedonia the unemployment is a long-term problem, which was increased even more with the privatization. However, it is clear that what concerns Macedoni most is the delay of the expected revitalization of the economy. It is clear that the political events in the country and around it are the basic reason for this delay. The limited and closed marked simply does not give enough room for a complete production restructure of the economy.

Therefore, the starting thesis is that the association in a broader market is the basic strategy that Macedonia must follow if it wants to accomplish a sustainable growth.

The thesis of an absence of clearly formulated strategy for integration in the region is detected from the analysis of:

- The Government programs
- The programs of the political parties

² see table 5 in the Anex

³ See Table 6 and 7 in the Anex. Presented are two tables, since there was a difference in the methodology as per which the unemployment was calculated before 1995 and after

⁴ See table 8 in the Anex

- The free-trade contracts
- The actual movements in the region that keep the economies fully separated
- Statements of politicians

From all those documents and from the actual movements in the economic cooperation within the region, we can see that they all repeat the motto for the need for a closer cooperation in the region. However, the analysis of the free-trade contracts shows that they basically regulate the “closeness” of the economies in a bit more specific way, but are in fact no actual effort towards a common market.

The number of free-trade contracts that Macedonia has signed with the countries in the region is an additional element of the mentioned “closeness”. The ease with which those contracts are signed shows two things:

- They do not change the relationships and do not jeopardize anybody on the domestic market.
- They are “benign”, since no actual change occurs after they are signed.
- They are burdened with legal details, additional regulations which narrow the liberalization through a lot of administration.

Where do the differences between the declared and conducted policy come from? Very strong forces in the SEE countries are fighting against the liberalization in “their own” sectors. In addition, a well-learned lesson from the former system is never to publicly confront the publicly declared policy. Due to that, we have almost unanimous determination for EU association and for cooperation within SEE. But, when time comes for arranging new trade regimes in the region, under the wings of protection of own industry, a mistake nurtured long enough to become generally accepted, there is a search for technical means for actual realization of that protection. In that sense, one can detect the opposition of the higher administrative officers and the political leadership of the country. Namely, the higher administrative officers in the ministries are conducting the negotiations. They do that now in the same way as they did it before. The powerful domestic companies, which are tremendously interested, know how to “wake up their patriotic feelings” and the necessity for protecting an industry that is in fact, with the higher prices of its products, worsening the economic situation of their own people.

In order to see the discrepancy between the existing regulations and the results from the cooperation in the region, we are further presenting the elements of the institutional positioning of Macedonia, as seen individually.

In order to achieve success in the economic cooperation, the transition economies should solve the following issues:

- o Establishment of the legal framework
- o Structural reforms
- o Macroeconomic policy
- o Microeconomic policy

From the point of legal framework, it is necessary to regulate (at least basically) the following issues:

- o Property rights
- o Denationalization
- o Land Law
- o Intellectual property law
- o Property rights trading
- o Contracts law
- o Entry & exit
- o Corporations law
- o Foreign investments law
- o Exit: Bankruptcy law
- o Competition policy

Macedonia does not have only one law on *property rights*, since the question is covered in several other laws. The last one was the Law on sale of construction land (which was the hardest nut to crack from the socialist system). It was passed and is already in use. Several transactions have already been realized under it.

The denationalization law was passed in 1998, but was absolutely inapplicable. The Constitutional Court abolished several of its articles and it is now in use for more than a year. Several real estate items have been returned to their former owners. However, the Privatization Agency is trying to play a solo role in this issue, and not even one of the very few denationalized companies has been returned. The final documents are valid, but the Privatization Agency, against the law, is refusing to turn in the shares which are reserved for the former owners. The relevant authorities have been alarmed about this obstinacy, but there is still no solution. The owners are deliberately pushed into extensive lawsuits against the Privatization Agency.

The Intellectual property law has been in use for several years now. However, it is rarely applied in practice, especially regarding manuscripts, movies, computer programs and music.

The Bankruptcy law has been in use for more than seven years now. In meantime it was changed twice in certain parts.

The Antimonopoly law and the Competition law has never been satisfactory carried on to the end, and has also not been implemented so far. Even in the Privatization law there was a ban for privatization of monopolies, prior their demonopolization or at least a regulatory agency with a transparent policy. However, in all cases, the Constitution regulations and the other laws that ban the monopolies are simply ignored. In addition, also ignored is the necessity for creation of a modern anti-monopolistic law.

Anyway, Macedonia managed to carry out an extraordinarily stabilization policy, as well as was policy of the foreign exchange rate. That was done in cooperation with the IMF. As a result of this cooperation, Macedonia is now carrying out a policy of decreasing the budget deficit. For several years now (since 1995) Macedonia is keeping the budget deficit in an acceptable span. However, in the last year, due to the inter-ethnic conflict, the budget expenditures have increased enormously and the budget inflows have decreased. The Government had to propose a budget rebalance twice this year.

As to the capital market, the Macedonian stock exchange was established few years ago, but only this year one could see a more significant trading with the securities. The cooperation with Ljubljana stock exchange is promising not only a larger market that these two institutions will cover, but also a greater cooperation between the two economies.

The market deregulation in ex-socialist economies, is possible only through a completely new regulation that will arise from the need for deregulation. The accomplishments in this field are variable. Until 1997 there was a trend in Macedonia of establishing new legal and economic system that had the deregulation as its basic supposition. However, after that period several laws were modified, thus returning certain powers back to the state. After 1999 this trend is highly expressive. The areas that were successfully deregulated are now regulated in a new manner through which the state is again gaining grater influence. It generally seems that the awareness for the need of deregulation is very little present both with the leading politicians and with the general public.

As to the foreign investments in the transitional process of Macedonia, the foreign investors have relatively early leveled out with the domestic ones. For the purpose of attracting new investments (foreign as well as domestic), the state made a crucial step in the form of decreasing the profit tax rate down to 15% thus making it the lowest in Europe. As a result of this action, there was a significant increase in the budget incom from this tax.⁵

Th international trade policy, is created only on the basis of relations of the exports and imports and the coverage of the imports with the exports. That is being done in the Ministry of Economy. There is no specialized agency that follows the export-import flows or formulates the other aspects of the inetrenational economic relations. That was, by some extent, previously done by the Ministry of Trade. Within the program for rationalization of the administration, this Ministry was merged with the Ministry of Economy. An independent strategy for the international relations is not prepared in any institution, or it is done sporadically, and when it is done, then that strategy is only a reaction to the requirements of

⁵ The final raport on the Budget 1996, 1997, 1998,1999,2000

the budget, or the deficit in the balance of payments. The Ministry of Economy sees its role as an institution that is only to grant quotas and explore new ways of limiting the imports, which even more strengthen the dependence of the economy from the state.

For the small and medium companies there is an agency called **NEPA (National Enterprise Promotion Agency)**, aimed to help the small enterprises in their positioning in the field of exports, and helping them with foreign loans. However, it is only concentrated on small enterprises (the term “micro enterprises” fits better). They are not a significant factor in the economic relations with the international community and with the neighboring countries, and it is unlikely that they will ever become one.

From this we can conclude that there is no true strategy prepared for the international economic relations, and what is done as a program in this area is actually a reflection of other economic considerations. Simply, although the Macedonian international economic relations are a dominant form of economic activity, so far, they have not been a base for creation of economic strategy for the country.

The idea of Macedonia as an autarchic state has never been openly formulated. That can neither be read from the flows of export and import. Nevertheless, even the publicly formulated necessity of a deeper cooperation with the other countries did not result in a creation of a strategy that would be based upon a clearly formulated strategy for a long-term cooperation with the international community and especially with the SEE countries. All that can be detected is the desire for cooperation with the European Union with one very obvious mistake, that that cooperation depends on the bilateral relations of Macedonia and the EU.

This lack of formulated strategy for international economic cooperation, and with the region in particular, can also be seen from the media and the public opinion pools. Namely, the idea that the regional cooperation is the basic precondition for economic strengthening and moving towards the European Union cannot be found in the media.⁶

Similar was the reaction of the academic circles, which had a remarkably repellent reaction to the proposal of Macedonia joining the euro zone. The arguments of the opponents of this idea were that it is very useful that Macedonia maintains certain independence in the monetary sphere. They here totally disregard the fact that that sort of independence does not exist. Namely, the arrangements with the IMF are created in such way that the Central bank has practically no independence. Therefore Macedonia is trying to maintain something that actually does not exist at all¹. It is hard to accept the argument that this is unknown to the experts, especially those working on monetary issues⁷.

⁶ Exception is biweekly magazine “Forum”, which treats this topic frequently, but its readers public has been limited to one intellectual circle. Even though “Forum” is an opinion-maker, it did not have a greater influence concerning this topic

⁷ Part of this discussion can be detected from the texts and discussions from the conference of the Association of economists of Macedonia held on November 18, 1999 in Skopje. Extracts from this conference are printed in “Monetary policy and economic development”. The reactions to the proposal of Macedonia joining the euro zone have been published in the press for weeks and months and have with no exception rejected the idea.

At the end remains the question whether the ignoring of the obvious need of Macedonia for regional cooperation is completely coincidental. I believe that the ignoring and avoiding of the topics is not coincidental. Who could benefit from the maintained economic fragmentation within SEE? This is a speculative question. Here is one speculation. Those are the monopolies whose monopolistic position would be disturbed with the opening of the borders. The second group is the organized (half) criminal, which in fact draws the profit from the situation of many borders and plenty of administration. They manage to make their profits thanks to their “ability” of “skillfully” rounding the tight, almost closed border doors, and as well the high import fees and quotas. If this conclusion is correct, then it is amazing how skillfully they interfere in the creation of the public opinion and how persistently they manage to divert the attention of the Macedonian public from the topics that are of its interest. The existence of enormous number of radio and TV stations in Macedonia is sometimes interpreted through the existence of those groups.

The move toward customs and monetary union which would enter a similar arrangement with the EU could endanger the position of this groups since part of the national powers would go over to international bodies. They, if supported by the EU, could have power enough for the fight against the organized crime and local monopolies.

The corruption

We will start our analysis with the most important weakness of the SEE counties seen by many observers. That is the speed of corruption. So far, one misses an organized well-discussed and well-supported campaign against the corruption⁸. The anticorruption attempts have been limited to activities of the prosecution bodies and the bodies responsible for control of the economic transactions. These attempts, as much as they have been serious or of any quality, have not shown any results because the corruption is so big that it outgrows the competencies of a single sector and its legal possibilities.

The second factor, which has prevented the corruption to become a more serious item for the activities of both, the governmental and the non-governmental sector, is the constant political instability of the country. That instability was indicated by interior factors but even more often by its surrounding. Thus the corruption, even though publicly recognized as negative and dangerous phenomenon, has not become a point of unification of the different political and social forces that act in Macedonia.

It is our strong believe that a successful strategy for a fight against corruption one has to start by creating a system of laws, which will be “inappropriate” for corruption. And that is actually the idea of deregulation, which, in other context, is discussed elsewhere in this text.

⁸ The figures presented are results of survey conducted during November 2000 on a representative group of 1007 persons, with the collaboration of “Forum- Centar for strategic studies and documentaction” .

A particular feature for Macedonia is the citizen's feeling that the corruption is not the biggest problem of the country. The research shows that the unemployment is considered the biggest problem of the social-economic development in Macedonia.

But the responses point out a group of most significant social problems of the citizens. Thus, the Macedonians, apart from unemployment and low salaries, consider poverty, political instability, and crime as the major problems. These are problems, which could be easily related to corruption. Namely, these problems together with the corruption and the inter-ethnic relations (which belong to another field) dominate the conscience of the Macedonians as the greatest ones. The other social-economic areas are of much less significance for the Macedonian citizens. Thus, we believe that our thesis that we have to start from the reasons that stimulate corruption is correct.⁹

In ranking of the basic problems of Macedonia, corruption is ranked last in the group of "most significant" problems of the country. However, the ranking of the corruption as the seventh biggest problem may include a certain diagnosis that is given by the citizens. Namely, the low salaries, the poverty and the spreading of crime are the stimulators for the rapid development of corruption.

The issue whether certain societies are particularly inclined towards corruption is very interesting. This issue may be formulated differently: whether the circumstances are the ones, which stimulate a high level of corruption in a given country, or it is the population's attitude, which easily accepts this practice. The answer to this question in the Republic of Macedonia may be reviewed through the following responses.

A7. Imagine someone who has extended cash or a gift to an official and has obtained what they wanted. How, in your view, is this citizen most likely to feel?

	Answer	%
Content	283	28.10
Angry	245	24.33
Indignant	239	23.73
Embarrassed	172	17.08
Do not know/No answer	68	6.75
	1007	100.00

In order to further examine the value attitudes of the population we asked the examinee for a reaction to a hypothetical situation, where he is in a situation of receiving bribe. The response of the ones who state that they would not accept bribe is the dominating one (47.77%). A third from the population (33.86%) has relativized the refusal by refusing the bribe if *some illegal act is required*, but implicitly responds that s/he would accept money or a gift to do

⁹ See table 9 in the annex

something that is not illegal. Probably here lies the potential of the specific method of the employee's "silent bribe extortion" by not doing what the administration should normally do. It is disturbing that 15.39% explicitly states that they would accept bribe. If we add also the number of those who do not know what to answer, which in this case may be taken as absolutely hesitant attitude towards the bribe taking, the percentage of the ones who do not deny that they would accept bribe is 18.37%.

A8. Imagine yourself in an official low-paid position and you are approached by someone offering cash, gift or favor to solve their problem. What would you do:

	Answer	%
I would not accept, I do not approve of such acts	481	47.77
I would not accept, if the solution to the problem is related with law evasion	341	33.86
I would accept, if I can solve their problem	99	9.83
I would accept, if all do that	56	5.56
Do not know/No answer	30	2.98
	1007	100.00

The table shows that the category of examinees, who consider that the one who bribes after the "successfully" committed act feels pleasure, is the largest one. It could be explained as a certain degree of permissiveness to corruption, which is appreciated only from the point of view of "rationality". Nevertheless, the answers to the next three questions which are similar in regard to the fact that they express an attitude of non-acceptance and refusal of corruption as a "normal" way of solving problems, is significantly more numerous. While 28.33% assess the briber as satisfied, 65.11% from the examinees express different kinds of reactions of repulsion.

We have tried to pose the diagnosis on the level of corruption of the civil servants to specify, if possible, the profession or the level where corruption is most frequent.

The answers show that the first five groups of civil servants that the citizens consider that "they are all corrupted" are:

- Customs Officers (35.45%)
- Businesspersons (27.11%)
- Doctors (25.02%)
- Ministers (24.32%)
- Members of Parliament (21.84%)

They are followed by civil servants in the Ministries, political parties and their leaders, judges, tax officer, etc. This data shows that the confidence in the ones who are supposed to fight corruption is very low. In addition, if the leaders are also under suspicion it is very difficult to gain the population's confidence in the fight against corruption.¹⁰

The very division of the questions in five groups (everybody is corrupted, most of them are corrupted, some of them are corrupted, nobody is corrupted, I do not know) creates certain problems. In order to come up with the rank order apart from the one which states that "everybody is corrupted" and which probably contains many prejudices, we have summed up the answers of the first three levels of corruption of certain professions in order to come to a more credible rank order of corrupted professions in the eyes of the Macedonian citizens. The table shows that the citizens believe that the degree of corruption is generally high. The citizens are of belief that the least corrupted are the NGO representatives. Still 60% of all citizens consider them corrupted.

The citizens consider the doctors as the most corrupted. The customs officers follow, and then the businesspersons. The next category agree civil servants in the Ministries. If we take into consideration that it also includes the customs officers and we add that the Health Care Sector, is the one that persistently avoids the privatization, it is clear that the confidence in the public sector is very low. Even more indicative is the fact that these groups are followed by the judges and the police officers, the ones that are supposed to lead the fight against corruption.

We have tried to research these attitudes as much as possible liberated from the prejudices for certain professions and to relate the statements with the personal experiences of the examinees. That is the reason for asking them about their personal experience during this last year. The answers a little bit change the order of the "most corrupted professions". From the table given further down, it is obvious that doctors, municipal civil servants, police officers, customs officers and court officers are considered the most corrupted professions. This again points out the disturbingly low reputation of those who should fight the corruption. In addition, the position that the unreformed and the non-privatized Health Care will continue to be the major source of citizens' distrust in the system has been confirmed.

References:

- AIGINGER Karl, (1998): Unit Values to Signal the Quality Position of CEECs., The Competitiveness of Transition Economies, OECD Proceedings, WIFO, WIIW and OECD Centre for Co-operation with Non-members, Vienna.
- AMERICAN CHAMBER IN MACEDONIA (2001): Amcham Directory
- ARMOUR H.O. and TEECE D.J. (1980): Vertical Integration and Technological Innovation., The Review of Economics and Statistics, Vol. LXII, No.3, North-Holland Publishing Company.
- ERNST & YOUNG (1999): Doing business in Southeast Europe

¹⁰ see Table 10 in the Anex

- EUROPEAN COMMISSION (1999): The Competitiveness of European Industry, 1999 Report., Working Document of the Services of the European Commission, Brussels.
- Export Strategy of the Republic of Macedonia. Macedonian Academy of Arts and Sciences, 1999.
- HATZICHRONGLOU Thomas (1996): Globalisation and Competitiveness: Relevant Indicators., OECD Directorate for Science, Technology and Industry, STI Working Papers 1996/5, OCDE/GD(96)43, Paris Cedex 16, France.
- HAVLIK Peter (1998): Export Competitiveness of Central and Eastern Europe., The Competitiveness of Transition Economies, OECD Proceedings, WIFO, WIIW and OECD Centre for Co-operation with Non-members, Vienna.
- MINISTRY OF FINANCE (2001): Bulletin of the Ministry of Finance, No 3.
- PORTER Michael E. (1990): The Competitive Advantage of Nations., The Mac Millan Press Ltd., USA.
- STATISTICS BUREAU OF MACEDONIA (1999): Gross Domestic Product 1997-1998. Announcement No 217, Skopje, December 1999.
- STATISTICS BUREAU OF MACEDONIA (1999): Statistical Yearbook of Macedonia 1999.
- STATISTICS BUREAU OF MACEDONIA: Statistical data on Exports and Imports of Macedonia in 1997 (original unaggregated data).
- UZUNOV Vanco (2001): Creating Nation's Competitive Performance. Ph.D. Thesis, Faculty of Economics - Skopje.
- WOLF MAYR-SCHNITZER Yvonne (1998): Trade Performance of CEECS According to Technology Classes., The Competitiveness of Transition Economies, OECD Proceedings, OECD Centre for Co-operation with Non-members i Austrian Institute of Economic Research (WIFO)
- WOLF MAYR-SCHNITZER Ivonne (1998): Intra-industry of CEECs., The Competitiveness of Transition Economies, OECD Proceedings, WIFO, WIIW and OECD Centre for Co-operation with Non-members, Vienna.

ANNEX

Table 1 Trade Exchange Between the Balkan Countries in the period 1981-1987
Millions of US Dollars Per Annum¹

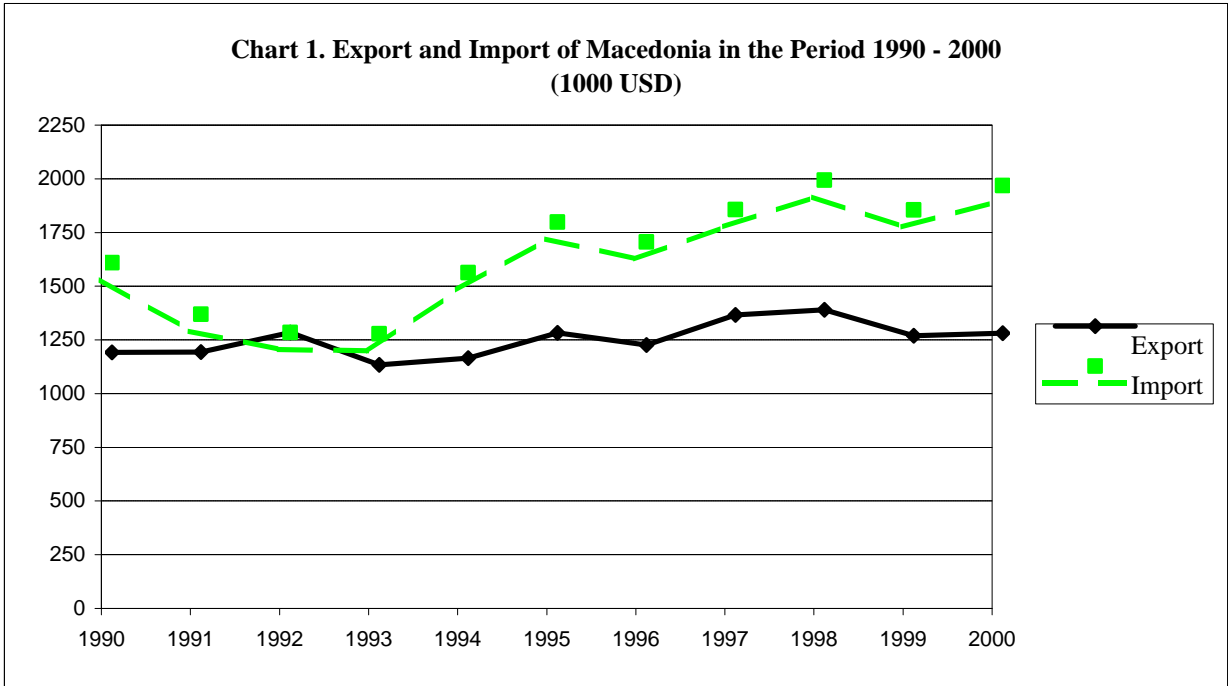
Export\Import	Albania	Bulgaria	Greece	Yugoslavia SFR	Romania	Turkey	Total
Albania	-	15,9	17,0	53,5	23,0	1,3	110,5
Bulgaria ²	10,5	-	47,2	110,5	225,2	63,0	456,4
Greece	8,3	50,9	-	74,1	52,9	38,9	320,7
Yugoslavia SFR	49,7	138,0	110,7	-	135,0	54,6	494,2
Romania	26,6	205,9	172,0	124,3	-	139,3	682,9
Turkey	1,3	17,7	174,6	23,0	52,6	-	269,3
Total	96,4	427,8	521,5	385,2	488,7	287,1	-

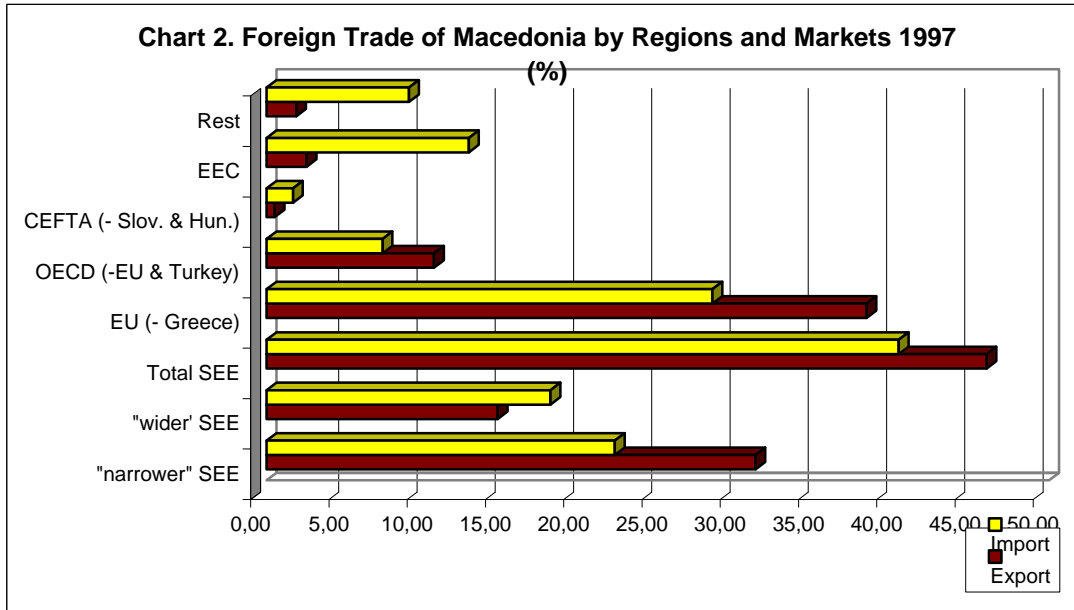
Sources 1. Directions of Trade Statistics, Yearbook 1988, IMF Washington D.C.
2. Statisticeskii godisnik na NRB, 1988, Sofia.

Table 2 Directions of the Foreign Trade (Imports & Exports) of the Balkan Countries
in the period 1981 - 1987 percentages¹

Country	To and from other Balkan countries	To and from West Europe	To and from USSR	To and from East Europe	To and from US, Canada, Japan & Australia	To and from the Oil exporting countries	To and from the developing countries & China
Albania	31,3	25,7	-	-	3,1	1,1	39,0
Bulgaria ²	3,5	8,6	55,1	18,1	1,3	7,4	11,0
Greece	4,7	48,7	2,4	1,5	8,7	11,9	22,1
Yugoslavia SFR	3,2	30,1	19,2	11,3	5,4	8,9	21,9
Romania	4,9	16,4	17,1	12,9	5,4	18,0	31,3
Turkey	2,6	30,7	1,6	1,2	8,3	22,3	27,3
Total	4,3	29,0	22,8	8,8	6,9	12,4	15,8

Sources: 1. Directions of Trade Statistics, Yearbook 1988, IMF Washington D.C.
2. Statisticeskii godisnik na NRB, 1988, Sofia.





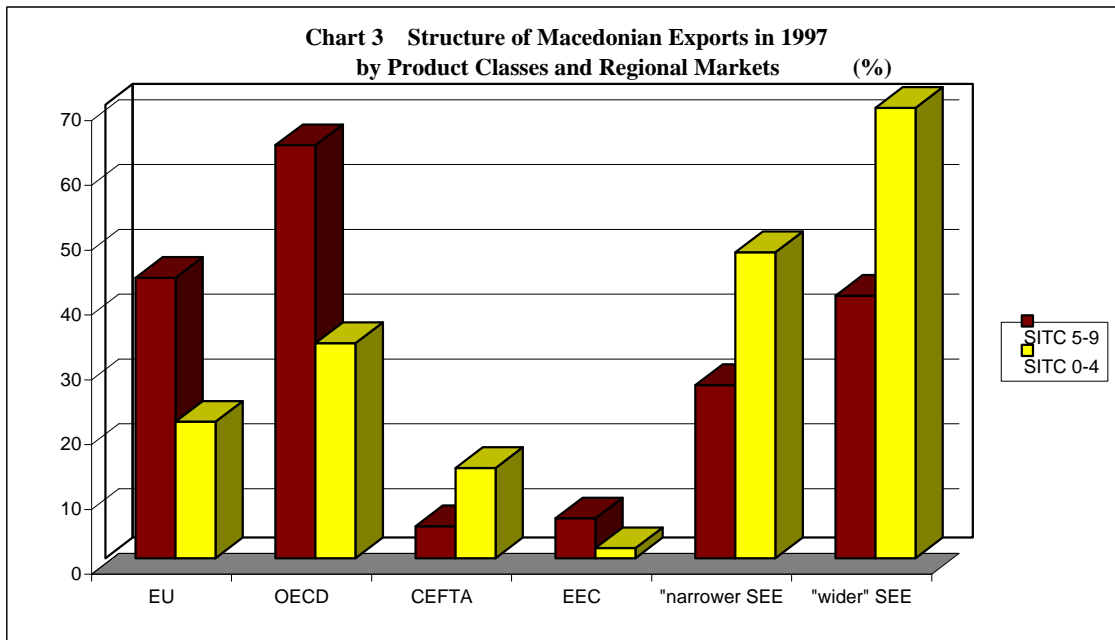


Table 3. Sectors with "Revealed Competitive Advantages" of Macedonia - Exports in 1997					
	Export Mill \$	Share in total export	GL index	5 markets with higher share in the export of the sector	Total in the 5 markets
Meat (Dried, Salted, Smoked)	2,90	0,24	0,01	Jordan (74%); GR (25%)	99,0%
Eggs	1,50	0,12	0,00	FRY (93%); HR (4%); BiH (2%)	99,0%
Rice	1,73	0,14	0,00	FRY (96%); AL (4%)	100,0%
Vegetables (Fresh, Simply Preserved)	17,13	1,42	0,03	FRY(65%); BG(7%); SLO(6%); HR (6%); BiH(4%)	88,0%
Vegetables (Preserved, Prepared)	9,07	0,75	0,07	FRY(21%); It(16%); BG(12%); D(10%); HR(10%)	69,0%
Fruit (Fresh, Dried)	14,25	1,18	0,00	FRY(41%); AL(29%); HR(7%); BiH(6%); BG(4.5%)	87,5%
Fruit (Preserved, Prepared)	2,45	0,20	0,06	D(38%); FRY(25%); NDL(19%); BiH(3.5%); BG(3%)	89,0%
Sugar Candy (Non-Chocolate)	5,35	0,44	0,22	FRY(44%); RUS(24%); BiH(21%); GR(7.5%); SLO(1.7%)	98,0%
Chocolate and Products	3,81	0,32	0,43	FRY(50%); RUS(25%); BiH(13%); SLO(4.5%); GR(4%)	97,0%
Spices	1,99	0,16	0,02	D(42%); FRY(23%); SLO(10%); FR(7.5%); It(4%)	87,0%
Water (mineral and natural) and Non-Alc. Bev.	29,72	2,46	0,05	FRY(97%)	97,0%
Alcoholic Bever. (Wine, Beer and Liqueurs)	31,91	2,64	0,03	D(51.5%); SLO(22%); FRY(10%); GB(4%); AL(2.5%)	90,0%
Tobacco (Unmanufactured, Refuse)	55,91	4,63	0,20	SAD(31%); GR(12.5%); D(9%); FRY(6.5%); NDL(6%);	65,0%
Tobacco (Manufactured, Cigarettes)	50,42	4,18	0,05	FRY(41%); AL(33.5%); BiH(7.5%); GR(6%); HR(5.5%);	93,5%
Raw Hides, Skins, Excluding Furs	9,17	0,76	0,00	TUR(88%); GR(6%); It (3.5%); D(1.5%)	99,0%
Seeds for Other Fixed Oils	0,43	0,04	0,07	FRY(53%); CES(16.5%); HR(9%); TUR(5.5%); SLO(5%);	89,0%
Fuel Wood	0,11	0,01	0,01	SLO(87%); FRY(4.5%); GR(2%); BG(2%); It(2%)	98,0%
Shaped Wood	7,72	0,64	0,02	EGP(26%); BiH(24.5%); It(13.5%); GR(12%); D(10%);	86,0%
Synthetic Fibres to Spin	20,46	1,69	0,04	FRY(28%); TUR(26%); BG(12.5%); CES(11%); It(5.5%);	83,0%
Stone (Marble, Gipsym, etc.)	6,44	0,53	0,03	GR(29%); It(27%); FRY(16%); BiH(7%); ESP(6%);	85,0%
Other Crude Minerals	2,73	0,23	0,02	FRY(78%); SLO(7%); HR(4.5%); BiH(4.5%); BG(4.5%);	98,5%
Base Non-Ferrous Metal Ores	12,52	1,04	0,00	FRY(91%); BG(9%);	100,0%
Non-Ferrous Metal Scrap	8,87	0,74	0,02	SWZ(50%); BG(22.5%); TUR(17%); FRY(4.5%); It(2.5%);	96,5%
Precious Metal Ores (Waste)	0,48	0,04	0,00	FRY (100%);	100,0%
Crude Vegetable Materials (Tea)	4,79	0,40	0,10	RUS(38%); D(17%); FR(11%); HR(8.5%); GR(6%);	80,5%
Inorganic Elements, Oxydes, Etc.	8,66	0,72	0,02	SAD(52); FRY(12%); GR(11%); NDL(7%); It(6%);	88,0%
Pharmaceutical Products	18,80	1,56	0,29	RUS(29%); FRY(26%); HR(24%); SLO(10%); BiH(6.7%)	95,7%
Soap, Cleansing Preparations	8,92	0,74	0,05	FRY(98%);	98,0%
Fertilizers (Manufactured)	4,44	0,37	0,01	FRY(94%); BG(4%); GR(1.7%);	100,0%
Polythene, Polivinylchloride	9,19	0,76	0,13	FRY(74%); GR(22%); RUS(1%); D(1%); BG(1%);	99,0%
Leather	4,11	0,34	0,09	It(39%); FRY(38%); BG(8%); DK(4%); TUR(3%);	92,0%
Fur Skins (Tanned, Dressed)	2,23	0,18	0,01	D(48%); BLRUS(41%); BiH(6%); RO(2%); SLK(1%);	98,0%
Cotton Fabrics (Woven)	14,91	1,24	0,10	FRY(36%); D(24%); It(19%); GR(9%); HU(4%); HR(3%)	95,0%
Woven (Man-Made Fibres) Fabrics	13,93	1,15	0,19	FRY(39%);It(25.6%);HU(5.6%);D(4.6); BiH(4%); BG(4%)	82,8%
Other Woven Textile Fabrics	9,85	0,82	0,02	FRY(21%); SAD(20%); It(12%); RUS(11.5%); BG(7.5%)	72,0%
Knitted Fabrics	6,43	0,53	0,10	FRY(21%);It(12%);RUS(11.5%);BLRUS (10%);BG(7.5%)	62,0%
Special Textile Fabrics, Products	4,70	0,39	0,11	FRY(60%); UKR(21%); It(13%); RO(5%);	99,0%
Textile Articles, NES	13,75	1,14	0,25	FRY(32%); D(31%); It(9%); SLO(5.5%); GR(5%);	82,5%
Portland Cement	15,69	1,30	0,03	FRY(92%); GR(2%); D(1.5%); It(1%);	96,5%
Clay, Refractory Building Products	4,90	0,41	0,17	FRY(60%); BiH(23%); AL(6%); BG(4%); SLO(2.5%);	95,5%
Mineral Manufactures, NES	4,68	0,39	0,06	BG(48%); FRY(27.5%); SLO(9%); D(6.5%); BiH(2.5);	93,5%
Glass	3,64	0,30	0,09	TUR(29%); FRY(26%); BG(16%); GR(10%); D(5%);	86,0%
Pottery	2,40	0,20	0,12	FRY(73%); GR(6%); BiH(6%); SLO(5.5%); It(3.5%);	94,0%
Pig Iron	79,12	6,55	0,00	SWZ(26%); GB(16%); NDL(9%); GR(8%); FRY(6.8);	65,8%
Iron and Steel Shapes, Etc.	58,38	4,84	0,02	GR(37%); SAD(12%); HR(7.7%); LHT(7.6%); It(7%);	71,3%
Iron and Steel Plates and Sheets	28,56	2,37	0,14	LHT(38%); GR(24.5%); GB(14.5%); FRY(7%); It(4%);	88,0%
Iron and Steel Tubes, Pipes, Etc.	12,25	1,01	0,04	FRY(25.5%);D(18%);CHILE(15%);HR(11.5%);GB(7.5%)	77,5%
Iron and Steel Castings (Unworked)	4,70	0,39	0,20	D(40%); It(25%);HR(15%);NDL(5%); FRY(5%); BiH(5%)	95,0%
Copper, Aluminium, Nickel, Lead, Zink - Profiles, Pipes	94,21	7,80	0,08	SWZ(38.5%);SLO(12.6%);GR(11.7%);FRY(11%);D(10%)	83,8%
Steel and Aluminium Structures and Parts, NES	9,18	0,76	0,12	FRY(25%);SLO(20%);OAE(11.5%);ESP(8%);RUS(6.3%)	70,8%
Metal Tanks, Boxes, Etc.	2,59	0,21	0,10	FRY(90%); BG(6.7%); AL(1.3%);	98,0%
Wire Products (Non Electr.)	2,40	0,20	0,06	FRY(80%); AL(17%); BG(2%);	99,0%
Electr. Distributing Equipment	27,00	2,24	0,16	SLO(34%); D(29%); FRY(11%); HR(9.5%); FR(3.5%);	87,0%
Railway Vehicles (Parts of)	5,70	0,47	0,18	FRY(42%);It(25%);PL(15%);SLK(4%);RO(4%);TUR(3%)	93,0%
Plumbing, Heating, Lighting Equipment	5,05	0,42	0,06	HR(21.5%); SLO(21%); FRY(19%); NDL(16%); D(14%);	91,5%
Mens Outwear (Not Knitted)	117,40	9,73	0,44	D(49%); SAD(21.5%); NDL(19.5%); GR(4%); BEL(1.5%);	95,5%
Womens Outwear (Not Knitted)	92,22	7,64	0,51	D(40%); SAD(38%); GR(11.5%); NDL(2%); BEL(1.5%);	93,0%
Under Garments (Not Knitted)	2,15	0,18	0,65	D(61%); GR(19%); FRY(8.5%); It(6.6%); SLO(3%)	98,0%
Outerwear (Knitted, Nonelastic)	18,48	1,53	0,55	D(49%); GR(31%); NDL(10%); SAD(3.4%); FRY(2%)	95,4%
Under Garments (Knitted)	10,24	0,85	0,21	D(49%);SAD(28%);GR(10%);FRY(4%);It(2.7%);SLO(2%)	95,7%
Textile Clothing Accessories, NES	2,74	0,23	0,43	D(34%);GR(24%);SAD(20%);NDL(10.5%);GB(4.4%);It(2%)	94,9%
Non-Textile Clothing	5,75	0,48	0,14	D(86%); GR(8%); FRY(2.5%); SLO(2%);	98,5%
Footwear	51,47	4,26	0,24	SAD(30.5%); D(21.5%); AUT(20%); RUS(11%); It(7.7%);	90,7%
Total	1082,68	89,68	0,18		
0-4:	301,84	25,00	0,07		
5-9:	780,84	64,68	0,22		

Abbreviations: AL = Albania; AUT = Austria; BEL = Belgium; BG = Bulgaria; BiH = Bosnia; BLRUS = Belarus; CES = Czech Republic; CHILE = Chile; D = Germany; DK = Denmark; EGP = Egypt; ESP = Spain; FR = France; GB = Great Britain; GR = Greece; HR = Croatia; HU = Hungary; It = Italy; LHT = Lichtenstein; NDL = Netherlands; OAE = United Arab Emirates; PL = Poland; RO = Romania; RUS = Russia; SAD = USA; SLK = Slovakia; SLO = Slovenia; FRY = FR Yugoslavia; SWZ = Switzerland; TUR = Turkey; UKR = Ukraine.

Table 4. Industries with succesful quality competitiveness - $UVexp > UVimp$ i $Qexp > Qimp$

SITC		Balance (Exp - Imp)	Relative importance (Bal x Exp share)	Rank by the relative importance
842	Mens Outwear, Not Knit	74,323	7,228	1
671	Pig Iron	78,388	5,137	2
68	Non Ferrous Metals	40,243	3,140	3
843	Womens Outwear, Not Knit	40,850	3,121	4
121	Tobacco Unmanufactured, Refuse	45,173	2,092	5
122	Tobacco, Manufactured	47,454	1,982	6
673	Iron, Steel Shapes, Etc.	19,027	0,920	7
851	Footwear	19,074	0,813	8
111	Non-Alcoholic Beverages	21,559	0,531	9
266	Synthetic Fybres to Spin	17,586	0,298	10
845	Outwear Knit, Nonelastic	9,007	0,138	11
652	Cotton Fabrics, Woven	9,444	0,117	12
658	Textile Articles, NES	9,153	0,104	13
288	Non Ferrous Metals Scrap, NES	8,794	0,065	14
287	Base Metal Ores, Concentrates, NES	6,052	0,063	15
678	Iron, Steel Tubes, Pipes, Etc.	5,897	0,060	16
691	Structures and Parts of Aluminum	7,250	0,055	17
653	Woven Man-Made Fibres Fabric	4,002	0,046	18
846	Under Garments Knitted	4,117	0,035	19
273	Stone, Sand and Gravel	5,499	0,029	20
056	Vegetables, Etc, Preserved, Prepared	3,701	0,028	21
848	Nontextile Clothing	3,590	0,017	22
791	Railway Vehicles	3,239	0,015	23
611	Leather	3,416	0,012	24
812	Plumbing, Heating, Lighting Equipment	1,723	0,007	25
613	Fur Skins Tanned, Dressed	2,216	0,004	26
666	Pottery	1,668	0,003	27
042	Rice	1,730	0,002	28
292	Crude Vegetable Materials, NES	0,550	0,002	29
058	Fruit Preserved, Prepared	1,062	0,002	30
844	Under Garments Not Knit	0,709	0,001	31
847	Textile Clothing Accessories, NES	0,347	0,001	32
657	Special Textile Fabrics Products	0,140	0,001	33
223	Seeds For Other Fixed Oils	0,213	0,000	34
	Total	497,194		

Industries with deficit in price competitiveness - $UVexp > UVimp$ i $Qexp < Qimp$

SITC		Balance (Exp - Imp)	Qex/Qim	Relative importance (Bal x Exp share)	Rank by the relative importance
664	Glass	-0,704	0,838	-0,002	1
073	Chocolate and Products	-2,740	0,582	-0,009	2
211	Hides, Skins, Excluding Furs, Raw	-1,680	0,845	-0,013	3
562	Fertilizers, Manufactured	-4,041	0,524	-0,015	4
248	Wood Shaped	-5,206	0,597	-0,033	5
012	Meat Dried, Salted, Smoked	-26,456	0,099	-0,064	6
674	Iron, Steel Univ., Plates, Sheet	-3,328	0,896	-0,079	7
541	Pharmaceutical Products	-20,012	0,484	-0,312	8
	Total	-64,167			

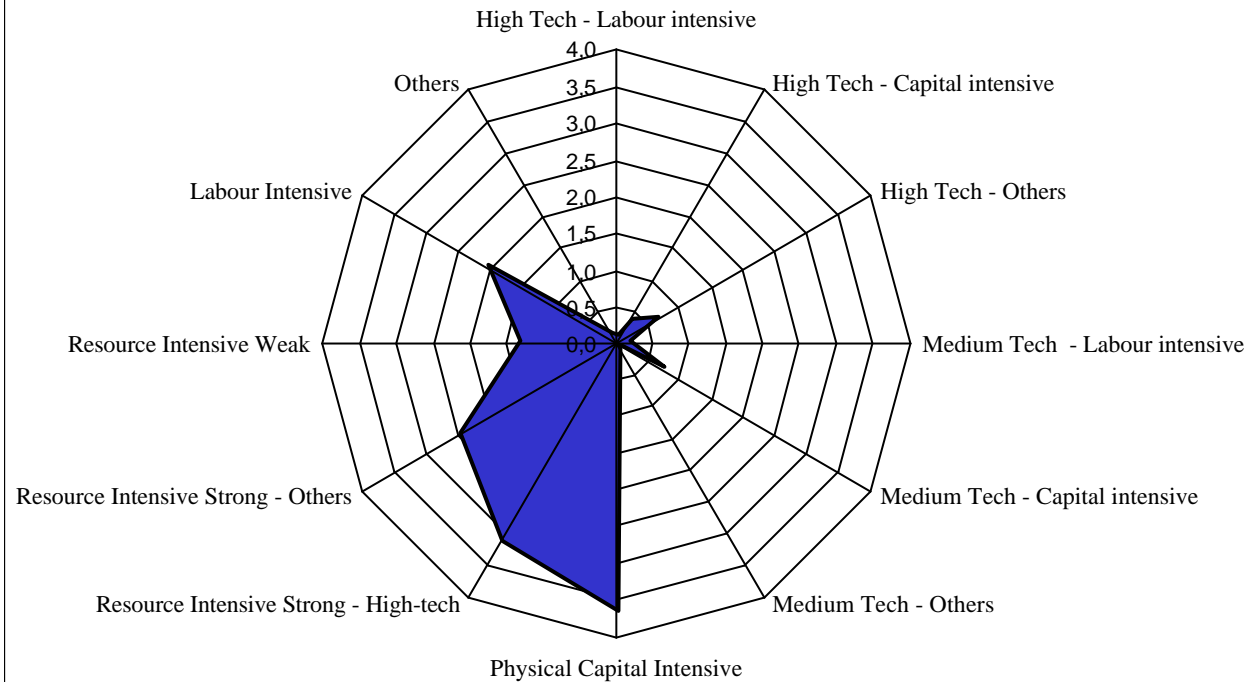
Industries with succesful price competitiveness - $UVexp < UVimp$ i $Qexp > Qimp$

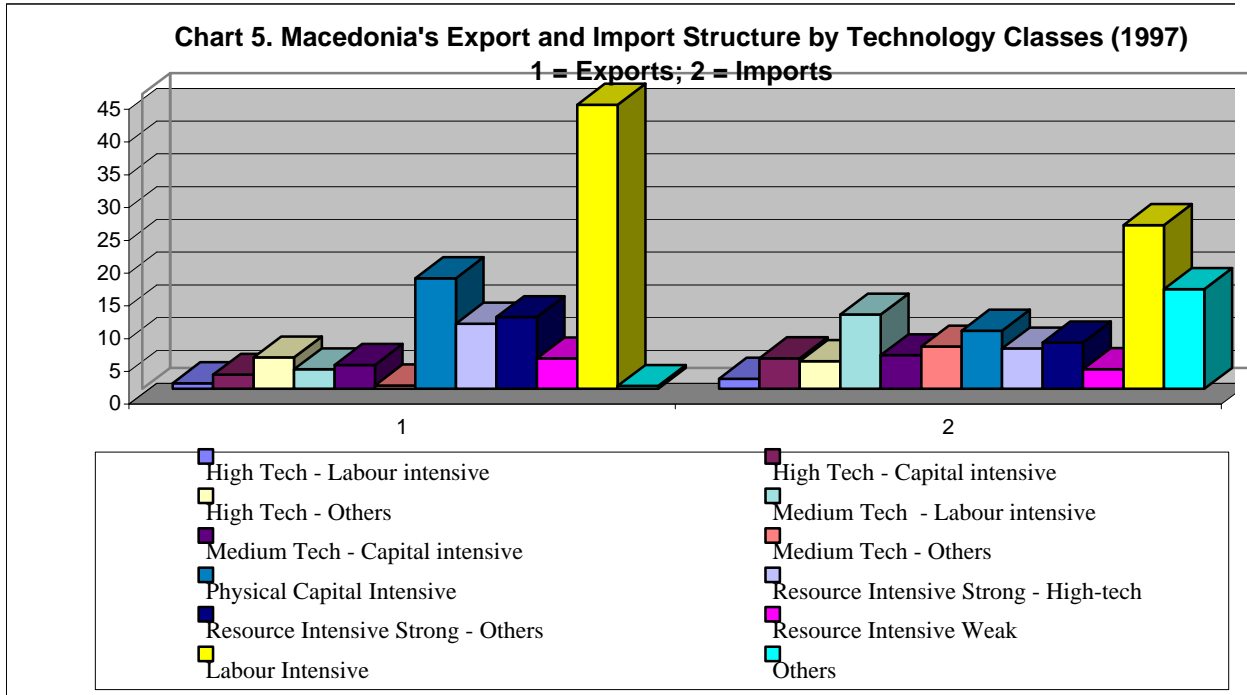
SITC		Balance (Exp - Imp)	Qex/Qim	Relative importance (Bal x Exp share)	Rank by the relative importance
112	Alcoholic beverages	30,286	19,599	0,801	1
773	Electr. Distributing Equipment	18,196	3,066	0,407	2
054	Vegetables Etc., Simply Preserved	12,962	4,114	0,184	3
661	Cement	12,086	4,357	0,157	4
057	Fruit, Nuts, Fresh, Dried	7,041	1,977	0,083	5
654	Other Woven Textile Fabric	6,797	3,221	0,055	6
655	Knitted, Etc, Fabrics	5,872	1,433	0,031	7
522	Inorganic Elements, Oxides, Etc.	3,376	1,638	0,024	8
062	Sugar candy, Non-Chocolate	3,365	2,694	0,015	9
679	Iron, Steel castings, Unworked	3,738	2,451	0,015	10
075	Spices	1,303	2,910	0,002	11
663	Mineral Manufactures, NES	0,509	1,122	0,002	12
025	Eggs, Fresh, Preserved	1,477	71,397	0,002	13
	Total	107,008			

Industries with structural problems - $UVexp < UVimp$ i $Qexp < Qimp$

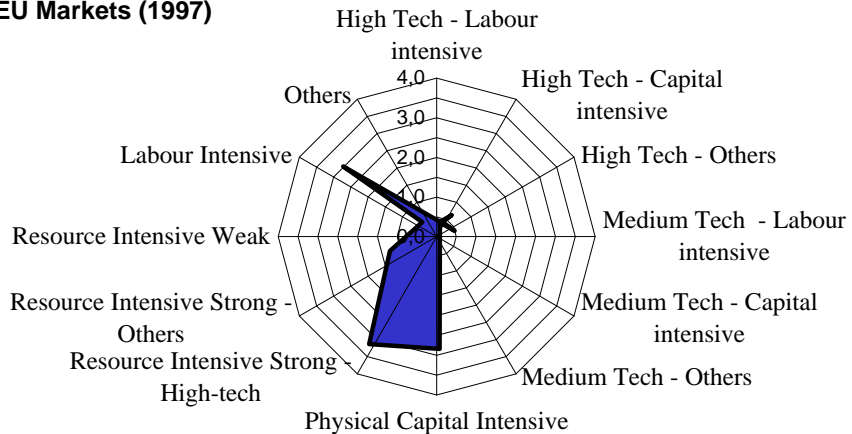
SITC		Balance (Exp - Imp)	Qex/Qim	Relative importance (Bal x Exp share)	Rank by the relative importance
245	Fuel Wood, NES	-0,923	0,103	0,000	1
554	Soap, Clensing Etc. Preparations	-0,067	0,993	0,000	2
693	Wire Products, Non Electr.	-0,695	0,775	-0,001	3
278	Other Crude Minerals	-3,015	0,475	-0,007	4
692	Metal Tanks, Boxes, Etc.	-7,884	0,248	-0,017	5
662	Clay, Refractory Building Products	-4,607	0,515	-0,019	6
57	Polythene, Polyvinilchloride	-9,242	0,535	-0,070	7
	Total	-26,433			

Chart 4. Macedonia's RCA by Technology Classes on all Markets in 1997

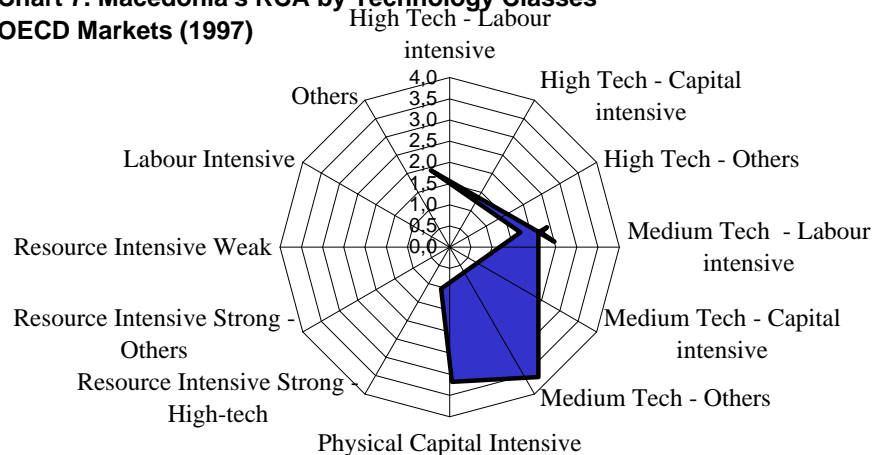




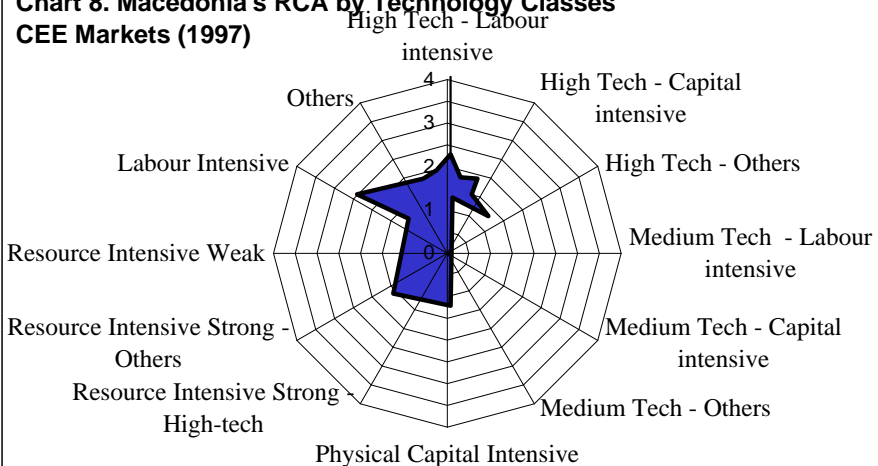
**Chart 6. Macedonia's RCA by Technology Classes
EU Markets (1997)**



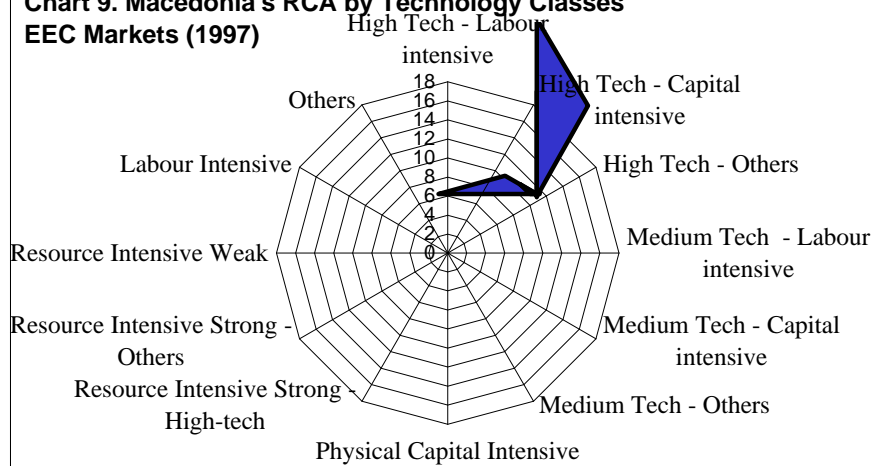
**Chart 7. Macedonia's RCA by Technology Classes
OECD Markets (1997)**

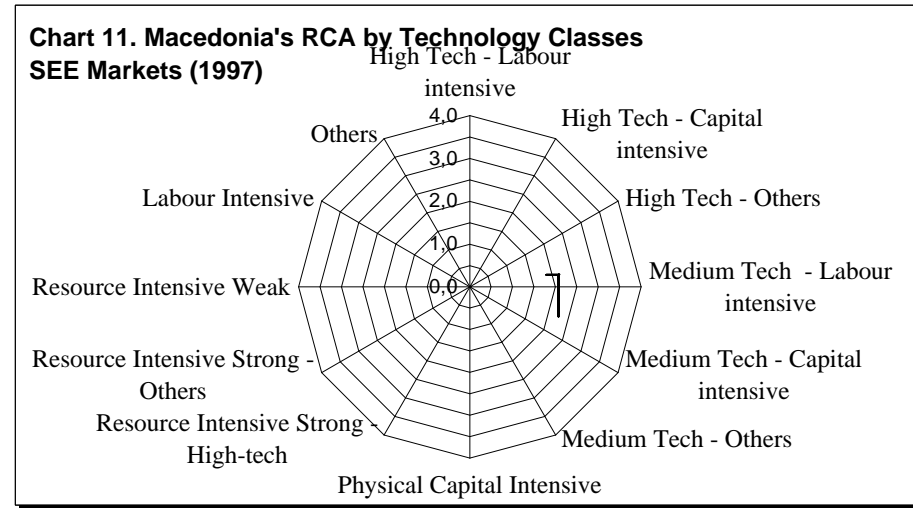
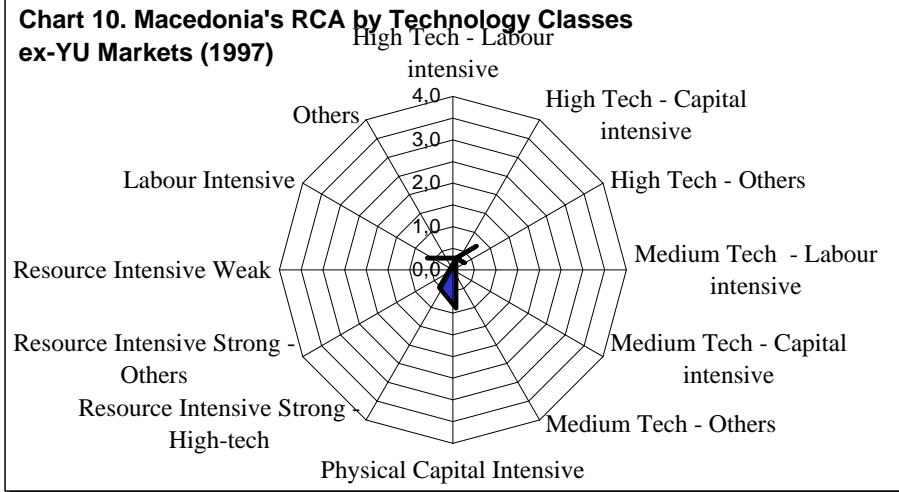


**Chart 8. Macedonia's RCA by Technology Classes
CEE Markets (1997)**



**Chart 9. Macedonia's RCA by Technology Classes
EEC Markets (1997)**





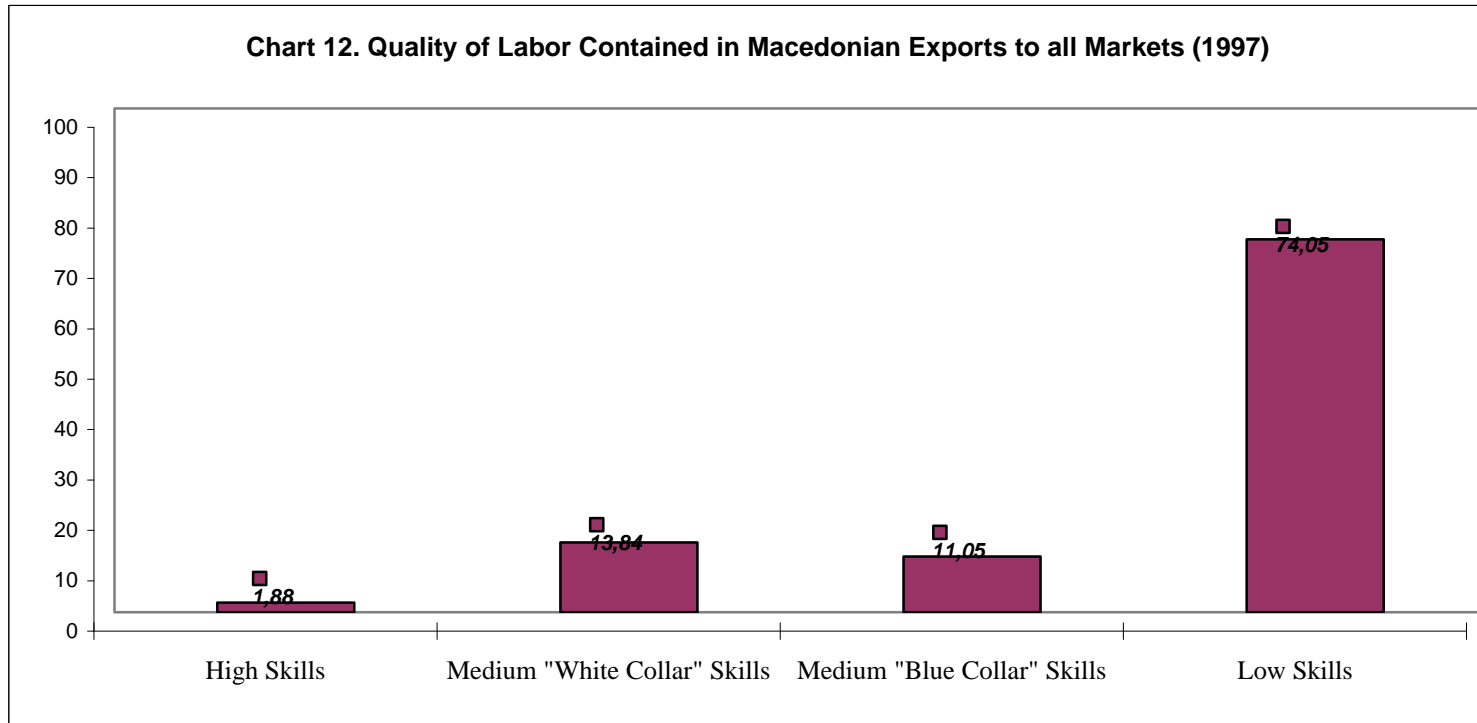


Chart 13. Quality of Labor in Exports to EU Markets

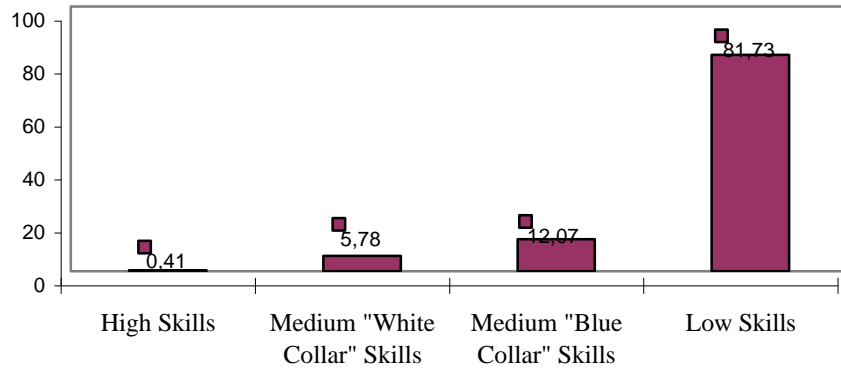


Chart 14. Quality of Labor in Exports to CEE Markets

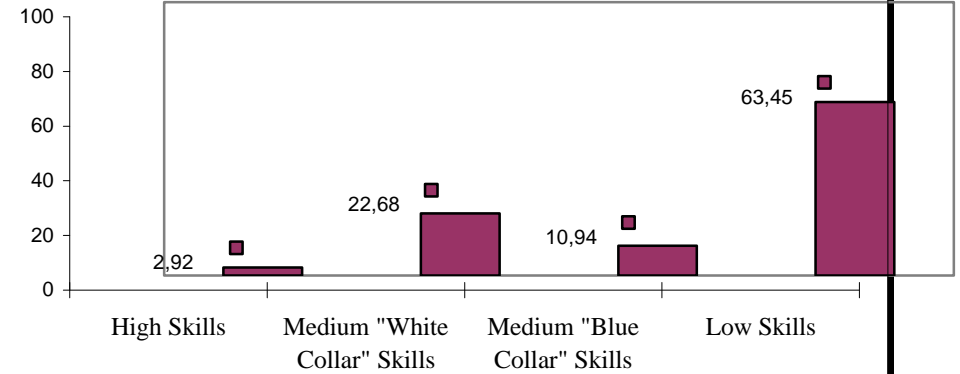


Chart 15. Quality of Labor in Exports to ex-YU Markets

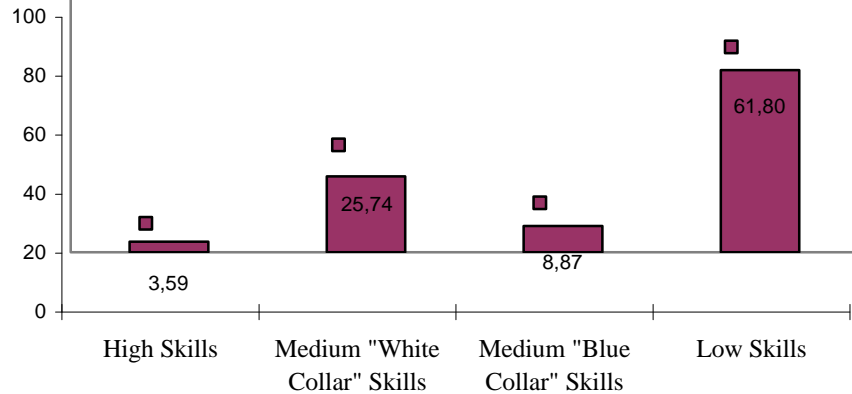


Chart 16. Quality of Labor in Exports to SEE Markets

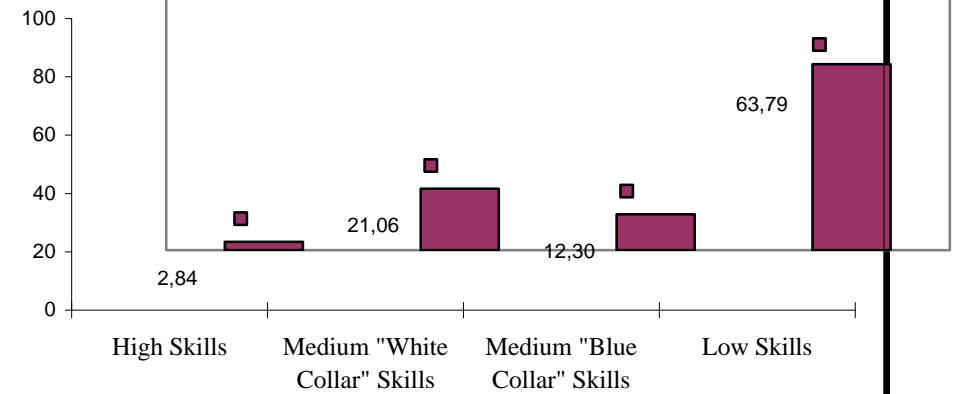


Table 5

Real GDP 1993-2000 as % from previous year									
	1992	1993	1994	1995	1996	1997	1998	1999	2000[1]
Real GDP in %	-15	-9,1	-1,8	-1,2	0,8	1,5	2,9	2,7	5,1

[\[1\] Estimation](#)

Source:
Bulletin of
Ministry of
Finance No
3, 2001

Table 6

Labor force

	1989	1990	1991	1992	1993	1994	1995
<i>Total employed (annual average)</i>	559,4	567,3	537	524,1	509	495,7	489,6
<i>Seeking employment (annual average)</i>	150,4	156,3	164,8	172,1	174,8	185,9	200
<i>Total labor force available</i>	709,8	723,6	701,8	696,2	683,8	681,6	689,6
<i>Unemployment rate</i>	21,19	21,6	23,48	24,72	25,56	27,27	29

Source:
Bulletin of
Ministry of
Finance No
7-8, 2001

Table 7

[Labor force –](#)

	1996	1997	1998	1999	2000
<i>Total employed (annual average)</i>	537,6	512,3	539,8	545,2	549,8
<i>Seeking employment (annual average)</i>	251,5	288,2	284,1	261,4	261,7
<i>Total labor force available</i>	789,1	800,5	823,9	806,6	811,5
<i>Unemployment rate</i>	31,87	36	34,48	32,41	32,25

Source:
Bulletin of
Ministry of
Finance No
7-8, 2001

Table 8

	Number of companies	Number of employees	Value in DEM
At the beginning of the privatization	1216	228 850	3 299 267 922
Completed privatization on 30.06.2001	1646	226 516	4 489 508 123
Ongoing privatization	113	12027	3 299 922

Source:
Bulletin of
Ministry of
Finance No
7-8, 2001

Table 9

1. Which are				
		Yes	No	% (Yes)
1	Employment	695	312	69,017
2	Low income	384	623	38,133
3	Poverty	383	624	38,034
4	Political instability	360	647	35,75
5	Criminal	323	684	32,075
6	Ethnical problems	291	716	28,898
7	Corruption	287	720	28,5
8	Prices	103	904	10,228
9	The Health System	62	945	6,157
10	The Educational System	42	965	4,171
11	Pollution	38	969	3,774
12	Something else	3	1004	0,298
13	I don't know	1	1006	0,099

Table 10

	Almost everybody is corrupted	Most of them are corrupted	Some of them are corrupted	Nobody is corrupted	I don't know		% Almost everybody is corrupted	% Most of them are corrupted	% Some of them are corrupted	% Nobody is corrupted	% I don't know
Journalists	31	148	502	175	151	1007	3,0785	14,697	49,851	17,38	14,995
Teachers	49	208	489	174	87	1007	4,8659	20,655	48,56	17,28	8,6395
University profsors and employees	160	366	340	45	96	1007	15,889	36,346	33,764	4,469	9,5333
Employees in the public administrati on	201	329	360	27	90	1007	19,96	32,671	35,75	2,681	8,9374
Employees in the local gouvermem ts	151	288	418	43	107	1007	14,995	28,6	41,509	4,27	10,626
Slu'benici vo sudskiot sistem	162	305	394	35	111	1007	16,087	30,288	39,126	3,476	11,023
Judges	193	317	379	40	78	1007	19,166	31,48	37,637	3,972	7,7458
Public prossecutor s	142	259	383	55	168	1007	14,101	25,72	38,034	5,462	16,683
Investigatin g officers	122	260	396	44	185	1007	12,115	25,819	39,325	4,369	18,371
Lawyers	150	303	420	46	88	1007	14,896	30,089	41,708	4,568	8,7388
Police officers	131	330	425	38	83	1007	13,009	32,771	42,205	3,774	8,2423
Custom officers	357	310	259	26	55	1007	35,452	30,785	25,72	2,582	5,4618
Tax-officers	190	315	365	50	87	1007	18,868	31,281	36,246	4,965	8,6395
Members of the Parliament	220	312	334	21	120	1007	21,847	30,983	33,168	2,085	11,917
Ministers	245	290	348	39	85	1007	24,33	28,798	34,558	3,873	8,4409
Municipal councillor/ officers	102	233	427	75	170	1007	10,129	23,138	42,403	7,448	16,882
Buisness people	273	313	305	46	70	1007	27,11	31,082	30,288	4,568	6,9513
Doctors	252	377	326	16	36	1007	25,025	37,438	32,373	1,589	3,575
Political party and coalitions leaders	199	284	360	36	128	1007	19,762	28,203	35,75	3,575	12,711
Local political leaders	165	296	376	37	133	1007	16,385	29,394	37,339	3,674	13,208
Represenata tives of NGO	56	168	387	181	215	1007	5,5611	16,683	38,431	17,97	21,351
Bankers	100	238	402	81	186	1007	9,9305	23,635	39,921	8,044	18,471