

May 19, 2021

Getting stronger after COVID-19: Nearshoring potential in the Western Balkans

Branimir Jovanović, wiiw

- **Prepared in cooperation with colleagues from:**
 - Union of Chambers of Commerce and Industry of Albania
 - Foreign Trade Chamber of Commerce and Industry of Bosnia and Hercegovina
 - Kosovo Chamber of Commerce
 - Chamber of Economy of Montenegro
 - Economic Chamber of Macedonia
 - Chamber of Commerce and Industry of Serbia
 - Chamber Investment Forum Western Balkans
 - Chamber Partnership Western Balkans
 - Germany Trade and Invest
- **Financially supported by:**
 - German Federal Ministry of Economic Cooperation and Development

COVID-19...

- Revealed all weak points of the existing economic system
- One of them refers to the global value chains
- Past several decades saw globalisation of production
- Multinational companies moving activities abroad, minimizing production costs (i.e. cheap labour)
- Just-in-time production, minimizing inventory costs
- COVID-19 disrupted this
- Companies started thinking about re-organising their production, to make it more resilient to such shocks

This study...

- Is near-shoring likely after the pandemic is over?
- Can near-shoring to Western Balkans emerge?
- Which factors will drive these developments?

What concretely do we do?

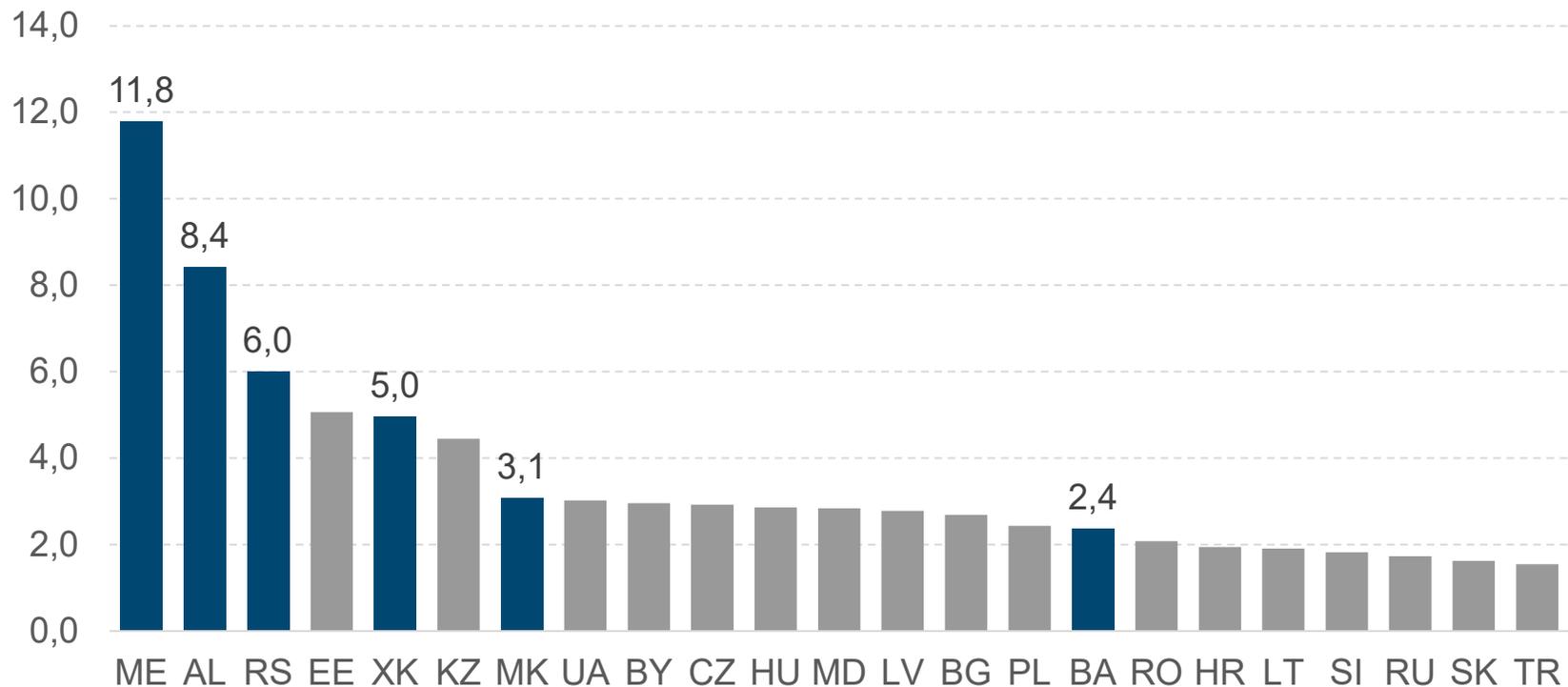
- Descriptive analysis of trends in FDI in recent years
 - Econometric analysis of FDI determinants
 - Surveys and interviews with German companies
 - Surveys and case studies of local companies
 - Interviews with local Investment Promotion Agencies
- Me
- Olga and Sophia
- Tatjana

FDI Top priority in Western Balkans in past 10 years

- All countries have special state agencies for attracting FDI
- Some of them even have dedicated ministries
- They all provide attractive benefit packages to foreign investors (mainly tax holidays and direct financial support)
- Many of them have special investment zones
- Politicians always FDI-friendly

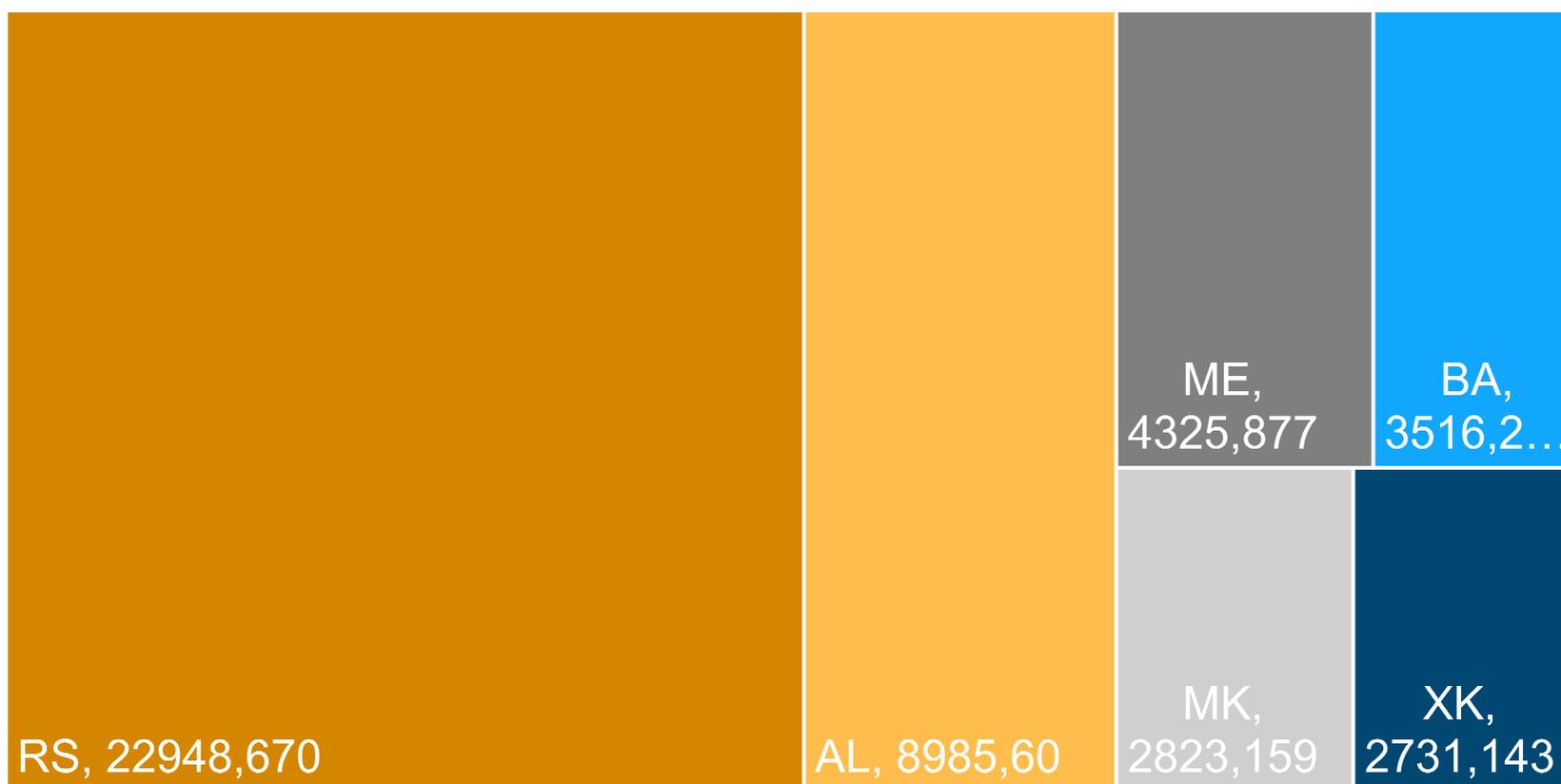
For some countries, this strategy has worked, for some not so much

FDI inflows in CESEE economies during 2010-2019 (% of GDP)



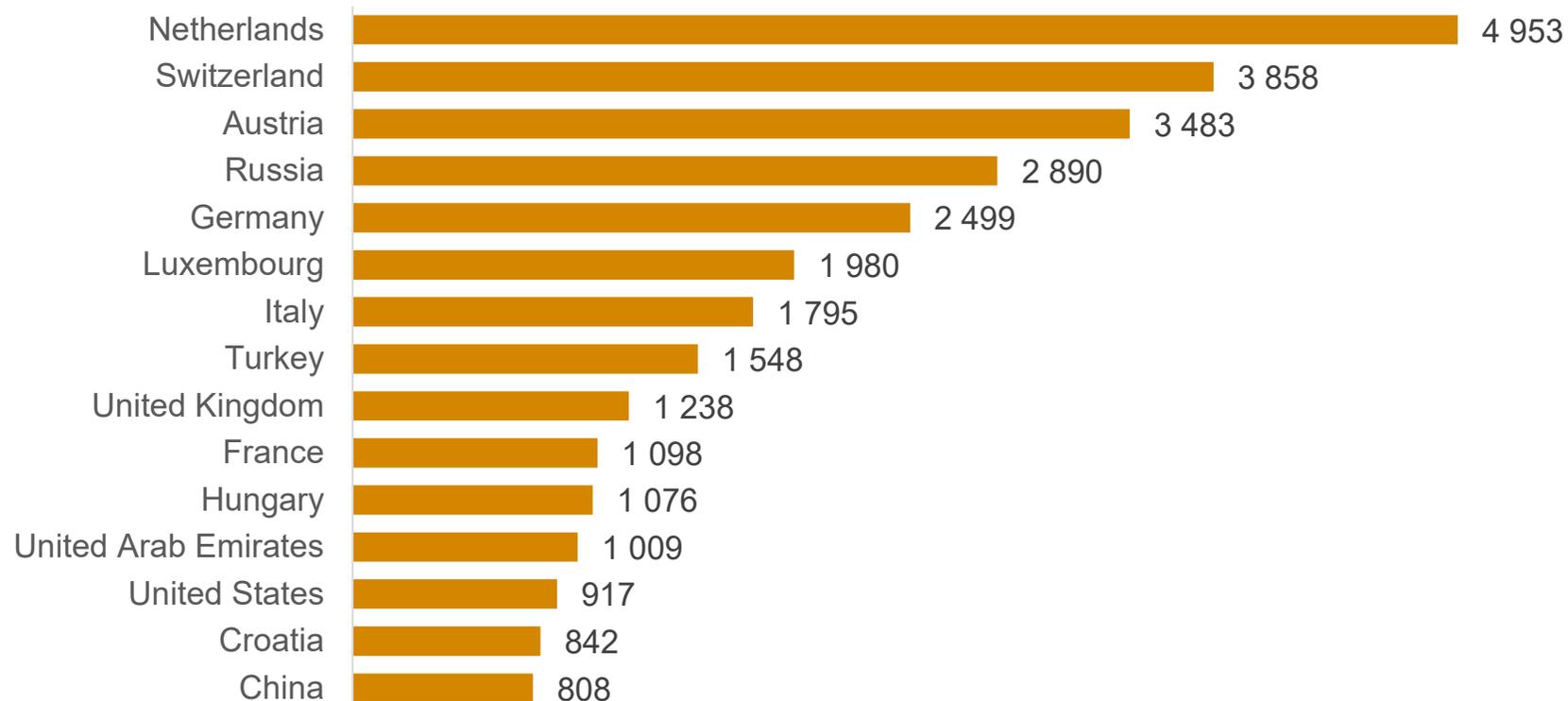
EUR 45 bn total FDI in the region between 2010-2019

Total FDI inflows into Western Balkans between 2010-2019 (EUR mn)



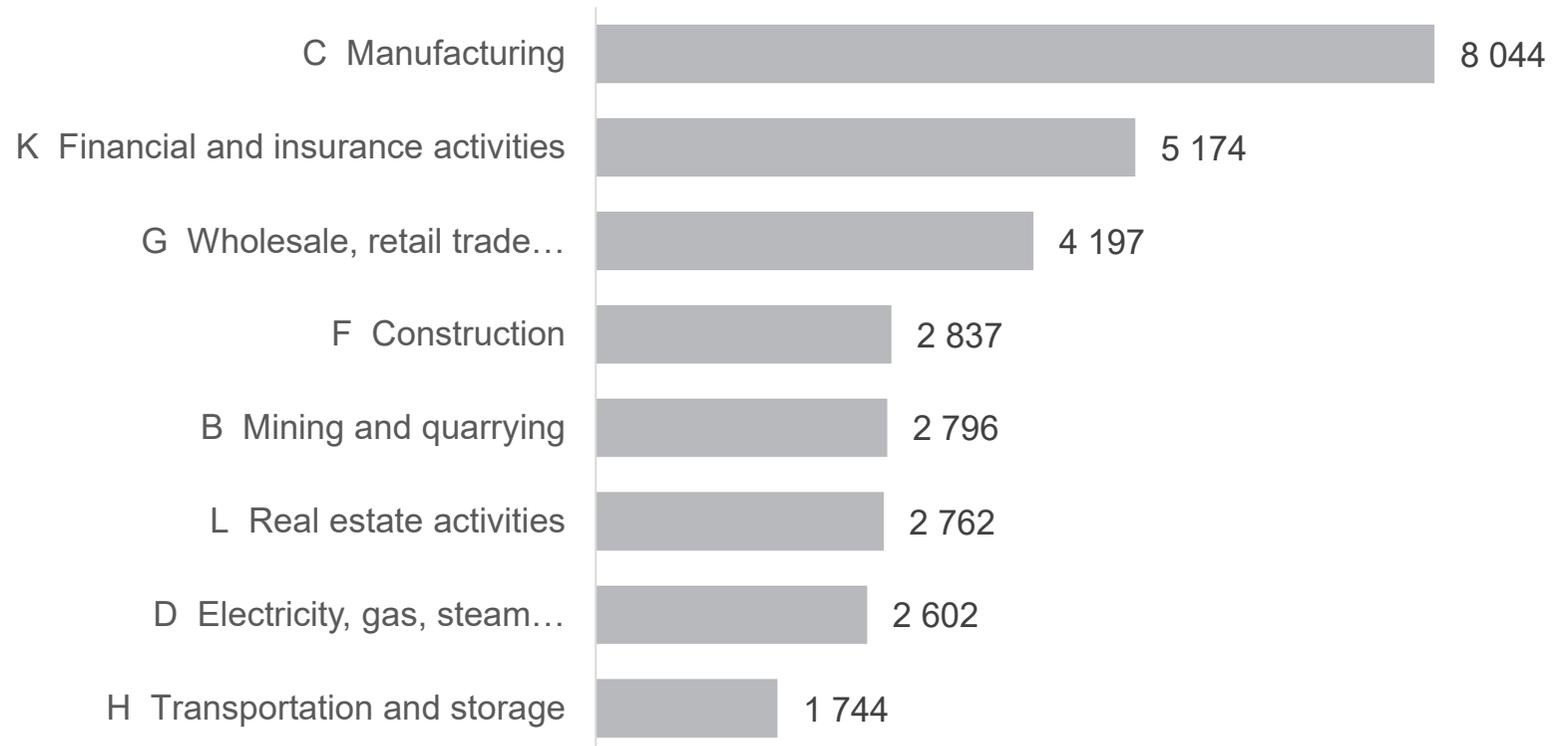
Netherlands, Switzerland, Austria, Russia and Germany biggest investors

FDI inflows into the WB during 2010-2019, by country of origin (EUR million)



Most of the investment in manufacturing, finance and trade

FDI inflows in WB during 2010-2019, by sector (EUR million)

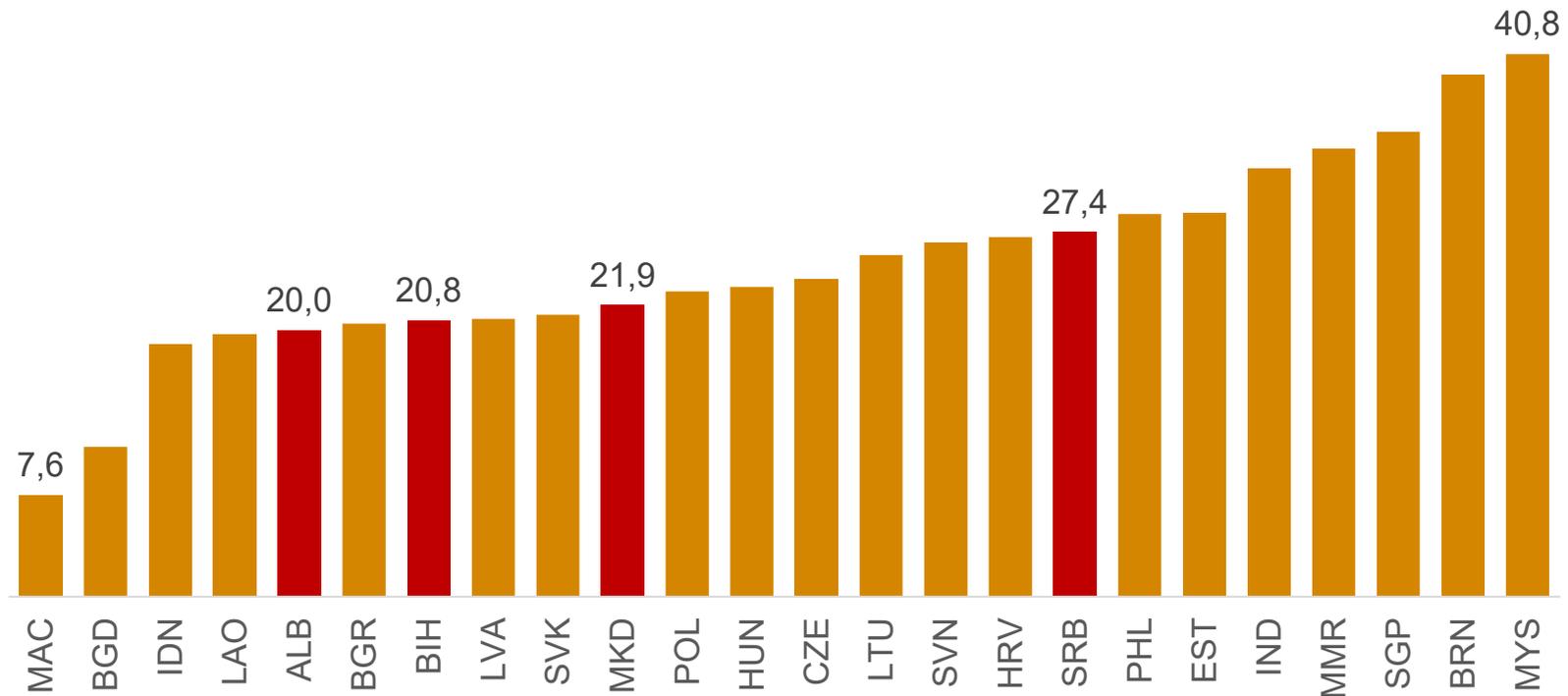


Econometric analysis...

- ...of **factors** that are important for FDI...
- ...with **origin** from EU and OECD countries...
- ...and **destination** to Western Balkans, Central and Eastern Europe and East Asia...
- ...for the **period** 2001-2018

Education one of the most important determinants of FDI. Western Balkan economies not so good here.

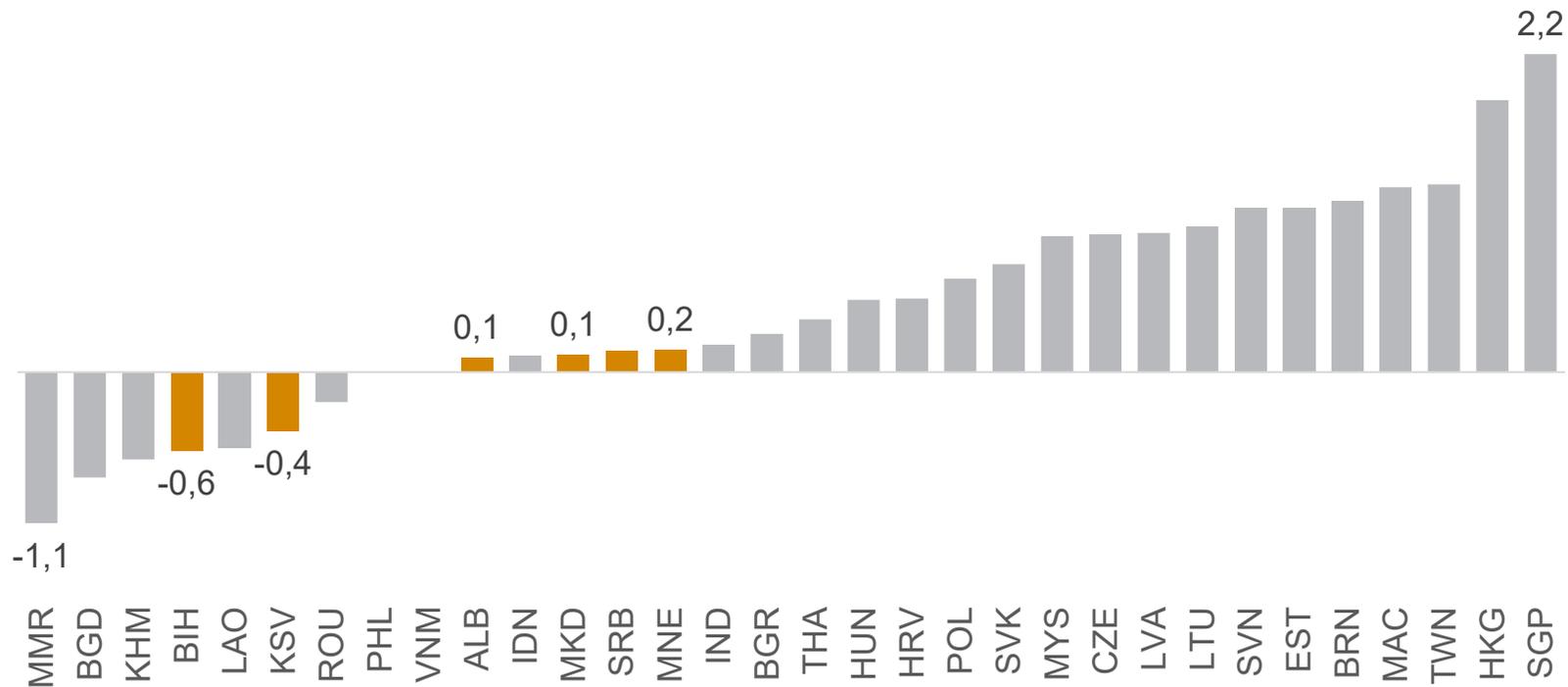
STEM graduates (% of total tertiary graduates), average for 2017-2019



Governance (political stability, government effectiveness, control of corruption) important determinants of FDI.

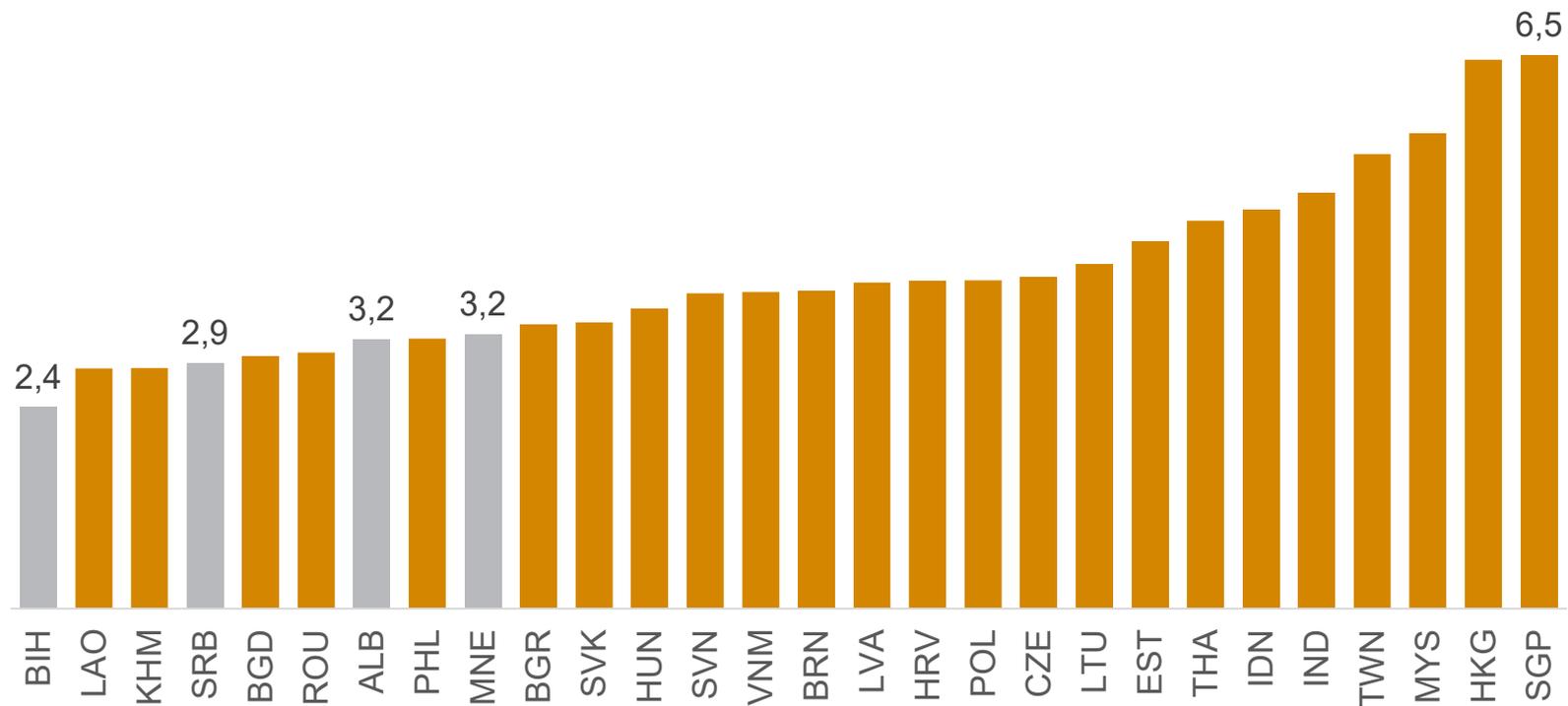
Western Balkans again not very strong.

Government Effectiveness (score, 2.5 = best), average for 2017-2019



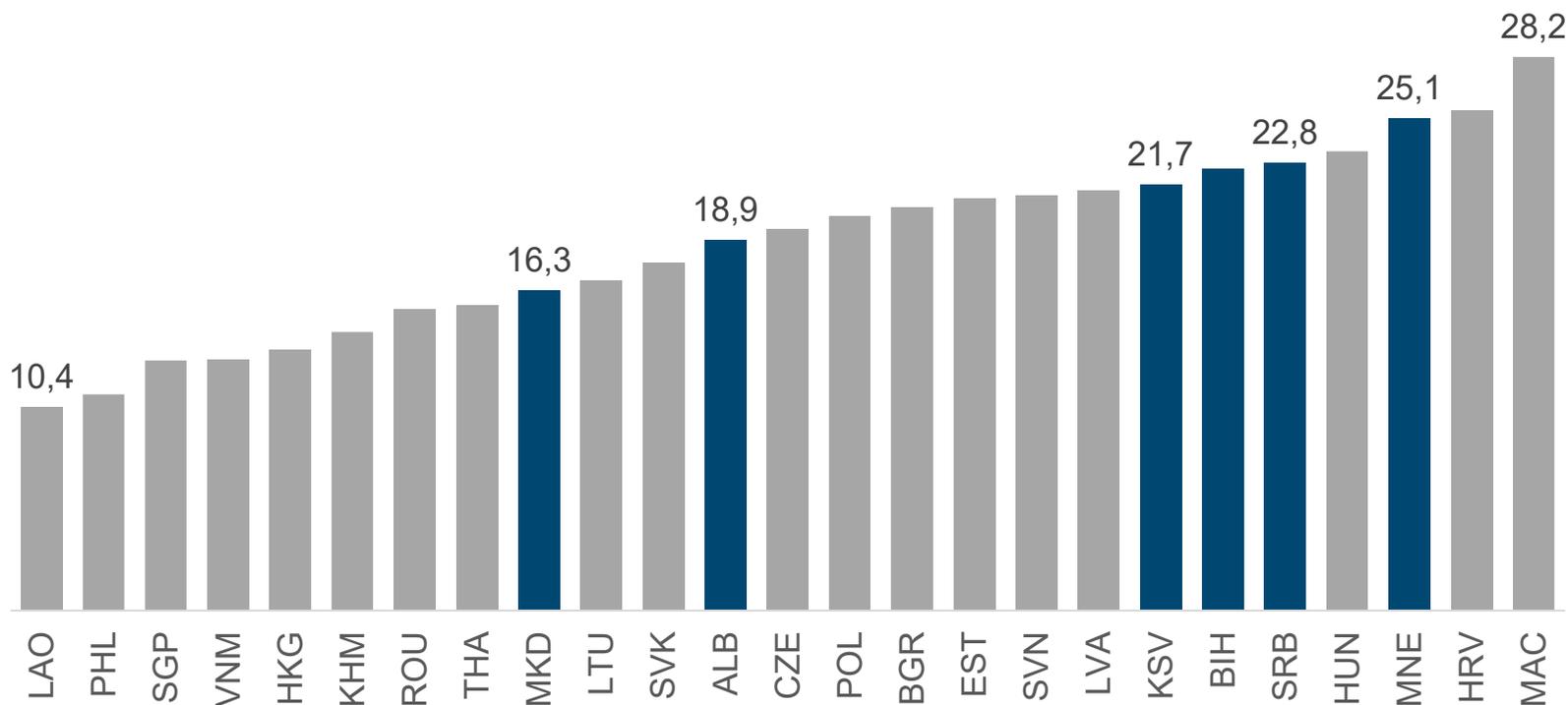
Infrastructure (overall transport, rail and particularly sea) also important. Western Europe again not excelling.

Quality of overall transport infrastructure (score, 7=best), average for 2017-2019



Taxes important for FDI only in the longer run (likely due to initial tax exemptions)

Taxes on income, profits, goods and services (revenues in % of GDP), average for 2017-2019



Wages, perhaps surprisingly, appear insignificant...

- Which we explain by the notion that all these countries have low wages (lower than Western Europe), because of what wages are not the crucial factor that makes investors decide where to go

Take-aways

- Near-shoring may emerge after the pandemic
- Western Balkan economies are natural first choice for this, due to geographical proximity, knowledge of the region and relatively low costs
- Factors that will be crucial are: availability of skilled labour, good governance and functional institutions, and infrastructure
- High quality more important than low costs

- Western Balkan countries were often relying more on low costs than on high quality
- Improvement in education, infrastructure and governance
- Plus, cooperation between foreign and local companies
- And regional cooperation
- **Western Balkan economies can emerge stronger after COVID-19, if they change as the world is changing**



Thank you for your attention!

Follow us:

www.wiiw.ac.at

