

Bertelsmann Stiftung report “Pushing on a String” - comments

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Overview

- Key messages of report
 1. Regional cooperation vs regional integration
 2. Trade and CEFTA
 3. Regional FDI policies
 4. Capital market integration
 5. Digital Agenda for Western Balkans
 6. Conclusions

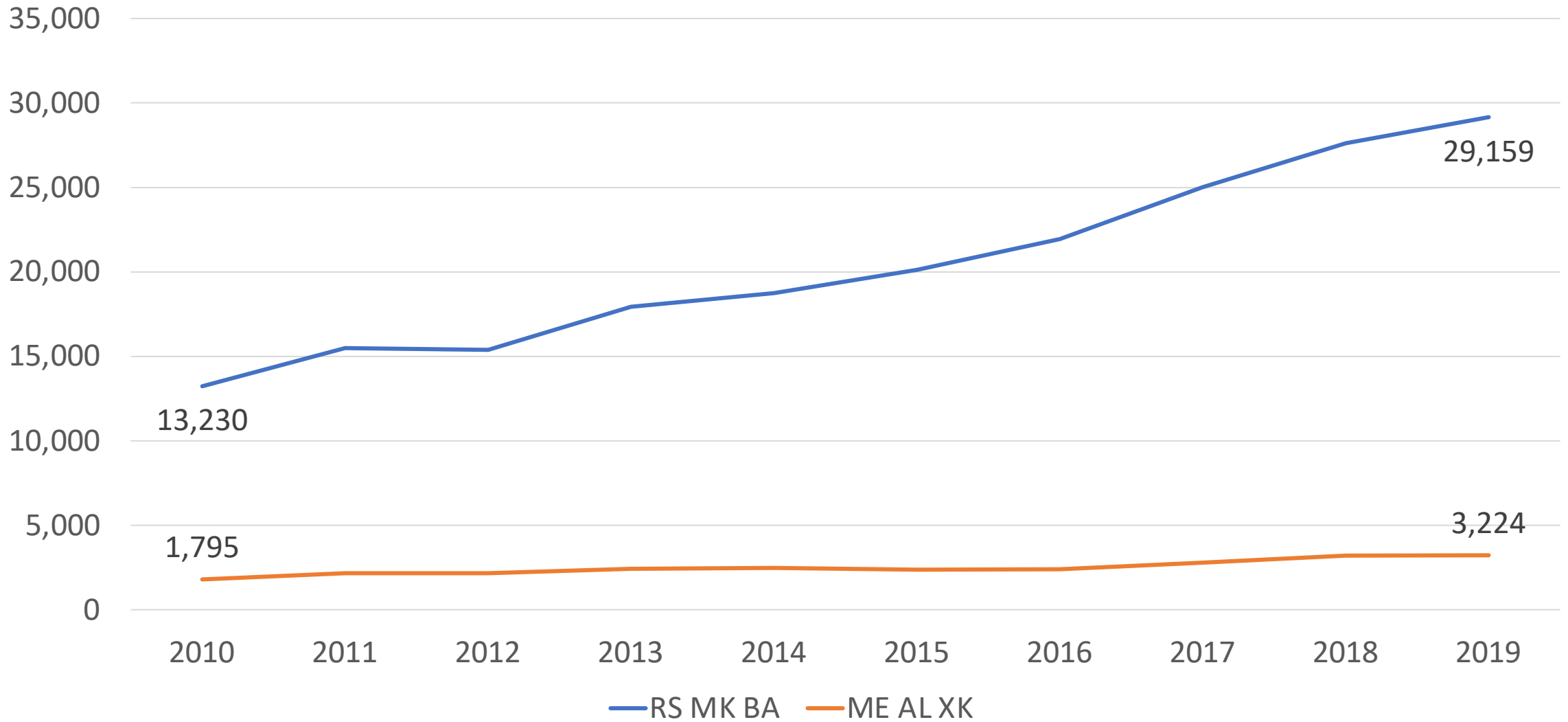
Regional cooperation vs regional integration

- The idea of regional cooperation has been an EU policy aim sitting alongside the accession process
 - While there has been increasing “local ownership” it was always, and is, an EU policy supported by EU assistance funds (CARDS, IPA)
 - The tension between bilateral EU integration and regional cooperation has always been in play at least since Thessaloniki 2003
 - Somewhat a false dichotomy to pose this as an “either/or” question
 - EU accession has been the priority for the enlargement countries
 - Political will for regional cooperation is almost by definition weak
- The report elides between “regional cooperation”: a political aim, and “regional integration”: an economic policy (e.g. free trade, mobility)

Free trade agreements

- The econometric model based upon a gravity equation concludes:
 - The bilateral FTAs up to 2006 had little effect on intra-regional trade flows
 - The CEFTA 2006 regional free trade agreement had a large positive effect
 - The CEFTA effect is stronger among the non-Serbian countries
 - The Stabilisation and Association Agreements had a strong positive effect
- These are in line with previous studies
- However, the positive effect of trade liberalization within the region does not take account of two factors:
 - Trade diversion from third countries
 - Inequalising effects of regional trade agreements

Exports of goods to the rest of the world, €m



Regional FDI policies

- In addition to SAA's impact, RS and MK have implemented effective national FDI attraction policies using Special Economic Zones(SEZs), combined with large investment subsidies
 - This has attracted many German and Italian investors to set up new manufacturing plants (taking advantage also of profit shifting opportunities)
- These new investments have had little spillover into local economies being mainly inward processing activities
 - The key policy challenge is now to link these new investors to local economies and promote linkages with local SMEs, and develop **regional supply chains**
 - IN addition, RCC under the MAP-REA is also developing a regional FDI attraction strategy

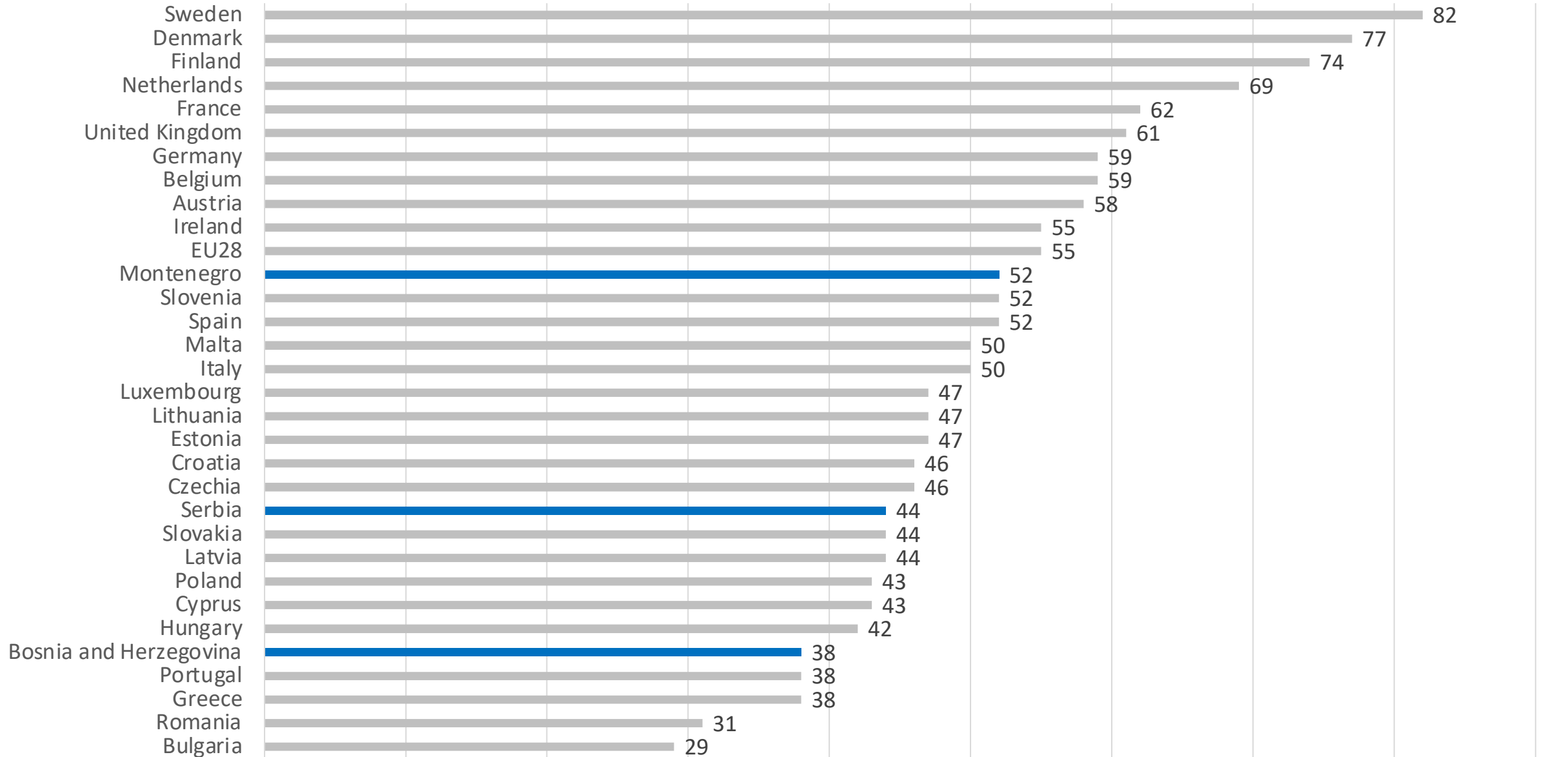
Capital markets integration

- RCC through the Berlin Process MAP-REA is also developing a policy for a regional approach to capital markets development
 - As the Report notes, venture capital is scarce in the region
 - However, there is much activity, possibly “under the radar”
- For example, one of the largest active venture capital funds is the €5bn venture capital fund Mid Europa Partners
 - In 2018 this fund acquired 55% shares in *MediGroup*, Serbia’s largest private healthcare provider
 - In 2015 it acquired Moji Brendovi from Salford Capital, encompassing *Imlek*, *Bambi* and *Knjaz Milos*, large processed food companies with production units throughout the Western Balkans

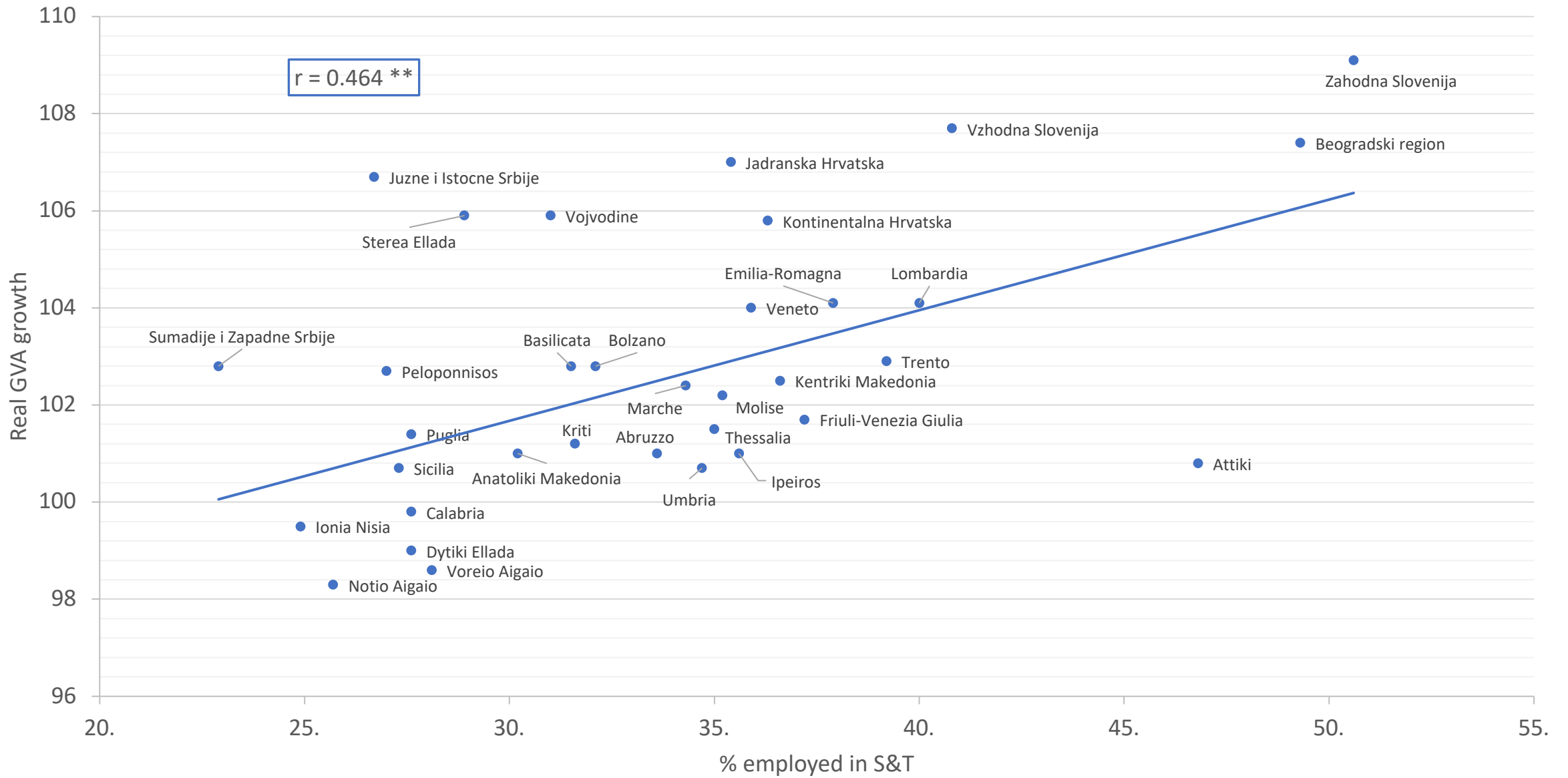
Digital Integration

- The Report argues that the Western Balkans are far behind in their digital readiness
- However, the diffusion of internet access and internet use has proceeded apace in recent years
- The region is in some respects ahead of many EU countries as can be seen from Eurostat data
- This has been spearheaded by private companies with a regional scope (e.g. SBB) which have laid extensive broadband infrastructure networks
- The ICT industry has developed remarkably rapidly in Serbia and other countries of the region, displaying a regional comparative advantage employing young talented computer programmers

Persons employed using computers with access to World Wide Web, 2019



Real GVA growth vs Employment in S&T, 2017



Conclusion - Final chapter – where next?

- Regional cooperation faces many obstacles and challenges
 - Yet, despite this, it has benefits that should not be overlooked, Montenegro and North Macedonia are front runners to join EU
 - But it implies the gradual disintegration of CEFTA
 - It also means a hard border between North Macedonia and Kosovo which could trigger local conflict since this is an economically integrated sub-region
- Despite difficulties, the “convoy approach” seems more suitable
 - The region is small and can relatively easily be absorbed by EU,
 - Membership will reduce opportunities for state capture by local elites and profit shifting by EU multinationals
- Partial EU integration could be an option in EU is prepared to allow cherry picking over “four freedoms”