

The plan for a regional economic area in the Western Balkans

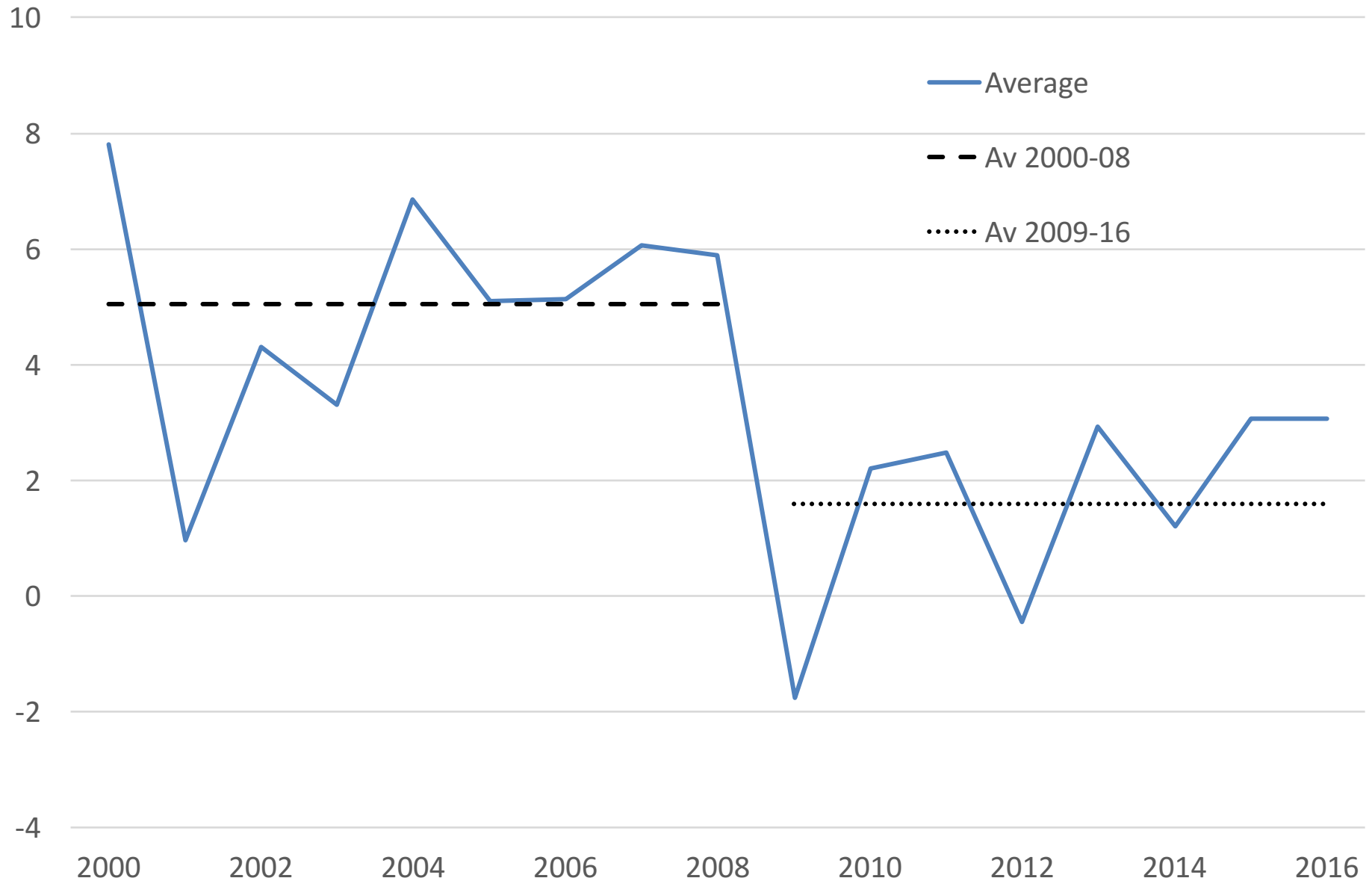
Will Bartlett

LSE

Outline

- The background to MAP for REA
- Trade
- Regional investment agenda
- Mobility
- Digital integration
- Conclusions

Real GDP growth in WB6 region



Background

- Trieste Summit of Berlin process June 2017
- **Multi-annual Action Plan (MAP) for a Regional Economic Area, 2017-2020**
- Key components are Trade, Investment, Mobility, Digital
 - Within these, Policy Areas, each with Objectives
- Key aim is integration of WB6 into European and global value chains
- Each country has a MAP Coordinator in its government structures

Aim of MAP

- Based on CEFTA legal framework and individual SAAs
- It aims to foster a gradual and progressive rule-based economic integration in the areas of
 - trade,
 - investment
 - mobility
 - digital
- To enable unobstructed flow of goods, services, investment and highly skilled labour throughout the region, thus developing a Western Balkan Regional Economic Area

REGIONAL TRADE

- Average trade openness (the sum of exports and imports as a percentage of GDP) of the WB6 is low, just 65% of “EU11”, due to
 - poor transport infrastructure
 - poor business environment
 - failure to develop value chains with EU markets, or within the region
- Intra-regional trade in the Western Balkans is less important than trade outside the region due to:
 - Customs and trade regulations
 - High cost to export within region
 - Length of time to export

Trade and the MAP

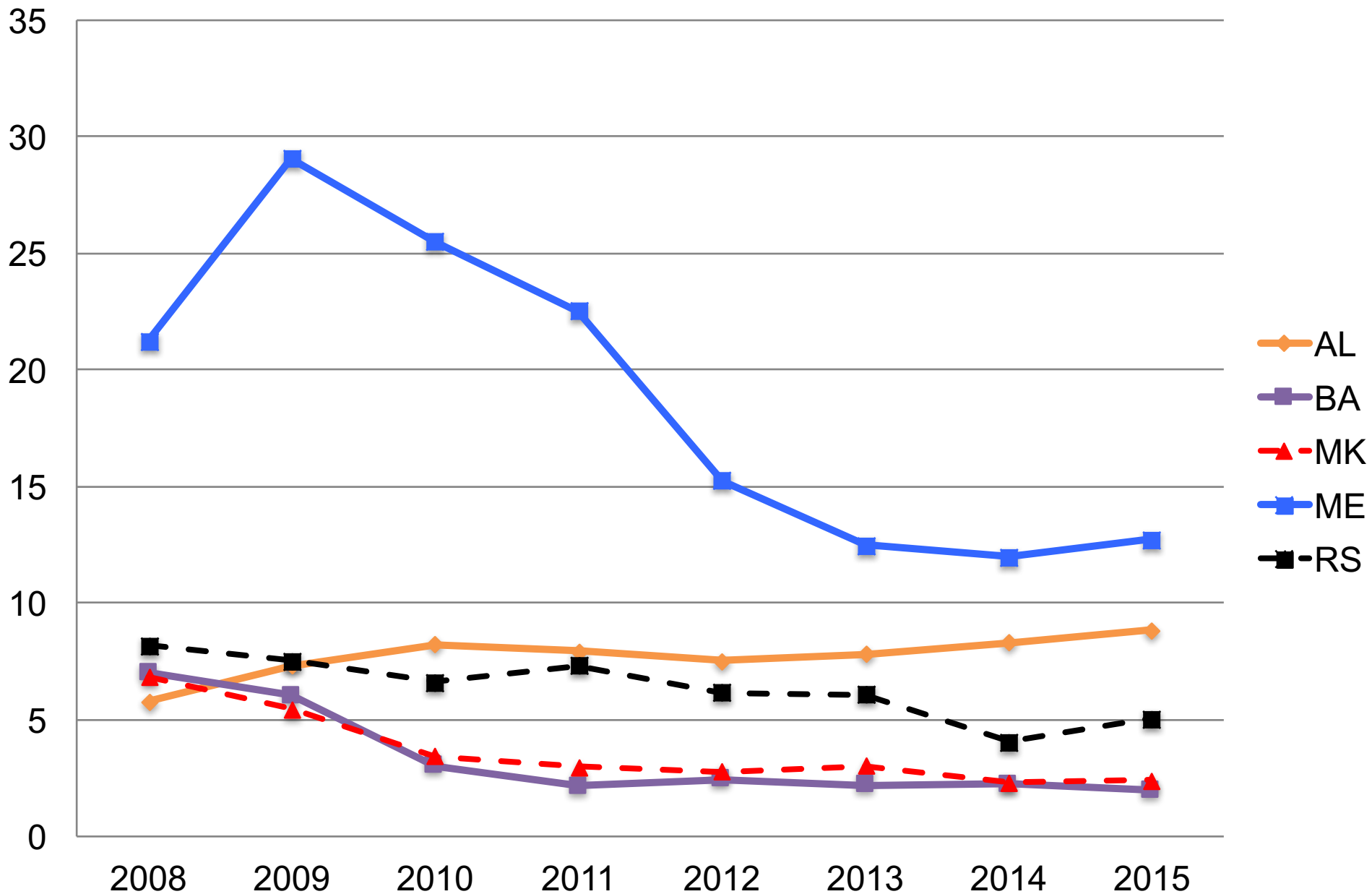
- MAP policies include:
 - Facilitation of trade in goods through trade dispute settlements, joint border controls, closer cooperation between the individual market surveillance authorities
 - Facilitation of trade in services, through adoption of the Additional Protocol 6 and dialogue on regulatory issues in electronic commerce
 - Creating a non-tariff measures (NTMs) free region, including through information exchange between competition and state aid authorities

REGIONAL INVESTMENT AGENDA

Why a regional investment agenda?

- Low level of investment in some countries inhibits growth
- Region has very poor record in attracting FDI

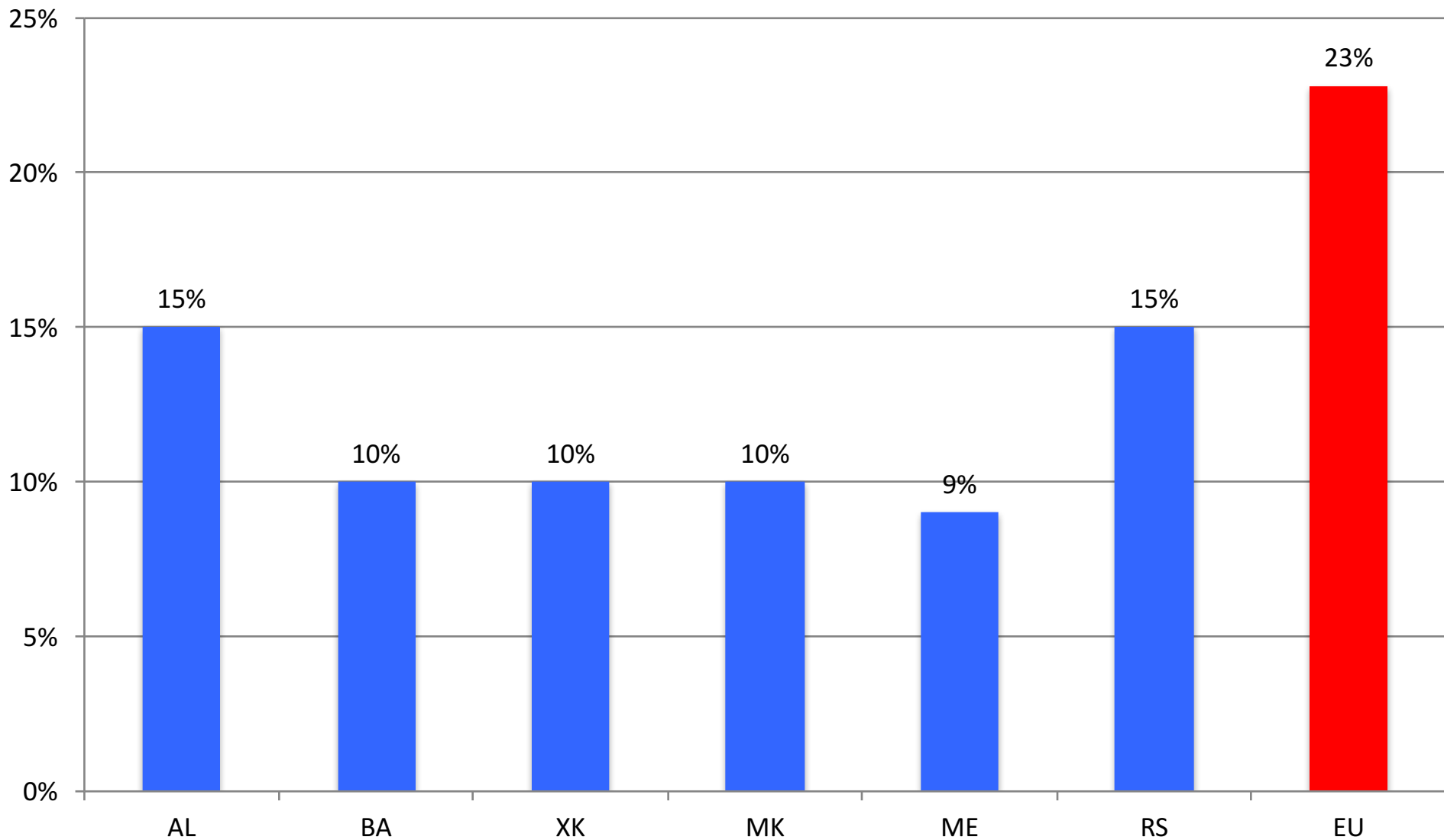
FDI flow, % GDP (3-year moving average)



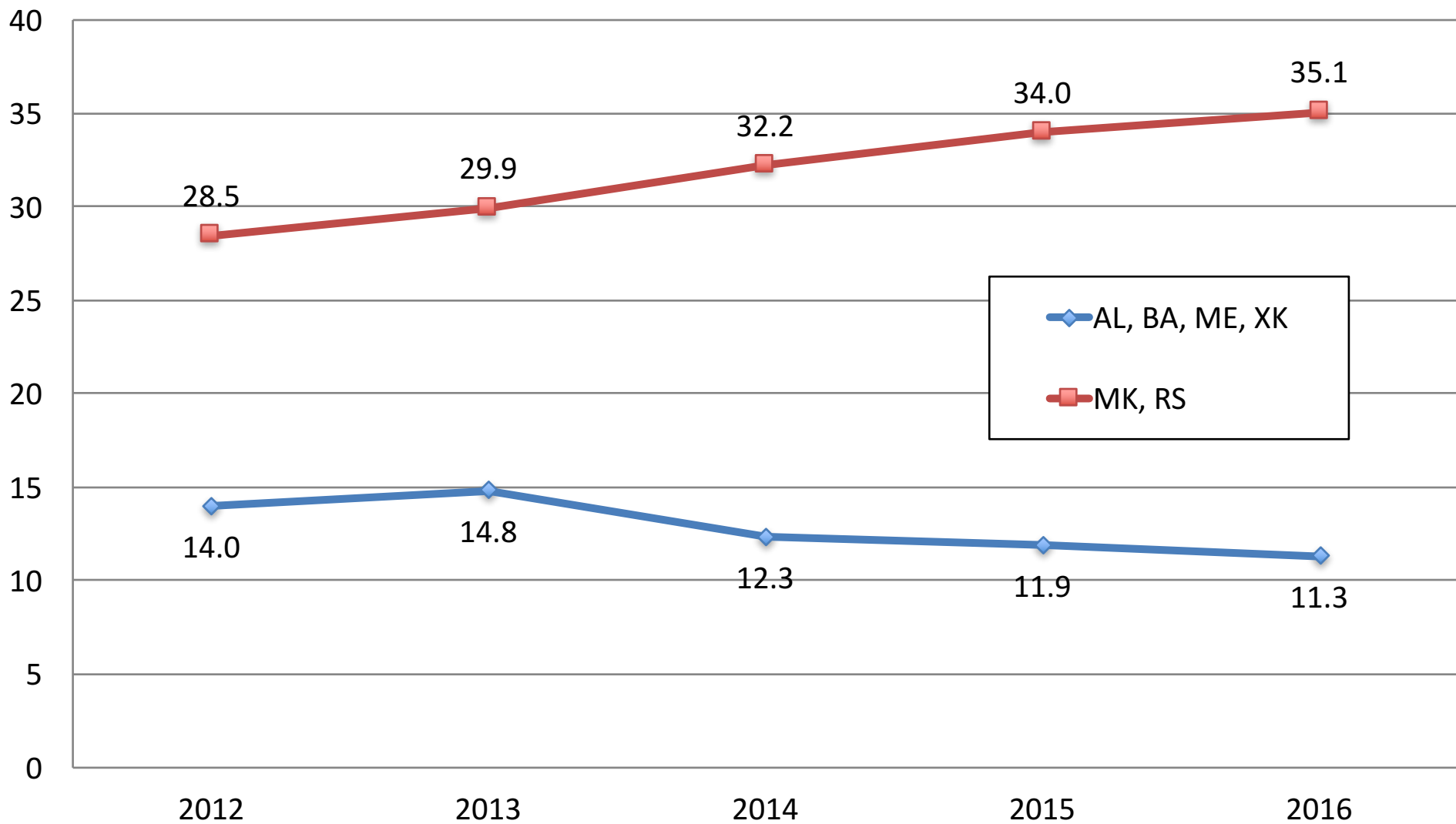
Competition for FDI

- Recently Serbia and the former Yugoslav Republic of Macedonia have introduced a set of substantial investment incentives
 - This has created a “race to the bottom” in which corporate tax rates have been reduced
 - Tax holidays are available in some circumstances (e.g. 10 year tax holiday in Macedonian SEZs)
 - More broadly based employment subsidies related to employment creation
- Do these subsidies conflict with state aid rules?

Corporate income tax rates



Goods exports (% GDP)



MAP Regional investment policy areas

- Develop, formalise and implement a regional investment reform agenda
- Promote WB6 as a unique investment destination
- Diversify financial systems to boost investment
- Smart growth

Developing a regional investment reform agenda

- Investment attraction:
 - Harmonise investment incentives at a regional level
- Investment promotion:
 - EBRD Regional Investment Platform Common platform is a useful instrument for investment promotion
- Investment impact
 - Link SMEs as suppliers to foreign investors
 - Create a
 - Provide training to supplier companies

MOBILITY

Mobility

- Mobility of researchers
- Mobility of professionals
- (Mobility of students and highly skilled workers)

Mobility of researchers: benefits

- Increased mobility of researchers can improve competitiveness of economies
- Economies with more open research systems perform better on innovation
- Integration to the European Research Area can be assisted by more collaboration between researchers within the region (and vice versa)

Mobility of researchers: obstacles in WB6

- Relatively few barriers to short term mobility less than three months (research visit) in WB6
- Main barriers are to long-term mobility (employment) beyond three months
 - Often not covered by bilateral agreements between HEIs
 - Institutional barriers are also linked to non-merit based promotion criteria
- Only BA & ME have simplified procedures for obtaining work permits and residence permits
- Only ME has research infrastructure road map

Mobility of professionals: challenges

- Asymmetric information between professionals and consumers enables professionals to raise prices and reduce quality of services.
 - Consequently, professional services are often subject to regulation to ensure minimum standards of service provision
- Yet, regulation may restrict the supply of services, driving up consumer prices and reducing international mobility.
 - Professions may influence policy-makers to provide excessive regulation to protect their privileged positions
 - Within CEFTA, liberalisation of international trade in professional services aims to eliminate excessive regulations

Mobility of professionals in WB6: obstacles

- MAP aims to provide increased competition among four regulated professions
 - Doctors of Medicine, Dentists, Architects and Civil Engineers
 - Supports Mode 4 of trade in services
- Mobility is hindered by lack of mutual recognition of professional qualifications
 - Recognition decisions made in different ways across CEFTA region
 - Procedures lengthy and burdensome
 - Credential evaluators do not apply Lisbon Recognition Convention properly

Progress in mobility of professionals in WB6

- Harmonization with EU Services Directive and Professional Qualifications Directive will encourage alignment between WB6 economies
 - AL: Law on Regulated Professions 2011
 - BA: Roadmap for Implementing EU Directive on Regulated Professions, 2016
 - XK: only four professions regulated by law
 - ME: Law on Recognition of Foreign Qualifications for Access to Regulated Professions 2012
 - MK: Law on Recognition of Professional Qualifications 2011
 - RS: As yet no unified list of professional qualifications
- RCC-WGMRPQ has recommended opening of negotiations on MRAs for 4 professions – but long way to go

Mobility of students and highly skilled workers

- Mobility of students raises graduates' skill levels and improves their employability
- It is a central objective of the Bologna Process and EHEA
- Exx: CEEPUS exchange programme for students in Danube region

Mutual recognition of academic qualifications

- Mutual recognition of academic qualifications is required to promote mobility, but:
 - Lisbon Recognition Convention 1997 unevenly or incorrectly applied
 - National Qualifications Frameworks unevenly developed
 - ENIC-NARIC information centres underfunded
 - HE accreditation policies are uneven throughout region – are they independent?

DIGITAL AGENDA

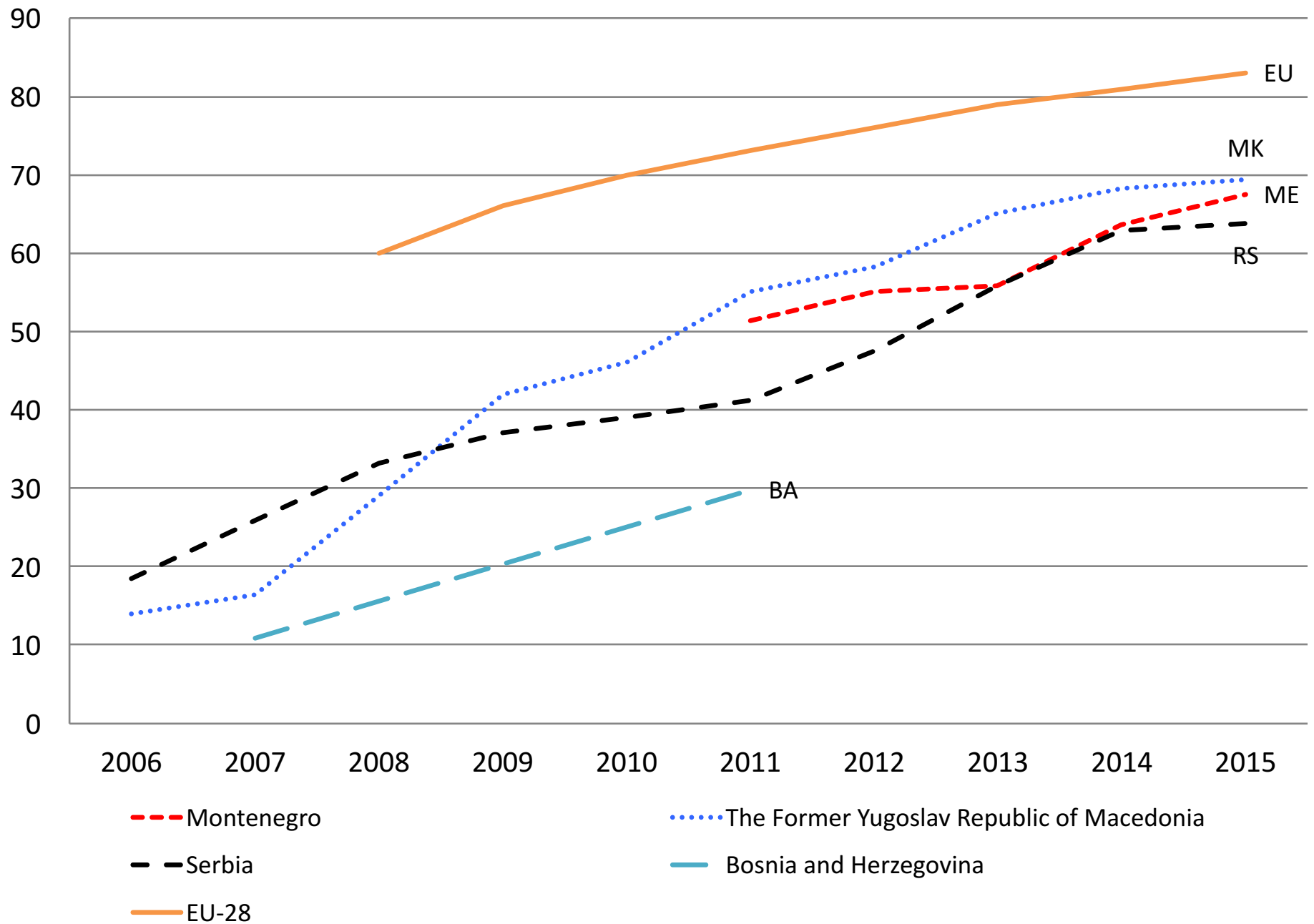
Digital Agenda: policies

- Networks and connectivity
- Trust and security
- Digital economy
- Digitisation and standards

Digital dividend & digital divide

- Digital economy can raise productivity and reduce costs of international trade
 - Known as “digital dividend”
- But
 - Digital economy is vulnerable to monopolization benefiting incumbents
 - Inequality of wage incomes may increase due to increased returns to digital skills
 - Digital divide in internet access

Percentage of households that have Internet access at home



Digital Economy

- Internet enables firms to reach new markets and may boost international trade
 - A 10% increase in internet use increases the number of products traded between two countries by 1.5%
 - Online platforms open up new markets to small suppliers
- Digital skills
 - Schools not up to speed in teaching use of digital technologies
 - Skill gaps and skill mismatches are widespread

Digital integration of the WB6 economies

- Steady growth of internet penetration, partly led by new entrants such as United Group
- New challengers are beginning to take market share from incumbents
 - Push back from incumbents via non-independent regulators
 - Regulatory barriers but also reputational attacks on new entrants

**THANK YOU FOR YOUR
ATTENTION!!!**