

Stimulating Investment in the Western Balkans



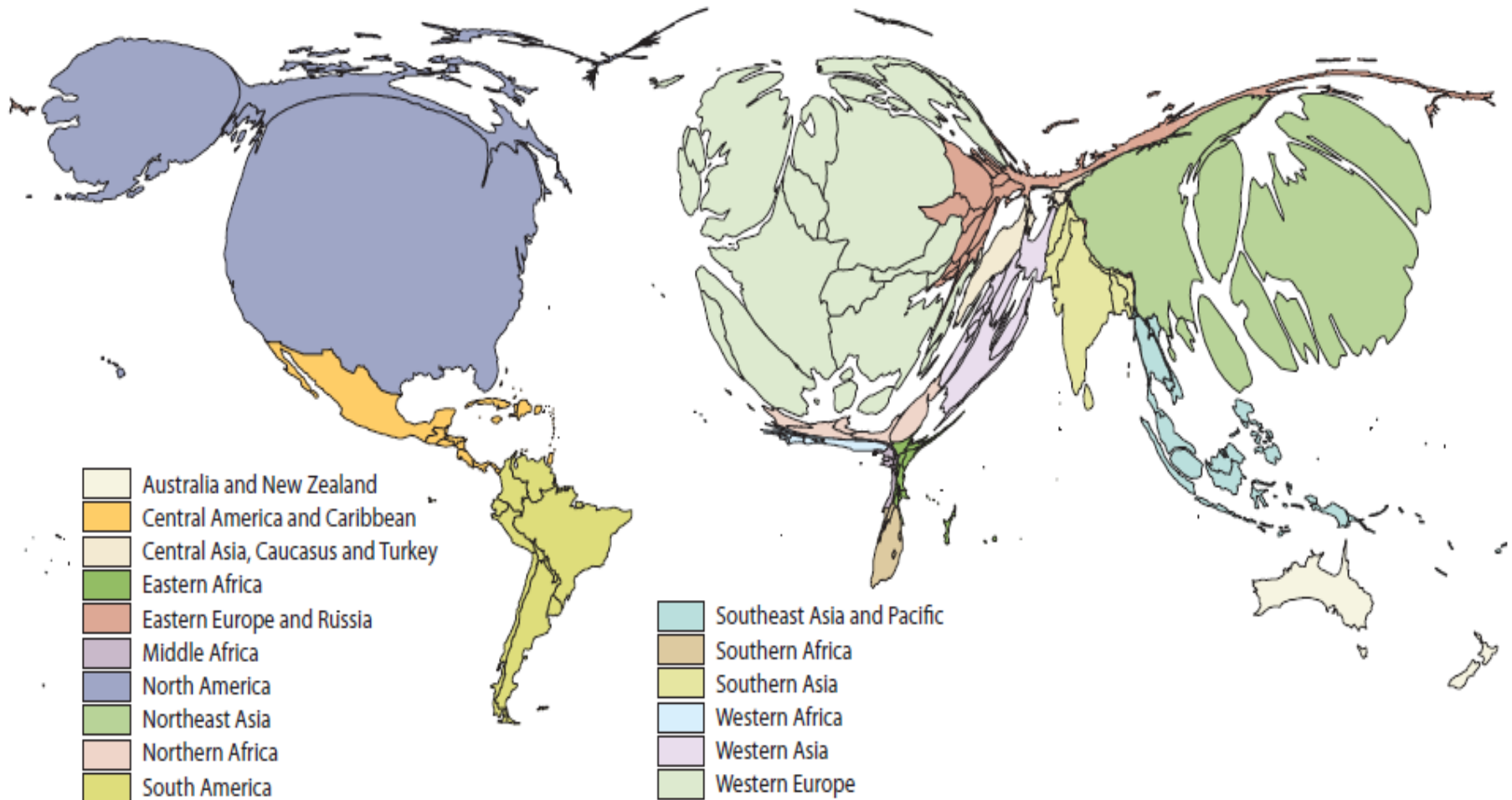
Ellen Goldstein
World Bank Country Director
for Southeast Europe

February 24, 2014

Key Messages

- ✓ Location, human capital and labor costs make investing in the Western Balkans today a great opportunity!
- ✓ Maximum investment, growth and jobs will require courageous Governments to do faster and deeper reforms;
- ✓ Macro-fiscal adjustment, enhancing competitiveness and connectedness, and building “new economy” skills are key;
- ✓ History shows that integration into the European economic bloc will drive a powerful convergence towards prosperity.

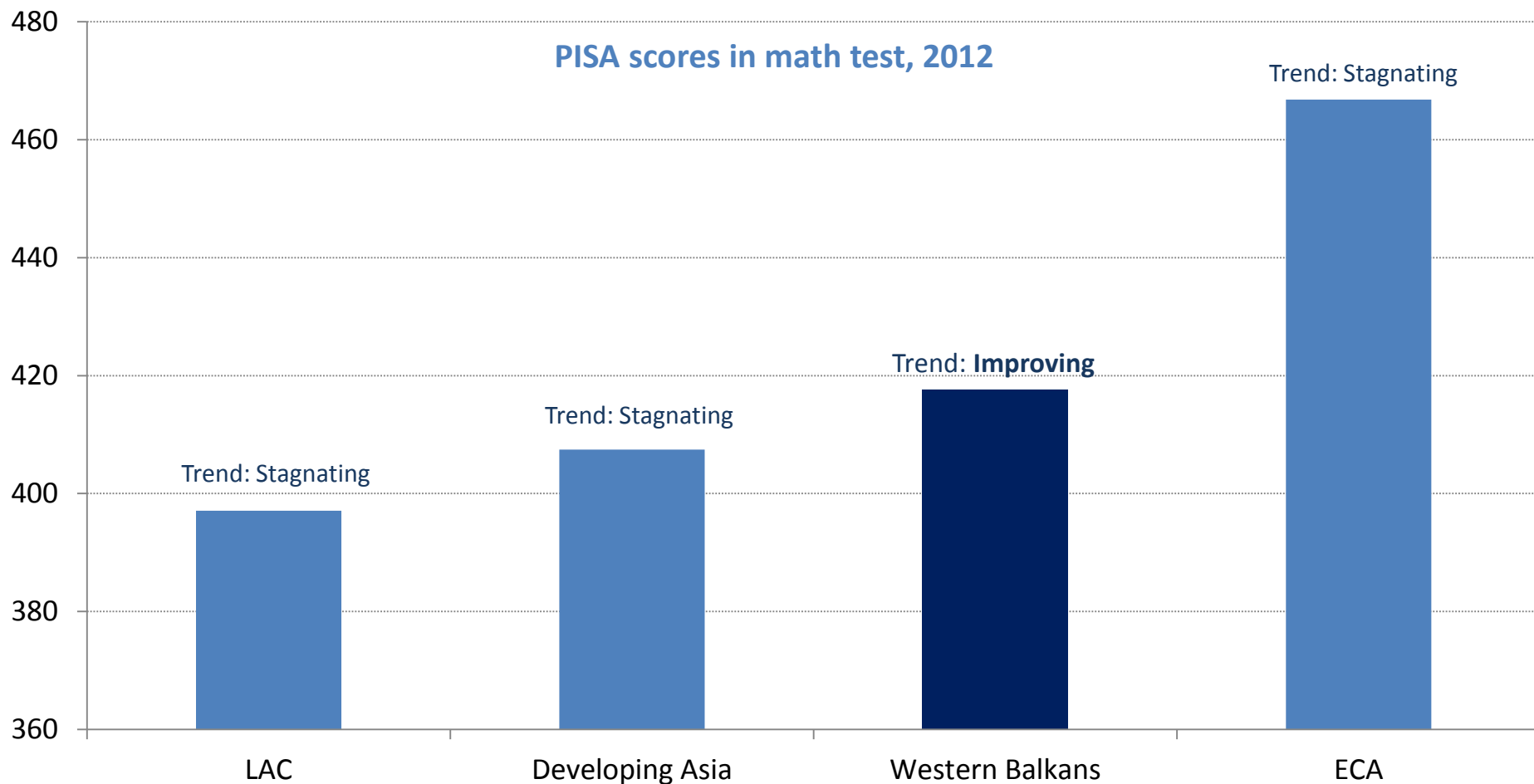
Location: next to the world's largest and most connected economic bloc



Note: Map resized according to economic strength

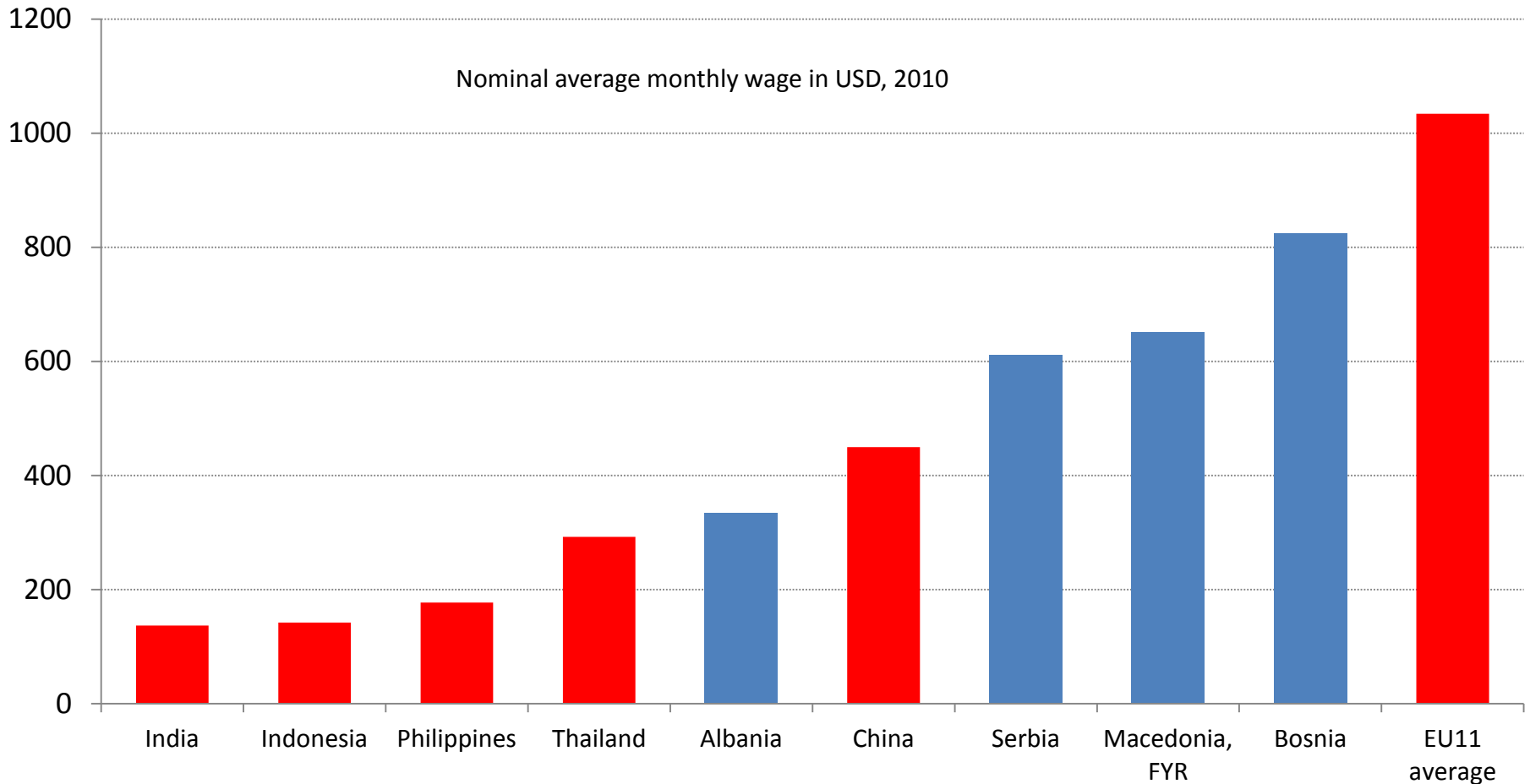
Human capital: education outcomes exceed other fast-growing, middle-income regions

PISA scores in math test, 2012



Source: PISA; Note: Developing Asia includes Indonesia, Malaysia, and Thailand
Western Balkans includes: Albania, Montenegro, Serbia

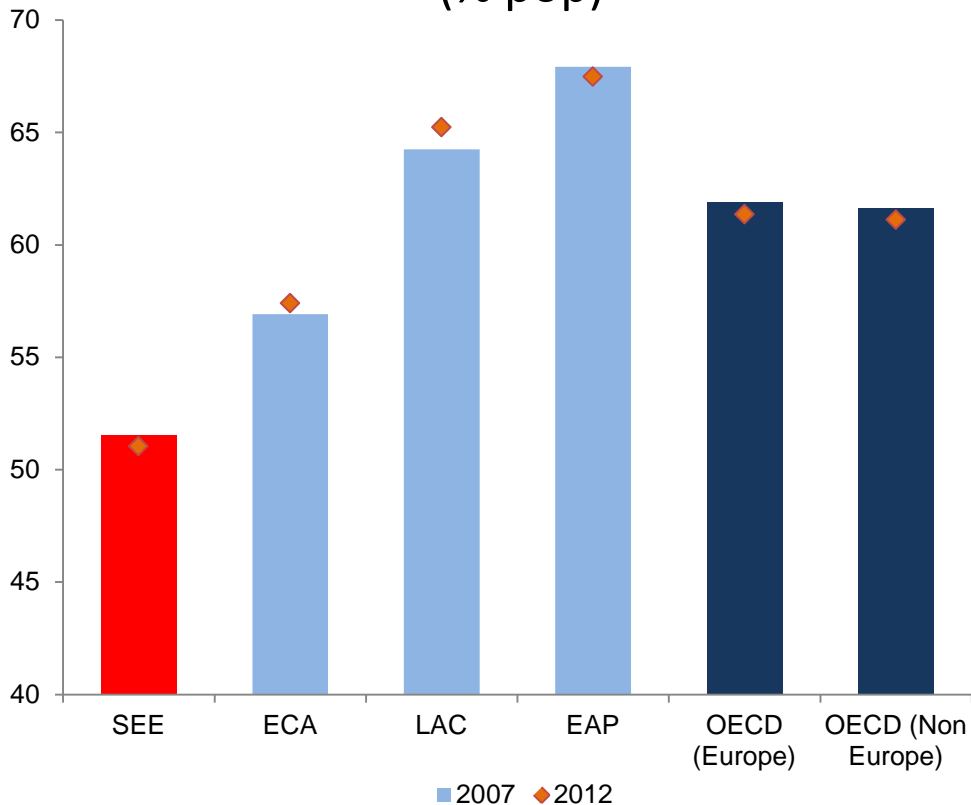
Labor costs: significantly lower than the rest of Europe...but well beyond low-cost Asia



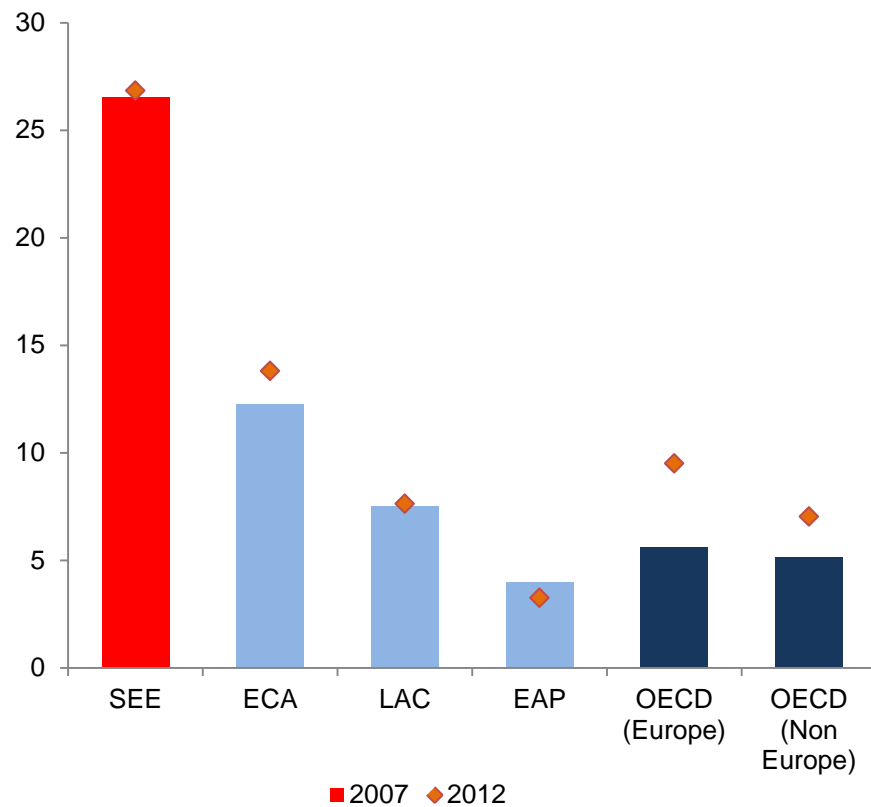
Source: ILO

...Yet labor force participation lowest and unemployment highest of mid/high income regions

Labor Force Participation Rate (% pop)



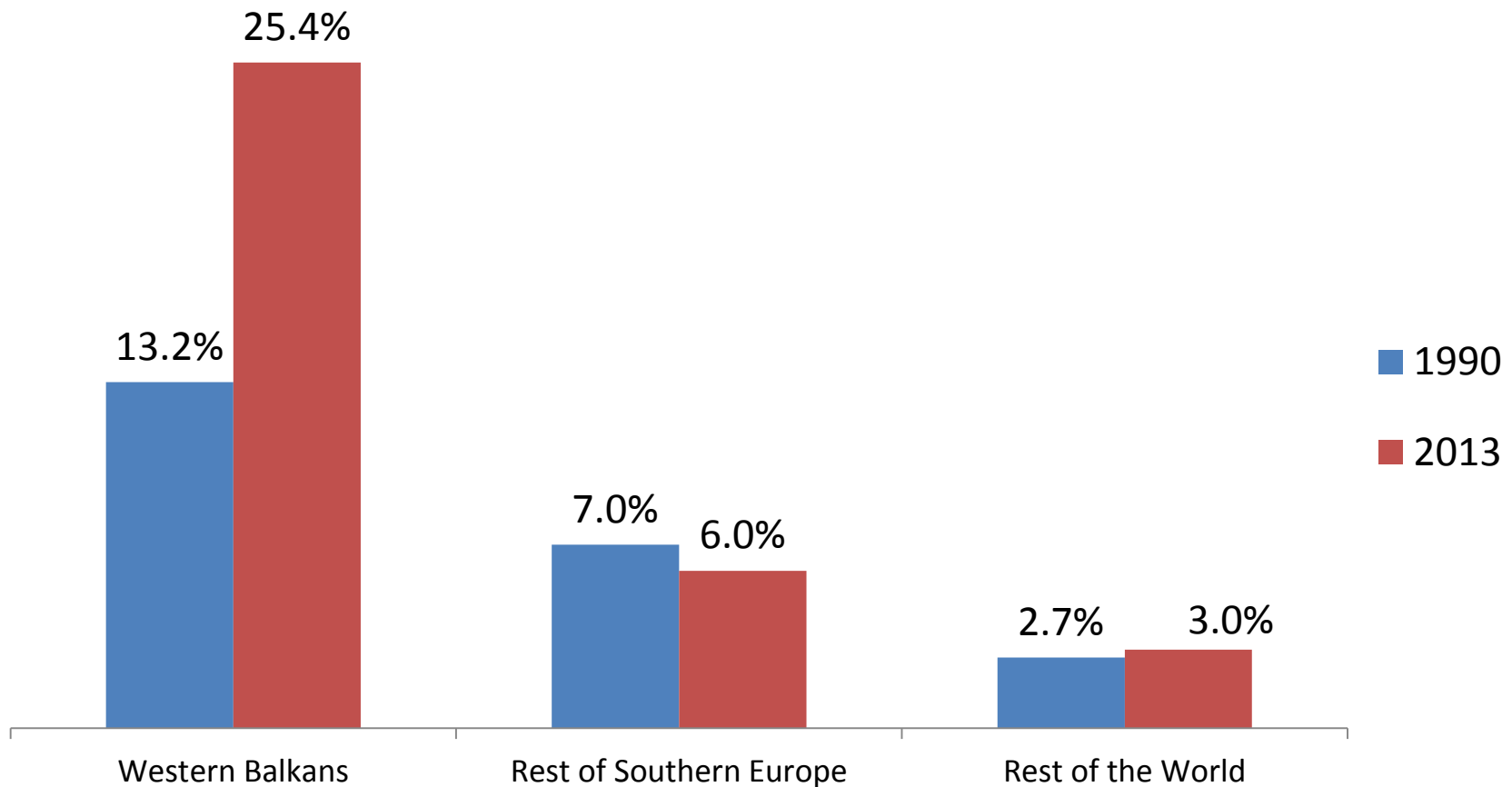
Unemployment Rate (% of labor force)



Notes: ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; EAP = East Asia and Pacific.

World leaders in exporting people rather than goods and services

Share of migrant stock in source region population

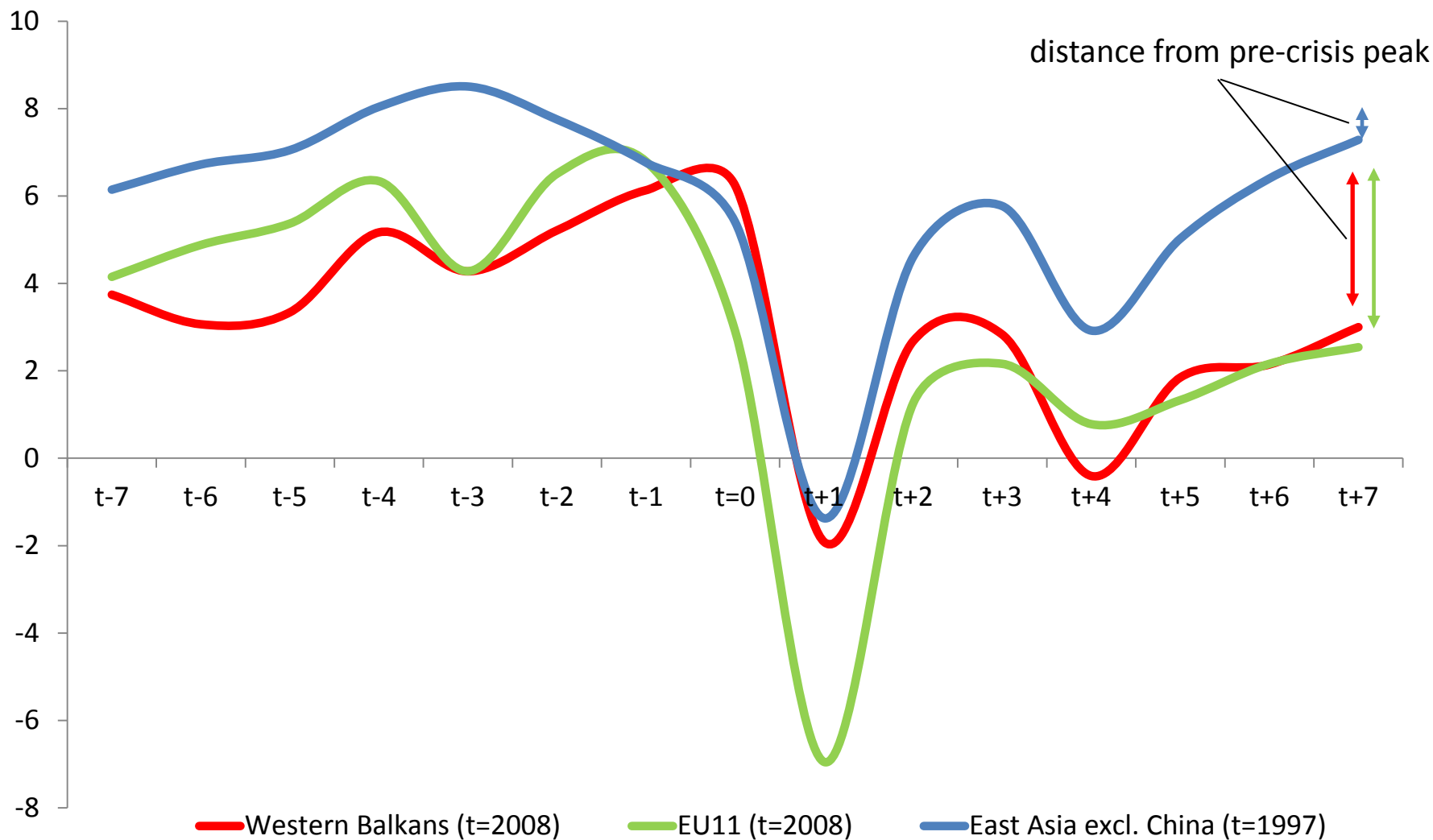


Source: Based on UN International Migrant Stocks (2013 revision)

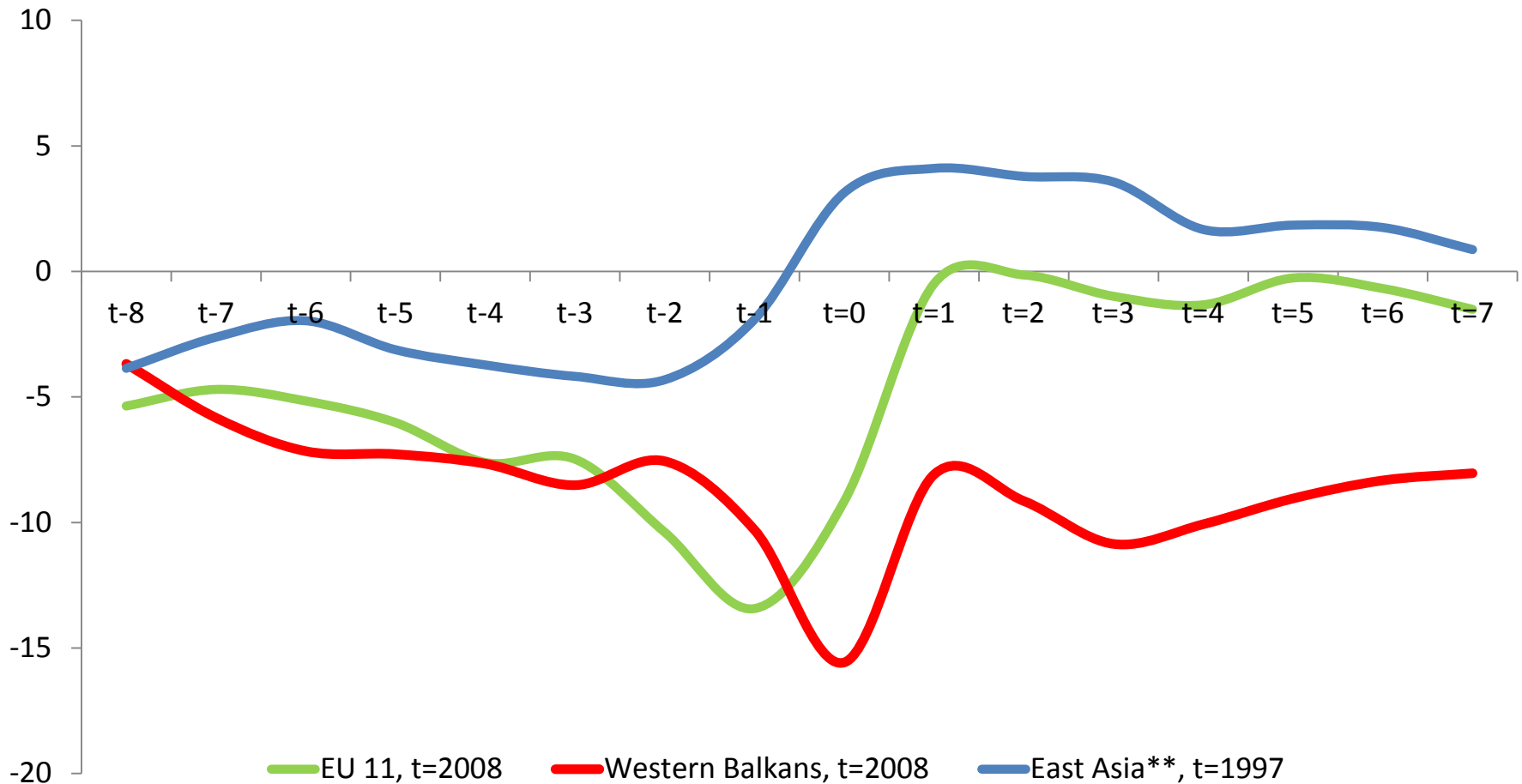


Doing More to Stimulate Investment and Jobs

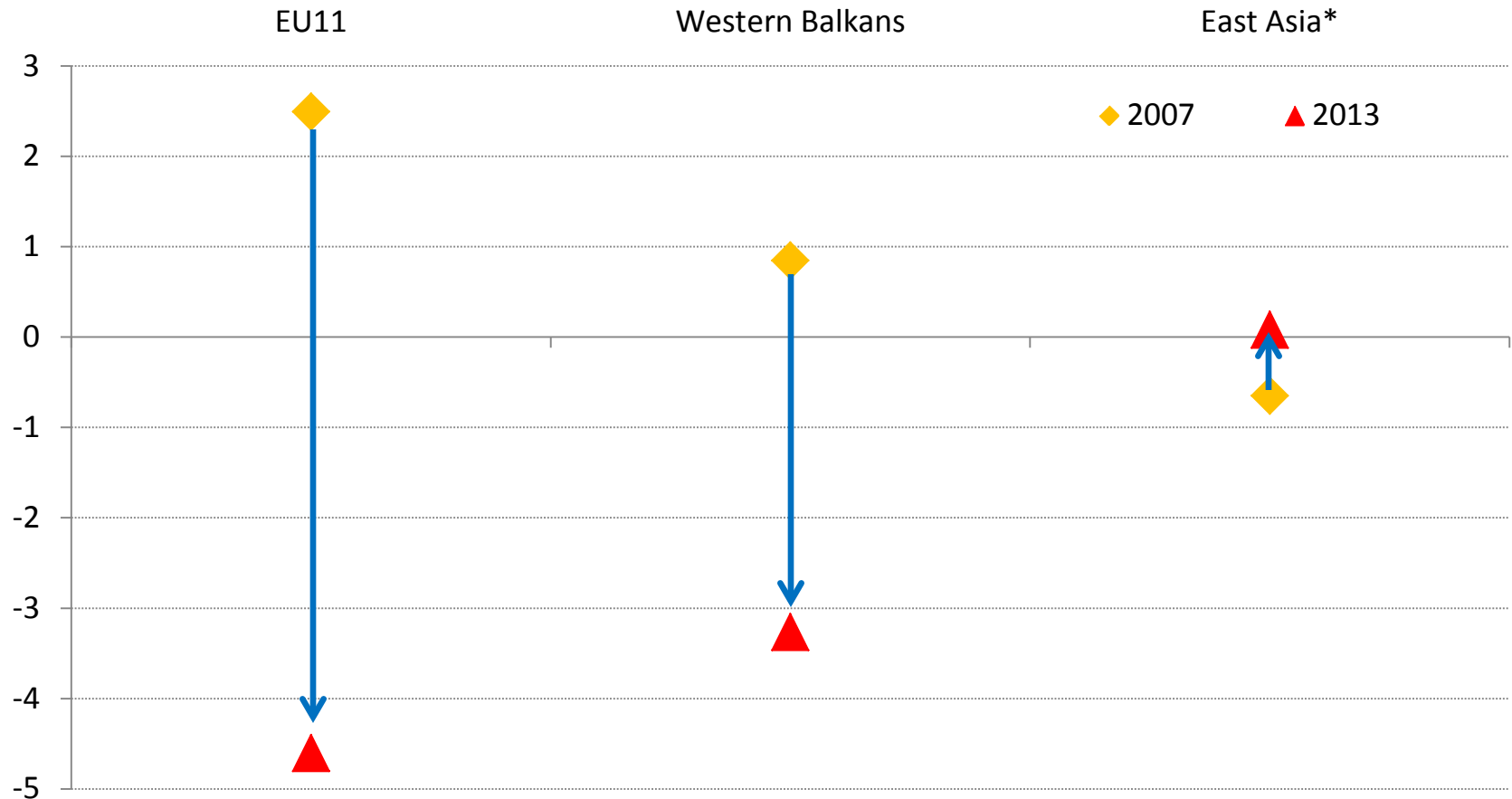
Post-crisis recovery (2009-2013) much slower than East Asia after its crisis (1998-2002)



East Asia aggressively pursued export-led growth; Western Balkans' current accounts deteriorated



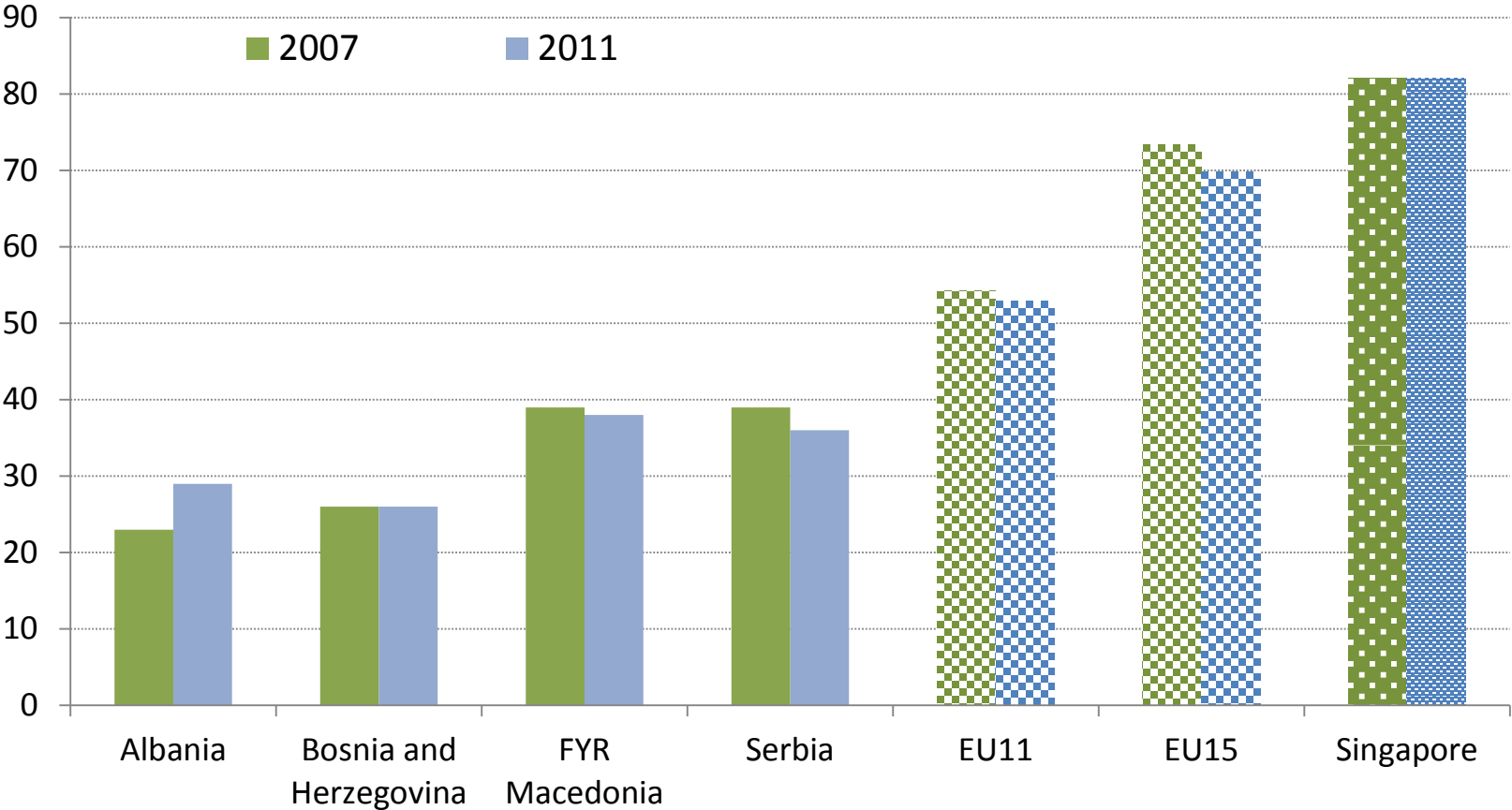
East Asia's fiscal position stabilized; Western Balkans deteriorated significantly



Note: East Asia* (Crisis Period) 1997-2003

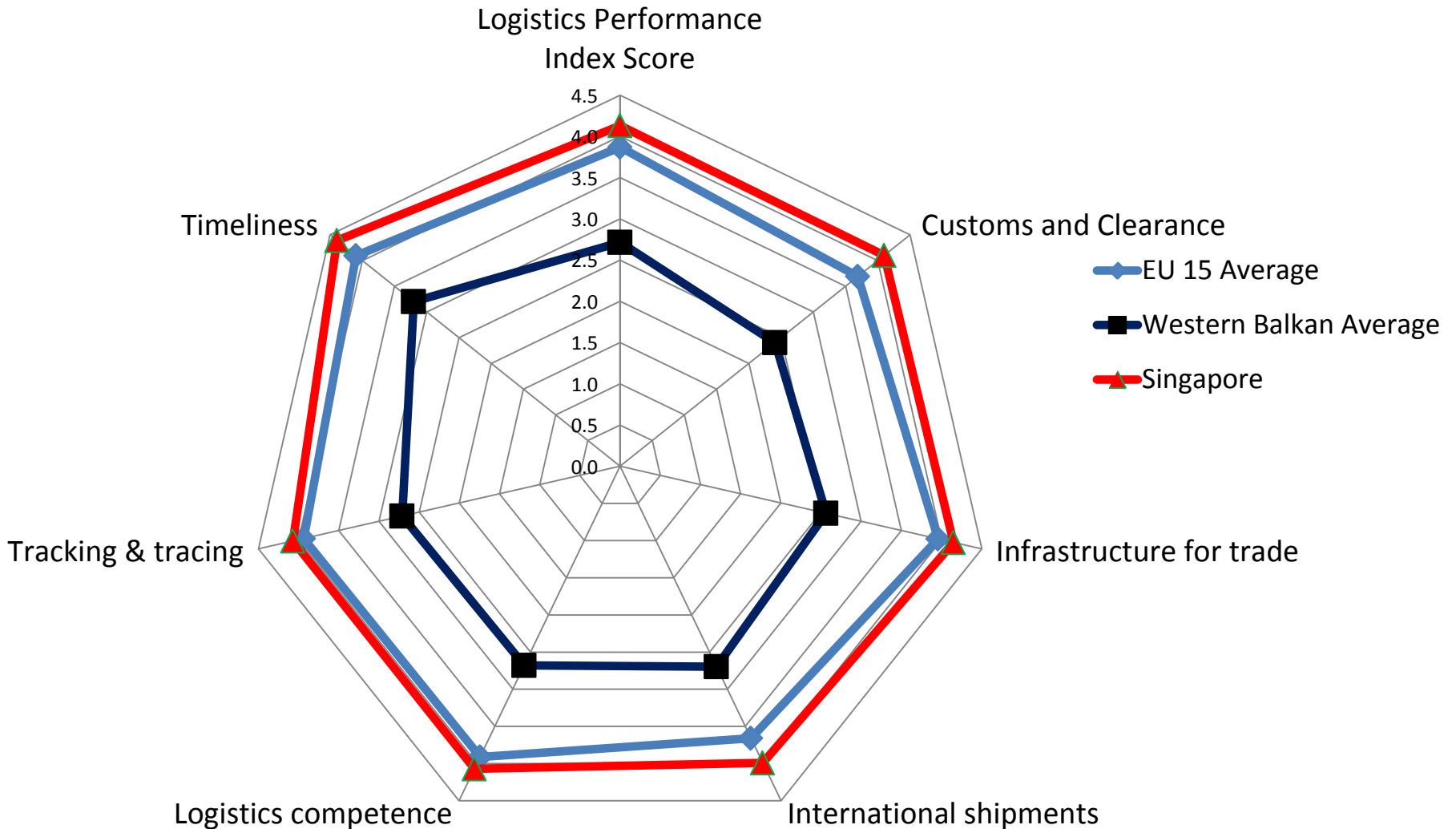
Global connectedness below rest of Europe and fast-growing Asia

Global connectedness score, 0-100



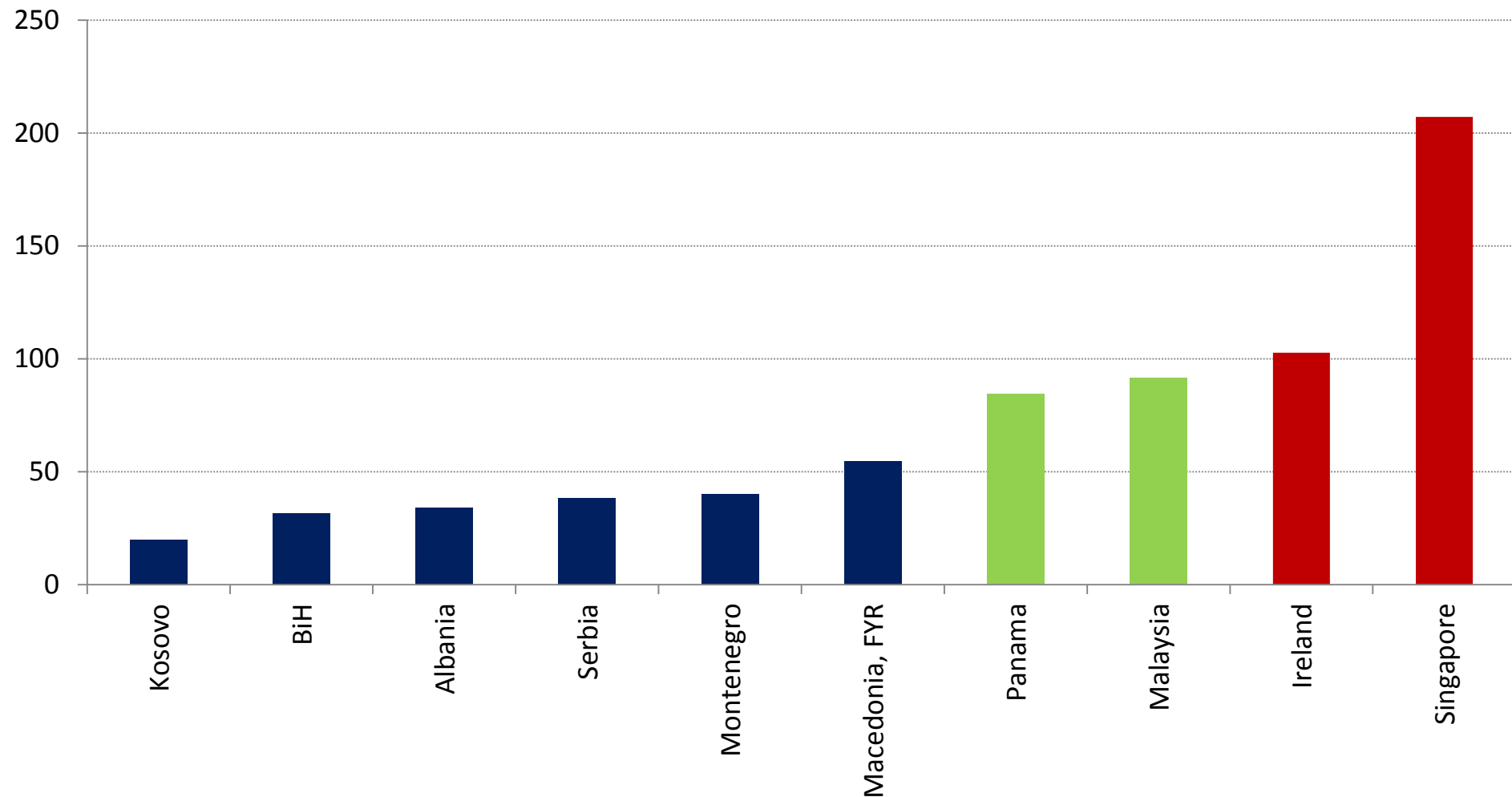
Source: DHL

Trade facilitation and logistics fall short of European and global standards ...



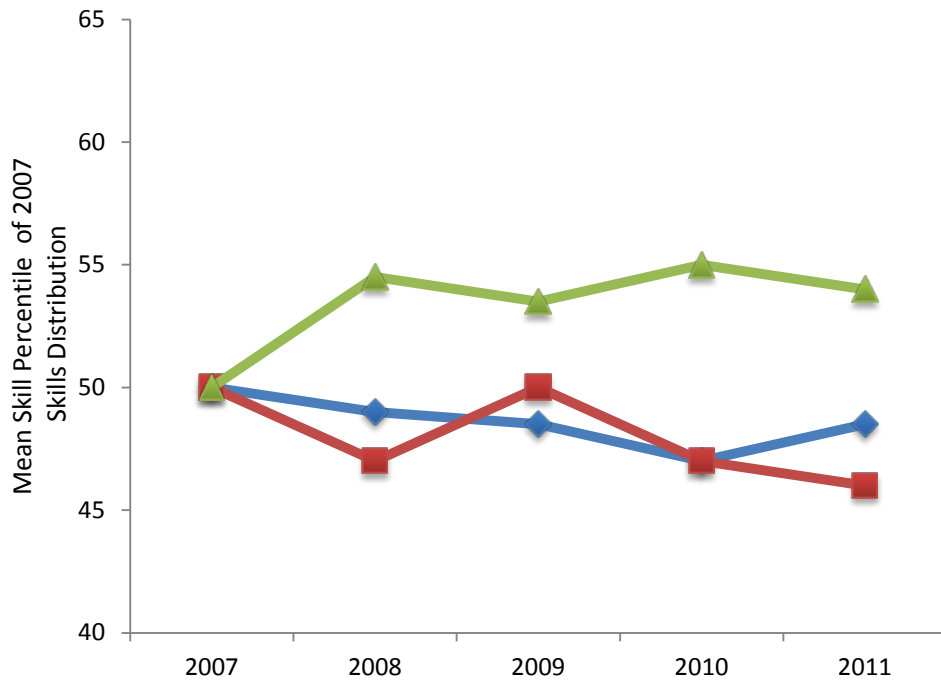
Export performance reflects weak integration in global economy

Exports of goods and services (% of GDP)

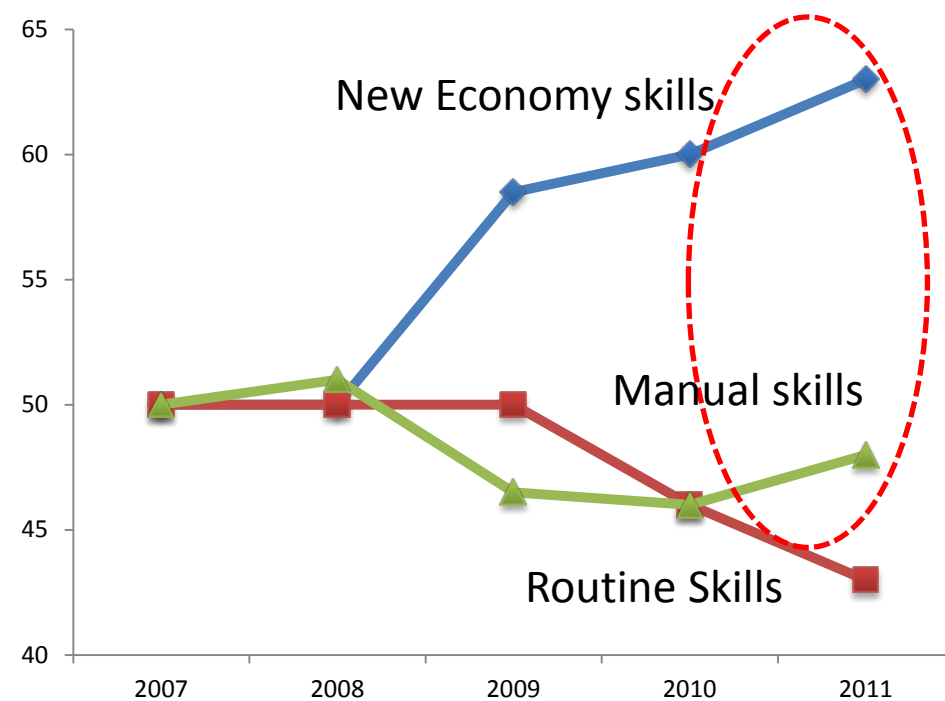


Labor market demands youth with “new economy” skills; older cohort risks obsolescence

FYR Macedonia,
Cohort born after 1955



FYR Macedonia,
Cohort born after 1974

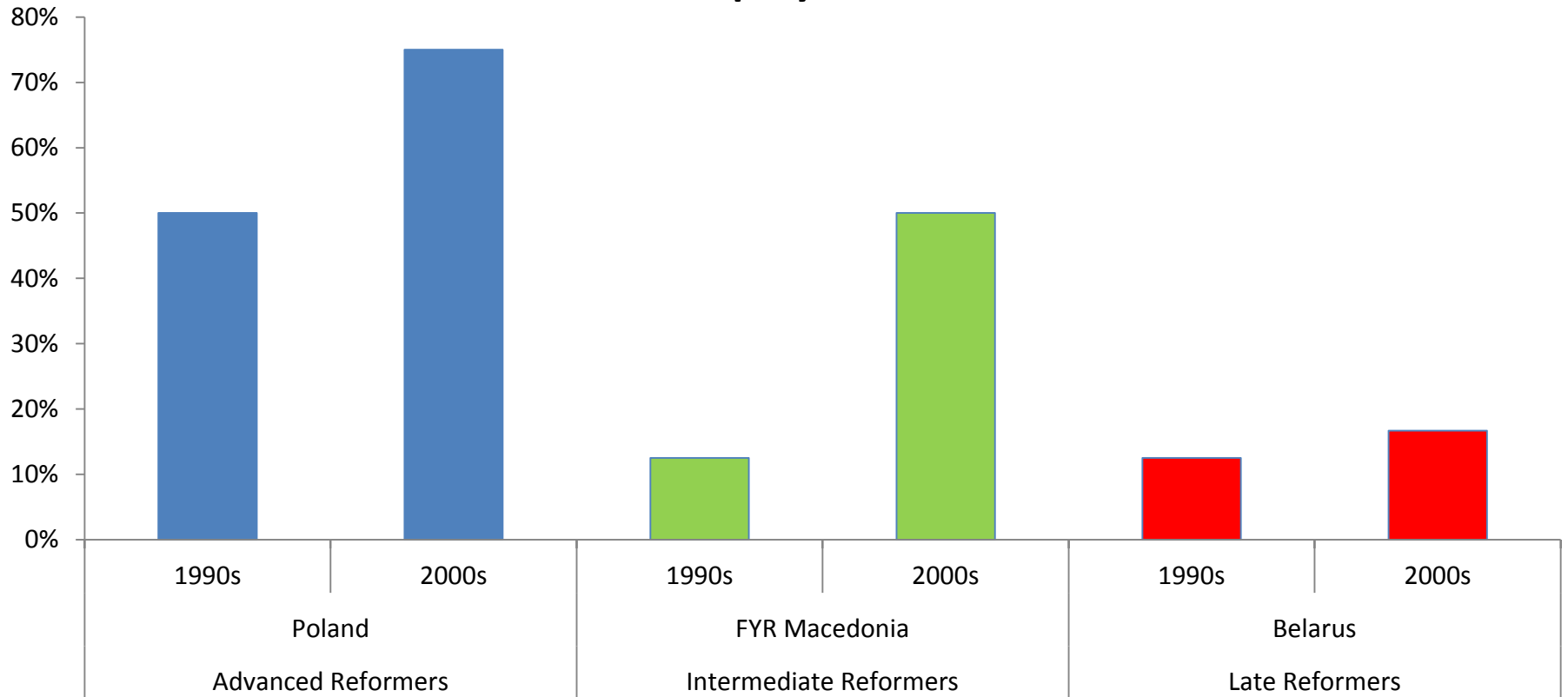




Reforms Make a Difference

Stronger reformers benefit from increased employment and labor productivity ... but with a lag

% of years in each decade when both labor productivity and employment increased



■ Advanced Reformers Poland 1990s

■ Intermediate Reformers FYR Macedonia 1990s

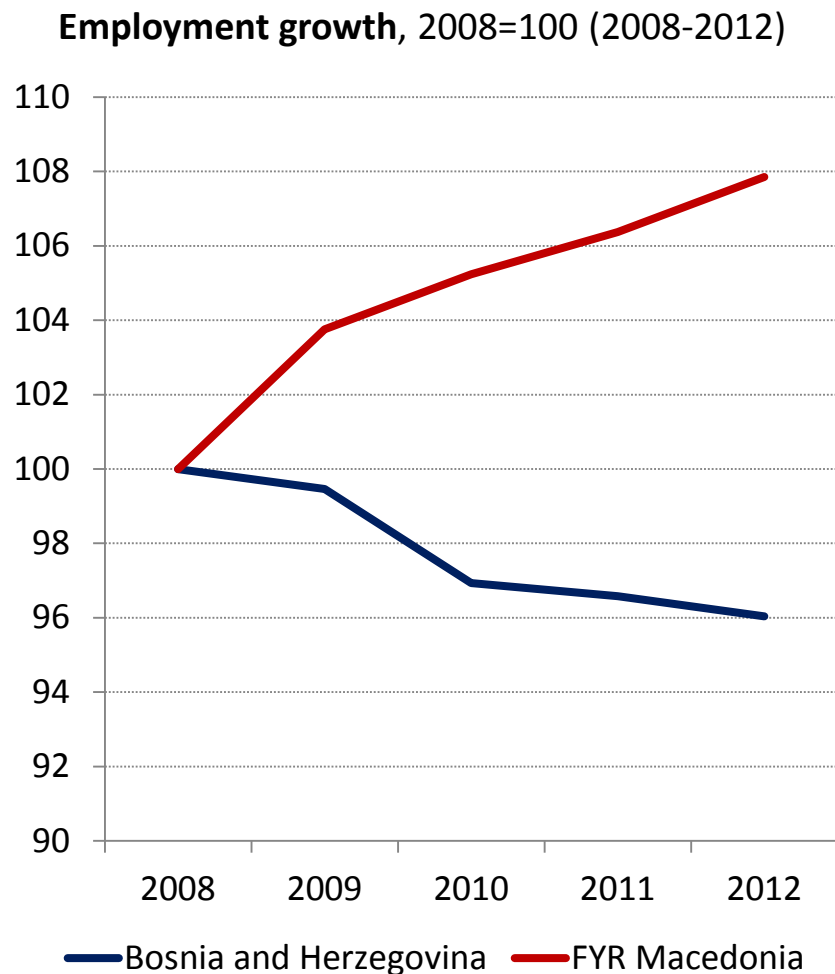
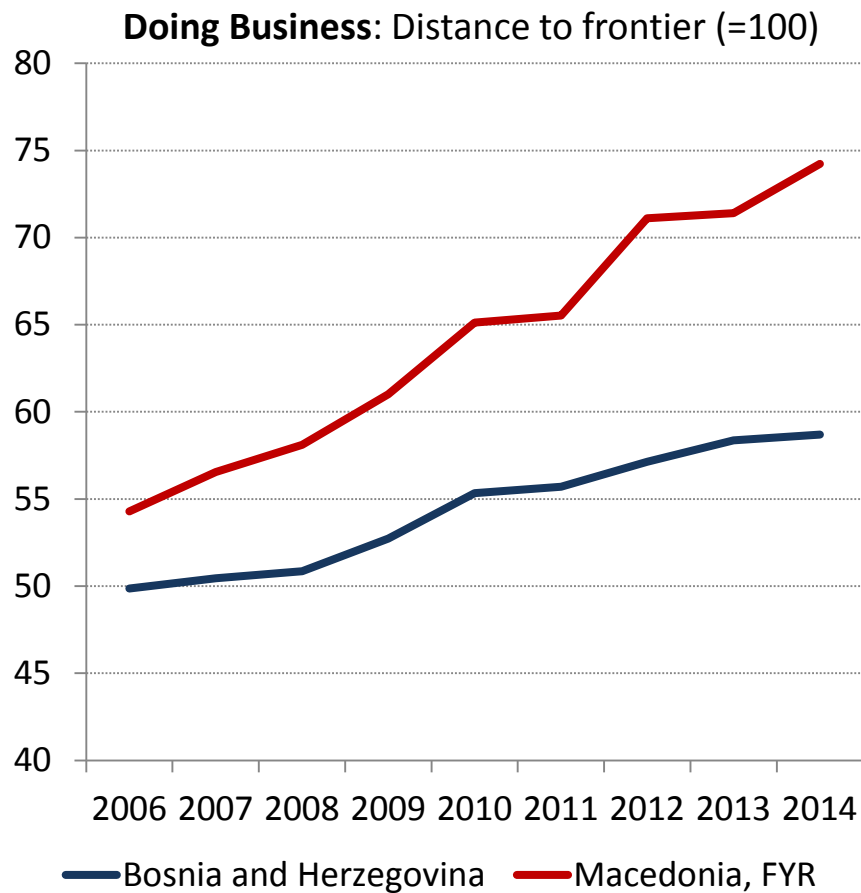
■ Late Reformers Belarus 1990s

■ Advanced Reformers Poland 2000s

■ Intermediate Reformers FYR Macedonia 2000s

■ Late Reformers Belarus 2000s

Comparing two countries: business climate reforms and employment growth

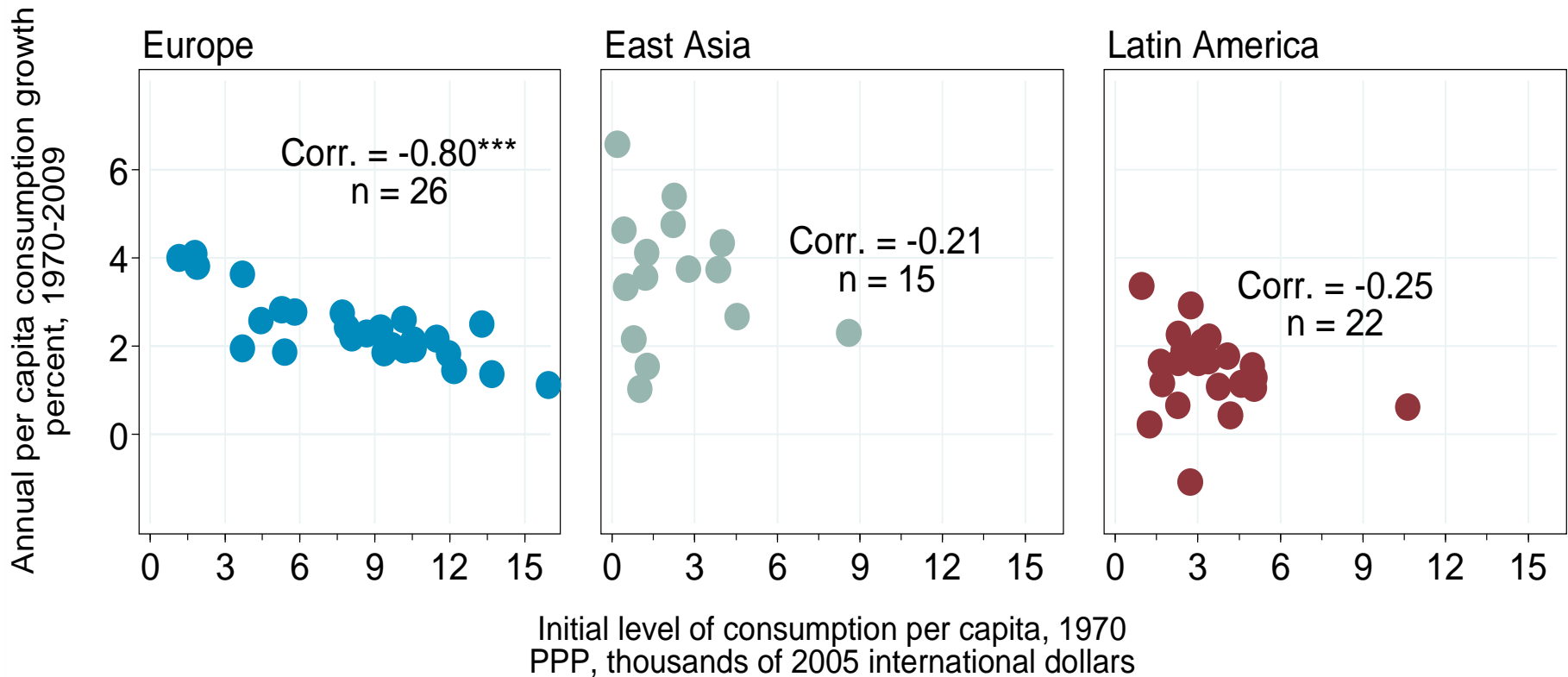


Left chart: This measure shows the distance of each economy to the “frontier.” An economy’s distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.

Right chart, *Source:* Authors’ calculations based on ILO and WDI.

History on your side: Western Balkans will benefit from Europe's "convergence machine"

Annual growth of consumption per capita between 1970 and 2009, by level of consumption in 1970



Note: n = number of countries. *** statistical significance at the 1 percent.

Source: World Bank staff calculations, based on Penn World Table 7.0 (Heston, Summers, and Aten 2011).

Key Messages

- ✓ Location, human capital and labor costs make investing in the Western Balkans today a great opportunity!
- ✓ Maximum investment, growth and jobs will require courageous Governments to do faster and deeper reforms;
- ✓ Macro-fiscal adjustment, enhancing competitiveness and connectedness, and building “new economy” skills are key;
- ✓ History shows that integration into the European economic bloc will drive a powerful convergence towards prosperity.

Thank you



Ellen Goldstein
egoldstein@worldbank.org