Stimulating Investment in the Western Balkans

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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

Nominal average monthly wage in USD, 2010

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

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
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 ...

Source: World Bank, Logistics Performance Index
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

Source: World Bank staff, based on LFS.
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

Comparing two countries: business climate reforms and employment growth

**Doing Business:** Distance to frontier (=100)

- **Bosnia and Herzegovina**
- **Macedonia, FYR**

**Employment growth, 2008=100 (2008-2012)**

- **Bosnia and Herzegovina**
- **FYR Macedonia**

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).
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Thank you

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