

Executive summary

Over the past two decades, the six Western Balkan (WB6) economies have implemented a number of economic reforms that have strengthened their competitiveness; however, 2020 has confronted them with unprecedented challenges. The COVID-19 pandemic has taken a heavy toll on the region, with gross domestic product contracting by 3.3%, exacerbating existing structural challenges and bringing new ones to the fore. The pandemic has revealed the need to reorient the region's reform priorities towards a stronger focus on sustainability, inclusiveness and citizen well-being. Against this backdrop, a holistic, evidence-based structural reform agenda that outlines a path to sustainable, inclusive growth and rising living standards is of utmost importance for all WB6 economies.

This publication seeks to contribute to this endeavour. It provides policy makers in the WB6 economies – Albania, Bosnia and Herzegovina, Kosovo, the Republic of North Macedonia, Montenegro and Serbia – with an evidence-based assessment of 16 policy areas key to their competitiveness, as well as tailored policy recommendations built on OECD and European Union (EU) good practice. Unlike the previous editions, this third edition of *Competitiveness in South East Europe: A Policy Outlook* (Competitiveness Outlook) complements a regional analysis of the 16 policy areas with extensive economy-specific profiles for each WB6 economy. It is the result of a participatory assessment process that included more than 700 WB6 government and statistical office representatives, as well as non-government stakeholders.

Key achievements

On average, the WB6 economies have improved their performance since the publication of the Competitiveness Outlook 2018 report in two-thirds of the policy dimensions analysed. Although this clearly indicates progress in the setting up of policies to enhance their competitiveness, effective and continuous implementation, monitoring, and upgrading these policies should remain a key priority if they are to have a lasting impact. For this assessment cycle, the strongest performance among WB6 economies was in the following areas:

- **Tax policy.** Since the last assessment, all WB6 economies except Kosovo have joined the Inclusive Framework on base erosion and profit shifting (BEPS) and have implemented the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS. They all also carry out some form of regional co-operation and co-ordination on tax matters.
- **Trade policy.** All WB6 economies have made significant improvements to strengthen regional co-operation in trade and open up trade in services within the Central European Free Trade Agreement (CEFTA) framework. This has been achieved through the conclusion of CEFTA Additional Protocol 6 in December 2019 and its ratification by Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia. These and subsequent efforts will reduce the costs of trade in services in the region.
- **Energy policy.** The WB6 economies have made advances towards aligning their energy policies with EU and Energy Community standards. They have an advanced legislative framework that

transposes a significant share of the EU's Third Energy Package. There has also been progress in deploying EU-style organised markets in energy.

- **Investment policy and promotion.** The WB6 economies continue to be among the most open economies to foreign direct investment (FDI) thanks to their open markets and comprehensive regulatory environments for investment activities. All WB6 economies have established an investment promotion agency mandated to promote and facilitate inward FDI, exports and innovation. By giving the same rights and remedies to foreign and domestic investors in their court systems, the economies are facilitating foreign investment.

Key priorities

By contrast, challenges remain for all WB6 economies in several policy areas. In particular there is room for improvement in environment policy; digital society; science, technology and innovation policy; and transport policy – dimensions for which the economies score the lowest in this 2021 Competitiveness Outlook assessment. The key areas for improvement are:

- **Improve environmental quality of life.** With levels of fine particulate matter (PM_{2.5}) two to three times above the maximum limits recommended by the World Health Organization, the WB6 economies should decrease their dependence on fossil fuels in the energy mix, upgrade household heating systems, reduce transport emissions and decrease emissions from industry. Waste management should also be improved by enforcing measures to separate and reduce waste and increase recycling and recovery in line with circular economy principles. The WB6 should also increase the number of wastewater treatment plants and reassess the fee structure so that fees cover the service costs.
- **Provide stronger support to citizens and businesses to harness the benefits of the digital transformation.** Low digital literacy remains prevalent in the region and threatens to deepen a digital divide despite significant efforts to increase broadband access. Greater co-operation with the information and communication technology (ICT) industry is needed to address digital skills gaps through education and training, while business digitalisation and ICT sector growth should be supported and promoted further.
- **Increase investment in public research and innovation.** Public research remains systemically underfunded, while the allocation of funding does not always encourage optimal research outputs. Human capital for research and innovation is below potential due to limited development opportunities, lack of funding and few incentives to commercialise research. With increased funding for public sector research and by promoting scientific research as an attractive profession to develop human capital and counteract brain drain, innovation systems could be a key driver of economic growth in the region.
- **Improve transport project and asset management and strengthen combined transport.** Most WB6 economies would benefit from improving their systems for transport project identification, prioritisation and selection to make the allocation of funds and investment in transport infrastructure projects more efficient. The WB6 should accelerate the development of an asset management system for all transport infrastructure and ensure that it is in line with the domestic inventory system. They should also develop or prioritise combined transport strategies, which are needed to boost cost efficiency, reduce environmental pollution, and increase co-modality and co-operation among freight forwarding network companies.



From:
Competitiveness in South East Europe 2021
A Policy Outlook

Access the complete publication at:
<https://doi.org/10.1787/dcbc2ea9-en>

Please cite this chapter as:

OECD (2021), "Executive summary", in *Competitiveness in South East Europe 2021: A Policy Outlook*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/851614a9-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.