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Competitiveness in South East Europe

A Policy Outlook 2018

Summary in English



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For the better part of the last decade, the economies of the South East Europe (SEE) region have committed themselves to a comprehensive reform programme driven by the need for increased competitiveness, regional co-operation and more effective economic governance. Despite some progress in implementing reforms, the SEE region still grapples with high levels of unemployment, slow growth rates and a raft of infrastructure problems, particularly in the transport and energy sectors.

Against the backdrop of the prospect of European Union (EU) accession, confirmed by the recently adopted European Commission Strategy for the Western Balkans, and further regional co-operation, this report, which is the second in a series, aims to help participating economies develop better policies by providing an in-depth assessment of economic performance and regional competitiveness across 17 policy dimensions. In producing this assessment, the OECD worked in partnership with six economies of the SEE region (Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Kosovo,* Montenegro and Serbia) from early 2016 to early 2018 to provide the expertise and evidence-based analysis required to support the structural reform process.

The publication offers a wide-ranging account of the key economic challenges and structural impediments to competitiveness in South East Europe. Drafted in close co-operation with SEE governments and including over 1 000 regional stakeholders, the report is based on a rigorous system of qualitative and quantitative policy assessments. The end result is a comprehensive report encompassing over 600 individual indicators.

Since the last edition of the Competitiveness Outlook, there have been areas of noteworthy progress. The six assessed SEE economies have adopted strategies to improve the overall standard of education, acted to remove technical barriers to trade and taken steps to establish better financing mechanisms for small and medium-sized enterprises (SMEs). Further efforts are underway to expand broadband services and close the digital divide, tackle inefficiencies in the energy and agriculture sectors, and address demographic challenges posed by long-term unemployment. But notwithstanding these important gains, there remain considerable socio-economic challenges for these economies as they continue their journey towards structural reform and regional competitiveness.

* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Key challenges

Throughout the region, weak implementation and inadequate monitoring continue to hamper structural reforms, while human capital and labour market deficits limit the capacity for economic growth. Low levels of enrolment in early childhood education and a persistent digital divide have contributed to a regional skills gap, while chronic underfunding of science, technology and innovation is holding the economies back in their transition to knowledge-based societies. Science, technology and innovation in the SEE economies continues to lag behind comparable economies, exacerbated by weak linkages between the business community and academia and by the high level “brain drain” of young graduates.

Throughout the six economies, a lack of business finance is inhibiting economic growth and stunting free market potential, while inefficiencies in tax management and collection systems undermine government revenue streams. These structural inefficiencies have negative consequences for SMEs and encourage informal activity. What is more, poor enforcement of competition policy – especially in the highly concentrated banking, utilities and transport sectors – leads to unfair market conditions. The region also suffers from cumbersome state-owned enterprises, large-scale tax avoidance and feeble anti-corruption enforcement, all of which hurt productivity.

Excessive regulation of trade in goods and services has increased operating costs for businesses in SEE economies, while also affecting the inflow of foreign capital. Additional obstacles include poorly developed transport infrastructure and an ineffective utilities market, the latter characterised by high levels of vertical integration. In the area of sustainability, economic policies fail to facilitate economic growth in an environmentally friendly way, undermining public health and long-term competitiveness.

The way forward

Taken as a whole, these challenges present a formidable set of hurdles for the region. Therefore, developing short- and medium-term strategies to ensure policy implementation is critical.

- Build skills and innovation. A first priority for the region should be to invest in human capital formation and enhance labour market effectiveness. The SEE economies should also work to foster participation in early childhood education by improving affordability. Moreover, governments should adopt a holistic approach to aid in the transition towards a knowledge-based society, by stepping up support to foster scientific excellence, technology absorption, entrepreneurial growth and create momentum for innovation by involving and connecting stakeholders from business, academia, government and civil society.
- Help businesses to grow in a fair environment. The SEE economies should also prioritise access to finance by fostering alternative sources of financing and venture capital. A commitment to making finance accessible would benefit SMEs, as well as improve conditions for all market participants by opening up excessively restrictive credit markets. Likewise, foreign direct investment and SME linkages should be strengthened by prioritising long-term and sustainable investments in high-skilled and creative sectors. Finally, the region should focus on anti-corruption co-ordination, including offering more robust whistleblower protection across all six economies.
- Develop infrastructure which supports efficient and sustainable growth. In the medium term, the SEE economies would benefit from further investment in infrastructure, including overhauls of the transport and energy sectors. In particular, railway reforms and improvements in information systems are needed to bring the region up to par with OECD best practice and EU standards. Additionally, attention should be paid to technical standards such as harmonising environmental legislation to meet international commitments. In the energy sector, policy frameworks should be fully aligned with climate change objectives, whilst better institutional capacity is required to realise ongoing energy market reforms.

To enable successful policy reform, these recommendations should be crafted to meet the specific context of each economy, while also accounting for the many overlaps and interconnections inherent in the region.

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