Trade and Policies in the Balkans

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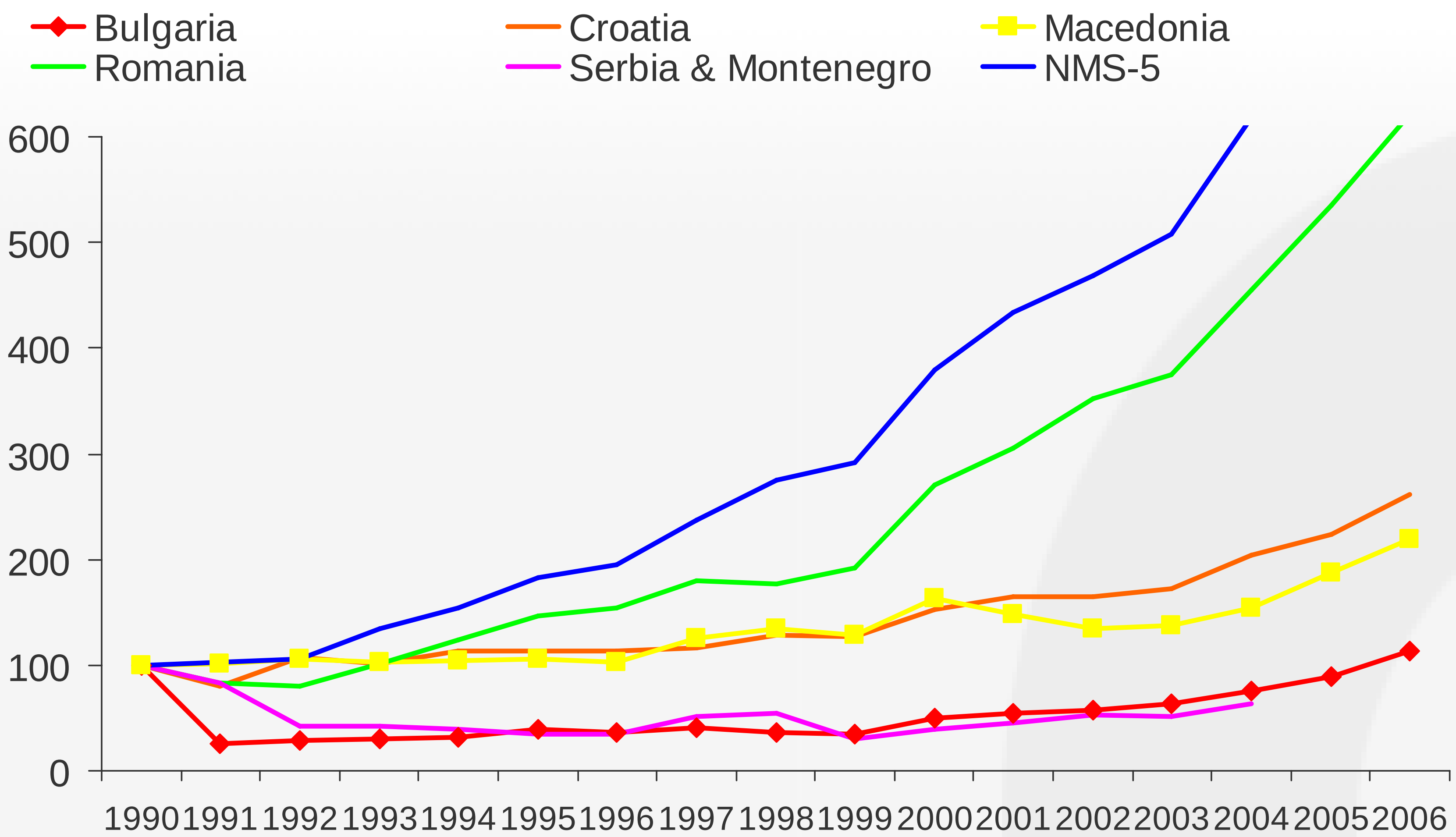
- Export performance
- External imbalances
- Trade specialization
- Regional FTA and comparative advantages
- Real exchange rates and income policies
- First vs. second best policies
- Catching-up story?

Exports and FDI

- Exports growing after year 2000
- FDI growing after 2000
- Similar to early experience of the Central European countries

Exports in NMS and SEE, 1990-2006

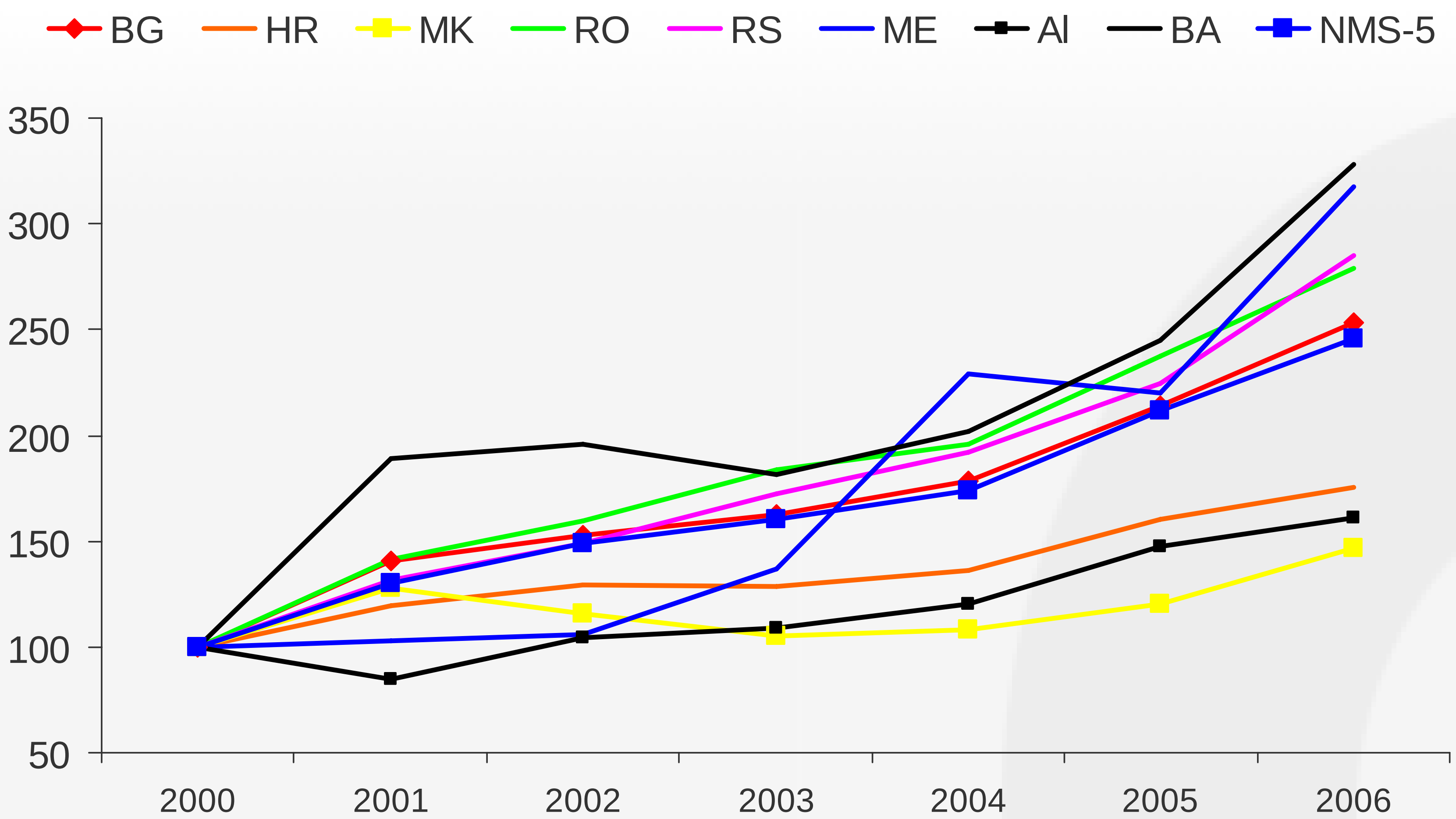
1990=100



NMS-5: CZ, HU, PL, SK, SI

Exports in NMS and SEE, 2000-2006

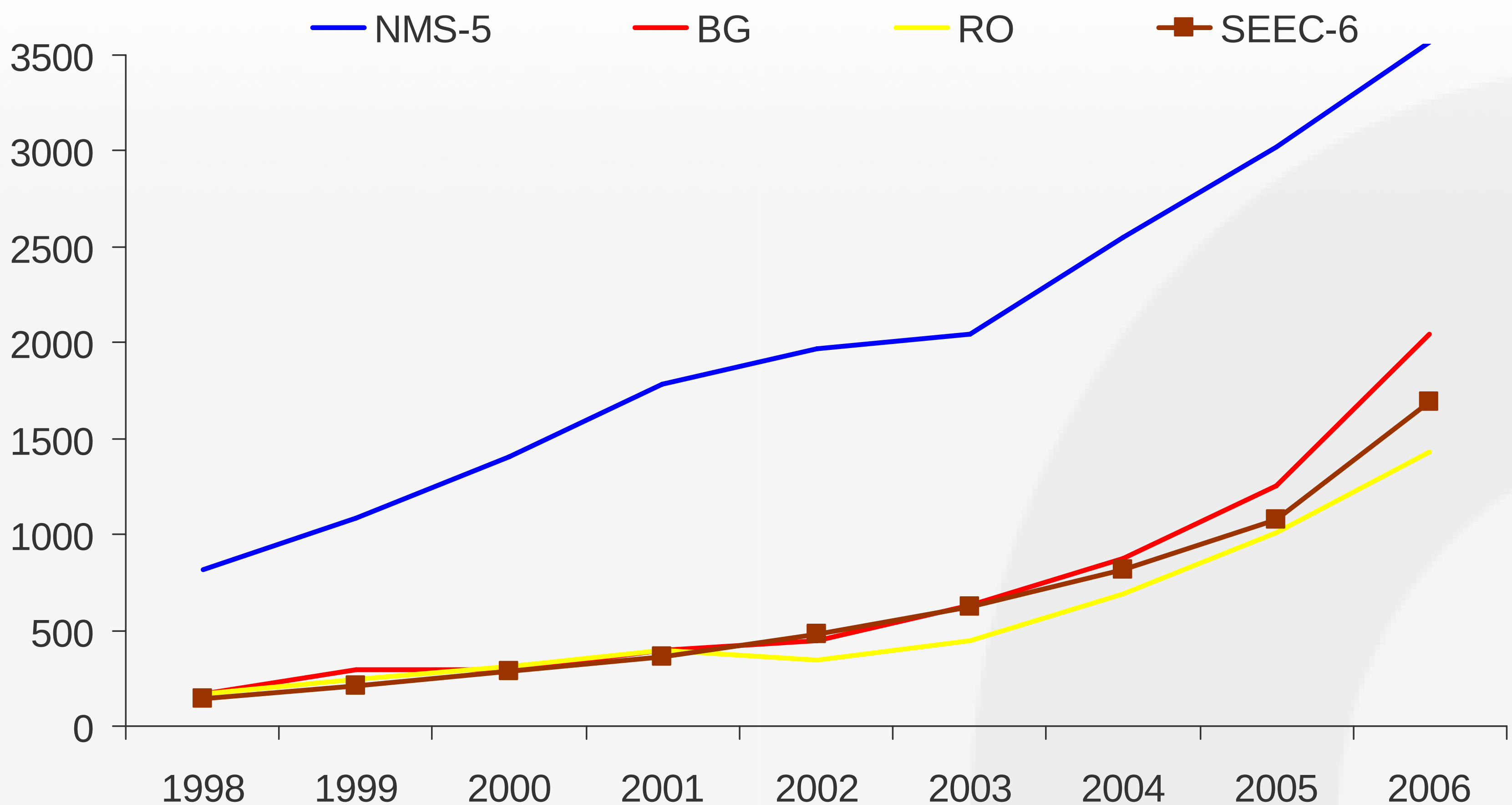
2000=100



NMS-5: CZ, HU, PL, SK, SI

FDI stock, per capita, in NMS and SEEC,

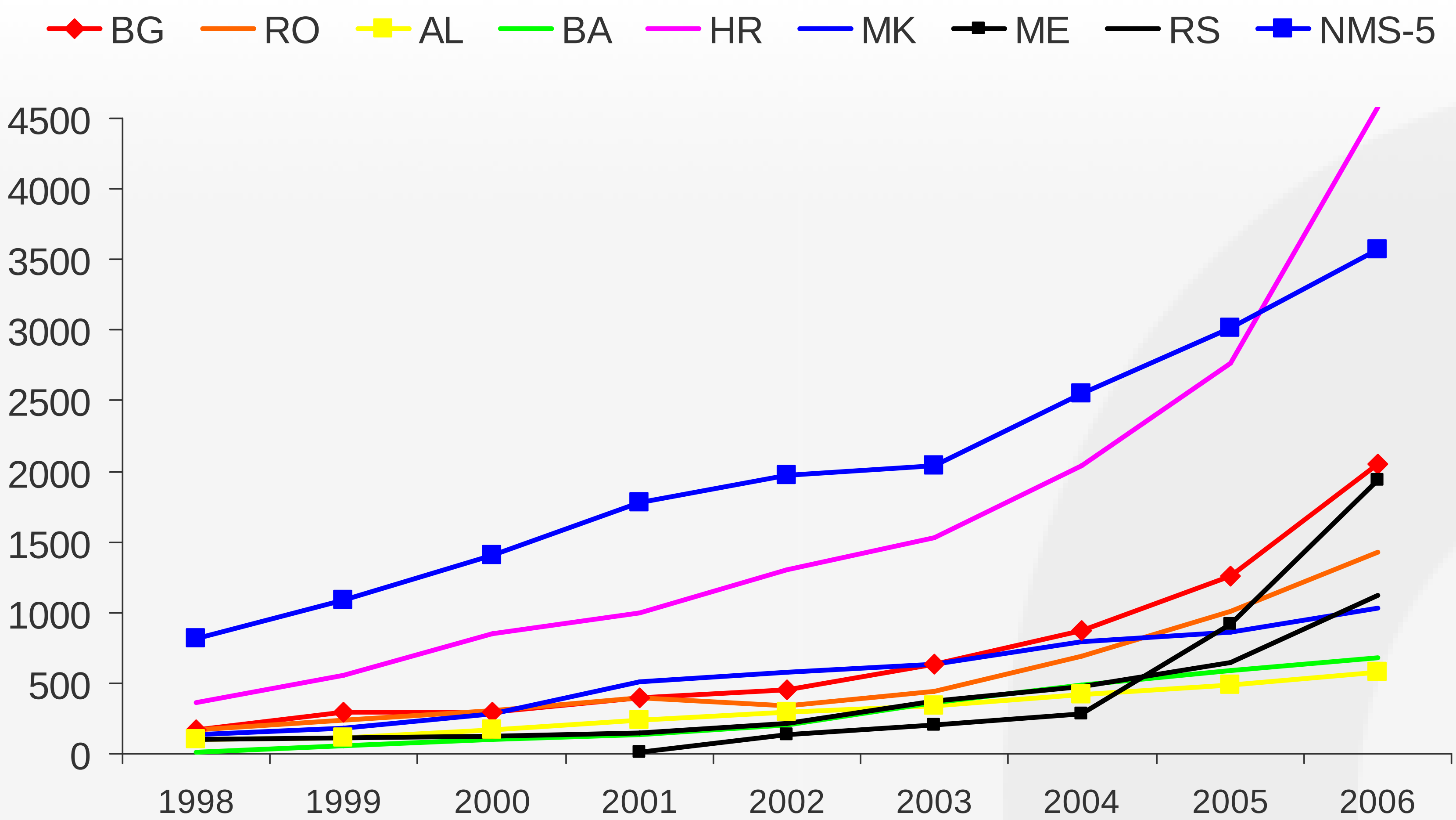
1998-2006, EUR



NMS-5: CZ, HU, PL, SK, SI
SEEC-6: HR, MK, RS, ME AL, BA

FDI stock, per capita, in NMS and SEEC,

1998-2006, EUR



NMS-5: CZ, HU, PL, SK, SI

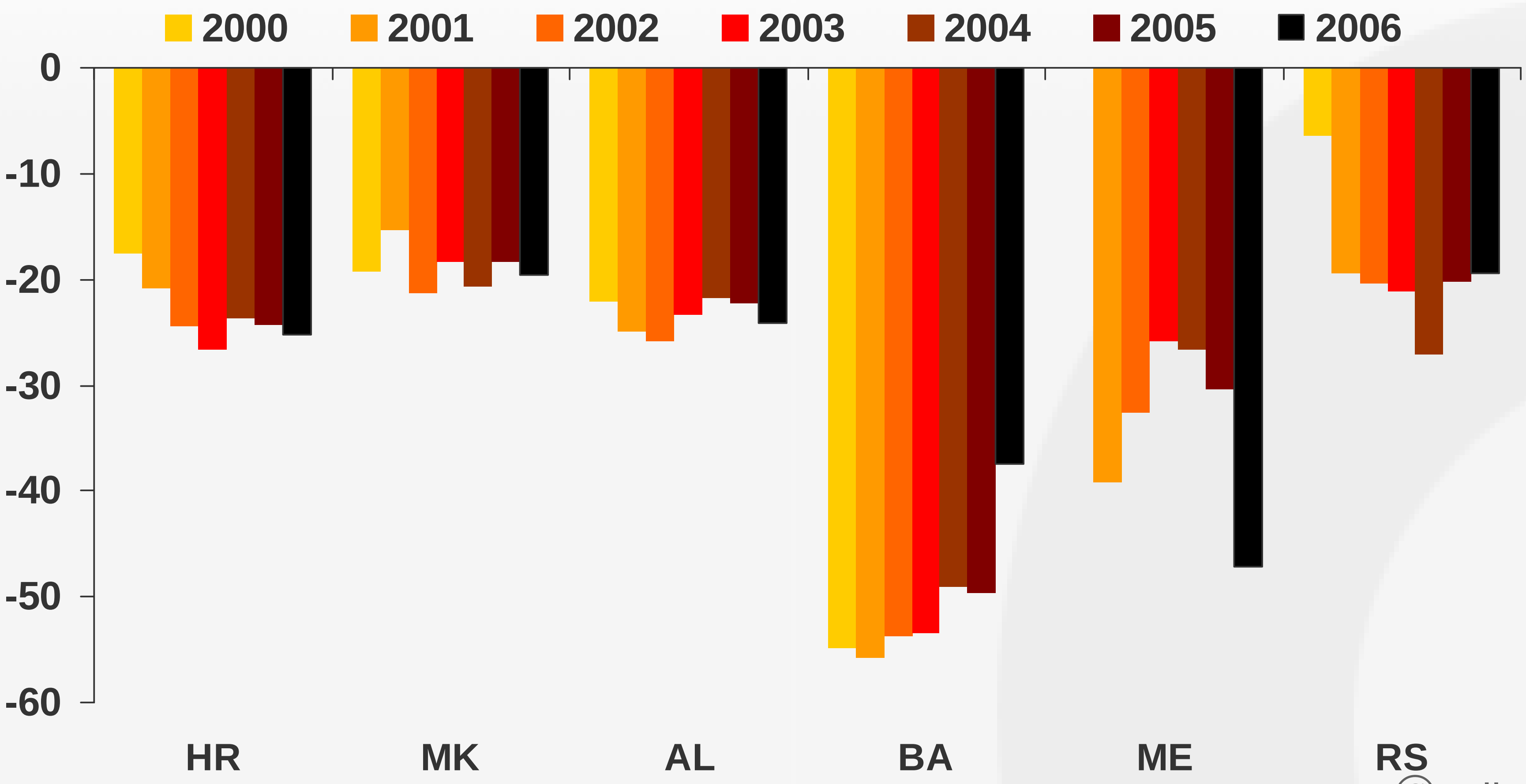
External Imbalances

- Trade deficits large
- Current account defiicts also large
- Not necessarily unsustainable

Trade deficit, 2000-2006

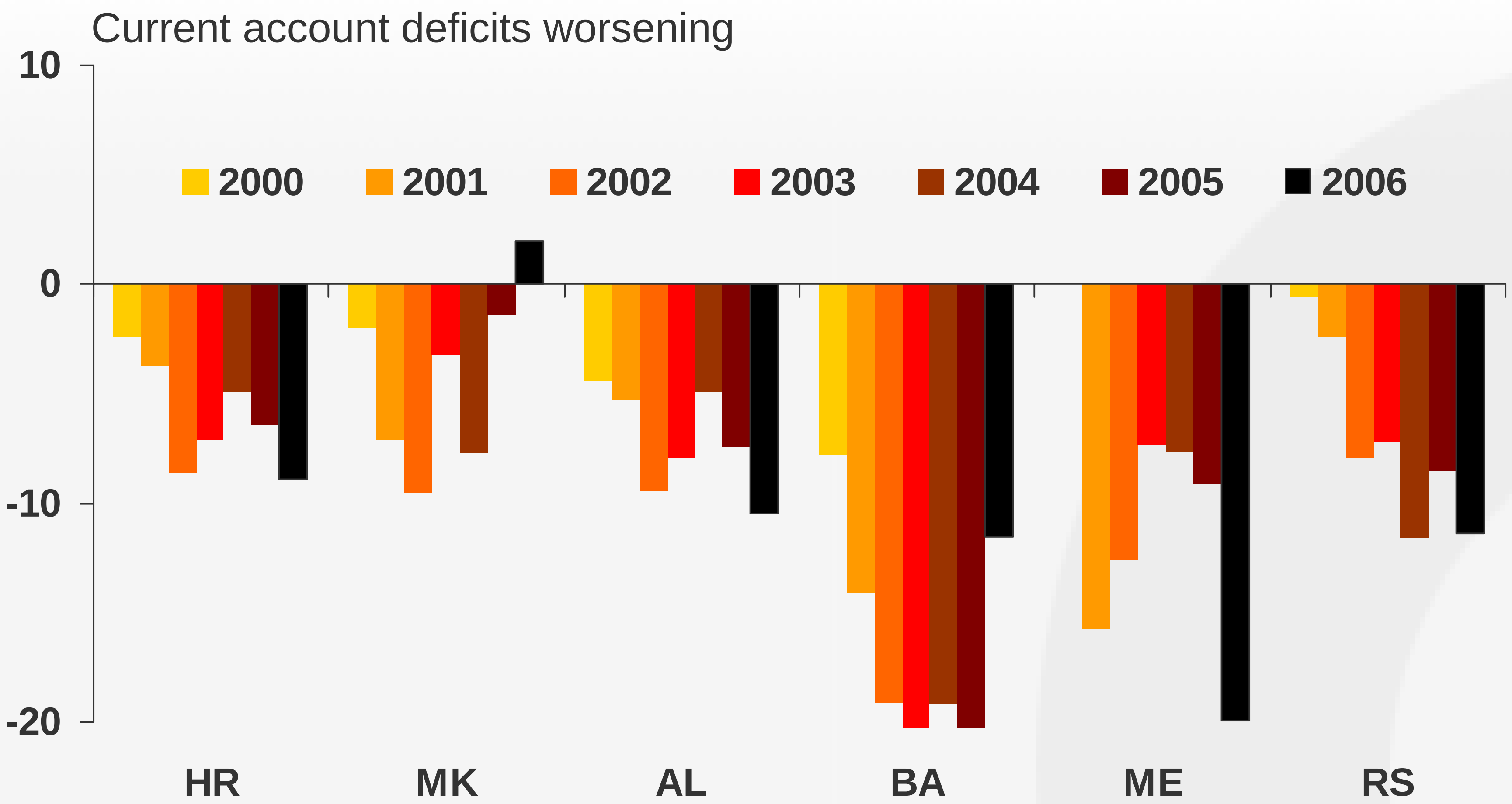
in % GDP

Trade deficits continue to be very large



Current account, 2000-2006

in % of GDP

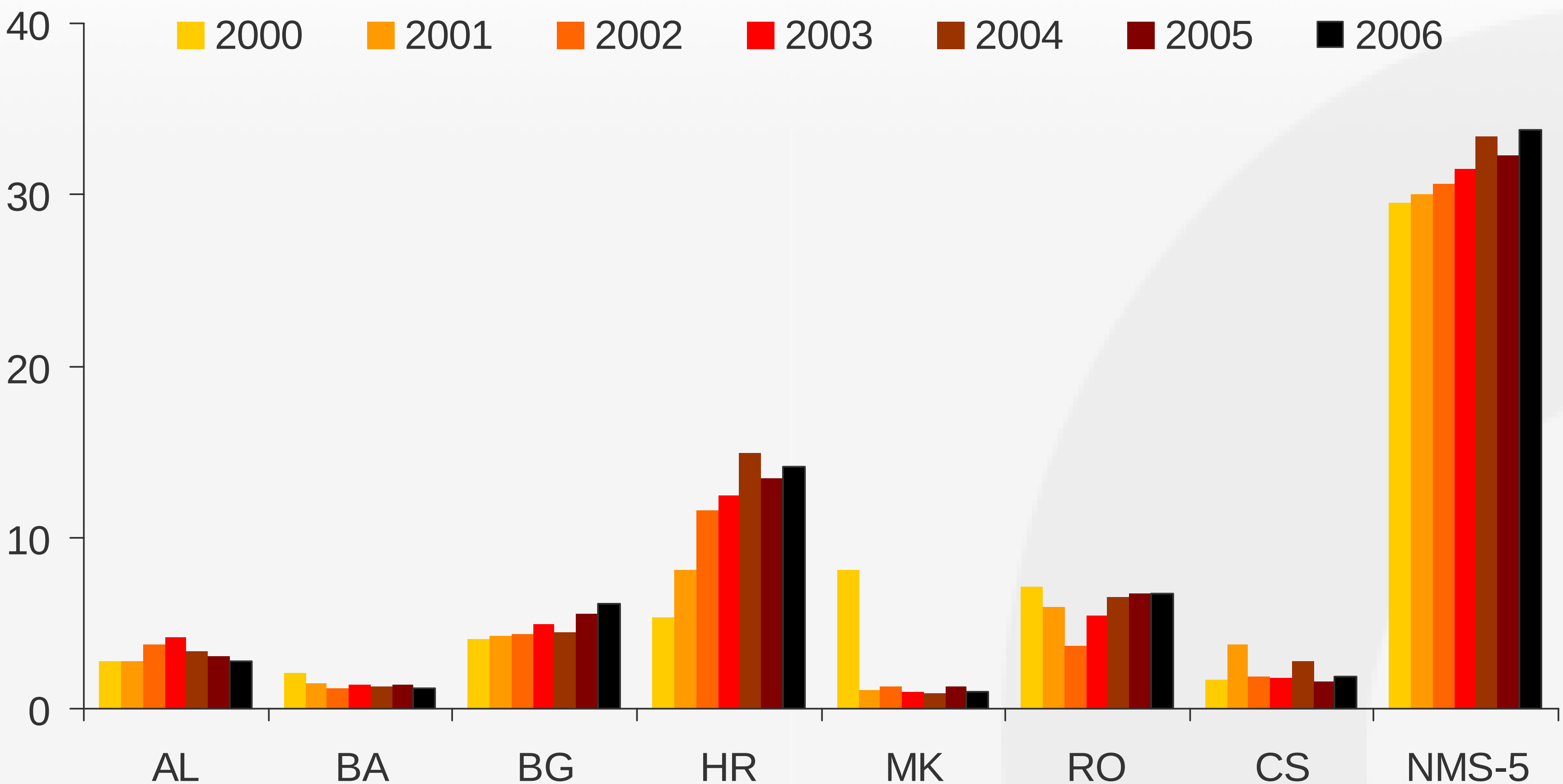


Trade specialization

- Mostly low skilled and labour intensive goods are exported to the EU
- Not necessarily reflecting the human capital endowment in the Balkan economies

Technology-driven industries,

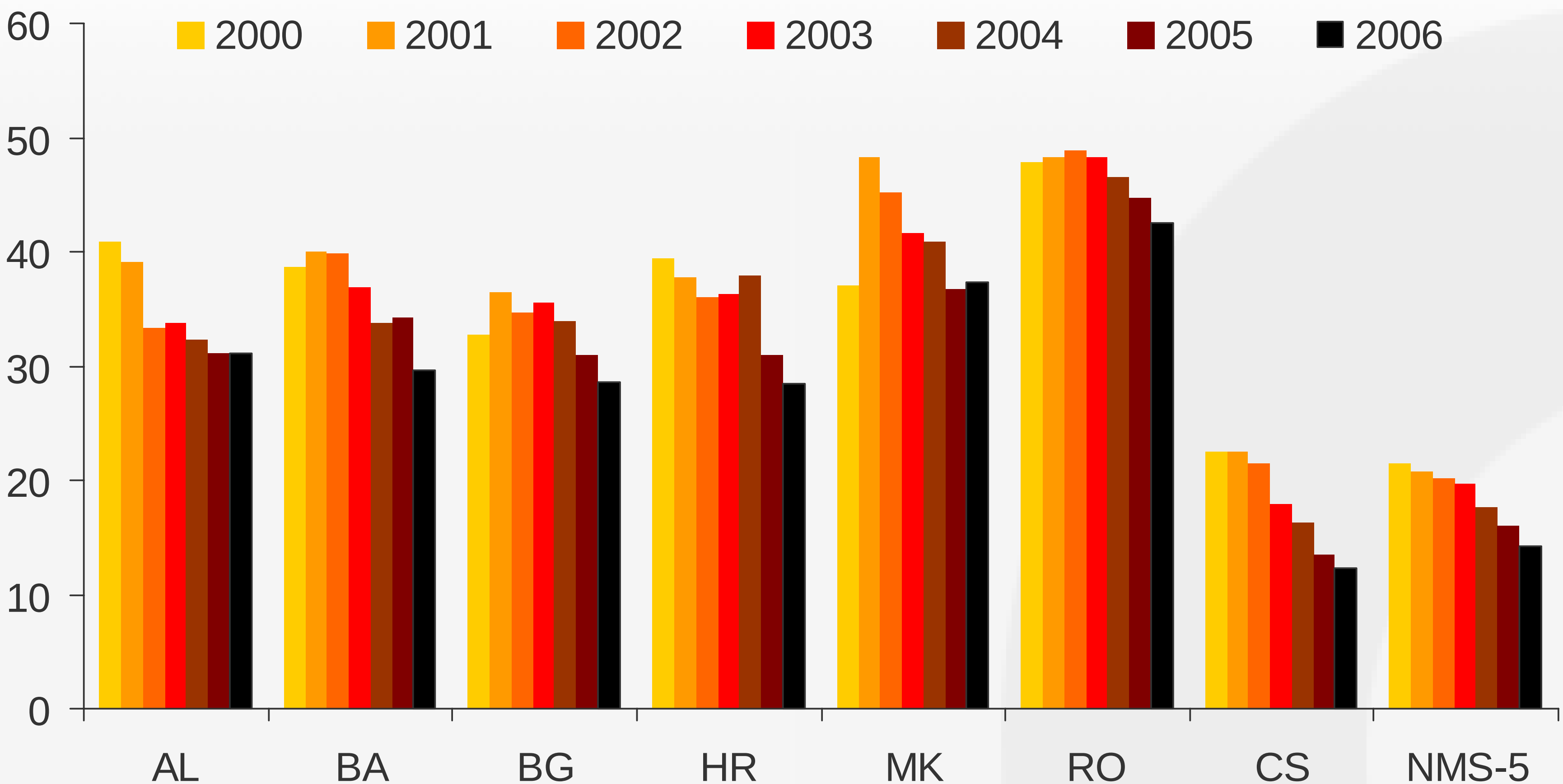
as % of total manufacturing exports to the EU



NMS-5: CZ, HU, PL, SK, SI

Labour-intensive industries,

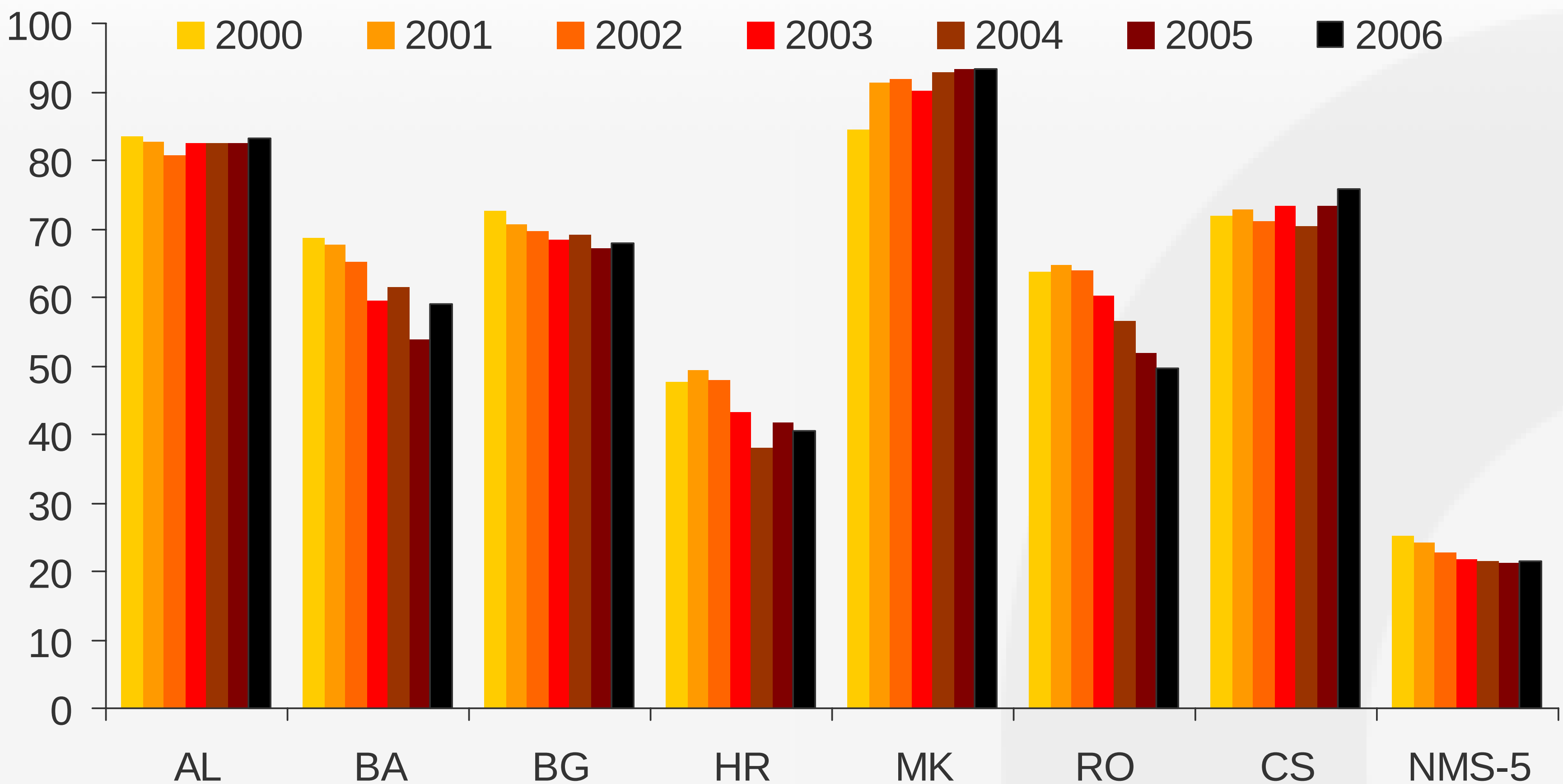
as % of total manufacturing exports to the EU



NMS-5: CZ, HU, PL, SK, SI

Low-skill industries,

as % of total manufacturing exports to the EU



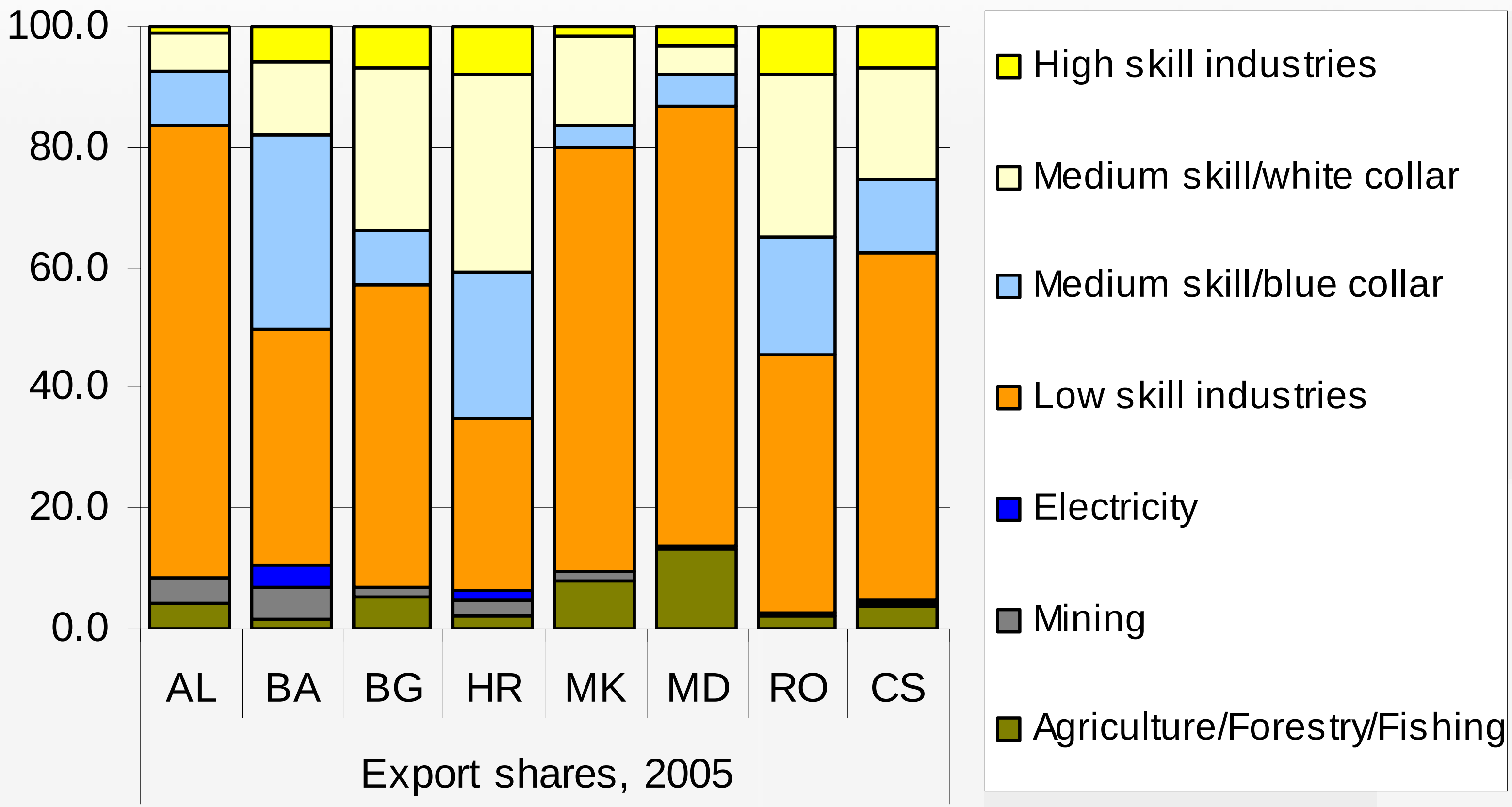
NMS-5: CZ, HU, PL, SK, SI

Regional FTA and comparative advantages

- CEFTA yet to show results
- However, bilateral FTAs seem to contribute to trade diversification

SEE export shares 2005, by sector

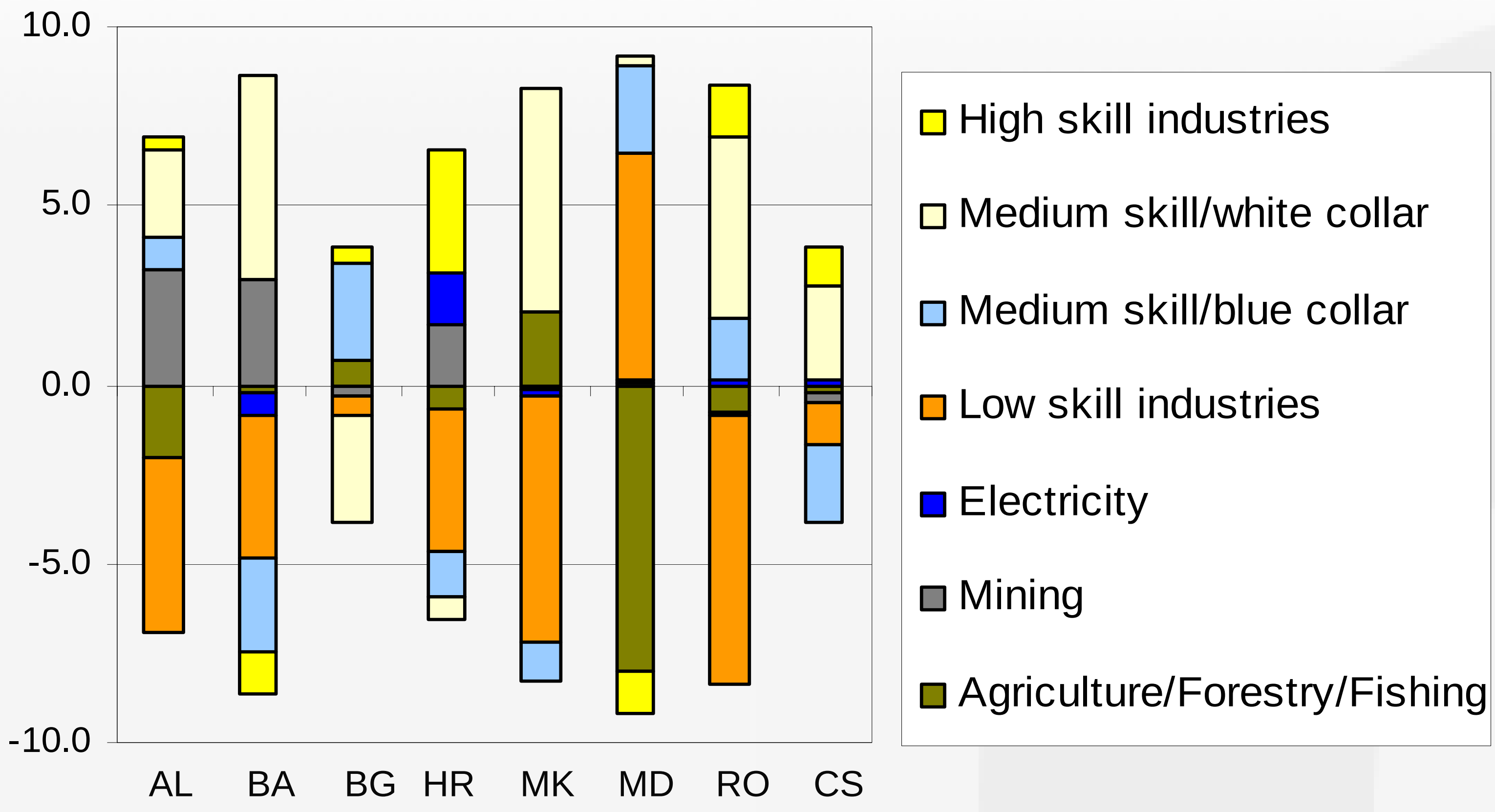
(manufacturing sectors by skills)



Source: wiiw

Change of SEE export shares 2000-2005,

in percentage points, by sector (manuf. by skills)



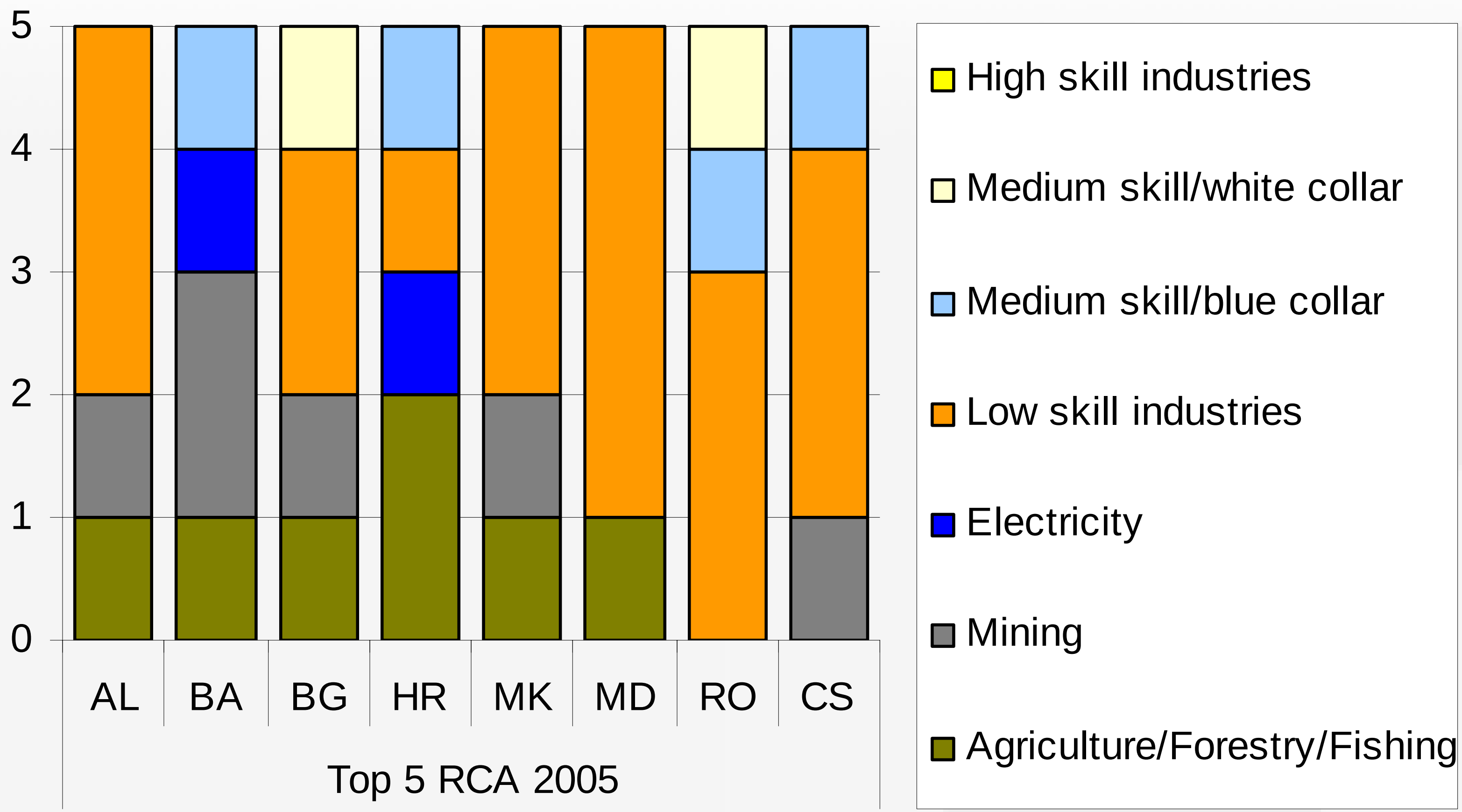
Source: wiiw

SEE Export shares

- Main exports of goods still from low skills industries
- Recent development shows a change from low to medium skills industry exports
- General skills upgrading

RCA within SEE & EU-25 region, 2005,

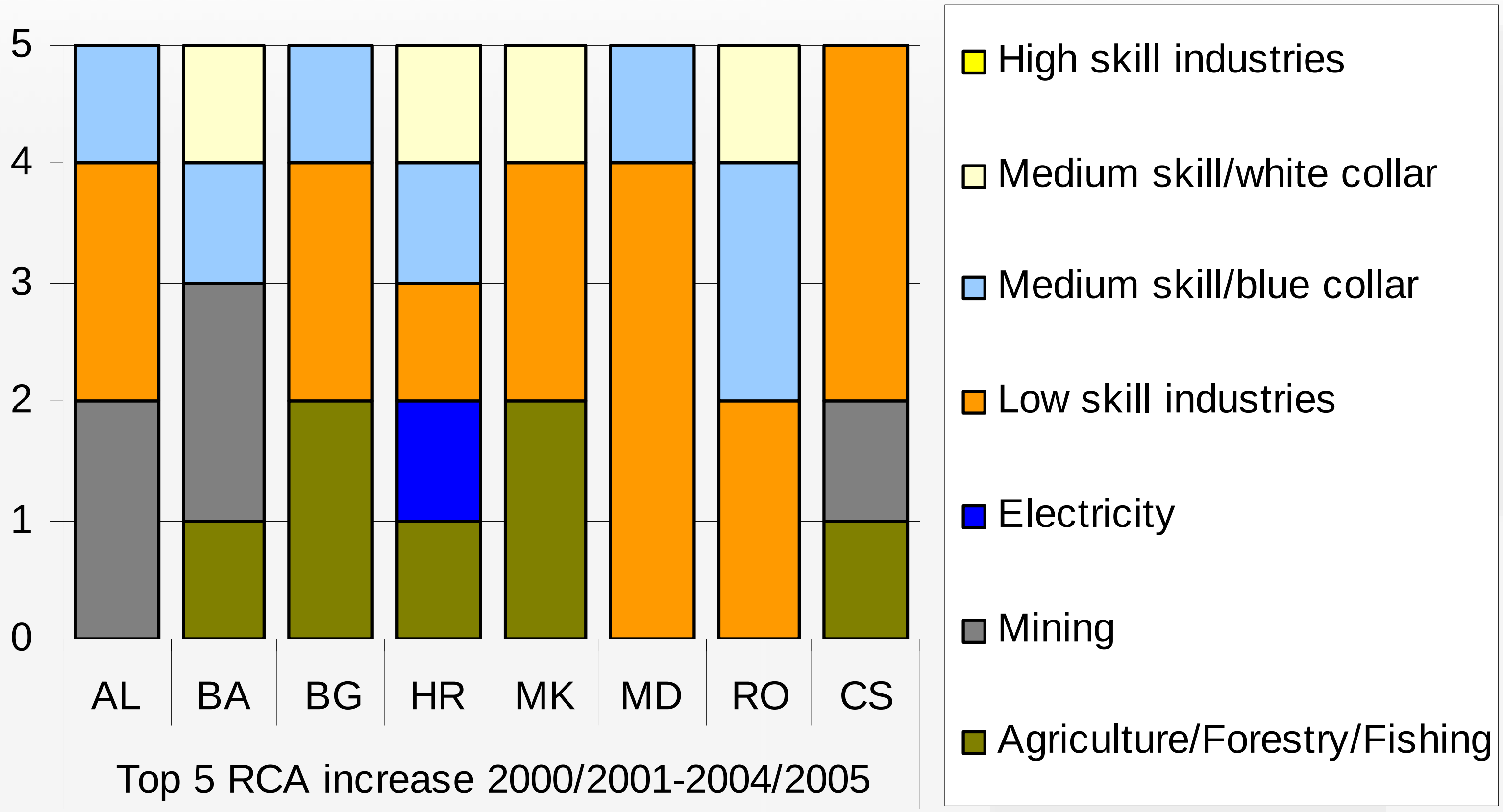
top 5 sectors (manufacturing by skills)



Source: wiiw

RCA within SEE & EU-25 region,

recent increases, top 5 sectors (manuf. by skills)



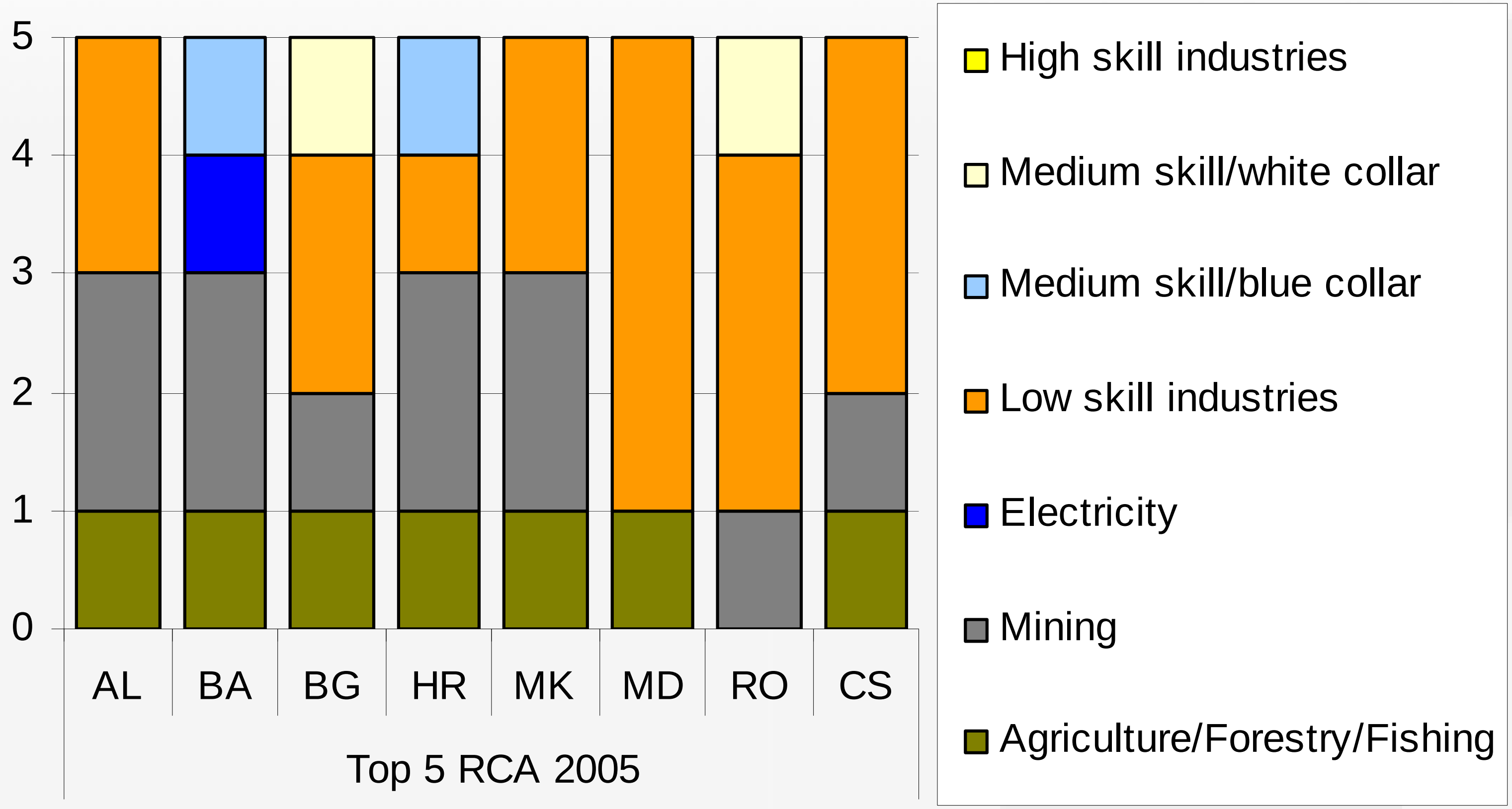
Source: wiiw

RCA within SEE & EU-25 region

- Main specialisation in low skills industry, agriculture/forestry/fishing and mining export sectors
- Development in recent years: a bit less specialisation in low skills industry exports and more in medium skills
- … comparable to the overall export shares picture

RCA within SEE & NMS-10 region, 2005

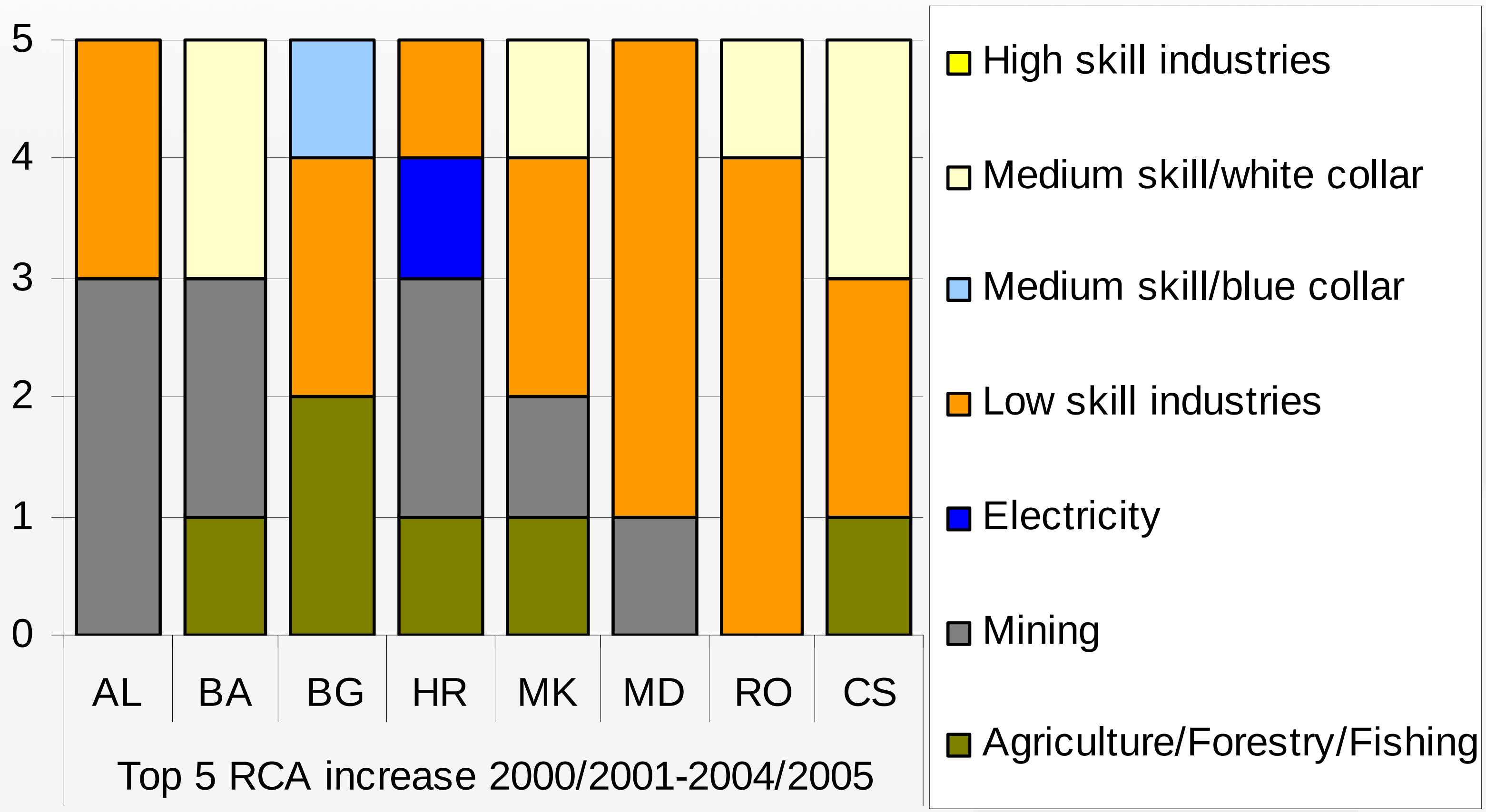
top 5 sectors (manufacturing by skills)



Source: wiiw

RCA within SEE & NMS-10 region

recent increases, top 5 sectors (manuf. by skills)



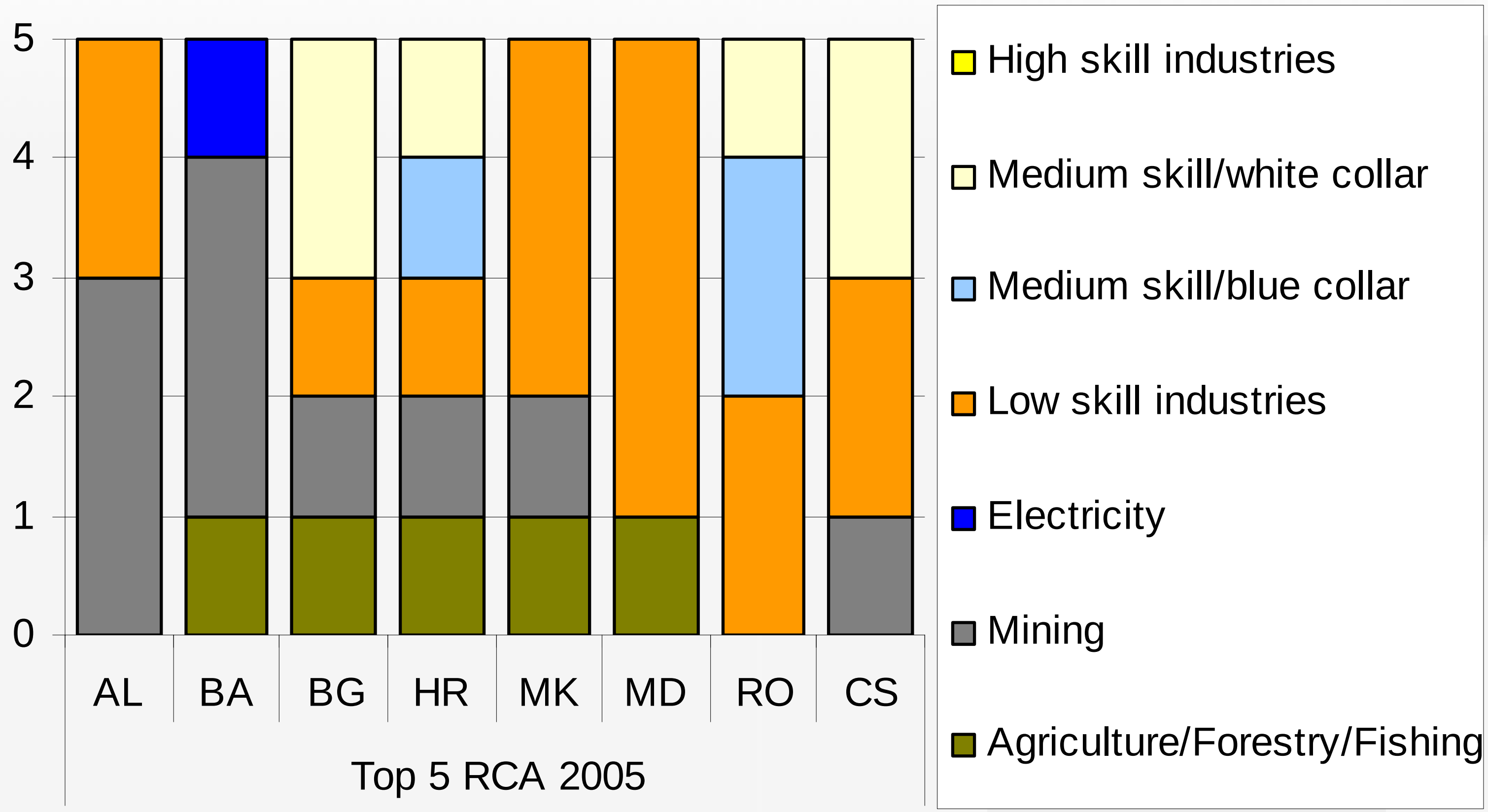
Source: wiiw

RCA within SEE & NMS-10 region

- Main specialisation in low skills industry and mining export sectors
- Development in recent years: a bit less specialisation in mining exports and more in medium skills white collar industry exports
- Compared to other transition countries more specialisation in natural resources but first signs of an upper medium skills catching up

Revealed Comparative Advantage in SEE, 2005

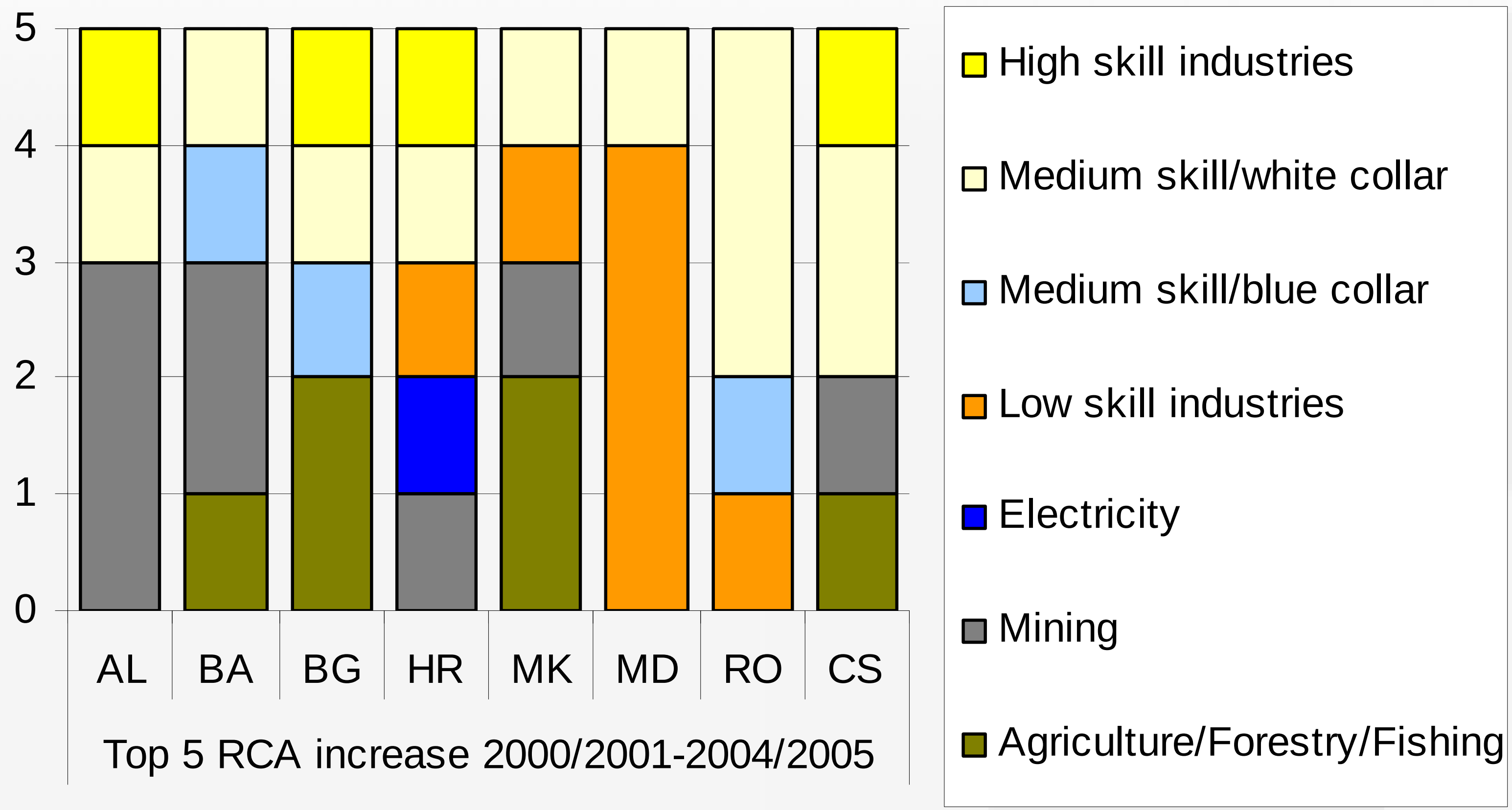
top 5 sectors (manufacturing by skills)



Source: wiiw

Revealed Comparative Advantage in SEE,

recent increases, top 5 sectors (man. by skills)



Source: wiiw

Revealed Comparative Advantage in SEE

- Main specialisation in low skills industry, mining and medium skills white collar export sectors
- Development in recent years: much less specialisation in mining and low skills exports and more in medium skills white collar and even high skills industry exports
- There is a regional diversification in trade specialisation and labour skills allowing for improved labour skill content in exports

Tentative Conclusions

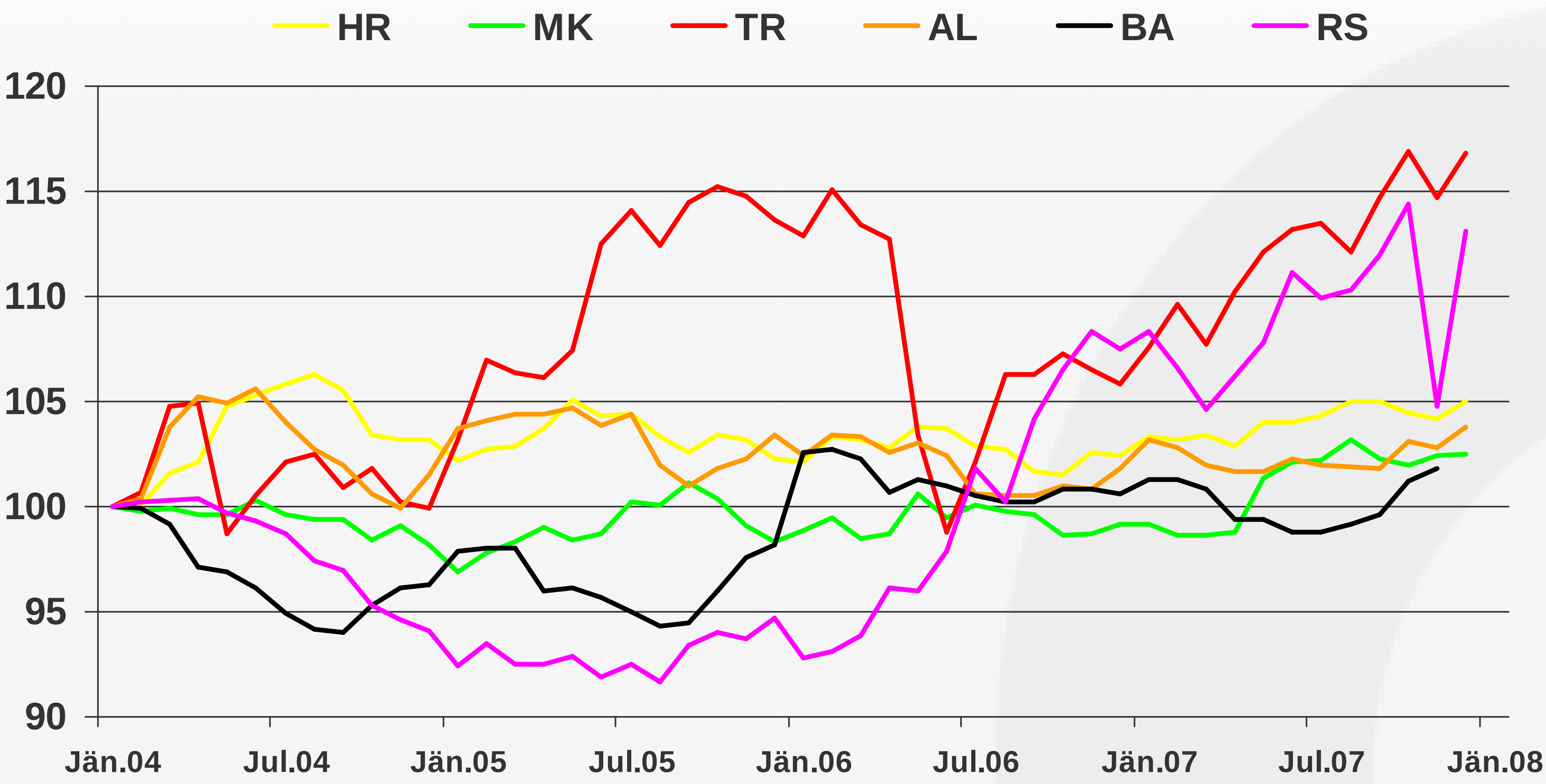
- Recent development of export shares and RCA’s suggest a general skills upgrading in SEE export industries
- Stronger SEE regional diversification in trade specialisation and labour skills might hint at first structural effects of the regional Free Trade Agreements in recent years

Exchange Rates, Wages, and Prices

- Wage inflation is the key to competitiveness and sustainability
- Exchange rate policies difficult

Real appreciation*, 2004-2007

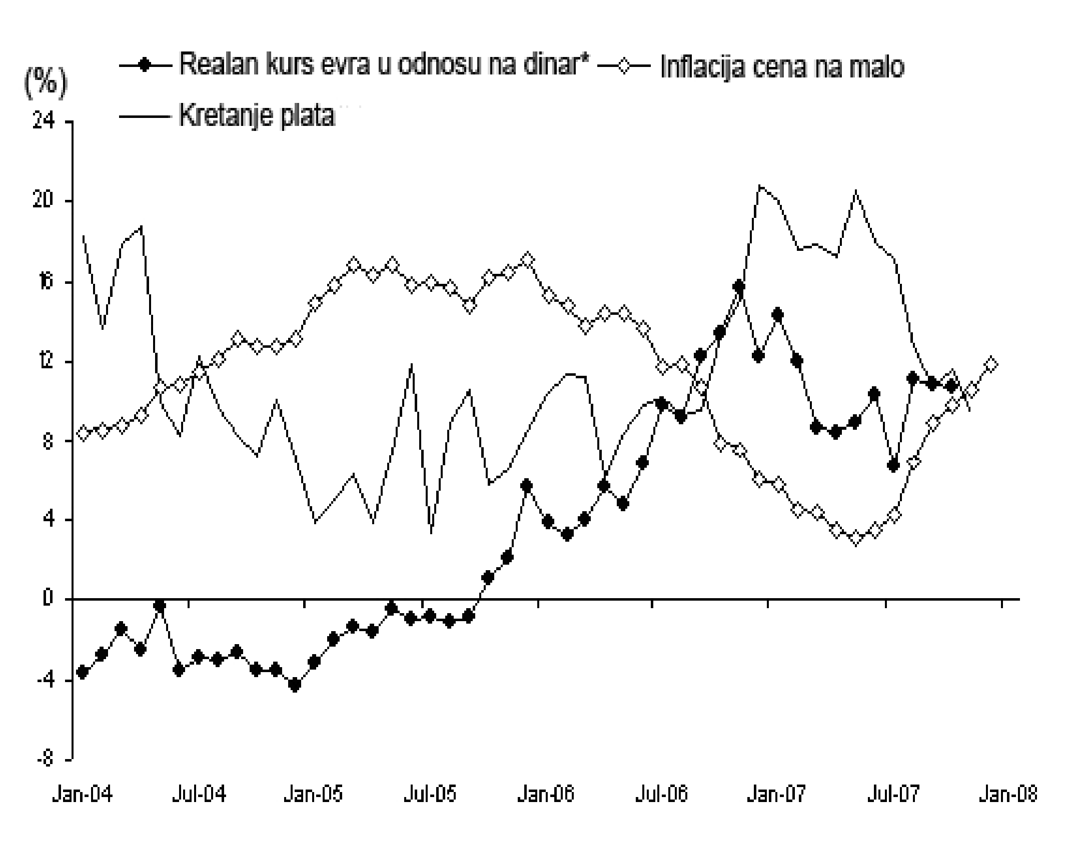
NCU per EUR, PPI-deflated, in % against January 2004



Source: wiiw Monthly Database.

Serbia: real echange rate, inflation and wages 2004-2007

Year on year (%)



Policy Conclusions

- The key issue is whether Balkan economies are repeating the Central European type of transition
- If yes, than first best policies are appropriate
- Otherwise, there is scope for second best policy innovations