

The Southeast Europe
Competitiveness Report
2006



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How competitive is Southeast Europe?

Based on the results of The Southeast Europe Competitiveness Report

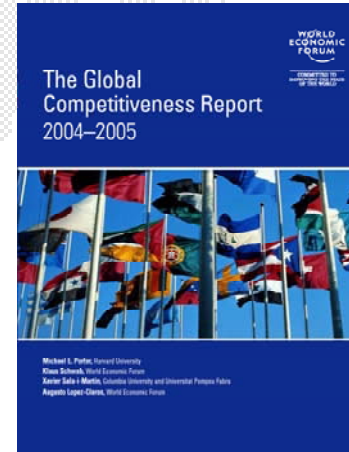
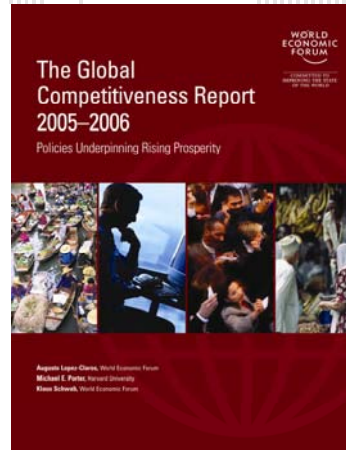
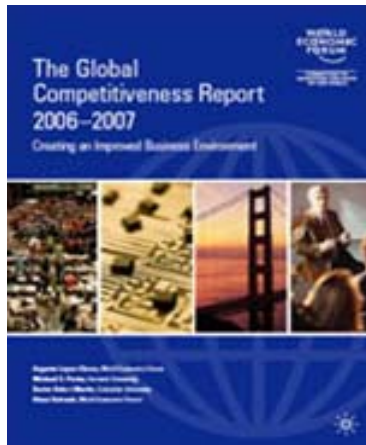
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Global Competitiveness Network



- ▶ Flagship product: Global Competitiveness Report
- ▶ Launched in 1979 covering **16 countries**
- ▶ The Report has since expanded its coverage, in 2006, **125 countries.**
- ▶ 2006 marks our **27th anniversary** of measuring **competitiveness**

Global Competitiveness Network

- ▶ The **most comprehensive data set** on competitiveness
- ▶ Assesses the **comparative strengths and weakness** of a large number of economies
- ▶ Produced in **collaboration with leading academics** worldwide and a global network of **partner (research) institutes**

Southeast Europe Competitiveness Report

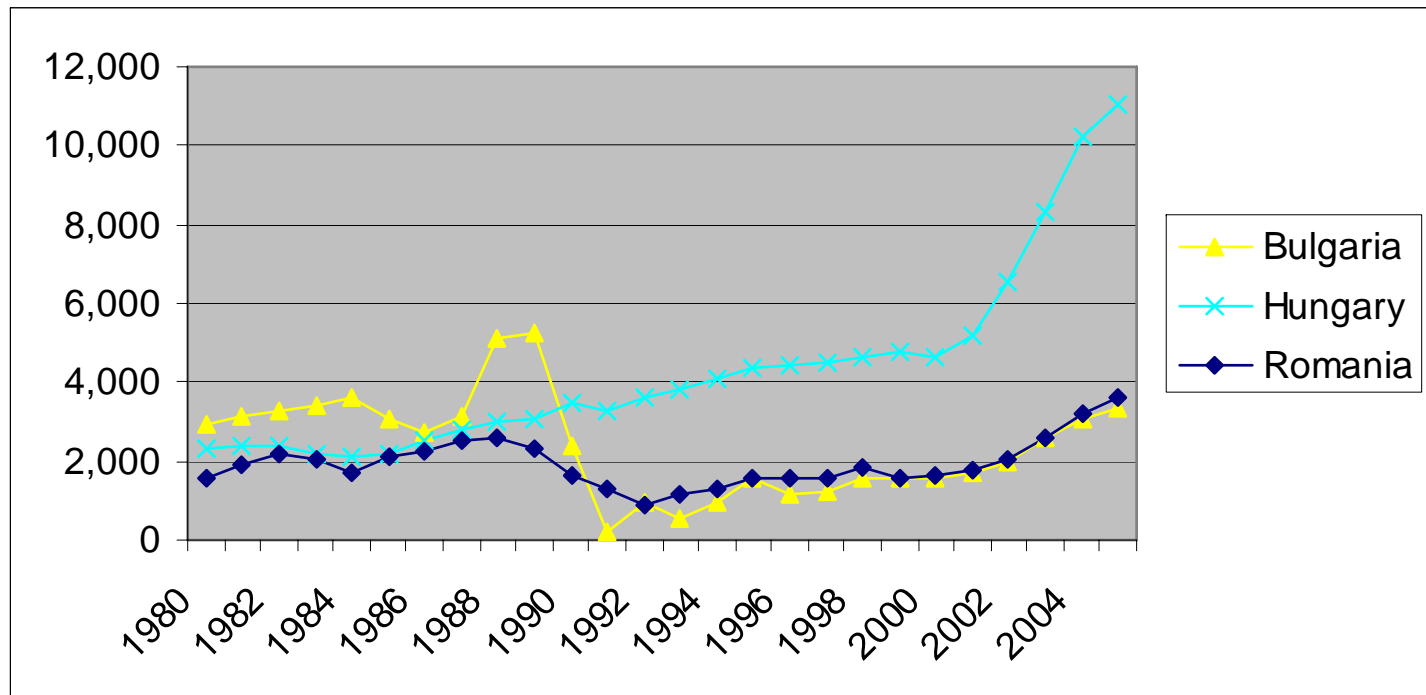
Motivation

- ▶ Southeast Europe is an important emerging region, at the **doorstep of the European Union**, but which faces a number of **obstacles to its economic competitiveness**
- ▶ The World Economic Forum believed that a report on Southeast Europe's economic landscape and competitiveness would **support the prioritization of policy formulation**
- ▶ The World Economic Forum therefore joined in partnership with the Regional Economic Forum for Southeast Europe to make this report a reality and to ensure its distribution within the region to key policymakers.

Southeast Europe Competitiveness Report

Motivation

- ▶ Why have some transition countries in Europe grown faster than others?



Global Competitiveness Index

- ▶ How we **do not** define competitiveness: “a country’s share of the world market for its products”
 - ▶ this view implies a zero-sum game - one country’s gain comes at the expense of others

- ▶ How we **do** define competitiveness: “the set of institutions, policies and factors that set the sustainable current and medium term levels of economic prosperity.”

The Global Competitiveness Index

The Nine Pillars



The Global Competitiveness Index

Stages of Development

Factor-driven stage

Firms compete
in prices, taking
advantage of
cheap factors

*e.g. India, China,
Ukraine, Moldova*

Efficiency-driven stage

Efficient production
practices to
increase productivity

*e.g. Poland, Russia,
Brazil, Mexico*

Innovation-driven stage

Economies need
to produce
innovative products
using sophisticated
production methods

*e.g. Finland, Japan,
Germany, US*

Global Competitiveness Index

Allocation of countries into stages:

- ▶ **Factor-driven stage:** GDP per capita below \$2,000
- ▶ **Efficiency-driven stage:** GDP per capita between \$3,000 and \$9,000
- ▶ **Innovation-driven stage:** GDP per capita above \$17,000

- ▶ ***Transition from factor → efficiency:*** GDP per capita between \$2,000 and \$3,000
- ▶ ***Transition from efficiency → innovation:*** GDP per capita between \$9,000 and \$17,000

Global Competitiveness Index

BASIC REQUIREMENTS

1. Institutions
2. Infrastructure
3. Macroeconomy
4. Health and Primary Education

Key for
factor-driven
economies

EFFICIENCY ENHANCERS

5. Higher Education and Training
6. Market Efficiency (goods, labour, financial)
7. Technological Readiness

Key for
efficiency-driven
economies

INNOVATION & SOPHISTICATIONS FACTORS

8. Business Sophistication
9. Innovation

Key for
innovation-driven
economies

Global Competitiveness Index

Weights of the three main groups of pillars at each stage of development

	Basic requirements	Efficiency enhancers	Innovation and sophistication factors
Factor-driven stage	50%	40%	10%
Efficiency-driven stage	40%	50%	10%
Innovation-driven stage	30%	40%	30%

Global Competitiveness Index

Countries by stage of development

Stage of Development	SEE countries in this stage	Other countries in this stage	Important areas for competitiveness
Stage 1 (factor-driven)	Bosnia and Herzegovina	China, Egypt, Georgia, India, Kenya, Nigeria, Philippines, Ukraine	Basic requirements (critical) and efficiency enhancers (very important)
Transition from stage 1 to stage 2	Albania, Macedonia, Serbia and Montenegro.	Ecuador, Kazakhstan, Thailand, Tunisia	Basic requirements and efficiency enhancers (both very important)
Stage 2 (efficiency-driven)	Bulgaria, Croatia, Romania	Argentina, Botswana, Chile, Estonia, Latvia, Lithuania, Mexico, Poland, Russia, Slovak Rep., Turkey	Basic requirements (very important) and efficiency enhancers (critical)
Transition from stage 2 to stage 3	Slovenia	Korea, Malta, Portugal, Taiwan	Same as above, but innovation factors become increasingly important
Stage 3 (innovation-driven)	--	Austria, Finland, Hong Kong, Japan, Singapore, United States	All three areas: basic requirements, efficiency enhancers and innovation factors

Southeast Europe Competitiveness Report Data

- ▶ Use of “**hard data**” (publicly available information) and **survey data** (from the Executive Opinion Survey)

- ▶ The **Survey** records the **perspectives of business leaders** around the world; Survey data is indispensable, particularly for variables where no reliable hard data sources exist

Southeast Europe Competitiveness Report

Rankings

Country/group	Score	Rank (out of 117)
Slovenia	4.62	30
Bulgaria	4.04	61
Croatia	4.01	64
Romania	3.98	67
Macedonia, FYR	3.84	75
Serbia and Montenegro	3.67	85
Bosnia and Herzegovina	3.58	88
Albania	3.40	100
SEE Average	3.89	--

Country/group	Score	Rank (out of 117)
EU25	4.93	--
<i>of which:</i>		
Czech Republic	4.76	29
Estonia	5.03	26
Greece	4.28	47
Hungary	4.50	35
Ireland	5.22	21
Latvia	4.46	39
Lithuania	4.51	34
Poland	4.38	43
Slovak Republic	4.48	36
EU15	5.19	--

Southeast Europe Competitiveness Report Highlights

Slovenia is the most competitive in the region (30 overall):

- ▶ The country is assessed as particularly strong in the area of **health and primary education**, with a score that is close to the EU-15 average, as well as in the area of **higher education and training**, with high enrolment rates in secondary and tertiary education and an educational system that receives good marks for quality.
- ▶ Slovenia's **macroeconomic environment** is also **fairly stable**, although the country is outperformed by Macedonia in this area, but is still above the EU-15 and EU-25 averages
- ▶ **Institutions remain weak** compared to European standards, particularly **property rights**
- ▶ And **goods and labor markets** remain **overregulated** and by international standards somewhat inefficient

Southeast Europe Competitiveness Report Highlights

Croatia, ranked third in the region (64th overall) faces a number of obstacles to its competitiveness:

- ▶ The country demonstrates weaknesses with regards to **health and primary education**, below the average for the SEE region
- ▶ Croatia's **macroeconomic environment** is relatively **unstable**, with relatively high government budget deficit and debt, and a high interest rate spread.
- ▶ **Infrastructure** is also an **impediment**, with railroads, ports and air transport well below European norms, although better than the regional average
- ▶ **Institutions leave much to be desired**, with a lack of judicial independence, and insufficient protection of property rights

Southeast Europe Competitiveness Report Highlights

Romania, is ranked fourth in the region (67th overall):

- ▶ The country does comparatively well with regards to **primary as well as higher education**, although it lags somewhat on health indicators (e.g. tuberculosis prevalence)
- ▶ **Efficiency of financial and labour markets, as well as business sophistication** are **better** than regional averages, although still relatively poor by European standards
- ▶ **The macroeconomic environment** is assessed as more unstable than the regional average.
- ▶ **Institutions function less well** than European standards, including the judiciary, property rights, and the practice of government favoritism.

Southeast Europe Competitiveness Report

Conclusions

- ▶ Southeast Europe has **highly diverse economies** with regards to economic development and competitiveness
- ▶ **Slovenia** stands apart in the region as it has achieved a relatively high level of competitiveness
- ▶ We see a **clustering** of two sets of countries: in the first group, behind Slovenia, Romania, Croatia and Bulgaria and in the second group, Macedonia, FYR, Serbia and Montenegro, and Bosnia and Herzegovina, well behind the rest.

Southeast Europe Competitiveness Report

Conclusions

- **Progress** has been made throughout the region in a number of areas, particularly the **macroeconomic environment**
- But for most countries in the region, **many obstacles remain**, ranging from the quality of institutions to issues of market efficiency and technological readiness
- However, with the **necessary commitment and the political will**, SEE should be able to follow in the footsteps of the countries of central and eastern Europe, improving the prosperity of their citizens and **joining the ranks of the more competitive countries of Europe**