

STRENGTHENING COMPETITIVENESS IN MACEDONIA: A REGIONAL DEVELOPMENT POLICY PERSPECTIVE

1. Definition of the problem

Macedonian competitiveness has been widely perceived as main obstacle for better performance of the domestic companies, especially on the foreign markets, but the problem was only partially treated with different programs. The country lacked integral approach for a long time, as industrial policy was formulated in 2009. The major findings of the industrial policy document¹ imply significant lagging of the macedonian economy compared to EU27, especially in terms of technological advancement of the industry and poor infrastructure. Addressing the main problems requires holistic approach, taking into consideration all relevant aspects. However, the industrial policy document is based on the traditional approach aiming to suggest measures for strengthening competitiveness at national level, derived from analyses of national indicators. No attention has been paid to the specifics of the different regions of the country that could serve as a base for developing competitive advantages. In this context, matching industrial and regional development policy could enable better use of the country's potentials.

Regional development is a complex and long-lasting process aiming towards decrease of the disparities among and within regions. Implicitly, regional development policy should result in increase of competitiveness of each region, which would contribute to the advancement at national level. Applied as a national policy, regional development deals with different aspects - economic, demographic, social, cultural, urban planning, infrastructure, etc. Therefore, successful implementation of the policy is closely related to wider understanding of the regional development concept, efficient linking of the regional development policy with sector policies and ensuring sufficient institutional support. This paper deals with economic perspective of the regional development policy in Macedonia in the light of its importance for increase of the competitiveness in Macedonia, through creation of more competitive regions. The purpose of the paper is to distinguish relevant factors determining competitiveness on national and regional level; to identify the potential for its development of competitive advantages by matching industrial and regional development policy; to recognize main policy gaps and to provide realistic recommendations to respective policy-makers. The methodology used for elaboration of this paper is mainly based on analysis of the regulation and respective national documents, as well as other relevant literature.

2. Competitiveness and regional development indicators

¹ Industrial Policy of Republic of Macedonia, Ministry of Economy, 2009

According to the Industrial Policy document that provided summary of the macedonian competitiveness measured through different indicators, Macedonia reached 29.9% of EU27 GDP per capita in PPS in 2007. This indicators is much lower than Macedonia's overall relative level of competitiveness, measured by Global Competitiveness Index (GCI). In terms of GCI, Macedonia is at 82.1% of EU27 average in 2008-09. Compared to EU27, Macedonia is the best in 'basic requirements' (84.6%) and less successful in terms of 'efficiency enhancers' (76.2%) and 'innovation and sophistication factors' (73.1%). Implicitly, the country lags more behind the EU27 when it comes to more sophisticated factors of competitiveness. The lag is the most considerable in terms of infrastructure (61.3%), market size (61.7%), technological readiness (63.0%), innovation (72.8%), business sophistication (73.0%), institutions (75.5%) and higher education and training (76.6%). Apart from market size, improvement in all other areas is related to significant investment, human resource development and well defined and implemented policies.

Regional development indicators provide illustration of the disparities within the country. According to the Law on balanced regional development (Official Gazette 63/07), 8 planning regions were established in Macedonia on NUTS 3 level (following EU classification) in 2007 and should serve as main units for development planning. The current model of development is purely mono-centric with Skopje region as a core, while other regions are significantly lagging behind. The indices illustrated in the Table 1 offer clear evidence about the disparities among the planning regions in Macedonia.

Table 1 Classification of the planning regions of Macedonia according to the development indices

Planning region	Development index	Economic-social index	Demographic index
1. Skopje region	1.48*	1.86	1.25
2. South-eastern region	0.89	1.38	0.58
3. Pelagonija region	0.73	0.79	0.69
4. South-western region	0.72	0.50	0.86
5. Polog region	0.72	0.18	1.05
6. Vardar region	0.69	0.63	0.73
7. Eastern region	0.67	0.95	0.50
8. North-eastern region	0.56	0.33	0.70

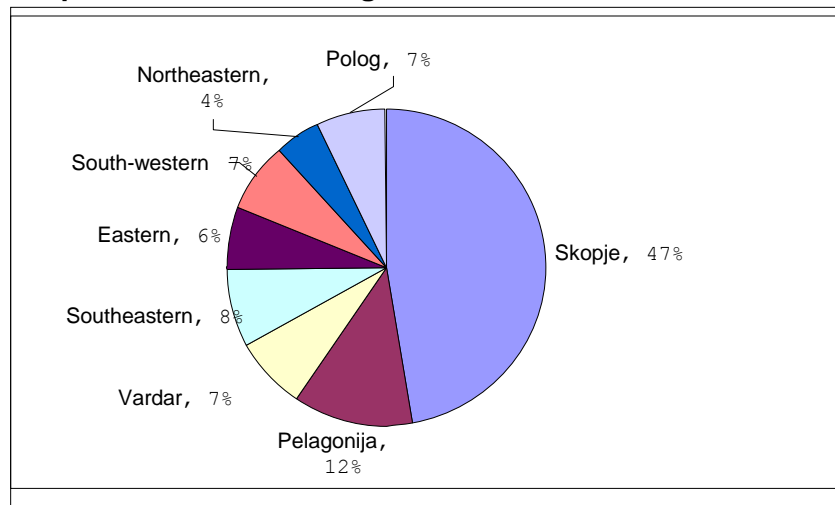
Source: Decision on classification of the planning regions of Macedonia according to the development indices for the period 2008-2012, Official Gazette 162/2008

*Index 1 = average national development level of Macedonia

Only Skopje region has higher development index than national average (index 1). The difference between Skopje and South-eastern region (second ranked) is significant, while the least developed region is lagging far behind all other regions. The situation is even worse only if economic-social index is considered, as well share of the regions in Macedonian GDP (Graphic 1). Skopje counts for 47% of the national GDP, followed by Pelagonija with 12%. Other regions

has share lower than 10%. Additional indicators relevant for competitiveness demonstrate dominance of Skopje region with high share in total value added of industrial output (2/3); total exports (45%); total imports (62%) and total employment (47%). Despite those differences, there was lack of regional development policy for a very long time, allowing for further concentration of economic, social, cultural and other activities in the capital. Reduction of the regional disparities requires significant investment, but it is also related to assimilation of the regional perspective in the decision-making by the policy makers.

Graphic 1 Share of the regions in the Macedonian GDP in 2005



Source: State Statistical Office of the Republic of Macedonia

3. Content of the policies

Industrial policy of the Republic of Macedonia identifies main weaknesses/lags of the country as far as the factors of competitiveness are concerned:²

- Low expenditures for R&D, low innovation and R&D activity, low level of technological readiness and high tech exports, low level of business sophistication;
- Deficiencies of infrastructure, network industries, including low level of ICT and information society;
- Non-sufficient and inadequate higher education and training, low proportion of science/technology graduates;
- Unfinished reform of the banking sector and of non-banking institutions, low level of financial services;

² Industrial Policy of Republic of Macedonia, Ministry of Economy, 2009, p. 15

- Problematic aspects of doing business, especially related to closing a business, dealing with construction permits, enforcing contracts, trading across borders, protecting investors and registering property;
- Insufficient social inclusion asking for bringing more people to workforce, upgrading skills and modernizing social protection;
- Problems of sustainable development.

Mapping of the important factors has been done with respect to the horizontal nature of the industrial policy – it does not focus on supporting selected industries or regions. Awareness about the need for cross-cutting of policies has been identified in the document, stating that “industrial policy will be successful only through cooperation and coordination with the other policies and measures for increasing the competitiveness and especially with the implementation of the rule of law and creation of conditions for equal treatment for all participants on the market”. Also, there is declaration about applicability of the industrial policy on both - national and regional level, but it has not been seriously reflected in the policy measures and action plan.

Addressing the identified weakness was also done in a horizontal manner, translating into 5 groups of policy measures:

1. Increasing international cooperation and stimulation of foreign direct investments
2. Applicable research, development and innovations
3. Ecological products and services for sustainable development
4. Development of SMEs and entrepreneurship
5. Cooperation in clusters and networks

All these measures provide strategic framework for provision of so called “soft” infrastructure for strengthening competitiveness, as analysis were based on national indicators without sector approach. The measures mainly focus to improvement of the institutional support and capacity building of the companies about the tools to increase the competitiveness and export performances, including access to finances, technology, etc. Given the low level of technological development, research and development (R&D) has been pointed out as vital measure, but no prioritising of the areas where most of the funding and resources should be focused has been done. In the context of low funding at the national level for R&D, as well as limited capacity of the state for its extension, an efficient use of the funds is very difficult to be achieved without prioritising, at least on the industry level. Sustainable development has been identified as important dimension in further development of competitiveness, which indicates up-to-date approach of the policy-makers, but only environmental aspect has been taken into consideration. Furthermore, the industrial policy promotes cooperation in clusters and networks, a practise that has been partially developed by other programmes in the country. However, the measure provides overall activities for support of the clusters and networks, without specific measures for advancement of the existing clusters.

Regional Development Strategy³ is the main policy document in the domain of regional development policy at national level. In addition, the legislation stipulates elaboration of development programs for each planning region individually, harmonised with the Strategy. Regional Development Strategy was adopted in 2009 and provided overall insight into demographic, economic, labour market and social characteristics of the regions, as well as infrastructure. The analysis mostly focuses on inter-regional disparities, as well as potential for development of the planning regions. Also, certain mapping of the intra-regional disparities has been done, given the uneven development within the regions, too. The main problems identified in all regions are related to poor infrastructure, especially transport one, high unemployment rates and unfavourable educational structure of the workforce, concentration of the industry and other economic activities in few cities (Skopje and some smaller centres in the regions), population ageing translating into social problems to sustainability of the pension and health care system, etc.

Those problems were addressed in the strategic objectives of the Strategy for regional development formulated as:

1. Competitive planning regions characterized with dynamic and sustainable development
2. Greater inter and intra regional demographic, economic, social and spatial cohesion in Macedonia

Priorities and measures deriving from the objectives were developed in both – horizontal and vertical manner, considering the specifics of each planning region and objectives of other national/sector policy documents. The priorities for the first strategic objective which is directly related to competitiveness include:

1. Enhancing economic development of the planning regions
2. Development of modern infrastructure in the planning regions
3. Identification and use of the innovation potential and increase of the technological base of the leading industries in the planning regions
4. Increase of the human capital level in the planning regions
5. Creation of competitive advantages of the planning regions
6. Optimal use and valorisation of the natural resources and energy potentials of the planning regions
7. Environmental protection in the planning regions

Those priorities, along with the set of measures elaborated for each priority, provide overall strategic framework of different aspects for strengthening competitiveness. The measures are defined respecting regional and sector approach, illustrated with indication of the regions to which each specific measure applies. Infrastructure needs that prove to be most

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demanding at the current level of the development of the regions, have been elaborated from the perspective of each region, in purpose of providing adequate basis for progress in different areas of development. Leading industries has been also identified for each region, along with the potentials for their further development, as well as creation of competitive advantages. Also, special attention has been put on natural resources and energy potentials in the planning regions, as fundamental for the development planning process. It has been further elaborated from the aspect of environmental protection. The combination of regional and sector approach provides basis for multidimensional development of the regions, but it's related to extensive investment considering the huge disparities between Skopje and other regions, as well country's lagging behind EU.

4. Conclusions and Recommendations

Brief policy analyses of industrial and regional development strategic documents provide for following **conclusions**:

- Industrial policy has overall, horizontal approach that gives insight into the general problems to be addressed, but involves risk that implementation will be focused on isolated programmes and ad-hoc problems;
- Industrial policy does not apply cross-cutting approach with other national strategic documents, implying low level of horizontal coordination.
- Industrial policy does not prioritise industries with potential to increase competitiveness, entailing lower efficiency and effectiveness in dispersion of financial and human resources;
- Regional development strategy applies horizontal and vertical approach, addressing specific problems on sector and regional level;
- Multi-sector dimension of the regional development strategy implies risk in its implementation, as it requires high level of horizontal and vertical coordination.

On the basis on the conclusions, major **recommendations** are as follows:

- Elaboration of the study for increase of the competitiveness on the regional level, implying prioritisation of the industrial sectors with highest potential and further specification of industrial policy measures through their cross-cutting with regional development policy measures;
- Formulation of the mechanisms, including financial ones, for better horizontal and vertical coordination in implementation of the sector policies, especially industrial and regional development policy.