

Road to EU: Enlargement and Competitiveness of Western Balkan Companies

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Abstract

Non-tariff barriers limit trade within South East Europe, and many Western Balkan companies fear a negative impact of the recent EU enlargement. At the same time, companies in the Western Balkans can reap the benefits of further integration, provided they are better informed about relevant legislation. This is a key finding that will be discussed in the paper, based on Eurochambers survey. Survey has covered Albania, Bosnia and Herzegovina, Croatia, FYR of Macedonia and Serbia and Montenegro. Special emphasis in the paper will be focused to the Croatian companies, due to the fact that is only Croatia official candidate country for EU from the Western Balkan region. According to the survey, Western Balkan companies need to catch up with their knowledge on regulatory requirements in the EU in order to fully realize the potential of the market. Despite the fact that the Union is a major export destination and companies are interested to intensify business relations, 28% have no information on EU legislation at all.

The companies in the region are very much concerned about the negative impact that the recent enlargement of the EU may have on their business prospects but they feel fairly optimistic about the benefits of their own countries' membership in the EU. 69% of respondents expect easier access to the EU markets. The survey also showed that Western Balkan companies trying to do business with their south-east European neighbours or with the EU Member States suffer from bureaucratic customs procedures and lack of mutually recognized certification bodies. Every second company, on average, said that very few of their employees are able to work in a foreign language and that they have only one e-mail account for the company. However, companies in the Western Balkans do appreciate the importance of training their staff in a variety of skills and of investing into internationally recognized quality certification.

Key words: EU enlargement, Western Balkan, competitiveness, Eurochambres

1. SOME HIGHLIGHTS OF THE SURVEY

Political and economic integration of the Western Balkan countries into Europe is high on agenda of the European Union, especially following the successful completion of the recent enlargement to EU-25. The Thessaloniki Summit in June 2003 confirmed the prospect of the EU membership for the five Western Balkan countries (Albania; Bosnia and Herzegovina; Croatia; the Former Yugoslav Republic of Macedonia; Serbia and Montenegro) and called for strengthening of co-operation in political and economic domains to fasten the process of approximation. One of the lessons drawn from the recent enlargement process is the need to promote economic growth in candidate countries, in particular by enhancing the region's export potential. It highlights areas where improvement is needed (e.g. in the area of intra-regional trade), the potential for trade with the EU, what kind of assistance is needed from business organizations. We also looked at the way the companies perceive political developments impacting their countries, such as recent accession to the EU of the ten new countries and the prospect of their own countries' membership in the EU.

Finally, the Survey (Competitiveness of Western Balkan Companies, A Company Survey on the State of the Companies Competitiveness in Terms of Available Resources and Ability to do Business in Foreign Markets, Summary Report, Eurochambres, Brussels, 2004) also looks into the level of companies' familiarity with the relevant EU legislation. This question will become ever more relevant as the prospect of accession becomes more tangible and the adoption of the EU *acquis communautaire* will alter the regulatory environment, in which these companies operate.

Overall, 2,166 companies from all the five Western Balkan countries took part in the Survey. The number of collected responses per country varied reflecting differences in the size and strength of the economy: 1,052 companies from Serbia and Montenegro, 424 companies from Croatia, 298 companies from Bosnia and Herzegovina, 250 companies from Albania and 142 companies from the FYR of Macedonia.

SECTORS

A	Agriculture, hunting, forestry	7%
B	Fishing	1%
C	Mining, quarrying	2%
D	Manufacturing	64%
E	Electricity, gas, water supply	1%
F	Construction	4%
G	Wholesale and retail trade	16%
H	Hotels, restaurants	2%
I	Transport, storage, communication	2%
J	Financial intermediation	0%
K	Real estate, renting and business activities, information, communications	1%

2. ACCESS TO ELECTRONIC MAIL REMAINS LIMITED

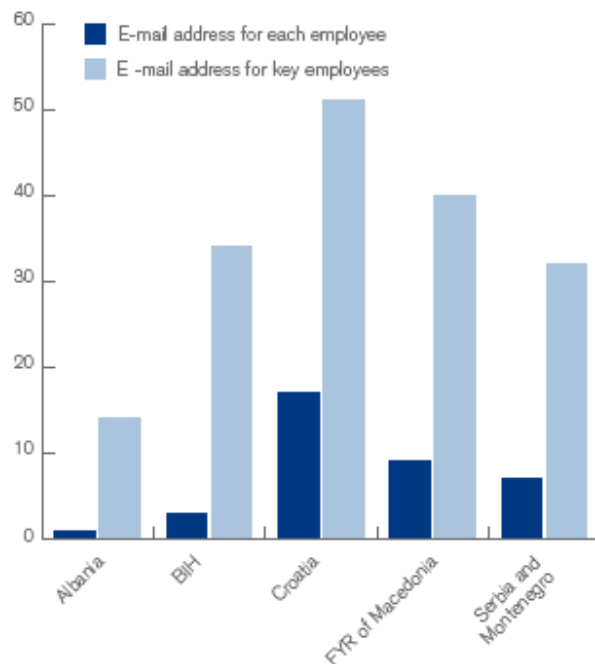
Use of electronic mail appears to be relatively low as 50% of the companies said that they have only one e-mail account for the whole company and 34% have e-mail addresses for key employees only. Only 8% of the companies said that they have an e-mail address for each employee and 8% of the respondents do not use e-mail in their work.

ACCESS TO ELECTRONIC MAIL



The situation is even less optimistic if we look at the micro companies with the annual turnover of less than 0.5 mn EUR – 23% of them do not have access to e-mail and 59% have only one e-mail account for the whole company. This is, of course, quite different if we look at the large companies – 25% of those who have the annual turnover of more than 40 mn EUR stated that they have an e-mail address for each employee, 55% have e-mail addresses for key personnel and only 20% have one e-mail account for the whole company. Surprisingly enough there seems to be no correlation between the degree of companies' export orientation and their access to e-mail, the percentages are roughly the same for those who export less than 10% of the turnover and those who export more than 50%. These findings are rather curious because one would expect that companies which export a lot would attach more importance to having modern, quick and cheap ways of communication given that they have more intensive contacts with overseas companies. The differences among the countries are once again quite remarkable. In Albania only 1% of companies have an e-mail address for each employee and only 14% have e-mail addresses for key employees. The comparable figures in Croatia, for instance, are 17% and 51% respectively, in FYR of Macedonia 9% and 40%, in Serbia and Montenegro 7% and 32%.

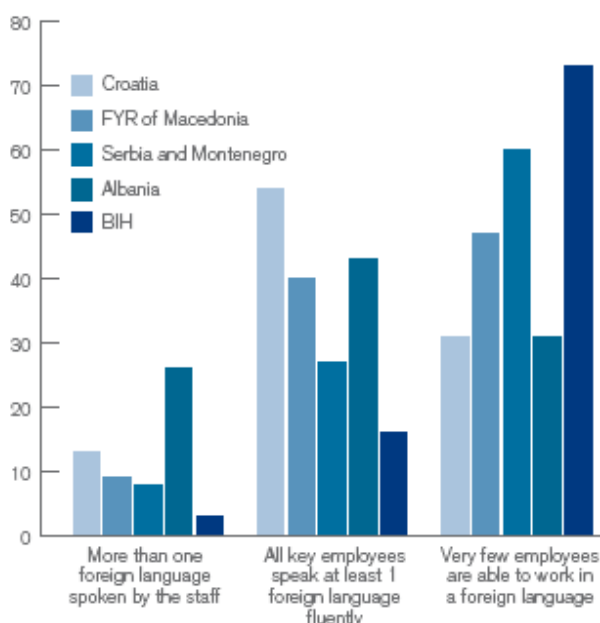
ACCESS TO ELECTRONIC MAIL PER COUNTRY



3. LACK OF PROFICIENCY IN FOREIGN LANGUAGE SKILLS

The situation with foreign language skills is not much more encouraging. It is striking that as many as 54% of companies said that very few of their employees are able to work in a foreign language. 4% of the companies reported that they don't have any employees with foreign language skills, which could certainly handicap their export ambitions. There are some notable differences among countries. For instance, Albanian and Croatian companies seem to be better off in terms of the language skills of their staff compared to Bosnia and Herzegovina, FYR of Macedonia and Serbia and Montenegro. In Albania, only 34% of companies declared that very few employees are able to work in a foreign language, in Croatia - 31%, whereas in Bosnia and Herzegovina this figure is 72%, in FYR of Macedonia - 76% and in Serbia and Montenegro - 60%. The number of companies in Albania who claim to have more than one foreign language spoken by the staff is 20% and another 43% stated that all key employees speak at least one foreign language fluently. For Croatia, these figures are 13% and 54%, which are also very encouraging. However, in Bosnia and Herzegovina only 2% say that more than one foreign language is spoken by staff and a manager 19% say that all key employees speak at least one foreign language fluently; in FYR of Macedonia a similar situation - 2% with more than one foreign language and 21% with key employees speaking one language; in Serbia and Montenegro the figures are: 8% and 27% respectively.

LANGUAGE SKILLS PER COUNTRY

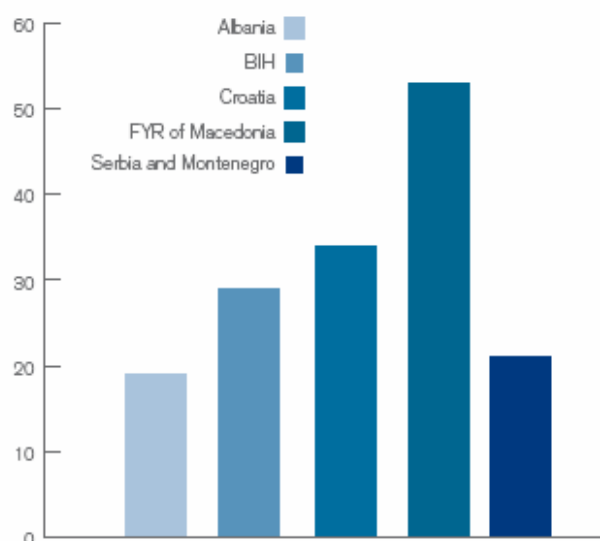


4. QUALITY ACCREDITATION IS REGARDED AS IMPORTANT

Companies that participated in the Survey seem to appreciate the importance of quality accreditation – only 7% of companies said that they don't have any intention of obtaining some sort of quality standards accreditation. An impressive number of companies – 27% - stated that they already have internationally recognised quality certification. However, a lot of companies (47%) do not yet have any certification but they have plans to get one.

The picture differs among the companies depending on their size, of course. For instance, 54% of companies with the turnover of more than 40mn EUR have internationally recognised quality certification whereas only 11% of micro companies (turnover less than 0.5mn EUR) can claim the same. The willingness of the companies to invest efforts and resources in obtaining internationally recognised quality certification depends also on the level of their engagement outside their home market. For instance, only 19 % of companies with exports representing less than 10% of turnover have an international quality certification and 20% have national quality certification, whereas among the companies that export heavily abroad (exports more than 50% of the turnover) the percentage of those with international quality certification reaches 30% and national certification only 13%. The situation with quality certification also differs from one country to another. For instance, in Albania only 19% of companies have internationally recognised quality certification, in Serbia and Montenegro 22%. These percentages are rather low compared to 32% in Bosnia and Herzegovina, 34% in Croatia, 53% in FYR of Macedonia. Also, in Albania up to 21% of companies do not plan to obtain quality standards accreditation, other countries score much better in this respect.

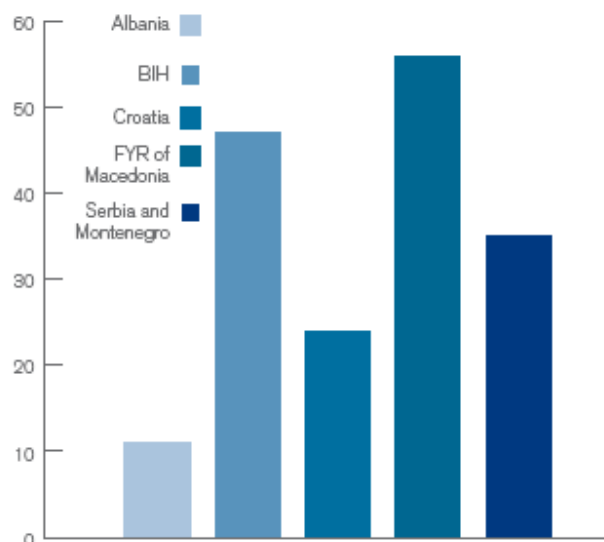
COMPANIES WITH INTERNATIONALLY RECOGNISED QUALITY CERTIFICATION



5. COMPANIES DO INVEST INTO THE DEVELOPMENT OF HUMAN RESOURCES

Only 3% of companies stated that they regard training for employees as not very important nor necessary. Most companies recognised the importance of training their personnel. On average, 30% of companies offer a wide variety of training, but this figure is much higher for bigger companies (more than 250 employees) – 48%, which is quite natural given that big companies have more complex corporate structures and processes in place. On average, 32% of companies currently offer no training to their employees but they are willing to send some of the staff to free workshops on trade-related issues. Countries that score the highest in terms of the importance that companies attach to training their staff are Bosnia and Herzegovina and FYR of Macedonia. In FYR of Macedonia a remarkable number of companies - 56% of respondents -state that they offer a wide variety of trainings to their employees, in Bosnia and Herzegovina – 47% which is very impressive as well. The results obtained in Serbia and Montenegro and Croatia are not as prominent: 35% in Serbia and Montenegro and 24% in Croatia offer a wide variety of trainings. In Albania the picture is even less encouraging – only 11% of companies offer a broad range of trainings.

WIDE VARIETY OF TRAINING



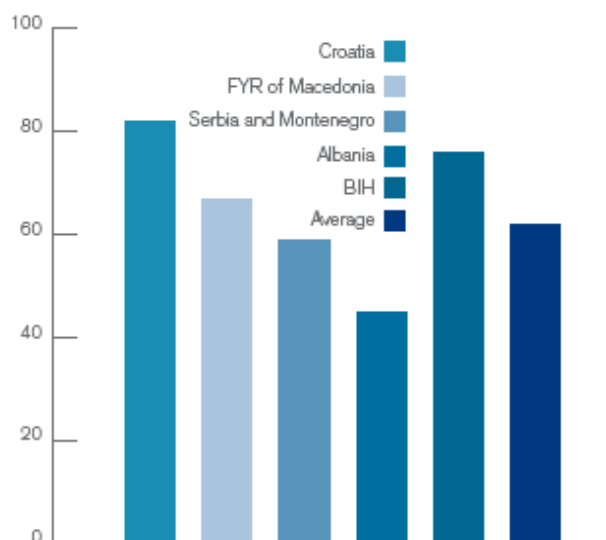
6. COMPANIES SEEK FINANCIAL SUPPORT FROM FOREIGN AND LOCAL BANKS

ACCESS TO FINANCING



On average, 62% of companies use bank loan facilities or other external sources of finance, which is quite a considerable proportion. This picture obviously varies from country to country depending on the general macroeconomic situation and the development of the financial sector – Croatia with 82% of companies that used banking facilities and Albania with only 45% (16% out of which come from foreign banks demonstrating the weakness of the domestic banking sector).

USE OF BANKING OR EXTERNAL SOURCES OF FINANCE



7. INTERNET AND CHAMBERS ARE PRIMARY SOURCES OF INFORMATION REGARDING REGIONAL FTAS

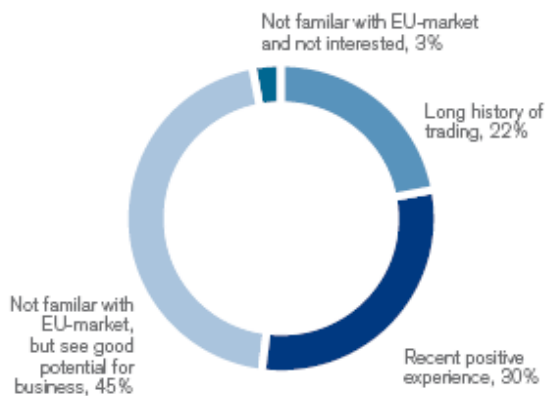
Companies were asked to evaluate the quality and reliability of various sources of information regarding trade liberalisation in South-East Europe. Internet seems to be the most appreciated source of information as 70% of companies described internet information as “relatively good” (41%) and “most useful and reliable” (29%). Chambers of Commerce have been ranked as the second most effective source of information on SEE regional FTAs – 45% of respondents thought that the information coming from Chambers was “relatively good” and 16% described it as “most useful and reliable.” Local business partners and partners from other countries in South-East Europe have been quite effective as well – 51% of companies were fairly happy with the local partners and 40% with the partners from other SEE countries. The assessment of Chambers of Commerce as sources of information on trade liberalisation in SEE has been fairly consistent across the five countries with no significant variations to note. Ministries and trade or business associations did not get a very high rating, which is rather alarming and should be taken seriously. Only 7% of companies said that the information they receive from the government is

most useful and reliable and 24% said that they had a relatively good information. Local and foreign consulting companies scored very poorly – only 19% of respondents gave a positive assessment of these sources of information. This is also largely due to the fact that very few companies do turn to consulting firms to find out more about the SEE markets – 24% to 29% of companies selected the option “do not know”. Also universities and trade / business associations are not regarded as a very useful source of information – 59% of companies said that they received no information or poor quality information from universities and institutes; in case of trade and business associations this figure is 53%.

8. THERE IS A CONSIDERABLE INTEREST IN THE EU SINGLE MARKET

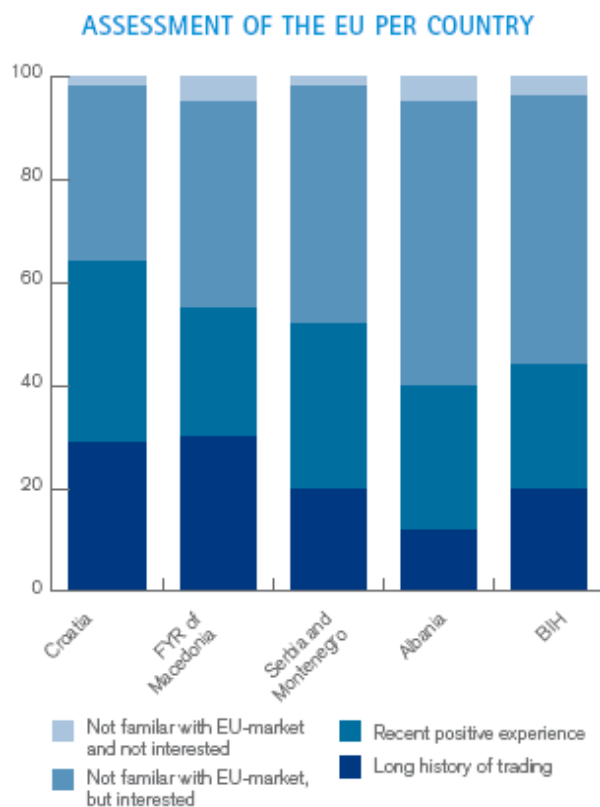
Only 3% of all the respondents said that they are not interested in EU market opportunities. 45% of them stated that while they are unfamiliar with the EU market they would like to develop business relations and trade more and they see a good potential in that market. 30% of companies have had a recent positive experience and see big potential of developing business with the EU countries. A significant figure of 22% declared that they have a long history of trading with the EU and are very familiar with the market.

ASSESSMENT OF THE EU



In terms of national differences it is noteworthy that the number of companies that claim to be very familiar with the EU market is most significant in FYR of Macedonia (30%) and in Croatia (29%). Bosnia and Herzegovina and Serbia and Montenegro have lower percentages (20% in

both cases) and Albania has the lowest number of companies that have long history of trading with the EU – only 12%. A large number of companies in Croatia (35%) and in Serbia and Montenegro (32%) testify recent positive experience of trading with the EU markets. In Albania and Bosnia and Herzegovina we can note a significant potential that is yet to be realised – 55% and 52% of companies respectively stated that while they are not familiar with the EU market at the moment they see good business potential and would like to develop more business relations.

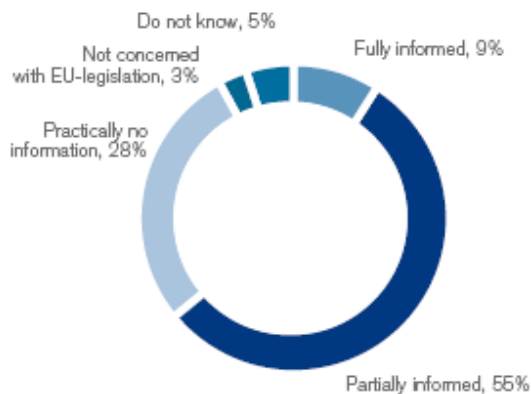


9. COMPANIES ARE NOT VERY FAMILIAR WITH THE ACQUIS COMMUNAUTAIRE

The Survey has revealed that despite the fact that the EU market is a major export destination, as many as 28% of the surveyed companies seem to have practically no information on the EU legislation. 55% say they are partially informed about some applicable provisions and only 9% declared that they are fully informed about all the relevant provisions. This could be explained by the fact that only a fraction of companies that took part in the Survey have been doing regular

business with the EU for some time and have had practical exposure to the EU legislation implemented by Member States. For most Western Balkan countries the prospect of the EU accession and related need to implement *acquis communautaire* into national regulations has not yet become an everyday reality.

FAMILIARITY WITH EU LEGISLATION



It is interesting to look at the results in Croatia, which is the most advanced among five countries in the prospect of accession to the EU. It is very natural that the number of companies fully informed about the relevant provisions of the EU legislation is higher than the average (12% compared to 9%), the same goes for those who are partially informed (63% compared to 55%).

10. MOST RELEVANT AREAS OF EU LEGISLATION

When asked to rank from 1 to 6 the areas of EU legislation in terms of their relevance to the companies' operations, the respondents gave the highest score to product certification and technical standards, rules of origin, consumer protection and producer liability, followed by labels, trademarks and patents, environmental protection and food quality and safety.

MOST RELEVANT AREAS OF EU LEGISLATION



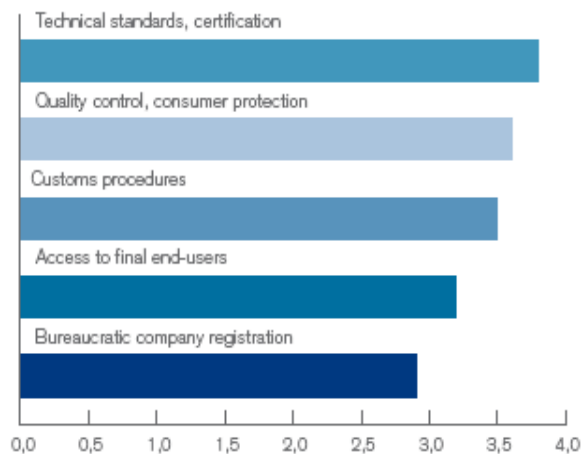
These priorities would obviously be different if we look at various sectors. The sector of agriculture gave the highest score (5) to food quality and safety, for instance. For the fishing sector this is very important as well (5.1). For wholesale and retail trade sector the rules of origin are extremely important (4.4), as well as consumer protection and producer liability. It is important to note that all of the areas listed in the questionnaire seem to be of fairly high relevance for most companies since the average scores for all the fields were very high (higher than 3.5). This should be taken into account when designing workshops and other training programmes for the companies. It is interesting to note here that while the order of importance of various fields of EU legislation is roughly the same for companies in the five Western Balkan countries the scores that the companies attribute to the EU legislation are relatively lower in Albania (between 2.8 and 3.3) than in other four countries (between 3.7 and 5).

11. COMPANIES POINT OUT A NUMBER OF NON-TARIFF BARRIERS TO TRADE WITH THE EU

When asked to rank various practical barriers to trade with the EU in accordance with their importance, the companies came up with the following results: the highest score for technical standards and certification, followed by quality control and consumer protection and customs

procedures. Access to end users and bureaucratic company registration seem to be relatively less important for the companies.

PRACTICAL BARRIERS TO TRADE WITH THE EU



12. NOT ALL DEDICATED EU INFORMATION SOURCES ARE EVALUATED POSITIVELY

We asked companies to assess the effectiveness of various sources of information on EU legislation. The Survey yielded the following results: a significant share of companies (around 50% or more) find that Euro Info Centres, European Commission, local EU Delegation, national governments, trade or business associations, universities and institutes, local and foreign consulting companies provide either poor information or no information on relevant EU legislation. These results are not very encouraging and call for more active promotion of the various EU sources. Moreover, in the case of Euro Info Centre 34% of respondents chose “don’t know” option, which means they have never tried turning to these organisations for help or they don’t know that these exist. Almost the same is the case of the European Commission (33% said “don’t know”), local EU Delegations (28%), EU publications (27%), European associations (29%), universities and institutes (26%), local consulting companies (26%) and foreign consulting companies (29%). National negotiating teams for accession to the EU should be regarded separately as they only play a role in Croatia and FYR of Macedonia, the two countries

that formally applied for membership in the European Union. The effectiveness of these negotiation teams as sources of information on EU legislation can hardly be estimated as very satisfactory – in case of Croatia only 21% of companies evaluated the quality of information as “relatively good” or “most useful and reliable” and in case of FYR of Macedonia it is 22%. The sources that rank relatively high in companies’ opinion are: general internet (70% said the information was “relatively good” or “most useful and reliable”), EU website (63%), EU business partners (60%), Chambers of Commerce (58%). Local business partners didn’t get very a high score – only 43% evaluated their effectiveness positively.

SOURCES OF INFORMATION REGARDING EU LEGISLATION (%)	No information	Poor quality	Relatively good	Most useful & reliable	Do not know
Euro Info Centre in your country	39	12	12	3	34
European Commission	37	14	13	3	33
Diplomatic representation of the EU in your country	34	15	19	5	28
On-line EU sources (internet)	14	8	41	22	14
EU publications	28	14	22	9	27
European associations	32	15	18	5	29
EU business partners	16	12	33	27	12
Ministries – Government	26	27	22	7	17
Chambers of Commerce	13	18	42	16	11
Trade or Business Associations	26	24	25	8	18
Local business partners	22	22	32	11	14
Internet	9	7	43	32	10
National Negotiating Team for Accession to the EU	38	18	11	3	30
Universities & Institutes	35	20	13	5	26
Consulting companies – local	36	19	15	5	26
Consulting companies – foreign	35	15	14	6	29
Other	44	9	8	2	37

The last part of the Survey was devoted to the role that Chambers of Commerce play in helping companies to export their products abroad. Chambers of Commerce have been traditionally involved in international trade promotion and they continue to offer a range of

internationalisation services to member companies. This Survey offers Chambers a unique opportunity to evaluate the work that they are currently doing in the area of international trade and to better understand the expectations that their members have. The results of this part of the Survey should guide Chambers in setting out priorities in the area of international trade and to evaluate how closely they should monitor international trade policy developments and how much effort should be devoted to policy work as opposed to trade promotion services.

13. MAIN CONCLUSIONS

- Western Balkan companies appear to be relatively well equipped in terms of office computerisation but they need to invest more effort and resources into modern communications, such as e-mail, and into foreign language skills of their staff in order to increase their export potential and competitiveness abroad.
- When doing their market research companies tend to rely mostly on in-house research through internet, publications and attending international trade fairs.
- A significant number of companies turn to external sources of financing, such as local and foreign banks. It is more difficult for small companies to obtain financial support from foreign banks than it is for big companies. Strong domestic banking sector is therefore vital for successful functioning of small enterprises.
- Trade liberalisation in South-East Europe should bring about a significant or at least reasonable improvement in business prospects for Western Balkan companies. However, some companies fear that non-tariff barriers may undermine the benefits of Free Trade Area.
- In spite of the fact that quite a few companies have had a recent positive experience of trading with other South-East European countries, the Survey manifests that there are a number of non-tariff barriers that impede trade within the region. Customs procedures have been ranked as the most significant barrier to trade, closely followed by bureaucratic company registration, technical standards and certification, quality control and access to end users.
- Quite a number of companies claim to be fairly familiar with the EU markets and to have a long history of trading with the EU. In spite of this, the level of companies' familiarity with the EU *acquis communautaire* is rather low. The areas of the EU legislation that seem to be of most

relevance for the companies include product certification and technical standards, rules of origin, consumer protection and producer liability.

- A lot of companies in Western Balkans seem to be rather pessimistic about the impact that the current enlargement of the EU will have on their business prospects. They fear that potential investors would rather invest in new EU Member States than in Western Balkans. They also think that the companies in the enlarged EU will be less interested to do business with the neighbouring countries as their commercial interests will be diverted to the new comers in the single market and that protectionism in the EU will increase.
- On the other hand, companies in Western Balkans are fairly optimistic about the benefits of their countries' accession to the EU. They expect an easier access to the EU markets as well as to the EU capital markets, bigger inflow of foreign direct investment. They also think that entry into the EU will result in improvements in the functioning of the home market in terms of more transparent business practices in the area of competition rules, state aids and public procurement.
- In companies' experience Euro Info Centres, European Commission, local EU Delegations and national governments have not been very effective sources of information on EU legislation. Companies are much more satisfied with general internet sources, EU website, EU business partners and local Chambers of Commerce.
- The assessment of Chamber services in international trade promotion clearly manifests that there is room for improvement in the quality of the supplied services. Chambers should consider putting more resources into innovative and value-added trade promotion services, such as market research, information on commercial opportunities in foreign markets. Traditional trade promotion services, such as trade missions, trade fairs, export clubs, remain very important as well.

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