

Agro-food

The agro-food sector's value added is 11.7% of GDP. It accounts for 15.5% of exports and 24.6% of total employment in the region.

The sector plays a strategic role in rural development and poverty reduction in the Western Balkans.

To meet the growing global demand for high quality agro-food products, the Western Balkan economies need to increase productivity and improve the sector's environmental performance. More specifically, the WB6 could:

- Reorient and enhance policies to support agricultural productivity and sustainability;
- Improve sanitary and phytosanitary standards;
- Improve the level of labour skills and the innovation systems in the agro-food sector.

Metal processing

The metal processing sector's value added is 1.6% of GDP. It accounts for 11% of exports and 2.3% of total employment in the region.

Metal processing has traditionally played an important role in the Western Balkans because of its rich mining base.

To further develop the metal processing sector, the Western Balkan economies will need to carefully consider the impact of a fluctuating global demand for different metal products and address environmental concerns associated with their extraction and processing. More precisely, the WB6 could:

- Improve the quality of skills and invest in modern technology;
- Increase energy efficiency;
- Improve and guarantee environmental standards.

Automotive

The automotive sector's value added is 0.8% of GDP. It accounts for 24.6% of exports and 1.0% of total employment in the region.

The sector has a good potential to develop in the Western Balkans, building on its historical industrial legacy and modern know-how stemming from sustained FDI.

Changes in consumer preferences and technological disruption represent challenges and opportunities for the Western Balkans. In order to strengthen current investment levels, the WB6 could:

- Target technology-intensive investors in the automotive value chain;
- Strengthen quality standards and access to quality infrastructure;
- Develop complex technical skills by improving university curricula.

Machinery

The machinery sector's value added is 1.2% of GDP. It accounts for 7.2% of exports and 1.3% of total employment in the region.

This sector developed rapidly in the Western Balkans between the 1950s and 1990s, but today it necessitates further modernisation efforts to compete on foreign markets.

Today, global changes in demand and the advent of the digital economy require the Western Balkan economies to rapidly upgrade their production capacity and technology. To this end the WB6 could:

- Improve access to finance, especially for SMEs;
- Foster the uptake of IT technology and the provision of relevant digital skills;
- Provide business support services to companies in the machinery sector.

To download the full publication *Global South East Europe: Unleashing the Transformation Potential for Growth in the Western Balkans* and for more information about the OECD South East Europe regional programme, visit <http://www.oecd.org/south-east-europe/> and follow us on @Mkseurope

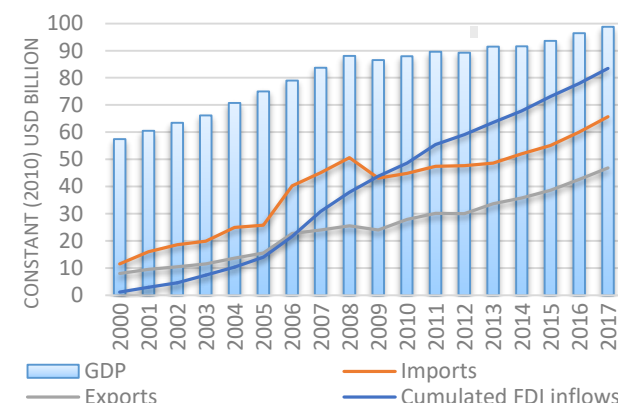


Global South East Europe Unleashing the Transformation Potential for Growth in the Western Balkans

Highlights

The Western Balkans (Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, North Macedonia and Serbia) have been transitioning towards market-based economies since the early 2000s, removing barriers to trade and impediments to foreign direct investment (FDI). This helped to massively **increase trade and FDI** in the region.

GDP, trade and cumulated FDI inflows in the Western Balkans



Source: OECD calculations based on the World Bank Development Indicators and UNCTAD Statistics.

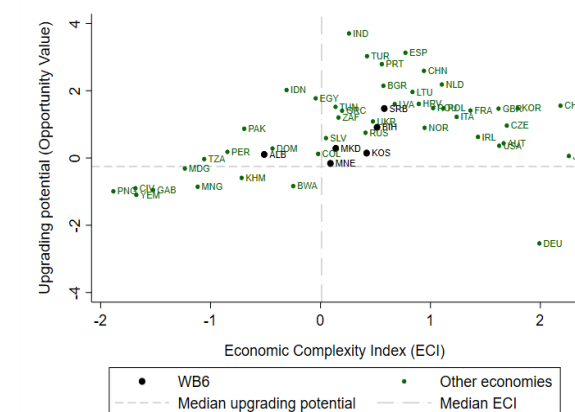
With the upsurge in trade and investment, the composition of the **export baskets** of the six Western Balkan economies (WB6) **shifted** from predominantly basic goods to **medium technology products**.

While these exports are driven by FDI and oriented towards the EU market (which accounts for 70% of total WB6 exports), basic products are still primarily traded at the intra-regional level (16% of total WB6 exports).

However, changes in the export basket composition are uneven across the region due to contrasting industrial structures and policies put in place over time to accommodate investment.

The **Product Space analysis** of the Western Balkan economies suggests that the production know-how in the region, which defines their economic complexity (EC), positions them at an **intermediate level of development**. The WB6 are well-suited to upgrade their industries by using targeted efforts to scale up production of existing export goods to further raise EC.

Economic complexity and its upgrading potential in the world



Source: OECD calculations based on the CEPII BACI Database and data from the Kosovo Agency of Statistics.

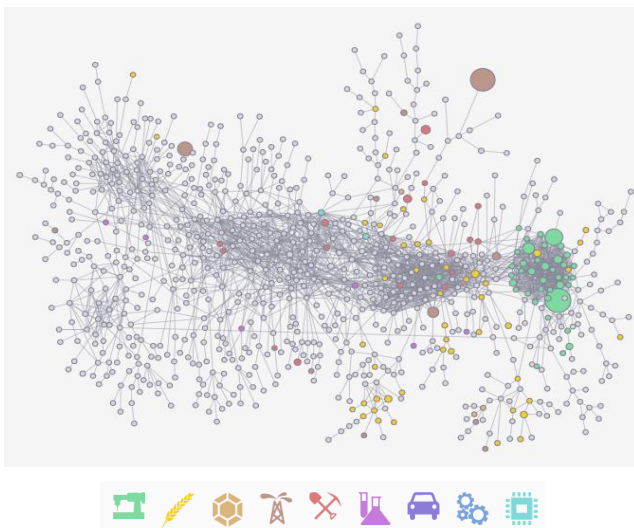
These products belong mainly to the **agro-food, metal processing, machinery and automotive industries**. Together, they account for 15.3% of the WB6 gross domestic product (GDP), 58.3% of exports and 31.0% of employment. The agro-food sector is the largest contributor to gross value added (11.7% of GDP) and employs one out of four workers in the region. The automotive sector is massively export-oriented (24.6% of total WB6 exports).

Strengthening skills and targeting strategic investment in these sectors is key to uncapping the Western Balkans' transformation potential.

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

Key findings from the Product Space analysis

Albania

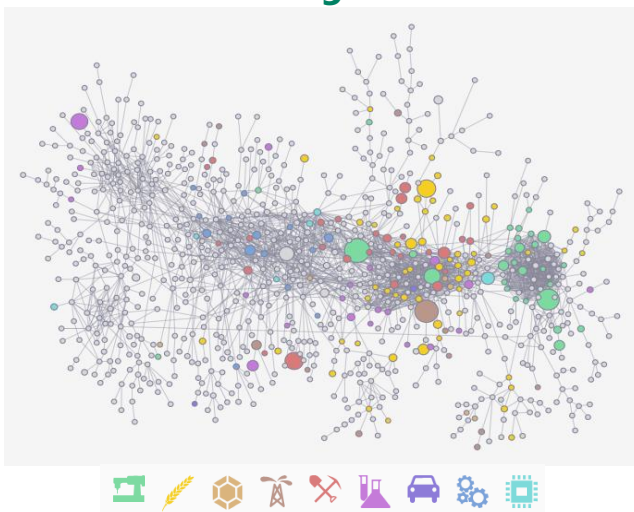


Albania's export specialisation revolves around products located in the periphery of the PS (i.e. basic, low value added goods): garments, leather, minerals and agro-food products. Main export destinations are Italy, Greece and the Western Balkans.

The lack of sustained exports in the core of the PS, where most complex and inter-connected products are situated, poses more challenges to increase Albania's economic complexity (EC).

Products that could raise the EC include raw and semi-processed agricultural products, chemical fertilisers, transmission cables, electrical equipment, metals and derived products.

Bosnia and Herzegovina

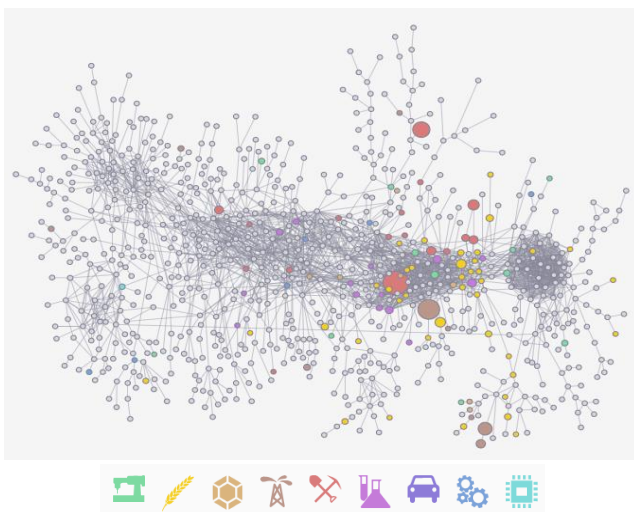


Bosnia and Herzegovina's export basket is scattered across the PS, showing diversification across sectors with complex products.

Today it is mainly composed of agro-food products, garments, furniture and minerals, but also chemicals, machinery and vehicle components. Main export destinations are Germany, Italy, Croatia, Slovenia, Austria and Serbia.

Products that could upgrade the complexity if its export basket through an increased specialisation in their production include plastics, vehicle parts, electrical power accessories, lifting and heating machineries.

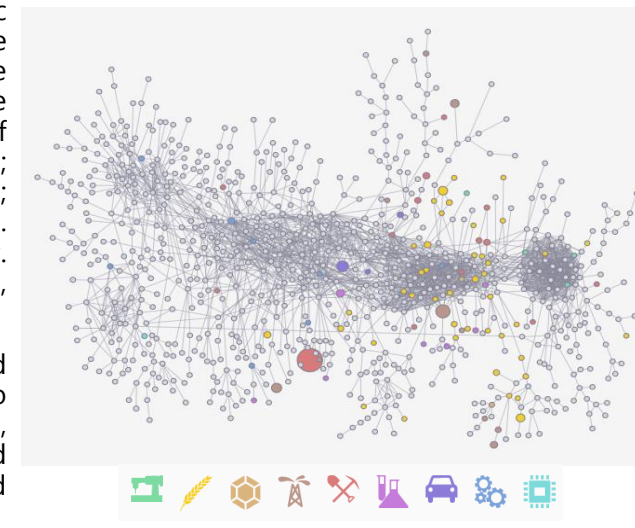
Kosovo



Kosovo's exports are predominantly located in the periphery of the PS, where basic products lay. Exports primarily include metals, minerals and agro-food products. More complex products with a modest export value are chemicals, select machinery and electrical components. Export destinations are very concentrated and include Albania, Serbia and North Macedonia.

Despite the limited export value, the Kosovar EC is higher than the regional average. Products whose specialisation could raise Kosovo's EC include motor vehicle seats and parts, filters for combustion engines, engine parts and iron pipe fittings.

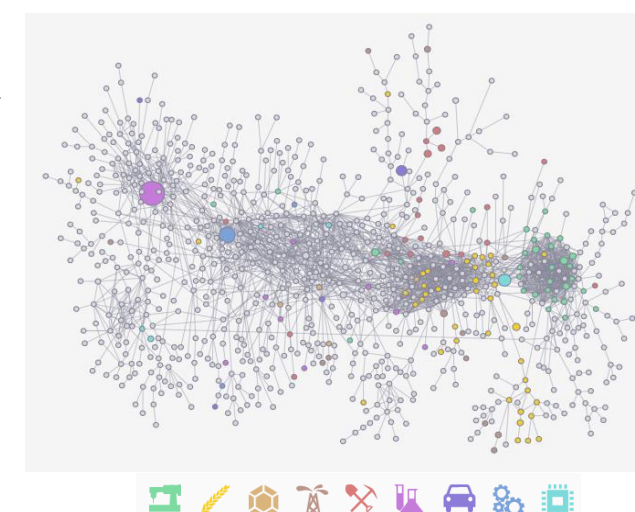
Montenegro



Montenegro's exports are mainly basic products positioned in the periphery of the PS. Minerals (bauxite) account alone for one fifth of the country's export value. Agriculture is the only sector with a large number of exports (dried legumes; grapes; wine; nuts; pitted, dried and frozen fruits; sawn wood; fuel wood; plywood; and rough wood). Manufacturing products are sparse and few. Main export destinations are Serbia, Hungary, Bosnia and Herzegovina and Italy.

The low export diversification and limited manufacturing base pose a challenge to Montenegro's ability to raise its EC. Still, products that could contribute to this end include iron and aluminium structures, food preparations, engine and motor vehicle parts.

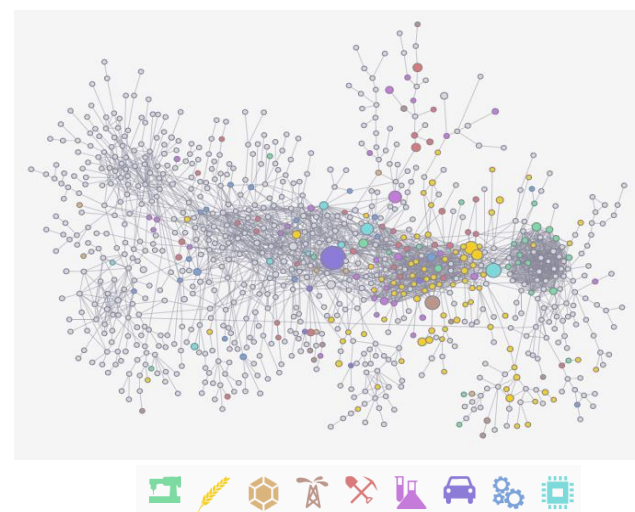
North Macedonia



North Macedonia's export basket is clustered around textile, garment and agro-food industries. As a result of FDI, select complex products in the core and left-hand side of the PS, where more advanced sectors are located, account for a large share of export value (emission control catalysts, filters for combustion engines and buses). Main destinations are Germany, Serbia, Bulgaria and Greece.

While North Macedonia has a limited EC, its FDI-attraction policy raised the country's industrial upgrading potential. Products that could increase the EC if North Macedonia were to scale up exports include furniture, motor vehicle parts, lifting machinery and metal moulds.

Serbia



Serbia's exports are distributed across the PS, filling both peripheral (basic) and central (complex) nodes of the map. Most complex products include vehicles, machineries and chemicals. Yet, peripheral products are crucial to sustain exports, and include refined oil, leather, furskins, fruits and vegetables. Main destinations are Italy, Germany, Bosnia and Herzegovina, Romania and Russia.

Thanks to FDI, Serbia holds the highest EC and industrial upgrading potential in the region. Stepping up exports of plastic sheeting, excavation, harvesting and heating machineries, vehicle parts and transmissions, could further boost the country's EC.