

Joint Meeting of SEE and NIS TU Economic Experts
Investments, austerity, labour market deregulation
effects and inequalities

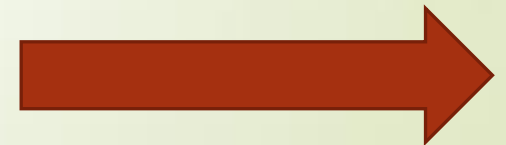
Budva, Montenegro, 5 – 6 May 2016

Investments and growth
SEE and NIS

Bruno S. Sergi
University of Messina

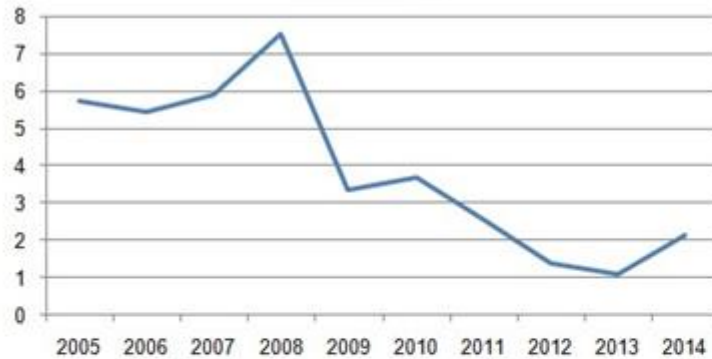
Economic Growth – Past and Present

- Most of these countries have enjoyed high and sustained economic growth starting in the 2000s.
- They felt the economic downturn in 2009, and since then followed the general trends on global and European scale.
- Russia & Ukraine as special cases.

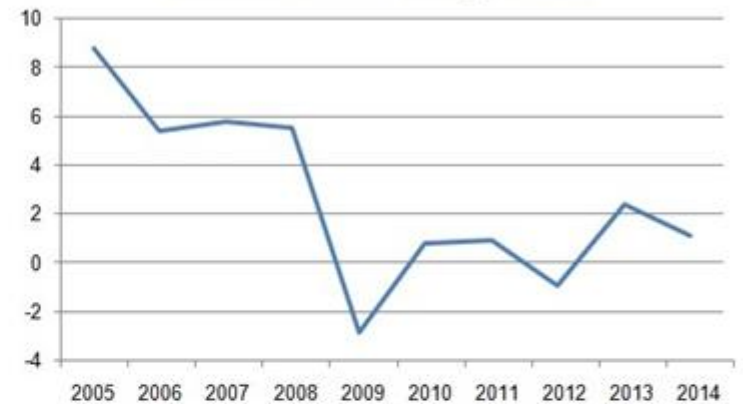


GDP growth (annual %)

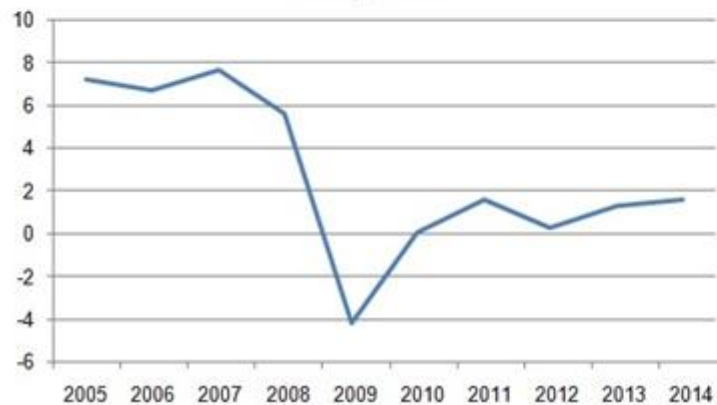
Albania



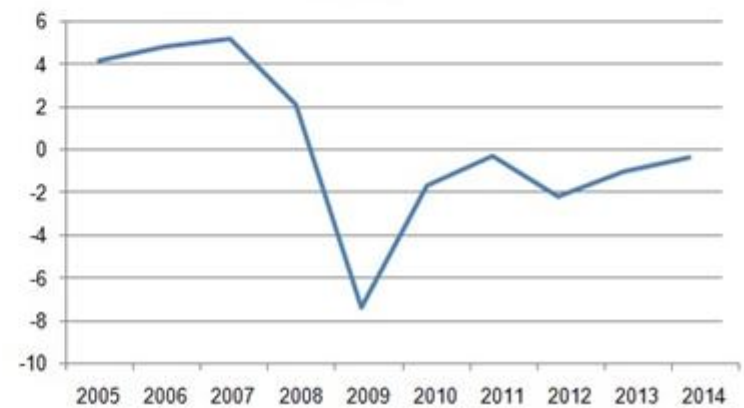
Bosnia and Herzegovina



Bulgaria

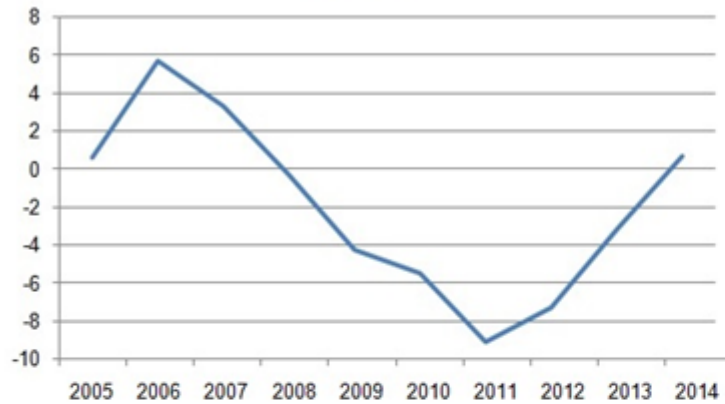


Croatia

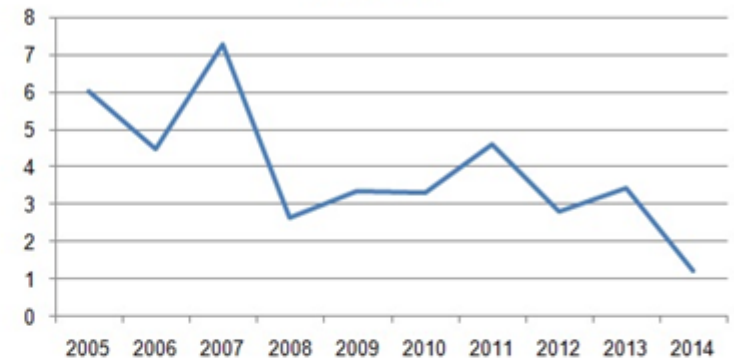


Source: World Bank (2016)

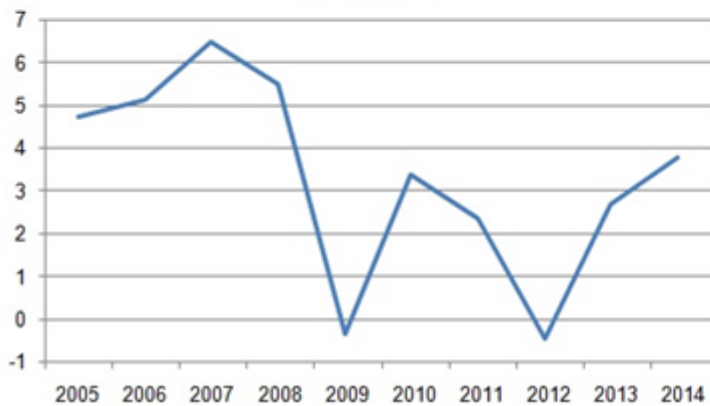
Greece



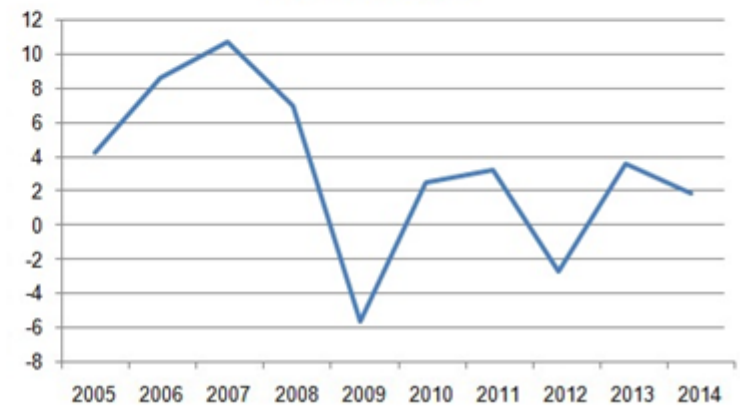
Kosovo



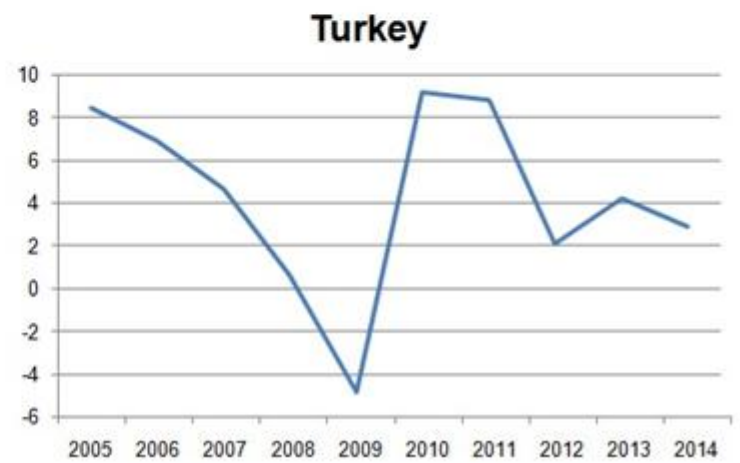
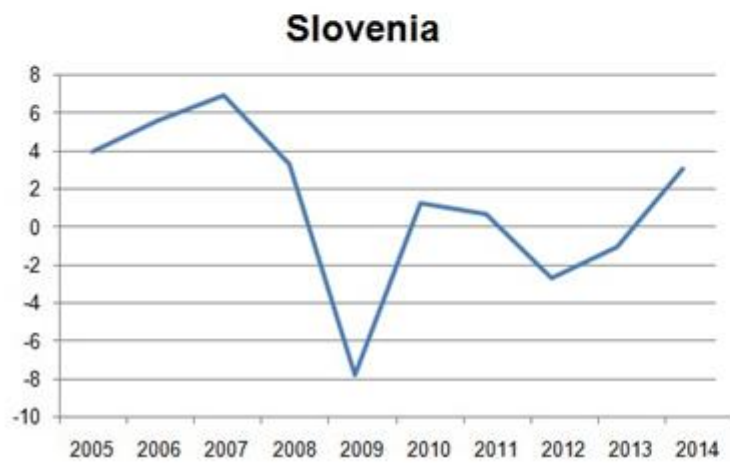
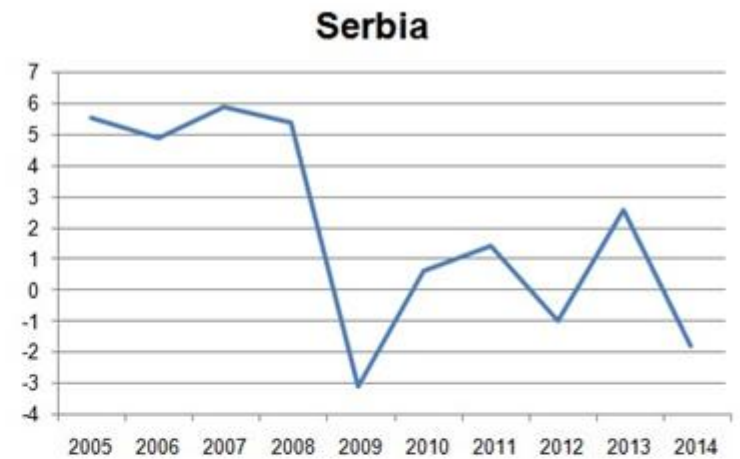
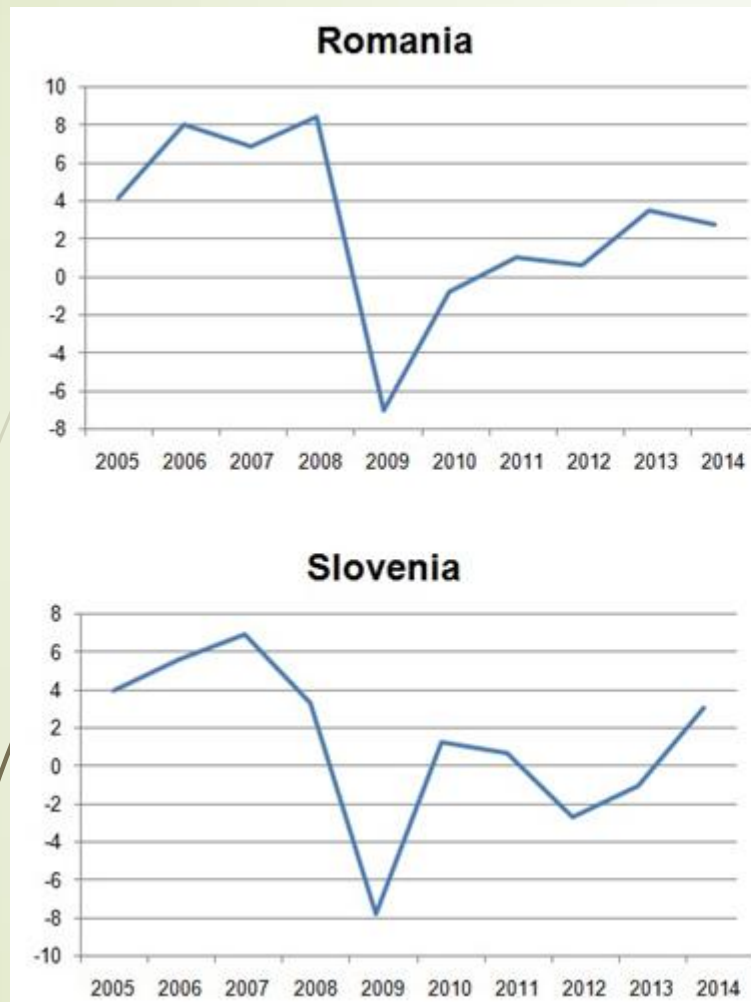
FYROM



Montenegro



Source: World Bank (2016)



Source: World Bank (2016)

OVERVIEW 2014-2015 AND OUTLOOK 2016-2018

	GDP				
	real change in % against prev. year				
	Forecast				
	2014	2015	2016	2017	2018
EU-CEE					
Bulgaria	1,5	3,0	2,5	2,5	2,7
Croatia	-0,4	1,5	1,4	1,8	2,0
Czech Republic	2,0	4,3	2,4	2,3	2,4
Estonia	2,9	1,2	2,2	2,4	2,6
Hungary	3,7	2,9	2,2	2,3	2,9
Latvia	2,4	2,7	3,0	3,2	3,5
Lithuania	3,0	1,6	3,0	3,4	3,5
Poland	3,3	3,6	3,4	3,2	3,4
Romania	3,0	3,7	4,0	3,0	3,5
Slovakia	2,5	3,6	3,0	3,2	3,3
Slovenia	3,0	2,9	2,0	2,3	2,8
<i>EU-CEE ^{1/2)}</i>	<i>2,8</i>	<i>3,4</i>	<i>3,0</i>	<i>2,9</i>	<i>3,1</i>
<i>EA-19</i>	<i>0,9</i>	<i>1,6</i>	<i>1,7</i>	<i>1,9</i>	
<i>EU-28</i>	<i>1,4</i>	<i>1,9</i>	<i>1,9</i>	<i>2,0</i>	
Western Balkans					
Albania	2,0	2,6	3,2	3,5	3,6
Bosnia and Herzegovina	1,1	2,3	2,9	2,9	3,1
Kosovo	1,2	3,7	3,9	4,3	4,0
Macedonia	3,5	3,5	3,4	3,1	3,1
Montenegro	1,8	3,4	2,8	2,8	3,1
Serbia	-1,8	0,7	1,6	1,7	2,0
<i>WB ^{1/2)}</i>	<i>0,3</i>	<i>2,0</i>	<i>2,5</i>	<i>2,6</i>	<i>2,8</i>
Turkey	2,9	3,3	3,2	3,1	3,0
Belarus ³⁾	1,7	-3,9	-2,6	0,5	1,5
Kazakhstan	4,1	1,2	1,0	2,5	3,5
Russia ⁴⁾	0,8	-3,7	-0,8	0,8	1,8
Ukraine ⁵⁾	-6,6	-10,5	0,0	1,9	2,5

Source: wiiw (data until 2015 as of February 2016), Eurostat.

Forecasts by wiiw (Feb 2016) and European Commission for EU and euro area (European Economic Forecast, Winter 2016).

For spurring growthmainstream economics

... Ease of Doing Business and Competitiveness

Ease of Doing Business (Note: Starting a Business; Dealing with Construction Permits; Getting Electricity; Registering Property; Getting Credit; Protecting Minority Investors; Paying Taxes; Trading Across Borders; Enforcing Contracts; Resolving Insolvency)

Ranking on the Ease of Doing Business

Country	Ease of Doing Business Rank-2016	Ease of Doing Business Rank-2015
Macedonia, FYR	12	14
Montenegro	46	47
Bulgaria	38	36
Croatia	40	39
Albania	97	62
Kosovo	66	64
Bosnia and Herzegovina	79	82
Germany	15	15
Greece	60	58
Poland	25	28

Source: World Bank Group.

Notes: All *Doing Business* 2015 rankings have been recalculated to reflect changes to the methodology and revisions of data due to new information.

189 economies in 2016. Multi-city data available for 11 economies (Bangladesh, Brazil, China, India, Indonesia, Japan, Mexico, Nigeria, Pakistan, the Russian Federation and the United States) with populations over 100 million as of 2013.

About the Characters of Competitiveness

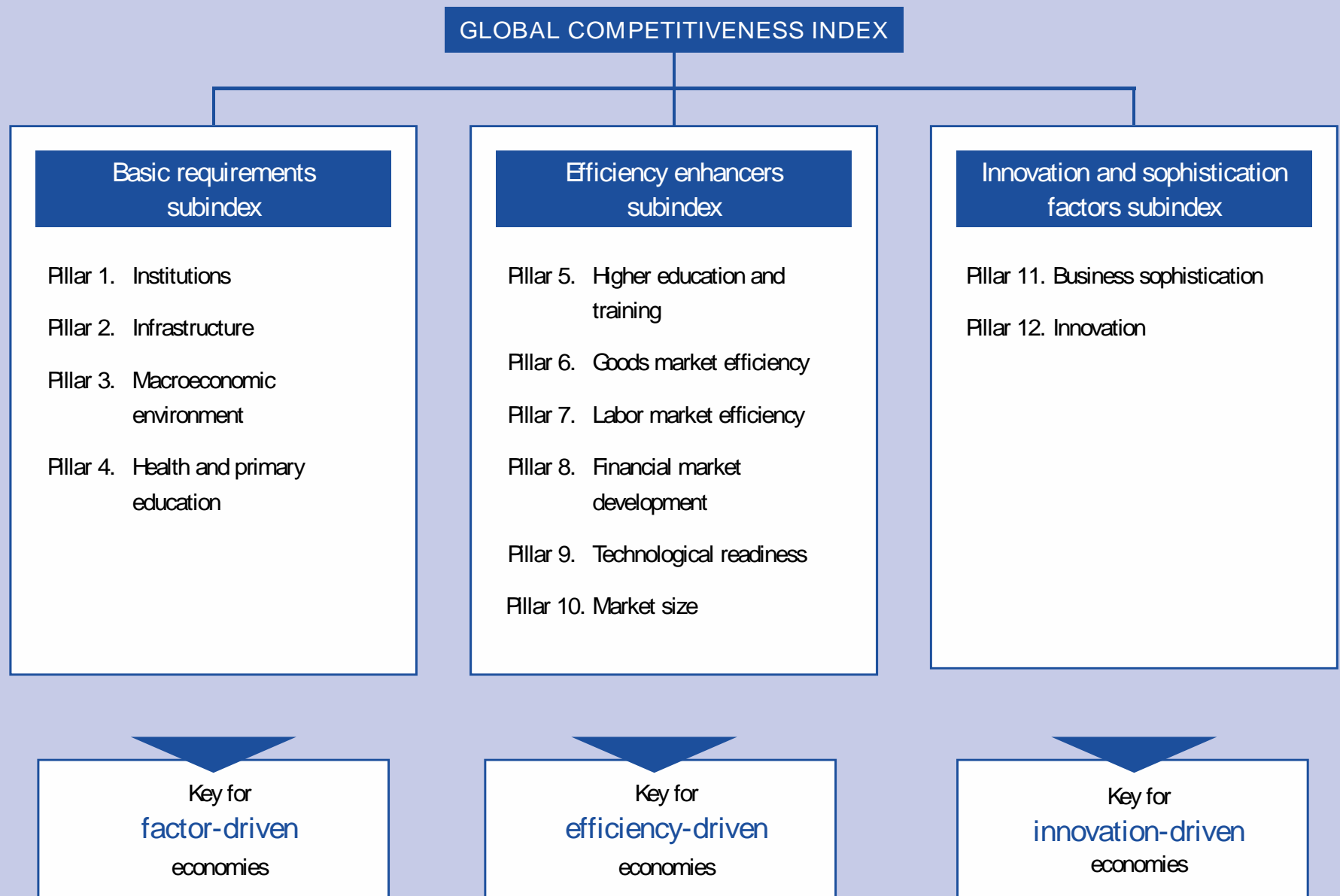
“The level of productivity, in turn, sets the level of prosperity that can be reached by an economy. The productivity level also determines the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates. In other words, a more competitive economy is one that is likely to grow faster over time.”

The Global Competitiveness Report

The Global Competitiveness Report 2015-2016 assesses the competitiveness landscape of 140 economies, providing insight into the drivers of their productivity and prosperity.

The Report series remains the most comprehensive assessment of national competitiveness worldwide

Figure 1: The Global Competitiveness Index framework



Top World 3

1	Switzerland	5.8
2	Singapore	5.7
3	United States	5.6

Competitiveness Rankings (interest area)

40	Azerbaijan	4.5
42	Kazakhstan	4.5
45	Russian Federation	4.4
60	Macedonia FYR	4.3
66	Georgia	4.2
70	Montenegro	4.2
79	Ukraine	4.0
80	Tajikistan	4.0
82	Armenia	4.0
84	Moldova	4.0
93	Albania	3.9
94	Serbia	3.9
102	Kyrgyz Republic	3.8
111	Bosnia and Herzegovina	3.7

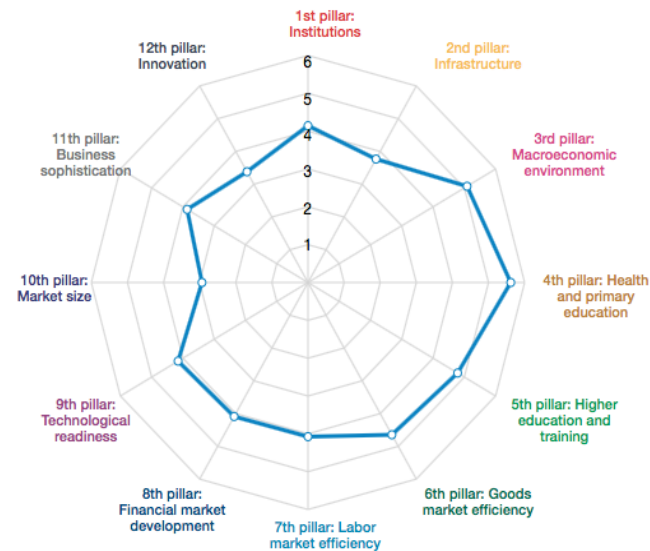
Worst un-competitiveness nations

138	Mauritania	3.0
139	Chad	3.0
140	Guinea	2.8

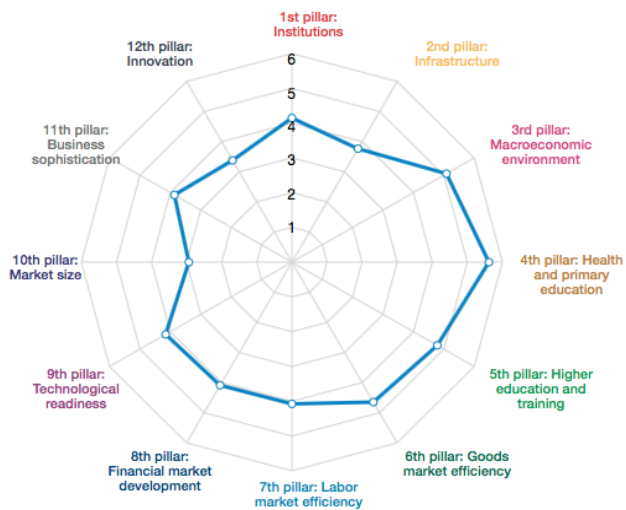
Albania



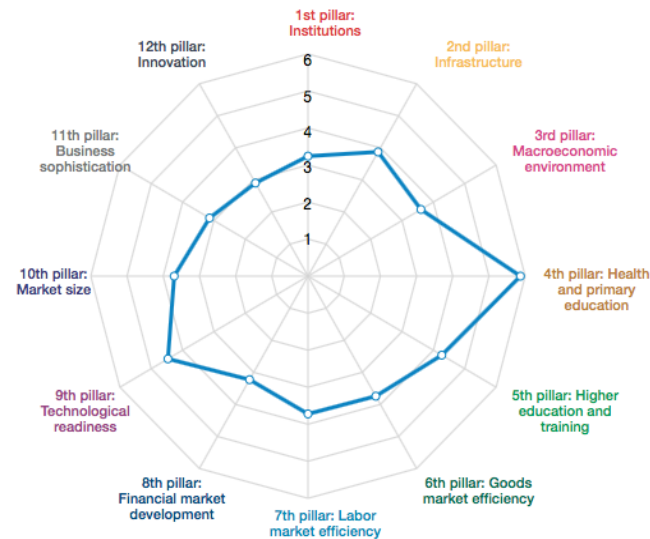
Macedonia FYR



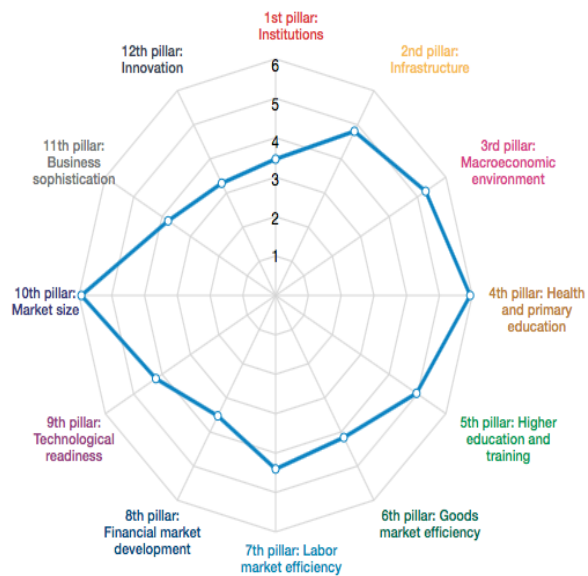
Montenegro



Serbia

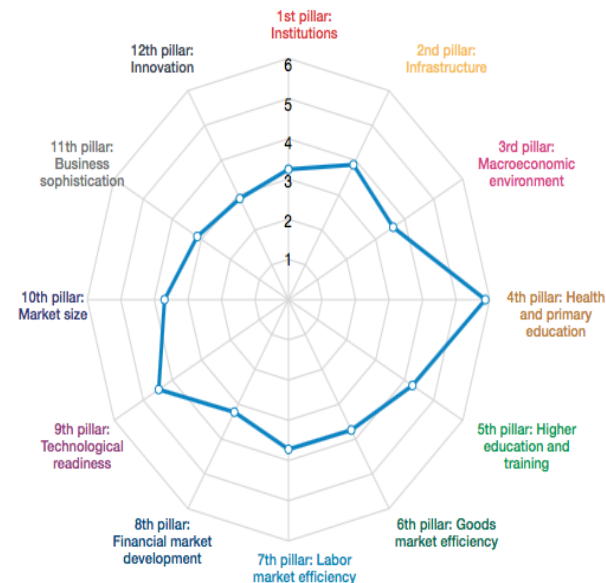


Russia

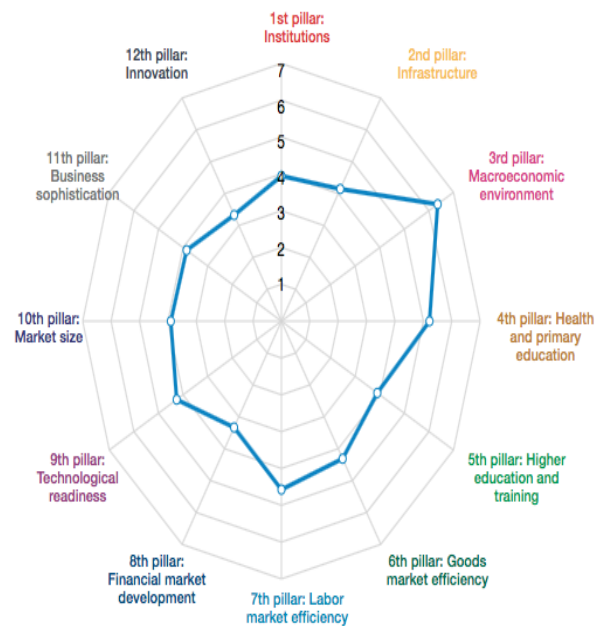


Performance Overview

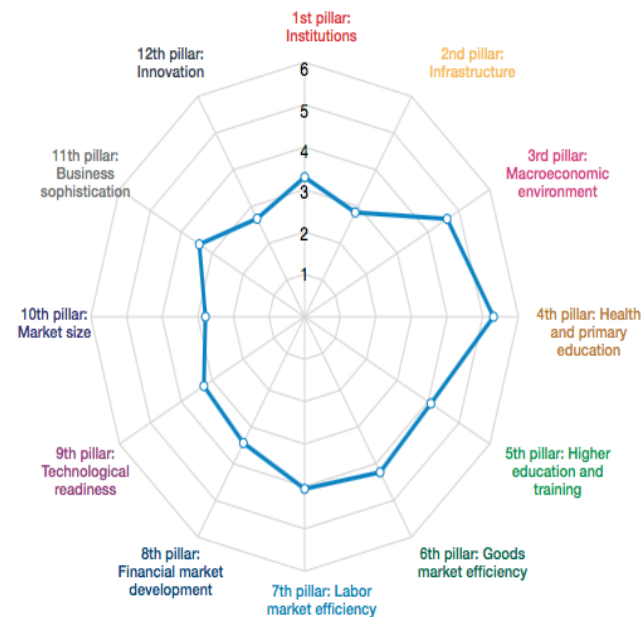
Ukraine



Azerbaijan



Kyrgyz Republic



The 10 most competitive Emerging & Developing European economies

Country	Global rank*
Poland	41
Turkey	51
Romania	53
Bulgaria	54
Macedonia, FYR	60
Hungary	63
Montenegro	70
Croatia	77
Albania	93
Serbia	94

Source: The Global Competitiveness Report 2015-2016

* Emerging & Developing European 2015- 2016 rank out of 140 economies

The most competitive Commonwealth of Independent States economies

Country	Global rank*
Azerbaijan	40
Kazakhstan	42
Russian Federation	45
Georgia	66
Ukraine	79
Tajikistan	80
Armenia	82
Moldova	84
Kyrgyz Republic	102

Source: The Global Competitiveness Report 2015-2016

* Commonwealth of Independent States 2015- 2016 rank out of 140 economies

Competitiveness profiles of four European groups



The most problematic factors for doing business in 2007 and 2015

ADVANCED ECONOMIES			
2007		2015	
Factor	Score*	Factor	Score*
Government bureaucracy	13.6	Government bureaucracy	14.2
Restrictive labor regulations	13.6	Tax rates	13.1
Tax rates	11.9	Restrictive labor regulations	12.8
Complexity of tax regulations	10.7	Access to finance	10.8
Inadequately educated workforce	9.0	Complexity of tax regulations	8.8
EMERGING MARKET AND DEVELOPING ECONOMIES			
2007		2015	
Factor	Score*	Factor	Score*
Government bureaucracy	12.3	Access to finance	11.7
Corruption	11.4	Corruption	11.4
Access to finance	9.8	Government bureaucracy	11.3
Inadequate supply of infrastructure	8.9	Tax rates	8.1
Policy instability	8.1	Inadequate supply of infrastructure	8.0

Sources: World Economic Forum, Executive Opinion Survey, 2007 and 2015 editions.

* See Note 2 of this box.



Russia as a Special Case



Embargo and Oil

Embargo

The changes in export of all agri-food products to Russia from main Western partners (million Euros)

Country	Aug13-Jul14	Aug14-Jul15	Changes, %
Netherlands	1 433,9	896,8	-37
Germany	1409,4	1006,8	-29
Lithuania	1331,3	584	-56
Poland	1199,8	448,5	-63
Italy	710,8	453,7	-36
France	710,3	438,3	-38
Latvia	630,8	525,5	-17
Denmark	485	148	-69
Spain	484,7	263	-46
Finland	459,8	148,3	-68

The changes in export of fruits and vegetables to Russia from main Western partners (million Euros)

Country	Aug13-Jul14	Aug14-Jul15	Changes, %
Lithuania	616,6	78,18	-87
Poland	437	4,3	-99
Spain	231,8	2,5	-99
Belgium	183,3	6,4	-97
Netherlands	163,5	97,8	-40
Greece	94,5	2	-98
Italy	70,7	3,7	-95

The changes in export of meat to Russia from main partners, million Euros

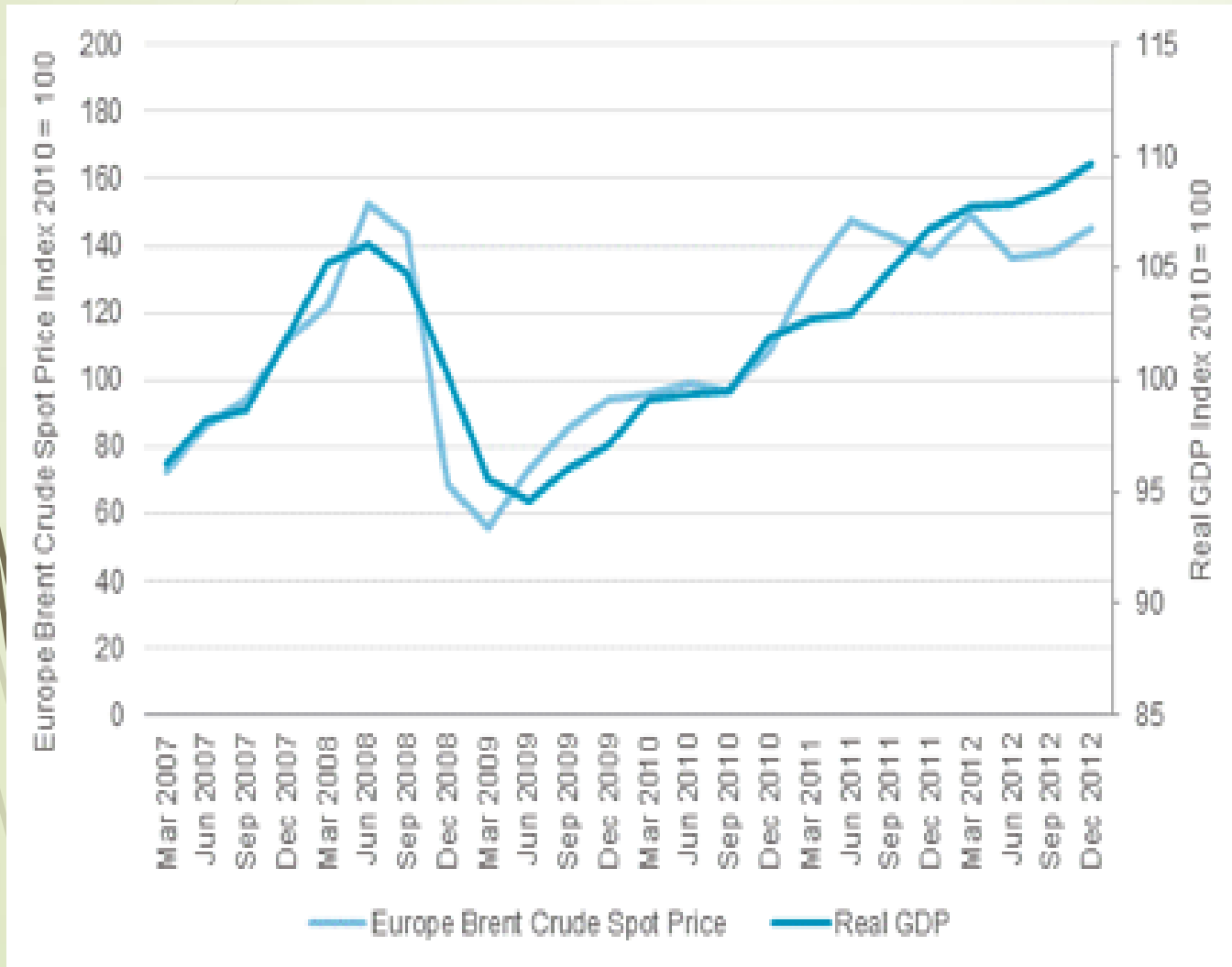
Country	Aug13-Jul14	Aug14-Jul15	Changes, %
Germany	192,3	29,9	-84
Denmark	181,7	9	-95
Poland	146,3	14,3	-90
Netherlands	122,7	36,8	-70
France	95	8	-92

The changes in export of Dairy Products to Russia from main partners, million Euros

Country	Aug 13-Jul 14	Aug 14-Jul 15	Changes, %
Finland	273,1	3,7	-99
Netherlands	242,9	2,07	-99
Poland	157	3	-98
Lithuania	150,3	8,2	-95
Germany	121,1	4	-97
Denmark	109	4,5	-96
France	92,9	5,9	-94

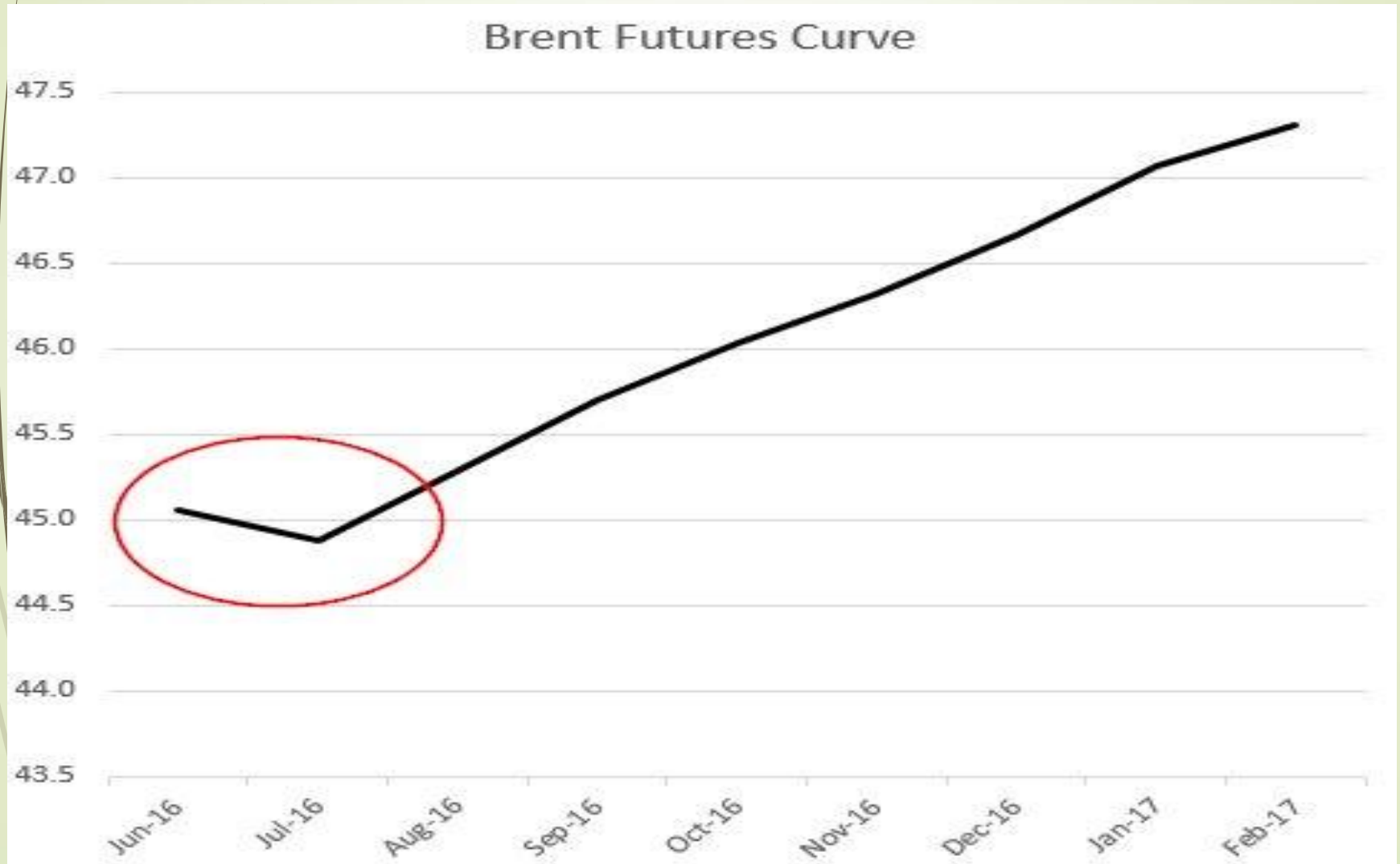
Russian Fiscal balance

- Technological advances, reduced oil demand and over production are deflating the price of oil



Growth index
of Russian
real GDP and
Europe Brent
oil price
(2007-2012)

Brent Futures Curve



Welfare cuts

Russia has announced a cut for 2016 of welfare, at least 10%. The state budget would be balanced with a price per barrel to \$50 and the Kremlin has decided to reduce by 10%. Will not be affected military spending and wages of civil servants, but the benefits in favor of the poor. This situation also affects the value of the ruble against the dollar and the euro and reduces the purchasing power of Russians.

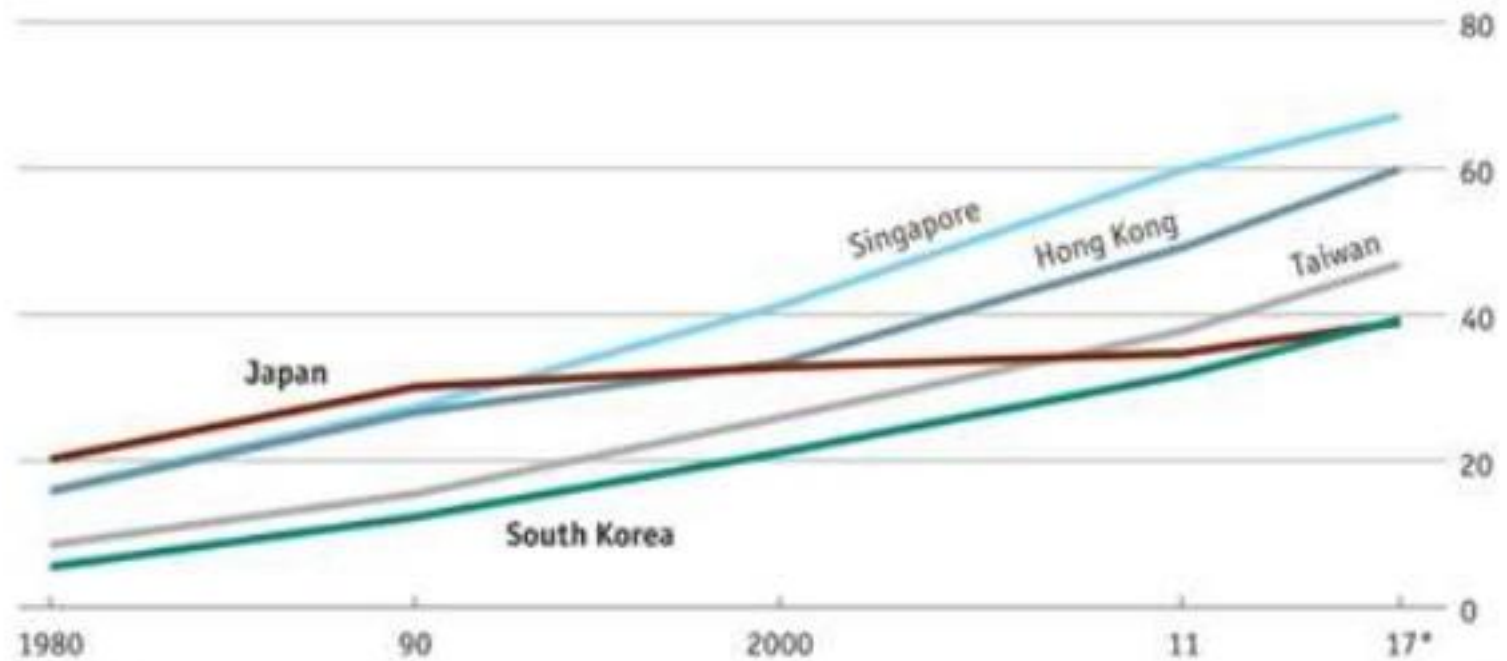
Azerbaijan: the export of hydrocarbons generates almost 70% of GDP and 95% of the country's export; the fall in oil prices has thrown a wrench in the local currency and caused inflation (7.6% in 2015). This has led to unprecedented political protests in Baku. The IMF expects Azerbaijan to grow roughly 2.5% this year, compared to 4% in 2015. The IMF should support the country with \$3bn loan plus \$1bn from the World Bank. Other financial reforms are expected, privatizations, and banking mergers.

Can We Learn From East Asia Growth?

Since 1960 Asia, the largest and most populous of the continents, has become richer faster than any other region of the world. Countries: China, Hong Kong, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan Province of China, and Thailand) turned in a superior performance.

GDP per person at purchasing-power parity

2011 prices, \$'000



Source: IMF

*Forecast



Four Tigers

The Four Asian Tigers or Four Asian Dragons is a term used in reference to the highly free and developed economies of **Hong Kong, Singapore, South Korea, and Taiwan**. These nations and areas were notable for maintaining exceptionally high growth rates (in excess of 7% a year) and rapid industrialization between the early 1960s (mid-1950s for Hong Kong) and 1990s. By the 21st century, all four had developed into advanced and high-income economies, specializing in areas of competitive advantage.

For example, Hong Kong and Singapore have become world-leading international financial centers, whereas South Korea and Taiwan are world leaders in manufacturing information technology. Their economic success stories have served as role models for many developing countries.

East Asian Development Model

- Growth driven by trade and investment
- Governments intervention over industrial development.
- Encouraged export driven manufacturing.
- The profits generated by exports were re-invested in the domestic economy. Collective growth, not isolated or random.
- Staggered participation in regional production network
- Region as an *enabling environment* for catching up (model and pressure).

Basic Roles of East Asian States

- Political stability and social integration (as preconditions for growth)
- Task 1: Create a competitive market economy
- Task 2: Initiate and manage global integration
- Task 3: Cope with negative aspects of growth (emerging income gaps, congestion, pollution, corruption, etc.)

FDI INFLOWS IN THE WESTERN BALKANS

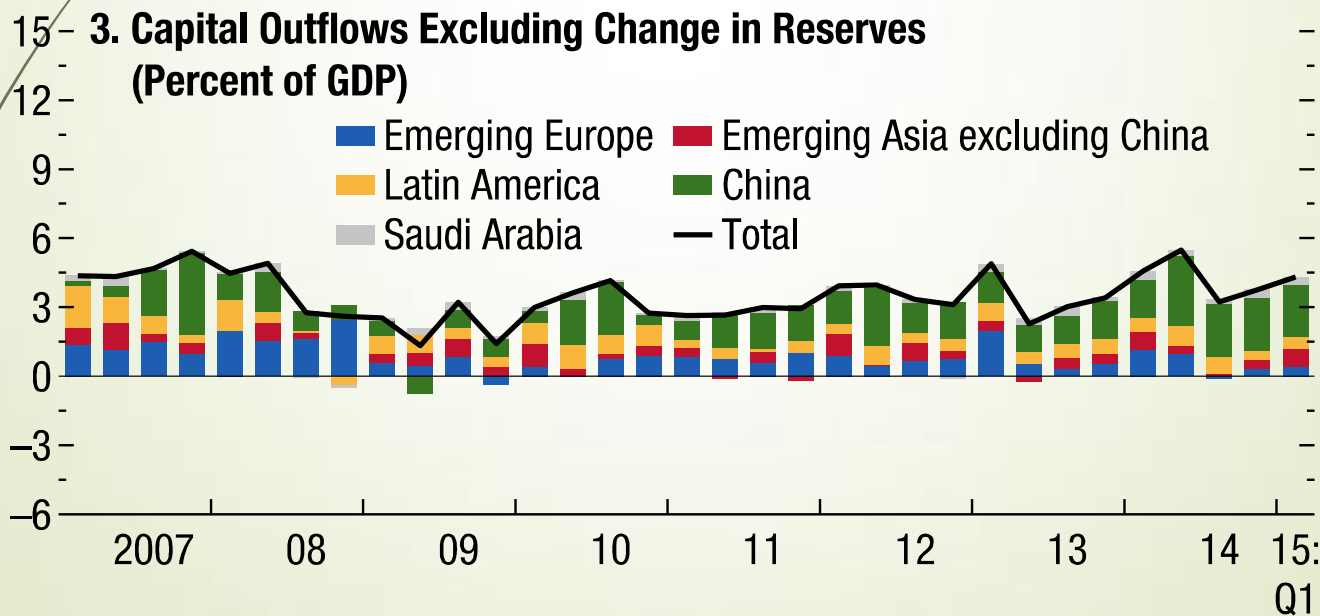
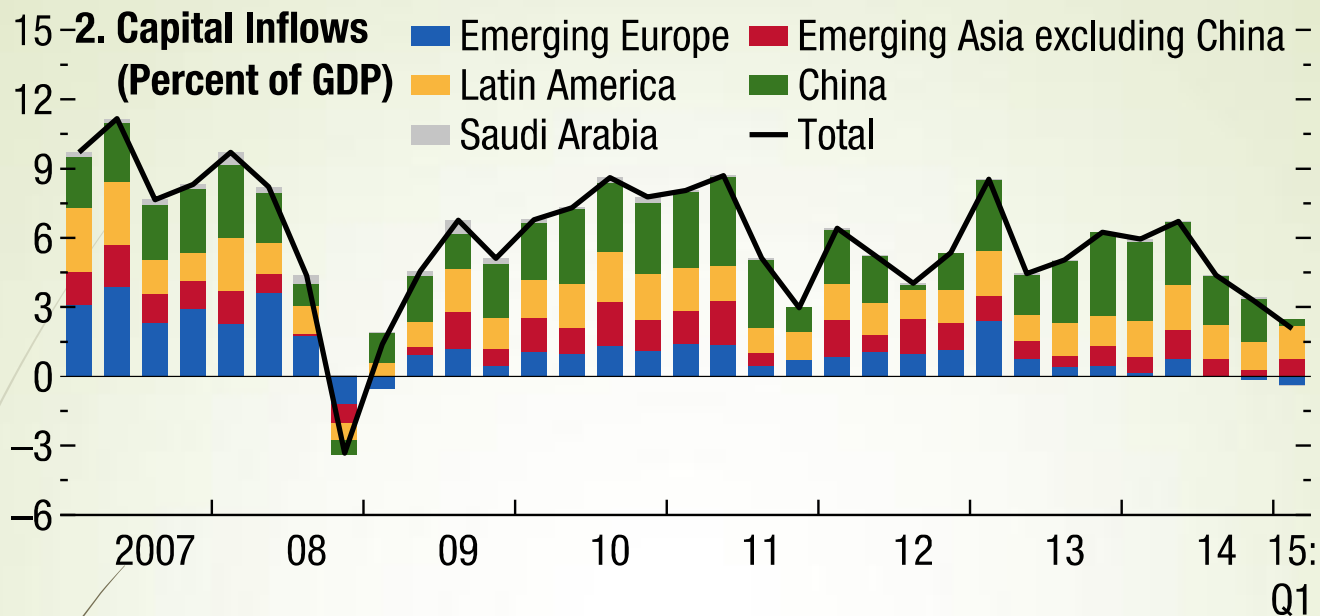
- Since 2000s, in the Western Balkans there have been both an economic growth and a political stability that have contributed to increase the propensity to international investment.
- FDI inflows have reflected the performance of the various peace processes, the accession negotiations with the EU, and national economic reforms.
- However, due to the global financial crisis and the Eurozone crisis, there has been a collapse of FDI to the region.

The “EU” Experience in the Balkans

- In recent years, we have assisted to developments in the “EU-path” of the Balkan countries.
- The recent intensity of the political relations between the EU and the Balkan countries has also reflected the economic relations; the EU is the first trading partner of the Balkan countries.
- The main trading partners of the region are the closest countries, especially for geographical and historical reasons.

THE GEOSTRATEGIC SIGNIFICANCE OF THE BALKANS

- The Eurozone crisis has revealed the full extent of the region's dependency on the EU economy, but a number of links to the EU have been lost, and are currently being replaced by new investors, such as China and Russia.
- Over the last decade there has been an increasing volume of foreign trade between Russia and individual Western Balkan countries, especially in oil and gas.
- The energy sector can represent a link as well as a key-factor to imply its greater political and economic presence in the Western Balkans.



Web table 1. FDI inflows, by region and economy, 1990-2014

(Millions of dollars)

Region/economy	2000	2005	2008	2009	2010	2011	2012	2013	2014
Developed economies	###	565 418,2	787 760,8	652 306,2	673 199,0	827 350,7	678 729,9	696 853,5	498 761,7
Europe	713 538,3	454 405,1	334 337,4	437 075,4	404 843,3	489 657,1	400 723,3	325 533,2	288 765,9
European Union	686 883,5	449 972,7	307 798,3	391 284,8	358 644,1	444 824,3	364 767,2	333 084,1	257 566,5
Transition economies	5 772,5	31 839,2	116 211,1	70 488,7	75 012,9	97 263,0	85 135,2	99 589,6	48 114,1
South-East Europe	342,1	2 923,0	8 030,8	6 269,9	4 600,3	7 890,3	3 561,9	4 739,8	4 698,3
Albania	144,3	264,3	974,3	995,9	1 050,7	876,3	855,4	1 265,6	1 093,5
Bosnia and Herzegovina	146,1	351,2	1 001,6	249,9	406,0	496,5	350,9	283,5	564,0
Montenegro	-	500,6	960,4	1 527,3	760,4	558,1	619,8	447,4	497,0
Serbia	51,8	1 577,0	3 971,9	2 896,1	1 686,1	4 932,3	1 298,6	2 052,5	1 996,1
Serbia and Montenegro	-	-	-	-	-	-	-	-	-
The former Yugoslav Republic of Macedonia	-	96,0	585,8	201,4	212,5	478,8	142,9	334,9	348,0
CIS	5 299,1	28 463,4	106 615,9	63 560,0	69 598,7	88 324,4	80 662,1	93 900,8	42 136,6
Armenia	104,2	292,1	943,7	760,0	529,3	515,2	488,8	370,2	382,8
Azerbaijan	129,9	1 679,9	14,1	473,3	563,0	1 465,0	2 004,6	2 632,0	4 430,4
Belarus	118,8	306,6	2 187,9	1 876,5	1 393,4	4 002,4	1 429,3	2 229,6	1 798,2
Kazakhstan	1 282,5	1 971,2	14 321,8	13 242,5	11 550,7	13 973,1	13 337,0	10 221,3	9 562,0
Kyrgyzstan	- 2,4	42,6	377,0	189,4	437,6	693,5	292,7	626,1	210,5
Moldova, Republic of	127,5	190,7	711,5	208,3	207,9	288,2	195,1	236,3	207,4
Russian Federation	2 714,2	15 508,1	74 782,9	36 583,1	43 167,8	55 083,6	50 587,6	69 218,9	20 957,7
Tajikistan	23,5	54,5	375,8	15,8	- 14,7	70,1	233,5	105,4	262,7
Turkmenistan	131,0	418,2	1 277,0	4 553,0	3 632,3	3 391,1	3 129,6	3 076,0	3 163,5
Ukraine	595,0	7 808,0	10 913,0	4 816,0	6 495,0	7 207,0	8 401,0	4 499,0	410,0
Uzbekistan	74,7	191,6	711,3	842,0	1 636,4	1 635,1	563,0	686,0	751,4
Georgia	131,2	452,8	1 564,3	658,9	813,8	1 048,2	911,3	948,9	1 279,1

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).



ASIAN DEVELOPMENT BANK



- The top 10 voting weights in ADB are as follows
- Japan 13%
- USA 13%
- China 5,5%
- India 5,5%
- Australia 5%
- Canada 4,5%
- Indonesia 4,5%
- South Korea 4,5%
- Germany 3,5%
- Malaysia 2,5%



ASIAN DEVELOPMENT BANK

- In practice the Bank was from the outset dominated by its two leading shareholders, US and Japan; and it was run on very much the same prudential but arguably subtly ideological principles as the World Bank;
- It very evidently served the economic interests of Japan and its large multinationals which at least up to the 1990s were the predominant and most powerful business organisations in the region and were associated with a wide array of projects that the ADB financed.



AIIB today

- In terms of shareholdings and voting rights the top 10 states are
- China 26%
- India 7,5%
- Russia 6%
- Germany 4%
- South Korea 3,5%
- Australia 3,5%
- France 3%
- Indonesia 3%
- Brazil 3%
- UK 3%

Historical genesis of AIIB

- The historical genesis of the Asian Infrastructure Investment Bank can be traced back to the Asian Financial Crisis of 1997.
- After that crisis all of the countries of East and South-East Asia felt a profound disillusionment with the Washington Consensus and with the *modus operandi* of the Western-dominated world financial system.



Historical genesis of AIIB

- Thoughts of developing self-defence mechanisms against financial attack and of somehow developing Asia's own financial arrangements proof against Western speculative excesses began to surface.
- The Asian Development Bank was not seen as an appropriate vehicle for such developments because dominated in terms of decision-making by the USA (and Japan) where American and Western speculative capital flows had been a major cause of the crisis.

Historical genesis of AIIB

- The formation of the AIIB is probably along with the New Silk Road one of the most significant expressions of this new geopolitical assertiveness of China
- But as we have seen it has also been facilitated by a set of demand and supply side economic conditions favourable to the formation of a new development bank for Asia



Historical genesis of AIIB

- Taken together these two points demonstrate how in macroeconomic terms both demand and supply conditions propitious to the setting up of a new development bank in which China would play a key role had been realised.
- These economic conditions when taken together with China's increasing quest for a more influential political role in the region and the world through "soft power" only strengthened these economically favourable conditions for a Chinese-led development bank



Historical genesis of AIIB

- On the supply side China had huge reserves of loanable funds arising from that vast pool of savings to put to productive use.
- Moreover given the pattern of economic development spearheaded by massive infrastructural investments that had occurred in China since 1990 Chinese companies had developed high expertise in all manner of infrastructural projects and were by the early 2000s looking for opportunities to use that expertise abroad.



AIIB today

- Since the Bank has just come into existence it is difficult to make any meaningful assessment of its performance but with now such a wide-ranging membership there is no doubt that the AIIB is set to have a major impact in the world economy.
- It is also clear that with such a large shareholding and voting rights China will play a leading role in the AIIB and thereby on the world economic and geopolitical stage in years to come.

The economic success is dependent on proper focus and unlock new sources of long-term growth:

- **To** promote investments that are wise and successful in generating self-sustaining growth.
- To support innovation, the environment and advance technological upgrading.
- **To** support the growth of SMEs and foster new growth sources.

Thank you for your attention!