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Professional paper

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**MACEDONIAN EXPORT COMPETITIVENESS AND ITS
IMPROVEMENT**

Abstract

This paper deals with the issue of Macedonian export competitiveness and possibilities for its improvement. The main aim of the paper is to provide an overview of the competitiveness of the Macedonian exports with regards to the exports' structure, from the perspective of the factors of production' intensity of the export offer, variety of the exported products and exporting markets.

The methodology used in the elaboration of this paper represents a complex of classical methods, such as: inductive-deductive method, comparative method, as well as the method of analysis and synthesis, which makes it possible to come to some conclusions that directly explain the subject in question.

The results arising from the research indicate that the country needs to take a number of measures to improve the current condition of the exports and its competitiveness. It implies investment in promotional programs to build recognizable Macedonian products, enhancing the quality of exports through the implementation of international standards, raising the technological basis of industrial production, as well as improving existing and developing new infrastructure.

Key words: competitiveness, export, recognizable brand, technology and innovation, infrastructure

JEL classification: F1, F23, L15, O33

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Introduction

In the past two decades, one of the fundamental premises of the Macedonian economic policy has been building of an open market economy, based on the principles of liberalization and integration of markets. This resulted in greater trade openness of the country, enabling possibilities for easier access of the domestic products to the foreign markets, but also implied increase of the competition on the domestic markets. In this perspective, the domestic companies, in particular the exporting ones faced many challenges to produce export products of sufficient quality for the foreign markets, as well as to keep up with the increasing competition on the domestic market. However, the increase of the companies' competitiveness is related to many factors, out of which some needs to be treated by the state, within the frame of the economic policies in this sphere.

In order to improve the competitiveness of the Macedonian economy, a consistent policy should be taken which includes programs and measures to reduce the cost of doing business in Macedonia; to introduce regulations for improvement of the business climate; to introduce new standards for the quality improvement of the products; as well as to provide maximum support to innovation in business (new ideas, designs, patents, licensing and branding). This will contribute for the Macedonian products to become more recognizable on the domestic and foreign markets. Implicitly, it would fundamentally affect not only the export competitiveness, but would contribute to the greater integration of the Macedonian companies into the supply chains and other forms of internationalization of the economy.

In this context, the paper deals with the competitiveness of the Macedonian exports and possibilities to its improvement. In the first section of the paper, it provides an overview of the competitiveness of the Macedonian exports with regards to the exports' structure, from the perspective of the factors of production' intensity of the export offer, variety of the exported products and exporting markets, while the second one provides a detailed overview of certain possibilities for improving the export competitiveness.

1. Competitiveness of Macedonian exports

In order to be practically implemented and/or upgraded, the competitiveness of a nation has to be measured. The literature contains vast number of methodologies, while there are also regular (annual) reports on the competitiveness of some countries in the world based on a specific methodology developed by the World Economic Forum.¹ According to the World Economic Forum ranking of Macedonia according competitiveness is positioned at 79th place (out of 142), so that positioning is better than average ranking of countries in the region in 2010 and 2011 (Table 1). The basic requirements are better than average, due to the achieved degree of macroeconomic stability, but indicators of market efficiency and technological readiness are worse than average. The basic requirements enable the countries to follow the model of factor-operated development, as they specialize in the industries based on natural resources and labor - intensive industries. At this stage of development, competitiveness depends mainly on the stable macroeconomic framework, well-functioning public and private institutions, adequate infrastructure and a healthy and educated workforce. On the other hand, performances in business efficiency and innovation are very weak and they are crucial for improving competitiveness, especially the exports competitiveness. In order to move up in the scale of quality and to increase their efficiency, the countries should transit to the stages of development that are driven by efficiency and innovation. According to this index, the Macedonian economy is still fragile and its competitiveness is still based on labor force and low productivity.

¹ Proceedings of International Conference, Editor – PhD Silvana Mojsavska, **Regional Trade Integration in South East Europe: Benefits and Challenges**, Institute of Economics – Skopje, 2013, p.74

Table 1: Ratings on Global Competitiveness Index (GCI) and its components in the SEE

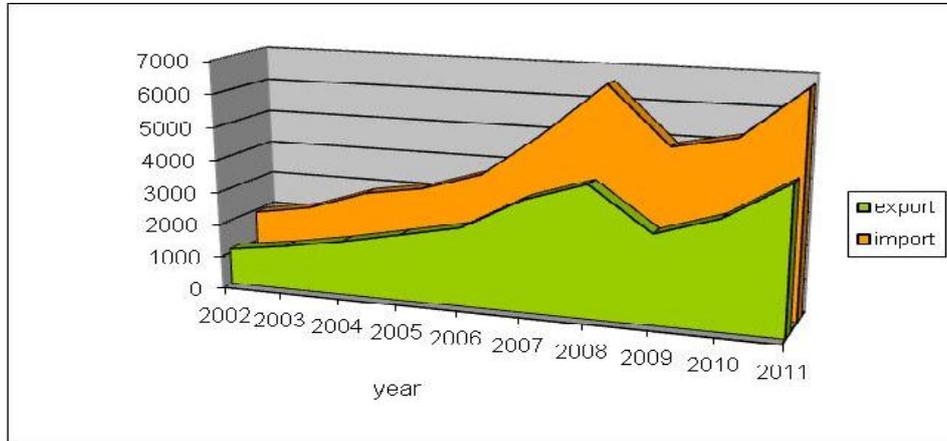
	Republic of Macedonia	Serbia	Montenegro	Croatia	B&H	Albania	Moldova
GCI 2011–2012 (from 142)	79	95	60	76	100	78	93
GCI 2010–2011 (from 139)	79	96	49	77	102	88	94
GCI 2009–2010 (from 133)	84	93	62	72	109	96	n/a
Basic requirements (60.0%)	69	88	57	52	92	71	102
Institutions	81	121	42	90	109	57	106
Infrastructure	86	84	63	39	99	72	96
Macroeconomic environment	37	91	94	70	78	86	103
Health and primary education	80	52	59	48	58	65	86
Efficiency enhancers (35.0%)	87	90	63	72	102	82	103
Higher education and training	80	81	48	56	86	82	83
Goods market efficiency	63	132	39	114	115	43	98
Labor market efficiency	72	112	45	116	85	49	75
Financial market development	82	96	35	87	124	107	105
Technological readiness	67	71	53	38	73	62	78
Market size	107	70	130	72	97	101	122
Innovation and sophistication factors (5.0%)	104	118	59	82	108	102	127
Business sophistication	105	130	70	88	108	78	117
Innovation	105	97	50	76	104	123	128

Source: Author's calculations based on data from The Global Competitiveness Report 2011-2012, World Economic Forum, 2011

In the case of the Republic of Macedonia, the standpoint is that the performance in terms of exports and international capital transactions provide credible depiction of the degree of its competitive abilities. The main point lays in the fact that, since it is a very small economy, in order to ensure sustainable growth of living standards, it is of vital interest for the Republic of Macedonia to create business environment appropriate for creation of export products with (relatively) higher added value, and to attract larger scope of foreign direct investment.²

² Ibid., p. 75

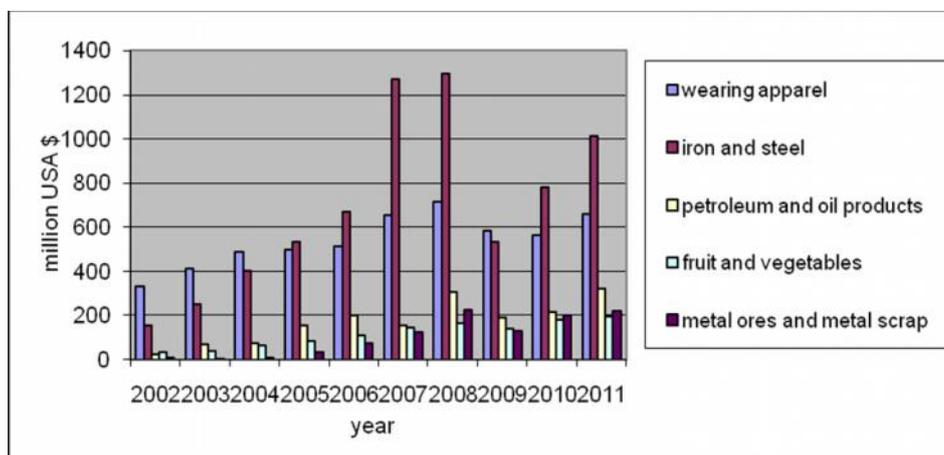
Chart 1: Macedonian export and import, 2002-2011 (million USA \$)



Source: Prepared based on data from NBRM

The Chart 1 provides a view on the trend of the Macedonian export and import in the period 2002-2011. The analysis points out that despite all the changes and improvements made within the Macedonian foreign trade system, the country did not manage to realize a significant reduction in the trade deficit. This is confirmed by the fact that in the ten-year period of analysis there is permanent predominance of imports over exports in the analyzed period (Chart 1). The relatively high trade deficit is due to the lack of competitive ability of the economy, especially in the export.

Chart 2: Five products with the biggest share in Macedonian export by SITC (2002-2011)

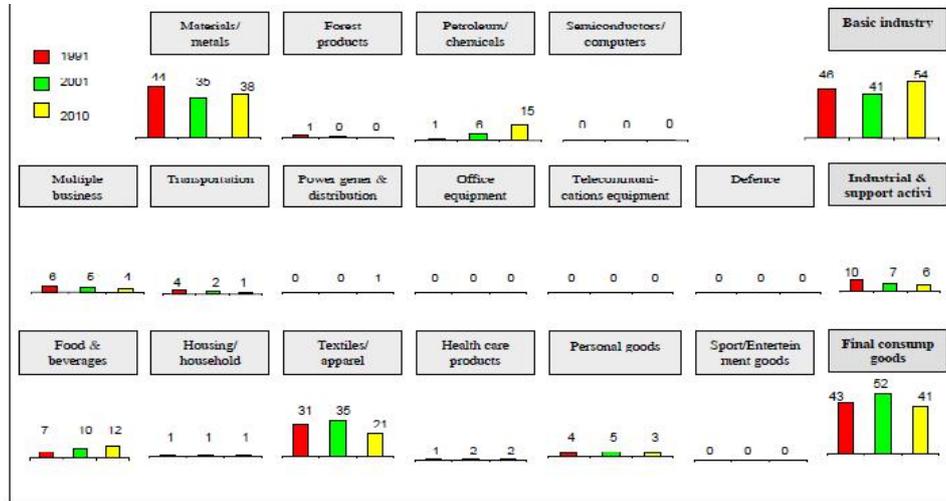


Source: Author's calculations based on data from NBRM

The trade deficit and the insufficient competitiveness of exports is a problem that arises from the structural features of the economy. Macedonian economy is characterized by a low degree of export diversification, i.e. dominance of two main product groups - textiles and metals (Chart 2). The same could be concluded out of the Chart 3, too. More specifically, Macedonian export products contain very low component of value added; more precisely, Macedonian competitiveness is revealed in three clusters: materials/metals, textile/apparel and food/beverages; however, the products of the materials/metals cluster are mostly primary/intermediate products which are further processed into final (consumer) goods in production capacities abroad; in the textile/apparel cluster Macedonian companies actually perform the service of sewing using low-skilled – and mostly female – labor force; while in the case of the food/beverages cluster Macedonian exports are mostly primary/intermediate agricultural products sold on regional (neighboring) markets; exports of the petroleum/chemicals cluster, which have increased in last couple of years, comprise petroleum derivatives from Macedonian refinery sold solely on the market of Kosovo.³

³ Ibid., p. 77

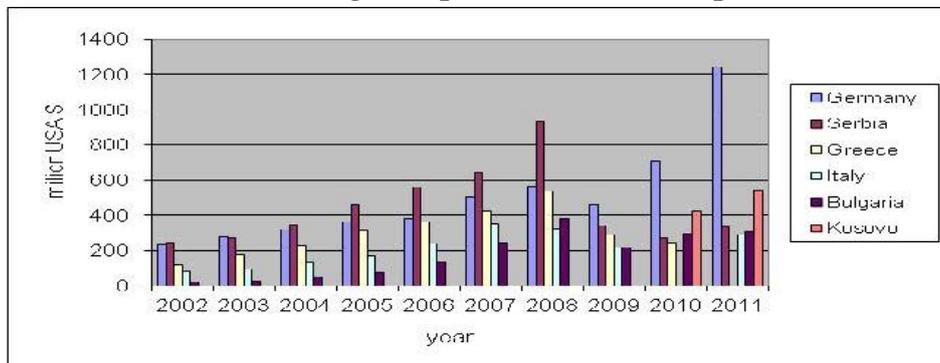
Chart 3: Cluster Map of Macedonian exports (in % of total exports)



Source: Vanco Uzunov, “Competitiveness of Macedonian Economy During the Transition Period (1991-2011)” in the ed. “Proceedings of International Conference (Editor Silvana Mojsavska), **Regional Trade Integration in South East Europe: Benefits and Challenges**, Institute of Economics – Skopje, 2013, p.76

Besides the product concentration, the Macedonian export is characterized also with relatively high geographic concentration, i.e. in the past ten years, the export has been concentrated in a relatively small number of countries (five to six countries - Germany, Italy, Greece, Bulgaria and neighboring countries). It could be argued that the small number of the partner countries is due to the fact that Macedonia is not really exporting new products, but traditional products on the traditional markets (Chart 4).

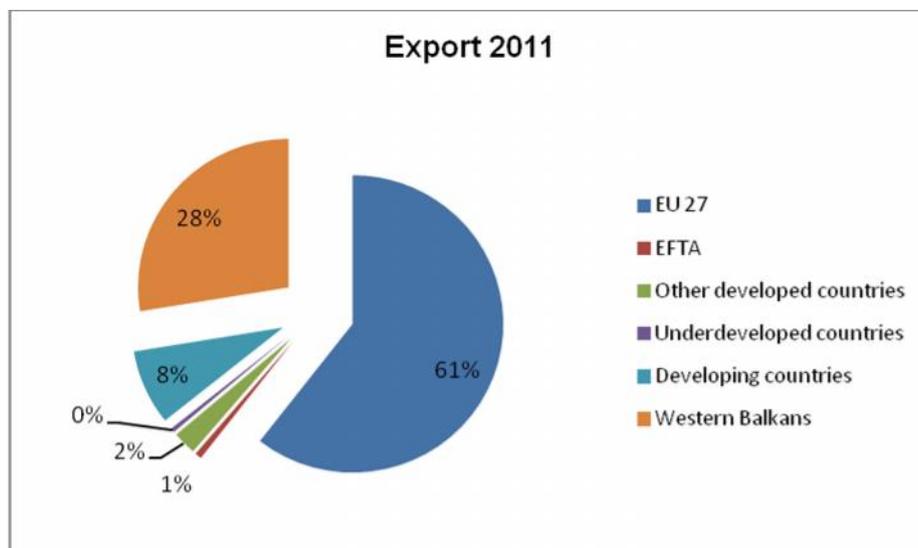
Chart 4: Macedonian largest export markets in the period 2002-2011



Source: Author's calculations based on data from NBRM

With regards to the exporting markets analyzed as economic blocks (Chart 5), the EU-27 remains a major export partner which consumed about two-thirds (61%) of the Macedonian exports in 2011. Furthermore, the second group of countries where Macedonia has mostly exported its products was the group of Western Balkans countries that accounted for about 28% of total country's exports in 2011.

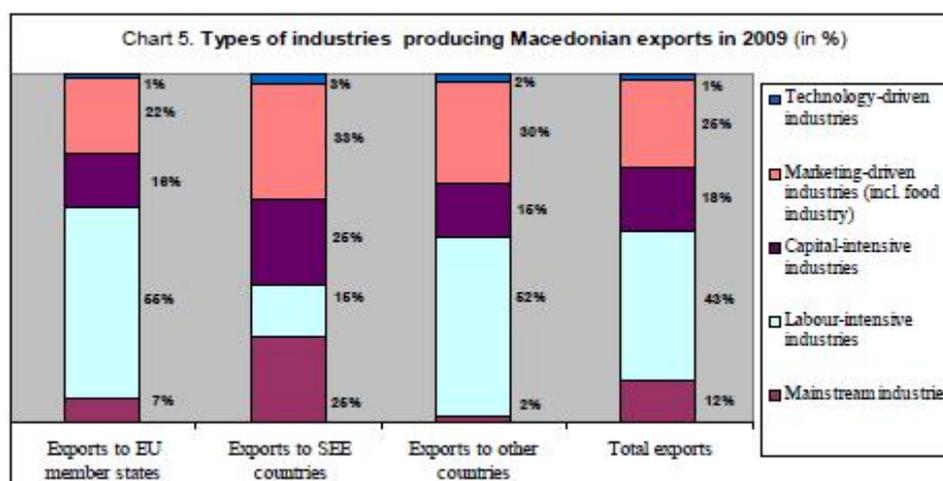
Chart 5: Macedonian exports of goods in 2011, according to Economic blocks



Source: Author's calculations based on data from State Statistical Office of Macedonia

A more detailed analysis of Macedonian export competitiveness in relation to EU and SEE states is presented on Chart 6 whereas, depending on the average utilization of production factors, Macedonian exports are distributed into five types of industries. This distribution confirms the notion about the low competitiveness of Macedonia vis-à-vis EU economies, since largest part of Macedonian exports to EU states are produced by labor-intensive industries; second largest share have exports produced by market-led industries (which include food industry); third is the share of exports manufactured by resource-based industries; while the share of exports produced by technologically intensive industries is negligible. The structure of Macedonian exports to SEE countries in this context is somewhat different, which verifies the fact about the somewhat higher competitiveness of Macedonia vis-à-vis SEE countries.⁴

Chart 6: Types of industries producing Macedonian exports in 2009 (in %)

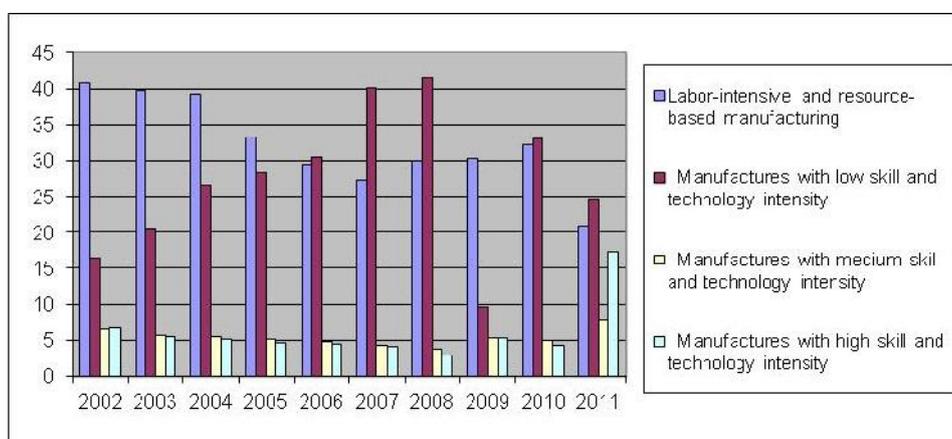


Source: Vanco Uzunov, "Competitiveness of Macedonian Economy During the Transition Period (1991-2011)" in the ed. "Proceedings of International Conference (Editor Silvana Mojsavska), **Regional Trade Integration in South East Europe: Benefits and Challenges**, Institute of Economics – Skopje, 2013, p.80

⁴ Ibid. p. 79-80

Also, the small volume of the exports results from the use of modern equipment and technology in the production process, therefore, implying only a low share of the high-technologically intensive products in the export structure (Chart 7). According to the graphical illustration on Chart 7, Macedonia has a small share of high-tech exports, i.e. the predominate export products are produced in labor-intensive and resource-based manufacturing based on low skills and technological intensity.

Chart 7: Macedonian export products by factor intensity, 2002-2011 (as a percentage share of total exports)



Source: Author's calculations based on data from UNCTADStat

It is widely known that the technology is the most important factor in today's global knowledge economy, and it affects the quality and prices of the products. The current development of the companies in the country, especially small and medium enterprises, indicates that many of them have no modern technologies which certainly affect the quality and value added of their products, as well as their ability for establishing cooperation within the global supply chains with foreign companies. The level of investment in new equipment and technologies for most of the domestic companies is quite low and very small finances are invested in research and development. This can be confirmed by the structure of the Global Competitiveness Index, in particular the section which ranks the

countries according to their ability to use already available technologies, as part of the sub-index for technological readiness.⁵

In addition to the lack of research and development for new products, it is interesting to note that many of the Macedonian companies do not make proper research and analysis of the international markets, i.e. do not make adjustments to their production program according to the demand on those markets. Therefore, many companies do not have a strategic commitment to the export orientation. Any prolonged concentration of exports in a few "imperfect" sectors will simply increase the vulnerability of the economy. Hence, it is necessary to ensure increase of the productivity and efficiency of the existing exporters through innovation and creating services for export promotion and diversification of exports with timely anticipation of the market dynamics and adequate response to the changes. In short, the companies, as well as the state have to sharpen their focus on markets and industries of interest, and to undertake specific measures on their respective levels.

Having in mind the situation in the Macedonian export, it is important to emphasize that the creation of the competitive export performance of the national economy requires complex and synchronized actions by economic agents, their associations (clusters, chambers of commerce, etc.), as well as additional policy measures to stimulate production for export.

Considering the poor state of affairs of the Macedonian exports competitiveness and the need for its improvement, the next section of the paper will deal with some of the activities that should be undertaken on macro level.

2. Some ways to improve the competitiveness of Macedonian export

Considering the above mentioned aspects of the competitiveness of Macedonian exports, we will focus on some necessary activities that have to be undertaken on macro level in purpose of raising exports' competitiveness. In particular, we would focus on the increasing export by applying aggressive promotional-advertising programs, raising the technological basis of industrial production, as well as improvement of existing and development of new infrastructure.

⁵ The Global Competitiveness Report 2011-2012, World Economic Forum, 2011, (www.gcr.weforum.org)

2.1. Raising export by applying more aggressive promotional-advertising programs

One of the issues usually related to the increase of the exports' of the Republic of Macedonia is the increase of the competitiveness of the exporting products. As presented in the previous section, the Macedonian export products are generally characterized by low stage of processing, higher cost price (due to low productivity and cost-efficiency) and low competitiveness on the foreign markets which implies realization of small foreign currency income. Furthermore, most of the products are bulky and related to extensive transport costs, with poor quality, inadequate design and packaging, as well as insufficient attention paid to their promotion, which makes them even less competitive. In addition, the insufficient competitiveness of exports is a consequence of the relatively small number of Macedonian products that holds quality and other certificates according to the requirements of the foreign markets. Therefore, the adjustment of the domestic production to be compatible to the demand and standards on the foreign markets should be one of the fundamental tasks of the industrial and foreign trade policy. Hence, in order to increase the volume of the Macedonian exports, it is necessary to assure adequate production by assortment and quality (according to the quality standards of foreign markets), good packaging, advertising and promotion.

The Republic of Macedonia already has a Strategy for export promotion, which includes activities such as market research of the targeted foreign markets, cooperation with the business community, promotion of the national economy and building a good reputation, diversification of the export structure, use of outsourcing in the business processes, such as joint centers for services, defining export goals, as well as creating the right balance between FDI and the exports support of local companies. According to the Strategy, and in purpose of diversification of the Macedonian export structure in the medium-term period, the state provides support for export of products and services from traditional sectors (textile industry, metal industry, agro-business), and new sectors (pharmaceutical industry, chemical industry, information industry, medical devices, alternative energy, tourism, call centers, etc..).

Also, it should be stated that the current situation with regards to the Macedonian exports is characterized with very limited presence of brands, which could be exported on the foreign markets. The export of

the products which includes intellectual property and high technology is very limited, thus contributing to the country to lag behind with regards to the brand recognition. In this context, Macedonian policy makers should undertake necessary activities to support development of Macedonian brands, as necessary step to increase the export competitiveness.

With regards to the potential for brand development, the Macedonian food and textile industries are sectors with the greatest capacity to create a recognizable brand. This especially applies to food production, as Macedonia has a good basis for the development of identifiable products, because of the high quality and authenticity of the Macedonian food. No less important is the wine, that although exported in small quantities, it certainly presents a recognizable product on the developed countries' markets. Furthermore, considering the growing market segment for healthy food on a global scale, as well as Macedonian favorable conditions for organic production, one of the branches that should be supported by the state should be related to the organically produced food. Measures related to brand development would certainly have an impact on export competitiveness, therefore, implying need for redesign of the existing policies.

2.2. Raising the technological basis of industrial production

The innovation and technical-technological basis, that are fundamental elements of competitiveness of each economy in contemporary trends of globalization, imposes new working practices for Macedonian enterprises. In such circumstances, enterprises are faced with the challenges of competition dictated by the broader market, and they need to introduce new technologies and innovations in purpose to be competitive on the market.

The indicators from the Global Competitive Index imply that most of the companies in Macedonia, especially small and medium enterprises, do not have modern technologies and implicitly, they have difficulties to establish partnerships with foreign companies in terms of their inclusion in the global supply chains. This can be confirmed by the Global Competitiveness Index, which ranks the countries according to their ability to use the already available technologies. In addition, another section of the Global Competitiveness Index measures capacity for innovation of the country, which is a part of the innovation sub-index

(Table 1). These data show that Macedonia is categorized into countries with relatively low level of technological development. The Macedonian economic growth much more depends on the ability to import certain technology, rather than the ability to take some innovative ventures. The indicator for the use of available technologies is relatively low and points out the need to undertake appropriate measures and instruments to improve this situation.

At this stage of the economic development, besides emphasizing the importance of technology for the Republic of Macedonia, it should be noted that domestic research, aimed at developing technologies and innovations, must also be increased. For this purpose, the companies have to establish connection with universities and innovators through implementation of research and development projects. The state, through its institutions, should be a strong catalyst in these processes. In this context, the government prepared a comprehensive Strategy for development of innovation for the period 2012-2020, and the legal setting to encourage innovation, which includes Fund for innovation and technological development. The aim of the Fund is to provide finances for promotion of innovation activities in the form of: grants for co-financing of the newly established start-up and spin-off companies, co-funded grants and conditional loans for commercialization of innovation, equity investments, and co-financed grants for technology transfer and technical assistance. This Fund shall contribute for the Republic of Macedonia to make a better performance with regards to the criteria of the EU Lisbon Strategy, which stipulate provision of 3% of GDP for investment in research and development. According to the statistics, currently, the allocation for research and innovation has been 2% in the European countries and only 0.4% in the Republic of Macedonia.⁶

By implementing the above policies in the field of technological development and innovation, it could be expected that the domestic companies will increase their technological capacity, although this is a long-term process which requires serious commitment by the state.

⁶ <http://www.economy.gov.mk/ministerstvo/3993.html>

Conclusion

The data presented in this paper about trends and structure of Macedonian foreign trade, clearly indicate that the export competitiveness of the country has been rather low, mainly owing to the low efficiency and low productivity of the macedonian industry, as well as limited and outdated technological base. Such situation requires more serious attention by the policy makers, i.e. policies and measures that will result in expansion of the export structure strengthening the competitiveness of domestic firms on foreign markets, as well as reduction or substitution of imports. Taking this into consideration, future actions to increase competitiveness must be realized through multidisciplinary action of multiple policies. Particular emphasis should be placed on those segments that can give results in terms of encouraging exports and improving sectors' competitiveness.

Some of the ways to increase exports and improve its competitiveness are: attracting investments in sectors that are not present in Macedonia, creation of products with higher added value, improving the business environment, investing in infrastructure, improving the corporate management, as well as investment in quality management and employees by companies. Thereby, as part of the restructuring of the Macedonian industry, the policy makers should especially encourage and support activities for increasing the competitiveness of the export supply through the implementation of relevant international quality standards; investment in knowledge, technological development and innovation; investment in infrastructure and creating recognizable products (brands) with high added value intended for satisfying specific export markets. Although these activities are primarily the responsibility of individual businesses entities, however, the appropriate national policies can significantly contribute to the progress of this process.

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