

Unlocking the growth potential: Economic corridors in South-East Europe

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Background Presentation

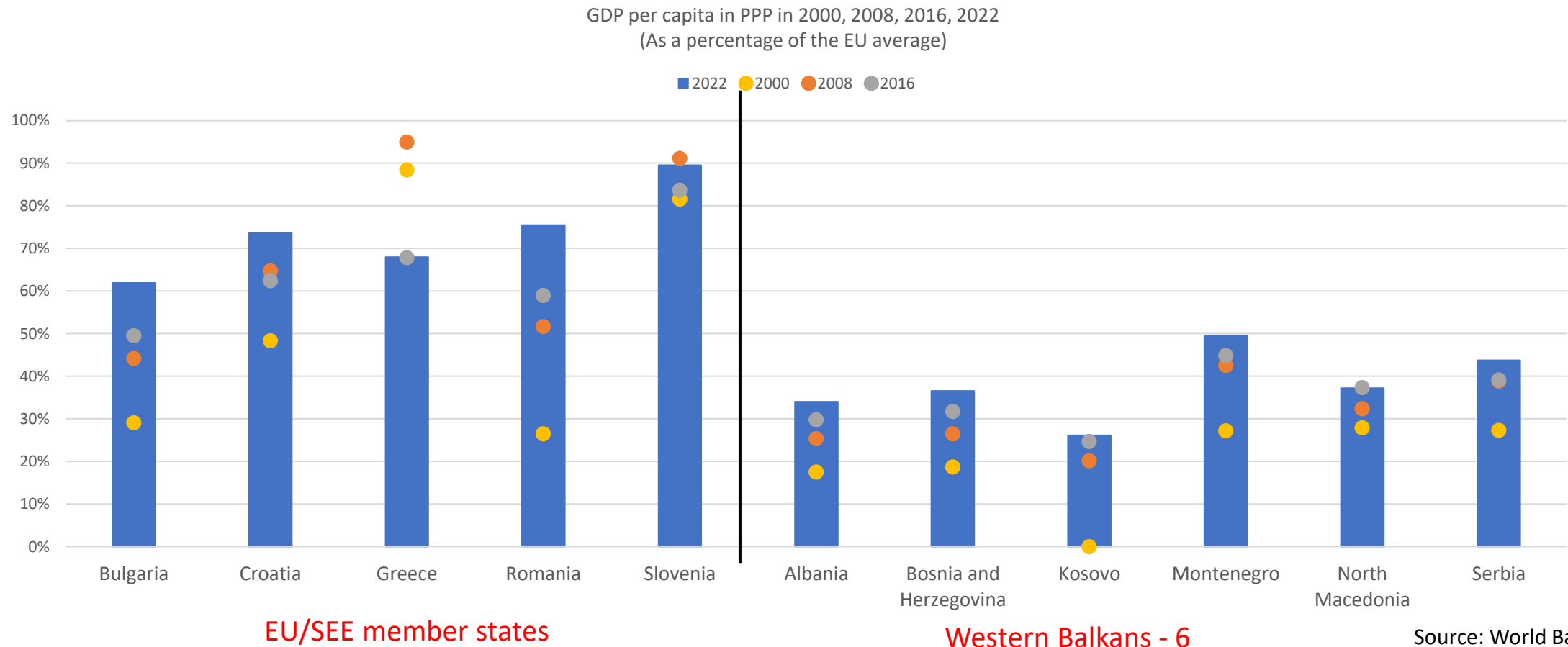
LSE Public Event, 16 May 2024

Introduction

- Cross-border trade and investment levels and regional integration in South-East Europe remain below potential, reflecting persistent problems with the business environment, market fragmentation, and low-quality infrastructure.
- In a period of elevated geopolitical uncertainties, the need to catalyse the growth potential in the region is evident.
- This presentation provides an overview of convergence challenges, focusing on quantitative and qualitative growth drivers and applies the concept of economic corridors aiming at a more granular approach for the assessment of bottlenecks and unlocking opportunities.
- A distinguished panel of policy makers and experts will consider the potential benefits of deeper regional integration in energy, digitalization, and transportation in the context of European integration, targeted support from international financial institutions and increasing private sector involvement.

1. GDP convergence trends, 2000-22

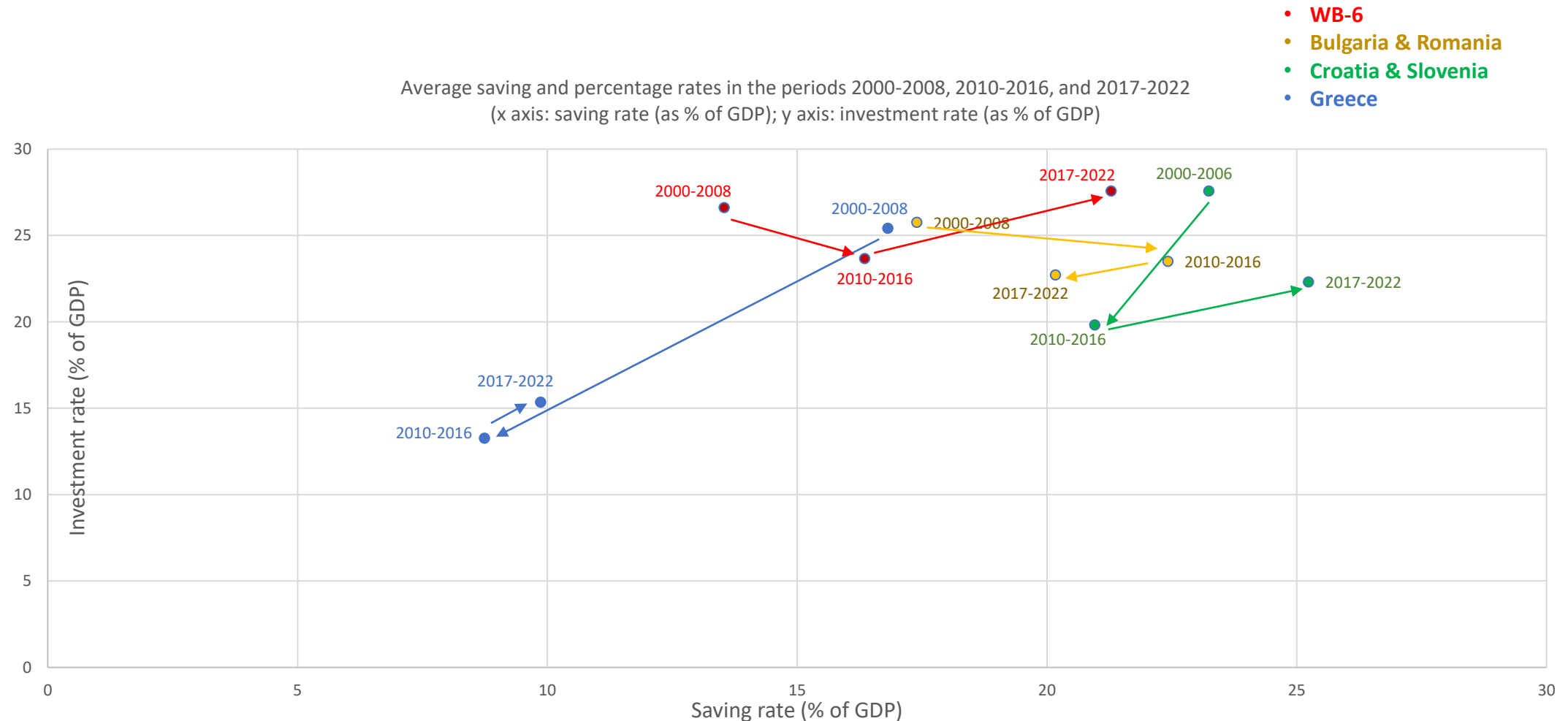
Gradual improvement in Western Balkans, still well below 50% of EU average, increasing distance from EU/SEE where progress is far from linear.



Source: World Bank

2. Growth drivers: Investment and Savings (2000-22)

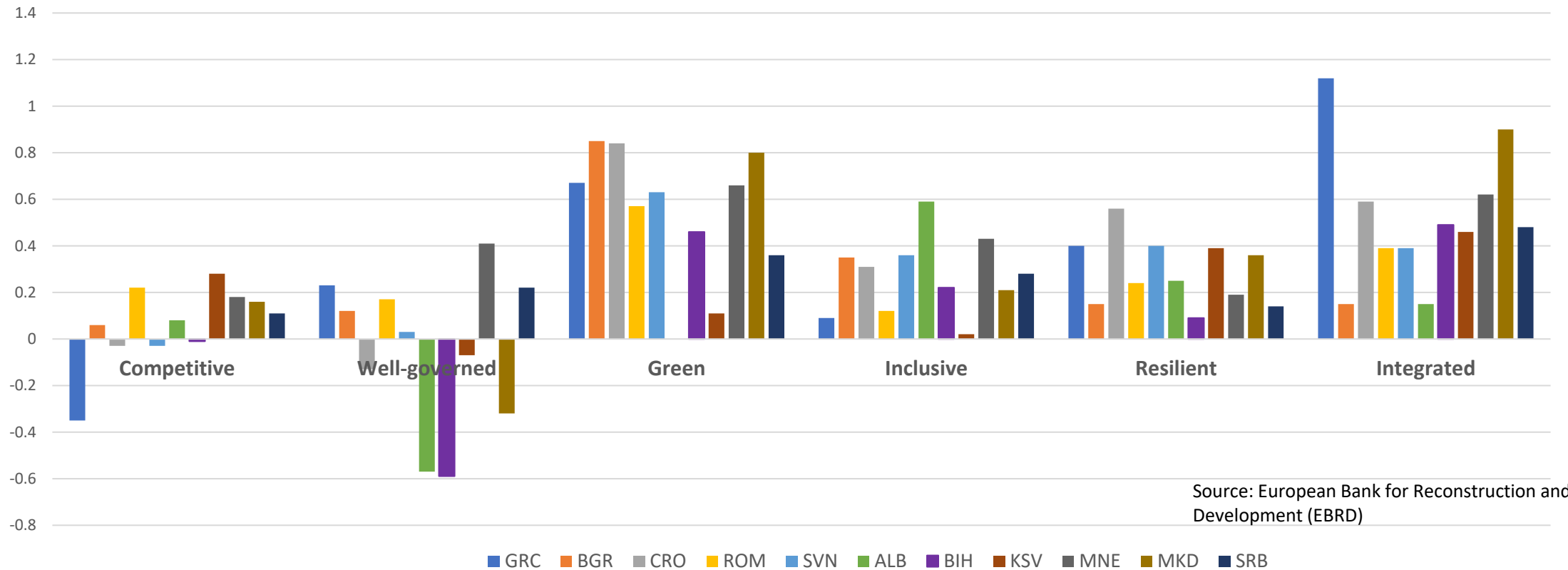
Increasing savings and lack of catching up momentum in Western Balkans, crisis driven adjustment paths in EU/SEE



3. Looking beyond aggregate trends: Transition qualities

Significant bottlenecks in governance and disconnect of integration and competitive performance

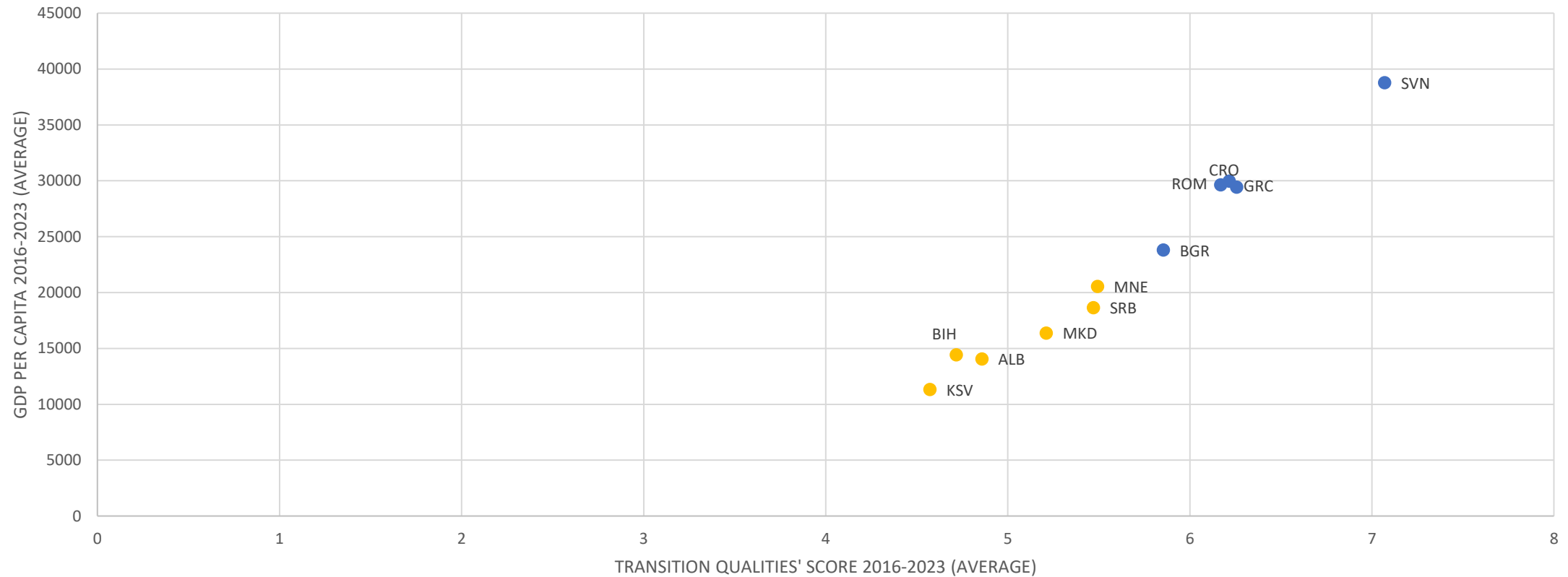
Assessment of Transition Qualities, change from 2016 to 2023 scores



Source: European Bank for Reconstruction and Development (EBRD)

3.1 GDP index vs Transition index

GDP per capita vis-à-vis Transition Score, 2016-2023 (average)



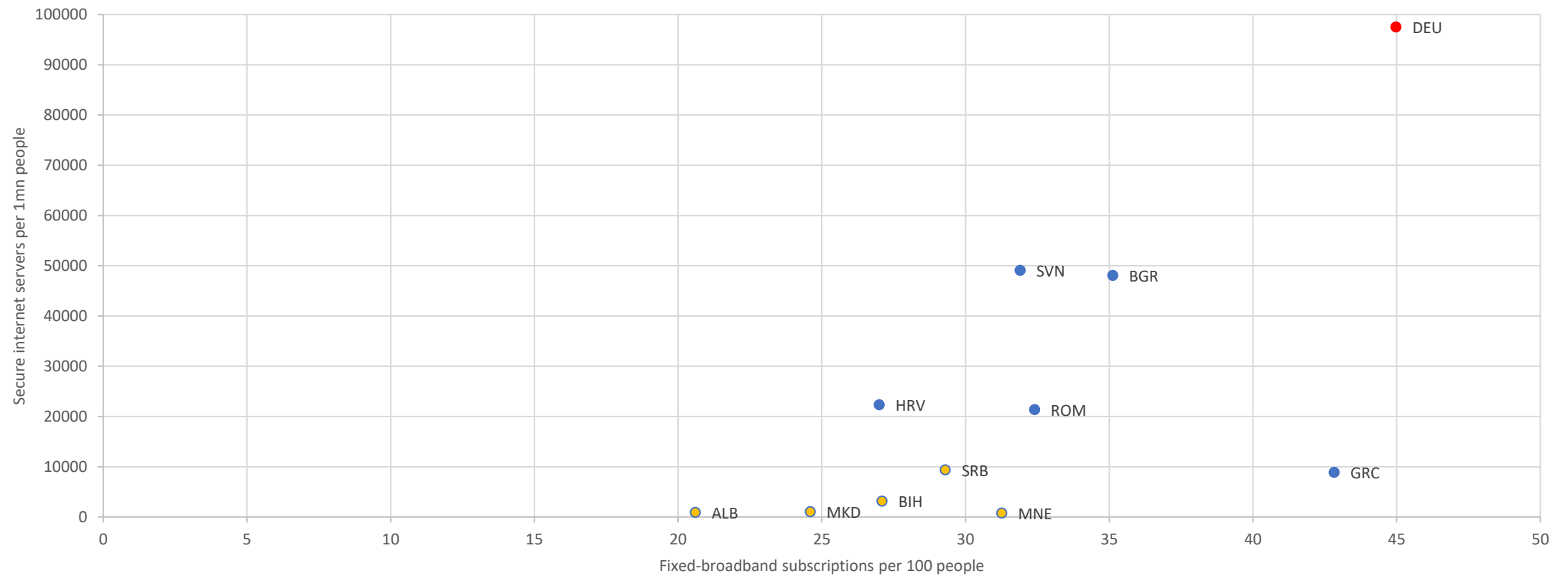
GDP per capita, constant prices; Purchasing power parity; 2017 international dollar

Source: IMF, World Economic Outlook Database, October 2023 & European Bank for Reconstruction and Development (EBRD)

4. The diffusion potential of ICT

Limited opportunities of ICT infrastructure utilization in terms of access and leveraging

Diffusion of ICT in society 2021-2022

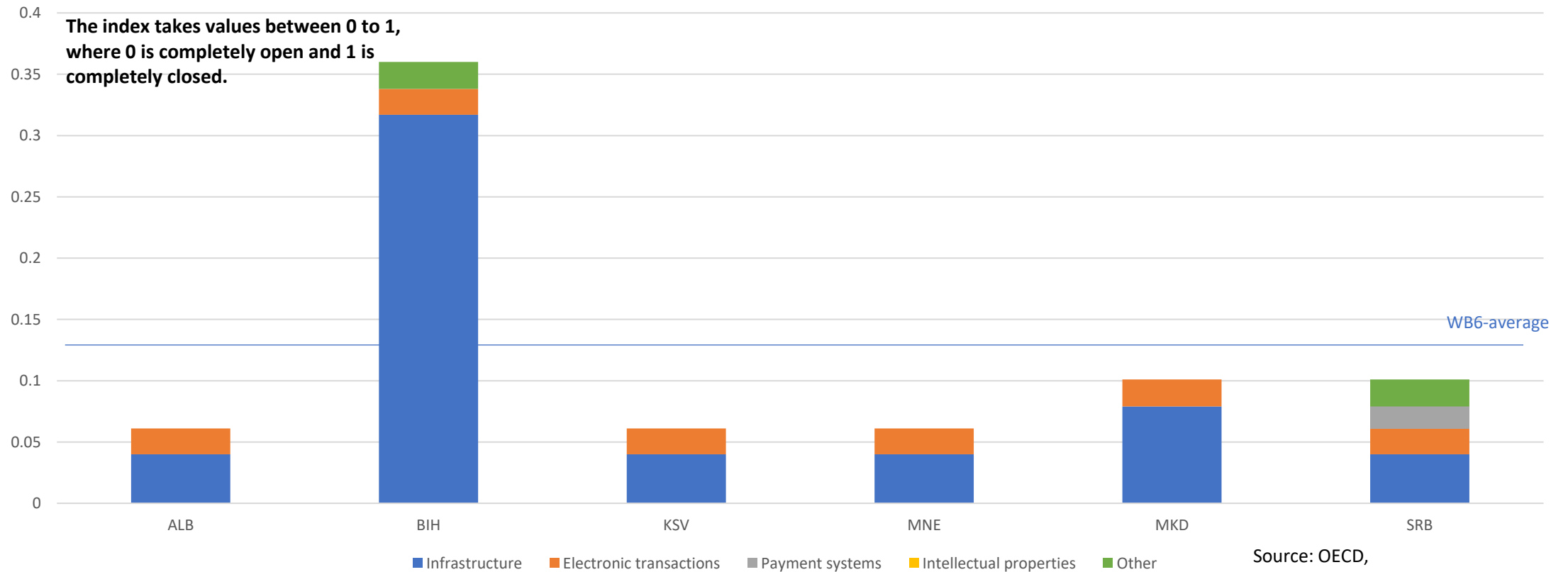


Source: World Bank Indicators Database & International Telecommunication Union (ITU) World Telecommunication/ICT Indicators Database

4.1 Digital services trade restrictiveness

Regulatory obstacles is a major problem for the expansion of tradable services

Digital services trade restrictiveness index, 2023 (highest score – more restrictions)

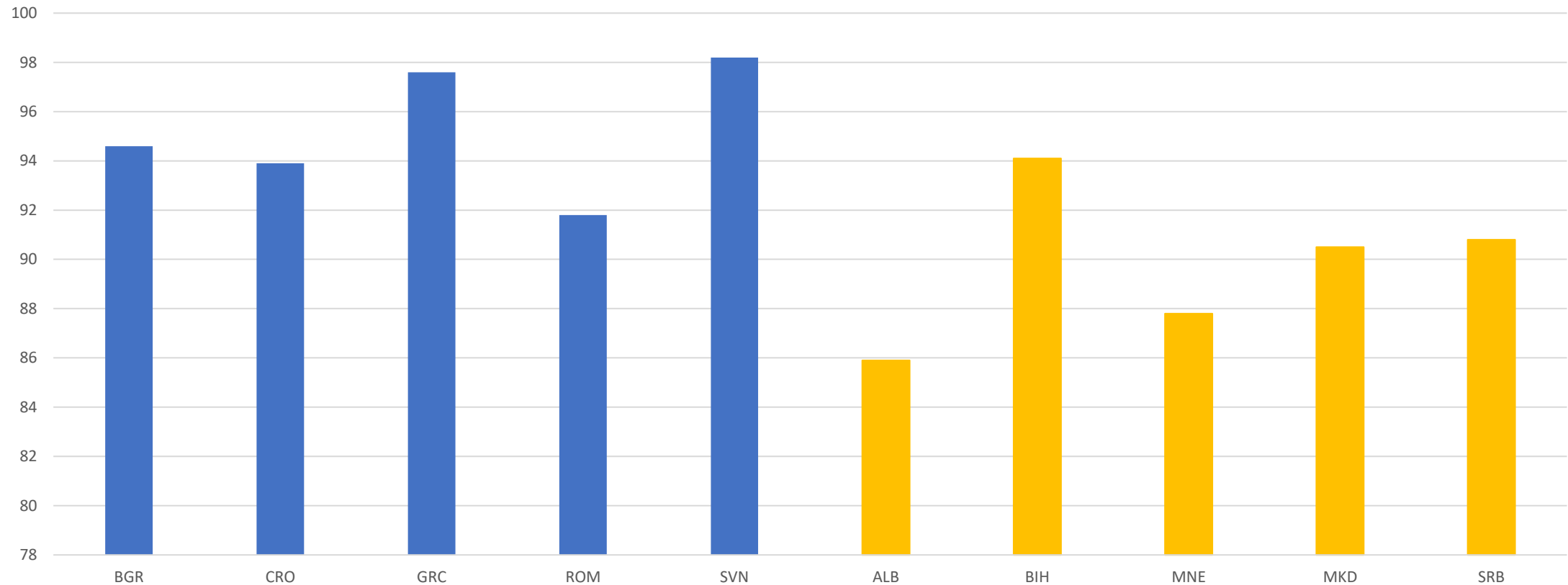


Source: OECD, Digital Services Trade Restrictiveness Index Simulator

5. Energy markets fragmentation

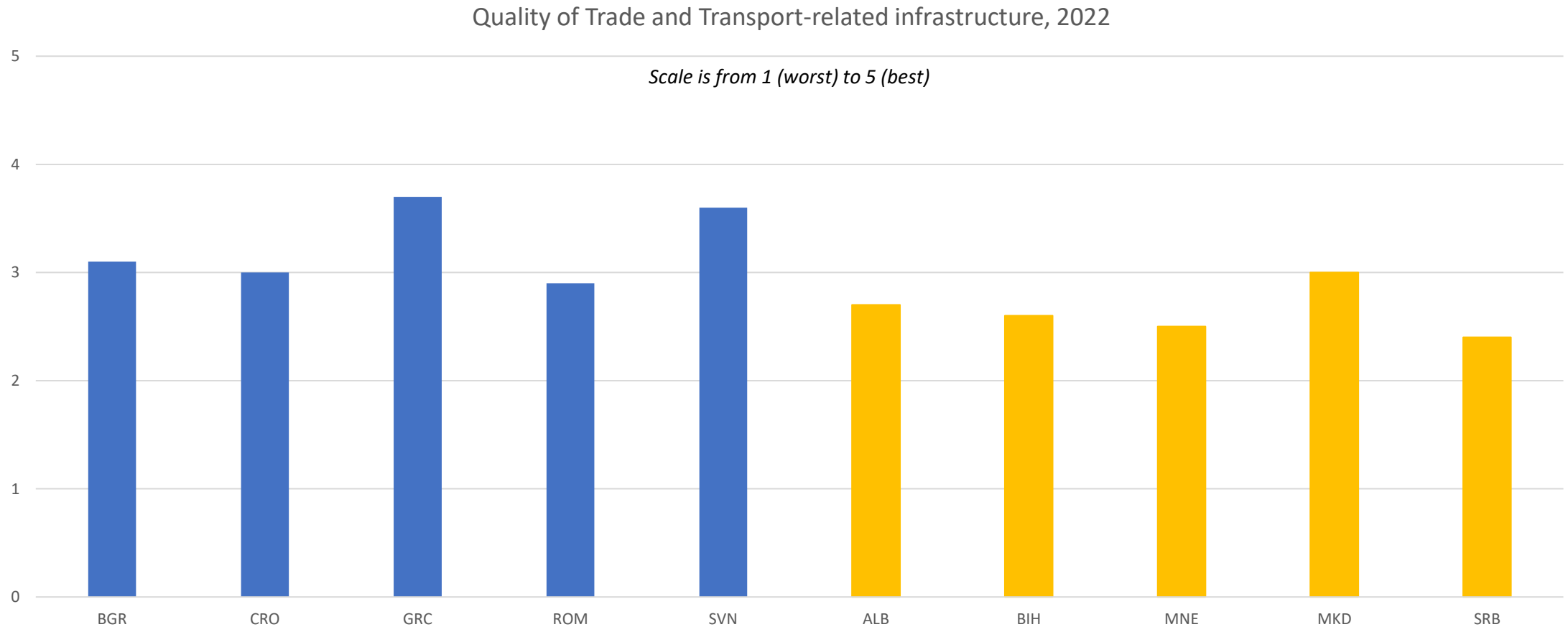
Closing the substantial gap between EU/SEE and Western Balkans is a challenge.

Electricity supply quality (% of output), 2019-2020



Source: WEF, GCR 2019

6. Benchmarking infrastructure quality

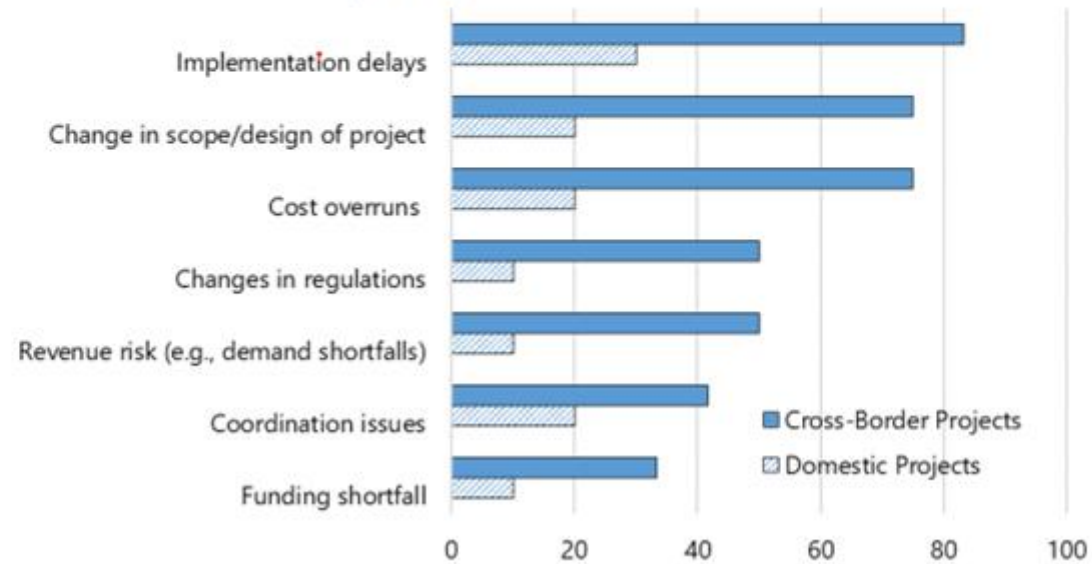


Source: World Bank

7. Cross border investment challenges

Compared to national projects, many risks are more elevated in cross-border projects, especially implementation delays and cost overruns ...

EUR Infrastructure Survey: Risk Factors in Infrastructure Projects
(Percent)

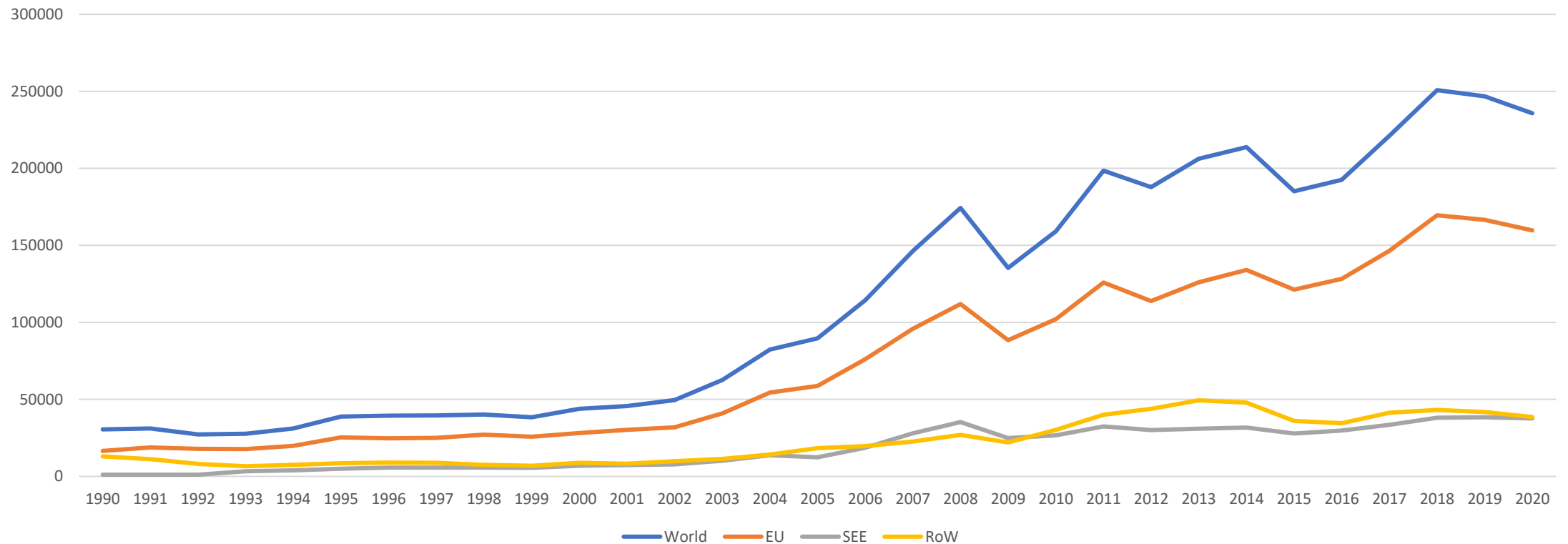


Source: IMF

8.1 Regional trade flows

Significant increase of exports to EU countries but limited intra-regional integration and slow progress in rest of World

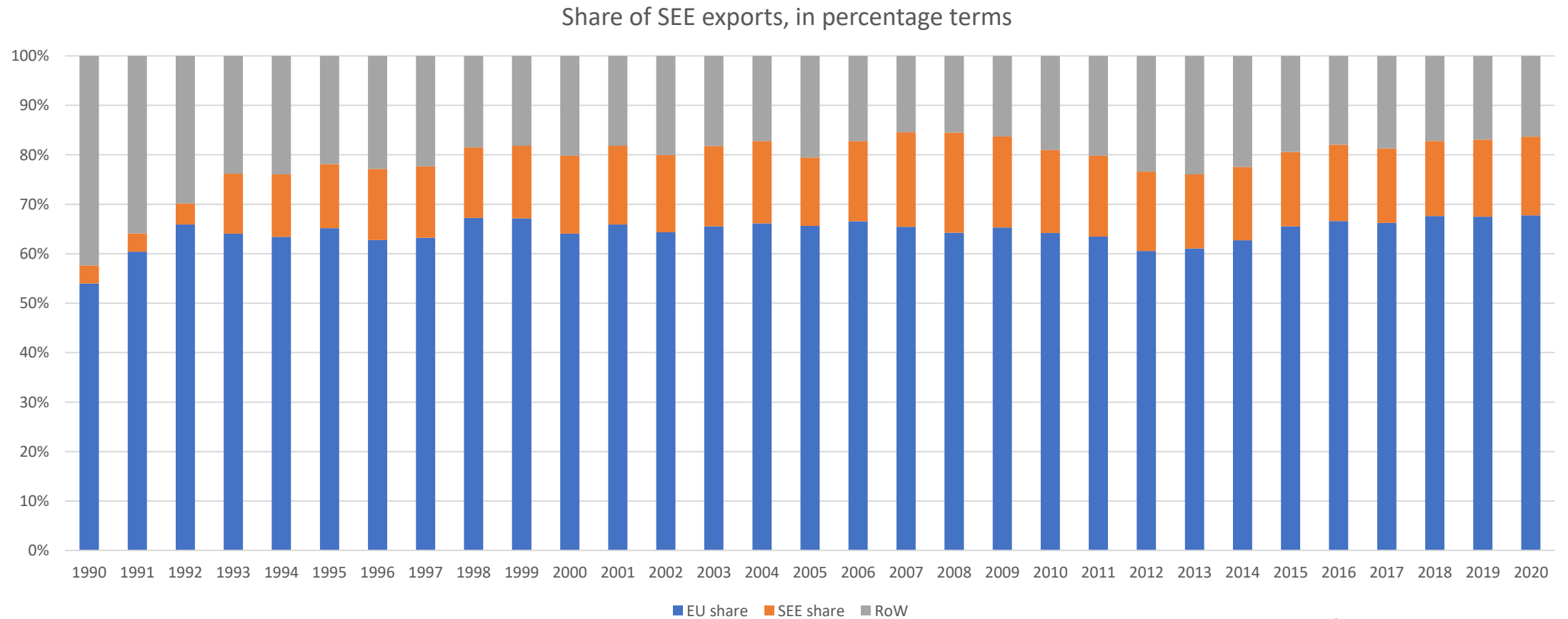
Direction of SEE exports, 1990-2020
(in millions \$)



Source: IMF, Direction of Trade Statistics and own calculations

8.2 Regional trade flows

Stable shares of exports after a brief period of diversification during the crisis



Source: IMF, Direction of Trade Statistics and own calculations

Questions to the panellists -I

Sue Baret, EBRD

- Overview of investment obstacles in the region (focusing on energy and infrastructure): trends and binding constraints.
- Examples of EBRD's projects with foreign investors participation in the three economic corridors (energy, digitalisation, and transportation).
- Given the size of the infrastructure gap what is holding back private sector investment.

Dr Will Bartlett, LSE

- What are the prospects of intra-regional trade in SE Europe.
- The catching up process remains challenging, especially in Western Balkans. What framework conditions and policy initiatives could catalyse this process at the sectoral level in the three economic corridors (energy, digitalisation, and transportation).
- Geopolitical risks and growth prospects for the region.

Questions to the panellists -II

Prof. Slavo Radosevic, UCL

- Catching up experience in Western Balkans and EU member states in SE Europe: Lessons learned from a comparative/evolutionary perspective.
- ICT diffusion, knowledge economy and best practise policy initiatives in the region.
- What are the binding constraints for the New Growth Plan for the Western Balkans.

Matteo Rivellini, EIB

- Investment obstacles in Western Balkans: trends and binding constraints.
- Examples of EIB's cross border investment support in the three economic corridors (energy, digitalisation, and transportation).
- Sub-sovereign lending to municipalities in the region. Market trends and project related experience.