

PART III
Chapter 4

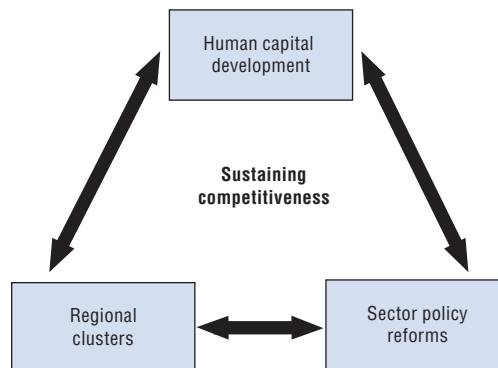
Regional Competitiveness Initiative

1. The need for a regional level competitiveness initiative

1.1. Sustaining longer term reforms

Sustaining competitiveness in the longer term at both the country and regional level is vital. The OECD recommends addressing the cost trap the region is currently facing by developing institutions, mechanisms and processes to increase its competitiveness with limited outside support. To enhance competitiveness and sustain it in the longer run, the OECD proposes an approach based on three self-reinforcing pillars.

Figure 4.1. **Proposed key pillars to support sustainable competitiveness in the Western Balkans**



Human capital development: Develop the mechanisms to match skills supply with market demand and enhance overall skills in the region.

Specific objectives: i) reduce skills gaps; ii) increase firms' hiring flexibility; iii) ensure the sustainability of human capital policy with well-defined mechanisms for consultation and institutionalisation.

Competitive clusters: Develop a systematic regional approach to generate innovative projects through partnerships between local firms and international firms, universities and civil society.

Specific objectives: i) improve the level of innovation by focusing on research and development; ii) enhance valued-added skills through knowledge transfer; iii) develop policies to organise and deliver government services more efficiently (clusters provide a good organisational framework for delivering government services that are tailored to industry demand); iv) develop policies that target investments to clusters (e.g. investment strategies to help less research oriented cluster members adopt new technologies and become more innovative); v) develop policies to increase clusters' networking, learning and workforce skill set.

Sector specific policy reform: Develop a systematic approach to removing policy barriers to investment and trade in key sectors. The expected outcome would be to enable targeted sectors to compete more effectively at the regional, European and global level in the longer term.

Specific objectives: i) improve sector attractiveness by removing sector specific policy barriers on a continuous basis; ii) regularly monitor and assess sector specific policy reform progress.

1.2. Acting on the three pillars of competitiveness at the regional level

1.2.1. Human capital reforms

To sustain human capital reforms in the longer term, these areas need to be addressed:

Institutional development: Set up a human capital development co-ordination team within each government, involving the ministries of education, labour and economy and Investment Promotion Agencies.

Specific output: An action plan for the creation of an inter-ministerial unit, including all relevant stakeholders in most countries of the region, and setting up of the unit. To be carried out with the Regional Cooperation Council (RCC), and in collaboration with the Regional School for Public Administration,¹ to potentially provide future staff.

Developing the tools to analyse skills gaps and shortages: Identify the skills required to better respond to investment opportunities, determine the future skills profiles of the labour force based on analysis of labour market dynamics, and define training and educational objectives in line with current and future skills profiles.

Specific output: A tool to analyse sector specific skills gaps by anticipating market growth and future skills needs. Work to be carried out in collaboration with the European Training Foundation (ETF), DG EMPL² and DG EAC.³

Labour market regime: Determine the labour market's ability to favour the entry of new people, especially those with the needed skills profiles.

Specific output: A sector specific analysis of the impact of labour market regulations and hiring charges. Work to be carried out in collaboration with DG EMPL.

Mechanism for dialogue: Ensure continuous discussion and debate among key stakeholders from both the public and private sectors and civil society, aligning reforms with the requirements of all affected parties.

Specific output: Consultation mechanisms, processes and communication to encourage policy reform sustainability. Work to be carried out in conjunction with bodies such as the Centre for Excellence for Entrepreneurship Education (Zagreb).

1.2.2. Regional clusters

This pillar involves developing competitive clusters, including local and international firms, academia and research bodies, NGOs and trade unions in order to work on collaborative activities, leveraging models such as France's competitive clusters.

Setting up competitiveness clusters⁴ has been identified in the "Sector Specific Sources of Competitiveness" (SSSC) project as one of the key next steps. Most of region's economies have implemented some form of economic zones or clusters, but these remain to be fully leveraged. By building a network of players at the forefront of innovation, the end goals of the new policy are the creation of new wealth and jobs in local areas. Clusters impact competitiveness in

three ways: i) by increasing the productivity of firms based in the area; ii) by driving the direction and pace of innovation; and iii) by stimulating the formation of new businesses within the cluster. Geographical, cultural, and institutional proximity provide firms with special access, closer relationships, better information, powerful incentives, and other advantages that are difficult to profit from at a distance.

In the short term, the goal is to increase even further the competitiveness of the targeted four sectors by involving foreign and local investors as well as civil society in their growth. In the long term, the aim is to sustain and embed the initiative following best practice in OECD countries such as France and Finland. As in OECD countries, the Western Balkan economies can stimulate the creation of clusters and sustain their growth through appropriate policies. These areas need to be addressed:

Assess cluster initiatives in the Western Balkans in order to focus on the economies and sectors that most require competitive cluster support.

Specific output: i) mapping and analysis of the current strengths and weaknesses of cluster initiatives in the region; ii) a strategy and roadmap to address gaps in cluster policy.

Define an organisational structure and governance model for a cluster approach by garnering funds and resources, designing the structure and determining the ministries to be involved (e.g. compare France's inter-ministerial DIAC unit).

Specific output: i) design of the funding mechanisms required for two pilot projects based on OECD best practices; ii) definition and design of the organisation of a unit working on establishing the different competitive clusters and administering the legal and administrative hurdles faced in their establishment.

Define the objectives and scope of the cluster initiatives, as well as sector coverage and type of project (network fostering, regional brand creation, technical standard establishment, export promotion, etc.).

Specific output: i) strategy for one cluster per country as a pilot to be rolled out by the country; ii) initial implementation of high-level roadmap.

The above actions should be developed in collaboration the RCC, Ministries of Economy, Country Economic Team (CET) Leaders, Investment Promotion Agencies (IPAs) and a select number of international organisations such as the German Organisation for Technical Co-operation (GTZ) working on competitive clusters.

1.2.3. Sector specific policy reforms

Set up regional sector specific working groups that will work on common issues such as access to finance for the apparel manufacturing sector, or accreditation requirements for the automotive components sector. The working groups will support the drafting of policies and action plans to be ratified by parliaments or other relevant government channels.

Specific output: i) the design and setting up of sector specific regional working groups operating under the umbrella of the RCC; ii) mechanisms to identify and reduce sector specific policy barriers; and iii) an initial high-level road map to address sector barriers.

Monitor and report on reform progress by leveraging OECD instruments such as the Policy Framework for Investment, the Investment Reform Index, the SME index and Private Sector Development Reports.

Specific output: Design and put in place indicators that the RCC and working groups can use to monitor and report on reform progress.

The above actions should be developed in collaboration with the RCC, Ministries of Economy, CET Leaders and IPAs. Twinning with EU sector specific working groups could be envisaged in the form of expertise sharing.

The recommendations listed above also aim at supporting the EC and RCC objectives for the region, including:

1. Developing the economy and human capital (objectives 1 and 5 of the RCC).
2. Focusing research and development efforts through a competitive cluster approach.
3. Further increasing investment and trade, through targeted sector specific policy reforms.
4. Involving civil society further.

Notes

1. The Regional School for Public Administration (ReSPA) is a joint initiative of the European Union and the OECD to boost regional cooperation in the field of public administration, strengthening administrative capacity and developing human resources (www.respaweb.eu).
2. Directorate General for Employment, Social Affairs and Equal Opportunities of the European Commission.
3. Directorate General for Education and Culture of the European Commission.
4. A competitiveness cluster is an association of companies, research centres and educational institutions, working in partnership and under a common development strategy, with the goal of generating synergies in the execution of innovative projects in the interest of one or more given markets. There are five success factors for each competitiveness cluster: i) implementing a common economic development strategy that is consistent with the area's overall development strategy; ii) creating extensive partnerships between players for specific projects; iii) focusing on technologies for markets with high growth potential; iv) reaching sufficient critical mass to acquire and develop international visibility; v) developing dialogue with civil society to include all key stakeholders

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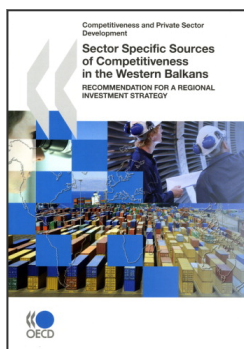
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