

# **ECA Productivity: Beyond the (foreign driven) Reassembly of Legacy Capabilities**

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Presenting:

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# Want to tell

The region has reached a bit of a watershed in how easy it is to raise productivity, given where their production structures stand relative to obvious productivity enhancing investments.

- Once you reach a kind of country PPF, you need to have either large visionary, cooperative and risk-taking private businesses (US), or good vertical policies based on intensive p-p dialogue (Ireland)
- All today's and yesterday's talk of technology, innovation, value chains, cannot be implemented blind to vertical aspects. (sl. 1-6)

While I don't know how the Bank can help countries develop such good quality "visionary governance", it is important to be aware:

- "vision" is coordination, it matters for private investment and its quality/productivity,
- emphasis on FDI in ECA is can be counterproductive (sl.7)

Serbia's FDI v. SME story: FDI were key in generating growth (sl. 8) ...

...but SMEs have done impressive heavy lifting, despite being discriminated and likely to harbor potential (sl. 9-12)

There may be missing opportunities in the fact that ECA countries within the EU and WB have less SME exports (sl.13)

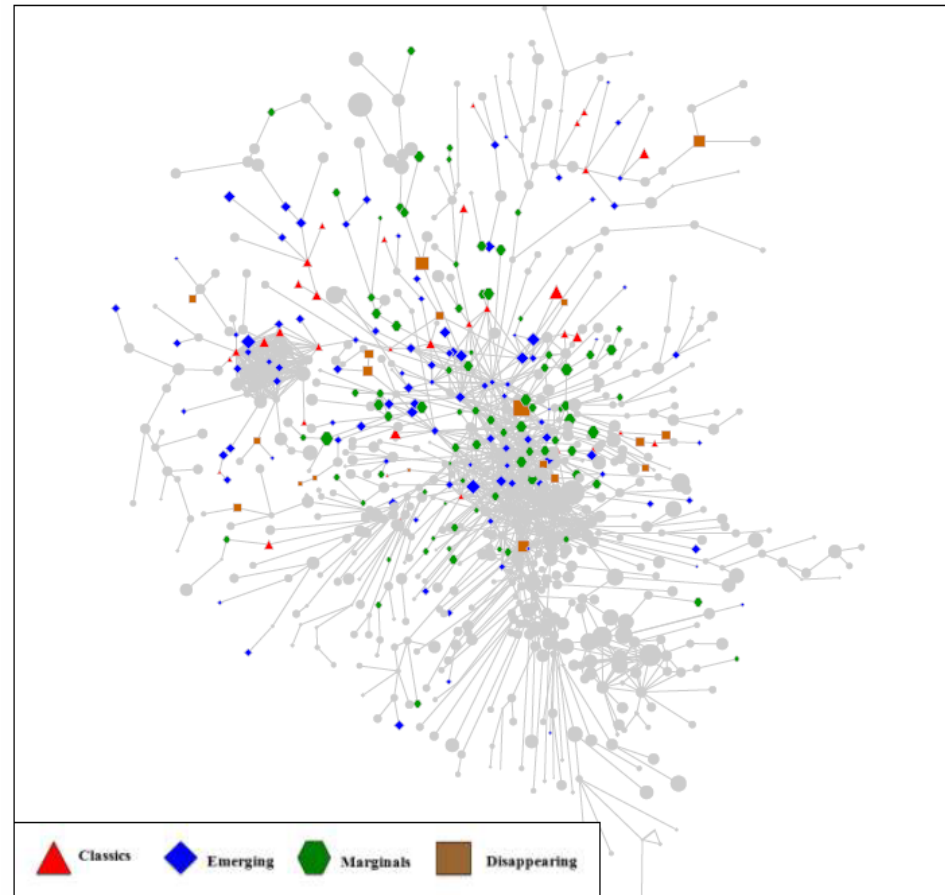
Hints of policy recommendations (sl.14)

# Transition: A special case of creative destruction

- Reassembly of strewn capabilities:
  - technical plentiful
- Complemented by:
  - new institutional ones
  - managerial
  - market links

...through foreign capital

# Serbia's export space 2008 — patchy and diffuse



But once the profitability from that which is available has been realized, wages grow, profits fall – **NEW capabilities need to be created**

# The comparative (dis)advantages of Kyrgyzstan

- Stuck due to long distances and double landlock...

...or...

..in the center of the action?



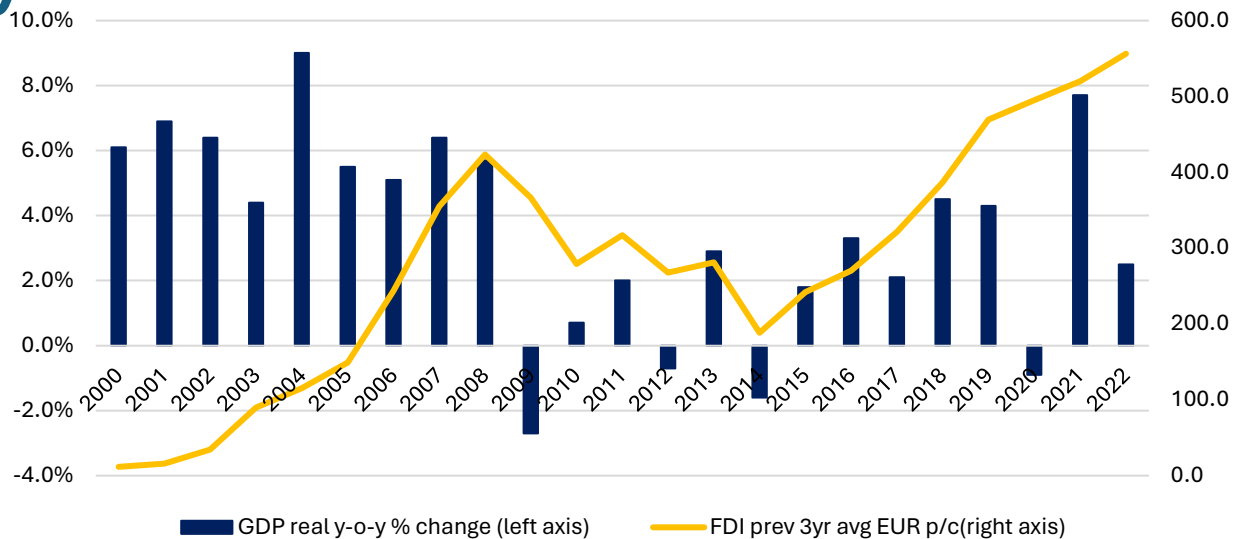
# Helen Clark: “You have to put yourself out there!”



Comparative advantage is about trade, but growth and productivity are about creating comparative advantage.

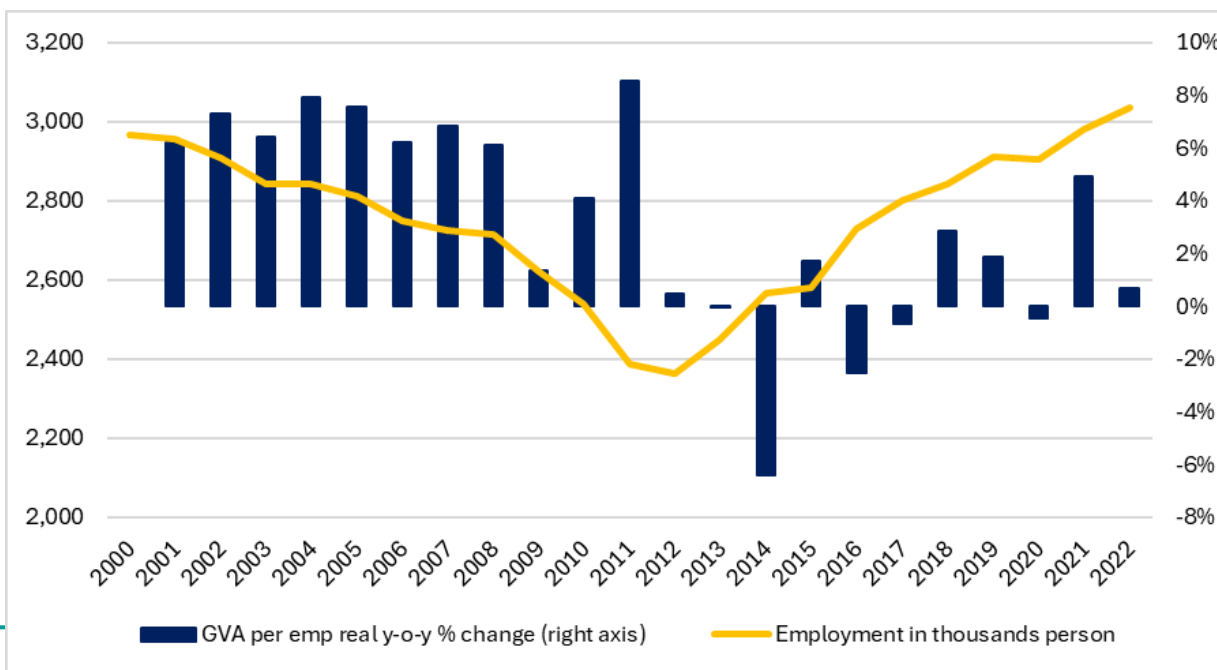
# Serbia's Story

FDI played critical role in economic recovery...



...not necessarily raising productivity.

But yes employment and restructuring.





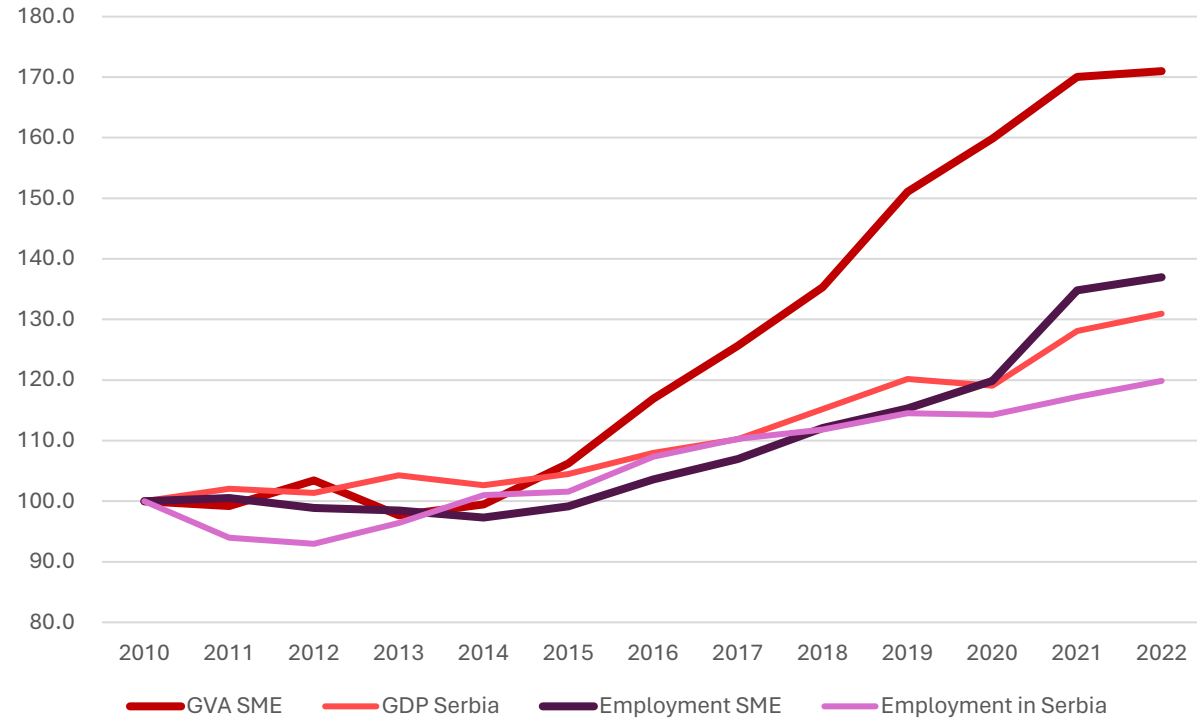
# While FDIs provided impetus, SMEs did the heavy lifting

other than public utilities, and agri and trade:

ALL large companies are foreign.

SME v. Foreign bussiness:

- SME productivity growing faster
- 67% of employment
- 55% of GVA (increasing!)





# SMEs performed despite outright discrimination

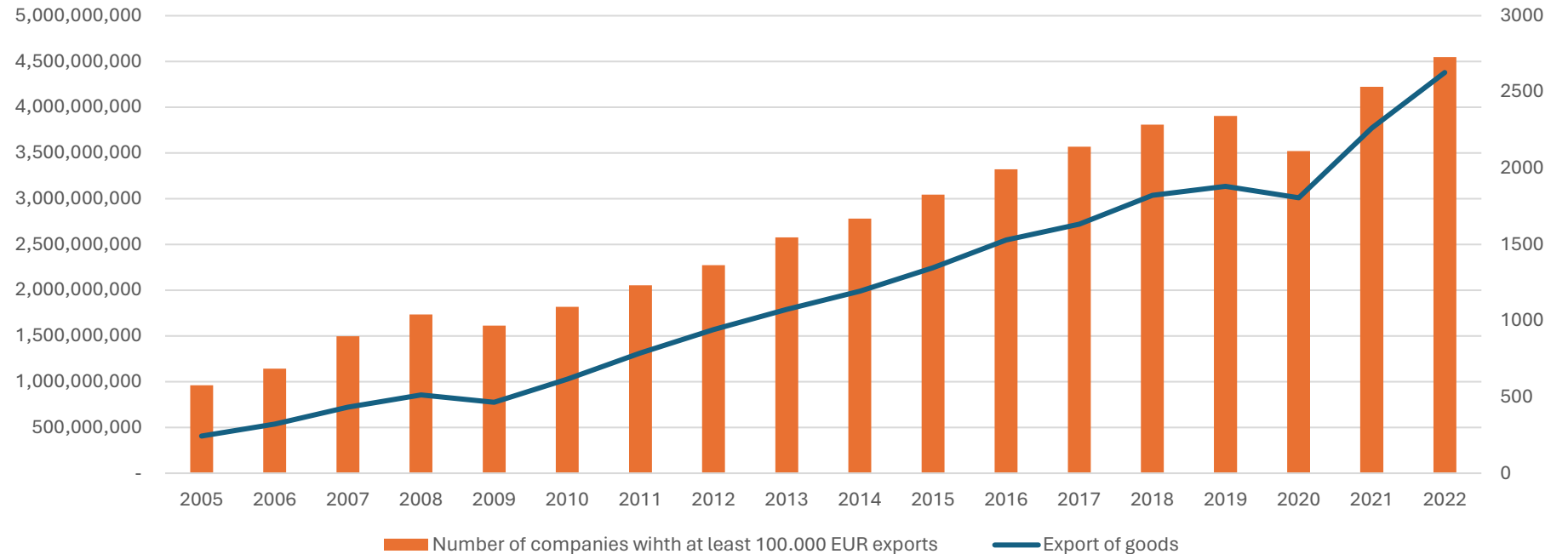
FDIs get:

- 20% average subsidy
- Investment tax credits (only above 8 mil eur investments)
- red administrative carpet:
  - Industrial locations,
  - admin obstacles removed

SMEs get orders of magnitude less \$\$ spent :

- Increasing # of small relevance programs
- Local regulation that impedes development of synergetic industrial zones
- Racketeering

# Serbia's SME direct goods exports, value & # Co



- 4,5 bill euro (cca 20% total)
- Companies > 10 employees, 100.000 euros exports
- No trade Co
- Otherwise 40% of total

# SME Comparative advantage is in customized, flexible, small series production

- High Competitiveness

- Rubber and plastic
- Machinery and equipment
- Metals
- Agribusiness
- High-tech invisibles

- FDIs

- (Mostly pneumatics)



IT &  
sel



- SME

- From packaging machines to hotel and car interiors



# Where should, ideally, Serbia's productivity policies go from here?

- Unemployment largely absorbed
- FDIs upgrading, but often detrimental competition with good fast growing SMEs

The room for (private and public) investments facilitate obvious profit opportunities is shrinking (key highways built, more IT schools made)

The Serbia-specific PPF has pretty much been reached

# Creation of new capabilities is in line...

Vertical policy choices are inevitable:

- Infrastructure: favors some industries and regions.
- Education: profiles
- Wooing foreign investor (no way to really make it sector neutral)

Productivity growth will require more uncertain investments to move Serbia's PPF

Unfortunately the choice has fallen on EXPO 27

# Development vision = direction in which PPF is moved

- Coordinates private and public investments (efforts) for more synergy  $\Leftrightarrow$  more productivity
- Reduces uncertainty – enhances investment

# Can the World Bank help a country do vision right? Not sure...

- ...but what mainstream discourse (still) does – excessive focus on FDI attraction – **discourages**, disempowers domestic political economic player participation for better governance
- Discussions like today's need to address different contexts: who competes, innovates, with/for whom? How do sectors differ? Need many narratives...

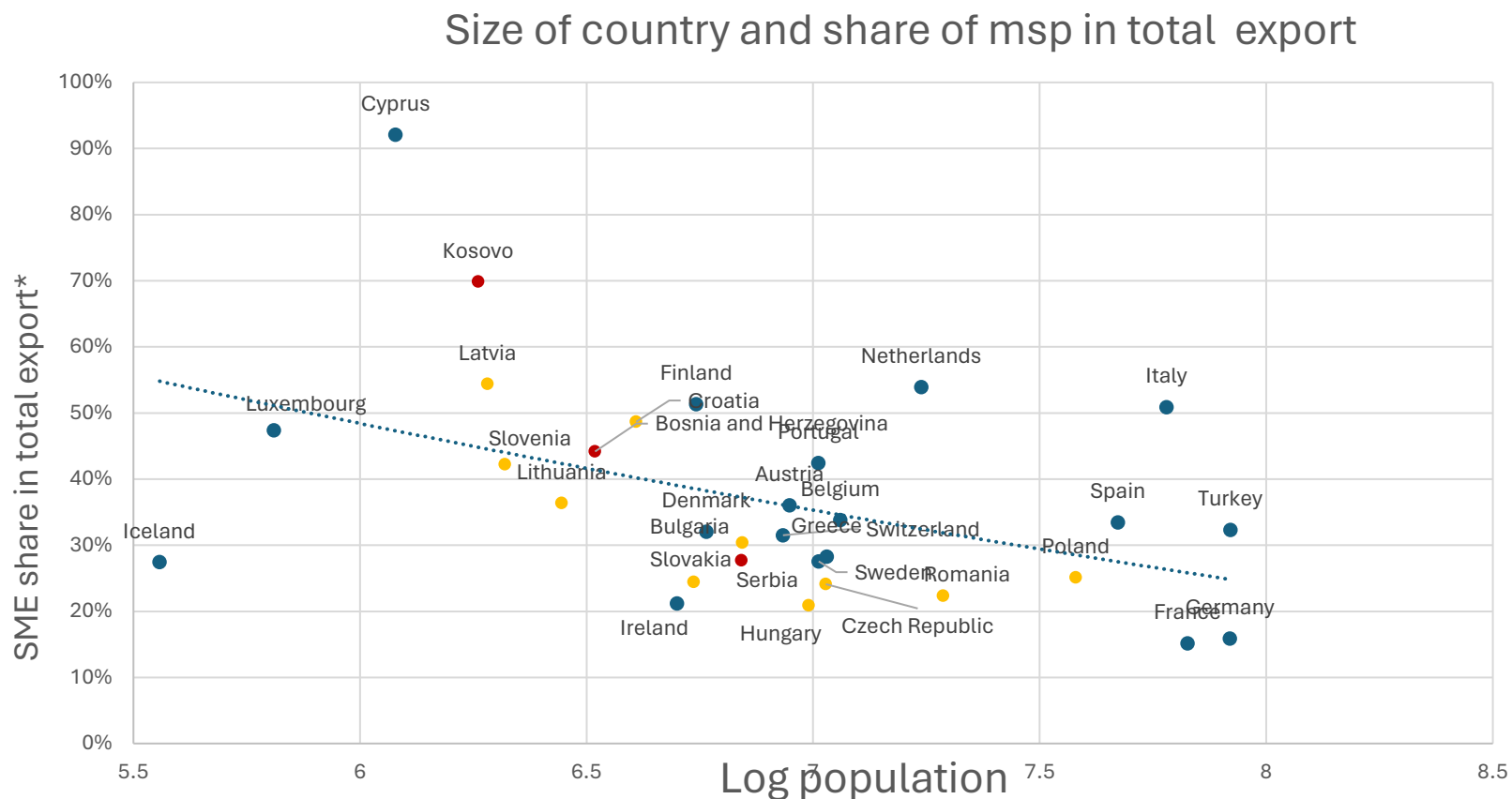
(Small country -- retail mega firms example)



# SMEs can, should?, play a much larger role in exports than they do in ECA (west)

Transition SMEs have smaller share than predicted by size

Good, bad, indiferent?



# International assistance leads way, could do more

We need to understand better: interaction bet FDI and SMEs, (differentiate among types of SMEs) – synergies, constructive v. destructive competition

No EU (Growth plan!) or IFI **narrative** on the need to put domestic companies/SMEs at the center

=> Better governance to incl. dialogue and development planning

Now that ind. policy is emerging – FDI Supplier development, when comparative advantage lies elsewhere

## Funding

- Virtually no (export) guarantees, no development bank
- Bank-centric
- Equity schemes (EBRD) do not have necessary depth and capilarity

## Innovation & Technology

- Much more strategy when supporting equipment purchasing Innovation fund (World Bank)
  - great governance model – should be replicated
  - Innovation concept should be broadened to encourage tech adoption and diffusion as well
  - Include management improvement leaps!

## Management, corporate governance

- EBRD advisory – good quality – very limited reach