

The reshaping of global supply chains: Western Balkans/EU perspectives

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The economic turmoil caused by the Covid-19 pandemic has revealed many vulnerabilities in supply chains and provoked discussion about the future of globalisation. Closure of the borders has imposed challenges on sustainability of the business models driven solely by the price of the resources. In the past three decades, the geographical distance as a factor in the investment decisions has lost its relevance due to liberalised trade, reduced transport costs, advances in information and communication technology (ICT), as well as cheap resources in the developing countries. This has resulted in extreme fragmentation of production processes, i.e. components of a single product are often produced on three continents, boosting creation of supply chains.

The supply chains have become global and overly dependent on Asian countries, in particular China. Global trade as a share of global GDP accounted for 58% in 2018 against 27% in 1970. Chinese share in the world trade was 15% in 2020, while its contribution in global GDP rose from 4.9% in 2005 to 18.3% by 2020. Implicitly, the mathematics of the supply chains has become core of the business operations.

Up till 2020, the projections on serious changes of the business perspectives were rather shy. Then, suddenly, the word “regional” started to be frequently used in opposition to “global”. Covid-19 provoked rethinking of the business philosophy of the supply chains in terms of costs optimisation and improvement of the risk management in times of crisis. In parallel, the green agenda’s pressures to reduce carbon footprints on the global level were intensified, resulting into G7 commitment (June 2021 Summit) to nearly halve their carbon emissions by 2030, relative to 2010. Also, G7 leaders pledged to fight against labour abuse that served as foundation of the competitiveness of the labour-intensive industries in some countries.

Furthermore, the EU Parliament adopted resolution on mandatory corporate due diligence and corporate accountability (March 2021), referring to supply chains. The resolution has purpose to crack down on violations of human and labour rights, including forced labour and child labour, environmental damage, land grabbing, and corruption. The new rules are envisioned to not only bind companies established within the EU, but also those established outside the EU that have ▶

- ▶ access to the EU internal market.

The above mentioned developments would largely affect the international trade, which, along with the lessons learned from “corona” borders, have made pressure on major corporation groups to review the geographical zones, seeking regional low costs within each of them. It is likely to expect that relocation of production and supply networks is upcoming (where possible and economically justified) and business decisions would be determined by the geographical proximity of the production plants and their suppliers to the final markets. This opens up new opportunities for the regions that are currently less integrated in the global supply network, such as Western Balkan.

Western Balkan (WB) is geographically very close to the EU and enjoys preferential trade treatment at the single European market. Also, WB countries are in different phases of accession to the Union, which incorporates harmonisation of their national legislations to the EU Acquis. This is a valuable platform to fuel hopes of the Western Balkan for substantial integration into the EU supply chains, in the light of their upcoming reshaping. However, the realisation of the idea requires lots of efforts by the countries individually, as well strong coordination at the regional level.

This is hardly a new topic for the region, as the integration into the global supply chains have been steadily promoted in the past two decades as an instrument for faster growth at national and corporate level, provided the small size of the national markets. FDI strategies of the WB have been based on a premise of attraction of investors that were already part of the global supply chains. This approach has contributed to placement of WB

region on the EU supply chains map, although not at the extent as desired by their governments. In this context, only limited links were created between the FDIs and local companies, implying that the possibility for integration of the domestic companies into the global/EU supply chains has been scarcely utilised. Most of the companies of the WB are small and medium enterprises (SMEs) facing barriers (finances, resources, etc.) to undertake activities to bring their production up to the quality and quantity that would mark them as reliable suppliers. These issues must be addressed promptly and thoroughly if the WB strives to take part into reshaping of the global supply chains, in particularly those in/around EU.

Taking into consideration the lessons learnt from the previous efforts for integration in the global supply chains, as well specifics of the WB countries in terms of transport infrastructure, labour force, etc., the region must elaborate realistic strategy that would be implemented as a top priority by the national governments. Currently, there are several on-going processes aiming to enhance the regional cooperation of the Western Balkans, which should be also tailored to contribute to WB integration into the EU supply chains. WB does not suffer from lack of documents and initiatives, but the focus should be on coordinated actions that deliver results. The opportunity could be seized only through proactivity, devoted policy-makers, ambitious domestic companies and availability of proper support instruments. Otherwise, the initial advantages of geographical proximity of the Western Balkan to the EU and countries’ reforming processes for alignment to the Union’s standards, would not matter.

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