A compelling majority of empirical research which examine the results of privatization in Central and Eastern Europe suggest that privatization had positive or neutral influence on employment.[8] Therefore, the question arises whether it is possible that only in Serbia privatization is main cause of the significant increase in unemployment? It should be also kept in mind that Serbia applied similar methods of privatization as other countries in Central and Eastern Europe. Given that Serbia last entered the process of mass privatization she had at disposal the experience of other countries and has applied methods which, in practice, proved to be most effective. Therefore, it would be difficult to defend the view that the methods of privatization in Serbia were weaker than in other CEE countries. Another possibility is that commonly good methods of privatization were badly implemented in Serbia because of incompetence, corruption, etc. However, this explanation is not convincing because it is difficult to believe that the competence of state administration was significantly lower and the corruption higher in Serbia than in similar countries, such as Romania, Bulgaria and Croatia.

Summarizing the above mentioned we estimate that the attribution of the majority of the lost jobs in Serbia in the period between 1990 and 2013 to privatization is deeply wrong, and that it is the consequences of deliberate or unintended omission of influence of other factors, ranging from the breakup of the former Yugoslavia, through sanctions, to current economic crisis and mistakes in economic policy and reforms.

Literature

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8 A comprehensive review of the analysis which examines the effects of privatization on employment can be found in Estrin, S. at. all (2007)

Highlight 4. Is Turkey Gaining in Economic Importance in the Southeastern Europe Region?

Borko Hanđiski, Lazar Šestović i Jovana Šljivančanin [1]

Summary

Turkey is increasingly becoming an important market for SEE’s exporting firms. Exports from SEE to Turkey have been rising faster than exports from the rest of the world, though their structure remained broadly the same. Intermediate goods continue to dominate SEE exports to Turkey with iron and steel products being the most important export precuts for these countries. The main driver of exports expansion to Turkey was increase in trade in products that were exported already. Between 2008 and 2012, additional USD 300 million of exports were generated from existing trade relationships, and about USD 170 million came from relationships that did not exist before. Imports from Turkey have maintained a 3 percent share in total imports of SEE countries over the previous ten years.

Turkey invests abroad about USD 2.5 billion annually over the previous five years, of which only marginal share goes to the SEE region (around 3 percent). This represented about one percent of total inflow of FDI in the SEE. Preliminary data for 2012 show that capital inflows from Turkey fell even further to estimated USD 31 million. Even though Turkish investments in the SEE are relatively small, these are higher than Turkish investments in the EU New Member States and are increasing much faster than investments in other parts of Europe. In addition, recent Turkish investments in the banking sector, transport infrastructure and in metals industry could facilitate faster growth of trade over the medium-term.

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1. Introduction

European Union (EU) has traditionally been the main economic partner for Southeastern European countries (SEE)[2]. Given the size of the European market, it's geographic proximity and historical ties the EU was and will be the main economic partner of SEE. On average, about two thirds of total exports from SEE go to EU; 80 percent of FDI in the SEE come from the EU and economic cycles of the two regions are increasingly correlated (World Bank 2012a). However, the prolonged economic crisis in the EU over the last four years has raised the need for economic and trade diversification for the SEE countries.

There are some emerging economic partners for SEE countries and Turkey is sometimes taking the leading role. SEE countries are looking for sources of exports, capital and innovations beyond Europe. China, Russia, Azerbaijan, United Arab Emirates and Turkey are emerging as new partners for the economies from this region. Turkey's geographic proximity, market size, economic performance over the previous ten years, and historical ties make it a natural economic partner for the SEE countries.

2. Macroeconomic context for increased cooperation between SEE and Turkey

The SEE economies went through a "boom and bust" episode over the previous ten years. Before the global economic crisis reached the region in 2009, SEE's average growth rate was around 5 percent per annum. The crisis put the region into a deep recession (average growth rate in 2009 was -1.9 percent) followed by a sluggish recovery (growth of about 2 percent in 2010 and 2011). The region ended up in another recession in 2012 (-0.6 percent GDP growth).

The weak outlook for the EU economy brings forward the idea that SEE countries should look for other economic partners beyond those from the EU. Since 2008, EU went through two recessions – in 2008 its economy shrank by 4.3 and in 2012 by additional 0.3 percent (Figure 1). Recovery in 2010 and 2011 was modest, with average growth rate of 1.8 percent. For the medium-term, return to pre-crisis growth rates in the EU economy is unlikely.

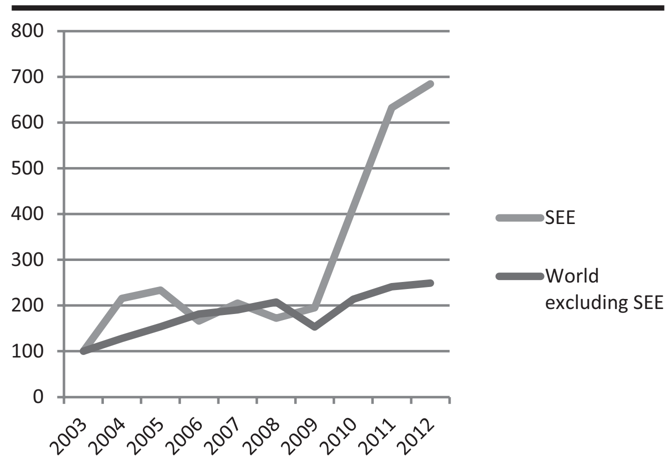
In contrast, the Turkish economy is growing rapidly. Turkey had a remarkable growth episode before the global crisis with growth averaging about 6 percent per annum between 2002 and 2008. The global crisis hit Turkish economy hard, causing a recession of 4.8 percent in 2009. However, the economy rebounded quickly with growth reaching 9 and 8 percent in 2010 and 2011, respectively. Although output growth dropped to 2.9 percent in 2012, it is still higher than in other parts of Europe. As a result, Turkey is now an upper middle income country with the world's 16th largest economy with a GDP of USD 805 billion in 2012.

3. Trade – The rising importance of Turkey as destination market

Turkey became an increasingly important market for SEE's exporting firms. Growth of exports from SEE to Turkey was below the overall growth of exports until 2008 (Figure 2), as SEE firms were focusing their attention on the EU and the regional (CEFTA) market. But, since 2009 exports to Turkey have been growing rapidly, from below EUR 200 million in 2008 to over EUR 500 million in 2011. Exports growth to Turkey over the last three years has outpaced growth to other destination markets. As a result, Turkey's share in total SEE exports rose from 0.5 percent in 2008 to over 2 percent in 2012.

Over the past decades, SEE countries have on average outperformed other Turkish trading partners. Exports from SEE to Turkey have been rising faster than exports from the rest of the world. It is important to stress that SEE's export expansion on the Turkish market is not due to an overall trend of increasing demand from Turkey for foreign goods. As a matter of fact, growth in overall demand from Turkey has muted since the global crisis, while imports from SEE have almost tripled (Figure 1).

Figure 1: Growth of Turkey's imports, index (2003 = 100)



Source: UN Comtrade database
Note: Indices calculated using trade levels in EUR.

2 In this working paper the following countries are covered as part of the Southeastern Europe: Albania; Bosnia and Herzegovina; FYR Macedonia; Montenegro and Serbia. Kosovo is excluded from the analysis since Turkish Statistics institute, the main source of data for this work, does not report on trade and capital flows with it.

Trade with Turkey has deepened for all SEE countries over the past decade, though at a different pace. Albania's exports have risen the fastest, followed by Montenegro's, partly owing to low starting point. In the other countries, export growth has been significant as well, including for Serbia which started from the relatively higher level (its export increased six fold over the previous ten years). FYR Macedonia's exports recorded the slowest growth.

What is the structure of trade?

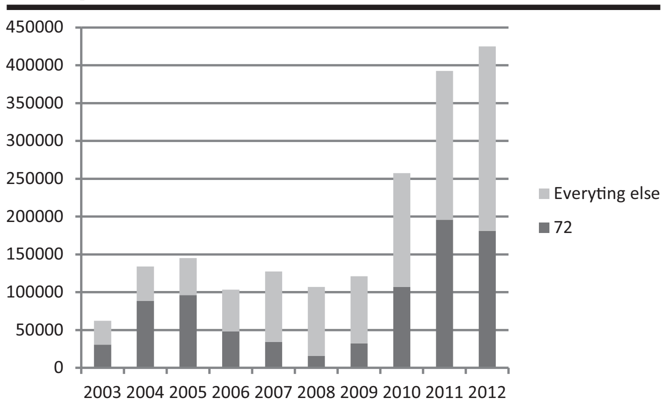
Exports from SEE to Turkey increased multifold between 2009 and 2011, but their structure remained broadly the same. In terms of the type of product by stage of production, intermediate goods continue to dominate SEE exports to Turkey, accounting for more than half of total exports (Figure 2). Raw materials and consumer goods follow with more or less the same shares of around 1/4 of the total, while consumer goods are gaining in importance. Exports of capital goods have been historically marginal, although there was some increase in 2012 but it remains to be seen if it is sustainable.

Looking at export structure by product type, industrial products dominate. The share of agriculture exports has been stable and low. In 2011, oil exports rose substantially, after Serbia's oil company NIS restarted some of its refineries. There are some variations, however, across the countries. Over 90 percent of Montenegro's exports and more than half of BiH's come from raw materials. BiH has a significant share of agriculture exports, while Serbia is the only country that sells oil to Turkey (Figure 2).

SEE exports to Turkey are becoming more concentrated. Since 2009, exports have become more concentrated: the top ten two-digit HS categories accounted for 84 percent of total exports in 2012. This trend comes as a result of rapidly growing exports of iron and steel, and oil. All SEE countries have witnessed a surge in exports of iron and steel since 2009. The growth of other export products has been more gradual. After iron and oil, the most important export groups are rubber, hides and skins, paper, machinery and mechanical equipment, and wheat.

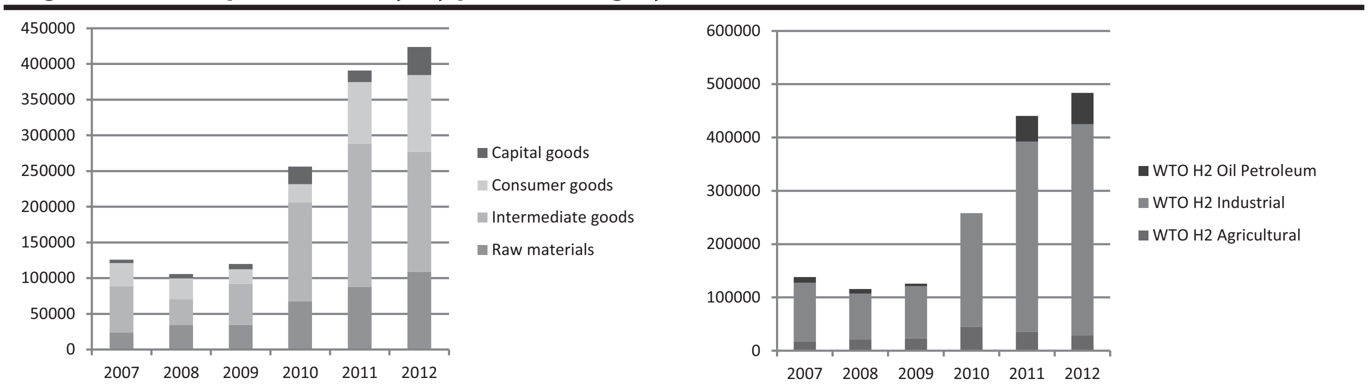
Iron and steel products[3] were, on average, the most exported commodities from SEE to Turkey between 2003 and 2012 (Figure 3). They have been the dominant export commodities in Macedonia's exports every year, and for Albania, Montenegro and Serbia almost every year over the past decade. BiH entry to the Turkish iron and steel market came much later: iron and steel became its top export category to Turkey only in 2011.

Figure 3: SEE's exports to Turkey: Iron and steel vs. other products (in 000 EUR)



Source: UN Comtrade database

Figure 2: SEE's exports to Turkey, by product category (HS 2002 classification[1])



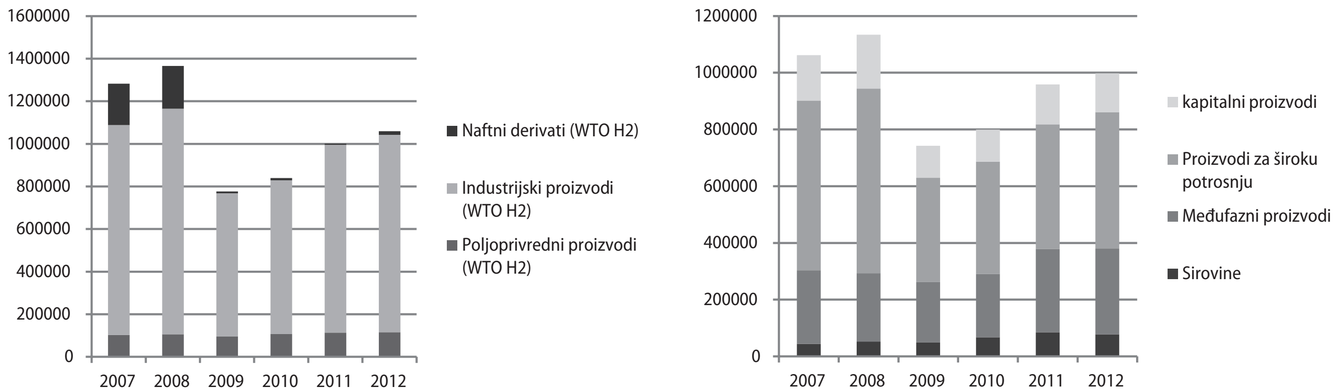
Source: UN Comtrade database

Who is exporting from the SEE region?

The big boost in exports over the past few years has come mostly from existing trade relationships, i.e. exporting more of the same products to the same countries. In the case of SEE and Turkey, however, it is important to note that new relationships have been

3 Article 72 in HS2002 nomenclature.

Figure 4: SEE's imports from Turkey, by product category (HS 2002 classification)



Source: UN Comtrade database
1) HS stands for Harmonized Systems which is an international nomenclature for the classification of products. It allows participating countries to classify traded goods on a common basis for customs purposes.

significant as well. Between 2008 and 2012, additional USD 300 million of exports were generated from existing trade relationships, and about USD170 million came from relationships that did not exist before. In parallel, the volume of extinct relationships (products no longer being exported from a SEE country to Turkey) was below USD 30 million.

From Turkey's perspective, the importance of the SEE region as a trading partner has somewhat risen over the past few years. Exports to SEE rose sharply between 2006 and 2008, and then witnessed a sharp fall in 2009, but have continued to grow faster than exports to other partners. Nevertheless, the SEE market is not of high importance for Turkish exporters. Turkey's exports in total reached EUR 120 billion in 2012, of which almost 40 percent went to the EU. On the other hand, the SEE market absorbs about 1 percent of Turkey's exports.

The structure of SEE imports from turkey remained unchanged before and after the global economic crisis. SEE countries import mostly consumer goods from Turkey as well as some intermediary products (Figure 4). The share of raw materials imports is below 10 percent. Industrial products account for the majority of imports, while imports of agriculture products and petroleum are marginal. The structure of imports is similar across the region, with the exception that Macedonia and Serbia have higher share of imports of intermediate goods.

4. Capital Flows from Turkey to SEE region

Although Turkey is not a major global investor, Turkish investments abroad are increasing steadily. As Turkish economy is growing rapidly, investments abroad are also increasing. Starting from just 0.1 percent of GDP in early 2000s, outward investment rose five-fold to 0.5 percent of GDP in 2012 (and ten-fold in nominal terms). Still, Turkey's outward investment remains small in global comparison.

Turkish companies mainly invest in other European countries. Nearly two thirds of the total FDI outflow[4] relates to investments in Europe, and then comes Asia (on average 25 percent of total outflows) and North America (6 percent of the total). When investing in European Union, Turkish companies almost exclusively focus on "old" member states of the EU (EU15).

Turkish investors primarily invest in industry. More than half (55 percent) of the Turkish investments abroad over the past decade have been in industry. Remaining 45 percent went into services sectors, while negligible amounts have gone into agriculture sector of other countries[5]. Within industry, nearly ¾ of investments abroad go to manufacturing (food and oil industry, in particular). Within services, Turkish investors are primarily looking for opportunities in the financial sector, transport, and real estate services.

Turkish Investments in the SEE

Turkish investments in the SEE are still relatively low, but have been on the rise over the previous couple of years. In nominal terms, Turkish investments in the SEE amounted about USD 58 million, annually, over the previous five years, 2007-2011 (Table 1). This was just over 1 percent of total FDI in the region. However, Turkish investments in this region have increased over time, from practically nonexistent to a peak of USD 97 million, in 2011. The maximum share of Turkish investments in total FDI was in 2010 when these reached 2.2 percent of total FDI in the region. In 2012, according to preliminary data, there was a reverse in this trend when FDI from Turkey dropped to just USD 31 million.

4 Average 2007-2011. Source OECD.
5 Annually about USD 8 million.

Table 1: Total and Turkish investments in the SEE, USD million

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total FDI in SEE	967	1,063	2,085	2,402	3,040	6,402	7,835	6,525	4,899	3,595	5,226
o/w from Turkey	0	0	0	6	12	2	47	40	27	78	97
TK investments as % of the total	0.0	0.0	0.0	0.2	0.4	0.0	0.6	0.6	0.6	2.2	1.9

Source: OECD and WB staff estimates

The real impact of Turkish investments on SEE economies might be underestimated. Official statistics, as represented in the Balance of Payments and reported here, shows only a flow of capital to be used as a shareholders' equity in new projects. However, majority of investments are financed through banks' or intra-company loans. Therefore, once the amounts secured through loans are added, the actual impact of Turkish investments on host economies is certainly much higher. In particular this is the case for countries in which Turkish banks operate – like Bosnia and Albania.

Most of the Turkish investments in the SEE region went to Bosnia and Herzegovina and Macedonia. Since 2001, Turkey invested USD 309 million in the SEE, of which USD 137 million went to Bosnia and Herzegovina, while USD 82 million went to Macedonia (Table 2). This represents around 70 percent of total Turkish investments in the region – Bosnia accounts for 44 and Macedonia for 26 percent of the total stock of investments. However, once the country data is adjusted for the differences in the size of population it turns out that Turkish investments were most important for Macedonia and least important for Serbia.

Over time Turkish investments have gained importance for all SEE countries except for Albania. Before the start of the international financial crisis (2001-2008) Turkish investments accounted for a negligible 0.3 percent of the total inflow of investments in the SEE. However, its share increased to a much more significant 4.1 percent between 2009 and 2011. Turkey gained importance in Bosnia and Herzegovina and Macedonia, in particular. In Bosnia, Turkey accounted for 13.5 percent of all investments over that period. On the other hand, Turkey is losing in importance as an investor in Albania (its share in total FDI inflow halved in recent years). For Montenegro and Serbia, importance of Turkey among other investors remains broadly stable over the observed period.

Was 2012 a turning point?

Preliminary data for 2012 point to a significant drop of Turkish investment in SEE. Turkish businesses invested only USD 31 million in the SEE. This is a major drop compared to previous year since FDI from Turkey stood at just one-third of the previous year's level. This is also in stark contrast to a general trend that Turkey increases investments abroad. As mentioned Turkish investments abroad in 2012 reach an estimated USD 4.3 billion which is a historical record high level.

Macedonia and Bosnia recorded the highest loss of Turkish investor appetite. These two countries, otherwise the most common destination for Turkish

Table 2: Turkish investments per country, USD million

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Albania	0.0	0.0	0.0	0.0	3.0	0.0	27.0	3.0	0.0	3.0	5.0	41.0
BiH	0.0	0.0	0.0	6.0	9.0	1.0	6.0	10.0	22.0	61.0	22.0	137.0
Macedonia, FYR	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	2.0	7.0	70.0	82.0
Montenegro	0.0	0.0	0.0	0.0	0.0	0.0	2.0	4.0	0.0	4.0	0.0	10.0
Serbia	0.0	0.0	0.0	0.0	0.0	0.0	11.0	22.0	3.0	3.0	0.0	39.0
Total	0.0	0.0	0.0	6.0	12.0	2.0	47.0	40.0	27.0	78.0	97.0	309.0

Source: OECD

Table 3: Turkish outward FDI in 2012 (USD million)

	Albania	BiH	Montenegro	FYRoM	Serbia	Total SEE	Europe	World
Total	5	7	0	12	7	31	3,501	4,333

investments in the SEE region, saw a drop in Turkish investments (compared to 2011) by 82 and 68 percent, respectively. Investments in Albania and Montenegro remained flat, while Serbia managed to attract slightly more investments from Turkey than in previous years, though these are still are the negligible level of USD 7 million (Table 3).

5. Conclusions

Turkey is increasingly important for the SEE region. Turkey, in contrast to much of the rest of Europe, has had a successful decade, and its economic outlook is positive. Turkey has close economic and political ties with the SEE countries, hence there is a potential for SEE to further strengthen their trade and investment relationship with Turkey. For SEE firms, Turkey can be an export destination, source of raw materials, and a potential investor.

Trade with Turkey has already seen an upward trend in the post global crisis period. Since 2009, SEE's exports to Turkey have been rising much faster than exports to the rest of the world. This trend is expected to continue if Turkey's economy continues to grow rapidly. Much of the trade expansion since 2009 has come from higher exports of metals and oil, while in the future the objective for SEE firms should penetrate other markets as well, in particular with final and/or higher value-added products.

Turkey's firms are increasingly eyeing the SEE region for investment. Turkish FDI to SEE, although small relative to total FDI received, was growing rapidly until 2011. The most interesting sectors for Turkish investors have been services, primarily in transport (roads and air transportation), banking and tourism. In 2012 the positive trend of growing FDI from Turkey was reversed, but in medium-term Turkish investments are expected to continue to increase, judging by recent announcements from Turkish firms.

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