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Benchmarking FDI Opportunities

Investment Horizons: Western Balkans

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MIGA was established in 1988 to promote the flow of private foreign direct investment to developing member countries. MIGA offers political risk insurance coverage to eligible investors for qualified investments in developing member countries. MIGA also offers technical assistance programs to develop and implement effective strategies for attracting and retaining foreign direct investment. This hands-on technical assistance focuses on three primary areas: dissemination of information on investment opportunities and business operating conditions in developing member countries through online services; capacity building of the organizations and institutions involved in the promotion of foreign investment; and investment facilitation activities supporting the efforts of developing countries to identify and attract investment.

Investment Horizons:
Western Balkans

Benchmarking FDI Opportunities

A Study of Foreign Direct Investment Costs and Conditions in Automotive Component Manufacturing and Food/Beverage Processing in Five Countries

May 2006

One in a Series of Sector Analyses

Foreword

Developing economies such as those in the Western Balkans are particularly dynamic, which can mean rapidly changing costs and conditions for investors. This benchmarking study reflects the environment for investors during the period of data collection in 2005. MIGA has sole responsibility for the interpretation of this data. Updated information related to country-specific economic data and developments in the investment climate may be obtained through the investment promotion intermediaries in the region, as noted below. MIGA is especially grateful to its agency partners in the European Investor Outreach Program for their comments and insights related to the publication of this study.

For more information, contact:

Albania: www.albinvest.gov.al

Bosnia/Herzegovina: www.fipa.gov.ba

Croatia: www.apiu.hr

Macedonia: www.macinvest.org.mk

Montenegro: www.mipa.cg.yu

Serbia: www.siepa.sr.gov.yu

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Executive Overview

As the European Union (EU) expands to the east and south, promising new opportunities for foreign direct investment (FDI) are arising and gaining broader recognition. The Western Balkans—a region comprising Albania, Bosnia and Herzegovina (BiH), Croatia, Macedonia, and Serbia and Montenegro[1]—is considered by many current and prospective investors to offer opportunities as Europe's next high-growth business location.

The characteristics driving investment in this region include the access it offers to a growing market of over 150 million consumers, right at the doorstep of the EU; an expanding network of bilateral free trade agreements (FTAs) under consideration for conversion to a multilateral agreement for the region; a cost-competitive overall operating environment, with labor costs as low as about 30-55% of Czech and Hungarian levels in parts of the region; the abundant availability of skilled labor; competence at all levels of the workforce, marked by professionalism, a strong work ethic, multilingual proficiencies, and strong technical education; local availability of raw materials; a rapidly improving investment climate, with strong government commitment and competitive fiscal and incentive regimes; and a first-mover advantage to those entering the market at the front end of a growing wave of investment.

PROJECT BACKGROUND

To assess the prospects for FDI in the Western Balkan region, the World Bank Group's Multilateral Investment Guarantee Agency (MIGA) conducted a competitive benchmarking study between January and May 2005. The study, funded through a grant from the Austrian government as part of the European Investor Outreach Program (EIOP), is the third of several studies under MIGA's Enterprise Benchmarking Program (EBP), following earlier efforts focused on South East Asia and Afghanistan. A study of five sectors in China's southwestern Sichuan province was released in March 2006, an Africa study is nearing completion, and a study is soon to begin in the Caribbean/Central America.

The Western Balkans benchmarking study assessed the investment prospects in the food and beverage processing sector for all five countries in the Western Balkan region; in the automotive components sector for all countries other than Albania; and, for Albania alone, in the leather and shoe sector. The motivation for selecting these sectors included their perceived potential to generate significant greenfield FDI, to promote employment, and to improve country trade balances. In addition, the automotive components sector drew special interest because of the massive relocation of vehicle assembly plants in recent years to Central European Countries (CECs)—

[1] For purposes of this study, Serbia and Montenegro have been evaluated as individual regions in Chapter III, since they are represented by separate investment promotion agencies in MIGA's European Investor Outreach Program (EIOP). Each promotes its own "location offer." Furthermore, they represent two separate economic entities as per the Belgrade Agreement signed on March 14, 2002. *(See Appendix 2 for more information on EIOP.)*

Hungary, Poland, the Czech Republic, and Slovakia—in connection with their accession to the EU in May 2004. The relocation wave involving vehicle assembly plants may portend a follow-on wave of relocation by suppliers to these plants, which can benefit the Western Balkan region, particularly in light of the region's historical track record in automotive component manufacturing. The study's focus on food/beverage processing related partly to the competitive advantages that some countries in the region display in certain aspects of food and beverage production, as well as the region's abundant resource base for the sector.

Researchers collected information relevant to potential greenfield FDI decisions through a combination of the following three methods: off-site desktop research, involving the compilation of internationally available and credible data from sources such as the World Economic Forum (WEF), the World Bank Group, and Euromoney magazine; in-country desktop and telephone research to gather mostly cost data from sources such as tax specialists, real estate agents, construction companies, government ministries, and utility providers; and the collection of field data through a total of 80 company interviews, usually with foreign direct investors (or, in their absence, occasionally local investors), focused on issues such as wage and other operating costs, labor skills and availability, access to materials, quality of infrastructure, and quality of life. *(See also Appendix 3: Methodology.)*

An analysis of each country's strengths, weaknesses, opportunities and threats (SWOT) in attracting FDI in each of the subject sectors was developed, based on the study's data collection. These SWOTs are intended to help convey a balanced perspective on the potential each sector holds for prospective investors, as derived from the experiences of existing investors. While not an inclusive survey of all possible strengths, weaknesses, opportunities and threats that might be considered, the SWOTs reflect the stated considerations of a sample of firms operating in the region in each of the two subject sectors. In addition, this sort of analysis, which is commonly used by global investors to help evaluate alternative locations, can assist investment promotion intermediaries (IPIs) in the region in assessing their prospects and in targeting various subsectors within priority industries. *(The results of the SWOT analyses are summarized in this overview, and are presented in more detail in Chapter III: Country Findings.)*

REGIONAL PERSPECTIVE ON SOUTH EAST EUROPE

The political landscape in South East Europe is diverse and, for some countries, constitutionally rather complex. The diversity is apparent not merely in the political sphere, but also in terms of economic development. On one end of the spectrum is Croatia, with gross domestic product (GDP) per capita similar to that of the CECs. Moldova, in contrast, is still in an early stage of transition and economic development.

Following the accession of 10 new member states to the EU in May 2004, the South East European Countries (SEECs[2]) have become close neighbors to the enlarged EU. Among the SEECs, the three candidate countries for EU integration—Croatia, Bulgaria, and Romania—are recording higher growth rates, higher FDI inflows, lower unemployment levels, and more stable short- and medium-term prospects for growth than the rest of the region. Weaker results for other countries in the region often reflect deficiencies in the process of transformation and trade integration arising from unsettled security situations or constitutional setbacks.

[2] Defined here to include the countries of the Western Balkans, plus Bulgaria, Moldova, Romania, and Slovenia.

Economic growth in 2003[3] was faster in the SEECs than in the CECs, as economic reforms finally resulted in improved business conditions. In addition, FDI inflows into the SEECs reached a peak in 2003, with total inflows exceeding US$7 billion.

Between 2002 and 2003, the amount of FDI increased most in Serbia, more than doubling, while Croatia, Bulgaria, and Romania also experienced significant increases. The region's leading per capita FDI recipient in 2003 was Croatia, followed by Bulgaria and Serbia. The region's larger and more affluent countries have generally attracted more FDI than the smaller and poorer countries. Higher FDI recipients have also tended to display higher economic growth rates and to be more advanced in transformation and more aggressive in privatization with foreign investors. Thus far, investors have generally targeted individual countries of the region. Implementing a free trade agreement system, as well as improving transport infrastructure and border crossings, may encourage investors to target the *regional* market.

THE AUTOMOTIVE COMPONENTS INDUSTRY

Despite global overcapacity for vehicle production, significant investment has occurred during the past five years in Central and Eastern Europe, particularly in the pre-accession countries that subsequently joined the EU. Indeed, while industry output remains flat in Western Europe, CEC output has risen over that period by 27%.

The CEC automotive investment boom was largely driven by a "pre-accession investment rush," as CECs were offering generous tax incentives for FDI that they were required to terminate upon joining the EU. Other significant factors include inexpensive labor, good infrastructure, and a location simultaneously at the heart of an enlarged EU and within easy access of new growth markets to the east. The question now facing the Western Balkans is how to leverage the movement of capital that appears to be migrating from the CECs toward some of the SEECs.

The overall pattern of the industry organization in recent decades has revolved around "tier 1" component suppliers located at the "doorstep" of the assembly plant. There exists substantial evidence of tier 1 supply capability in areas with significant labor pools in both Croatia and Serbia. Furthermore, Croatia exhibits strong evidence of design and new product development capability at a tier 1 international performance level.

Most of the Western Balkan countries examined in this study possess a clear advantage relative to the CECs of Hungary and the Czech Republic[4] in key cost factors, and particularly in the single most important factor—labor (an advantage most pronounced for Serbia, closely followed by Macedonia). The study finds that this advantage in labor costs is apparently unaccompanied by any corresponding quality or productivity disadvantage, given equal conditions in a plant. Furthermore, some corporate tax regimes in the Western Balkan region are as low as 10 and 15%, which is considered very competitive. On the basis of these factors, and furthermore given its relative proximity to the new plants in Slovakia, Romania, and Russia, the Western Balkan region clearly represents a prime candidate for consideration by automotive component suppliers. Moreover, while there remains some ongoing political uncertainty, companies already operating in the Western Balkans perceive those risks as considerably lower than those with less direct knowledge of the region.

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[3] 2003 was the most recent year for which reasonably complete economic and investment data was available at the time of this study.

[4] The study's methodology used Hungary, the Czech Republic, and Slovakia as successful "comparators" among CECs attracting significant FDI in the subject industries.

THE FOOD AND BEVERAGE PROCESSING INDUSTRY

All countries examined in this study have greater fragmentation in the food and beverage processing sector than in the automotive components industry, which is demonstrated through smaller and more frequent investments. The number of food/beverage processing FDI projects in all the Western Balkan countries except Macedonia increased from less than one per annum from 1997-2001 to more than four per annum from 2002-2004, with the most rapid growth occurring in Serbia and Montenegro, as well as in Albania. However, competition remains intense from Romania, and to a somewhat lesser extent from Bulgaria, Poland, and Ukraine.

Foreign investment has already occurred in some countries, notably Serbia, in the rationalization of primary food production—particularly in the dairy industry.

Countries with natural advantages for the production of certain raw materials (such as Serbia for berry production and greenhouse activity, and herbs and spices in Albania) also offer potential opportunities in food and beverage processing.

Investment in the food and beverage processing industry is more likely to be market seeking than automotive component investment, as the latter is focused mostly on competitive production and cost advantages. Thus, the overall economic prospects for the Western Balkan market constitute a much more important factor for the food and beverage processing sector. However, the importance of the Russian market as a growth destination for food exports is also highly relevant for the Western Balkans, given Russia's relative proximity and the historic business and industrial relations between the Western Balkan and Russian economies.

COUNTRY ANALYSES BY SECTOR

The information collected during investor interviews provided the basis for an analysis of each country's strengths, weaknesses, opportunities and threats for attracting investment in each of the subject sectors. For the purposes of this analysis, strengths and weaknesses refer to the advantages and disadvantages inherent to the location from an investor's perspective. The government and private industry are often able to control, modify or improve these factors, or at least significantly influence their outcome. On the other hand, opportunities and threats often refer to external factors and forward-looking market forces that may be less within the immediate realm of control of the government or the private sector, yet must be considered important because of their potential impact on industry and efforts to attract FDI. Opportunities and threats may be addressed with specific longer-term government actions, for instance, trade agreements that provide for preferential market access.

The results of the sector-specific SWOT analyses for each country are briefly summarized below, particularly related to each country's strengths and weaknesses for attracting investment in the subject sectors. It is important to note that these analyses are based on data collected from a particular sample of existing investors in each sector, reflecting the sample's unique situation and perspective at one particular point in time. Consequently, the SWOT analyses should be considered indicative rather than absolute in their conclusions.

The Leather and Shoe Sector in Albania

The production of leather and shoes constitutes one of Albania's most economically and socially important sectors. Export volume and growth are dominated by foreign-owned factories, which have benefited from modern management and production techniques implemented since the late 1990s, as well as from strong business networks in Italy. Exports consist of footwear uppers destined for re-export to

European high-quality markets (55% of total exports in the sector); raw hides (15%); trunks; suitcases; camera cases; and handbags. Processed hides of bovine, especially bull hides, are the most important raw material export. The principal export markets include Italy, Turkey, Greece, and Germany.

Investors interviewed for this study unanimously cited Albania's low labor costs and strategic location as key strengths. Other advantages include a strong tradition in leather and shoe production, high-quality products, just-in-time (JIT) flexible production, an experienced workforce with little staff turnover, low transportation costs, proximity to the key Italian market, and growing local market opportunities. FDI potential appears greatest in uppers, raw and processed leather, and niche products, including handbags.

The study found weaknesses for this sector to include: underdeveloped national trademarks and marketing channels (except for re-exported products); limited availability of industrial sites and technical workers; less reliable energy resources; and the need for a more competitive approach to governmental incentives and support for the sector. Investors reported relatively high levels of imported inputs.

The Food and Beverage Processing Sector in Albania

The food and beverage processing industry benefits from Albania's excellent climate, which facilitates first-mover advantages, and the high quality of raw material in several subsectors, including herbs and spices, as well as fish processing. In overall operating costs for this sector, Albania ranked lowest among the Western Balkan countries, the Czech Republic, Hungary, and Slovakia.

The processing of fish products, including anchovies and sardines, may have the best investment potential in Albania, particularly due to lower processing costs than in regional competitors Greece and Croatia. Joint ventures (JVs) between local and foreign companies are expected to be the principal vehicle of new investment in this subsector, with key export markets in Italy and Greece. Key investment opportunities also exist in the herbs and spices market for the establishment of on-site mini-laboratories for quality control, processing, sanitation, packaging, and warehousing. In addition, the country benefits from tradition in the oil subsector, as well as a competitive advantage in egg and oil processing due to low labor costs and advanced factories. The increasing domestic production of eggs is opening up export opportunities, although the country depends on imported chickens. Overall, the domestic supply of agricultural products in Albania is unable to meet domestic demand in many subsectors, which provides a significant opportunity for domestic and foreign companies to engage in import-substitution investment.

The study found weaknesses for this sector to include: the relatively high costs for raw materials and in transportation services, less reliable water and energy resources, and limited availability of skilled workers.

The Automotive Components Sector in Bosnia and Herzegovina

Historically, BiH developed a niche as a producer of intermediate goods, with several well-established automotive component manufacturers producing for final assembly in Serbia and elsewhere. Following the war, BiH had difficulty in regaining investment from foreign investors, as regional competitors had moved aggressively and successfully to fill the gap. A few firms, though, currently have facilities, operations, and research and development (R&D) activities in BiH that could be competitive throughout the region.

BiH benefits from a consistently stable national currency, the lowest inflation rate in South East Europe, a highly advanced and growing financial sector, abundantly available skilled labor (particularly in engineering and other technical areas), well-

developed in-house R&D activities, distribution networks with extensive reach, and considerable tradition and experience in supplying Western Europe.

An automotive cluster project funded by (GTZ), the German donor agency, is expected to improve the quality of local sub-supply and enhance JV opportunities. In addition, BiH appears to hold potential as a production platform for the region and beyond, given its proximity to Western European markets and the prospect of expanded exports to growing markets in Turkey and the Middle East.

Although BiH is considered reasonably competitive with some Central European high performers in labor and overall operating costs, investors in BiH characterize the wage burden on operations as relatively high. The study found other weaknesses for this sector to include: the perceived slow harmonization of taxes, customs, and some key commercial legislation between the political entities; FDI policy that does not always convey a publicly clear consensus; and outmoded technology. Investors reported a reliance on imported inputs.

The Food and Beverage Processing Sector in Bosnia and Herzegovina

While BiH is self-sufficient in some groups of food products, the country has long been a net importer of processed food, a trend that will likely continue for the near-to-medium term.

BiH has good-quality fresh fruits and vegetables, as it benefits from excellent soil quality, especially in the Republika Srpska, as well as pure wells and water springs. Other advantages include an abundance of unskilled and semi-skilled labor, as well as labor market flexibility, employee loyalty, strong demand in the domestic market (with local market demand only 45% satisfied, according to estimates), and a widespread desire to revive the tradition of key companies and products in the food and beverage processing sector. Initial studies indicate that BiH can be regionally competitive in organic produce based on the strength of its low-tech farming methods. There also appear to exist promising opportunities in the expansion of markets for ethnic products, as well as the sale of surplus fruits and vegetables to the processing subsector, which has been growing rapidly.

BiH has not yet fully developed a coordinated export promotion strategy or a focused agricultural and institutional policy. The study found other weaknesses for this sector to include: a relatively high gross wage burden; limited availability of managerial, marketing, and sales talent in the local workforce; an underdeveloped transport infrastructure; and limited availability of locally sourced raw materials and packaging.

The Automotive Components Sector in Croatia

While Croatia has not historically served as a center for automotive vehicle or component production, it possesses many of the required core skills in metal processing, welding, plastics, and machine building due to the country's experience in related industries, including construction and agricultural machinery production.

Foreign investors report excellent profitability and quality levels, despite a relative labor cost disadvantage compared to immediate neighbors such as Serbia and Romania. Other Croatian strengths include the country's planned accession to the EU, its relatively stable economy, excellent infrastructure, demonstrated ability to perform well in producing complex subcomponents requiring technical content, solid engineering and design skills, and excellent labor relations and work habits. Potential opportunities include the expansion of existing plants, further access to tier 1 supply contracts, the supply of plants in barely tapped regional markets, and expanded production of top-end automotive components. All of the firms interviewed expressed openness to foreign investment and particularly to joint ventures with foreign investors.

Croatia's competitive position is challenged by a relatively high tax burden that is reflected in the significant difference between net salaries and total employment costs. The study found other weaknesses for this sector to include: limited availability of experienced workers; and relatively high levels of imported inputs, as reported by investors. Croatia faces competition in the spare parts market from China, as well as from Romania and other regional alternatives.

The Food and Beverage Processing Sector in Croatia

The food and beverage processing sector has developed almost exclusively from previously state-owned firms. The industry currently appears to be dominated by two major players: the holding group Agrokor, and Podravka.

The opportunity exists to re-direct local products, such as pastries and ice cream, to export markets, particularly given Croatia's candidacy for EU membership and the potential of expanded access to EU markets. Products with "ethnic" themes may be attractive to the Croatian diaspora. Local niche and gourmet food products, such as truffles, can be developed to serve the tourism industry, particularly along Croatia's southern coast. Other potential investment opportunities include the dairy industry, citrus fruit growing, and greenhouse produce.

The study found weaknesses for this sector to include: less cost-competitive raw material production relative to nearby countries, such as Serbia and Romania, due to fragmentation of the farming sector, under-investment, and limited operational management in food production; and a majority of materials for local processing are imported. Strong Western brands may try to penetrate Croatia's market in this sector.

The Automotive Components Sector in Macedonia

While the automotive components sector has thus far garnered relatively little foreign direct investment, the study found that Macedonia benefits from a regional cost advantage relative to all its neighbors other than Serbia, with abundant low-cost skilled and unskilled labor and relatively less expensive industrial land. The automotive components sector also exhibits an existing export orientation, with companies already in the field exporting 80% of production. The study highlighted opportunities to participate in the development of a specialized cluster in labor-intensive product areas, such as seat belts and seat covers.

The study found weaknesses for this sector to include: limited technological or design expertise and experience, and relatively little history in highly engineered precision components; and limited production of major inputs for automotive component manufacturing.

The Food and Beverage Processing Sector in Macedonia

Macedonia's food and beverage processing sector has suffered from the disintegration of former Yugoslavia and the embargo imposed by Greece due to a dispute over use of the name "Macedonia." However, the markets are gradually recuperating.

Major activity in the food and beverage processing industry includes the canning of fruits and vegetables, and the processing of milk and meat. The study found that Macedonia enjoys relatively strong branding on the former Yugoslavian market, as well as a production advantage in locally grown fruits and vegetables. Opportunities include the development of existing brands for a wider market and the leveraging of raw material production advantages to establish downstream processing operations. The study found weaknesses for this sector to include: an underdeveloped sector orientation to exports; and minimal greenfield investment to date, particularly for further processing of local raw fruits and vegetables.

The Automotive Components Sector in Serbia

Serbia historically was a center for automotive vehicle production in former Yugoslavia. Prospects for imminent investment in this sector appear bright, although Serbia has generated minimal automotive-related foreign investment activity to date.

The study found an abundance of highly skilled, low-cost labor available in Serbia.[5] Respondents commented on the strong quality ethos, as well as a high level of quality certification. In addition, the labor force includes many workers with engineering and technical skills applicable to the automotive components industry. Serbia also benefits from distribution networks extending throughout the Western Balkan region, and a track record in supplying Western Europe. Serbia's FTA and historical links with Russia are also regarded as a major asset in attracting investors.

Serbia has the potential to re-emerge as the Western Balkan regional hub for tier 1 supply capability in the automotive components sector. It has the lowest personnel costs in the region and therefore presents a clear competitive advantage in any labor-intensive manufacturing operation. Furthermore, due to the high standard of Serbian engineering skills, engineering design services may emerge as a promising subsector.

The study found weaknesses for this sector to include: outmoded technology and equipment at domestic companies; limited availability of "soft" management skills; limited direct availability of modern industrial property; and the difficulty of attracting back investors lost during the war years.

The Food and Beverage Processing Sector in Serbia

The food and beverage processing industry in Serbia is considered more fragmented than that of automotive components. Foreign investment so far is mainly confined to investment fund vehicles.

The study identified natural advantages for Serbia in the production of certain crops, such as berries, which flourish in the local soil. The country's relatively inexpensive labor rates create a cost advantage. Furthermore, a significant national domestic market acts as a draw to market-seeking investment. Opportunities exist for further downstream processing of berry fruits, as well as in the dairy industry and greenhouse produce.

Although its brands are considered strong within the region, Serbia has not yet developed internationally recognized brands and may be vulnerable to competition from large Western European produce brands. The study found another weakness in that portions of the raw material production chain in Serbia may require rationalization to ensure cost-competitive production.

The Automotive Components Sector in Montenegro

As the single clearest example in the region of a successful de facto greenfield automotive component investment, Daido Metal offers powerful proof of Montenegro's competitive capability and counters the misconception that Japanese investors would not consider the Western Balkans. Aside from Daido, however, Montenegro has limited automotive component manufacturing activity. The study found weaknesses for this sector to include: a higher cost structure relative to others in the Western Balkans, as well as underdeveloped infrastructure and transport systems. As a result, existing manufacturers could potentially elect to move production to a location with relatively lower labor costs.

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[5] The companies that were surveyed in Serbia included a number of local companies, which tend to pay lower wages than those typically paid by international firms.

The Food and Beverage Processing Sector in Montenegro

With a small local population in Montenegro, as well as rugged geography and underdeveloped infrastructure, the food and beverage processing industry tends to be fragmented. However, the study found natural advantages for Montenegro in the production of high-quality grapes and other fruits. Niche opportunities exist for the production of high-quality traditional foods to serve the Montenegrin tourism market. The study found that the relatively high logistics costs and small holdings affect cost competitiveness. Montenegro's manufacturing base may be challenged by cheaper production within the region and abroad.

CHAPTER I: The Study

INTRODUCTION

This report summarizes the results of a competitive benchmarking study conducted in the Western Balkans from January to March of 2005 by the Multilateral Investment Guarantee Agency of the World Bank Group. For purposes of the study, the Western Balkan region is defined as Albania, Bosnia and Herzegovina, Croatia, Macedonia, and Serbia and Montenegro. This region includes all the constituent parts of the former Yugoslavia except Slovenia, plus Albania.

The study's primary purpose was to compile competitive data with respect to foreign direct investment in two key sectors: automotive component manufacturing; and food and beverage processing. The study also sought to generate detailed information on existing activities in those sectors and to facilitate an understanding of the competitive factors underpinning those activities, so as to support prospective investors considering the region for export-oriented greenfield investment (i.e., investing in new assets, as opposed to acquiring an existing indigenous firm).

The benchmarking study was designed in conjunction with the ongoing European Investor Outreach Program, a MIGA initiative focused on the Western Balkans and initially funded through a grant from the Austrian Government. The Vienna-based EIOP aims to assist prospective investors in identifying and assessing site options and in organizing fact-finding trips within the region. Other EIOP investment facilitation services and benefits include close cooperation with IPIs, a network of key contacts in the target region, and assistance in the sourcing of finance and in accessing risk mitigation tools. *(See also Appendix 2: About EIOP.)*

BACKGROUND

The Western Balkans benchmarking study is the third in a series of studies under MIGA's global Enterprise Benchmarking Program. Specifically, MIGA is applying a standardized methodology to analyze and compare specific FDI-sensitive sectors in developing countries across several regions of the world. Prior reports in this series focused on South East Asia (*Snapshot Asia: Benchmarking FDI Competitiveness in Asia*, October 2003) and Afghanistan (*Investment Horizons: Afghanistan*, April 2005). *Snapshot Sichuan*, a report on the benchmarking of five sectors in 10 municipalities in China's southwestern province was released in March 2006, a large study of several sectors in Africa is nearing completion, and a study in the Caribbean/Central America is soon to begin.

After considerable discussion with relevant parties at the region's local investment promotion agencies, intermediaries and other key stakeholders, MIGA chose to focus on two sectors for the current study: automotive component manufacturing; and food and beverage processing. Both are target sectors of EIOP, a significant consideration because the results of this benchmarking exercise will feed directly into EIOP's marketing and investor outreach activities. More significantly, however, each sector fulfilled the following central pre-set criteria:

- The sector must present a realistic potential to generate significant greenfield FDI to Europe.

- The sector must be labor-intensive, such that expanded FDI would offer the prospect of significant reductions in unemployment.
- The sector must generate high-value exports, such that expanded FDI would offer the prospect of significant improvements in country trade balances.

An additional specific rationale for automotive components centered on the huge wave of relocation of vehicle assembly plants to several of the Central European Countries—including Hungary, Poland, the Czech Republic, and Slovakia—in connection with their accession to the European Union in May 2004. Based on past industry experience and fundamental market trends, the massive relocation of vehicle assembly plants likely portends a follow-on wave of relocation by their suppliers. Thus far, this second wave of investment appears in its earliest stages, suggesting that there still exists a significant opportunity for the Western Balkan countries to seize their share of this anticipated pool of investment. The region's historical track record in automotive component manufacturing also motivated the selection of this sector for the benchmarking study. (Albania was excluded from this portion of the study, however, as it was judged to lack significant potential for attracting FDI in this sector.)

An additional specific rationale for food and beverage processing revolved around the competitive advantages that some countries in the region display in certain aspects of food production, as well as an abundant resource base for food and beverage production.

OBJECTIVES

This study, as part of MIGA's broader Enterprise Benchmarking Program, was intended to equip IPIs with real-time comparative information, as well as capacity-building knowledge that will help change the way they operate within their competitive environment.

The primary objective throughout the study was to capture a detailed picture of industrial activities in the two key sectors and an understanding of the underlying competitiveness of specific subsectors active in each country. The study also seeks to address the following issues: product ranges and technology; the extent to which products are export-competitive; identification of export markets already penetrated; identification and assessment of some of the main customers; and assessment of whether companies in the sector are expanding or contracting.

For potential investors, the study's findings are expected to offer an "on-the-ground" perspective of the current level and quality of activity in the two chosen sectors, as well as the competitive factors driving that activity. A secondary objective was to provide each participating IPI with a "snapshot" of current operating costs and conditions associated with the automotive component manufacturing and food and beverage processing industries in the Western Balkans. More generally, the study seeks to identify opportunities, relevant for investing companies and IPIs alike, which offer the prospect of generating maximum returns on resources from greenfield FDI.

REPORT STRUCTURE

The balance of this report is organized as follows:

- Chapter II provides background on a region-wide basis, including recent political and economic developments, FDI trends, and sectoral information on the automotive components and food and beverage processing industries.

- Chapter III presents the study's findings on a country-specific basis. For each of the Western Balkan countries examined, it describes general FDI trends and then details the findings for each specific sector—in most cases, automotive components and food and beverage processing (although the leather and shoe sector is substituted for automotive components in the case of Albania). This chapter also includes a SWOT analysis for each sector by country, identifying specific strengths, weaknesses, opportunities, and threats in attracting FDI.
- Several appendices supplement the main body of this report. Appendix 1 lists acronyms and abbreviations used; Appendix 2 provides background information on EIOP; Appendix 3 briefly describes the study's methodology; Appendices 4 and 5 present tables of the study's findings for costs and operating condition factors, respectively; Appendix 6 provides background on FDI inflows for countries in and near the region and on investment projects in the automotive sector; and Appendix 7 provides detail on the definitions and sources of the data collected for the study.

CHAPTER II: Regional Background

POLITICAL AND ECONOMIC TRANSFORMATION

The opening of the Western Balkans and other countries in South East Europe (SEE) more than a decade ago has fundamentally altered the political and economic landscape of the European continent.[6] The region has been transformed into a marketplace with dynamic growth, attracting a significant amount of foreign direct investment. Much of this success can be attributed to the efforts of local governments, international organizations, and other non-governmental institutions.

Foreign investors have shared information on their experiences and on best practices within countries in which they have invested. This direct approach with authorities and cooperation with several international organizations has helped to create a more accurate picture of the investment landscape within various countries in the region.

Following the accession of 10 new member states to the EU in May 2004, the SEE countries—defined here to include the countries of the Western Balkans, plus Bulgaria, Moldova, Romania, and Slovenia—have become close neighbors to the enlarged EU. Their attractiveness for FDI is expected to improve due to diminished perceived geographic distance to the core of Europe. Additionally, the SEECs have made progress in economic transformation and democratic consolidation, thereby reducing the investment risk.

The political landscape in South East Europe is diverse and, for some of the SEECs, constitutionally rather complex. The diversity is apparent not merely in the political sphere, but also in terms of economic development. On one end of the spectrum is Croatia, with GDP per capita similar to that of the CECs. Albania and Moldova, in contrast, are basically typical developing economies.

The Western Balkans region, along with some of the other SEECs (Moldova most noticeably), lags in many ways behind the Central European transition economies. The private sector is not as well developed in the Western Balkans; the public sector is only partially reformed, and the informal economy is more evident than in the CECs. Challenges with the rule of law are also problematic. The developments of the past decade demonstrate that countries with more democratized governments and liberalized economies tend to perform better than those SEECs lagging behind in both areas.

Several countries in the region are moving toward EU integration, a sign of some success in the areas of economic growth and FDI. Croatia, Bulgaria, and Romania, the candidate countries for EU accession, are recording higher growth rates, higher FDI inflows, lower unemployment levels, and more stable short- and medium-term prospects for growth than the rest of the region. Improved credit ratings have also benefited FDI opportunities. In other countries in South East Europe including the Western Balkans, economic growth is slower, foreign direct investment lower, unemployment higher, and prospects for both GDP growth and FDI less clear.

These slower results are partly attributable to deficiencies in the process of transformation and trade integration arising from unsettled security situations or constitutional setbacks. On the other hand, economic growth in 2003 was faster in the SEECs than in the CECs. The poorest countries, Albania and Moldova, actually enjoyed

[6] The Foreign Investors Council and WIIW were used as sources for background information.

the highest rates of growth, followed by EU candidates Croatia, Romania, and Bulgaria. Economic reforms, albeit slow and with detours, have resulted in improved business conditions.

RECENT FDI TRENDS IN SOUTH EAST EUROPE

FDI inflows into the SEECs reached a peak in 2003 with total inflows exceeding US$7 billion, up 23% against the previous year. *(See Appendix 6 for country-specific statistics on FDI inflows.)*

Recent trends reflect the differing types of FDI received in Central Europe as compared to FDI received in South East Europe. In Central Europe, privatization-related FDI has run its course, and the local market is now controlled to a significant extent by foreign investors. New investments are channeled mainly into export-oriented projects in existing companies or take the form of new greenfield establishments. The region's main export market, the EU-15, did not expand in the past few years, and the overall investment activity of transnational companies has been low. Thus FDI activity has failed to expand in otherwise attractive locations.

For the SEECs, the earlier low FDI was largely attributable to the high investment risk resulting from military conflicts, ineffective public governance, and other basic factors. The progress achieved over the past couple of years in economic transformation has translated into lower investment risk, thus increasing interest from foreign investors. The governments have stepped up efforts to privatize large companies, utilities, and banks, spurring additional FDI inflow.

FDI into the SEECs has rarely been directed into export-oriented projects. The amount of FDI increased most in Serbia, more than doubling between 2002 and 2003. Croatia, Bulgaria, and Romania also showed significant increases. Moldova recorded declining FDI, with negligible amounts compared to most countries in the region.

The region's leading per capita FDI recipient in 2003 was Croatia, with Bulgaria ranked second and Serbia third. The stock of FDI in the region, meanwhile, reached US$36 billion by the end of 2003—in per capita terms, merely one-quarter the level in the CECs. Only Croatia, at US$2,555, recorded a per capita stock similar to that of the CECs; the runners-up, with US$500-600, were Bulgaria, Romania, and Macedonia.

By whatever indicator, the region's larger and more affluent countries have generally attracted more FDI than the smaller and poorer countries. Higher FDI recipients have also tended to display higher economic growth rates and to be more advanced in transformation and more aggressive in privatizing with foreign investors.

Foreign ownership is usually necessary to build an export base and to provide efficient financial services. For the time being, investors generally target individual countries of the region. Implementing a free trade agreement system, as well as improving transport infrastructure and border crossings, may encourage investors to target the *regional* market. A new network of bilateral trade agreements has been established in the region, and work is ongoing to convert these agreements under one multilateral FTA.

The source of investment has been highly correlated with EU accession status, as the three candidate countries garner more than 60% of their investments from EU members. That share drops to about 40% for other SEECs, for which the shares from the CECs and the United States are generally higher.

Most of the FDI in SEECs concentrates in financial services, telecommunications, and trade. Banking-sector privatization to large foreign banks has occurred in recent years throughout the region. While the quality of services may have improved, local enterprises often remain credit-starved. FDI in manufacturing is targeted mainly at the local market of cement, beer, tobacco, and soft drinks. (Note: While this report

presents certain historical references and data relating to alcoholic beverage and tobacco products, the World Bank Group does not support or promote investment in these particular sectors.)

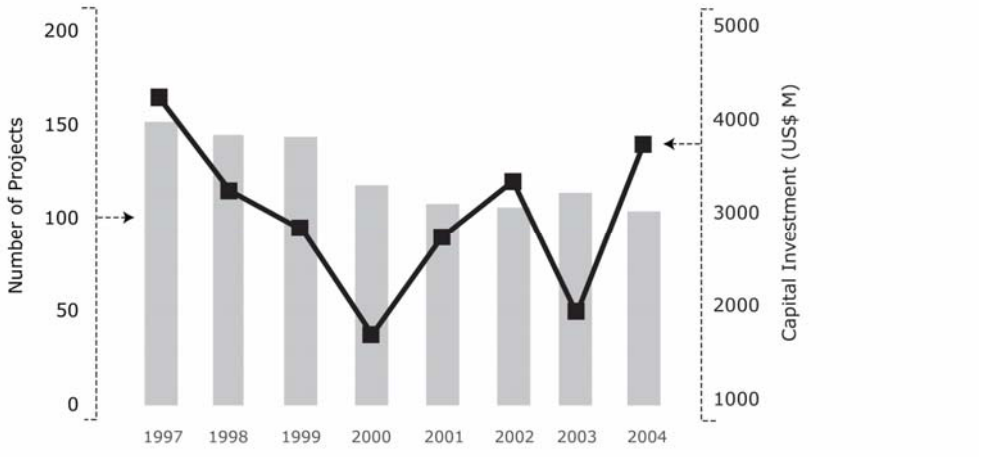
One of the most highly foreign-penetrated industries in South East Europe is steel production. Starting as privatization deals, follow-up investments have occurred, and the restructured companies have grown increasingly export-oriented. For instance, the regional network of LNM Holding is the leading steel producer in Central and Eastern Europe, with major steel-making facilities in Poland, Romania, and the Czech Republic. The other big steel-maker of the region, U.S. Steel, with its main activity in Slovakia, has acquired the Smederevo iron and steel works in Serbia and has continued to invest in restructuring and expanding its capacity.

THE AUTOMOTIVE COMPONENTS INDUSTRY

Despite global overcapacity for vehicle production, significant investment has occurred during the past five years in Central and Eastern Europe, particularly in pre-accession countries that subsequently joined the EU: Slovakia (PSA Peugeot Citroën, Kia plant opening); the Czech Republic (PSA/Toyota at Kolin); and Romania (new budget export model launched at Renault's factory).

Figure 1 presents automotive component FDI trends in Europe in recent years, and Table 1 provides a breakdown of automotive projects, by country, for locations in the Western Balkans and Eastern Europe. Table 2 details recent automotive FDI projects in the Western Balkans.

Figure 1: Automotive Component FDI Projects in Europe, 1997 to 2004



Source: OCO Consulting, *LOCOmonitor*, 2005.

Table 1: Automotive Component FDI Projects in the Western Balkans and Eastern Europe, 1997 to 2004

	1997-2000		2001-2004	
	Number of Projects	**Investment (US$ M)**	**Number of Projects**	**Investment (US$ M)**
Albania	0	0.0	0	0.0
Bosnia & Herzegovina	2	37.3	1	NA
Croatia	0	0.0	3	57.7
Macedonia	0	0.0	0	0.0
Serbia & Montenegro	0	0.0	2	11.0
Total	2	37.3	6	68.8
Comparators:				
Czech Republic	68	1,043	76	1,650
Hungary	50	1,594	63	2,153
Romania	13	639	28	785
Slovakia	17	481	25	865

Note: Reflects recorded, rather than actual, projects.
Source: OCO Consulting, *LOCOmonitor*, 2005.

While output remains flat in Western Europe, CEC output—though still relatively low, at approximately 3 million units compared with total European production of 18 million—has risen by 27% over the last five years. Russia, meanwhile, has overtaken Italy to become the fifth largest car-making country in Europe.

One of the major factors driving the CEC automotive investment boom was the so-called "pre-accession investment rush," as CECs were offering generous tax incentives for FDI that they were required to terminate upon joining the EU. Other significant factors include inexpensive labor (roughly one-fifth the cost in EU countries, although it deserves noting that wage inflation remains a threat in some of the invested countries); good infrastructure; experience in dealing with perceived difficult markets; and a location simultaneously at the heart of an enlarged EU and within easy access of new growth markets to the east. Interestingly, demand in the Central European domestic market is not considered one of the key factors driving FDI.

The question now facing the Western Balkans is how to leverage this movement of capital that appears to be migrating from the CECs toward some of the SEECs. Significant additional investment in vehicle manufacturing appears unlikely, as the industry rationalizes out excess capacity. However, original equipment manufacturers (OEMs) are pressuring component suppliers to move east in parallel so that they can manufacture from nearby locations. The Western Balkan region offers a cost advantage in the most important parameter, labor costs, compared with the Central European region. General evidence from this study suggests that with similar levels of investment and capital equipment, the same levels of productivity can be achieved in the Western Balkans as in the CECs.

Table 2: Examples of Automotive Component FDI Projects in the Western Balkans, 1997 to 2004

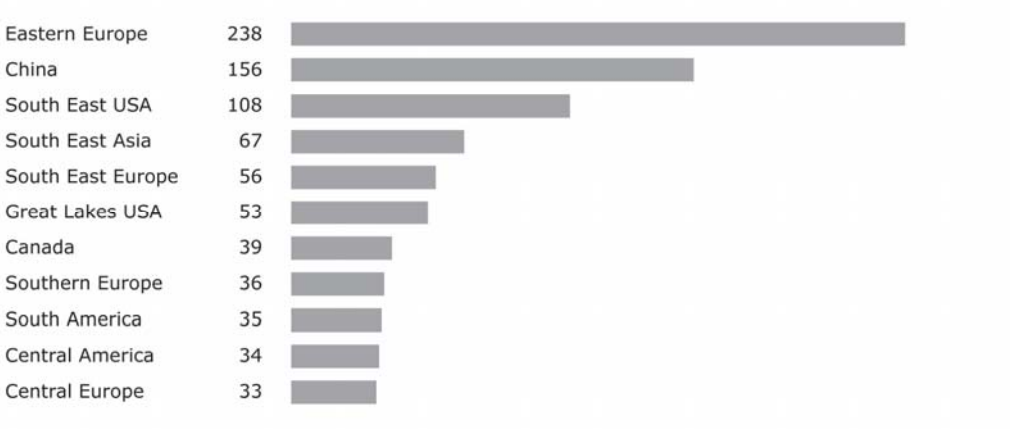
Year	Company Name	Origin Country	Location Country	Capital Investment (US$ M)	Project Type: Activity
2003	Iskra Avtoelektrika	Slovenia	Bosnia & Herzegovina	0.0	Greenfield: Production of electronic parts for automotive industry; relocation from Slovenia
2002	Guenter Schiling	Germany	Croatia	0.0	Greenfield: Metal car part workshop
2004	ABC Group	Canada	Croatia	50.0	Greenfield: Building a factory for the production of plastic car parts
2004	Saint Jean Industries	France	Croatia	7.7	Greenfield: Opening a plant for production of aluminum casts in the Free Zone Đuro Đakovic
2003	Le Belier	France	Serbia	11.0	Greenfield: Car parts (aluminum castings)
2004	Plastal	Sweden	Serbia	0.0	Greenfield: Automotive plastics company building business premises in the industrial zone in Kragujevac
1999	Dura Automotive CZ	USA	Bosnia & Herzegovina	21.2	Expansion: Expansion of automotive components manufacturing facility
2001	Dura Automotive CZ	USA	Bosnia & Herzegovina	16.1	Expansion: Expansion for manufacturer of driver control systems
2003	Daido Metal	Japan	Montenegro	1.0	Privatization—Expansion: Acquisition of assets and subsequent expansion into modern bearings production facility

Note: This is a partial list for illustrative purposes.
Source: OCO Consulting, *LOCOmonitor*, 2005; and MIGA field research

With diminishing risk factors and a widening cost advantage, the Western Balkans likely will grow increasingly attractive to automotive component manufacturing investors as an alternative location for a supply platform.

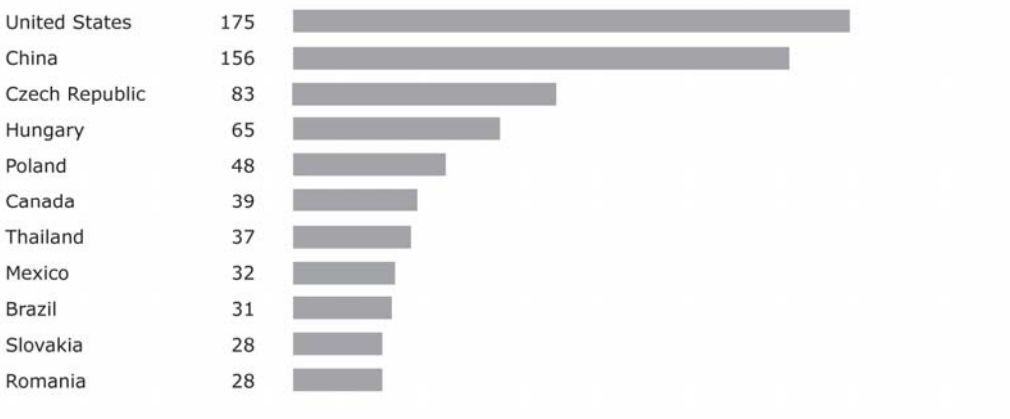
Figures 2 and 3 provide a breakdown, by region and by country, of the destinations for automotive component FDI projects since 2002. Figure 4 illustrates the sources, by country, of such FDI projects.

Figure 2: Destination of Automotive Component FDI Projects, by Region, January 2002 to February 2005



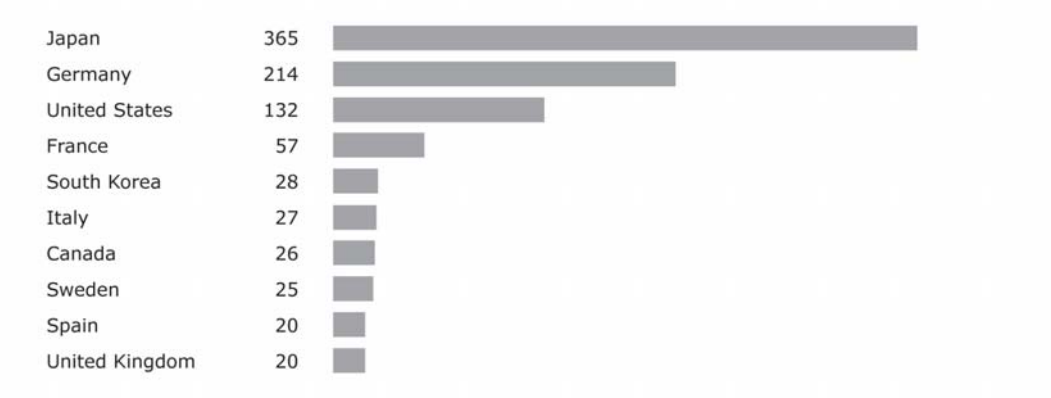
Source: OCO Consulting, *LOCOmonitor*, 2005.

Figure 3: Destination of Automotive Component FDI Projects, by Country, January 2002 to February 2005



Source: OCO Consulting, *LOCOmonitor*, 2005.

Figure 4: Source of Automotive Component FDI Projects, by Country, January 2002 to February 2005



Source: OCO Consulting, *LOCOmonitor*, 2005.

Regional Implications

Given the recent automotive FDI surge in Central Europe and the resulting over-capacity, considerable further investment in original equipment manufacturing (OEM) plants will be difficult to attract. However, the inevitable follow-on wave of investment in the components sector is by no means complete.

The overall pattern of the industry organization in recent decades has revolved around "tier 1" component suppliers located at the "doorstep" of the assembly plant. Two factors may make it difficult for the Western Balkans to compete in some product areas: the requirement for just-in-time delivery; and the cost implications of holding buffer stocks for suppliers not manufacturing directly at the customer's door. However, there is substantial evidence of tier 1 supply capability in areas with significant labor pools in both Croatia and Serbia. Moreover, Croatia exhibits strong evidence of design and new product development capability at a tier 1 international performance level.

An integrated regional approach to investment promotion in the Western Balkans, whereby each country tailors its offering to a precise investor profile, might well make commercial sense. For example, one might envision a scenario in which Serbia targets tier 1 parts with high labor content, capitalizing on Serbia's competitive labor costs, while Croatia serves as a sub-supply source for tier 1 components with technology or design content, capitalizing on its knowledge base for higher-value added production. On the other hand, some might argue that internal competition within the Western Balkans would spur productivity and efficiency improvements, which ultimately may translate into more rapid FDI and economic growth.

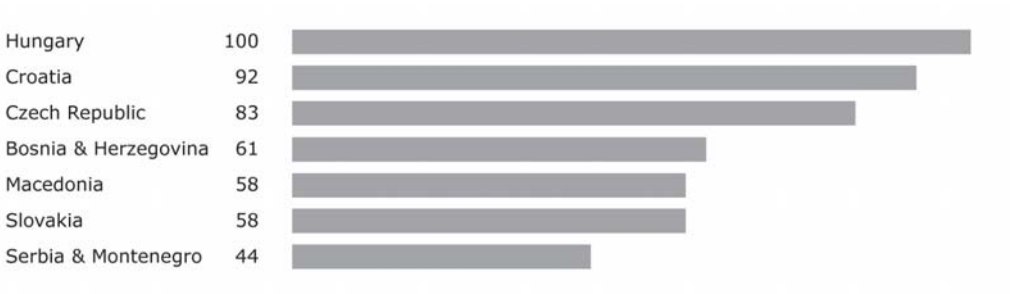
Cost Considerations

Most of the Western Balkan countries examined in this study possess an advantage in many cost factors, and particularly in the single most important factor—labor costs. Clearly significant differentials in labor costs are evident within the region, with Serbia emerging as a consistent winner, closely followed by Macedonia.

Figure 5 presents an index comparing operating costs for the automotive components sector in Western Balkan countries against those in Hungary, the Czech Republic and Slovakia. Figure 6 shows an average of labor costs in manufacturing industries (based on the two subject sectors of automotive components and food and beverages) for the same group of countries. *(See also Appendix 4: Tables of Findings—Costs.)*

Figure 5: Operating Cost Index, Automotive Components Sector, Countries in the Western Balkans and Eastern Europe

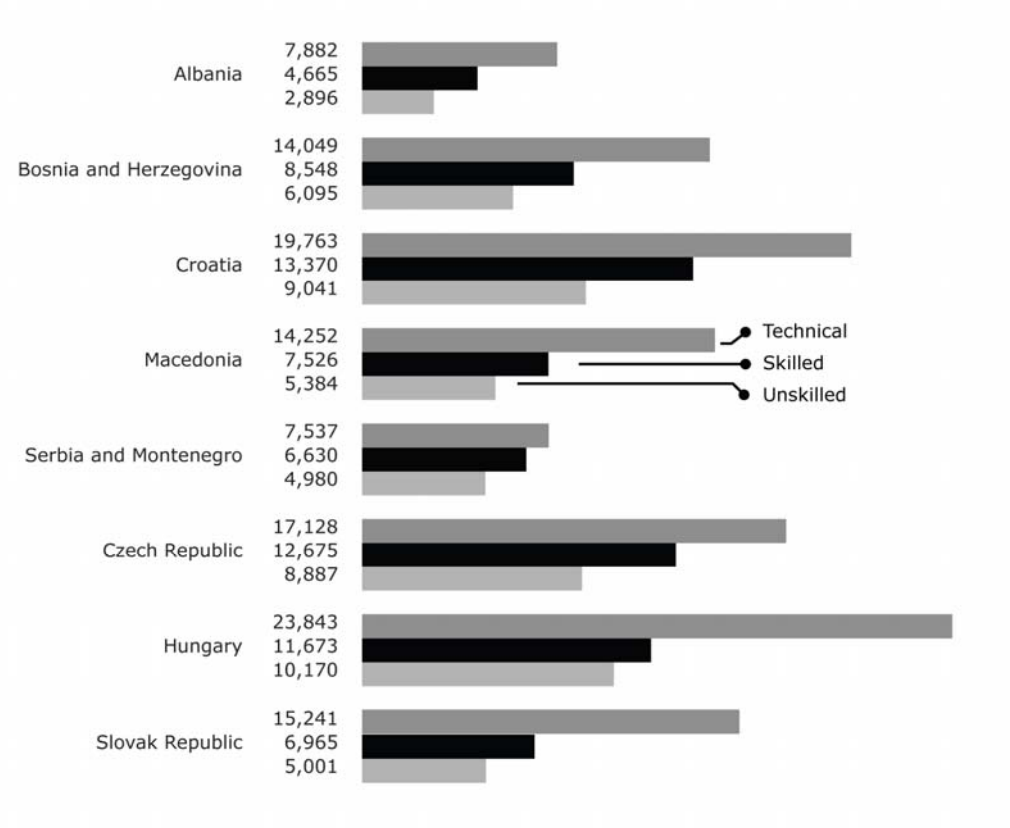
(includes labor costs, property costs, and utility costs)



Source: Field interviews with existing investors and desktop research.

Figure 6: Average Labor Costs in Manufacturing Industries

(annual cost to employer in US$, includes gross salary + social security)



Source: Field interviews with existing investors and desktop research.

In Figure 7, the high unemployment rates in the Western Balkans as compared to those in Romania illustrate the comparatively low risk of wage inflation in many parts of the region, as there exists substantial slack in the labor force.

Figure 7: National Unemployment Rate in Western Balkan Countries, 2004

Source: Desktop research of published sources, including central statistical offices.

The study finds that this advantage in labor costs is apparently unaccompanied by any corresponding quality or productivity disadvantage, given equal conditions in a plant. Specifically, feedback from investors on an anecdotal basis consistently suggests that on similar machinery, productivity levels are only slightly lower in the Western Balkans than in Western Europe—and that this gap disappears entirely when training is well provided.

Furthermore, some corporate tax regimes in the Western Balkan region are as low as 10 and 15%, which is considered very competitive (albeit rates in some countries are subject to location in a designated free zone). Many of the other input factors for the automotive industry, such as sub-components and raw materials like steel, are considered non-differential: they are purchased from a global marketplace, with inbound transport costs not significantly different from those facing manufacturers in other regions.

On the basis of these labor cost, worker productivity, and corporate tax factors, and furthermore given its relative proximity to the new plants in Slovakia, Romania, and Russia, the Western Balkan region clearly represents a prime candidate for consideration by automotive component suppliers. These investors may want to follow their OEM customers from plants in Southern and Western Europe and/or to establish component manufacturing facilities near the new automotive hub of Central Europe.

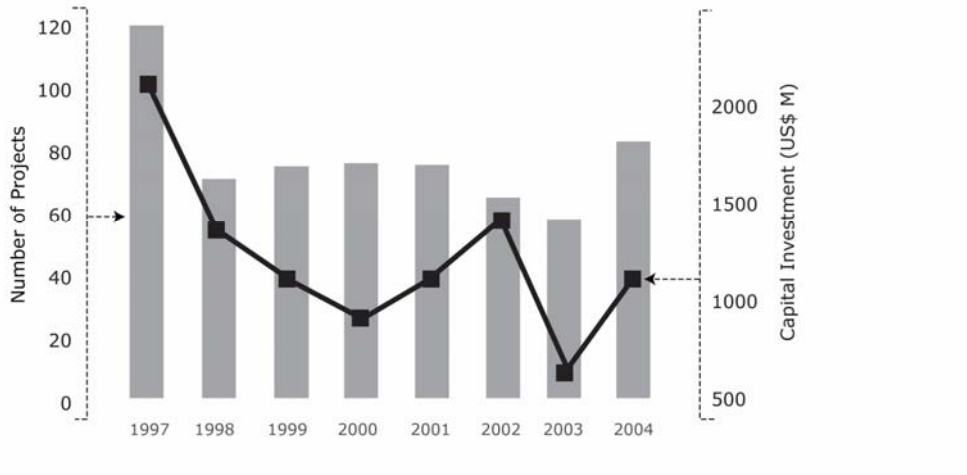
For a prospective investor with an overall strategic intention to locate a plant in the region, the drivers will include anticipated return on investment and the real risk associated with those anticipated returns. The main challenges for the countries in the Western Balkans are to reduce the risk perception to investors and to ensure market access to the OEM facilities in the relevant countries. The risks of doing business in the Western Balkans appear reasonably low with respect to other key parameters, such as physical security of personnel and assets, the legislative environment in general and labor-market regulations in particular, labor relations, and infrastructure system issues. There remains some ongoing political uncertainty, but companies already operating in the Western Balkans perceive those risks as considerably lower than those with less direct knowledge of the region.

THE FOOD AND BEVERAGE PROCESSING INDUSTRY

All countries examined in this study have greater fragmentation in the food and beverage processing industry than in the automotive components industry, which is demonstrated through smaller and more frequent investments. Consolidation of the sector is already underway, though, with companies such as Agrokor in Croatia acquiring a significant portion of the industry at the raw material, processing, and retail stages of the value chain.

Food and beverage processing is a mature sector in Europe. Through 2004, the number of FDI projects was fairly consistent year-to-year at around 80; and the annual amount invested was also fairly stable, approaching up to US$1.5 billion. The growth in FDI projects in 2004, though, reflects growing investment in Eastern Europe and in the booming Russian market. In fact, the leading destinations worldwide for food/beverage processing are now considered Russia (on an individual country basis, partly due to its size) and the developing countries in Europe (on a regional basis). Figure 8 illustrates food/beverage processing FDI trends in Europe in recent years, while Table 3 provides a breakdown of projects, by country, for locations in the Western Balkans and Eastern Europe. Table 4 presents more detailed information on food/beverage processing FDI projects in the Western Balkans.

Figure 8: Food/Beverage Processing FDI Projects in Europe, 1997-2004



Source: OCO Consulting, *LOCOmonitor*, 2005.

Table 3: Food and Beverage Processing FDI Projects in the Western Balkans and Eastern Europe, 1997 to 2004

	1997-2001		2002-2004	
	Number of Projects	Investment (US$ M)	Number of Projects	Investment (US$ M)
Albania	0	0.0	4	14.7
Bosnia & Herzegovina	1	23.0	2	0.4
Croatia	2	82.3	3	NA
Macedonia	0	0.0	0	0.0
Serbia & Montenegro	1	0.0	8	124.0
Total	4	105.3	17	139.1
Comparators:				
Czech Republic	7	131.0	76	35.0
Hungary	24	315.0	63	102.3
Romania	17	29.9	28	148.0
Slovakia	4	54.4	25	NA

Note: Reflects recorded, rather than actual, projects.
Source: OCO Consulting, *LOCOmonitor*, 2005.

Table 4: Examples of Food and Beverage Processing FDI Projects in the Western Balkans, 1997 to 2004

Year	Company Name	Origin Country	Location Country	Capital Investment (US$ M)	Project Type: Activity
2003	Loulis Mills	Greece	Albania	0.0	Greenfield: Flour mill, 300 tons per day
2003	Aprider	Israel	Albania	0.0	Greenfield: Six green-houses in different regions of the country
2003	Japanese Government	Japan	Albania	2.5	Greenfield: Vegetable oil
2004	Loulis Mills	Greece	Albania	12.2	Greenfield: Flour and wheat processing company established its 2nd production unit in Albania
2003	Bihacka Industrija Mesa (BIM)	Slovenia	Bosnia & Herzegovina	0.4	Greenfield: Meat processing plant
2004	Grand Prom	Serbia & Montenegro	Bosnia & Herzegovina	0.0	Greenfield: Coffee factory
2002	Lijanovici	Bosnia & Herzegovina	Croatia	0.0	Expansion: Relocating half of meat produc-tion from Bosnia due to high import duties on raw materials
2003	Bavaria	Netherlands	Croatia	0.0	Greenfield: Building brewery and warehouse

Table 4: Examples of Food and Beverage Processing FDI Projects in the Western Balkans, 1997 to 2004 (continued)

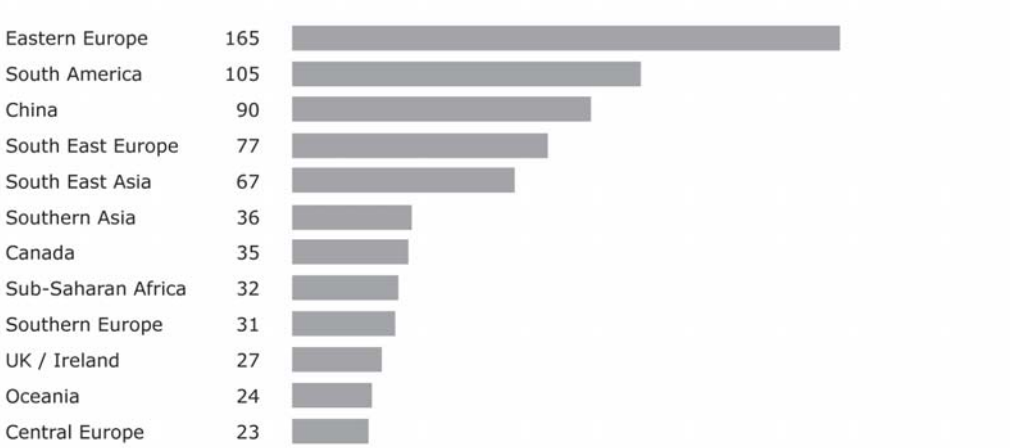
Year	Company Name	Origin Country	Location Country	Capital Investment (US$ M)	*Project Type: Activity
2003	Bramburi	Austria	Croatia	0.0	Greenfield: Workshop to sort and pack potatoes
2002	Hellenic Sugar Industry	Greece	Serbia	8.0	Expansion: Investment in sugar factory in order to upgrade and increase capacity
2003	Chipita International	Greece	Serbia	0.0	Greenfield: Snack and croissant production
2003	Palancki Kiseljak	Slovenia	Serbia	2.3	Greenfield: New production facility to double plant's output to 4,500 liters/hour (mineral water)
2003	Efes Beverage Group	Turkey	Serbia	6.0	Expansion: To modernize and automate entire production cycle in the brewery
2004	Coca-Cola	USA	Serbia	75.0	Expansion: Investment in soft drink production
2004	Novosadska Mlekara	UK	Serbia	12.0	Greenfield: Investing in new equipment for the dairy
2004	Van Drunen Farms	USA	Serbia	17.0	Greenfield: New organic fruit and vegetable processing factory; freeze-drying of vegetables and fruits (first bio-food plant in Serbia)
2004	Pivara Celarevo	Denmark	Serbia	3.7	Greenfield: Opening a new bottling line
1999	Coca-Cola	USA	Bosnia & Herzegovina	23.0	Expansion: Expansion and modernization of bottling plant
1997	Carlsberg AS/ Podravka	Denmark	Croatia	45.3	Greenfield: New brewery
2000	Coca Cola Beverages Croatia	USA	Croatia	37.0	Greenfield: New bottling plant
2001	Delta Ice Cream	Greece	Serbia & Montenegro	45.3	Greenfield: New ice cream making unit

Note: This is a partial list for illustrative purposes.
Source: OCO Consulting, *LOCOmonitor*, 2005.

The number of food and beverage processing FDI projects in all the Western Balkan countries except Macedonia increased from less than one per annum from 1997-2001 to more than four per annum from 2002-2004, with the most rapid growth occurring in Serbia and Montenegro, as well as in Albania. However, competition remains intense from Romania, and to a somewhat lesser extent from Bulgaria, Poland, and Ukraine.

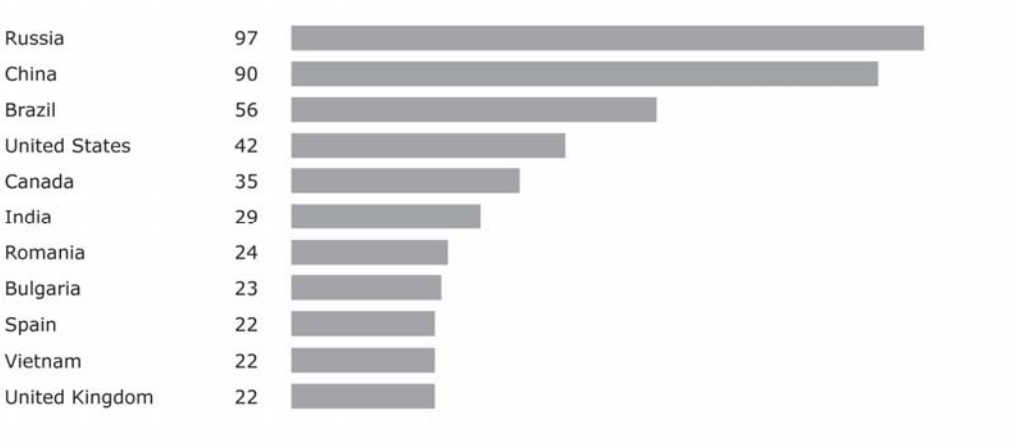
Figures 9 and 10 present a breakdown, by region and by country, of food and beverage processing FDI projects by destination since 2002. Figure 11 shows the sources, by region, of such FDI projects.

Figure 9: Destination of Food Processing FDI Projects, by Region, January 2002 to February 2005



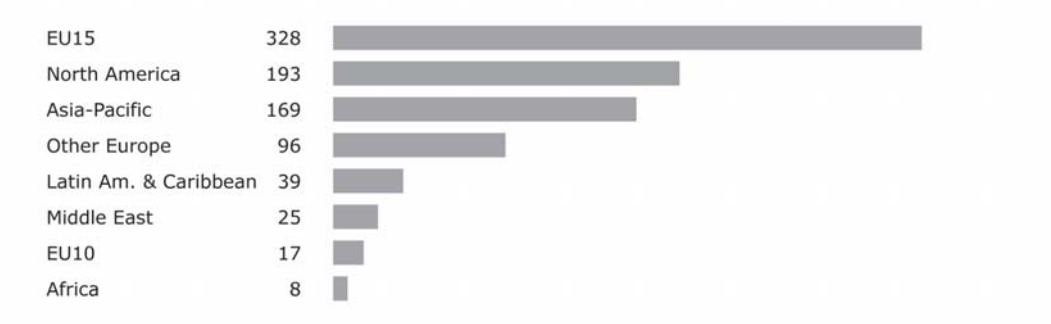
Source: OCO Consulting, *LOCOmonitor*, 2005.

Figure 10: Destination of Food Processing FDI Projects, by Country, January 2002 to February 2005



Source: OCO Consulting, *LOCOmonitor*, 2005.

Figure 11: Source of Food Processing FDI Projects, by Region, January 2002 to February 2005



Notes: EU15 includes: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. EU10 includes: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia.

Source: OCO Consulting, *LOCOmonitor*, 2005.

Regional Implications

Minor foreign investment has already occurred in some countries, notably Serbia, in the rationalization of primary food production—particularly in the dairy industry.

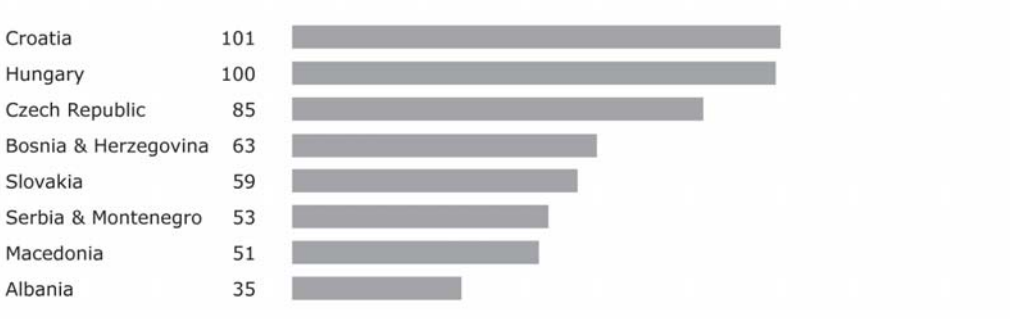
Countries with natural advantages for the production of certain raw materials also offer potential opportunities in food processing. A prime example is Serbia for berry production, followed by the processing of berries into products such as cake mixes. At the moment, however, little further processing occurs in the berry subsector, with most of the produce instead exported for further processing elsewhere. Other similar opportunities may exist in relation to greenhouse activity (Serbia) and herbs and spices (Albania).

Investment in the food and beverage processing industry is more likely to be market seeking than automotive component investment, as the latter is focused mostly on competitive production and cost advantages. Thus, the overall economic prospects for the Western Balkan market constitute a much more important factor for the food and beverage processing sector. However, the importance of the Russian market as a growth destination for food exports is also highly relevant for the Western Balkans, given Russia's relative proximity and the historic business and industrial relations between the Western Balkan and Russian economies.

Figure 12 presents an index comparing operating costs for the food and beverage sector in the Western Balkan countries against those of Hungary, the Czech Republic and Slovakia, based on this study's research. *(For cost data by factor and country, see also Appendix 4: Tables of Findings—Costs.)*

Figure 12: Operating Cost Index, Food Processing Sector, Countries in the Western Balkans and Eastern Europe

(includes labor costs, property costs, and utility costs)



Source: Field interviews with existing investors and desktop research.

Apart from some remaining privatization investment, FDI in the Western Balkan region's food and beverage processing sector is expected to revolve around acquisition and merger activity, at least in the near term, rather than greenfield FDI. This sentiment was particularly evident in discussions with investors in Croatia, where plans for EU accession and generally improving economic prospects may boost the market's attractiveness to outside investors.

CHAPTER III: Country Findings

INTRODUCTION

This chapter presents country-specific results from the benchmarking study. These results are related to the automotive components and food/beverage processing industries for Bosnia and Herzegovina, Croatia, Macedonia, and Serbia and Montenegro. Because Albania conducts no material automotive components manufacturing activities at this time, and furthermore appears unlikely to develop this industry in the near term, the leather and shoe sector—a major industry in Albania—was substituted for automotive components as a subject sector for this study.

ALBANIA

General FDI Trends

With most state-owned small and medium-sized enterprises (SMEs) already privatized, the inflow of FDI into Albania has been moderate since 1999.

FDI peaked in 2004 at US$275 million, helped by Albania's largest-ever privatization deal. Specifically, in April 2004, the Austrian Raiffeisen Zentralbank (RZB) acquired full ownership in the Savings Bank, Albania's largest commercial bank, in exchange for US$126 million.

Italy and Greece are the predominant sources of FDI in Albania, with roughly 48% originating in Italy and 34% in Greece. These two countries are also Albania's major trading partners for both import and export.

Foreign investments are mainly concentrated in the key commercial districts of the country. Approximately two-thirds of all FDI is targeted toward either the capital, Tirana, or the main cargo port, Durres. Since the beginning of 2003, key foreign direct investments in Albania include: multiple flour mills, including one in Tirana with a daily production capacity of 300 tons of wheat and 10,000 tons of grain, by Flour Mills Loulis of Greece; from Aprider of Israel, six greenhouses in different regions of the country; a US$2.5 million investment by the Japanese Government in a vegetable oil plant in Fier; and, as announced in 2005, a planned investment of US$1.9 million by Berlinwasser International, a German water company, to increase the supply of drinking water in Durres.

The Leather and Shoe Industry

Together with textiles and garments, the leather and shoe industry was one of the pillars of Albania's economy during the period of 1960-1990. This industry consisted of state-owned enterprises operated in the context of a socialist economy. A wide range of outputs was produced along the value-added chain, including leather and finished shoes. Domestic demand was supplied through domestic production, and exports were managed by a single governmental agency. After 1990, however, these enterprises were transformed through a privatization process.

The production of leather and shoes now constitutes one of Albania's most economically and socially important sectors, accounting for 14% of industrial

employment, 10% of industrial output, a growth trend in both investments and the number of firms, and strong export growth. Export volume and growth are dominated by foreign-owned factories, which have benefited from modern management and production techniques implemented since the late 1990s, as well as from strong business networks in Italy. Exports are sent mostly to Italy, Turkey, Greece, and Germany.

The production of footwear uppers (i.e., leather surfaces) destined for re-export to European high-quality markets accounts for 55% of total exports in the sector. These semi-final, re-exported footwear components require intensive handiwork. Raw hides contribute around 15% of total exports in the leather and shoe sector. Other goods exported include trunks, suitcases, camera cases, and handbags. Processed hides of bovine, especially bull hides, are the most important raw material export.

Based on recent data published by the Albanian Center for International Trade (ACIT), footwear and miscellaneous related sectors constituted Albania's second-leading export sector, after textiles, during the first nine months of 2004. Such exports reached US$120.4 million, up 27% from the corresponding prior-year period. Exports of unprocessed and processed leather hides reached US$9.8 million, up 17%. The corresponding figures for imports were US$50.4 million (7% growth) and US$44.4 million (15% growth). As a result, Albania's previously declining trade surplus in leather and shoes recovered to around US$35 million in the first nine months of 2004.

Strengths, Weaknesses, Opportunities, and Threats

Strengths. Investors interviewed for this study unanimously cited Albania's low labor costs and strategic location as key advantages. Additionally, nearly all investors lauded as key strengths the high levels of quality, just-in-time flexible production, and a strong tradition in leather and shoe production. Other strengths cited include: an experienced workforce, low transportation costs, proximity to the key Italian market, and growing local market opportunities.

Weaknesses. National trademarks have not yet emerged and relations with marketing channels are underdeveloped, except for re-exported products.[7] The study found other weaknesses to include: limited availability of industrial sites and technical workers; less reliable energy resources; travel-to-work transportation in need of improvement; VAT reimbursement issues; and the need for a more competitive approach to governmental incentives and support for the sector. Investors reported relatively high levels of imported inputs.

Opportunities. Based on fieldwork and existing research, Albania demonstrates perhaps the greatest FDI potential in the following subsectors: shoe uppers (primarily through the expanding operations of existing investors, as future relocations are more likely to shift to Asia rather than South East Europe); raw and processed leather (a substantial subsector that also has experienced rapid export growth); and niche products, including handbags (a subsector growing extremely rapidly from a very small base). The study also finds potentially promising opportunities in the expansion of existing plants, especially those of the leading current investors; the leveraging of emerging critical mass in the sector to develop the supply chain, particularly for leather processing; exploiting the existing economies of scale of large contracts with Italian firms to develop local design, branding, and production for direct sales to overseas customers; and increasing the levels of process and product improvement through more intensive application of R&D.

Threats. Albania may face global competition from China, India, and North Africa, as well as regional competition from EU accession candidates Romania and Bulgaria.

[7] Over 95% of shoe uppers are exported to Italy, where they are marketed mainly by Italian investors and foreign dealers.

These competitive challenges will be exacerbated if the Albanian leather and shoe industry does not develop its skills and performance in design, branding, direct sales, and marketing. The study's findings suggest that shortages of technical and skilled labor may slow the upgrading of the entire sector. The Albanian industry may be vulnerable if it relies on contracts with Italian firms or if small-scale producers do not consolidate or adopt the latest production processes and procedures.

Insights at a Glance: The Leather and Shoe Industry in Albania

- Annual export growth in the leather and shoe sector averaged 9% between 1999 and 2002, including 38% in 2002. While footwear was by far the largest export component (around 80%), it was also one of the slowest growing, at 6% per annum. In contrast, raw hide exports jumped by 30% per annum.
- Leather and shoe imports, meanwhile, have grown even faster than exports. In fact, Albania's trade surplus in leather and shoes has been declining year-on-year, from US$19 million in 1999 to US$4.8 million in 2002. The fastest-growing segment for imports is raw hides and skin and leather.

The Food and Beverage Processing Industry

Until the mid-1950s, Albanian agribusiness consisted largely of mills, bakeries, and milk-producing factories. The food processing sector started to develop in the 1980s and early 1990s, when it included roughly 300 large enterprises and more than 600 small factories and 600 bakeries. During the 1980s, agriculture accounted for approximately 35% of GDP and employed about half the workforce.

The transformation from a centrally planned system to a market economy resulted in a period of crises and deep structural change in the Albanian agriculture and food processing sector, as ownership began shifting into the private sector after 1991. Agriculture's share of GDP reportedly jumped to more than 50% in the mid-1990s before sliding, year by year, to just over 30% (although changes in evaluation and calculation methods cast some doubt on these figures).

Albania is rich in herbs and spices. Albanian government records indicate that about 250 species, some of culinary and others of medicinal interest, are harvested for commercial/export purposes. In fact, about 30% of all European medicinal flora is found in Albania, with many species endemic to the country.

The herbs and spices subsector—which employs around 100,000 harvesters, 40 processors or dealers, and 10 exporting companies—exports products either in dried form or as essential oils. The most significant of these exports include sage, oregano, red juniper, black juniper, hawthorn, laurel, thyme, winter savory, wild rose, great yellow gentian, small-leafed linden, myrtle, wild apple, and blackthorn. The principal destinations include the United States, Turkey, Germany, Austria, Italy, Greece, Spain, France, and Switzerland, with smaller quantities also sent to Croatia, Macedonia, Hungary, Japan, Denmark, Holland, and even Cook Island. Export volumes nearly doubled in 2002 and then soared seven-fold in 2003.

One of the fastest growing and most export-intensive subsectors of the Albanian food processing industry is fish processing. Joint ventures between local and foreign companies appear the most likely source of new investment. The key export markets are Italy and Greece.

The meat processing subsector consists of a wide variety of salamis and sausages made from beef, veal, and pork, plus byproducts mixed in different proportions and poultry used occasionally as filler. Given its small population, Albania has a relatively large number of processors, roughly 56 domestic and 4 foreign-owned. The domestic market is experiencing strong growth, but the large number of operators might limit

the market opportunity for new entrants. Exports are currently very limited, and up to 95% of raw materials are imported.

The increasing domestic production of eggs is opening up export opportunities. However, with Albania lacking the economies of scale of some competitors, such as Romania and Ukraine, the country depends on imported chickens. Albania now exports a small volume of eggs, which is likely to increase when the leading investors gain quality accreditation. The most likely vehicle for foreign investment is through joint ventures, as there already exist strong domestic and JV companies with high local market share.

Strengths, Weaknesses, Opportunities, and Threats

Strengths. Physical advantages for Albania include the climate, which facilitates first-mover advantages, and the high quality of raw material in several subsectors (e.g., herbs and spices, fish). The country also benefits from tradition in the oil and fish subsectors, as well as a competitive advantage in egg and oil processing due to low labor costs and advanced factories. In general, processing costs are lower in Albania than in Greece and Croatia, which compete in fish processing. In overall operating costs associated with the food/beverage processing industry (including labor, property and utilities), Albania ranked lowest among the Western Balkan countries, the Czech Republic, Hungary, and Slovakia.

Weaknesses. Albania, which has recorded a growing trade deficit in food, beverages, and tobacco, has relatively high costs for raw materials and in transportation services, less reliable water and energy resources, and limited availability of skilled workers. Investors report regulatory problems with value-added tax (VAT) reimbursement. Furthermore, EU tariffs and the lack of certification may limit exports to the EU.

Opportunities. Processing of fish products, including anchovies and sardines, may have the best investment potential. Key investment opportunities also exist in the herbs and spices market for the establishment of on-site mini-laboratories for quality control, processing (i.e., the application of either manual or sophisticated methods to perform adequate cleaning and processing), sanitation (cleaned products meeting European and American standards), packaging, and warehousing (clean working and storage environment).

Overall, the domestic supply of agricultural products in Albania does not meet domestic demand in many subsectors, which provides a significant opportunity for domestic and foreign companies to engage in import-substitution investment.

Albania's close historical ties with Italy offer the prospect not only of JV activities with Italian firms that maintain a long-term presence in Albania, but also the use of existing distribution and marketing pipelines for export into the Italian market.

More generally, early-stage FDI opportunities exist in product diversification, building quality brands and products, import substitution, exporting to the EU, and attracting joint ventures with foreign companies to fast-track market access.

Threats. Western Balkan and other countries (e.g., Romania and Ukraine) with much greater economies of scale in grain and other agricultural production may present competition for Albania.

Insights at a Glance: Food and Beverage Processing in Albania

- During the first nine months of 2004, agriculture and food product imports totaled US$326 million, while exports in this sector amounted to US$34 million. Such exports included, principally, meat and seafood preparations; oil seeds and oleaginous fruits; miscellaneous grains, seeds, and fruits; industrial or medicinal plants; straw and fodder; beverages; and vinegar. Major imports have included cereals, fruits, and beverages.
- Italy, Greece, Germany and Turkey are Albania's main trading partners in this sector.

BOSNIA AND HERZEGOVINA

General FDI Trends

The country's FDI inflow in 2003 amounted to US$338 million, more than 20% higher than in 2002. Progress has been achieved in foreign investment law and promotion, although there remain duplicating government structures at the state, entity, and cantonal levels.

The federal government of Bosnia and Herzegovina has selected LNM Holding to purchase BH Steel, Zenica. In addition, some food processing plants in Banja Luka were recently privatized.

In June 2003, the Swiss company Kreis-Industriehandel AG (a majority shareholder in Vitaminka) purchased 51% of Fruktona. The company also announced further investment plans in both entities. This kind of privatization is considered vital for former Yugoslav companies to restructure and regain their domestic and regional markets.

Several domestically owned companies report that they have had discussions with foreign investors. Incoming investors intending to serve the domestic market in addition to pursuing exports may require reassurance with respect to purchasing power growth locally and in the regional economy, as well as continued macro political-economic stability. It is expected that the effective functioning of designated free zone areas will increase BiH's attractiveness to foreign investors.

The Automotive Components Industry

Historically, as part of the former Yugoslavia's experiment with decentralized socialism based on import substitution for the entire region (a period when state-owned companies dominated), BiH developed a niche as a producer of intermediate goods, with several well-established automotive component manufacturers producing for final assembly in Serbia and elsewhere.

Distribution networks and the client base were well established. After the fall of the Soviet Union, multinational corporations such as Volkswagen (VW) assembled passenger vehicles and small trucks in BiH for the former Yugoslav market, with a small quantity exported elsewhere. The metals industry, even prior to the war, produced mostly low-to-medium grade steel and other metals for the automotive sector.

Prior to the war, up to 30% of mechanical and automotive engineering components used in VW's assembly line in Sarajevo came from within BiH. In electrical/electronic engineering, the strength of BiH's defense industry facilitated the development of

quality and top-grade output. For example, BiH companies exported very high quality ball and roller bearings to SKF, a Swedish manufacturer and global leader in rolling bearings and seals. The technical skills of the average BiH worker are reported to have been exemplary historically; and R&D was blossoming as a serious activity until the disruption brought by war.

Following the war, BiH has had difficulty in regaining investment from foreign investors, as regional competitors had moved aggressively and successfully to fill the gap. VW, for example, relocated to Slovakia during the war.

A few firms, though—particularly TMD a.i. and Prevent Sarajevo d.o.o.—currently have facilities, operations, and R&D activities in BiH that could be competitive throughout the region. The Slovenia-based Prevent Group and ASA Holdings of Sarajevo, holding companies with extensive regional reach, also have developed commercial partnerships with one another. Meanwhile, current estimates of the government presence in the automotive component manufacturing sector range between 35 and 45%.

BiH would benefit from the technological input available through FDI to upgrade its domestic production capacity and quality. GTZ, the German donor agency, is funding an automotive cluster project focusing on such capacity, which aims to develop the supplier base for the automotive industry by restoring the capacity, quality orientation and output of domestic enterprises. This project has identified 80-100 domestic automotive parts companies, with metalworking forming the largest share of automotive components produced. Large component manufacturers are hoping to improve their domestic content of raw materials, as well.

GTZ and another donor-funded initiative, IFC/SEED, are emphasizing for smaller companies the opportunities of joint venturing or outright purchase by incoming or existing foreign investors. The domestic market is small, and all investors interviewed for this study appear interested in increasing foreign investor ownership in their companies and in orienting production for the international market.

Strengths, Weaknesses, Opportunities, and Threats

Strengths. The study found numerous strengths for BiH. The country benefits from a consistently stable national currency, the lowest inflation rate in South East Europe, and a highly advanced and growing financial sector. Skilled labor is abundantly available, particularly in engineering and other technical areas, and BiH has well-developed, in-house R&D activities. BiH is considered reasonably competitive with some Central European high performers in labor and overall operating costs. The country's distribution networks have extensive reach, as they stretched throughout the region during the period of the former Yugoslavia. There exists a strong tradition and considerable experience in supplying Western Europe. High-profile international investors, such as VW, already have a presence in BiH. More generally, BiH should benefit from the demonstration effect of prominent regional investors. In addition, with BiH already known for the high quality of life in its cosmopolitan cities, the study found a reviving urban and international orientation of young workers.

Weaknesses. Within South East Europe, BiH suffers from an outdated image of its economy, especially with regard to political stability, labor inflexibility, and productivity (which is apparently affected by outmoded technology in this sector). BiH reportedly has slow harmonization of taxes, customs, and some key commercial legislation between the political entities, and some investors do not perceive the FDI policy to have a clear consensus. Investors in BiH characterized the wage burden on operations as relatively high, and management salaries were cited as higher than generally assumed. Most inputs are imported, as reported by investors.

Opportunities. BiH appears to hold potential as a production platform for the region and beyond, given its proximity to Western European markets. The development of a designated free zone, as well as free trade and preferential market access

agreements, offer the prospect of tax-based incentives and other economic advantages. The GTZ Cluster project is expected to improve the quality of local sub-supply and enhance JV opportunities. BiH exports should benefit from growing markets in Turkey and the Middle East. Opportunities also may exist in the continued success of BiH's privatization program.

Threats. BiH's advantages in tax incentives and quality may not outweigh the country's wage cost (including employment benefits) disadvantages versus some of its neighbors. Other threats include: disinvestments and relocations by existing investors; possible delays in implementing an aggressive FDI strategy; continued delays in granting incentives; and new laws on environmental waste treatment facilities.

Insights at a Glance: The Automotive Components Industry in Bosnia and Herzegovina

- Generally, investors report that public utilities provide better service than for regional neighbors, but at a higher cost. This sentiment held for transportation and telecommunications services, and more generally for infrastructure.
- Investors consider BiH's duty exemptions on equipment importation as comparable to or more generous than those available in neighboring countries.

The Food and Beverage Processing Industry

The food and beverage processing sector in BiH was completely state-owned prior to the early 1990s. Companies from BiH had few recognizable name brands in former Yugoslavia and the region, and few established relationships with buyers. While BiH is self-sufficient in some groups of food products, the country has long been a net importer of processed food. This trend will likely continue for the near-to-medium term.

Strengths, Weaknesses, Opportunities, and Threats

Strengths. BiH has good-quality fresh fruits and vegetables, as it benefits from excellent soil quality, especially in the Republika Srpska, as well as pure wells and water springs. Other strengths for the food and beverage processing industry include: an abundance of unskilled and semi-skilled labor, as well as labor market flexibility; employee loyalty; strong demand in the domestic market; and a widespread desire to revive the tradition of key companies and products in the food and beverage processing sector.

Weaknesses. BiH has not yet fully developed a coordinated export promotion strategy or a focused agricultural and institutional policy.[8] As with the automotive components sector, the operating cost item most cited by interviewed investors was the high gross wage burden, owing to a relatively high employer contribution to social security. Investors also reported limited availability of managerial, marketing, and sales talent. The study found other factors affecting the food and beverage processing sector include: underdeveloped transport infrastructure; limited storage facilities, including cold chains; limited availability of locally sourced raw materials and packaging; outmoded machines and technology that lower productivity; and the relatively slow pace of privatization.

[8] For example, as of February 2005, only foreign invested enterprises in BiH could receive tax incentives. Investors also report that they lack a clear comprehension of the policy on economic zones.

Opportunities. There appear to exist substantial market-seeking opportunities, as local market demand is only 45% satisfied, according to estimates. Initial studies also indicate that BiH can be regionally competitive in organic produce based on the strength of its low-tech farming methods. Inspectors have been trained on EU standards for organic production and certification efforts are ongoing, with support from the Swedish International Development Agency and a Swedish certification organization. There also appear to exist promising opportunities in the expansion of markets for ethnic products, as well as the sale of surplus fruits and vegetables to the processing subsector, which has been growing rapidly.

Threats. Investors cited potential relocations by existing investors in the dairy subsector, perceived over-regulation, and competition from inexpensive subsidized imports.

Insights at a Glance: Food and Beverage Processing in Bosnia and Herzegovina

- BiH investors are very confident of their competitive position, given unfilled domestic market demand, as well as a strong focus on export markets.
- Certain BiH companies, such as Vitaminka, are in competition with similarly named companies in Macedonia and Albania.
- A multinational reported that its early entrance to BiH, with the intention of producing for the region and the wider market, has helped with its competitive positioning. Specifically, the corporation cited benefits that include high profits, deep market knowledge, and the establishment of distribution networks.

CROATIA

General FDI Trends

Since 1999, the inflow of FDI into Croatia has exceeded US$1 billion each year. The FDI inflow reached its peak of US$1.8 billion in 2003, largely due to the sale of oil company INA to Hungarian MOL. In 2004, a year with no large privatization deals, FDI inflows slid to US$1.08 billion.

Greenfield investments are not yet common in Croatia, particularly in the export-oriented manufacturing sector. Nevertheless, Croatia ranks first among SEECs in FDI stock per capita and is competitive in this area with the new EU member states. At year-end 2004, Croatia (with FDI inward stock of US$13 billion) ranked ahead of Slovakia and Poland, trailing only Hungary, Estonia, the Czech Republic, and Slovenia in South East and Central Europe.

In Croatia 30-40% of the inflow takes the form of equity investment, with the balance consisting mainly of loans from the mother company and, since 2003, reinvested earnings. Equity investment (the only form of FDI for which a sector breakdown is available) amounted to US$888 million in 2003 and US$319 million in 2004.

The main economic activities attracting FDI in 1993-2004 were financial intermediation (21% of equity investment), telecommunications (16%), pharmaceuticals (11%), petroleum (8%), and cement manufacturing (3%). While the manufacture of machinery and transport equipment together accounts for 30% of exports (a figure trending upward), they attracted only 3% of FDI.

Rapid export increases and high export revenues in 2002-2004 were registered in the sector of other transport equipment, as well as for electrical and other machinery. These data indicate that medium high-tech manufacturing is booming, but that the

role of FDI is still small. Locally owned companies are increasingly competitive in certain industries.

The Croatian National Bank registered 77 greenfield investments in the manufacturing sector through the end of 2000, mainly in small enterprises in the textile and clothing sectors (accounting for 5,600 employees at year-end 2002). The Bank identified 76 foreign affiliates established by takeover through the end of 2000, accounting for 17,000 employees at year-end 2002, constituting a far greater impact than the greenfield projects.

FDI companies in 2002 accounted for 15% of registered capital, 16% of revenue, 24% of exports, and 9% of employment—much smaller shares than for Central European countries, where foreign penetration typically exceeds 50%. Greenfield investment in Croatia, as in Slovenia, has been hindered by a lack of industrial real estate outside the former socially owned companies.

The general attitude toward FDI in Croatia is positive. Government and most business representatives recognize that a transfer of technical and managerial know-how is required for many Croatian companies to survive over time and that this will most likely arrive through FDI. However, the study elicited comments by some firms on the need for the Croatian government to take a proactive stance in removing barriers and in truly understanding the concerns and interests of business.

The Automotive Components Industry

While Croatia has not historically served as a center for automotive vehicle or component production, it possesses many of the required core skills in metal processing, welding, plastics, and machine building due to the country's experience in related industries, including construction and agricultural machinery building.

Although the automotive components sector may be considered small in Croatia, groups of firms in Zagreb and small numbers in Nova Gradiška, Slavonski Brod, and Split have historically supplied plants in Serbia. The relatively recent emergence of a group of private start-up firms that produce automotive components for Western OEMs is emblematic of Croatia's entrepreneurial culture and marketing mindset, as well as the availability of locally produced management talent and the underlying competitiveness of the cost/quality/engineering skills combination in certain niche subsectors of the automotive components industry.

The automotive components industry has thus far garnered relatively little foreign investment activity and no real greenfield investment. Most foreign investment has been channeled through the post-privatization acquisition of firms.

All of the firms interviewed in the automotive components sector, however, expressed openness to foreign investment in general, and specifically interest in JV activity with a foreign investor. Several firms already have a long history of successful joint ventures with overseas investors.

Strengths, Weaknesses, Opportunities, and Threats

Strengths. Foreign investors report excellent profitability and quality levels. Other Croatian strengths include the country's planned accession to the EU, its relatively stable economy, excellent infrastructure, demonstrated ability to perform well in producing complex subcomponents requiring technical content, and solid engineering and design skills. The study also found a pattern of excellent labor relations and work habits, including low levels of absenteeism, high levels of motivation and productivity, and consistent punctuality. Several anecdotal instances suggest an advantage for Croatia compared with regional competitors in perceived reliability and honesty, as well as in asset and personal security.

Weaknesses. Croatia has a disadvantage in unskilled labor cost compared with immediate regional competitors. An additional competitive disadvantage is the relatively high tax burden that is reflected in the significant difference between net salaries and total employment costs. The country also has limited availability of experienced workers, as careers were interrupted during the war years. Investors reported relatively high levels of imported inputs.

Opportunities. Potential opportunities include the expansion of existing plants, whether domestic or foreign-owned; further access to tier 1 supply contracts; and the supply of plants in barely tapped markets, such as Romania, Slovakia, the Czech Republic, and Hungary. Despite a relative labor cost disadvantage compared to immediate neighbors such as Serbia and Romania, Croatia can maintain competitiveness in the production of top-end automotive components, including zero-defect-tolerance precision components.

Threats. Croatia faces competition in the spare parts market from China, as well as from Romania and other regional alternatives. Non-commercial threats include potential political uncertainty.

Insights at a Glance: The Automotive Components Industry in Croatia

- Croatia has a clear cost advantage versus Western Europe in engineering and design staff. As a result, some of these activities are migrating to Croatia from parent plants in Germany and Austria, a trend that appears likely to grow.
- Croatia has traditionally placed a strong emphasis on education, particularly in math, physics, information technology, and English at the high school level. Its universities have highly regarded faculties in mechanical and electronic engineering, computing, sciences, and mathematics, and are recognized as a reliable source of high-quality engineers. R&D activities at the universities are also quite strong.
- All firms interviewed for this study were certified on international standards of measurement, including ISO (International Organization for Standardization) and TUV (TUV Rheinland Group), and placed emphasis on quality management.

The Food and Beverage Processing Industry

The food and beverage processing sector in Croatia has developed almost exclusively from previously state-owned firms. The industry currently appears to be dominated by two major players: Agrokor and Podravka. The larger of these entities is Agrokor, a holding group that owns several food distribution chains, branded processing companies producing ice creams and frozen foods, as well as orchards and citrus fruit production facilities.

Foreign investment thus far is mostly in the post-privatization acquisition of companies with whom the investors had previously been trading or licensing.

Strengths, Weaknesses, Opportunities, and Threats

Strengths. The country's candidacy for EU membership potentially offers expanded access to that market. Furthermore, as evidenced by Agrokor, Croatia demonstrates a capability in marketing and new product development.

Weaknesses. The production of raw materials for the food and beverage processing industry is relatively less competitive in Croatia than in some nearby countries due to the following factors: fragmentation of the farming sector; outmoded technology; underinvestment (e.g., in the dairy subsector); and limited operational management

in food production. Most materials for local processing are imported. The small local economy may present challenges related to scale.

Opportunities. The opportunity exists to redirect local products, such as pastries and ice cream, to export markets. Products with "ethnic" themes may be attractive to the Croatian diaspora. Local niche and gourmet food products, such as truffles, can be developed to serve the tourism industry, particularly along Croatia's southern coast. Potential investment opportunities in food and beverage processing include the dairy industry; citrus fruit growing; and greenhouse produce.

Threats. Croatia may face cheaper competition in raw material production from nearby countries, including Serbia and Romania, as well as market penetration from stronger Western brands.

Insights at a Glance: Food and Beverage Processing in Croatia

- Croatia's candidacy for entry into the EU has raised industry speculation of acquisition activity in food and beverage processing. It is expected that Western European multinationals may acquire Croatian firms in order to enter the Croatian market, and possibly to develop Croatian brands for regional export.
- Many of the products currently made in Croatia cannot be exported under current quotas to the EU because they contain meat or dairy ingredients. However, there may exist opportunities to leverage some of these brands and products following Croatia's planned accession to the EU.

MACEDONIA

General FDI Trends

Macedonia has historically attracted higher FDI per capita than most other countries in the region, but has experienced a downturn in recent years. About 40 foreign investments entered the country via privatization between 1995 and 2001, accounting for a substantial portion of the total FDI. Subsequently, however, unstable civil conditions and the subsequent halt of privatization have resulted in minimal FDI inflows.

Macedonia's inclusion in the EU Stabilization and Association process, as well as its official application for EU membership in 2004, may encourage investors. Furthermore, a new government program for stimulating FDI was launched in August 2003, with privatization re-started in 2004, raising expectations of higher inflows by year-end 2005.

The majority of foreign investment comes from Hungary, since its German-owned telecom provider purchased the privatized Maktel in 2001. The next largest amount of FDI flows from Greece. Telecom is the most significant recipient of FDI, while manufacturing has a share of only 25%. The most important manufacturing FDI target is the food and beverage processing industry, which serves the local market and exports to neighboring territories, such as Kosovo.

The Automotive Components Industry

The motor vehicles and automotive components industry in Macedonia started in the 1960s with the development in Serbia of the Zastava Auto Factory, which also produced buses and other vehicles, components for construction and agricultural machines.

The automotive components sector has thus far garnered relatively little foreign investment, which mostly has been channeled through post-privatization acquisition of formerly state-owned firms. Local companies focus on the Russian market due to recent political ties. Some have invested in companies in other countries to penetrate markets outside Macedonia.

Strengths, Weaknesses, Opportunities, and Threats

Strengths. The study found that Macedonia benefits from a regional cost advantage relative to all its neighbors other than Serbia, with abundant low-cost skilled and unskilled labor and relatively less expensive industrial land. The automotive components sector exhibits an existing export orientation, with companies already in the field exporting 80% of production.

Weaknesses. Macedonia has limited technological/design expertise and experience and limited production of major inputs (e.g., special steel, plastic materials) for automotive component manufacturing. The reliance on imports may result in time and cost disadvantages due to logistics and storage costs. Macedonia also does not yet have a strong track record in highly engineered precision components, and few factories focus on high-level R&D.

Opportunities. The study highlighted opportunities to participate in the development of a specialized cluster in product areas that are labor intensive and can achieve economies of scale, such as seat belts and seat covers.

Threats. The study identified that investors may perceive political instability as Macedonia's primary non-commercial challenge. It also noted vulnerability to Serbia for labor-intensive investments until Macedonia develops a specialized area of expertise.

Insights at a Glance: The Automotive Components Industry in Macedonia

- Skilled workers, many with good language skills, earn a gross annual salary averaging about US$5,700, with an additional burden of roughly 32% to cover social security, health insurance, and unemployment insurance. Such workers have become available due to the closure or downsizing of companies from the industrial sectors.
- The government in recent years has privatized companies on a massive scale, offering bargain prices for the assets available.

The Food and Beverage Processing Industry

Macedonia's food and beverage processing sector has suffered from the disintegration of former Yugoslavia and the embargo imposed by Greece due to a dispute over use of the name "Macedonia." The markets are gradually recuperating, but remain at less than half of capacity.

Major activity in the food and beverage processing industry includes the canning of fruits and vegetables, and the processing of milk and meat. The fruit and vegetable subsector benefits from the local supply of raw materials. The country's major agricultural products include wheat, corn, tomatoes, rice, peppers, livestock, and various other fruits and vegetables. Net exports include fruits, vegetables, lamb, and related products; net imports include sugar, butter, milk, and meats other than lamb.

The study identified a single greenfield investment in a food and beverage processing factory—a dairy supported partly with Bulgarian capital. Privatization Agency data for 1995 through June 2003 shows US$50 million invested in four privatized food

processing enterprises, about 8.7% of the total inflow of foreign investments for the same period, which amounted to US$576 million.

Strengths, Weaknesses, Opportunities, and Threats

Strengths. The study found that Macedonia enjoys relatively strong branding on the former Yugoslavian market, as well as a production advantage in locally grown fruits and vegetables.

Weaknesses. Macedonia's food and beverage processing sector does not yet have an export orientation and has had little greenfield investment, particularly for further processing of local raw fruits and vegetables.

Opportunities. The study identified opportunities in the development of existing brands for a wider market, as well as in leveraging raw material production advantages to establish downstream processing operations.

Threats. As noted for the automotive components sector, investors may perceive that political instability presents a major non-commercial challenge.

Insights at a Glance: Food and Beverage Processing in Macedonia

- Macedonia has the potential to be self-sufficient in many food products.
- The food and beverage processing industry accounts for about 4% of GDP and 5-6% of exports.
- Most companies interviewed focus on the domestic market, and only three export the majority of their output. The export markets are principally the countries of former Yugoslavia. Macedonia has registered a negative trade balance in food products, with 2003 imports of US$270 million and exports of US$91 million.

SERBIA

General FDI Trends

Net FDI inflows increased more than twofold between 2002 and 2003, to US$1.2 billion, reflecting progress in privatization. The net inflow was US$149 million for the first quarter of 2004.

Tenders generated privatization revenues of about US$245 million in 2002 and US$740 million (roughly 5% of GDP) in the first ten months of 2003. Transactions in 2003 include the acquisition of steel producer Sartid by U.S. Steel, the purchase of specialty tire producer Ruma Guma by Galaxy Tire, and the acquisition by Uniworld of Serbia's largest travel and tour company.

Developments in 2004 include the announcements of Serbia's largest greenfield investment since its political transition in October 2000, a new plant to produce aluminum cans by Ball (a U.S. packaging company) of up to US$75 million, and a US$10 million investment by Henkel (Germany) in its existing factory. In addition, Kikinda's foundry Livnica has accepted the sole bid placed by Slovenian automotive firm CIMOS.

An important segment of the corporate sector, constituting 41 large enterprises that require restructuring, has not yet been placed on the agenda for privatization. Their restructuring and privatization will likely take several years, and some must first undergo bankruptcy procedures based on a recently created legal framework.

Bank privatization is proceeding step by step, starting with the closure of non-viable banks at the end of 2001. Authorities anticipated that the Jubanka privatization would generate proceeds of US$138 million. Furthermore, an institutional framework was started in 2003 for the privatization of public utilities.

The unresolved Kosovo situation has presented a political hindrance for larger FDI inflows into Serbia. While the region has calmed and privatization may restart soon in Kosovo, the potential for future conflict may discourage some types of investors. Earlier privatization tenders were usually won by members of the Kosovar diaspora, some of them establishing FDI companies. Reiffeisen Zentralbank increased the capital in Reiffeisen Bank Kosovo J.S.C., Pristina, by US$6 million in May 2004, confirming once more its commitment to the region.

The Automotive Components Industry

Serbia historically was a center for automotive vehicle production in former Yugoslavia. Prospects for imminent investment in this sector appear bright, although Serbia has not yet generated significant FDI or private sector start-up activity in automotive components.

All of the automotive firms interviewed for this study were locally owned. Many are starting the process of privatization, and some are in the early stages of strategic decision-making in preparation for privatization. The study revealed an abundant supply of inexpensive labor combined with a strong quality ethos, as well as a high level of quality certification. Many of the firms interviewed had achieved tier 1 supplier status, and were selling directly or indirectly to major Western vehicle or component manufacturing brands.

The weaknesses identified by previous studies of this sector—such as under-investment during the period of sanctions and capacity underutilization paired with ongoing fixed costs—may provide opportunities to incoming greenfield investors. For example, overstaffing and layoffs of skilled workers have created an ample supply of relatively less expensive experienced labor. Serbia's FTA and historical links with Russia are also regarded as major assets in attracting investors.

A clear history of international cooperation with Western automotive firms existed before the 1990s, and in some cases this pattern has survived or been revived. Among the relatively strong firms visited during this study, there has been little investment since sanctions were lifted. Nevertheless, in many cases these firms have achieved quality certification levels under existing conditions. Some firms appear to be overstaffed despite cutbacks that have already taken place, and face challenging financial and operational circumstances.

Strengths, Weaknesses, Opportunities, and Threats

Strengths. Serbia is proximate to Western European markets. The study found an abundance of highly skilled, very low-cost labor available in Serbia. The labor force includes many workers with engineering and technical skills applicable to the automotive components industry, including talented graduates from business and technical schools. Serbia also benefits from distribution networks, dating from the former Yugoslavia period, extending throughout the Western Balkan region, as well as a tradition of and experience in supplying Western Europe. Social advantages include the high quality of life in Belgrade and the reviving cosmopolitan and international orientation of young workers.

Weaknesses. Investors lost during the wars have proven difficult to attract back to Serbia, as they subsequently committed capital elsewhere. Interviewed investors reported limited availability of "soft" managerial skills among an abundant pool of managerial workers. Outmoded technology in operation may contribute to reduced

productivity, making it difficult to assess the potential capability. More importantly, direct availability of industrial land or modern industrial property is very limited.

Opportunities. Serbia has the potential to re-emerge as the Western Balkan regional hub for tier 1 supply capability in the automotive components sector. It has the lowest personnel costs in the region and therefore presents a clear competitive advantage in any labor-intensive manufacturing operation. Furthermore, due to the high standard of Serbian engineering skills, engineering design services may emerge as a promising subsector.

The GTZ Cluster Project focusing on the automotive components sector is expected to improve the quality of local sub-supply and enhance joint venture opportunities. There also exists a potential first-mover advantage with Russia through free trade and preferential market access agreements. Opportunities also may exist in the continued success of Serbia's privatization program. More generally, early-stage FDI opportunities exist in product diversification, building quality brands and products, and exporting to the EU.

Threats. Serbia lacks an image as an emerging business location combined with the perception of political risk among potential investors.

Insights at a Glance: The Automotive Components Industry in Serbia

- Labor is inexpensive in Serbia relative to its immediate neighbors. Furthermore, the study provided positive feedback on workforce attitudes and indices such as productivity, absenteeism levels, and industrial relations.
- Before sanctions, the industry was dominated by the Zastava Auto Factory, with production capacity of 250,000 vehicles per annum. Conversely, the component end of the industry is quite fragmented, with the last available report documenting 155 enterprises directly involved in production.
- Although few firms have top-level ISO certification, all the firms visited during this study cited quality certification as a top priority, and most said they were working on gaining the industry's quality standard certificate ISO/TS 16959.
- Most equipment and major machinery are imported, predominantly from Germany, Switzerland, and Italy, all reasonably close supply bases. In addition, nearly all raw materials (including metals, primarily steel and copper, as well as lead and polymers for plastics) are imported. High-quality steel can be locally purchased from U.S. Steel, a recent foreign investor.

The Food and Beverage Processing Industry

The food and beverage processing industry in Serbia is considered more fragmented than that of automotive components. Foreign investment to date has been mainly via investment fund vehicles.

Strengths, Weaknesses, Opportunities, and Threats

Strengths. The study identified natural advantages for Serbia in the production of certain crops, such as berries, which flourish in the local soil. The country's relatively inexpensive labor rates create a cost advantage. Serbia boasts strong regional brands. Furthermore, a significant national domestic market acts as a draw to market-seeking investment and can serve as a platform toward the establishment of a regional export base.

Weaknesses. While its brands are strong regionally, Serbia does not yet have internationally recognized brands. In addition, portions of the raw material production chain may require rationalization to ensure cost-competitive production.

Opportunities. There exist opportunities for further downstream processing of berry fruits. Other investment opportunities include the dairy industry (which would benefit from investment to help build economies of scale and acquire technological expertise), and greenhouse produce. Foreign investors have used Serbia as a base for Western Balkan and Eastern European market entry strategies.

Threats. Competition from larger-brand Western European produce may undermine existing national brands. In addition, the study found that investor's perceptions still revolve around political uncertainty.

Insights at a Glance: Food and Beverage Processing in Serbia

- Some small firms are thriving based on a very strong position serving the Serbian and Western Balkan markets.
- As in the automotive components sector, most equipment and major machinery is imported, predominantly from Germany, Switzerland, and Italy.

MONTENEGRO

General FDI Trends

Despite the relatively small size of its economy, Montenegro has managed to attract solid interest from foreign investors, especially through its privatization program. Investors from more than 40 countries have vested interests in Montenegro. The primary sources of investment have been Greece, Slovenia, and Russia, and to a somewhat lesser extent Italy, China, and Croatia.

Recent examples of investments in Montenegro include the following:

- Hellenic Petroleum acquired a majority stake in Montenegro's oil refinery, Jugopetrol Kotor, for EUR 65 million, plus an additional EUR 36.5 million for capital investment and social programs.
- Daido Metal, a Japanese-owned bearings producer, acquired the Kotor Baring Plant, with total investment around EUR 1 million.
- Slovene investors have invested in a variety of important sectors, such as agriculture, tourism (including the purchase of multiple hotel assets on Montenegro's coast), industry, and banking (e.g., the sale in 2003 of Montenegro Banka to a Slovene strategic partner, Nova Ljubljanska Banka).

The Automotive Components Industry

Daido Metal is a strong regional example of a modern, globally active automotive component plant. Originally established in 1956 as a government-owned limited liability company, it was privatized in 2002-03, with Daido Japan taking an ownership share that has subsequently grown to more than 90%.

Strengths, Weaknesses, Opportunities, and Threats

Strengths. As the single clearest example in the region of a successful de facto greenfield automotive component investment, Daido offers powerful proof of Montenegro's competitive capability and counters the misconception that Japanese investors would not consider the Western Balkans.

Weaknesses. The study found that Montenegro has a higher cost structure relative to that of some Western Balkan neighbors. Underdeveloped infrastructure and transport systems may inhibit the movement of components to export markets. Aside from Daido, Montenegro has not yet secured other significant automotive component manufacturing activity.

Opportunities. Daido's demonstration effect has the potential to attract a wide range of investors.

Threats. Existing manufacturers could potentially elect to move production to a location with lower labor costs, such as Serbia.

Insights at a Glance: The Automotive Components Industry in Montenegro

- As a result of a US$5 million initial investment plus US$2 million annual increments, Daido Metal has a modern automated plant, up-to-date Japanese mass production equipment, and continually expanding plant capacity. As an OEM supplier with the highest ISO certification levels, Daido enjoys reasonably predictable and stable production volumes and price levels.
- Daido managers consider quality the driver for all decisions. They also cite as important success factors the close proximity of a relatively inexpensive airport in Tivit, along with use of a good logistics firm plus buffer stock in the United Kingdom to supply the market in that country.

The Food and Beverage Processing Industry

With a small local population in Montenegro, as well as rugged geography and underdeveloped infrastructure, the food and beverage processing industry tends to be fragmented. However, it is reasonable to expect that prospects for small, niche, indigenous specialty food producers will improve.

Strengths, Weaknesses, Opportunities, and Threats

Strengths. The study found natural advantages for Montenegro in the production of high-quality grapes and other fruits. It further noted the potential for tourism-driven demand growth in the local market.

Weaknesses. The study concluded that Montenegro has not yet developed a unified market and production base. Relatively higher logistics costs and small holdings may hurt the country's cost competitiveness.

Opportunities. Niche opportunities exist for the production of high-quality traditional foods to serve the Montenegrin tourism market.

Threats. The country's manufacturing base could potentially be challenged by more cost-effective production within the region and beyond.

Insights at a Glance: Food and Beverage Processing in Montenegro

- Montenegro has a small food/beverage processing industry oriented around coastal tourism demands.
- Prospects for small, niche, indigenous specialty food producers will likely improve in tandem with tourism, the country's main development prospect.

Appendices

1. Acronyms and Abbreviations
2. About EIOP
3. Methodology
4. Tables of Findings—Costs
5. Tables of Findings—Operating Conditions
6. Resource Tables on FDI
7. Data Definitions and Sources

Appendix 1: Acronyms and Abbreviations

Acronyms and abbreviations used in this report are listed below in alphabetical order.

ACIT	Albanian Center for International Trade
AG	stock corporation (German)
BiH	Bosnia and Herzegovina
CEC	Central European country
EBP	Enterprise Benchmarking Program
EIOP	European Investor Outreach Program
EU	European Union
EUR	Euro
FAO	Food and Agriculture Organization
FDI	foreign direct investment
FTA	free trade agreement
GDP	gross domestic product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH
IPA	investment promotion agency
IPI	investment promotion intermediary
ISO	International Organization for Standardization
JIT	just-in-time
JV	joint venture
Kbps	kilobits per second
kVA	kilo volt-amperes
KW	kilowatt
kWh	kilowatt hour
MIGA	Multilateral Investment Guarantee Agency
OAG	OAG Worldwide Limited, a global content management company
OEM	original equipment manufacturing
OEMs	original equipment manufacturers
R&D	research and development
RZB	Raiffeisen Zentralbank
SEE	South East Europe
SEEC	South East European country

SMEs	small and medium-sized enterprises
SWOT	strengths, weaknesses, opportunities, and threats
TUV	TÜV Rheinland Group, a global independent testing and certification firm
VAT	value added tax
VW	Volkswagen
WEF	World Economic Forum
WIIW	Vienna Institute for International Economic Studies

Appendix 2: About EIOP

This appendix, excerpted from materials about the European Investor Outreach Program created for investors, provides a brief summary of EIOP's purpose and services.

The European Investor Outreach Program was established by the Multilateral Investment Guarantee Agency to promote foreign direct investment in the Western Balkans.

Under this initiative, a Vienna-based project office has been established to operate as a "one-stop-shop" for potential investors and their advisors. The office, staffed with investment promotion specialists, provides full support to companies through all phases of their investment decision-making process. EIOP delivers business climate information and investment facilitation services to investors on a confidential basis and free of charge.

EIOP Information and Research Services

The Western Balkans is a dynamic region for investment, with an improving economic outlook and overall business climate. To date, however, the lack of relevant sector-specific information about investment opportunities and conditions in the region has presented a major challenge for companies interested in investing in the region. To overcome this lack of information, EIOP conducted the current study on doing business in the region.

EIOP Facilitation Services

EIOP can assist potential investors in identifying site options, organizing fact-finding trips, and assessing the optimum site locations within the region. EIOP also offers the following investment facilitation services to help potential investors with their investments in the target region:

- **Close cooperation with investment promotion agencies:** EIOP works very closely with the national and local investment promotion agencies in the region to help ensure top-quality support service to prospective investors at all stages of the investment process.
- **Network of key contacts in the target region:** EIOP draws upon a network of high-quality contacts in all countries of the target region. EIOP uses this network to ensure that the needs of a potential investor are fully understood by government officials at the national and local levels.
- **Assistance in the sourcing of finance:** EIOP can introduce potential investors to additional sources of finance, if required. The program links companies to national and international providers of finance, such as European Development

Finance Institutions, the European Bank for Reconstruction and Development, and the International Finance Corporation.

- **Assistance in risk mitigation tools:** EIOP can provide potential investors with access to risk mitigation tools via its extensive network of contacts among national and international providers of political and commercial risk insurance.

Appendix 3: Methodology

This appendix briefly summarizes the study's methodology, including information about the three phases of data collection and the sample of interviewed investors.

MIGA'S BENCHMARKING APPROACH

The MIGA benchmarking approach seeks primarily to provide indicative raw data to investors in the following areas: a country's business climate and government policies; specific industry factors; investment promotion services; infrastructure; and labor. MIGA anticipates that investors would then feed such data into their own decision-making processes.

It is expected that this process will constitute merely a starting point for the assessment of any contemplated investment project. By no means does it obviate the need for a full-blown financial analysis, which would clearly require customization according to the details of each specific investment project.

Data Collection

During the course of this study, researchers generated information relevant to potential greenfield FDI decisions meeting the following three criteria:

- **Credibility** of the source—all information should be obtained from a respected and reliable international or national source and cross-checked against other sources.
- **Comparability** of the data-point across locations.
- **"Updateability"**—researchers should be able to return to the source after six months or a year to obtain more current information.

Researchers employed a combination of three basic methods to collect data:

- Phase 1, considered "desktop research," involved the compilation of internationally available and credible data from sources such as the World Economic Forum (*Global Competitiveness Report*), the World Bank (*Doing Business* report and *World Development Indicators*), *Euromoney* magazine (Country Risk ratings), *Institutional Investor* magazine (Country Credit ratings), PriceWaterhouseCoopers (tax guide), the World Trade Organization (Consolidated Tariff Schedules database and Integrated Data Base), the World Trade Center (competitiveness ratings), Transparency International (Corruption Perceptions Index), and the Food and Agriculture Organization (FAO) of the United Nations (land availability statistics).
- Phases 2 and 3 both involved the compilation of data within the target country. During Phase 2, local researchers in each country conducted both desk and telephone research. They contacted tax specialists, real estate agents, construction companies, government ministries, and utility providers to seek data on costs such as local tax rates, land purchase costs, office and industrial site rental rates, electric power and water costs, telecommunications, transportation, and freight. Researchers also gathered data on airline access.

- Phase 3, involving the collection of field data from a total of 80 company interviews, focused on the following issues: wage costs and labor availability; access to materials; operating costs; export patterns; investment-driving factors; quality of infrastructure; and quality of life. Foreign investors were usually interviewed; in their absence, interviews were conducted with local investors. Table 3.1 outlines the number of companies interviewed in each sector, by country, during this phase of the data collection process.

Table 3.1: Profile of Companies Interviewed

Country	Food and Beverage Processing Sector	Automotive Components Sector
Albania	7	NA
Bosnia & Herzegovina	7	7
Croatia	3	9
Macedonia	8	8
Serbia & Montenegro	10	9
Total	35	33

Note: The field team also interviewed eight shoe and leather firms in Albania, as well as four information technology firms in Croatia.

The results of this study are unique to the sample of interviewed companies, whose perspectives reflect their individual strategies and preferences. Given the subjective nature of the qualitative information collected during company interviews, the findings may not always reflect the subtleties inherent in any complex competitive situation. In a few cases, individual data points may also seem to reflect inconsistencies. On the whole, however, the results are representative of the overall operating environment for a sample of investors in the two subject sectors at the time of the study. Prospective investors evaluating the region's locations should consider this study's findings indicative rather than absolute in their conclusions.

Appendix 4: Tables of Findings—Costs

This appendix presents tables of data collected pertaining to cost factors, including: gross salary for five categories of labor; total employment costs for five categories of labor; property and plant costs; construction costs for an assumed model plant; utility costs for electricity, gas and water; and corporate income and sales tax rates. In all tables, data is given for each of the five subject countries in the Western Balkans, as well as the comparator countries of the Czech Republic, Hungary and Slovakia, shown at the base of each table. For more information on the individual cost factors, please refer to Appendix 7, which provides detail on the data definitions and sources.

Table 4.1: Annual Gross Salary or Wages for Various Labor Categories, by Country

(in US$)

	Manage-ment	Pro-fessional	Technical	Skilled Labor	Unskilled Labor
Albania	13,538	8,123	6,497	3,569	2,215
Bosnia & Herzegovina	22,521	14,250	12,600	7,667	5,467
Croatia	35,383	22,317	12,600	11,408	7,714
Macedonia	26,251	14,214	6,445	5,701	4,079
Serbia & Montenegro	NA	10,649	3,878	5,715	4,293
Comparators:					
Czech Republic	21,193	NA	6,031	9,389	6,583
Hungary	37,170	NA	16,862	8,744	7,618
Slovakia	21,189	NA	10,797	5,152	3,699

Source: Investor interviews.

Table 4.2: Annual Total Employment Costs for Various Labor Categories, by Country

(in US$)

	Manage-ment	Pro-fessional	Technical	Skilled Labor	Unskilled Labor
Albania	17,695	10,617	7,882	4,665	2,896
Bosnia & Herzegovina	25,111	15,889	14,049	8,548	6,095
Croatia	41,352	26,155	19,763	13,370	9,041
Macedonia	34,652	18,763	14,252	7,526	5,384
Serbia & Montenegro	13,881	12,353	7,537	6,630	4,980
Comparators:					
Czech Republic	28,611	NA	17,128	12,675	8,887
Hungary	49,622	NA	23,843	11,673	10,170
Slovakia	28,647	NA	15,241	6,965	5,001

Source: Investor interviews.

Table 4.3: Property and Plant Costs, by Country

(in US$ per square meter)

		Construction Cost		
	Industrial Site Cost	For Production	For Warehouse	For Office
Albania	NA	NA	NA	NA
Bosnia & Herzegovina	52	374	288	1,152
Croatia	35	507	390	1,755
Macedonia	60	163	125	800
Serbia & Montenegro	177	374	288	704
Comparators:				
Czech Republic	45	857	659	1,170
Hungary	49	986	296	1,346
Slovakia	215	732	220	552

Sources: Local real estate agencies; land cadaster office; leading local construction companies.

Table 4.4: Annualized Construction Cost for Assumed Model Plant, by Country

(in US$)

	Automotive Components	Food/Beverage Processing
Albania	NA	300,625
Bosnia & Herzegovina	77,472	300,960
Croatia	109,785	417,300
Macedonia	41,125	145,625
Serbia & Montenegro	66,272	278,560
Comparators:		
Czech Republic	140,621	615,355
Hungary	161,380	708,200
Slovakia	108,960	503,400

Note: Model plant based on parameters of a typical project in each industry.

Sources: Investor interviews; leading local construction companies.

Table 4.5: Per Unit Utility Costs, by Country

(in US$)

	Electricity (per kWh)	Gas (per cubic meter)	Water (per cubic meter)
Albania	0.103	0.01	0.19
Bosnia & Herzegovina	0.117	0.28	1.79
Croatia	0.095	0.38	3.06
Macedonia	0.078	0.26	0.49
Serbia & Montenegro	0.065	0.22	0.53
Comparators:			
Czech Republic	0.060	0.26	0.00
Hungary	0.083	0.33	0.92
Slovakia	0.080	0.30	0.79

Source: Local utility companies.

Table 4.6: Corporate Taxation

(as %)

	Standard Corporate Income Tax Rate	Value Added / Sales Tax Rate
Albania	23	20
Bosnia & Herzegovina	20	14
Croatia	20	22
Macedonia	15	18
Serbia & Montenegro	10	18
Comparators:		
Czech Republic	26	19
Hungary	16	25
Slovakia	19	19

Sources: PWC tax guide and local tax specialists.

Appendix 5: Tables of Findings—Operating Conditions

This appendix presents tables of data collected pertaining to operating condition factors in six main categories: the general business environment; labor availability; flexibility of labor regulations; telecommunications infrastructure; market and access; and living conditions for expatriates. In all tables except Table 5.2: Labor Availability, data is given for each of the five subject countries in the Western Balkans, as well as the comparator countries of the Czech Republic, Hungary, and Slovakia. Each table notes the scales of measurement applied. For more information on the individual data points, please refer to Appendix 7, which provides detail on the data definitions and sources.

Table 5.1: General Business Environment

						Comparator Countries		
	Albania	**Bosnia & Herzegovina**	**Croatia**	**Macedonia**	**Serbia & Montenegro**	**Czech Republic**	**Hungary**	**Slovakia**
Economic & Financial Stability								
Institutional Investor Country Credit Ratings*	17.0	26.0	50.9	25.3	16.1	65.6	65.4	57.8
Euromoney Country Risk Poll*	34.5	35.6	57.1	36.1	31.5	66.1	68.8	59.1
Doing Business & Bureaucracy								
Average number of procedures required to start a business	11	12	12	13	11	10	6	9
Average number of days required to start a business	47	54	49	48	51	40	52	52
TI Corruption Perceptions Index‡	2.5	3.1	3.5	2.7	2.7	4.2	4.8	4.0

Notes:
* Based on a scale of 1-100, in which 100 is the best rating.
‡ Based on a scale of 0-10, in which 10 is the best rating.

Sources: See Appendix 7.

Table 5.2: Labor Availability

Level	Albania	Bosnia & Herzegovina	Croatia	Macedonia	Serbia & Montenegro
Management	1.9	3.4	3.6	4.5	4.0
Professional	2.8	4.0	3.6	4.8	4.0
Technical	2.1	4.4	3.5	4.0	3.8
Skilled	2.5	4.6	3.6	4.2	4.0
Unskilled	3.9	5.0	4.2	4.7	4.2

Note: Investors were asked during the interviews their perceptions on the availability of labor, on a scale of 1-5:

5=there are plenty of qualified candidates to take the position
4=there are enough workers to qualify for the job, and the company usually has no problem finding the right personnel
3=the company needs to search hard, but eventually finds the right personnel
2=at least 50% of the time, the company can find the right personnel after a lengthy search
1=it is impossible to find the right personnel

Source: Investor interviews.

Table 5.3: Flexibility of Labor Regulations

						Comparator Countries		
	Albania	Bosnia & Herzegovina	Croatia	Macedonia	Serbia & Montenegro	Czech Republic	Hungary	Slovakia
Rigidity of Employment Index*	30	49	57	38	23	28	40	10
Average number of weekly working hours	43	41	25	39	43	41	40	40
Labor relations‡	NA	3.3	3.6	3.8	3.8	4.7	5.1	4.8
Labor turnover (annual rate in %)	6.7	1.6	3.3	0.7	0.5	NA	NA	NA

Notes:
* Based on a scale of 0-100 in which 100 denotes the most rigid regulations.
‡ Based on a scale of 1-7 in which 7 denotes the best labor relations.

Sources: See Appendix 7.

Table 5.4: Telecommunications Infrastructure

						Comparator Countries		
	Albania	Bosnia & Herzegovina	Croatia	Macedonia	Serbia & Montenegro	Czech Republic	Hungary	Slovakia
Telecommunications								
Quality of telephone service*	3.5	4.8	5.0	5.0	4.5	NA	NA	NA
Number of days to install a telephone	3.0	3.2	1.3	1.0	NA	NA	NA	NA
Information Technology								
Quality in internet service*	3.0	5.0	5.0	4.8	4.0	5.0	5.0	5.0

Notes:
* Scale of 5 (Best) → 1 (Worst)

Sources: Investor interviews.

Table 5.5: Market and Access

						Comparator Countries		
	Albania	Bosnia & Herzegovina	Croatia	Macedonia	Serbia & Montenegro	Czech Republic	Hungary	Slovakia
Size of Domestic Market								
GDP in US$ billions	6.1	7.0	28	4.7	19.2	85.4	82.8	31.9
International People Access								
Number of direct weekly flights to Europe	130	79	60	78	322	1664	405	206
Passenger arrivals (in '000)	34	160	6944	99	448	4579	3013	1399

Sources: See Appendix 7.

Table 5.6: Living Conditions for Expatriates

						Comparator Countries		
	Albania	Bosnia & Herzegovina	Croatia	Macedonia	Serbia & Montenegro	Czech Republic	Hungary	Slovakia
Safety								
Level of safety*	2.9	4.0	4.7	4.7	3.2	NA	NA	NA
International Schools								
Total number of international schools	1	1	4	3	6	39	12	4
Healthcare								
Quality of healthcare*	3.0	3.0	2.7	4.0	2.8	NA	NA	NA

Note:
* Scale of 5 (Best) → 1 (Worst)

Sources: See Appendix 7.

Appendix 6: Resource Tables on FDI

The tables in this appendix present additional information on FDI inflows in Eastern Europe and in new EU member countries in Central Europe, as well as a global listing of recent greenfield projects in the automotive sector.

Table 6.1: FDI Inflows, 1998-2004

(EUR millions)

	1998	1999	2000	2001	2002	2003	2004
Czech Republic	3,317	5,933	5,404	6,296	9,012	1,863	3,596
Hungary	2,988	3,106	2,998	4,391	3,185	1,909	3,365
Poland	5,676	6,824	10,334	6,372	4,371	3,660	4,892
Slovakia	629	402	2,089	1,768	4,397	506	891
Slovenia	194	99	149	412	1,750	299	422
Subtotal: New EU members (5)	12,805	16,364	20,974	19,240	22,716	8,237	13,165
Estonia	511	284	425	603	307	797	742
Latvia	317	325	447	147	269	267	522
Lithuania	824	457	412	499	772	160	623
Baltic countries	1,653	1,066	1,284	1,248	1,347	1,224	1,887
Subtotal: New EU members (8)	14,457	17,430	22,258	20,488	24,063	9,460	15,052
Albania	40	39	155	232	151	158	275
Bosnia & Herzegovina	60	166	159	133	282	338	400
Bulgaria	478	775	1,103	903	980	1,851	1,958
Croatia	843	1,369	1,142	1,503	1,195	1,788	921
Macedonia	114	31	189	493	83	84	122
Romania	1,763	964	1,147	1,294	1,212	1,946	4,098
Serbia	101	105	55	186	502	1,197	775
Montenegro	NA	NA	NA	NA	NA	NA	NA
Subtotal: South East Europe	3,398	3,448	3,950	4,743	4,405	7,361	8,549
Belarus	181	416	129	107	262	152	136
Moldova	67	36	137	114	138	61	NA
Russia	2,424	3,105	2,933	3,069	3,660	7,042	9,388
Ukraine	658	466	644	884	734	1,260	1,380
European CIS	3,331	4,023	3,843	4,174	4,794	8,514	10,904
Asian CIS	2,676	2,308	2,025	4,424	4,270	5,300	6,000
CIS	6,006	6,331	5,868	8,598	9,064	13,814	16,904
Eastern Europe	23,862	27,209	32,076	33,829	37,532	30,636	40,506

Sources: National banks of respective countries, based on balance of payments statistics and World Investment Report 2003 for Asian CIS.

Table 6.2: FDI Inflows per Capita, 1998-2004

(EUR millions)

	1998	1999	2000	2001	2002	2003	2004
Czech Republic	322	577	526	616	884	183	352
Hungary	291	303	294	431	314	188	333
Poland	147	177	267	165	114	96	128
Slovakia	117	74	387	329	817	94	166
Slovenia	98	50	75	207	877	150	211
Total: New EU members (5)	192	246	315	290	344	125	200
Estonia	369	207	310	442	226	589	550
Latvia	132	136	188	62	115	115	226
Lithuania	232	130	118	143	222	46	181
Baltic countries	225	146	177	173	188	172	266
Total: New EU members (8)	196	236	302	278	329	130	206
Albania	12	11	45	75	48	50	86
Bosnia & Herzegovina	16	45	42	35	74	88	104
Bulgaria	58	94	135	114	125	237	252
Croatia	187	301	257	339	269	403	208
Macedonia	57	15	93	242	41	41	60
Romania	78	43	51	58	56	90	189
Serbia	NA	14	7	24	67	159	103
South East Europe	62	66	76	92	87	146	169
Russia	17	21	20	21	25	49	65
Ukraine	13	9	13	18	15	26	29

Sources: Calculations based on Appendix Table 6.1 and WIIW Annual Database.

Table 6.3: List of Global Automotive Greenfield FDI Projects, 2002 to 2005

Company (Source City, Source Country)	Number of Projects
Toyota (Toyota, Japan)	28
Denso (Kariya, Japan)	27
Aisin Seiki (Kariya, Japan)	17
PSA Peugeot-Citroën (Paris, France)	17
Robert Bosch (Gerlingen-Schillerhohe, Germany)	17
ZF Friedrichshafen (Friedrichshafen, Germany)	16
Visteon (Dearborn, Michigan, USA)	14
Toyoda Gosei (Nishikasugai-gun, Japan)	13
Valeo (Paris, France)	13
Honda (Tokyo, Japan)	12
Sumitomo Group (Osaka, Japan)	12
Autoliv (Stockholm, Sweden)	11
Magna (Aurora, Canada)	10
Yazaki Group (Tokyo, Japan)	10
Hyundai Motor (Seoul, South Korea)	9
Johnson Controls (Milwaukee, Wisconsin, USA)	9
ThyssenKrupp (Duisberg, Germany)	9
Benteler (Paderborn, Germany)	8
Continental (Hanover, Germany)	8
DaimlerChrysler (Stuttgart, Germany)	8
General Motors—GM (Detroit, Michigan, USA)	8
Musashi Seimitsu Industry (Toyohashi, Japan)	8
Behr (Stuttgart, Germany)	7
Brose (Berlin, Germany)	7
Dana (Toledo, Ohio, USA)	7
Grupo Antolin (Burgos, Spain)	7
Lear (Southfield, Michigan, USA)	7
Siemens (München, Germany)	7
Delphi (Troy, Michigan, USA)	6
NGK Insulators (Nagoya, Japan)	6
NTN (Osaka, Japan)	6
TI Automotive Holdings (Oxford, UK)	6
ArvinMeritor (Troy, Michigan, USA)	5
Brembo (Bergamo, Italy)	5
Hella KG Hueck & Co. (Lippstadt, Germany)	5
Koyo Seiko (Osaka, Japan)	5
Mando (Kunpo, South Korea)	5
Mitsubishi (Tokyo, Japan)	5
Norsk Hydro (Oslo, Norway)	5
Renault (Boulogne-Billancourt, France)	5
Showa (Saitama, Japan)	5
TRW (Cleveland, Ohio, USA)	5
Volkswagen (Wolfsburg, Germany)	5
Aisan Industry (Obu, Japan)	4
Bridgestone (Tokyo, Japan)	4
Diamond Electric (Osaka, Japan)	4
Eaton (Cleveland, Ohio, USA)	4
Grammer Industries (Amberg, Germany)	4
Hitachi (Tokyo, Japan)	4
INA-Holding Schaeffler KG (Herzogenaurach, Germany)	4
Keihin (Tokyo, Japan)	4
LEONI (Nürnberg, Germany)	4
MAN Aktiengesellschaft (München, Germany)	4
Nissan (Tokyo, Japan)	4
NSK (Tokyo, Japan)	4
Tokai Rika (Japan)	4
Toyoda Boshoku (Kariya, Japan)	4
U-Shin (Tokyo, Japan)	4
Akebono Brake Industry (Tokyo, Japan)	3
Aunde Group (Mönchengladbach, Germany)	3

Table 6.3: List of Global Automotive Greenfield FDI Projects, 2002 to 2005 (continued)

Company (Source City, Source Country)	Number of Projects
BorgWarner (Chicago, Illinois, USA)	3
C.F. Gomma (Brescia, Italy)	3
Calsonic Kansei (Tokyo, Japan)	3
Caparo Group (London, UK)	3
Cooper Tire & Rubber (Findlay, Ohio, USA)	3
Eberspaecher (Esslingen am Neckar, Germany)	3
Eybl International (Krems an der Donau, Austria)	3
Ford (Detroit, Michigan, USA)	3
Futaba Industrial (Tokyo, Japan)	3
Gentex (Zeeland, Michigan, USA)	3
Getrag Ford Transmissions (Köln, Germany)	3
Haldex (Stockholm, Sweden)	3
Hayes Lemmerz (Northville, Michigan, USA)	3
Ichikoh Industries (Tokyo, Japan)	3
Inter Groclin Auto (Wolsztyn, Poland)	3
Kayaba Industry (Tokyo, Japan)	3
Koito (Japan)	3
Magna Kanesei (Japan)	3
Murakami (Shizuoka, Japan)	3
NHK Spring (Yokohama, Japan)	3
Nittan Valve (Hadano, Japan)	3
Prevent (Slovenia)	3
Rehau (Rehau, Germany)	3
SaarGummi (Germany)	3
Saia-Burgess Electronics Holding (Murten, Switzerland)	3
Tenneco Automotive (Lake Forest, Illinois, USA)	3
Tokai Rubber Industries (Komaki, Japan)	3
Tokico (Kawasaki, Japan)	3
Trelleborg (Trelleborg, Sweden)	3
Webasto (Stockdorf, Germany)	3
YHI International (Singapore)	3
Zexel Valeo Climate Control (Yokohama, Japan)	3
Freudenberg (Weinheim, Germany)	2
Halla Climate Control (Seoul, South Korea)	2
Innovative Systems Europe (Germany)	2
Mann + Hummel (Ludwigsburg, Germany)	2
Mubea (Attendorn, Germany)	2
Pacifica Group (East Bentleigh, Australia)	2
Safety Components International (Greenville, South Carolina, USA)	2
Stankiewicz (Celle, Germany)	2
Others	412
Total	995

Source: OCO Consulting, *LOCOmonitor*, 2005.

Appendix 7: Data Definitions and Sources

This appendix provides detail on the definitions and sources of data collected for the study, organized under several broad categories of factors important to investors.

Table 7.1: Details on Individual Data Points

Data Point	Explanation / Definition	Source
COSTS		
Labor Costs		
Annual gross salary or wages	Investors were asked to provide annual gross salary or wages in US$ for five levels of positions: management, professional, technical, skilled, and unskilled. (See Labor Availability, below, for types of positions included in each level.)	Investor interviews
Annual total employment costs	Investors were asked to provide annual total employment costs in US$ (including benefits) for five levels of positions: management, professional, technical, skilled, and unskilled. "Benefits" refers to employee contributions above and beyond regular salary.	Investor interviews
Investment Costs		
Sale price of industrial land	Cost to acquire an industrial site within 20 km of the capital or main city being studied (in US$ per sq. meter).	CB Richard Ellis; King Sturge; Colliers Jardine; real estate agencies; or free zone authority
Sale price of land for hotels	Cost to acquire land to build hotel in a tourist area (in US$ per sq. meter).	CB Richard Ellis; King Sturge; Colliers Jardine; real estate agencies; land office cadaster office
Sale price of central city land for office building	Cost to acquire land to build office building in central city (in US$ per sq. meter).	Local real estate agencies; land cadaster office
Warehouse construction cost	Construction cost for a concrete block warehouse (measured in US$ per sq. meter).	Leading local construction companies
Office building construction cost	Construction cost for a Class A office building (measured in US$ per sq. meter).	Leading local construction companies
Hotel construction cost	Construction cost for a 5-star tourist hotel (measured in US$ per sq. meter).	Leading local construction companies

Table 7.1: Details on Individual Data Points (continued)

Data Point	Explanation / Definition	Source
Property Costs		
Class A office rental	Class A office is office building in prime location (measured in sq. meters/year).	CB Richard Ellis; local real estate companies
Class A office occupancy charges	Additional charges for renting a Class A office.	CB Richard Ellis; local real estate companies
Class B office rental	Class B office is located outside the city center (measured in sq. meters/year).	Cushman & Wakefield; local real estate companies
Class B office occupancy charges	Additional charges for renting a Class B office.	Cushman & Wakefield; local real estate companies
Lease price for industrial site	Annual lease price of an industrial site within 20 km of the capital or main city.	CB Richard Ellis; King Sturge; Colliers Jardine; real estate agencies; free zone authority
Lease price for standard factory building	Annual lease price for standard factory building shell offered by local free zone or industrial estate (measured in sq. meters/year).	Local free zone authority
Additional industrial site occupancy charges	Additional charges associated with leasing industrial land or standard factory building (e.g., free zone security fees; membership charges; maintenance fees).	CB Richard Ellis; King Sturge; Colliers Jardine; real estate agencies; free zone authority
Utility Costs		
Local telephone call	Cost of 1-minute call within the capital city, charged by lowest-cost leading telecom operator.	Lynx Technologies; local telecom companies
Telephone call to an adjacent country	Cost of 1-minute call to an adjacent country (a country that has borders with the subject country).	Lynx Technologies; local telecom companies
International telephone call to U.S.	Cost of 1-minute call charged by lowest-cost leading international telecom operator in country.	Lynx Technologies; local telecom companies
High-bandwidth internet connection	Monthly cost charged by main internet service provider for 256 kbps or higher broadband connection.	Lynx Technologies; local broadband internet provider
High-bandwidth internet usage	Broadband usage charge per minute for 256 kbps service.	Local broadband internet provider
Electricity (usage)	Cost for industrial use per kWh.	Local utility companies
Electricity (capacity demand)	Cost for industrial use per kVA.	Local utility companies
Gas	Cost for industrial use per cubic meter.	Local utility companies
Water	Cost for industrial use per cubic meter.	Local utility companies

Table 7.1: Details on Individual Data Points (continued)

Data Point	Explanation / Definition	Source
Freight Costs		
Cost of shipping by sea: standard container	Cost in US$ of shipping a 40-foot standard container from capital city (taking into consideration any overland shipping charges for landlocked cities) to ports of Rotterdam; New York; Long Beach; Yokohama; Singapore.	Local freight forwarding companies
Cost of shipping by sea: refrigerated container	Cost in US$ of shipping a 40-foot standard refrigerated container from capital city (taking into consideration any overland shipping charges for landlocked cities) to ports of Rotterdam; New York; Long Beach; Yokohama; Singapore.	Local freight forwarding companies
Cost of shipping by sea: bulk shipping	Cost in US$/kg of bulk shipment from capital city to ports of Rotterdam; New York; Long Beach; Yokohama; Singapore	Local freight forwarding companies
Cost of shipping by air	Normal rate in US$ for general cargo under 45 kg by air to: Amsterdam Schiphol; New York JFK; Los Angeles LAX; Tokyo Narita; Singapore Changi.	Local freight forwarding companies
Corporate Taxation		
Corporate tax rate	Top corporate income tax rate (%).	PWC tax guide; local tax specialist
Sales or VAT tax rate	Value added or sales tax rate (%).	PWC tax guide; local tax specialist
Annual property tax rate	Tax on property levied on a yearly basis (%). Note: This is not a property transfer tax.	PWC tax guide; local tax specialist
GENERAL BUSINESS ENVIRONMENT **Economic, Financial, and Political Stability**		
Institutional Investor Country Credit ratings	Based on a bi-annual survey of leading commercial banks. It captures risk perceptions of the main commercial lenders. The Index is widely referenced in International Finance Corporation/World Bank Group.	*Institutional Investor* magazine
Euromoney Country Risk ratings	Semi-annual rating of the political and economic performances of 185 sovereign countries. It uses the views of experts, heads of syndication and loans, as well as data from the World Bank, forfeiting houses, and credit rating agencies.	*Euromoney* magazine

Table 7.1: Details on Individual Data Points (continued)

Data Point	Explanation / Definition	Source
Doing Business & Bureaucracy		
Number of procedures required to start a business	The *Doing Business* survey examines the start-up of commercial or industrial firms. It counts all procedures (defined as a legal requirement that involves a separate interaction between the firm and an outside entity—officials, notaries, etc.) required to register a firm.	World Bank: *Doing Business* report
Number of days to start a business	See preceding data point.	World Bank: *Doing Business* report
Corruption Perceptions Index	Measures the degree of perceived corruption among a country's public officials and politicians (composite of indices from independent sources).	Transparency International
Customs	Investors were asked how often they get through customs within the officially required time.	Investor interviews
LABOR CONDITIONS		
Labor Availability		
By level of position	Investors were asked their perceptions on the availability of labor, on a scale of 1-5, in which 5 means that there are plenty of qualified candidates and 1 means it is impossible to find the right personnel. Levels of positions analyzed: ☐ Management ☐ Professional (accountant, lawyer, consultant, etc.) ☐ Technical (engineer, accounting clerk, programmer, system analyst, etc.) ☐ Skilled (workers engaged in production, data entry, customer service, etc.) ☐ Unskilled (receptionist, clerk, driver, assembly line worker, janitor, etc.)	Investor interviews
Labor Flexibility		
Rigidity of Employment Index	Measures how difficult it is to hire a new worker, how rigid the restrictions are on expanding/contracting the number of working hours, and how difficult and costly it is to dismiss a redundant worker.	World Bank: *Doing Business* report
Working Time Regulations		
Average weekly working hours	The average number of weekly working hours per employee.	Investor interviews

Table 7.1: Details on Individual Data Points (continued)

Data Point	Explanation / Definition	Source
Social Climate		
Labor relations	Ranking based on an executive opinion survey on labor-employer relations.	WEF: *Global Competitiveness Report*
Labor Turnover		
Labor turnover	Investors were asked to provide an annual turnover rate, defined as the number of people who left the job voluntarily divided by the total number of employees.	Investor interviews
REAL ESTATE **Availability of Agricultural land**		
Availability of agricultural land	Arable land.	Food and Agriculture Organization: *Production Yearbook*
Availability of Industrial Buildings		
Vacancy rate for industrial buildings (%)	For industrial space within 20 km of the metropolitan area.	National sources
Availability of Office Space		
Vacancy rate for offices (%)	For office space in the metropolitan area.	National sources
INFRASTRUCTURE **Telecommunications and IT**		
Quality of telephone service	Investor was asked how often his company's telephone (land line) is down and to rate the quality of this service on a scale of 1-5, in which 5 indicates the highest perceived quality and 1 indicates the lowest.	Investor interviews
Number of days to install a telephone	Investor was asked how many days it takes to install a telephone in his location.	Investor interviews
Quality of internet service	Investor was asked how often his company's internet service is down and to rate the quality of this service on a scale of 1-5, in which 5 indicates the highest perceived quality and 1 indicates the lowest.	Investor interviews

Table 7.1: Details on Individual Data Points (continued)

Data Point	Explanation / Definition	Source
MARKET AND ACCESS		
Size of Domestic Market		
GDP	In current US$ billions.	World Bank: *World Development Indicators*
Airline Access		
Number of direct flights from main/capital city	Number of direct flights per week to Europe, U.S., and Asia. "Direct flight" means flight on a single aircraft, though plane may make one or more stops en route.	Local airport or travel agency
Number of direct weekly flights to Europe	Number of flights destined to airports located in the U.K., France, the Netherlands, Germany and Belgium.	*OAG Guide*
International People Access		
Passenger arrivals	Number of international passenger arrivals.	*OAG Guide*
LIVING CONDITIONS		
Schools		
Number of international schools	Number of international schools in the country.	Ministry of Education; investment promotion intermediaries
Safety		
Safety	Investors were asked to rate the level of safety in the country on a scale of 1-5, in which 5 indicates the highest perceived quality and 1 indicates the lowest.	Investor interviews
Healthcare		
Healthcare	Investors were asked to rate the quality of healthcare in the country on a scale of 1-5, in which 5 indicates the highest perceived quality and 1 indicates the lowest.	Investor interviews

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