

Chapter 11

Strengthening Competitiveness in the Republic of Macedonia: A Regional Development Policy Perspective

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1 Competitiveness: Definition and the State of Affairs in the Republic of Macedonia

Competitiveness is increasingly being invoked as a critical factor for emerging and transition economies, particularly with regards to the discussions evolving around the level of development of national economies, rates of economic growth and prospects for further progress. Regardless of its frequent use at the macro-economic level, the concept of competitiveness is in fact poorly defined and strongly contested (European Commission Directorate 2003). Despite the fact that improving a nation's or a region's competitiveness is often stated as a central goal of economic policy, arguments abound as to what this precisely means, and whether it is even useful to talk of competitiveness at a macro-economic level at all (European Commission Directorate 2003). Strong criticism about the misconceived use of the term competitiveness at macro-level was put forward by Paul Krugman in the 1990s, asserting that the countries operate under different conditions than the companies, and therefore, no ground for reasonable comparison exists (Krugman 1994).

On the other hand, there are various proponents of the concept of macro competitiveness. This stream of thought has produced a degree of consensus on the meaning of competitiveness:

“Competitiveness may be defined as the degree to which, under open market conditions, a country can produce goods and services that meet the test of foreign competition while simultaneously maintaining and expanding domestic real income” (OECD 1992) and

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“An economy is competitive if its population can enjoy high and rising standards of living and high employment on a sustainable basis. More precisely, the level of economic activity should not cause an unsustainable external balance of the economy nor should it compromise the welfare of future generations.” (European Commission 2000–2002)

It could be argued that these definitions have their shortcomings, in so far as they mostly refer to the outcomes rather than the factors of competitiveness. Nevertheless, they provide basis for consideration of economic discrepancies among the nation states. The statistical data on the rates of economic growth, GDP per capita, unemployment and other macroeconomic indicators provide evidence of such differences, provoking endless scholarly discussions about the methods to boost country’s ability to increase the well-being of its citizens and related policy making efforts. In this context, the competitiveness lays at the very center of these debates. We believe that, despite the lack of a widely accepted definition of the term, competitiveness could be perceived as a bridge or a route from economic underperformance to nation’s welfare, and as such deserves attention in the studies concerned with the individual country’s positioning in the international economic system. Indeed, the concern for how country fares in the global market has led to the development of different approaches for measuring competitiveness.

In the past three decades, several multi-country Reports dealing with competitiveness have been launched, including IMD World Competitiveness Yearbook, World Economic Forum Global Competitiveness Index (GCI) and European Competitiveness Report, each providing ranking of competitiveness of selected countries, according to the chosen indicators and methodology. Also, numerous studies devoted to competitiveness have been undertaken by OECD, World Bank and other international organizations. Regardless of the differences in the indicators used, the measurement of national competitiveness always includes indices on infrastructure, institutional set-up, human resources (demography, education and labour market), as well as factors related to the development of industry and services (through innovation and technology).

This chapter does not intend to go into the findings presented in those reports but is primarily concerned with the competitiveness profile of the Republic of Macedonia based on various indicators they use. In this context, the World Economic Forum Global Competitiveness Report (GCR) which provides a detailed overview of national competitiveness of a wide range of countries, ranks the Republic of Macedonia at 80th position (out of 144) in 2012–2013 with score of 4 (out of 7), as presented in Table 11.1. The score represents a minor improvement compared to 2008–2009, but also a slight decline compared to 2011–2012, suggesting a lack of significant and sustained positive changes.

As is evident in Table 11.1, the competitiveness index is based on 12 pillars on competitiveness (sub-indexes), grouped into three categories – “basic requirements”, “efficiency enhancers” and “innovation and sophistication factors”. The Republic of Macedonia had best ranking in the “basic requirements” (71st position out of 144), and the lowest in “innovation and sophistication factors” (110th position out of 144). The indicators of particular relevance for the competitiveness of the

Table 11.1 Macedonian global competitiveness indexes and sub-indices 2008–2012

Year	2008–2009		2009–2010		2010–2011		2011–2012		2012–2013	
	Rank (out of 134)	Score (1–7)	Rank (out of 133)	Score (1–7)	Rank (out of 139)	Score (1–7)	Rank (out of 142)	Score (1–7)	Rank (out of 144)	Score (1–7)
Global competitiveness index	89	3.9	84	3.9	79	4.0	79	4.1	80	4.0
<i>Basic requirements</i>	68	4.4	73	4.3	70	4.4	69	4.6	71	4.5
1. Institutions	90	3.6	83	3.7	80	3.8	81	4.6	78	3.8
2. Infrastructure	89	2.9	90	3.0	91	3.5	86	3.7	81	3.6
3. Macroeconomic environment	31	5.5	49	4.8	47	4.9	37	5.3	47	5.0
4. Health and primary Education	55	5.7	60	5.5	69	5.7	80	5.5	77	5.6
Efficiency enhancers	92	3.6	85	3.8	83	3.8	87	3.8	84	3.8
5. Higher education and Training	73	3.8	70	3.9	72	4.0	80	4.0	81	4.0
6. Good Market Efficiency	98	3.9	76	4.1	57	4.2	63	4.3	68	4.3
7. Labour market Efficiency	113	3.9	86	4.2	71	4.4	72	4.3	94	4.1
8. Financial market Development	83	4.0	75	4.1	87	4.0	82	4.0	79	4.0
9. Technological readiness	83	3.0	52	3.9	64	3.6	67	3.7	71	3.8
10. Market size	104	2.7	103	2.9	106	2.8	107	2.8	104	2.8
Innovation and sophistication factors	105	3.2	93	3.2	97	3.2	104	3.1	110	3.1
11. Business sophistication	107	3.5	96	3.6	96	3.5	105	3.5	111	3.4
12. Innovation	99	2.9	92	2.9	97	2.9	105	2.8	110	2.8

Source: Global Competitiveness Report 2008–2009, 2009–2010, 2010–2011, 2011–2012, 2012–2013, World Economic Forum (www.weforum.org)

Macedonian industry, so called “the efficiency enhancing indicators”, were also not particularly encouraging. Along with the sophistication and innovation which scored rather low – 3.4 and 2.8 (out of 7) in 2012–2013, respectively, the infrastructure, higher education and training, as well as technological readiness in the Republic of Macedonia are in need of substantial improvement.

Despite an unfavourable competitiveness ranking, as of mid-2013 the Republic of Macedonia has not yet developed an explicit policy approach or policy-making process aimed at increasing competitiveness of the national economy. The individual sector policies relevant for the competitiveness pillars are in place, such as those dealing with industry, technology and innovation, research and development (R&D), education and infrastructure. Apart from industrial policy created in 2009, which provides rather overall (not sector-oriented) strategic goals for improving competitiveness as well as certain actions for boosting micro-competitiveness at the company level, the other policies do not have distinctive focus on the competitiveness. Nonetheless, competitiveness has been included in the Government’s programme 2011–2015, as a strategic priority under the title “Business climate and competitiveness”.¹ As suggested by the title, the government activities projected in this sphere mainly focus on improvement of macroeconomic environment, rather than on delivering a comprehensive outlook on competitiveness. Such an approach was applied in the country in 2008–2012, with a result that a macroeconomic environment improved, providing the best ranking on Macedonia’s sub-indexes (Table 11.1).

The reason was the implementation of regulatory reform, the so called “regulatory guillotine” aimed at establishing business-friendly climate.² Improvement in business environment is undoubtedly important for competitiveness, but, as evident from the indicators, it did not result in substantial rise in overall competitiveness. In this context, it is necessary that other policy areas are also treated by the policy-makers from the competitiveness perspective. For this to happen, serious changes in the policy-making settings are required to shift the policy making approach from sector-oriented to inter-disciplinary policy with the purpose of increasing competitiveness.

In terms of existing interdisciplinary policies in the Republic of Macedonia, more serious treatment of competitiveness has been applied within the framework of regional development policy. The main policy document in this area – Strategy for Regional Development comprises two main objectives³:

1. (Establishing) competitive planning regions characterized by dynamic and sustainable development and

¹Programme of the Government of the Republic of Macedonia 2011–2015, <http://vlada.mk/node/262?language=en-gb>

²Since 2006, Macedonian government undertook a “Regulatory guillotine” – an intense reform aiming to eliminate many administrative barriers to the business. The government’s efforts in this area were recognized in the World Bank Doing Business Report, which distinguished Macedonia as the 4th, 3rd and 3rd reformer in the world in 2008, 2010 and 2012 respectively (<http://www.doingbusiness.org/reforms/top-reformers-2013>).

³Strategy for regional development of the Republic of Macedonia, Official Gazette of the Republic of Macedonia 119/2009.

2. (Achieving) greater inter and intra-regional demographic, economic, social and spatial cohesion.

Implicit to the first objective, this policy deals with regional competitiveness. At the first glance, the two concepts of national and regional competitiveness are logically connected, but the nature of their linking in terms of the extent to which each aspect of competitiveness boosts the other has not been extensively explored in the literature. Given that regions are segments of the national economy, it could be presumed that increase in the competitiveness of the regions should have positive influence on the national competitiveness. On the other hand, if the policy-makers focus solely on the national competitiveness, this approach could (directly or indirectly) result in favouring certain regions against the others and provoke widening of inter-regional disparities in development. This is particularly important for countries with deep inter-regional disparities, such as the Republic of Macedonia, as eventual increase of national competitiveness might be at the expense of some regions lagging further behind.

The available statistical evidence at the regional level in the Republic of Macedonia does not allow measurement of regional competitiveness in the manner of the GCI. However, it provides a clear picture of the disparities among the eight regions in the country.

As presented in Table 11.2, Skopje region (around the capital) contributed to the creation of around 48.5 % of the country's gross value added (GVA) in 2007, followed by the Pelagonia region with a share of 11.2 %, while the least developed – the Northeast region- had a share of only 4.2 %. The situation did not change significantly by 2010, as Skopje region participated with 43.7 % in the national GVA, while Northeast region had again the lowest share in the total GVA (4.4 %). Thus, the Skopje region had a predominant share of around 37.6 % and 32.5 % in the total industrial output in 2007 and 2010, respectively. Furthermore, most investment (including foreign investment) has been concentrated in the Skopje region (around 54 % of gross capital formation). Economic disparities among the regions are most evident with regards to the GDP per capita. As indicated in Table 11.2, Skopje region had three times higher GDP per capita compared to the lowest ranked Polog region (EUR 5,228.4 against EUR 1,719 in 2010). Nevertheless, despite having the highest GDP per capita, Skopje region also faces high unemployment as in other parts of the country and has serious problems related to poor transport infrastructure. The country is lagging far behind the EU member countries with GDP per capita at about 30 % of the EU average. This indicates that comparatively, the Skopje region is underdeveloped, while the situation is even worse in other regions.

The disparities among the regions reflect a mono-centric model of development in the Republic of Macedonia, with the capital (Skopje) being the most developed region. This suggests that the above mentioned GCI indicators effectively reflect the performance of the Skopje region, given that other regions are seriously lagging behind in terms of economic activity, gross capital formation, employment and other competitiveness factors. Implicitly, it could be assumed that the competitiveness of other regions, Skopje excluded, is below the level of national competitiveness

Table 11.2 Major development indicators of the planning regions in the Republic of Macedonia

Regions	Population		GDP per capita (in EUR)		Gross value added (in mil.EUR)		Share in gross value added in industrial sector		Share in gross capital formation (in %)		Unemployment rate (in %)		Local roads (in km)
	2010	2007	2010	2007	2010	2007	2010	2007	2010	2007	2010	2008	
Macedonia	20,550,044	2,819.2	3,631.8	4,923.8	6,197.5	100.0	100.0	100.0	100.0	100.0	33.8	31.0	9,355
Vardar	153,858	2,921.1	3,712.6	384.5	454.0	13.5	11.2	6.2	6.1	6.1	43.6	35.9	989
East	179,770	2,065.5	3,362.2	318.8	530.7	8.8	143.9	7.5	9.6	9.6	20.0	18.5	1,180
Southwest	221,855	1,801.1	2,638.3	342.0	492.7	7.3	8.0	6.7	4.8	4.8	39.3	42.3	1,276
Southeast	172,858	2,591.0	4,198.9	381.2	542.2	6.2	6.4	6.0	6.9	6.9	11.7	13.8	957
Pelagonia	234,137	2,740.8	3,703.0	551.6	753.5	15.0	19.1	5.6	7.6	7.6	34.5	25.3	1,208
Polog	314,804	1,306.8	1,719.0	347.9	444.2	6.5	4.6	11.7	7.9	7.9	26.4	34.2	1,381
Northeast	175,045	1,405.4	2,366.7	209.1	271.6	5.1	3.3	2.3	2.6	2.6	58.0	52.8	1,026
Skopje	602,677	4,709.3	5,228.4	2,388.6	2,708.6	37.6	32.5	54.0	54.6	54.6	37.3	31.3	1,338

Source: Regions of the Republic of Macedonia (2009, 2012) State Statistical Office of the Republic of Macedonia

presented in the GCI. This points out at the complexity of the problem of low competitiveness in the Republic of Macedonia and suggests that it should not be treated solely as a national, but also as a regional phenomenon. Therefore, we argue that the logical implication for the Macedonian case would be to link the concepts of national and regional competitiveness in a unified policy framework in order to promote competitiveness. A lack of national competitiveness policy and the existence of regional development policy (which includes competitiveness among its objectives) provide a starting ground for the analysis of the possibility for employment of regional development policy as a tool for increasing national competitiveness in the Republic of Macedonia. The main queries about the viability of this proposition are related to the context and implementation of the regional development policy. These questions are discussed in the remainder of the paper.

2 Regional Development Policy in the Republic of Macedonia

The idea for the deployment of regional development policy in pursuing national competitiveness by reducing inter-regional disparities, has been vaguely explored in the literature (Batchler and Raines 2002). However, a distinctive policy approach partly related to this subject was introduced by OECD in 2007, with the idea of promoting regional clustering as an instrument for competitiveness building (OECD 2007). The main policy stream of this approach combines the postulates of regional policy, science and technology development as well as industrial and enterprise development policy. In this chapter, our focus is solely on the policy trends in the area of regional development.

Table 11.3 indicates the conceptual changes in regional development policy (new versus old approach) which have added a more complex substance to the policy. In turn, this reflects the changes in the global environment in the 1990s and the 2000s, mainly related to increase in the competition on the global market, due to the inclusion

Table 11.3 OECD approach to regional development policy

Policy stream	Old approach	New approach	Cluster programme focus
Regional policy	Redistribution from leading to lagging regions	Building competitive regions by bringing local actors and assets together	Target or often include lagging regions
			Focus on smaller firms as opposed to the larger firms, if not explicitly than de facto
			Broad approach to sector and innovation targets
			Emphasis on engagement of actors

Source: Competitive Regional Clusters: National Policy Approaches, OECD Observer (2007, p. 3)

of the post-communist countries in the world economic system, intense liberalisation of trade and capital flows, rapid technological changes, etc. The new approach promotes proactive behaviour and networking among the leading actors (regions, networks and groups of firms), in place of passive mechanism which dominated in the old policy approach (OECD 2007). The new policy approach encourages integrated policy making as a supplement to the sector oriented policy making. Regional development policy is by its very nature an integral policy (a policy that deals with different segments of development – economic, social, cultural, etc.) which could be proactive or passive, depending on the leading concept. The new OECD approach promotes active regional development policy, striving toward increased regional competitiveness. In this respect, we consider this policy making approach relevant as only proactive regional development policy could contribute to the development of competitive regions.

Regional development policy is a relatively new⁴ policy in the Republic of Macedonia, introduced in 2007–2009, following the adoption of two major documents - the Law on Balanced Regional Development (2007)⁵ and the Strategy for Regional Development (2009).⁶ The Law stipulated creation of planning regions which territorially correspond to the statistical regions at EU NUTS 3 level.⁷ Eight planning regions were established in the country: Vardar, East, Southwest, Southeast, Pelagonia, Polog, Northeast and Skopje (Fig. 11.1). The planning regions have no independent administrative power, as they have been created to serve only for development planning purposes.

The formulation of regional development policy has been attributed to the need to address wide disparities among the regions (Table 11.2), as well as to comply with the EU recommendations for the country to set up the institutional structure for supporting regional development (Commission of European Communities 2006). The EU Report on the Progress of the country in November 2006 stated that “a Law on Regional Development to align with the EU Structural and Cohesion Funds regulations is needed”, as well as “an implementing agency for the regional and social components, which will be the precursor of the authority for implementing structural and cohesion funds, still needs to be established” (Commission of European Communities 2006). This has been emphasized in the Report, as the country obtained EU candidate status in December 2005, implying that it should start to prepare for the use of the structural and cohesion funds, upon eventual EU membership. Following this important step in the EU integration of the country (the

⁴This note refers to the period since the country’s independence in 1991. Previously, Macedonia has been included into a regional policy of the Former Socialistic Federal Republic of Yugoslavia.

⁵Law on Balanced Regional Development, Official Gazette of the Republic of Macedonia 63/07.

⁶Strategy for regional development of the Republic of Macedonia, op.cit.

⁷Division on NUTS 3 regions serve for statistical purposes and measurement of the disparities within and among EU member states, as well as candidate countries. According to the demographic criteria for NUTS 3 region, it could cover territory with 150,000–800,000 inhabitants. Due to the territory and specifics of particular areas, eight NUTS 3 (statistical) regions have been established in Macedonia.



Fig. 11.1 Planning regions in Macedonia (Source: Regions of the Republic of Macedonia 2013, State Statistical Office of the Republic of Macedonia)

candidate status), the newly appointed Government in August 2006 led by the rightwing political party – VMRO-DMPNE⁸ has shown strong enthusiasm for conducting EU related reforms, which resulted into prompt action towards the elaboration of the legal and strategic framework of the regional development policy. However, taking into consideration that according to the EU criteria, the Republic of Macedonia represents one region for using the EU Structural and Cohesion Funds, the regional development policy was formulated as a domestic policy addressing regional disparities.

2.1 Institutional Structure

According to the Law, the policy-making competences for regional development were divided among following institutions:⁹

⁸The political system in the Republic of Macedonia consists of two dominant Macedonian parties – SDSM (socialist) and VMRO-DPMNE (conservative) and two dominating Albanian parties – Democratic Union for Integration and PDP (Party for Democratic Prosperity). The Government elected in 2006 (still in office) is a coalition of VMRO-DPMNE and DUI.

⁹Law on Balanced Regional Development, op.cit.

- Parliament of the Republic of Macedonia that adopts the legal framework, as well as Strategy for Regional Development;
- Government of the Republic of Macedonia, which has a competence to propose legal and strategic framework for regional development policy to the Parliament, as well as executive power for the implementation of the policy;
- National Council for Regional Development, consisting of 18 high level representatives from different ministries and planning regions,¹⁰ with a competence to harmonise regional development policy with macroeconomic and sectoral policies;
- Ministry of local self-government of the Republic of Macedonia with competence to participate in the formulation, and, particularly, in the implementation of regional development policy; and
- Council(s) for the development of the planning region (eight Councils in total – one for each planning region), consisting of the majors of the municipalities that compose the planning regions, which has a competence to create and implement development programme(s) of the respective region(s).

The Law also stipulated the establishment of the Bureau for Regional Development (on the national level) and Centres for Regional Development (eight in total – one for each region) to serve as operational units for the implementation of regional development policy. The Bureau for Regional Development operates under the umbrella of the Ministry of Local Self-Government, while the Centres for Regional Development are subordinated to the Councils for Regional Development of the planning regions. Also, municipalities were delegated with specific roles in the regional development planning process – to develop joint, regional projects that will contribute to the advancement of the regions.

The system of regional development policy is project-based, meaning that the state financially supports selected regional projects. The legal obligation of the Government is to allocate funding in the amount equal to 1 % of the GDP from the state budget, earmarked for regional development.¹¹ With regards to the distribution of these funds, the Law specifies eligibility of all regions to apply for the projects, but they are entitled to different share of available funds, depending on their level of development. In this respect, a share of the most lagging Northeast region was set at 16.6 % of the total funds, while the share of the most developed Skopje region was set at 6.4 % in 2009–2012.¹² The major criteria for the selection of projects include contribution of the project proposal to the development of at least two municipalities from the region, which ensures municipal cooperation. In addition, certain financial or in-kind contribution from the municipalities involved is encouraged, in order to ensure ownership and implementation of the project. Moreover, the criteria stipulate that the project must comply with strategic priorities set in the Strategy for

¹⁰Decision of the Government of the Republic of Macedonia for establishing the National Council for Regional Development, Official Gazette of the Republic of Macedonia 110/2007.

¹¹Law on Balanced Regional Development, op.cit, Article 27.

¹²Other regions were entitled with the following shares: 14 % to the Eastern region; 13.5 % to Vardar, 13 % to Polog, 13 % to South-western region, 12.9 % to Pelagonia and 10.6 % to South-eastern region.

regional development of the Republic of Macedonia. The decision about the project financing is within the competence of the Government of the Republic of Macedonia, following a proposal from the National Council for regional development.

The organisational structure for formulation and implementation of regional development policy is rather complex, and requires strong coordination of the involved actors. Ministry of local self-government had the leading role in the process of the elaboration of the Law and Strategy for regional development (2007–2009), and has shown strong commitment to the realisation of both documents. In this respect, the personal engagement of the Minister for local self-government in the period August 2006–July 2007, Mr. Zoran Konjanovski, ought to be distinguished, as the regional development was set as top priority in the Ministry and necessary resources were provided for completion of the legal and strategic framework (primarily the needed expertise) for regional development. The Law was adopted in May 2007 and the team for elaboration of the Strategy has been formed in April 2007, which was recognised as a Progress in the EU Country Report for 2007 (Commission of European Communities 2006). However, due to the political agreement among the leading parties – in July 2007, the Ministry for local self-government passed from Macedonian VMRO-DMPNE to Albanian coalition partner DUI.¹³ With change of the Minister, the elaboration of the Strategy was completed in 2009, but the general drive for further reforms in the Ministry seemed to have decreased. Following the adoption of the legal and strategic documents, the current role of the Ministry could be said to be rather passive and oriented toward the assignments deriving from the Law, while at the same time there is a lack of initiatives for further reforms in this sphere.

With regards to the implementation of the regional development policy, the coordination role has been lodged with the National Council for regional development, chaired by the Vice-President of the Government of the Republic of Macedonia in charge of economic affairs, which should ensure harmonisation of this policy with other policies, as well as its efficient implementation. The mandate of the National Council, as well as its structure, enables this body to give really strong impetus to the regional development. In this context, the National Council played important role in the process of elaboration of the Strategy for regional development, as it had to approve the Strategy as precondition for the document to be submitted to the Government and later, Parliament. At this phase, the National Council, along with the other actors in the process (Parliament, Government and Ministry of local self-government) has shown strong commitment to the completion of the strategic framework. However, when the actual implementation of the regional development policy started, the National Council mainly focused to the operational assignment stipulated in the Law – evaluation of the submitted project proposals for regional development. The decision about the project financing is within the competence of the Government of the Republic of Macedonia, following a proposal from the National Council for regional development. The allocation of the grants should be done on an annual base, and National Council should meet once a year for this

¹³As of 2013, DUI is still in charge of this Ministry.

purpose. In the period 2007–2013, the Council held only eight meetings, mostly devoted to the mentioned evaluation.

2.2 Strategic Framework

The Strategy for regional development (2009–2019), adopted by the Parliament of the Republic of Macedonia, serves as a main document in the domain of regional development policy. The Strategy provides insight into the major demographic, economic and social specifics of the regions, labour market and infrastructure, as well as natural and energy resources and cultural heritage. Moreover, the Strategy identifies as common problems for all the regions – poor infrastructure, high unemployment rates and unfavourable educational profile of the workforce, the concentration of industry and other economic activities mostly in Skopje and few other cities, population ageing process translating into social problems to sustainability of the pension and health care system, etc.

As noted in the Strategy, as well as confirmed in the UNDP study “Mechanisms for linking national, regional and local development planning processes in the Republic of Macedonia” (Mojsovska 2010), the methodology used for elaboration of the document incorporated participatory and consultation principle. In that context, efforts to ensure coordination on both levels – horizontal and vertical, were undertaken. The horizontal coordination among the mentioned policy-makers was done by Inter-ministerial body (National Council for Regional Development), and included participation of the representatives from the relevant institutions in the team elaborating the Strategy. Furthermore, a procedure of review of the draft document by the relevant state institutions before its adoption was applied to the Strategy. Vertical coordination has been ensured by the organization of regional workshops aimed at collecting inputs from the regional stakeholders, as well as having a public debate about the draft version of the Strategy prior to its adoption. Cross-cutting with other strategic documents is evident in the Strategy, and illustrated with references to the specific documents. According to the structure of the document, the vertical coordination should have been helpful for identification of the most demanding issues with regards to the development of the regions. As previously mentioned, increased competitiveness of the regions has been one of the main objectives of the Strategy. In this respect, the need for infrastructure improvement which is clearly the most demanding aspect at the current level of development has been elaborated from the perspective of each region. Furthermore, leading industries have been also identified for each region, along with the assessment of the potential for their further development and creation of competitive advantages. Also, special attention has been given to natural resources and energy potential of the planning regions as a foundation for the development planning process.

In addition to the Strategy, the Law stipulated elaboration of the development programmes of the regions, as main planning documents of the planning regions. According to the Law, the Programmes should identify goals, measures and instruments

for development of the planning region, as well as funding, time frame and indicators for monitoring the implementation of the Programme.¹⁴ While elements stipulated by the Strategy have been incorporated in the Programmes of all eight regions, it is interesting that a direct reference to the Strategy and other relevant documents has been generally absent. All Programmes include a note on increasing competitiveness, although not focusing on selected activities, but on a wide spectrum of economic activities (different industries, tourism, agriculture, services, etc.), which, to a certain extent makes those Programmes appear more as an aspirational agenda rather than a realistic foundation for policy.

The Strategy and the Programmes represent the basic framework for pursuing regional development policy in the Republic of Macedonia. In terms of competitiveness, as noted, the Strategy identifies the main areas for improvement in the regions, but the document does not include tailoring of the priorities to the projected budget for regional development. This task should be performed by the National Council for Regional Development, leaving in practice the success of the implementation of the Strategy to the capacity of the Council and other actors in the process as well as the available finance.

2.3 Prospects and Constraints of Using Regional Development Policy to Boost National Competitiveness in the Republic of Macedonia

The overview of the policy framework for regional development in the Republic of Macedonia indicates its complexity and involvement of numerous actors with specific roles in the policy formulation and implementation. If analysed from the perspective of the OECD new policy approach, it could be noted that the regional development policy of the Republic of Macedonia formally complies with the former's main postulate of: "building competitive regions by bringing local actors and assets together". This is evident in the inclusion of competitiveness among the main objectives of the Strategy, and the establishment of the mechanism for regional policy implementation based on joint projects undertaken by the municipalities from the region(s). Furthermore, regional development policy of the Republic of Macedonia primarily targets the lagging regions and puts an emphasis on engagement of the actors (either on policy or operational level) while at the same time allows for the identification of the sectors in need of improvement. In terms of the cluster programme focus on smaller firms, given that over 98 % of the Macedonian companies belong to the category of small and medium companies, regional development policy is bound to evolve around SMEs. Hence, one conclusion that can be drawn is that regional development policy in the Republic of Macedonia has been designed following the modern policy-approach which concentrates on the

¹⁴Law on Balanced Regional Development, op.cit, Article 14.

competitiveness, and puts an emphasis on the networking of relevant actors. However, the formal setting of the policy is such that it does not guarantee its successful implementation. The following section takes a closer look at the prospects for a shift to regional development policy becoming an anchor of and a framework for policy process geared towards increasing competitiveness of Macedonian economy, as well as the constraints therein.

The prospects of regional development policy in the Republic of Macedonia to contribute to increased national competitiveness are based on the following postulates:

- It represents an interdisciplinary policy that treats the most important determinants of competitiveness, disaggregated at a regional level;
- It relies on the detailed overview of the level of development of the regions, along with identification of the main problems and potential sources for further development;
- The policy-making process includes consultation and participation of the major stakeholders as a main precondition for making sure their interests are reflected in the actual policy;
- The policy strives towards application of polycentric development model in the country, by prioritising the most lagging regions to reduce regional disparities, but without excluding the more advanced regions.

As discussed above, the formal institutional set-up for regional development policy has been designed to promote improvement in regional competitiveness. The claim that regional development policy has the potential to contribute to national competitiveness is based on the fact that it addresses all the main determinants of national competitiveness. Furthermore, the National Council for Regional Development has legal obligation to harmonise the policy with other related policies. The point is that regional competitiveness largely depends on structural reforms that are conceived by and pursued at the national level – in the field of education, labour market, demography, health services, as well as macroeconomic environment, financial markets, etc. Implicitly, in the case when national competitiveness policy is absent, these reforms should be induced by the regional level development policy makers. This in turn would contribute to improvement in national competitiveness. Furthermore, the detailed overview of the regions' problems and potentials enables formulation of policy making actions involving prioritisation and rational use of available resources, which could alleviate negative consequences of a lack of focus on competitiveness in the existing sectoral policies in the Republic of Macedonia.

In developing the potential of regional development policy to serve as an anchor for (national) competitiveness, an important concern is the feasibility of such a policy. In this context, consultation and participation of the main stakeholders is of utmost importance in the process of policy formulation. Application of the participatory approach in the process of Regional Development Strategy elaboration has enabled to gather valuable information, which could form a solid base for planning of the activities contributing to the overall national competitiveness. The relevance of participatory method extends to the development of the regional development model

in the country. The polycentric model of regional development promoted by the Strategy is in line with the notion of competitiveness as relating to the well-being of all citizens, which provides an additional argument in support of considering the use of regional development policy in the context of national competitiveness.

However, the potential to go in that direction in the Republic of Macedonia is largely determined not by the formal institutional setting for regional development policy, but its actual implementation. There are several critical constraints that ought to be taken into consideration. Regional development system in the Republic of Macedonia is rather complex and requires high capacity and superb coordination of all actors in order to produce satisfactory results. In practice, such coordination is very difficult to achieve. This is because the recent introduction of regional development policy in the Republic of Macedonia has hit against relatively low capacity of the actors in the system, which has caused problems in policy implementation. Moreover, the policy-makers tend to neglect the issue of financing of regional development policy, regardless of its vital importance (Mojsovska 2011).

With regards to the first concern, the complexity of regional development policy system, along with the fact that it has been fairly recently introduced, makes threaten its effective implementation. The practise has shown that the driving force for formulation of the regional development policy was related to two factors – personal commitment of the head of the respective institution (such as Minister for local self-government or Vice-President for economic issues) and prioritisation of the policy with regards to the EU agenda. Since 2006, there have not been political changes in the ruling structures in the Republic of Macedonia, i.e. no changes have occurred with regards to the political discourse of the Government. As already mentioned, the change in the party affiliation in the leadership of the Ministry for local government, was associated with a perceptible slowdown in the development of regional policy.

Nevertheless, it is worth noting that the commitment of the initial structures within the Ministry at the start of the reforms was largely related to the pursuit of the EU agenda, as the EU requirements were specific with regards to the need for elaboration of the Law and Strategy for regional development. This agenda was also followed after the leadership change in the Ministry, up to the adoption of the Strategy. Since 2009/2010, the EU requirements within Chapter 22 on regional policy and coordination of the structural policy have mostly focused on the establishment of institutions for administration and management of the IPA Funds. In this respect, the regional development policy, as formulated, has been predominantly domestic policy, aiming to increase of the competitiveness of the region. This is rather an important aspect, but it could be concluded that overall, EU Agenda had a major impact on the dynamic of formulation of the policy. On the other hand, it must be emphasized that the process of the formulation of the legal and strategic framework has been simpler compared to the implementation in so far as it by its very nature makes it easier to solicit higher commitment by the actors involved.

With regards to the implementation of the policy, the National Council for Regional Development, that should have crucial role in the harmonisation of regional development policy with other policies, and, therefore, contribute to setting-up of better system for development planning and hence improvement in national

competitiveness, managed to hold only eight meetings in 2007–2013.¹⁵ The meetings were mostly focused on evaluation of the submitted project proposals for regional development, in line with the Council's legal obligation to deliver the preliminary list of selected projects to the Government for a final decision. Just on these two facts- the frequency and the contents of the Council's meetings, it is clear that no pro-active approach towards the harmonisation of the regional development policy with other policies or improvement of the quality of coordination with regards to the implementation of the policy exists at the moment.

It could be argued that the driving force for more substantial treatment of the regional development issues is missing. This role should be either performed by the Vice-President of the Government in charge for economic issues (chair of the National Council) or by the Ministry of Local Self-government. As the legal framework stipulates rather operational role in the implementation of the regional development policy to the latter, it could be argued that there is high risk of lack of the interest in the Ministry to perform assignments or undertake initiatives which are not implicitly stipulated in the Law. On the other hand, the cabinet of the Vice-President for economic issues and its limited number of staff have been delegated with many responsibilities from different economic areas.¹⁶ This means that the process of regional development largely depends on the capacity and willingness of the National Council and other actors to act, given the "top-down" approach of the regional development policy. In our view, this could seriously endanger the process of implementation of the policy, implying more critical attitude of the policy-makers towards the capacity of individual institutions.

Furthermore, deficiencies in the cooperation among the actors involved in regional development policy have been registered at other levels, too. According to the UNDP study in 2010, the Centres for regional development that have major operational role in designing regional development project proposals and to ensure the implementation of the selected projects, have indicated that the cooperation with other actors exists, but is not fully satisfactory. The main problems indicated by the Centres include non-existing/non-adequate regional databases, lengthy procedures in an official communication, lack of regular communication with the national level institutions and an absence of adequate expert support from the relevant institutions (Mojsovska 2010). Since the publication of the study, the situation has somehow improved with regards to the availability of the regional data, as the State Statistical Office started to provide wider range of regional statistics. At the same time, the online availability of the official documents related to regional development is still rather limited, as none of the actors in the regional development policy publishes a complete set of legal frameworks on their respective web-sites. This is primarily related to the limited human resources that can be engaged to perform information dissemination tasks. In sum, deficiencies in the coordination of the system for regional development present a serious burden to achieve the projected policy outcomes.

¹⁵ <http://www.vicepremier-ekonomija.gov.mk/?q=taxonomy/term/4&page=1>

¹⁶ <http://www.vicepremier-ekonomija.gov.mk/?q=frontpage&page=2>

The second constraint for the implementation of regional development policy and the possibility for its deployment in increasing national competitiveness is related to the capacity and the level of awareness about the regional development system among its actors. As previously noted, regional development policy in the Republic of Macedonia was introduced in response to the problem of large disparities in regional development, and as an element of the Europeanization agenda. While the development of regional policy institutions and framework involved consultation and participation method, the novelty of the topic among the actors involved certainly imposed some constraints on the outcomes of this process. Furthermore, consultative process was pursued in the early phase of policy formulation, while used rarely during the policy implementation process. In the mentioned UNDP study (Mojsovska 2010), the Centres for regional development noted the need for more serious approach towards regional development by all actors involved in the process, including raising awareness about regional development concept, transfer of foreign practices about regional development and higher participation of business and non-governmental sector in the process of regional development planning and implementation.¹⁷ Apparently, these activities should be part of a regular process of professional upgrading of the capacity for regional development, while ignorance about these problems might provoke vacuum in the implementation of the policy.

The most challenging constraint to the implementation of the regional development policy is related to finance. Although the Law on regional development stipulates allocation of 1 % of the GDP for this purpose, the practice indicates that much lower amount was designated for regional development. In absolute terms, the mandatory amount in 2012 should have been around EURO 76 million; the projected finance in the budget was around EURO 2.8 million, and actual allocation amounted to just EURO 1.3 million.¹⁸ It could be argued that even if the legal stipulation were respected, there is a need for increased funding towards regional development. Another important aspect that, if addressed, would result in more efficient allocations for regional development concerns a disconnect between the financial allocations for development programmes/projects within the sectoral policies and those earmarked for regional development. This is a direct consequence of a lack of coordination in the policy-making process, which results in the compartmentalization of funding and a loss of sight of the synergies that can be created among various policies. In this context, National Council competence in the area of regional policy should be deployed in order to harmonise regional and sectoral policies. This would not only mitigate the threat of insufficient funding for regional development but also provide a realistic grounding for using regional development policy to strengthen national competitiveness.

¹⁷ Ibid.

¹⁸ Revised budget of the Republic of Macedonia 2012, Ministry of Finance (<http://www.finance.gov.mk/files/REBALANS%20ZA%20OBJAVUVANJE.pdf>)

3 Conclusions

The issue of competitiveness in the Republic of Macedonia has been very important, but not thoroughly treated by the policy-makers. There is lack of single competitiveness policy or policy-making process focusing on wide range of competitiveness' determinants. Instead, the policy-makers mostly concentrate on the improvement of the macroeconomic environment through legal reforms striving to create business friendly climate, while the sector policies in education, labour market, infrastructure and other fields do not have distinctive focus on competitiveness. Given the low performance of the country with regards to the Global Competitiveness Index measurement, there is a need for more serious approach towards the issue of competitiveness. Taking the concern to use available resources rationally, this paper has explored the possibility to use the existing regional development policy in the Republic of Macedonia as a policy anchor for boosting the national competitiveness.

The main findings of the research which has focused on the policy making side of the issue, indicate that the formal setting of the regional development system offers substantial potential with regards to our proposal. Regional competitiveness has been at the centre of attention of the policy-makers in this field, particularly evident in the Strategy for regional development, which offers an insight into the state of affairs of the major determinants of the competitiveness of the regions (human resources – education, labour force, economic basis, infrastructure, natural resources, social protection, etc.), as well as identification of the main problems and areas that need improvement. Furthermore, the regional development system the Republic of Macedonia has been designed to ensure harmonisation of this policy with other macroeconomic and sector policies by the National Council for regional development, providing a basis for coordination of the activities in different policies related to the competitiveness. Also, the system has assigned active roles to the actors on national, regional and local level, which should result in an improved synchronisation between the needs of the regions and policy measures, and therefore, provide positive impact on competitiveness. The policy focus on the lagging regions, the goal of which is to reduce inter-regional disparities and boosting competitiveness of the regions could also have impact on the national competitiveness, provided that it contributes to improved well-being of the citizens in the regions.

However, the formal setting of the regional development system cannot by itself guarantee for satisfactory outcomes. In this respect, the proper implementation of the policy is of utmost importance. The practice indicates several constraints which hinder functioning of the system. These particularly include the deficiencies in coordination of the policy-actors, along with a lack of active engagement in harmonising regional development policy with other policies and insufficient capacity of the policy-actors. Nevertheless, the most serious threat to the implementation of the regional development policy is related to finances. The policy-makers tend to take a neglectful approach to the financing of the regional development policy, despite the legal stipulation to allocate 1 % of GDP for regional development. In addition, there is no link between the financial allocations for regional development

and other policies, which could contribute to the regional development or increase of competitiveness. In this respect, improvement in the operation of the system are vital for harvesting potential benefits from the regional development policy to improve national competitiveness of the Republic of Macedonia.

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