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The Vienna Institute for
International Economic
Studies

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FIW Round Table: Focus Central, Eastern and South Eastern Europe

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FDI and Nearshoring: A Win-Win for East and West Europe?

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Two studies that we published

- 'Getting Stronger After COVID-19: Nearshoring Potential in the Western Balkans' (from 2021)
- 'Economic and Social Impacts of FDI in Central, East and Southeast Europe' (from 2022)

Nearshoring Potential in the Western Balkans

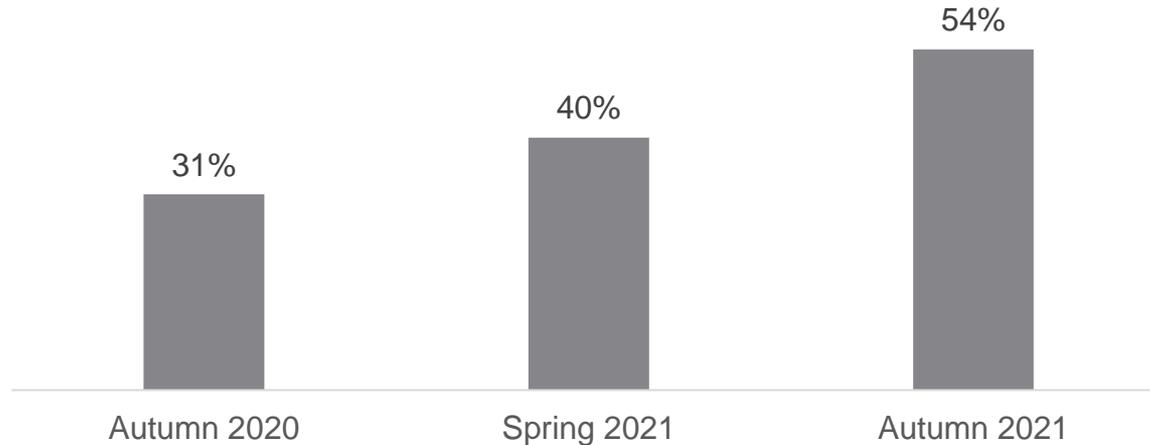
- Are there real chances for near-shoring, or is it just cheap talk?
- Can near-shoring to Western Balkans emerge?
- What should Western Balkan economies do, in order to benefit fully from these possible developments?

Are there real chances for near-shoring?

- Yes.

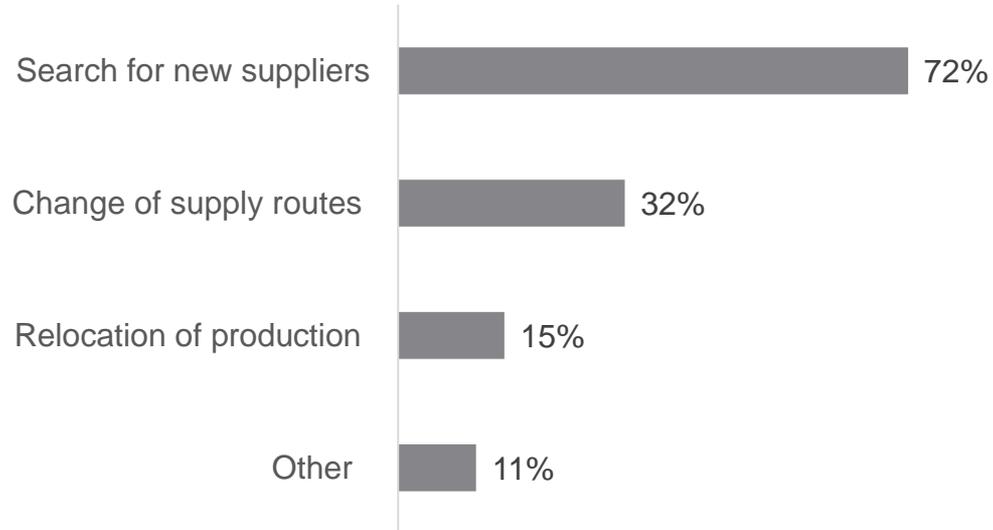
Are there real chances for near-shoring?

Percentage of German companies facing problems with their supply chains



Are there real chances for near-shoring?

What sort of changes are companies affected by supply-chain problems considering (Autumn 2021)



Can near-shoring to Western Balkans emerge?

- Yes.

Can near-shoring to Western Balkans emerge?

“When it is about the geographical position of the plant, we are surely more competitive than Bulgaria, because we are around 500 km closer than Sofia.” (German investor in BiH)

Can near-shoring to Western Balkans emerge?



“It is a cultural area that is very similar to Germany.”
(German investor in Serbia)

Can near-shoring to Western Balkans emerge?



“The people are loyal, responsible, hard working.” (German investor in BiH)

Can near-shoring to Western Balkans emerge?



“And skilled work force is very important and easy to find.” (German investor in Serbia)

Can near-shoring to Western Balkans emerge?

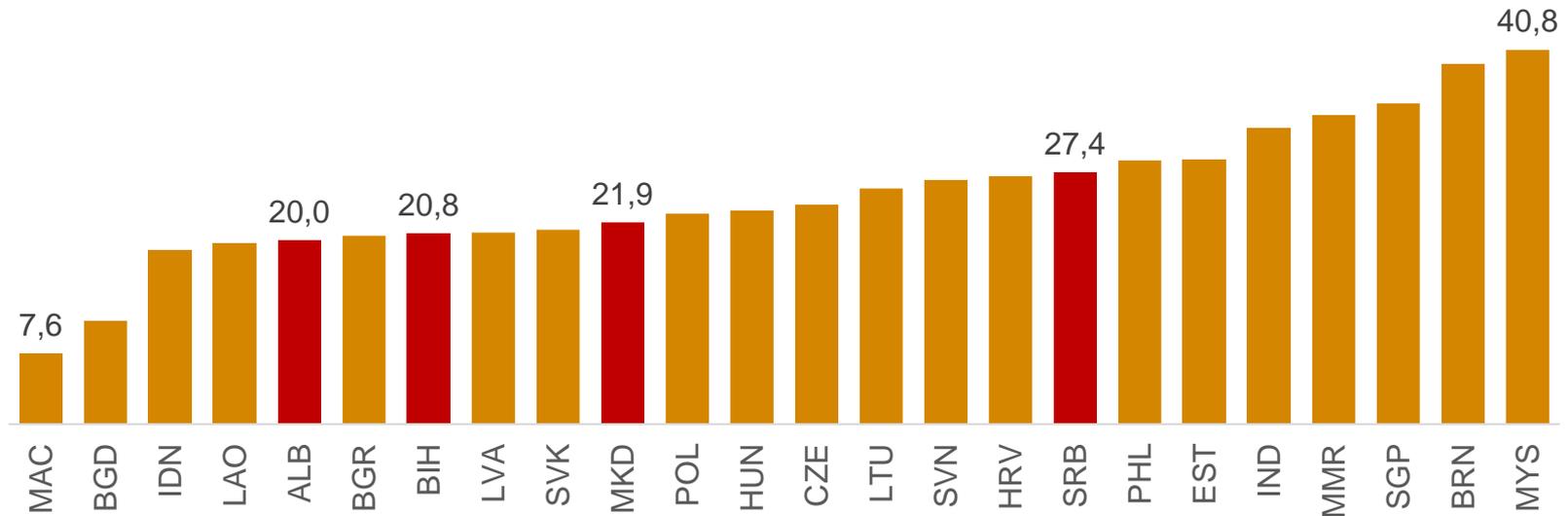
“The countries that are closer to Germany have three times the wage level compared to the wages here and have also dried up of workers.”
(German investor in North Macedonia)

What should Western Balkan economies do, in order to benefit fully from these possible developments?

- Education
- Institutions
- Infrastructure

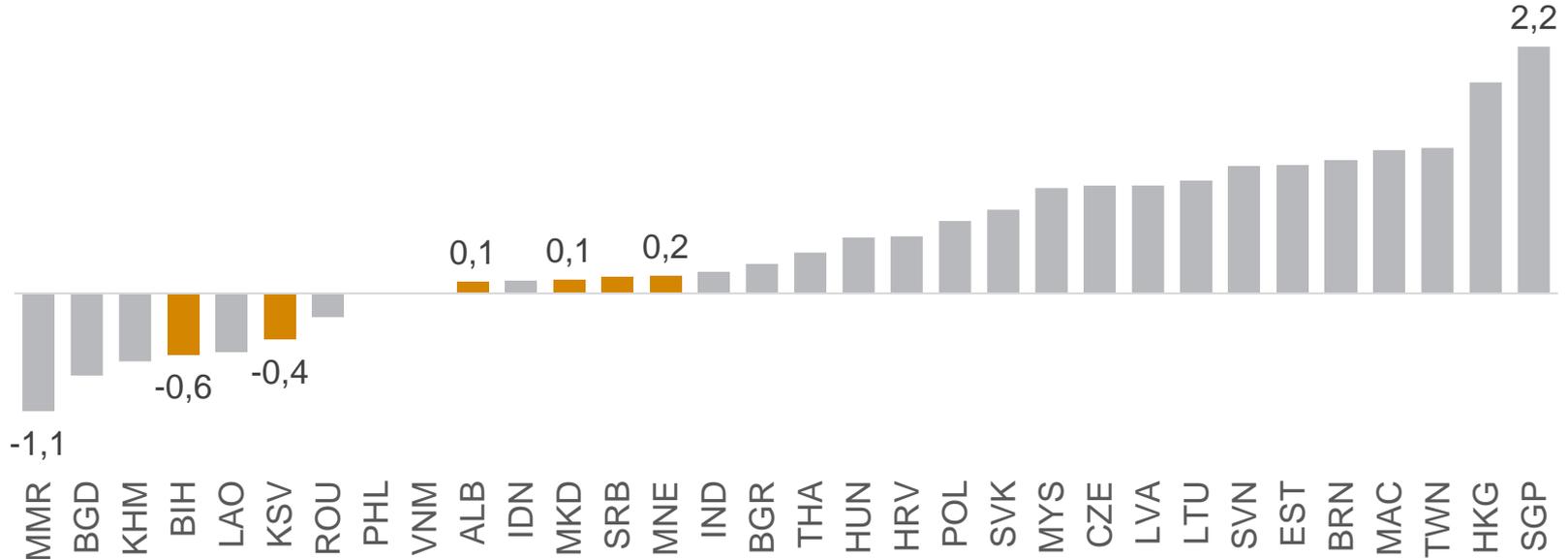
What should Western Balkan economies do, in order to benefit fully from these possible developments?

STEM graduates (% of total tertiary graduates), average for 2017-2019



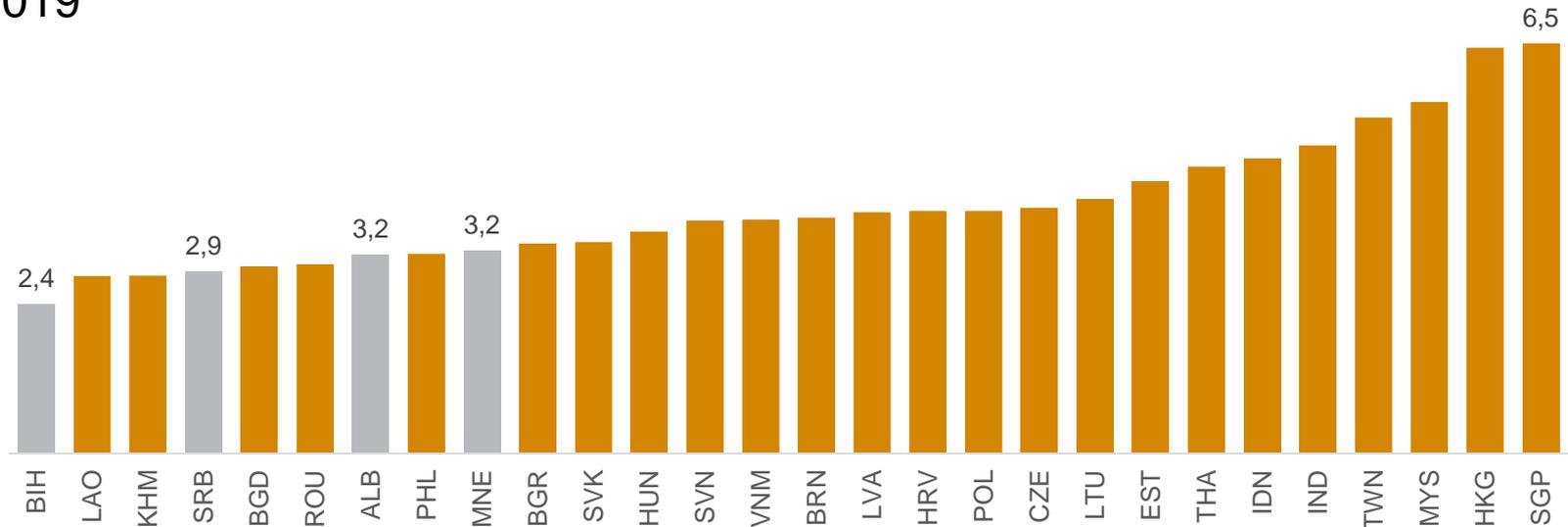
What should Western Balkan economies do, in order to benefit fully from these possible developments?

Government Effectiveness (score, 2.5 = best), average for 2017-2019



What should Western Balkan economies do, in order to benefit fully from these possible developments?

Quality of overall transport infrastructure (score, 7=best), average for 2017-2019



'Economic and Social Impacts of FDI in Eastern Europe'

- How has FDI affected economic growth, unemployment, poverty and inequality?
- Are there differences between different types of FDI?
- What does this imply for policy?

How has FDI affected economic growth, unemployment, poverty and inequality?

- FDI has in general had positive impact on GDP
- And has reduced unemployment
- But it has not, in general, had significant effects on poverty and inequality

Are there differences between different types of FDI?

- Yes.
- German and Austrian FDI have had more positive effects than overall FDI, and have also reduced poverty and inequality
- Reinvested earnings have more positive effects than other types of FDI
- Investment in manufacturing and service have more positive effects

What does this imply for policy?

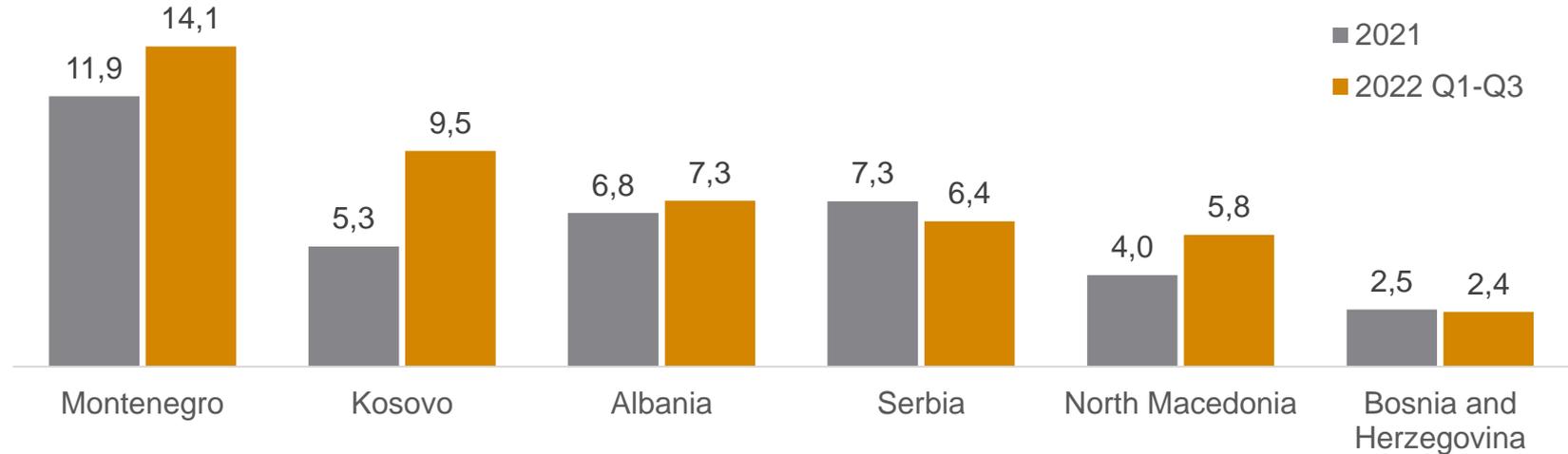
- Policies for attracting FDI should continue as FDI does seem to have beneficial economic and social effects
- But, efforts to attract FDI should be more targeted and should focus on FDI that carries the most beneficial economic and social effects

To sum up the two studies

- Nearshoring can emerge to the Western Balkans, perhaps also the wider Eastern European region
- To make the most of this, government should do their job and improve education, institutions and infrastructure
- These higher FDI inflows are likely to have positive economic and social effects
- To make the most of this, governments should focus on more productive FDI

Are we already seeing some nearshoring to the Western Balkans?

Net FDI inflows, as % of GDP



Thank you for your attention!

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