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VLADIMIR PETKOVSKI*
TATJANA PETKOVSKA MIRCHEVSKA**
NATASHA DANILOSKA***
DIANA BOSHKOVSKA****
JASMINA MAJSTOROSKA*****

THE EXPORT PROMOTION OF SMES IN WESTERN BALKAN COUNTRIES (WB 6)

Abstract

The growth of national economies is closely connected to export potential of companies. For small and open economies, the exports and increasing competitiveness of companies on the global market is a prerequisite for maintaining their long-term growth. At the same time, small and medium enterprises (SMEs) are facing the challenges of integration into international markets due to the lack of managerial, financial and technical capacities, which limits their competitiveness. Therefore, there is a need for institutional export support for the SMEs.

Basically, the export support refers to a series of planned and coordinated activities and measures for export promotion. The aim is to support companies in identifying market opportunities, obtaining necessary information and to promote and facilitate their export. As one of sub-dimension of export support, export promotion makes specific recommendations for increasing the capacity and efficiency of the institutional system.

* Ph.D., Assistant professor, Institute of Economics, University of „Ss. Cyril and Methodius”, Skopje, Republic of North Macedonia, vladimir@ek-inst.ukim.edu.mk

** Ph.D., Full professor, Institute of Economics, University of „Ss. Cyril and Methodius”, Skopje, Republic of North Macedonia, tatjana@ek-inst.ukim.edu.mk

*** Ph.D., Full professor, Institute of Economics, University of „Ss. Cyril and Methodius”, Skopje, Republic of North Macedonia, natasha.daniloska@ek-inst.ukim.edu.mk

**** Ph.D., Full professor, Institute of Economics, University of „Ss. Cyril and Methodius”, Skopje, Republic of North Macedonia, diana@ek-inst.ukim.edu.mk

***** Ph.D., Ministry of Economy, Republic of North Macedonia, jasminda.majstoroska@economy.gov.mk

The micro, small and medium-sized enterprises (MSMEs) are constantly faced with the lack of market information, finance, market experience and export knowledge. In the Western Balkan countries (WB 6), the export promotion of SMEs enhances their visibility, optimizes their productivity and harmonizes their activities at regional and global level. This paper gives a brief overview of the main characteristics and a comparative analyse of export promotion strategies in WB 6 countries (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia).

Key words: export promotion, SMEs, internationalisation, Western Balkan countries

Jel classification: M13, M30, M38

Introduction

Based on a widespread experience of the last decades, high growth and successful catching-up of less or medium-developed small economies was closely linked to their choice of an export-oriented development pattern.² One of the means for assessment of national competitiveness is the ability of the country to sell goods and services on the global market, usually measured through the current account balance or by the nation's share on the world market.³ In terms of exports, the competitive advantage could be created by active approach on defined micro, mezzo and macro strategies. These advantages are structural attributes of the economy, as well as terms for problems evaluation on different levels: companies, sectors and national economy.

In the new millennium, global competition, fast communication and modern means of transport causes significant changes in the business world. Integration of each national economy into global economic processes is determined by its current competitiveness level. The promotion of competitive advantages into a dynamic strategic instrument of economic growth is a result of the coordinated interaction of a significant number of factors.

² AndrásInotai, *Sustainable Growth Based on Export-Oriented Economic Strategy - The Bulgarian Case in an International Comparison*, Economic policy Institute, Sofia, 2013, p.2

³ Aiginger K, *A framework for evaluating the dynamic competitiveness of countries*, Structural Change and Economic Dynamics, No. 9, 1998, p. 174

Based on the modern trends, technology development and acceptance of applicable standards and rules of international competitive behavior, the internationalization is becoming important process for the development of national economies. The competitiveness is closely connected to the internationalization of companies. In response to the liberalization of foreign trade and increased competition, countries are developing policies and implementing a range of mechanisms and activities to help companies' in promoting their offerings in order to increase their export.

The developed economies, to a significant extent, owe their development to the internationalization of small and medium-sized enterprises (SMEs). Following these experiences, the developing countries creates their national policies, strategies and programs for enabling the SMEs to be easily integrated on the global market.

In order to support and promote export, companies need to identify the existing opportunities, to create new products, to find new markets, and determine ways to meet the needs and requirements of foreign markets. One of the most used form in achieving these goals is the export promotion. Its main purpose is to encourage export activities for the successful internationalisation of SMEs, in order to increase their productivity, accelerate their innovation and enhance their competitiveness.⁴

Given that most of the economies of the Western Balkans region are relatively small, access to global markets can support SMEs' long-term viability. The market reach can be broadened and strengthened through exposing them to international competition. In providing the efficient support, a clear export promotion measures should enable SMEs to acquire more capabilities, qualifications and resources to enhance competitiveness, increase export opportunities and successfully positioning on the global marketplace.

⁴ Мајсторска Ј. *Извозната промоција како еден од инструментите на индустриската политика (докторска дисертација)*, Економски институт, Скопје, 2011, стр. 49

1. EXPORT PROMOTION –A GENERAL OVERVIEW

The interest in export promotion is primarily driven by increased exports and foreign investment as drivers for sustainable growth and economic development. The goal is to attract attention, increase supply awareness, create a relationship and trust that should result in increased exports or increased inflow of foreign investment.

Proactive export promotion policies can help economies to diversify their exports by encouraging trade in goods for which they have a comparative advantage. Export promotion may create learning opportunities that result in new forms of comparative advantage, and therefore attract export-oriented investment. The impact of export promotion agencies (EPAs) and their strategies suggest that have a strong and statistically significant impact on exports. It estimated that for each USD 1 of export promotion, there is a USD 40 increase in exports.⁵

The institutional export support is mostly given through a range of measures, instruments, specialized institutions and programs for realization of export and investments.

Export promotion programmes comprise various services, ranging from economy image-building (including promotional events and policy advocacy), export support services (including training, regulatory compliance and information on trade finance, customs), to marketing (including trade fairs and exporter missions), and market research and publications.

According to the regional experiences, export promotion is one of the most used forms or sub-dimensions for export support of SMEs. Other sub-dimensions are programs for the promotion of the SMEs integration into global value chains, and the programs for promotion and use of e-commerce. The integration of SMEs into global value chains is a sub-dimension of support used to facilitate the links between SMEs and larger exporting domestic or global companies. The sub-dimension for promoting and increasing the use of e-commerce for SMEs examines the prevalence of legal frameworks to secure online payments and consumer protection, and further analyzes in-place supports to facilitate SMEs uptake of e-commerce.⁶

Export promotion supports companies to identify and develop products, analyze new market opportunities, obtain marketing information, maintain

⁵ *Competitiveness in South East Europe: A policy outlook*, OECD, 2018, p. 122

⁶ *SME Policy Index, Western Balkans and Turkey 2019, Assessing the implementation of the small business act for Europe*, OECD, ETF, European Union and EBRD 2019, p. 66

business contacts, facilitate access to export markets, and so on. The institutions should also play an active role in the creation the affiliate programs in order to increase company competitiveness on the global market.

The micro, small and medium-sized enterprises (MSMEs) are significantly dependent on the instruments and mechanisms of state support and promotion as an export catalyst.⁷ While the large companies have enough potential, capacity and knowledge to break into the foreign market themselves and often do not need much help, SMEs undoubtedly requires an active institutional support for their entry and for positioning in the international markets.

As in the most countries in transition, in the beginning of 21st century, an obvious lack of big markets led to greater market fragmentations, where SMEs had successfully entered thanks to their innovative and entrepreneurial skills.⁸ The entrepreneurship is where a raw idea develops into a high-growth company and the success involves strong main entrepreneur and a team with complimentary talents. At the heart of the entrepreneurial process are the creation and/or recognition of opportunities.⁹ Export promotion should enable entrepreneurial and innovative spirit and ideas to be fostered, while supporting and promoting SMEs opportunities for increasing their competitiveness.

The SMEs are constantly faced with different problems: lack of sufficient market information, finance, experience and knowledge. The export promotion support basically comes down to creating export promotion programs, enhancing competitiveness of the companies, providing market information, studies, consultancy, networking, attendance at trade fairs, financial export promotion support and the like. The export promotion support should be created in line not to hinder the EU and WTO regulations for state aid, where is prohibited state aid directly linked to the quantities exported, to the establishment and operation of a distribution network or to other current expenditure linked to the export activity or aid favoring domestic goods over imports.¹⁰

⁷ Мајстороска Ј. *Извозната промоција како еден од инструментите на индустриската политика (докторска дисертација)*, Економски институт, Скопје, 2011, стр. 110

⁸ Zijad D., *Business environment-the case of Western Balkan countries*, Economic Review – Journal of Economics and Business, Vol. XII, Issue 2, November 2014, p.74

⁹ Sonja Markova, Tatjana Petkovska-Mirchevska, *Finantial options for entrepreneurial ventures*, RevistaEconomic, Vol XI • Nr. 26 • June 2009, p. 598

¹⁰ Official Journal of the European Union, *Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid* <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1407&from=EN>

Also, the competent institutions and programs are in place to create the institutional infrastructure that will enable SMEs incentives to be provided. Export promotion assesses governments' support for export promotion, examines whether governments have operational export promotion programmes in place that target SMEs and considers the provision of services to help them to penetrate on international markets.

All WB 6 countries have dedicated institutions to carry out the export promotion programmes. Since budgets and other resources are not always fully utilized, there needs to be ongoing analysis to increase the uptake of export promotion programs across the region.

2. EXPORT PROMOTION IN WB 6-A COMPARATIVE ANALYSIS

Before we turn to the comparative analysis of export promotion institutional support structure and programs in WB 6, we will refer to a previous research on the topic: *Increase of Export Potential of SMEs in WB 6 Region Open Regional Fund South East Europe - Foreign Trade (ORF FT)*.¹¹ In the research, the survey of 144 companies in the agro-food sector in the WB 6 was conducted. Some of the main findings indicates the export challenges for the companies, including regional cooperation, export support etc. For the purpose of this paper, the data related to the most commonly used forms of export promotion, as well as the data on how many companies are satisfied with export support from the state, associations, chambers and other institutions are shortly interpreted.

The survey was conducted on a sample of 144 companies that by the number of employees fall into the category of micro, small, medium and large companies. More than a half of the surveyed companies (64%) belong to the category of micro and small companies, ie: 31% are with 1-5 employees, 22% are with 10-20 employees (22%) and 11% are with 6 -9 employees. About the form of export promotion, more than half of them (51%) believes that the most common form are trade fairs, which implies state support for their participation. Also, more than half of the companies (51%) are not satisfied with the export services offered. Of these, most dissatisfied are companies from Montenegro

¹¹ *Final Evaluation, Export Readiness Assessment (ERA) WB 6 countries, Project: Increase of Export Potential of SMEs in WB 6 Region Open Regional Fund South East Europe – Foreign Trade (ORF FT)*, within the sub-project of the Trade and Competitiveness Fund of GIZ and the Chamber of Commerce of the Republic of North Macedonia, Skopje, 2019

(80%), and only 11% dissatisfied companies from North Macedonia.¹²This could be an indication that SMEs support and export promotion programs in our country are generally assessed as satisfactory.

For identification of specifics, characteristics, similarities and differences between the approaches in export promotion for SMEs, a brief review and comparative analysis was conducted in WB 6 countries: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, Serbia and Northern Macedonia.

Albania is considerably behind other WB 6 economies in the export promotion activities. Although the Albanian Investment Development Agency is autonomous, it currently has only two specialists employed in the export sector of the SME and Export Department.¹³ The export support for SMEs included covering 70% of export costs related to product improvements like: packaging, product conformity and certification, trade fair participation and promotion materials. The financial export support is for goods and services through the Export Credit Guarantee Funds. The technical support covers the provision of market information, assistance in drafting marketing plans, and identifying SMEs needs and training deficiencies.¹⁴

Bosnia and Herzegovina has made marginal improvements in its export support for SMEs, although it still below the regional average. The export promotion programmes in the Federation arises from the 2016-18 Action Plan for the Realisation of the Project Development of SMEs. In Republika Srpska (RS), the measures for export promotion are planned in the SMEs Strategy and the Foreign Investment Encouragement Strategy for the period 2016-20. The institutions are mostly providing technical support and organising SMEs promotion events. The RS also has a network of representation offices in Austria, Belgium, Germany, Greece, Israel, Russia, Serbia and the United States, which organises periodic training for domestic SMEs on export opportunities to the relevant country. The Chamber of Commerce and Industry in RS also supports the annual participation of business entities in domestic and international trade fairs in co-operation with chambers of commerce in the region and abroad, diplomatic and consular missions, representation offices and international organisations. The export promotion is carried out by the Ministry of Economic Relations and Regional Co-operation and the Republic Agency for Development of SMEs. It provides mostly technical support and

¹² Ibidem

¹³ *Competitiveness in South East Europe: A policy outlook*, OECD, 2018, p. 123

¹⁴ *SME Policy Index, Western Balkans and Turkey 2019, Assessing the implementation of the small business act for Europe*, OECD, ETF, European Union and EBRD 2019, p. 513-517

organizes promotion events, while funding opportunities for SMEs remain limited.

At the state level, the Export Promotion Chamber of the Foreign Trade Chamber supports the export promotion policies with the Ministry of Trade and Economic Relations. The Foreign Trade Chamber provides activities for SMEs as the support for their participation in international trade fairs and foreign market research, website with sparse information etc. For the financial support, in 2017, the Foreign Trade Chamber allocated grants in total of EUR 385 000 for organisation of trade fairs in Bosnia and Herzegovina and about EUR 187 000 for participation in international trade fairs.¹⁵

In **Kosovo**, export promotion was covered under the Private Sector Development Strategy, which included actions on export and investment promotion and support of potential export sectors. The main priorities include strategic approach in supporting the SMEs to achieve a higher value of exports through a sectoral approach. The export support services consist of trade policy information and commercial intelligence, economy representation at major trade fairs, export promotion, marketing, product development and training. Financial support is also offered to manufacturing companies with export potential. In 2018, Kosovo's Investment and Enterprise Support Agency had only three employees (in 2019) an allocated budget of EUR 351 000 for its export promotion, which maintains a database for exporting companies, provides detailed sector reports for export-seeking SMEs on its website and guidelines on exporting and information on creating a marketing plan.¹⁶

In **Montenegro**, the measures for support and promote exports are part of the Strategy (2018–2022). The action plan includes the export promotion as one of its pillars, with activities for reducing trade barriers and simplifying export and import procedures. Activities in the action plan of the Strategy 2018-2022 includes providing information and educational support on accessing international markets, creating a database of international trade fairs and holding export information seminars and providing support for participation in international markets.¹⁷ The export promotion activities will continue to be co-ordinated by the Ministry of Economy.

Serbia's export promotion programmes for SMEs are directly linked to its SMEs Development Strategy 2015-2020. The Serbian Development Agency has been the responsible institution for export promotion in Serbia since 2016.

¹⁵ Ibid, p. 583-587

¹⁶ Ibid, p. 655-660

¹⁷ Ibid, p. 727-730

In relation to other WB 6 countries, the export promotion institutions in Serbia are the most appropriately funded. Export Promotion programme has two components. The first is to support individual exhibits at international fairs abroad, covering up to 50% of companies' individual costs, with the total budget around EUR 330 000. The second is to support organization of company visits abroad, covering with 50% of costs in each programme in the form of grants.

In order to facilitate access to finance for export-oriented SMEs, the domestic SMEs are treated equally to foreign companies. It means that domestic companies could receive the same subsidies for investment as foreign companies. Additionally, Serbia's Export Credit and Insurance Agency offers export credit insurance, financing, factoring, and guarantees to exporters companies in Serbia.¹⁸

North Macedonia's performance in export promotion is above the average of the region. Despite the fact that there is no separate Export Promotion Strategy, export promotion is covered in the Ministry of Economy's strategic documents like Industrial Strategy 2018-2027 and National Strategy for Small and Medium Enterprises (2018-2023). Activities to support export promotion for SME's include: SMEs to enter on fast-growing international markets, increased support to the export promotion agency through the SMEs export promotion programme, improved monitoring and evaluation of export promotion services through the preparation of an annual report on SMEs participation in export markets etc.

The financial and technical support is given to export-ready SMEs. The Ministry of Economy provides co-financing to SMEs, primarily from manufacturing industry at 75% up to a maximum amount of EUR 5000 for the market research, marketing strategy, training and promotional materials. It also supports clusters at a 75% co-financing rate for export promotion and foreign fairs.¹⁹ In the latest Program of the Ministry of Economy companies can receive support for brand development and development of IT platforms for e-commerce.

Also, the Competitiveness Strategy and Action Plan for the period 2016-20 covers measures for export promotion. It seeks the selection of 250 SMEs with export potential for their support as technical and financial assistance. The primary bodies responsible for implementing the above activities include the Ministry of Economy, Agency for Foreign Investments and Export Promotion - Invest Macedonia and SMEs development agencies.

¹⁸ Ibid, p. 868-873

¹⁹ Ibid. p. 422

The export promotion activities are organized through the Agency for Foreign Investment and Export Promotion of the Republic of Macedonia (Invest Macedonia). The latest is the primary government agency responsible for export promotion of companies. Its website is a centralised source of information to guide companies on exporting activities; a comprehensive handbook for export promotion; links to useful contact points which include other government institutions and relevant agencies, consulting firms, banks, chambers of commerce and state-owned enterprises. Also, Invest Macedonia offers support through promotional events, arranging business-to-business meetings and qualified export promotion leads in order to help domestic producers.²⁰

Conclusions

The market liberalization, trade development and increased competition impose the need to initiate measures and activities for export promotion. In developing countries, institutional support in promoting exports is an important segment in providing the preconditions for long-term company development.

The WB 6 countries have strengthening their availability of export support activities, as SMEs integration into global value chains, supporting e-commerce and export promotion. The WB governments analyse, design and plan export promotion programmes in accordance with the national SMEs strategies. The export support is on areas such as trade policy and commercial information, representation at major trade fairs, marketing, product development, training, and provision of financial support for export activities and the organisation of export promotion events for SMEs.

In comparison to other countries, the performance in export promotion in Republic North Macedonia's is above the average of the region of WB. In general, the comparative analyse of export promotion in WB 6 countries shows that all of them have implemented their own forms of export support activities. They all have implemented an export promotion SMEs support programs, created and implemented according to their needs and available resources.

In all WB countries, there are established dedicated institutions and programs to carry out export promotion for the SMEs, mainly on promoting exports overall. Currently, all of them provide some form of assistance to SMEs

²⁰ Ibid, p. 420

to foster their exports and access to international markets. This assistance covers the provision of specific information on trade policy and commercial intelligence, financial support at trade fairs, training courses on marketing and product development. However, it is evident that capacity of export promotion agencies in the WB 6 economies could be strengthened, both in terms of specialized staff and a dedicated budget for implementation of export promotion activities.²¹ Also, export promotion strategies and programmes among SMEs in some WB 6 countries could be improved. There are weaknesses particularly in the areas of underfunded and untargeted export promotion agencies, as well as the insufficient financial resources for export promotion activities. Also, there is a problem of allocated budgets which is not always fully used by the SMEs.

Another problem is that the average budget for export promotion activities in all WB 6 countries is significantly lower than other economies in the broader region, for example Slovenia.²² The problem on the insufficient financial resources devoted to export promotion in the WB 6 countries are further exacerbated by the fact that export promotion agencies, in most cases, do not have a clear focus on certain activities or sectors. This could hamper the effectiveness of the economies' export promotion efforts.

Overcoming the weaknesses and improving the efficiency of export promotion, requires a comprehensive and holistic approach in order to enhance SMEs export and internationalization opportunities in the WB 6 countries.

²¹ *Competitiveness in South East Europe: A policy outlook*, OECD, 2018, p. 124

²² In 2016, Slovenia's export promotion agency had an operational budget of EUR 2.1 million on internationalization activities. Source: *SME Policy Index, Western Balkans and Turkey 2019, Assessing the implementation of the small business act for Europe*, OECD, ETF, European Union and EBRD 2019, p. 420

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