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**The Chances for Macedonian Economy
and Managerial, Legislative and Administrative Quality**

**Aspects of Subcontracting, Tourism and Exporting Goods and
Services to the EU: Meeting European Quality Standards**

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In my contribution I want to **avoid technical aspects of quality**, but **concentrate on managerial, commercial and legislative quality**. All these aspects go hand in hand with technical quality, and they determine each other. This is particularly of interest if one considers the possible future aspects for Macedonian economy as part of the European Union Single Market.

We know it from other enlargements of the EU that some **businesses have often anticipated Single Market effects for years**, because they were prepared by their associations and Chambers of Commerce, but also invested a lot of creativity, energy and also some money. On the other hand, some businesses, mainly small and medium sized ones, were not particularly prepared for these changes, and they lagged behind the events. The Single Market, which will become self-evident for Macedonian companies in some years, is indeed a strong wind of change for their everyday trot. Macedonian business has therefore to become knowledge-based and oriented to rapid changes, in the sense of **Knowledge Management and Change Management**.

In this context, let me highlight some possible strength for this economy, without omitting some weaknesses.

1. As far **Foreign Direct Investment** is concerned, one at first has to see the fact that Macedonia exercises only a limited attraction to foreign investors. It is

- very small as a market,
- it is landlocked and
- it is a transition economy.

All this limits already by itself for instance trade-related investment. But Macedonia also has chances:

- with a good capacity to train young people,
- its excellent price structure, and the
- capacity to flexibly approach its legislation to the one of the EU.

In this context, the Government of Macedonia will soon and often come to its ceiling as for its capacities and its absorption ability. This, however, is normal for transition countries, and in particular for small ones. We have learnt this lesson e.g. from Slovenia. But there is no way to avoid an appropriate and active investment promotion if Macedonia wants to succeed in the worldwide investment competition.

There is a clear **deficit of investment promotion**. There may have been founded agencies, but they have no visible impact. There is an urgent need for investment clearing-houses abroad, be they staffed full-time and professionally or be it as a freelance agency on a provision basis. There are many companies in the EU who would disseminate information on such a provision basis, and why not make use of them – any publicity is better than no publicity. What I urgently want to recommend is to set up at least a network of medium sized agencies working on a provision basis – in Germany, Switzerland, just to name two countries where many Macedonians live. There are many Macedonians in the Diaspora who are now when this country is steering towards the EU more ready to invest here in the country. Now, as Macedonia approaches the EU, they feel and know that they can have confidence in investing at home. It is already ongoing, in a very limited scale. But to get comprehensive information there is a difficult task abroad. My own company, LIBERTAS – European Institute, a

think-tank on European economy in Germany, took some of the homepage of the Ministry of Economy on their own homepage. This is only a small, modest part of information on the present legal situation, but nevertheless quite a lot of people view these pages. This shows clearly that there is a need for information on Macedonia, which cannot be fulfilled by porte-paroles of ministries, by business agencies, for they are here in Macedonia, and nobody interested in the EU goes to a homepage offered by a Macedonian ministry. Investment consulting is mainly done by lawyers, by tax experts, by company consultants. They have to be approached where they sit, by well-conceived electronic newsletters, for example. Because where they sit, sit also their clients. And if a consultant doesn't know anything about **Macedonia's comparative advantages** this cannot help this country. This is the first element which would have to be changed: Offer qualified information, offer quality in information, quality in services, then comes more investment, then comes quality in goods, then also come jobs.

When speaking of investment, one also has to mention **public-private partnerships** (PPPs). The state infrastructure – roads, tunnels, bridges, railways, airport installations, schools, vocational training centres, universities, hospitals, kindergartens, water sewage plants, energy installations like wind generators etc. – this all costs money. The state has no money – like most of the states today. PPP are long-time relations between the state (for whom a public task has been taken by a private investor) and this private investor who gets his money back in a slow but steady flow. This is a kind of **infrastructure investment**, where also the Macedonian Diaspora can take part. I do recommend that the state sets up a PPP Task Force (which we have in most of the EU countries) to attract investors and to create the legal conditions for public-private partnerships. These rules are a part of public procurement and concession rules. I know a private initiative of citizens in the small village Turnovo near Strumica, who work on a sewage system covering several small villages. This would be possible as a public-private partnership. And in Albania there is a PPP project starting for the completion of the road infrastructure of the country. There may be a PPP Task Force in Kosovo starting its work in some weeks.

When we speak on quality today, one should not forget that quality has to be produced in context with energy, with environment, with infrastructure, also with social infrastructure, and all this is a part of the state's task towards its citizens.

2. Macedonian businesses should think what kind of prolonged working bench they could offer to their EU counterparts. I say EU counterparts as Eastern European counterparts, i.e. in Bulgaria, Romania or in Ukraine etc., are strong competitors to Macedonia and offer themselves as places of prolonged working benches. A country working as prolonged working bench is a subcontractor country, which of course cannot encompass the whole economy, but parts of it and for a certain period. Classical **subcontracting** could be in the textile industry, but also for metal parts, plastic parts etc.

Subcontracting in the EU has obtained a clear **electronic dimension**. Many bigger companies from the EU have created internet portals for offers and orders of subcontracting, and they often make so-called “negative auctions”, that means the one who can make it to the lowest price gets the order. To play in this league requires for participating businesses of course **enhanced e-business knowledge**. Therefore another quality dimension, the **management quality**, has to be adapted to the possibilities of Macedonia.

But subcontracting has also a dimension of bundling the offers in view of the tenders from a regional or, in this case, future Member State's viewpoint. The EU and many Member States have managed in the past to bring together subcontractors and big companies who are both, as category, dependant of working together. In subcontracting, the trend has gone since a longer time to **system subcontracting**, or to subcontractors having their own subcontractors, and therefore only to few main subcontractors per buyer. The associations for business, the Chamber of Commerce etc. should be measured what they achieve in this field in the future.

While countries like Serbia or before Croatia have a clear profile as being typical providers for textiles, this image is not achieved by Macedonia. Since 1st January 2005 we do not have any longer the protecting quotas in world textile trade, but in principle in Europe all European textiles, which are produced can be sold. In particular textiles, which are representing high quality standards are requested and made in Europe. Governments have it in their hand to steer the flows of trade, in giving incentives. But this requires **quality work – this time in governmental action, in legislation, in taxation**. When mentioning governmental action I have to add that when the environment of standards has been mentioned, as well as a market surveillance system, then in the laws on market inspectors or in the new Law on Trade one should exclude repression-only elements which may deter foreign investors from coming. There is no EU country where a single market inspector can close a business for 90 days, just Macedonia. However, service elements should be added, and this is the best example that there should be a swing from government to governance.

3. Finally, coming to the **tourism sector**: Tourism in Macedonia can profit for a long time from its **comparative cost advantage**, and it is a real **job machine** having many other advantages for the whole economy. But again, infrastructure is lagging behind requirements, and this could be a task for public private partnerships. Tourism encompasses various quality elements:

The government quality: I cannot understand why Macedonia which had in former times proud figures in incoming tourism and could have the same under certain circumstances, has no Minister or Secretary of State for Tourism. While in general it is good if a government saves money, it is bad not to promote what should be promoted, namely tourism. **Macedonia needs a Minister or Secretary of State for Tourism**, as this person would symbolize the cultural and landscape beauties, in particular for individual tourism. Macedonia is a typical country also for adjacent tourism, i.e. if a Japanese group comes to Greece they also would like to visit for some days monasteries in this country.

The quality of offers: Macedonia could even better fill a gap in tourism if it were ready for one of the fastest growing tourism fields, the so-called **conference tourism**. There is a huge potential for this kind of tourism today in the EU states. Many billions of EUR are spent every year in this sector, be it incentive tourism for successful salespersons, be it medical, legal, scientific or other conferences, be it seminars for business consultants etc. Not one single travel company tries to do something about this, while this needs in particular local approach to the organisers in the EU – another challenge for a possible **tourism outpost of Macedonia** which could perfectly run on a provision basis and should not be a burden to the national budget.

The legislative quality: Making thoughts about conference tourism makes anyway more sense than proposing – in a first draft – a tourism and a catering law where every restaurant, every small *kebabčilnica*, every landlord of holiday apartments had to accept credit cards. One cannot raise the popularity of credit and payment cards by legal prescription but only by the forces of the market. It has been avoided to introduce this, and the persons who were responsible for this finally serve their country in other ministries. Again, this shows how much legislative quality is needed sometimes. This has been met – *in grosso modo* – by a new tourism law and catering law who were the right step in the right direction.

Lacks only **quality in creative planning**: by thinking about public-private partnerships in e.g. preparing the region around Prespa Lake for tourism. This would bring also positive elements to the Ohrid region. In this context I would like to congratulate this country that they finally came to a ban of phosphate detergents; up to 50% of phosphorus in the water of the three Macedonian lakes – Ohrid, Prespa and Dojran – are said to come from phosphate detergents, and phosphorus levels in Prespa Lake are said to have reached alarming levels in the last years.

If then measures against the many plastic bags in the bushes aside some roads could be taken, and there is quite a scope of these measures, then

driving through Macedonia really would be nice again, a tourism in which the service quality is defined by the market, by the requests, by the offers, and where the state should regulate as little as possible and as much as necessary, like in all other fields of regulation, just to enhance and strengthen the **dynamic small-state position** which can be a big favour to everybody.

4. According to this theory and practice, small states can have very good results in integrating themselves in a bigger system of economic actors. It can be started with Hong Kong, and continued with Switzerland, Liechtenstein, Luxemburg, Iceland, Malta, Cyprus, but now also with Estonia, Slovenia, Mauritius, etc. In general we need for a small state a motivated, a skilled and eager to learn and a multilingual population, as well as a government, which sets the right framework and does not regulate too much – like in all these mentioned examples. Macedonia could be a shining example for the whole Balkan region.

Quality can mainly be determined by the market and by the self-governing voices of business and consumers. Everybody here who talks about the aspects of quality means just this quality. This is full in the sense of the “New Approach”. What is – not always but sometimes - regulated otherwise in Macedonia is dangerously intensive and in the best traditions of former governments. It should be different for the governments in the future, and it is more than enough what comes from the European Union as directives to be transposed into national law.

Please forgive me for talking about government, legislative, managerial and commercial quality today. But I think a quality day would have only one eye if it would restrict itself only on technical quality issues. In this context I want to congratulate ECOQ to have given a podium to an *advocatus diaboli*.