



Weekly Briefing

**North Macedonia economy briefing:
Automotive components remain a key driver of
Macedonian exports in spite of the pandemic
Gjorgjioska M.Adela**

China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.
Szerkesztésért felelős személy: Chen Xin
Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.
 +36 1 5858 690
 office@china-cee.eu
 china-cee.eu

Automotive components remain a key driver of Macedonian exports in spite of the pandemic

Summary

The structure of Macedonian exports has experienced a dramatic transformation in the past decade, as automotive component producers have started to make up a growing share of the country's total exports. In line with global and European trends, the sector has been affected by the pandemic, but it has started to quickly recover in the first months of 2021. According to the latest data, automotive companies were largely responsible for the increase in exports in the first quarter of 2021, which grew by 18.1% compared to the same period in 2020.

Until 2010 the structure of Macedonian exports had been dominated by low value-added goods such as iron, steel and textiles, which accounted for 53,4% of total exports in 2004 and 50,3% of exports in 2008. In 2009, as a consequence of the global financial crisis, the demand for Macedonian iron and steel fell by 56,1%, resulting in an overall decline of exports of 28,4% bringing the total to less than 2 billion euros.¹ This in turn prompted the Government to undertake moves aimed at diversifying the country's export portfolio. A broader strategy for attracting Foreign Direct Investment was developed.² It included measures such as offering the lowest (10%) income and corporate tax rate in the region, lowered export factoring interest rate at 5% as well as the opening of technological and industrial development zones aimed at providing favourable investment conditions for foreign businesses.³ Companies have also been

¹ "Automotive industry in the Republic of N. Macedonia - a Fascinating transformation of the Macedonian exports", published in February 2021, available at https://ekonomijaibiznis.mk/News.aspx?IdNews=23942&fbclid=IwAR1Qgy4io7ncWhjAbb_0waD6o1wtiFQNUcx_fyQjry-mKLV4K3eARfP2iCyw accessed on 19.05.2021

² The strategy however has also found itself in the center of controversies with regards to issues such as the transparency in rewarding state aid for foreign companies and the concerns about the disparity of treatment between foreign and domestic companies.

³ Emerging Europe "Automotive components: The rising star of the Macedonian economy", published on 02.09.2019, available at <https://emerging-europe.com/intelligence/automotive-components-the-rising-star-of-the-macedonian-economy/> accessed on 19.05.2021 ---This includes offering pre-built industrial sites, factories and support services as well as tax and customs incentives. The government has also decreased the steps for business registration from 12 steps to four ---

attracted by the lowest average labour costs in the region. As a result of these measures, investments have been attracted in the automotive sector. By 2017, the World Bank has described the country “as a recognized, potential hub for automotive component production and bus manufacturing within the European periphery automotive regional value chain (EP RVC)”.⁴

Within 10 years, total exports in the country have tripled; by 2019 exports reached 6,4 billion euros. The rise of the automotive components sector was largely responsible for the surge. From 2009 to 2019, the automotive industry in the country expanded its share in the country’s total exports from 0,4% in 2009 to 49% in 2019 when its annual exports were 3160,4 million euros.⁵ As a result, it contributed 70,1% in the overall growth of exports in the country.⁶ The 15 largest companies in the automotive industry in the country in 2019 generated total revenues of €2.9 billion, which is 25% of Macedonian GDP and 43% of the country’s total annual exports.⁷ In 2019, the five largest exporters were the catalyst producer Johnson Mathey, cable producer Kromberg & Schubert, bus producer Van Hool Makedonija, Amphenol Technology and Markart.⁸ The sector currently consists of 50 fully operational automotive component companies, which by the end of 2019 employed 27 946 people across the country.⁹

⁴ World Bank Report (2017)., Positioning FYR Macedonia for the Global Economy, available at <http://documents1.worldbank.org/curated/en/182801519814969792/pdf/123752-WP-REVISED-PUBLIC.pdf> accessed on 19.05.2021

⁵ “Automotive industry in the Republic of N. Macedonia - a Fascinating transformation of the Macedonian exports”, published in February 2021, available at https://ekonomijaibiznis.mk/News.aspx?IdNews=23942&fbclid=IwAR1Qqy4io7ncWhjAbb_0waD6o1wtiFQNUcx fyQjry-mKLV4K3eARfP2iCyw accessed on 19.05.2021

⁶ “Automotive industry in the Republic of N. Macedonia - a Fascinating transformation of the Macedonian exports”, published in February 2021, available at https://ekonomijaibiznis.mk/News.aspx?IdNews=23942&fbclid=IwAR1Qqy4io7ncWhjAbb_0waD6o1wtiFQNUcx fyQjry-mKLV4K3eARfP2iCyw accessed on 19.05.2021

⁷ In 2019 46% (worth €130 million) of the total exports were achieved by 18 companies from the automobile industry, which produce automobile components

Invest in Macedonia “Automotive Components”, available at <https://investnorthmacedonia.gov.mk/export-automotive-components/> accessed on 19.05.2021

⁸ Ibid

⁹ Emerging Europe “Automotive components: The rising star of the Macedonian economy”, published on 02.09.2019, available at <https://emerging-europe.com/intelligence/automotive-components-the-rising-star-of-the-macedonian-economy/> accessed on 19.05.2021

The impact of the pandemic in 2020 and after

The impact of the COVID-19 crisis on the European automobile industry has been unprecedented. The sector has suffered EU-wide production losses amounting to 3.6 million vehicles, worth around €100 billion, during the first half of 2020 alone.¹⁰ This however was only partly reflected in the Macedonian automobile sector. Following continuous growth since 2015, the first decline in the automotive components sector was observed in 2020 as a consequence of the pandemic. The automotive components industry observed a decline in its exports of 13,9% during 2020 compared to 2019. However, this did not affect the number of employees; in fact the employment in this sector grew by 0,1% during the pandemic period.¹¹ In spite of the crisis, in 2020 automotive components were responsible for nearly half of total exports. Johnson Mathey, producer of emission control catalysts accounted for 25% of all exports in 2020.¹²

It was primarily due to the productivity of the automotive sector that overall exports have experienced positive developments in the first quarter of 2021. According to the preliminary data of the State Statistical Office, the total value of exported goods from the Republic of N. Macedonia in the period January-March 2021 amounted to 1.66 billion euros. This is an 18.1% increase compared to the same period last year.¹³ 80% of the total exports to the value of 1,33 billion euros, have been exported to the EU. Over half of all exports or 51,7% (851 million euros in value) have gone to Germany, which is a significant increase from the 47% in the corresponding period for 2020. The second largest recipient of exports have been the Western Balkans, which have received 11,9% or 160 million of the total exports.¹⁴ Bulgaria is the second

¹⁰ European Automobile Manufacturers Association available at <https://www.acea.be/industry-topics/tag/category/coronavirus-covid-19> accessed on 19.05.2021

¹¹ "Automotive industry in the Republic of N. Macedonia - a Fascinating transformation of the Macedonian exports", published in February 2021, available at https://ekonomijaibiznis.mk/News.aspx?IdNews=23942&fbclid=IwAR1Qqy4io7ncWhjAbb_0waD6o1wtiFQNUcxfyQjry-mKLV4K3eARfP2iCyw accessed on 19.05.2021

¹² Izvoz.mk "Which are the greatest exporters in the Macedonian industry" published on 15.10.2020, available at <https://izvoz.mk/%D0%BA%D0%BE%D0%B8-%D1%81%D0%B5-%D0%BD%D0%B0%D1%98%D0%B3%D0%BE%D0%BB%D0%B5%D0%BC%D0%B8-%D0%B8%D0%B7%D0%B2%D0%BE%D0%B7%D0%BD%D0%B8%D1%86%D0%B8-%D0%BE%D0%B4-%D0%B0%D0%B2%D1%82%D0%BE%D0%BC%D0%BE%D0%B1/> accessed on 19.05.2021

¹³ Press Release on External Trade issued by the State Statistical Office, published on 06.05.2021, available at https://www.stat.gov.mk/pdf/2021/7.1.21.06_mk.pdf accessed on 19.05.2021

¹⁴ Izvoz.mk "Over half of exports in the first three months of 2021 have gone to Germany" published on 18.05.2021, available at <https://izvoz.mk/%d0%ba%d0%b0%d0%b4%d0%b5->

largest recipient of exports from N.Macedonia (62,2 million euros), followed by Kosovo (60,8 million euros). Significant shares of exports in this period have also gone to the United Kingdom (58,8 million euros), Greece (58,5 million euros), Hungary (57,5 million euros) and Serbia (52,8 million euros).¹⁵ A large bulk of exports are accounted for by automotive components, which are linked to the supply chains of German automobile industry. According to the State Statistical Office, 185 million euros or 65% of the total exports of the country in January 2021 were made by companies in the automotive industry (mostly one company Johnson Mathey), which is an increase of 18,2% or 28 million euros since January 2020.¹⁶ “In the exports the most significant products are supported catalysts with precious metal or precious metal compounds as the active substance, ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships, parts of the seats of subgroup 821.1 and ferronickel”, the State Statistical Office has reported.¹⁷

Clearly, the establishment of the automotive components sector has been responsible for the integration of the Macedonian economy in the European supply chains. Macedonia’s automotive industry has been described as part of the European periphery automotive regional value chain (EP RVC), which includes around 13 countries in Central-Eastern and Southeast Europe, North Africa, and the Middle East. The main market for this regional supply chain is Western Europe, which explains why Germany takes up such a large share of the exports from N. Macedonia. This specific supply chain is driven by demand trends such as increased onboard electronics, high fuel efficiency and stringent environmental regulation. For instance, Johnson Mathey, the largest automotive components producer in N.Macedonia, produces emission control catalysts. The integration of the country in this supply chain has in turn made its economy more correlated to developments in the European and global automobile supply

<https://izvoz.mk/%D0%B8%D0%B7%D0%B2%D0%BE%D0%B7%D0%BE%D1%82-%D0%B8%D0%B7%D0%B2%D0%BE%D0%B7%D0%BE%D1%82-%D0%BE%D0%B4-%D0%BC%D0%B0%D0%BA%D0%B5%D0%B4/> accessed on 19.05.2021

¹⁵ Ibid

¹⁶ “Exports in January grew by 15,4%, 65% of it was achieved by the automotive companies”, published on 08.03.2021, available at <https://izvoz.mk/%D0%B8%D0%B7%D0%B2%D0%BE%D0%B7%D0%BE%D1%82-%D0%B8%D0%B7%D0%B2%D0%BE%D0%B7%D0%BE%D1%82-%D0%BE%D0%B4-15-%D0%B4%D1%83%D1%80%D0%B8-65-%D0%B3%D0%BE/> accessed on 19.05.2021

¹⁷ Press Release on External Trade issued by the State Statistical Office, published on 06.05.2021, available at https://www.stat.gov.mk/pdf/2021/7.1.21.06_mk.pdf accessed on 19.05.2021

chains. At the same time, the large share of automotive components in overall exports has meant that the export portfolio is insufficiently diversified, which makes it vulnerable to industry shocks.

The future of the Macedonian automotive industry will be greatly dependent on trends affecting the broader regional and global supply chains. It will however also be affected by internal regulatory, policy and labour developments. For instance, the government has failed to address frequent calls by the companies in this sector to overcome the issue of high rates on import duties on raw materials. What is more, there has been only slow progress in the technological and educational development of the human resources necessary for the advancement of this sector. It is the government's (in)action on such matters which will determine whether N. Macedonia will emerge as a potential hub for automotive components production and bus manufacturing within the regional supply chain. Moreover, this will contribute towards how fast or slow the sector will develop in the short to medium term and what its positive and negative externalities will be on the broader national economy as it attempts to recover from the pandemic.