

Studies on obstacles and opportunities for doing business in the region

Study no.5

NICHE MARKET POSSIBILITIES IN WB6 REGION

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1. EXECUTIVE SUMMARY

Complementary approach specific to the regional sector of Western Balkans is needed to develop its full economic potential by attracting more investment and increasing trade, a Such an approach will deal with sector-specific investor requirements and political barriers, but must also take into account the possibilities of narrower market specialization, or in other words, the creation of industrial niches, which will surely make a direct contribution to realizing the full economic potential of this region.

The notion of “niche”, in ordinary language, implies a position or a situation for which one is particularly suited. In international trade, the concept connotes a trading relation that involves the export of goods or services with a degree of uniqueness and a more or less exclusive market abroad. Niche trade therefore involves generally narrow trading opportunities in which limited or no competition constitutes a natural form of market protection.

In the first chapter, an overview of the best sectors in Western Balkans countries and opportunities within the same, for each WB country, is presented. The selected sectors are as follows: energy, ICT sector, agriculture, tourism, construction, industrial processing and mining, and waste management and recycling. After that part, attention was drawn to two very important terms/trends/factors that also directly affect the narrower definition of business: Creative industries, and the transfer of operations of multinational companies to nearby countries – Nearshoring.

In the next chapter, an overview of the main economy indicators for WB6 countries is given, with brief comments on them. Within that chapter, three important parts have been singled out. When it comes to the potential of WB countries, number of major challenges would need to be addressed, but in order to fully enable the potential of WB from the point of view of realizing the full potential in the area of creation of industry niche markets, the main conclusion is that it should be emphasized the connection of the niche market with applying for state aid, and of course in the final connection of the niche market with macro EU funds. In the structure of the GDP, the largest percentage is occupied by the service sector, which coincides with the average values of the structure of the GDP in the EU member states. When it comes to the industry sector, the achieved values in 5 WB countries are close to the EU average, except in the case of Montenegro, where the percentage is the lowest and amounts to only 14.8%. On the other hand, it can be concluded that the agricultural sector is more significantly represented in the WB6 countries - led by Albania (17.7%), than it is the case in the EU (the average is only 1.6%). None of the countries of the Western Balkans can boast in terms of R&D intensity (share of R&D spending in value added), because the achieved values in this part are significantly below the EU average.

The fifth, most important part of this analysis consists of recommendations for industry niche markets in WB region. Within the recommendations, the authors singled out a significant

number of opportunities for industry niche markets in the WB6 region. The largest number of opportunities for creating market niches in the WB region are found within the primary sector – in all areas of agriculture, and also a lot of areas from secondary sector of the economy – especially light industry, while also significant opportunities can be found within heavy industry (another part of the secondary sector), than within the tertiary sector (tourism, trade, transport, craftsmanship, ICT sector, hospitality and others) and in the part of education, culture, information and health protection (quaternary sector). Special attention must be paid to agriculture when defining market niches in the WB region, for a simple reason – more and more consumers are searching for authenticity and are willing to pay higher prices for typical food products that are deeply rooted in their territories of origin. For small and medium producers from WB region, this new trend signifies a major opportunity. Also, the authors also drew attention to the importance of establishment adequate cooperation between Art Faculties with the offered tourist products in the country, and to the importance of increased degree of processing of raw materials into the final product at existing factories, in order to significantly accelerate the industry of niche markets. At the end of this part, in order to single out the key to defining a niche – differentiation of products or services, the product review matrix is presented. Also, an overview of several examples of good practices (impact stories) is given, which to a greater or lesser extent justify all the previously defined recommendations and isolated opportunities.

In the last part of the analysis, the authors also set out recommendations for effective preparation for a niche market, within which they defined the necessary nine steps for companies, and these are: Define the niche market, Conduct market research, Develop a unique value proposition, Develop a tailored marketing strategy, Develop specialized expertise, Optimize product or service offerings, Offer exceptional customer service, Build partnerships and relationships and Establish metrics and track progress.

2. INTRODUCTION

Before the industrial revolution, production and marketing were carried out in accordance with the specific wants and needs of customers in small, remote and scattered niche markets. Along with the industrial revolution, mass production and marketing came out. In the latter half of the 20th century, changing in customer preferences and wants/needs have created diverse markets, in contrast to the traditional mass market. Looking at the evolutionary process of niche market, it is seen that it emerged before the industrial revolution and although it was in the shadow of mass marketization, it was continued to be applied for a while and for the last 20 years it has been seen a very important.

Often the desire to focus on globally competitive export activities emanates from the perception of comparative advantage. However, sometimes a country's perception of a special competitive advantage may be illusory if there is no enabling environment to stimulate investment, including the ability to attract foreign partners. In developing countries that have in the past encouraged industrial development through the free-zone schemes, the "global" perception was already present among decision-makers: incentives to attract foreign investors with a view to competing in global markets were regarded as an avenue to viable diversification.

In the case of some landlock or small countries, where comparative advantages are few and economies of scale difficult to attain in production, marketing or transport, competitiveness at the global level may be difficult, and the economies may face the danger of remaining perpetually marginalized. Such countries nonetheless retain chances of success through alternative development options that better match their disadvantages and are commonly referred to as pertaining to the niche market approach to export production. The notion of "niche", in ordinary language, implies a position or a situation for which one is particularly suited. In international trade, the concept connotes a trading relation that involves the export of goods or services with a degree of uniqueness and a more or less exclusive market abroad. Niche trade therefore involves generally narrow trading opportunities in which limited or no competition constitutes a natural form of market protection. Although any country could take advantage of niche opportunities, the concept bears special significance for small or vulnerable nations that have limited competitive trading opportunities as a result of their intrinsic handicaps. A niche trading opportunity generally involves a small number of economic actors along the trading chain. These actors will often, but not always, be small: exclusive or narrow trade links can also be promoted by large enterprises, in particular, on the basis of side products derived from, or associated with, a more global activity. A niche market does not always mean a small market, but it involves specific target audience with a specialized offering. Market niches do not exist by themselves, but are created by identifying needs and desires in the market.

The concept of niche trade can involve a variety of situations, and its definition is not rigidly confined to the notion of product uniqueness. Framework of export production scenarios

based on product and market types and highlighting the circumstances that may surround the existence or the formation of a niche relation envisages:

(a) products (goods or services) that are of a global nature, i.e., pertaining to an international demand that more or less disregards the origin of the products and is met by a fairly homogeneous supply from many producing countries; and

(b) products that are specific for individual countries.

The latter notion does not designate goods or services that can be produced in individual countries, but rather refers to products with a degree of individual countries-uniqueness (e.g., specific raw materials, a specific natural environment, or a specific culture), or in which individual countries have a special competitive advantage, even if other countries have a comparable advantage. Such products may have relatively unique ecological or exotic features, and will be completely unique only in rare cases.

The competitiveness of the economies of the Western Balkans represents a strategic European interest. Well-functioning market economies, resistant to global competitive pressures, contribute to the political stabilization of the Western Balkan region as well as to growth and jobs for Europe, which is the globally main policy objective. In the Balkans, there are six remaining candidate countries and territories for EU membership—Albania, Bosnia and Herzegovina, Macedonia, Montenegro, Serbia and Kosovo*.

For the Western Balkans to develop its full economic potential by attracting more investment and increasing trade, a complementary approach specific to the regional sector is needed. Such an approach will deal with sector-specific investor requirements and political barriers, but must also take into account the possibilities of narrower market specialization, or in other words, the creation of industrial niches, which will surely make a direct contribution to realizing the full economic potential of this region.

* *This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence*

3. OVERVIEW OF BEST PROSPECT SECTORS IN WB COUNTRIES AND OPPORTUNITIES WITHIN THE SAME

3.1. ALBANIA

Albania offers good prospects for exports across all sectors, particularly in energy, oil and gas, tourism, healthcare, food, infrastructure, construction, and information and communication technology (ICT).

ENERGY

Albania is a net importer of electricity; power supply security is a challenge. Albania's domestic generation is almost entirely dependent on hydropower since the country's only thermal power plant is currently inoperable. Energy sector represents good investment and trade opportunities in a variety of areas: hydropower, wind and solar power. The construction of new generation sources and transmission lines, improvements in the distribution grid and the promotion of energy efficiency all represent opportunities to provide equipment, services, and financing.

TOURISM

Albanian government has identified tourism as a key economic sector, touting its potential to spur development of the entire country. Located in the Mediterranean region, Albania could well represent Europe's last tourism "secret."

Leading Sub-Sectors: Marinas, Leisure Boats, Hotel franchises, Upscale hotel accommodations, Design, architectural and engineering services, and Construction materials.

Government aims to support development of tourist resorts, especially along the southern coastline. Hotel franchise opportunities are also present, particularly in tourist areas with new properties opening in recent years with agreements with famous hotel chains. The sector also offers opportunities to develop marinas. Construction work has already started for a marina near Saranda while projects for two marinas, one in Vlore and one North of Durrës are in the planning stage. The new tourist port of Durrës aims to transform the port into an important destination for the whole Mediterranean Region. Exports of boats and small yachts also represent promising opportunities. In an effort to promote the sea tourism, in July 2020, government has exempted leisure boats from 20% VAT payment.

CONSTRUCTION

While domestic production of primary construction materials has increased significantly in recent years, Albania still imports a wide range of construction materials. High-end residential and commercial properties and construction of tourism resorts is expected to increase demand

for quality supplies, especially energy-efficient materials. Additional infrastructure projects, such as the proposed Tirane-Durres-Rinas railway and prospects for a new international airport and new marinas, have garnered attention from domestic and foreign investors. Government-financed infrastructure projects focus mainly on roads, water supply, and sewerage. As such, demand for heavy machinery, equipment, and services is expected to increase.

Leading Sub-Sectors: Construction materials, Energy efficient materials for residential and commercial construction and Engineering and design services.

AGRICULTURE

Albania has a total land area of 28,750 square kilometers, of which 24% is agricultural, 36% forest, and 15% pasture or other type of land. The government hopes to boost agricultural production by providing financial support to farmers and facilitating private investment in the agro-processing sector. Over the last years, the government allocated significant amounts to support the development of fruit and olive orchards, vineyards, greenhouses, and crop storage facilities, and to support projects in the agro-processing industry. Just in 2020, the government invested about \$55 million for drainage and irrigation infrastructure, direct support for agricultural and livestock production expansion, and food safety and consumer protection. The limited use of fertilizers and pesticides offers opportunities for investments in organic agriculture. Opportunities also exist for the production and processing of high-value cash crops.

Leading Sub-Sectors: Meat, Grains, Cereals, Animal feed, Dry fruits, Sugar, Farm machinery and Food processing equipment.

3.2. BOSNIA & HERZEGOVINA

Lack of a single economic space in B&H affects companies trying to do business across the entire country. The country's political environment and complex government structure creates significant obstacles to economic development.

AGRICULTURE

B&H has approximately one million hectares of arable land with farms accounting for approximately half of it, or 500,000 hectares. Domestically, the sectors with the best available and productive natural resources are fruits and vegetables, livestock, and poultry. The largest crop is corn, followed by wheat, and potatoes. Despite slow economic growth and weak purchasing power, food expenditures are increasing, and food imports are constantly growing. Tourism is increasingly seen as an important source of job growth and foreign exchange.

ENERGY

Electric power generation is a key sector of economic activity in B&H. Electric power is primarily generated in coal-fired thermal and hydro power plants, and the country is a net exporter of electrical energy. B&H has significant renewable energy potential, particularly in hydropower and wind power capacity. Hydropower provided 37 percent of the country's total electricity production in 2021 and there is room for additional growth. Recently, solar and wind power plants have emerged but remain a small percentage of the overall energy mix at about 5 percent. According to a study conducted by the German government, B&H could generate up to 2000 MW of wind energy per year, primarily in the areas of Livno, Tomislavgrad, Mostar, and Trebinje. This nascent industry still faces several regulatory and financial challenges.

Leading Sub-Sectors: Desulphurization equipment/technology, Emission control equipment and systems, Generation equipment for hydro and thermal (coal) power plants and Equipment for wind and solar farms.

IT SECTOR

B&H's fragmented public sector is the largest customer for IT equipment and services in B&H. It is followed by the financial sector and telecommunications sector. Retail sales are also recording growth due to the expansion of shopping malls and retail stores. While IT spending in the financial and telecommunications sectors will likely continue to grow, the largest share of prospects and opportunities will remain in the public sector due to BiH's myriad government offices and agencies.

Leading Sub-Sectors: IT services, Hardware sales, Software, including Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM) solutions and Broadband infrastructure.

INDUSTRIAL PROCESSING AND MINING

There is a longstanding tradition of metal processing in B&H, due to the country's abundance in natural resources such as iron ore, bauxite, lead, zinc, and copper. The metal sector is a significant export driver with robust production growth rate of over ten percent in the past few years. The main export products of the metal sector include aluminum, steel and automotive industry components. The existing structure of the metal sector, characterized by small companies, provides an opportunity for larger companies to integrate existing primary producers and further develop their business operations. The price of labor in the metal processing industry in B&H is competitive when compared with global market labor costs. Besides materials for industrial processing, small private companies also buy modern computerized equipment and strive to stay updated with current technologies. Many factories are engaged in semi-processing of components for foreign companies based in the EU and neighboring countries.

The country has significant reserves of brown coal and lignite. Recent foreign investment in mining has indicated there are significant quantities of silver, lithium borate, nickel, and other minerals.

Leading Sub-Sectors: Petroleum coke, petroleum bitumen and other residues of petroleum, Stone coal, Sodium hydroxide, Heavy mining equipment, including bulldozers, tractors, excavators, surface mining conveyor systems, and heavy trucks.

3.3. KOSOVO*

Due to the relative importance of imports for meeting consumer demand, the country maintains a persistent trade deficit. Leading domestic industries include agriculture, mining, the home bedding industry, and construction. Kosovo*'s largest exports are scrap metal, nickel, lead, and mattresses. As Kosovo*'s economy develops, the need for expert financial, legal, architectural, engineering, software development, public relations, and graphic design services will grow.

ENERGY

Kosovo* is currently unable to generate enough electricity domestically to fully meet demand for energy. There is a vital need for stable, base-load power generation in Kosovo* that can meet demand. Power shortages and outages have grown less frequent but can still occur when generation and import capacity do not meet demand or when there is a service failure at one of Kosovo*'s outdated power plants.

Leading Sub-Sectors: Turbines, Generators, Mining equipment, Power system spare parts, Power operation and maintenance services, Legal and consulting services.

As Kosovo* modernizes its power generation and diversifies its energy supply, natural gas, battery storage, energy efficiency technologies, and renewable energy generation (especially in residential dwellings) present potential market opportunities.

WASTE MANAGEMENT AND RECYCLING

Kosovo*'s waste management issues continue to build as more and more of its citizens migrate to urban areas. Growing waste generation and lack of proper infrastructure creates opportunities for foreign companies to provide a variety of waste management and recycling services, including basic waste collection, machinery, and equipment for waste management.

Leading Sub-Sectors: Waste collection, Waste treatment and Waste disposal, Recycling equipment and facilities, E-waste recycling, physical recycling, and chemical recycling, Legal and consulting services

Opportunities can be found within: Municipal waste management and recycling, Industrial waste management and recycling and Hazardous waste management.

MINING AND MINERALS

Kosovo* has a varied geology that includes a variety of exploitable metal and mineral deposits, including gold, chrome, nickel, aluminum, copper, iron metals, and lead-zinc. Kosovo* also possesses the world's fifth-largest proven reserves of lignite. Kosovo*'s coal mines are the fuel source for over 90 percent of Kosovo*'s power. There is some potential to also exploit gold, silver, and marble. The mining sector has traditionally been an important contributor to

Kosovo*'s economy, although the industry declined during the 1990s due to a lack of investment in equipment, facilities, and failure to develop new sites. Significant foreign investment potential exists in this sector, though the political situation makes such investments very difficult.

Leading Sub-Sectors: Exploration, mining, and extraction, Legal and consulting services and Equipment and spare parts sales (maintenance services).

Opportunities: Possible full ownership or operation of new or existing mines following a PPP structure, Sales of equipment, spare parts, and maintenance services, Minerals export to global markets.

3.4. MONTENEGRO

Since regaining independence in 2006, Montenegro has adopted an investment framework to encourage growth, employment, and exports. Although the continuing transition has not eliminated all structural barriers, the government recognizes the need to remove impediments, ensure business-friendly policies and improve transparency and openness to foreign investors.

TOURISM

Market is focused on hotels and resorts along Montenegro's coast. Montenegro is working to develop a broader tourist industry based on its abundance of scenic beauty (rural tourism, cultural tourism, and ecotourism) and geographic diversity, including mountains, seacoast, and lakes.

Montenegrin tourism representatives hope to shift a greater percentage of the tourist trade away from low-revenue package tours into more luxurious and upscale projects. Montenegro also plans to become a center for business and convention meetings. Foreign companies that specialize in hotel management, theme park development, amusement games and attractions, golf course development, fast food establishments, sports and leisure facilities, casino management and environmental control have excellent opportunities to develop stand-alone tourist facilities or to enhance existing properties.

The best market prospects are for tourism-related equipment, hotel furnishings, and IT equipment. Water sports, bird watching, horse-back riding and fishing are ripe for development, as well as ports for yachts, beaches, and marinas. There are also business opportunities for foreign construction companies, engineering firms, and architects, as modernization projects and/or the construction of new hotels begin.

ENERGY

The country has the potential to develop additional hydro power plants given its abundance of rivers and streams as well as solar and wind energy plants. Montenegro only uses approximately 20 percent of its hydro potential. To fully develop this sector, Montenegro will need to upgrade its transmission and distribution network.

Solar power plants - Due to its sound geographical position, Montenegro is rich in solar radiation. Areas which enjoy the highest solar radiation are located in southern Montenegro (particularly the area around the cities of Bar and Ulcinj) and in the area around the capital city of Podgorica. There is also a growing interest in renting state-owned land for construction of on-ground installed solar power plants. In these instances, when an investor is interested in the construction of a PV power plant in a certain area, a public tender for a 30-year lease of state-owned land may be executed.

ICT SECTOR

Montenegro's ICT sector has been recognized as one of the most important areas for the country's economic development. The sector has an overarching influence on the national economy and global competitiveness since it supports all the other sectors of the economy. Montenegro is ranked in 57th place in the World Economic Forum's last Global Competitiveness Report 2019 when it comes to ICT adoption. Electronic communications are well developed and competitive, with main providers being members of renowned international and regional telecommunications companies.

Investments in the ICT sector, including cyber security and data protection, are expected to grow. The country's innovation law is in place and provides a boost to the startup ecosystem, and when fully implemented companies can invest up to €100,000 of the capital gains taxes, they are obligated to pay into a startup of their choosing in exchange for equity. Foreign technology and solutions firms have opportunities in software development, hardware, digitalization and e-services, and ICT education.

CONSTRUCTION

Relatively stable economic conditions and new investments in construction have contributed to the expansion of the building materials market in Montenegro. In particular, Montenegro's housing market is experiencing rapid growth. Building materials is one of the fastest growing sectors of the country's economy.

Construction is one of Montenegro's key economic growth sectors. It offers opportunities for foreign companies in luxury properties, holiday real estate, administrative buildings, and trade outlets. The tourism sector also fuels growth in construction.

3.5. NORTH MACEDONIA

ENERGY

North Macedonia welcomes investments in the energy sector. The government invites companies to design, build, and operate new large and small hydro power plants, wind, solar, and biogas farms. Companies can also apply for tenders to construct sections of the national gas distribution network. The government also welcomes foreign investments in constructing gas-fired power plants. The government is exploring the possibility of extending concessions for building small-scale hydro power plants along rivers across the country.

ICT SECTOR

With an annual growth rate between 2 and 15 percent over the last several years, the Information and Communication Technology (ICT) sector in North Macedonia is a promising area. The growth is stimulated by continued investments by the government and telecommunications companies in ICT, decreases in net prices of ICT equipment, and a decrease in the applicable value-added tax (VAT). The ICT sector in North Macedonia benefits from a skilled and cost-effective workforce with excellent English language skills, solid telecommunications infrastructure, and low corporate tax. ICT representatives expect the sector will continue to grow.

The best prospects continue to be in smart phones, tablets, cloud technology, Wireless Application Protocol services, and distance learning services.

CONSTRUCTION

The construction industry has accounted for between five and eight percent of annual GDP for more than a decade. There are both export and investment opportunities available in the construction and building materials sector. Buildings in North Macedonia are energy inefficient and take a relatively long time to build. New construction is required to meet strict seismic construction requirements.

TOURISM

The country's geographic location, scenic areas, and historical and religious sites provide opportunities for tourism industry investment, development, and management. Since there has been very limited investment in tourism, legacy hotels need repair and upgrading. There has been an increase in the construction of smaller hotels (more suitable to the market in North Macedonia), but investments in training and management for hotel and restaurant employees could greatly increase guest satisfaction. There are no golf courses in North Macedonia, nor do the three largest lakes, Ohrid, Prespa and Dojran, have any significant watersport centers. In order to attract visitors, the value-added tax (VAT) on tourism has been reduced from 18 percent to 5 percent. Investors in priority projects receive special benefits, such as zero percent personal income tax and zero percent VAT for the first 10 years of operation.

AGRICULTURE

Agribusiness (including agriculture, forestry, and fisheries) is one of North Macedonia's most promising sectors.

The production of wine together with viticulture contributes 17-20 percent of the gross agricultural product in North Macedonia. In addition, wine ranks first in terms of exports of alcoholic beverages, and second, after tobacco, in terms of overall export value of agricultural products. Tobacco is the most important agricultural export product, which accounts for one fifth of the value of the total export of agri-food products (20.4 percent).

Organic farming is an area for development. Over the past three years the amount of arable land certified for organic production and the number of companies involved grew, as a result of an increase in government support for the sector. Organic farms produce primarily meat and dairy (lamb, sheep, and goat dairy products), honey, cereals, industrial oil crops, wine, fruits, and vegetables.

Fresh fruit and vegetable production comprise 45.8 percent of agriculture output in the country and is export oriented. Crop production is concentrated in the southern and eastern parts of the country, due to the favorable climate. Over 75 percent of vegetable production is in open fields, 20 percent in plastic tunnels, and the rest in glass greenhouses. Top vegetable crops are potatoes, beans, peppers, and tomatoes, while top fruit crops are apples, plums, peaches, and pears. The most significant raw materials are red peppers, industrial tomatoes, sour cherries, apples, and plums. The low amount of food processing in North Macedonia is due to issues with quality and consistency of the supply of raw materials, as well as a lack of supplier sophistication, lack of skilled workers, and difficulty accessing financing.

Food and beverage processing are significant industries in North Macedonia, as well as fresh fruit and vegetable processing. Processed foods include both semi-finished products (frozen, dried, and concentrates) and finished products (canned and preserved). Over 75 percent of processed foods are exported, mostly to the EU and neighboring countries. Most food-processing facilities are private companies.

North Macedonia also imports most of its grain. There is insufficient domestic production of corn to meet domestic consumption. The country imports one-third of its wheat annually. There is no production of soya beans. North Macedonia is a net importer of meat, as it has insufficient meat production (except for pork), and the number of farm animals continues to decrease.

3.6. SERBIA

ICT SECTOR

Serbia now generates 10 percent of its GDP from the ICT sector, among the top four export sectors, along with steel, cars, and agriculture. Serbian tech companies produce software for industries ranging from agriculture to medicine, as well as tracking and cloud applications, online games, and testing. The startup scene is present and gaining attention, with many firms successfully relocating to Western Europe or pitching themselves to be bought by foreign firms.

AGRICULTURE

Agriculture and food production are the most crucial export sector for Serbia. Serbia is the largest agricultural market in the Western Balkans, with a strong agricultural production and food processing tradition. Serbia is a global leader in the production of non-GMO corn and raspberries. The food processing industry accounts for approximately one-third of Serbia's entire processing industry.

ENERGY

Serbia's national power utility EPS produces nearly 70 percent of the country's electricity from coal and nearly 30 percent from hydropower, with a small percentage coming from wind and solar. Serbia heavily subsidizes coal and electricity prices, inhibiting competition. The Serbian government and EPS have announced plans to transition to green energy solutions and reduce Serbia's dependence on Russian natural gas.

Energy-sector development strategy is based on three pillars: modernize existing coal-burning power plants, increase the use of renewable sources for electricity production and improve energy efficiency.

Serbia has the highest installed hydropower capacity in the region. Serbia has good natural conditions for photovoltaic power plants. Average solar radiation is 30 percent higher than the radiation in Western Europe. Currently, Serbia's installed and utilized wind-power capacity is below 500 MW, and it could be almost three times bigger.

4. CREATIVE INDUSTRIES

Previously, in the part where the structure of the economy by areas (industries) was shown - table 1, the sub-area creative industry was singled out within the service craftsmanship, now we draw more attention to that part.

According to a study by Ernst & Young (2015)¹, the cultural and creative industries account for 709b \$ revenue or 3% of gross domestic product (GDP) and employ a workforce of 7.7 million people in the new Europe.

Creative industries are those based on individual creativity, skill and talent, or which have the potential to create wealth and jobs through the development or production of intellectual property. The creative industries sector is also referred to as the “creative and cultural industries” or the “creative and digital industries” or the “creative industry” within the “creative economy”. Most recently they have been called the “Orange Economy” (*“La Economía Naranja”*) in Latin America and the Caribbean.

The concept of the creative economy is evolving and all industries involve some level of creativity and innovation. Table 1 below compares the coverage of the different approaches and definitions. Each model has a particular rationale, depending on underlying assumptions about the creative industries’ purpose and mode of operation. Each one leads to a somewhat different basis for classification into “core” and “peripheral” industries within the creative economy.

¹ Cultural times, The first global map of cultural and creative industries, Ernst & Young Global Limited, International Confederation of Authors and Composers Societies (CISAC), Paris, 2015; 14-18 - https://en.unesco.org/creativity/sites/creativity/files/cultural_times_the_first_global_map_of_cultural_and_creative_industries.pdf

Table 1: Examples of industries covered in different cultural and creative economy concepts

<p>Canadian culture satellite account</p>	<p>Culture sub-domains: archives, libraries, cultural heritage; natural heritage; performing arts; festivals and celebrations; original visual art; art reproductions; photography; crafts; advertising; architecture; design; books; periodicals; newspapers; other published works; film and video; collected information; broadcasting; interactive media; sound recording; music publishing</p> <p>Transversal domains: education and training; governance, funding and professional support</p>
<p>Concentric circles model</p>	<p>Core creative arts: literature; music; performing arts; visual arts</p> <p>Other core creative industries: film; museums; galleries; libraries; photography</p> <p>Wider cultural industries: heritage services; publishing and print media; television and radio; sound recording; video and computer games</p> <p>Related industries: advertising; architecture; design; fashion</p>
<p>DCMS creative industries</p>	<p>Creative industries: advertising and marketing; architecture; crafts; design and designer fashion; film, TV, video, radio and photography; IT software and computer services; publishing; museums, galleries and libraries; music performing and visual arts</p>
<p>IDB orange economy</p>	<p>Traditional and artistic activities: visual arts; performing arts</p> <p>Creative industry: crafts; publishing; audio-visual; phonographic; interior design; graphic arts; illustration; jewellery; video games; advertising; fashion</p> <p>Activities of creative support: product design; packaging design; marketing</p>
<p>UNCTAD creative economy</p>	<p>Creative goods: art crafts; audio-visuales; design; new media; performing arts; publishing; visual arts</p> <p>Creative services: research and development licenses and services; software licenses and services; audio-visual licenses and services; information services; advertising, market research and architecture; cultural, recreational and heritages services</p>
<p>UNESCO cultural economy</p>	<p>Main cultural domains: cultural and natural heritage; performance and celebration; visual arts and crafts; books and press; audio-visual and interactive media; design and creative services</p> <p>Related domains: tourism; sports and recreation</p>
<p>WIPO copyright industries</p>	<p>Core copyright industries: press and literature; music; theatrical productions, operas; motion picture and video; radio and television; photography; software, databases and computer games; visual and graphic arts; advertising services; and copyright collective management societies</p> <p>Interdependent copyright industries: manufacture, wholesale, and retail of: TV sets, radios, CD-DVD-Blu-Ray players, electronic game equipment, and other similar equipment; computers and equipment; tablets and smartphones; and musical instruments</p> <p>Partial copyright industries: apparel, textiles, footwear; jewelry and coins; other crafts; furniture; household goods, china, and glass; wall coverings and carpets; toys and games; architecture, engineering, surveying; interior design; and museums</p>

Source: *Creative Economy Outlook 2022, UN, Geneva, 2022*²

Taking the above into account, we conclude that the spectrum of activities under the auspices of the creative industry is extremely wide. From this follows the contribution of creative industries to the economy, both through the contribution to the total GDP and in the employment of people, i.e. the reduction of unemployment. The results of the research, which was carried out in Montenegro in 2017³, showed that contribution of creative industries in 2017 is reflected in the following parameters:

- 1.5% of gross value added (GVA) compared to the GVA of Montenegro,
- 3,5% of registered business entities (legal entities and entrepreneurs) in relation to the total number of business entities in Montenegro,
- 4.4% of employees engaged in cultural and creative occupations at the level of Montenegro,
- 3.2% of the total number of employees in business entities at the level of Montenegro,
- 1.4% of the total revenues of business entities at the level of Montenegro,
- 1.7% of total exports of services,
- 2.3% of total household expenditure on culture and related activities.

The main conclusion of this research was that the economic effects of the cultural and creative industries in Montenegro are below their potential and are lagging behind in comparison with other countries. Probably, after a few years, the mentioned situation has been improved in the context of creative industries, but it is certainly still below its potential.

In addition to the already presented data and conclusions, it is a European Commission's flagship programme to support the culture and audiovisual sectors, named **Creative Europe**⁴.

The Creative Europe programme 2021-2027 has a budget of € 2.44 billion, compared to €1.47 billion of the previous programme (2014-2020). Creative Europe invests in actions that reinforce cultural diversity and respond to the needs and challenges of the cultural and creative sectors.

The main objectives of the programme are to (1) safeguard, develop and promote European cultural and linguistic diversity and heritage, and to (2) increase the competitiveness and economic potential of the cultural and creative sectors, in particular the audiovisual sector.

The Creative Europe programme is divided in 3 strands: CULTURE, MEDIA and CROSS-SECTORAL strand.

² https://unctad.org/system/files/official-document/ditctsce2022d1_en.pdf

³ Mapping of Cultural and Creative Industries in Montenegro – Assessment of the economic contribution of the cultural and creative industries, Institute for entrepreneurship and economic development, Podgorica, 2019 - <https://kreativneindustrije.me/wp-content/uploads/2020/04/Mapping-of-Cultural-and-Creative-Industries-in-Montenegro.pdf>

⁴ <https://culture.ec.europa.eu/creative-europe>

5. NEARSHORING IN WB

Terms like “reshoring”, “back-shoring”, “near-shoring” and “onshoring” are on the rise, both in media and academia, reflecting the current trend among multinational companies, of transferring a business operation to a nearby country, especially in preference to a more distant one. Using nearshoring enables businesses to move their operations to a closer, more cost-effective location. This close proximity allows for fewer time zone differences, cultural discrepancies, and a greater level of control in decision-making processes.

Western Balkan economies come as a natural choice for nearshoring – they are geographically close to Germany (and Western Europe in general), and they have the lowest production costs in the whole of Europe.

According to the Balkan Investigative Reporting Network (BIRN), China invested €32 billion in the region in 2009- 2021. In Serbia alone, Chinese investment reached €10.3 billion.

According to the interactive map⁵ based on research by the Balkan Investigative Reporting Network (BIRN)⁶, China's involvement in 136 major projects in the region amounted to over €32 billion (2009-2021) and spread over several sectors – transport infrastructure, energy, metallurgy, mining, security and digital. Chinese participation in projects is reflected by foreign direct investment, including through private and state-owned companies, and loans. As there is already long-term cooperation with Chinese companies in all countries of the WB region, there are also greater chances for moving production from China to WB countries (nearshoring), and therefore for achieving the geopolitical goal - reducing direct dependence on China.

A survey was conducted by The Vienna Institute for International Economic Studies in May 2021⁷, which was supposed to answer the question of whether Western Balkan economies benefit from these potential changes in global production (from nearshoring). The answer is of course YES, but this research has drawn attention to how this happens. Some of main conclusions are:

- Look beyond cheap labor and low taxes - high quality over low cost,
- Availability of skilled labor,
- Improving the quality of the labor force - improvement in the educational system,
- Good infrastructure, and
- Government effectiveness, regulatory quality and rule of law.

⁵ <https://china.balkaninsight.com/>

⁶ <https://birn.eu.com/>

⁷ Getting Stronger After COVID-19: Nearshoring Potential in the Western Balkans, The Vienna Institute for International Economic Studies (WIIW), May 2021 – <https://www.wb6cif.eu/wp-content/uploads/2021/09/Study-Nearshoring-potential-in-the-Western-Balkans.pdf>

Benefiting from nearshoring does not refer just to attracting more foreign companies, it also means that local companies get the most they can from the presence of these companies in their countries. An obvious potential first step to do here is to try to include domestic companies into the supply chains of the foreign companies, by making foreign companies use more local goods and services, and that is exactly what WB region can provide - the geographical location and nature that provide prerequisites for competitive business in all spheres of the economy.

It is not easy to give a specific answer to the question – Which industries are best suited for nearshoring in the Western Balkans? – but in general it could be some (or all) of the following industries:

- **Manufacturing** - In a 2020 Gartner survey⁸, 33% of global business leaders said they either moved their sourcing and manufacturing operations out of China or are planning to do so within the next few years.

- **Logistics and Supply Chain Management** – Ernst & Young conducted flash research and found that in Europe, 88% of respondents were contemplating nearshoring over low-cost areas outside of EMEA (Europe, Middle East and Africa).

- **Business Process and Information Technology Outsourcing – i.e. Customer Service** – For example, more and more transport companies from the USA are opening companies in the countries of the Western Balkan region.

- **Information Technology** – The Latin American region experienced a 156% increase in tech hires from foreign countries in the past few years⁹, highlighting the widespread acceptance of nearshore outsourcing post-pandemic.

- **Retail** – One notable example of a retail business that has utilized nearshoring to its advantage is Zara, one of the biggest fashion brands in the world. About 10% of the Spanish clothing company’s production is outsourced to factories in Morocco and Turkey. Thanks to nearshoring, this Spanish fast-fashion brand doubled its 2021 profits. And like Zara, an increasing number of apparel companies are nearshoring — procurement executives expect over 20% of their sourcing volume to be nearshored by 2025.

- **Automotive industry and auto parts** - The continued strength of the sector in the region has relied upon cost competitiveness, geographical proximity to markets and a historical legacy of manufacturing automotive components.

- **Healthcare, pharmaceuticals and medical devices, and others.**

⁸ <https://www.gartner.com/en/newsroom/press-releases/2020-06-24-gartner-survey-reveals-33-percent-of-supply-chain-leaders-moved-business-out-of-china-or-plan-to-by-2023#:~:text=A%20Gartner%2C%20Inc.,next%20two%20to%20three%20years.>

⁹ <https://distillery.com/blog/growth-of-latin-america-tech-engineering/>

6. MAIN ECONOMY INDICATORS FOR WB6 COUNTRIES

Table 2: Main economy indicators for WB6 countries

Main indicators - 2021	AL	B&H	XK*	MN	NM	SR
GDP (billion \$)	18,26	23,37	9,41	5,86	13,83	63,08
Real GDP growth (%)	8,5%	7,5%	10,5%	13,0%	4,0%	7,4%
CPI (% , period average)	2,6%	2,0%	3,4%	2,4%	3,2%	4,0%
Unemployment rate (% , period average)	11,5%	17,4%	25,9%*	16,6%	15,7%	11,0%
Youth unemployment rate (% , period average)	20,9%	38,2%	49,4%*	37,1%	36,3%	26,6%
Female unemployment rate (% , period average)	11,3%**	18,1%	32,0%*	18,4%*	14,7%	11,0%
Male unemployment rate (% , period average)	11,6%**	12,7%	23,0%*	17,5%*	16,5%	9,3%
Labor force participation rate (% , period average)	59,8%	48,0%	38,3%*	50,9%	56,0%	54,7%
GDP per capita, PPP (current international \$)	16.183	14.110	5.209	22.795	13.890	21.243
Poverty rate (% of population)	23,1%	-	26,4%	-	-	9,8%
Total EU financial support (2014-2020) – mil EUR	649	167	645	270	664	1508
EU financial support (2014-2020) for Innovation and competitiveness – mil EUR	44	34	135	21	73	105
% of support for Innovation and competitiveness in Total EU support	7%	20%	21%	8%	11%	7%

*2020 data, **2019 data

Source: Western Balkans Regular Economic Report¹⁰, World Bank database¹¹ and EC report¹²

Western Balkan economies (WB6) that aspire to membership of the European Union profoundly improved business environments and reformed labor markets over the past five years. However, these reforms did not result in a significant drop in unemployment in every case. Despite the rapid recovery of the economy after the Covid crisis, which can be confirmed on the basis of the GDP growth rates of all the countries of the Western Balkans, the high unemployment rate is what should still concern decision makers. Table 2 shows that the lowest unemployment rate is in Serbia (11%), while the highest rate was measured in Kosovo* (25.9%). An even more worrying fact is that youth unemployment rates are also high - the lowest is in Albania (11.5%), while the highest is in Kosovo* (as much as 49.4%).

The last three rows of the table are data taken from the report: *Supporting an Innovation Agenda for the Western Balkans, European Commission, 2018*¹². As can be seen, from 7 to 21% of the total financial support from EU funds was related to Innovations and competitiveness. The same report offers an identified economic specialization for WB countries (table 3).

¹⁰ Western Balkans Regular Economic Report, No.22, Fall 2022: Beyond the Crises, World Bank Group - <https://openknowledge.worldbank.org/bitstream/handle/10986/38189/P17947818ec26c8c17fe014901194ac104a1b5d70a2a.pdf?sequence=1&isAllowed=y>

¹¹ <https://data.worldbank.org/> - Data access date: 22.02.2023

¹² <https://publications.jrc.ec.europa.eu/repository/handle/JRC111430>

Table 3: Identified economic specializations for WB

	Current strengths	Emerging strengths
Albania	031 Marine fishing 236 Manufacture of concrete, cement and plaster products 439 Other specific construction works 465 Wholesale of information-communication equipment 469 Non-specialised wholesale trade 471 Retail in non-specialised stores 641 Monetary intermediation 683 Management of real estate on a fee or contract basis	089 Other mining and quarrying 152 Manufacture of footwear 439 Other specific construction works 471 Retail in non-specialised stores
Bosnia and Herzegovina	021 Silviculture and other forestry activities 052 Mining of lignite 161 Sawmilling and planing of wood 251 Manufacture of metal structures 461 Wholesale for a commission 472 Retail of food, beverages and tobacco in specialised stores 619 Other telecommunication activities	101 Processing and preserving of meat and meat products 132 Manufacture of textiles 222 Manufacture of plastic products 255 Forging, pressing, stamping and roll-forming of metal; powder metallurgy 256 Treatment and coating of metals; machine processing of metal 259 Manufacture of other metal products 279 Manufacture of other electrical equipment 453 Sale of motor vehicle parts and accessories 473 Retail sale of automotive fuel in specialised stores
Kosovo	072 Mining of non-ferrous metal ores 235 Manufacture of cement, lime and plaster 351 Production, transmission and distribution of electricity 461 Wholesale for a commission 463 Wholesale of food, beverages and tobacco 467 Other specialised wholesale 479 Retail sale not in stores, stalls and markets 611 Wired telecommunication activities 649 Other financial service activities, except insurance and pension funding	360 Water collection, treatment and supply 412 Construction of residential and non-residential buildings 452 Maintenance and repair of motor vehicles 461 Wholesale for a commission 464 Wholesale of household goods 466 Wholesale of other machinery, equipment and tools 471 Retail in non-specialised stores 475 Retail in other household articles in specialised stores 477 Retail in other goods in specialised stores 479 Retail sale not in stores, stalls and markets
Former Yugoslav Republic of Macedonia	141 Manufacture of clothes, except fur 475 Retail in other household articles in specialised stores 477 Retail in other goods in specialised stores 494 Freight transport by road and removal services 561 Restaurants and mobile food service activities	013 Plant propagation 016 Services in agriculture and post-harvest crop activities 261 Manufacture of electric components and boards 282 Manufacture of other general purpose machines 293 Manufacture of other parts and accessories for motor vehicles 353 Steam and air conditioning supply 612 Wireless telecommunication activities 682 Renting and operating of own or leased real estate 683 Management of real estate on a fee or contract basis
Montenegro	110 Manufacture of drinks 429 Construction of other civil engineering projects 452 Maintenance and repair of motor vehicles 469 Non-specialised wholesale trade 475 Retail in other household articles in specialised stores 477 Retail in other goods in specialised stores 511 Passenger air transport 551 Hotels and similar accommodation 561 Restaurants and mobile food service activities 563 Beverage preparing and serving activities 619 Other telecommunication activities 649 Other financial service activities, except insurance and pension funding	162 Manufacture of wood products, manufacture of articles of cork, straw and plaiting materials 241 Manufacture of basic iron and steel and ferro alloys 254 Manufacture of weapons and ammunition 412 Construction of residential and non-residential buildings 421 Construction of roads and railways 464 Wholesale of household goods 561 Restaurants and mobile food service activities 711 Architectural and engineering activities and technical consultancy
Serbia	011 Growing of one-year and two-year plants 091 Support activities for petroleum and natural gas extraction 221 Manufacture of rubber products 611 Wired telecommunication activities 702 Management consultancy activities	141 Manufacture of clothes, except fur 161 Sawmilling and planing of wood 257 Manufacture of cutlery, tools and general purpose goods of metal 275 Manufacture of electric domestic appliances 301 Building of ships and floating structures 351 Production, transmission and distribution of electricity 461 Wholesale for a commission 474 Retail sale of information-communication equipment in specialised stores 492 Freight rail transport 522 Service activities incidental to transportation 563 Beverage preparing and serving activities G20 Computer programming, consultancy and related activities

Source: Supporting an Innovation Agenda for the Western Balkans, European Commission, 2018

For all WB combined, 46 industries have current strengths and 52 industries have emerging strengths. For Albania, Kosovo and Montenegro some industries show both current and emerging strengths, highlighted in bold. What is striking is that these overlapping current and growing strengths are in local industries such as construction, wholesale, retail and gastronomy. Local industries typically are in services, pay relatively low wages and compete much less with industries in other regions or countries. Employment usually correlates evenly with population figures. To be internationally competitive and achieve higher wages, however, traded industries are more relevant but also more concentrated in different places.

6.1. POTENTIAL OF WB COUNTRIES

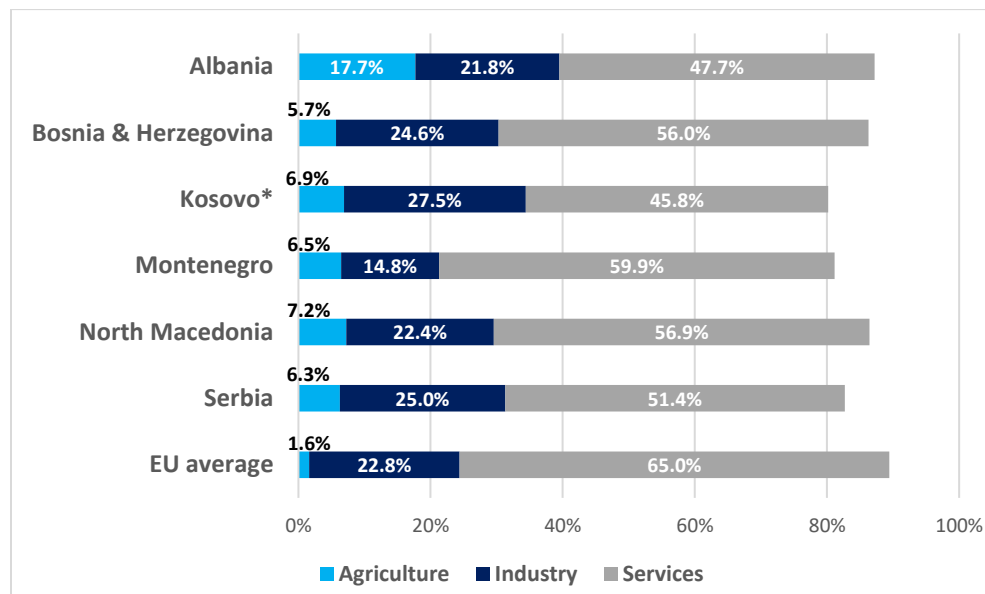
The last-mentioned EC report, Supporting an Innovation Agenda for the Western Balkans, provides several more important conclusions. The WB countries have similar revealed comparative advantages in terms of exported products, mainly textiles and clothing (especially footwear), food products, minerals and metals. Yet only food is cited by government and stakeholder groups as one of the most prominent priority domains. Those domains perceived to be most relevant for research and innovation resemble very much those that are fashionable in the EU, namely energy, healthcare, environment and biosciences/biotechnology. Looking at exports in relation to household consumption yields interesting insights into underlying general growth models of economies. Economic growth has been driven by exports in Serbia, Bosnia and Herzegovina and North Macedonia in 2008-2016. On the other side, domestic consumption was a more important source of growth in Albania, Montenegro and Kosovo. Exports are still focused on medium- and low-technology products. Innovation support mostly addresses traditionally strong sectors, which does not necessarily reflect the ideal competitiveness paths for economies in the region. WB countries should address broader issues of sectoral technological upgrading, user-led innovation, product quality, productivity improvements, engineering and software. In many of these domains, the WB countries have relative cost advantages.

Number of major challenges would need to be addressed, in order to fully enable the potential of WB. The following challenges are highlighted: Creating institutional frameworks to make innovation happen, Providing evidence for policy priorities, Building innovation communities and systems, Supporting transformative and innovative projects, Benefitting from digital transformation and Nurturing transnational cooperation.

As an addition to the mentioned challenges, the authors of this analysis, from the point of view of realizing the full potential of the WB region in the area of creation of industry niche markets, emphasize the connection of niche market with applying for state aid, and of course in the final connection of niche market with macro EU funds.

6.2. GDP STRUCTURE OF THE WB6 COUNTRIES

Chart 1: Share of economic sectors in the GDP for 2021



Source: Created by Authors¹³

Chart 1 confirms that the service sector has the largest percentage share in GDP, both in the EU average and in all countries of the WB6. When it comes to the industry sector, the achieved values in 5 countries are close to the EU average (slightly above, slightly below), except in the case of Montenegro, where the percentage is the lowest and amounts to only 14.8%. On the other hand, it can be concluded that the agricultural sector is more significantly represented in the WB6 countries - led by Albania (17.7%), than it is the case in the EU (the average is only 1.6%).

6.3. R&D INTENSITY

To create sustained growth to catch up and keep up with the frontier, the economy has to produce and export “sophisticated products,” that is, goods or services that are conducive to high productivity gains and spillovers to tradables. In addition to forward linkages, sophisticated industries have a high content of intermediate goods creating backward linkages in the production process. The spillovers and high linkages result in agglomeration effects and clusters

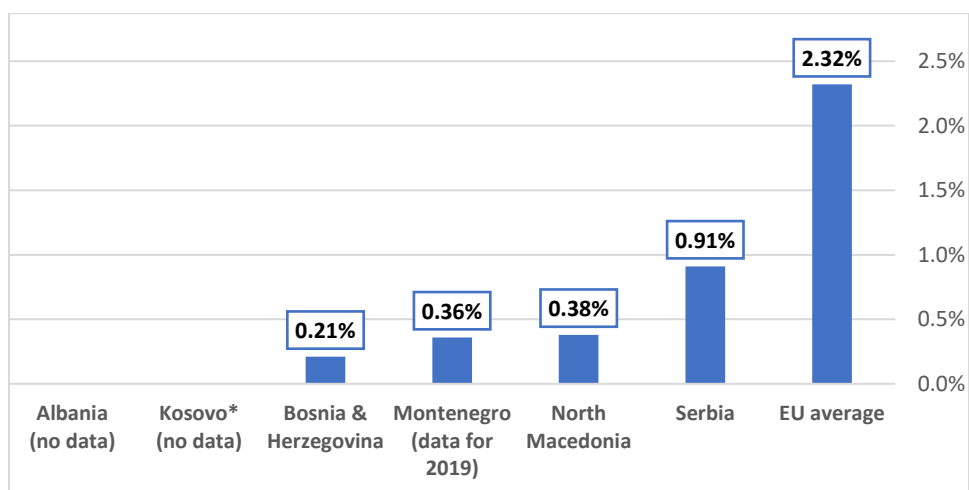
¹³ Source for WB5 and EU: <https://www.statista.com/> ; Source for Kosovo*: <https://ask.rks-gov.net/media/7030/gross-domestic-product-gdp-of-the-expenditure-and-production-approach-2008-2021.pdf>

feeding back into productivity gains. Linkages and spillovers, productivity gains, and agglomeration and clusters should support high sustained growth and employment.

One measure of sophistication is based on the industry’s R&D intensity (share of R&D spending in value added). R&D (Research and Development) can be defined as creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society, and the use of this knowledge to devise new applications.

Chart 2 shows the intensity of research and development for the countries of the Western Balkans.

Chart 2: Research and development expenditure (% of GDP) for 2020



Source: Created by Authors¹⁴

Among the candidate countries and potential candidates for which data is available, R&D expenditure as a percentage of GDP was the highest in Serbia, with 0.191%, followed by North Macedonia with 0.38 %, while in the EU it was 2.3 %. In Montenegro percentage of GDP expenditure to R&D is 0,36% (2019), and in Bosnia & Herzegovina is 0,21%. For Albania and Kosovo* there is no available data.

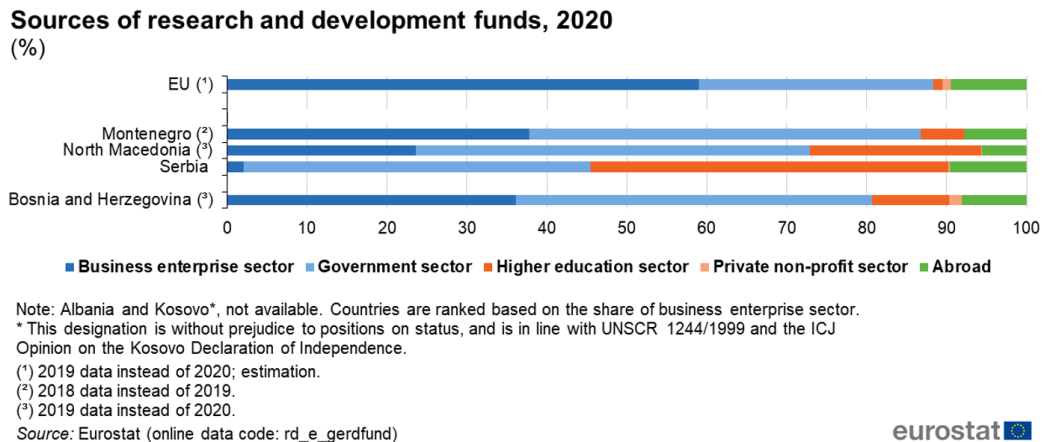
Industries with high R&D intensity include computer/electronic/optical products, pharmaceuticals, transport equipment except for motor vehicles, information technology services, motor vehicles, electrical equipment, machinery and equipment, chemicals, and scientific, professional, and technical services. Metals, furniture, and textiles (within manufacturing), as well as telecom, publishing, and finance/real estate (within services) have much lower R&D intensity. Interestingly, some industries that have high value-added per worker

¹⁴ Source for WB6 and EU: <https://data.worldbank.org/>

end up on a lower end of the R&D intensity spectrum (for instance, metal production, telecoms, and finance and real estate).¹⁵

Chart 3 presents sources of research and development funds for 2020, for Montenegro, North Macedonia, Serbia and Bosnia & Herzegovina. The business enterprise sector provided between 2 % and 38 % of all funds for R&D in these candidate countries and potential candidates, in 2020. Data for Albania and Kosovo* are not available.

Chart 3: Sources of research and development funds for 2020



Source: Eurostat¹⁶

¹⁵ Source: Industrial Policy for Growth and Diversification, IMF DEPARTMENTAL PAPERS – <https://www.imf.org/-/media/Files/Publications/DP/2022/English/IPGDCFEA.ashx>

¹⁶ https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Enlargement_countries_-_statistics_on_research_and_development

7. RECOMMENDATIONS FOR INDUSTRY NICHE MARKETS IN WESTERN BALKAN REGION

In the context of trade liberalization and globalization, new opportunities are expected to arise for the benefit of all countries. Many poor or small countries face difficulties in identifying opportunities and taking advantage of them. The risk of increased marginalization from the global economy is generally high for less developed countries or regions, because they often have weak supply capacities and a limited ability to utilize new economic opportunities and enhance their potential. Some of that countries that have enjoyed relatively stable growth as a result of successful specialization are a number of small states with prosperous tourism activities, and some larger countries that have developed manufacturing supply capacities and have become fairly competitive in niche markets. Taking into account all the limiting factors that less developed countries or regions have, both in the specialization of work itself, and in the part of marketing and distribution, the success of a niche market venture will therefore mainly depend on the ability of the foreign partner to enable the based producer to benefit from the former's know-how, and probably to transfer this knowledge and related technology to the that country. The interest of domestic entrepreneurs or their foreign partners in the niche market approach is naturally explained by the relevance of many country specific goods or services to the definition of niche activities. Trading opportunities for nature-based ("green") products or environment-based services are of the special interest – to which natural features such as an unspoiled nature or environmental beauty are generally conducive¹⁷.

Taking into account all the previously mentioned facts, in the table below are highlighted the activities within which it is possible to form industrial niches in WB region, by the opinion of the author of this analysis. The table provides an overview of the structure of the entire economy, by areas and sub-areas, and finally by recommended opportunities for industry niches markets within the same.

¹⁷ Bungalow tourism in Vanuatu provides a good example of an environment-based service (Source: The Least Developed Countries 1999 Report, United Nations Conference on trade and development, Geneva, 1999 – <https://www.un-ilibrary.org/content/books/9789210451321s007-c003/read>)

Table 4: Structure of the economy by areas (industries) with opportunities for industry niche markets in WB6 region

Sectors of the economy	Subsectors	Areas within the sub-sectors	Subareas	Opportunities for industry niche markets in WB6 region	
				Product	Niche explanation
Primary sector	Agriculture	Agronomy	<ul style="list-style-type: none"> • Farming • Fruit growing • Viticulture • Meadow farming • Floriculture 	Organic fruits and vegetables	Consumers wanting foods grown without pesticides
				Custom farming services	Other producers who do not have the resources to perform these services
				Locally grown food	Consumers wanting locally grown food
				Oil from pumpkin seeds or olive fruits	Consumers allergic to sunflower seeds
				Domestic alcoholic drinks	Consumers wanting locally made alcoholic drinks
				Canned of fruit and vegetables, production of juices, jams	Consumers wanting locally made canned fruit and vegetables
				Tobacco production	Consumers wanting locally made tobacco
				Growing a medicinal plants	Consumers wanting medicinal herbs
		Specialized farms for one type of product that is later processed vertically	Consumers wanting that type of product (i.e. the donkey farm produces milk, and also sells other products - cheese, cosmetics and other donkey milk products)		
		Animal husbandry	<ul style="list-style-type: none"> • Dairying • Sheep farming • Cattle breeding • Pig farming • Poultry farming • Freshwater aquaculture • Sea aquaculture 	Pasteurized goat or donkey milk	Consumers allergic to cow milk
				Traditional apparel manufacturing from wool	Consumers wanting locally/traditionally wool made clothes
				Natural cosmetics products	Consumers wanting natural products
				Organized bird watching	Consumers interested in bird watching

Secondary sector	Light industry		<ul style="list-style-type: none"> • Apiculture • Silk making 	Bee's wrap – Plastic-free alternative to food storage	Conscious consumers
		Forestry	<ul style="list-style-type: none"> • Wood industry - Raising, growing and using forests 	Raising and growing forests (i.e. oak and walnut forest)	Start own craftsmanship in woodworking/ Consumers existing craftsmans in woodwork
				Wood made houses, cottages	Individuals and all interested in nature, eco, rural tourism, ...
		Hunting and fishing	<ul style="list-style-type: none"> • Hunting • Fishing 	Organized recreational/sports fishing	Consumers interested in recreational fishing
	Food industry	<ul style="list-style-type: none"> • Mill-bakery - production of basic foodstuffs (flour, bread, pastries, ...) • Confectionery - production of sugar and confectionery products (chocolate, biscuits, ...) • Oil processing and production industry - processing of sunflower and pumpkin seeds, olive fruits, ... • Fruit and vegetable processing industry - processing and canning of fruit and vegetables, production of juices, jams • Dairy industry - production of milk and dairy products • Fish canning industry - river and sea fish • Meat processing industry - meat processing and obtaining meat products • Alcoholic beverages industry - processing of fruit, grains and vines and production of alcoholic beverages (beer, wine, spirits...) 	Pasteurized goat or donkey milk	Consumers allergic to cow milk	
			Vegan baking products	Vegan consumers	
			Oil from pumpkin seeds or olive fruits	Consumers allergic to sunflower seeds	
			Domestic alcoholic drinks	Consumers wanting locally made alcoholic drinks	
			Canned of fruit and vegetables, production of juices, jams	Consumers wanting locally made canned fruit and vegetables	
			Canned of fishing products (river and sea fish)	Consumers wanting locally made fish products	
Organic meat production (pork, beef, chicken)			Consumers wanting locally organic and healthy meat		
Textile industry	<ul style="list-style-type: none"> • Industry of wool, cotton, jute, flax and hemp • Silk industry • Apparel industry 	Traditional apparel manufacturing	Consumers wanting locally/traditionally made clothes		
		Handmade jewellery	Consumers wanting handmade jewellery		

			<ul style="list-style-type: none"> • Carpet industry 	Vegan made products	Consumers wanting vegan made product	
		Tobacco industry	<ul style="list-style-type: none"> • Cultivation and processing of tobacco and production of tobacco products (relies on agriculture) 	Production of tobacco products (cigarettes, cigars, pipes, and chewing tobacco)	Consumers wanting locally made products	
		Leather and footwear industry	<ul style="list-style-type: none"> • Production of raw leather, footwear and other haberdashery products (today it is based on replacing real leather with artificial leather) 	Products made of real leather	Consumers wanting product of raw leather	
				Vegan footwear products	Consumers wanting vegan made product	
		Light chemical industry	<ul style="list-style-type: none"> • Industry of chemical products • Pharmaceutical industry • Cosmetic industry 	Natural cosmetics products	Consumers wanting natural products	
		Pulp and paper industry	<ul style="list-style-type: none"> • Production of paper, cardboard and various types of fibers and similar products - relies on forestry 	Increased degree of processing of domestic raw materials into the final product at existing factories	Opportunity for people who raised their own forests	
		Rubber industry	<ul style="list-style-type: none"> • Production of natural and synthetic rubber products 	Production of sustainable rubber products and materials	Consumers interested in sustainable rubber products and materials	
	Rubber recycling			Conscious consumers		
	Heavy industry	Metallurgy	<ul style="list-style-type: none"> • Black (obtaining iron and steel) • Colored (getting all other metals) 	Nearshoring opportunity in this industry		
		Machine industry	<ul style="list-style-type: none"> • Industry of means of transportation (automotive industry...) • Agricultural machinery industry • Tool industry • Electrotechnical and electronic industry • Construction machinery industry 	Nearshoring opportunity in this industry		
		Electrical industry	<ul style="list-style-type: none"> • Electrical power • Renewable energy • Solar energy 	Solar power plants, Hydroelectric power plants, Thermal power plants, Wind power plants	To materialize the natural features of the region, and export electricity	

		Heavy chemical industry	<ul style="list-style-type: none"> Organic (industry of plastics and synthetic resins, artificial fibers, synthetic rubber, paints and varnishes) Inorganic (agricultural chemicals, non-organic acids and soda) 	Nearshoring opportunity in this industry	
		Construction industry	<ul style="list-style-type: none"> High-rise construction (residential buildings, public buildings, commercial buildings) Civil engineering (traffic, structural, hydrotechnical and geotechnical direction) 	Wood made houses, cottages	Individuals and all interested in nature, eco, rural tourism, ...
				Smart homes and buildings	Consumers wanting to live in smart homes and buildings
				Eco (solar) homes and buildings	Consumers wanting to live in eco (solar) homes and buildings
		Recycling industry	<ul style="list-style-type: none"> Aluminum Cans, Plastic and Glass Bottles, Ink Cartridges, Cardboard, Electronic Waste, Scrap Metal, ... 	Recycling factory	Everyone who is aware of environmental protection
				Providing a plastic-free alternative to food storage – i.e. Bee’s wrap	Conscious consumers
		Tertiary sector	Transport	Road transport	
Railway transport				Support in the improvement of railway traffic segments (fast trains, infrastructure, stations...)	People who prefer traveling by train
Air transport				Providing a wider range of low-cost airlines and destinations	Travelers looking for low-budget travel
Water transport				Adapt existing ports with places (charging stations) for zero emission, electric driven and eco-friendly electric boats and yachts	People who own zero emission, electric driven and eco-friendly electric boats and yachts (conscious and luxury tourists)
Trade	Commodity market		<ul style="list-style-type: none"> Retail Wholesales 	Nearshoring opportunity in this industry	
	Capital and securities market			Environmental, Social, and Governance (ESG) Investing	Socially conscious investors
Green bonds				Socially conscious investors	

		Services market		Help agency for high paying clients only	High paying consumers that need help with international legislation and other paperwork	
				Digital nomad help agencies	Digital nomads (i.e. real estate purchase)	
	Tourism	Mass tourism			Improvement of marketing for local tourist attractions that attract the masses	Tourists interested in mass tourism
					Thematic tourism	<ul style="list-style-type: none"> • Health and wellness tourism • Spa tourism • Dental tourism • Ecotourism • Urban tourism • Village (rural) tourism • Cultural tourism • Religious tourism • Nautical tourism • Sports tourism • Educational tourism • Business tourism
		Specialization in ecotourism	Tourists interested in ecotourism			
		Specialization in cultural/religious tourism	Tourists interested in cultural/religious tourism			
		Specialization in sport tourism	Tourists interested in sport tourism			
		Specialization in agri-tourism	Tourists interested in agri-tourism			
		Specialization in gastronomy tourism	Tourists interested in local food and traditional cuisine			
		Specialization in wine tourism	Tourists interested in local wines			
		Specialization in adventure tourism	Tourists interested in adventure/nature			
		Specialization in luxury tourism	Tourists interested in luxury			
		Specialization in battlefields tourism	Tourists interested in history and battlefields			
		Specialization in environmental tourism (green tourism)	Tourists interested in green tourism			
		Hospitality				Hotel and restaurant management can be significantly improved in cooperation with created niches in the agriculture and tourism sector
Adult only Hotels and Resort	Adult tourists					
Craftsmanship				Natural cosmetics products	Consumers wanting natural products	

		<ul style="list-style-type: none"> • Manufacturing (shoemaking, woodworking, ...) • Services (creative industries, cosmetic services, masonry, barber and hairdressing services, ...) 	Natural medicine preparations	Consumers wanting natural medicine preparations
			Handmade bags and accessories	Consumers wanting handmade accessories
			Production of souvenirs by artists	Consumers interested in that kind of souvenirs
			Handmade jewellery by artists	Consumers wanting handmade jewellery
	ICT sector	<ul style="list-style-type: none"> • Computing and information technology • Broadcasting • Telecommunications • Internet 	Specialization in web design and development	Consumers wanting non-standard forms of websites
			Specialization in Mobile App Development	Consumers wanting non-standard Mobile App Development
			Make available remote working	Workers which want to work remotely
Banking		Solar powered ATMs	Everyone who is aware of environmental protection	
Utility economy		Digital platforms in utility services		
Quaternary sector	Education	<ul style="list-style-type: none"> • Formal • Non-formal • Informal (lifelong) 	Specialization in one type of lifelong learning (trainings, courses)	Consumers interested in that type of lifelong learning
	Culture		The connection between the art university and business (sovereigns made at art academies and sold in souvenir shops)	Consumers interested in that kind of souvenirs
			Tailor made performances for corporate clients by mini theater troupes	Corporate clients
	Information		Specialized portals for a narrow niche, on which experts write	Entities interested in that niche
Health and social protection	4 parts:		Natural cosmetics products	Consumers wanting natural products

		<ul style="list-style-type: none"> • Curative • Preventive • Environmental Protection • Ensuring appropriate living conditions 	Natural medicine preparations	Consumers wanting natural medicine preparations
			All other products within wellness and spa tourism	Wellness and spa consumers

Source: Created by Authors

In addition to the above suggestions, it is possible to achieve an advantage in business in the region by first taking advantage of the natural opportunities offered by the region where the business is planned. The largest number of opportunities for creating market niches in the WB region are found within the primary sector – in all areas of agriculture, and also a lot of areas from secondary sector of the economy – especially light industry, while also significant opportunities can be found within heavy industry (another part of the secondary sector), than within the tertiary sector (tourism, trade, transport, craftsmanship, ICT sector, hospitality and others) and in the part of education, culture, informations and health protection (quaternary sector). Special attention must be paid to agriculture when defining market niches in the WB region, for a simple reason – more and more consumers are searching for authenticity and are willing to pay higher prices for typical food products that are deeply rooted in their territories of origin. For small and medium producers from WB region, this new trend signifies a major opportunity.

In addition, the factors that also directly affect the narrower definition of business are within the previously discussed topics: the flagship program of the EC – Creative Europe, and the transfer of operations of multinational companies to nearby countries – Nearshoring.

In addition to the above, we draw attention to the fact that from the point of view of releasing the potential of creative industries within individual economies, it is very important to establish adequate cooperation between Art Faculties with the offered tourist products in the country. Also, it is important to note that even over the increased degree of processing of raw materials into the final product at existing factories, can significantly accelerate the industry of niche markets. As stated in the previous chapter, where the full potential of the WB region in the area of creation of industry niche markets was discussed, we once again emphasize the importance of linking market niches with state aid and macro EU funds – in the first place, that state financial institutions support local projects within which we have complete or partial formation of market niches.

7.1. PRODUCT REVIEW MATRIX – A TOOL FOR BUSINESS OWNERS

Within the chapter with recommendations for industrial market niches, as an addition, we highlight this chapter in which the product review matrix is defined. A product matrix is a chart that makes product comparisons easy. It allows to see a side-by-side comparison of features, prices, market segments and more. The concept is simple, but business owners can glean a substantial amount of information from it, and it can be a useful tool for them. The main general conclusion of this part is the following - The key to defining a niche is **product or service differentiation**.

The table below shows the product review matrix template.

Note: The *consumer type* and the *needs and preferences* are defined by the author (optimal values were chosen from the angle of adequate product differentiation - placed in the row and column headers), while the values in the fields of the table are randomly set and they are analyzed in detail by the individual business owner, in order to obtain the appropriate information.

Table 5: Product review matrix – A tool for business owners

CUSTOMER TYPE / NEEDS AND PREFERENCES	PRICE (luxury, moderate, discount)	DEMOGRAPHICS (gender, age, income level, education level)	LEVEL OF QUALITY (premium, handmade, economical)	PSYCHOGRAPHICS (values, interests, attitudes)	GEOGRAPHIC
Conscious consumers	77	83	44	70	55
Health and wellness	33	54	17	58	27
Pet owners	51	69	37	66	97
The LGBTQ+ community	88	11	95	47	10
Travelers	14	30	9	86	29
Gamers	49	62	36	16	42
Homeowners	9	89	65	57	62
Remote workers	25	73	81	23	19
Locals	79	48	3	90	52
Business owners	29	89	50	78	21

Legend

0-20	21-40	41-60	61-80	81-100
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Source: Created by Authors

8. RECOMMENDATIONS FOR EFFECTIVE PREPARATION FOR A NICHE MARKET

Preparing a company for a niche market involves a number of key steps to ensure that the company is well-positioned to succeed in that market. The authors have prepared several steps to be considered by the companies:

1. **Define the niche market:** The first step is to clearly define the niche market that the company wants to target. This involves understanding the unique characteristics of the market, including the needs, preferences, and behaviors of the target customers. Research your industry and market to identify a segment of the market that is underserved or has unmet needs. This can be based on demographics, geography, lifestyle, behavior, or other factors.
2. **Conduct market research:** Once the niche market has been defined, it's important to conduct thorough market research to gain a deep understanding of the market (understand the needs, preferences, and behaviors of your target audience). This includes analyzing market trends, identifying potential competitors, and market demand to ensure that there is a viable market for your product or service.
3. **Develop a unique value proposition:** Based on your market research, develop a unique value proposition that sets you apart from your competitors. Highlight the benefits of your product or service and how it solves the specific pain points of your target audience.
4. **Develop a tailored marketing strategy:** A tailored marketing strategy is essential for success in a niche market. This involves creating messaging and marketing materials that resonate with the target customers, identifying the most effective channels to reach them, and developing a plan to build brand awareness and engagement.
5. **Develop specialized expertise:** Develop specialized expertise in your niche market by staying up-to-date on industry trends, attending conferences and events, and networking with other professionals in your field.
6. **Optimize product or service offerings:** In order to succeed in a niche market, a company needs to offer products or services that meet the unique needs of the target customers. This may involve customizing existing offerings or developing new products or services specifically for the niche market.
7. **Offer exceptional customer service:** Provide exceptional customer service to build trust and loyalty with your niche audience. This can include personalized service, responsive communication, and a focus on customer satisfaction.
8. **Build partnerships and relationships:** Building relationships with other companies, influencers, and organizations in the niche market can help to build brand awareness and credibility, as well as provide access to new customers and markets.
9. **Establish metrics and track progress:** Finally, it's important to establish metrics for success in the niche market and track progress over time. This includes monitoring customer feedback, sales, and other key performance indicators, and making adjustments to the

strategy as needed to ensure continued success, in order to remain flexible and responsive to changes in consumer needs and market trends.

9. CONCLUSION

Although niche markets are usually small, specialized markets that cater to a specific group of consumers or a specific product or service, it can be incredibly important for businesses for several reasons: targeted marketing, less competition, increased profits and innovation. A successful structural transformation of the Western Balkan economies, driven by innovation, needs to be based on a deep understanding of the existing economic fabric as well as the challenges and interrelations between traditional and emerging sectors. Innovation is one of the main factors driving territorial transformations and as these vary between territories, taking account of place-based diversity is essential.

Western Balkan region has a rich cultural heritage, unique natural beauty, and a diverse range of agricultural products, which could be leveraged to create niche products and services. In this analysis, the authors have singled out a wide range of industries in which the WB region can take advantage of opportunities to form market niches. These are certainly agriculture and thematic tourism (in all sub-areas) as well as creative industries, then light and heavy industry, as well as other industries within the tertiary and quaternary sectors (transportation, trade, catering, ICT sector, education, culture...). Also, nearshoring has been identified as a great opportunity to improve the industrial environment in the Western Balkans region.

In addition to stated opportunities for industry niche markets in WB6 region, the previous chapter also defined the essential steps that need to be followed from the point of view of companies, in order to effectively prepare for a niche market. The steps listed are: Define the niche market, Conduct market research, Develop a unique value proposition, Develop a tailored marketing strategy, Develop specialized expertise, Optimize product or service offerings, Offer exceptional customer service, Build partnerships and relationships and Establish metrics and track progress.

Overall, niche markets can be incredibly important for entire individual economies, and decision-makers at all levels must take into account all factors, in order to use the full potential that the WB region has.