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A CONTRIBUTION TO THE ANALYSIS OF SERBIAN ECONOMY COMPETITIVENESS AND POSSIBILITIES FOR ITS IMPROVEMENT

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***Abstract:** The competitiveness of the economy of Serbia is of a relatively low level. In this paper, the author analyzes the attained competitiveness level and defines the priorities related to its enhancement. The author has particularly insisted upon intensifying the microeconomic reforms in public and private sectors, establishing a competitive exchange rate and eliminating the barriers to a stable and sustainable market economy operability.*

***Key words:** competitiveness, market economy, exchange rate, private sector, public sector, reform*

Introduction

One of the key factors of national economy development is represented by its capacity to be incorporated in the international division of labor, reflecting in its competitiveness in the global market. The attainment, maintenance and enhancement of competitiveness are the cardinal preconditions for an increase of economic and technological capacities of each national economy. In this, the most significant role belongs to the entrepreneurial and innovative behavior of enterprises and to an active technological and industrial government policy.

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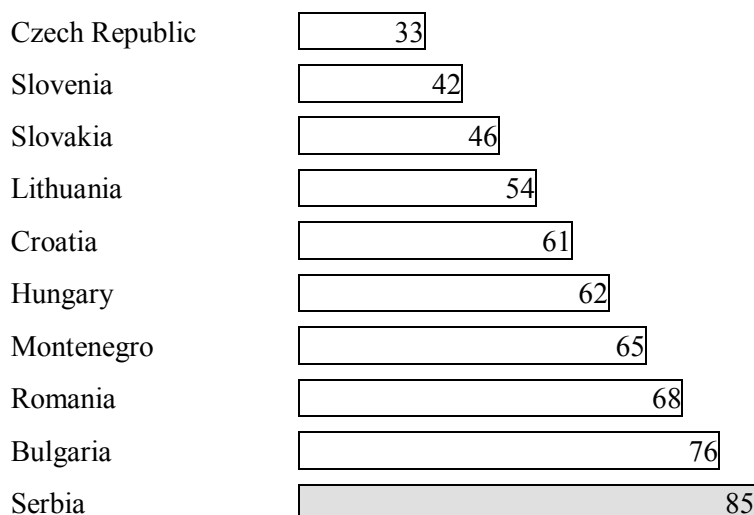
Competitiveness is of a great importance for the development, employment, economically profitable exchange with the world and social welfare. It has a particular significance for small countries, which have to be successful in terms of export. Due to a high import related to industrial-technological needs and final consumption in the country, their export has to exceed 50% of GDP, which can be achieved only if they have attained international competitiveness.

In view of the significance of competitiveness for a dynamic efficiency of national economy, the paper shall analyze both the attained level of Serbian economy competitiveness and the possibilities of its improvement, such as: intensification of microeconomic reforms in public and private sectors, introduction of a competitive exchange rate and elimination of the barriers to the establishment of a functioning market economy.

1. Attained competitiveness level

Serbian economy competitiveness is on a relatively low level. According to the Global Competitiveness Index, World Economic Forum for 2008, Serbia ranks 85th in competitiveness on the list of 134 countries [1, p. 294]. This ranking is considerably low, not only compared to the Western countries, but to the transition countries as well. The position of Serbian economy among economies in transition may be observed in the following Illustration 1.

Illustration 1. Competitiveness among the sample of transition economies



A Contribution to the Analysis of Serbian Economy Competitiveness and Possibilities for Its Improvement

The low competitiveness of Serbian economy has significantly been conditioned by a delayed transition, a longtime isolation and absence from the global market, a long-lasting disinvestment, as well as by a substantial lagging behind developed economies in technology. There is also highly pronounced price non-competitiveness, being that low labor costs are accompanied by low labor productivity, while the non-competitiveness related to the quality of products is even more expressed.

In the previous period, Serbia achieved certain technological development primarily through the implementation of foreign technologies and less by developing and applying its own ones. Thus, a considerable technological potential was formed, incorporated in the equipment of specific branches of economy, but not much effectuated in Serbia. The main cause of Serbian non-competitiveness lies in the system that did not generate necessary motivation of economic subjects to quickly develop and efficiently use technologies and to modernize the economy and the public sector on this basis. After two decades of disinvestment, many sectors of Serbian economy have non-competitive prices and non-competitive technological contents due to the obsolete machinery, instruments and equipment and to the outdated knowledge and information. The absence of investment into human capital caused a significant decline in the economic and technological competitiveness of Serbian economy [2, pp. 50-80].

Many years of the domestic economy isolation have affected a technological lagging of economy behind the world tendencies and a decrease of domestic product competitiveness in the global market. Exporters from other countries have displaced domestic enterprises from specific global market segments, first of all from the EU market, so their return to these markets after 2000 was much difficult. The requirements of foreign buyers are increasingly rigorous regarding the quality, performances and design of products, servicing of complex products, as well as supplying credit for purchases, which brought about an increase of the global market competition. This resulted in an insufficient export growth, regardless of the increasing dynamics in the period after 2000.

Commercial categories that make 74.2% of the commercial export of Serbia are of a small importance for the EU import. Moreover, most of these products belong to primary products that are labor-intensive and natural resource-intensive, indicating the incapability of Serbian economy to be integrated into the EU market by technology-intensive products. This was caused to a significant extent by insufficient import of modern equipment and state-of-the-art technology and inappropriate investments in scientific research and development [3, p. 31].

The non-competitiveness of domestic products and services in the global market reflects in the level of cover of imports by exports of more of less intensive products. Domestic products do not contain competitive technological contents, which has induced low exports of such products and low income from technology exportation. This is an indication that Serbia is technologically lagging behind developed countries and that it is dependent to a great extent on foreign countries, with an adverse balance of technological payments. The unfavorable balance of receipts and expenses related to technologies points out the predominance of technologies of foreign origin, which have not been significantly improved in order to increase the export of technologies and gain more significant income on this basis.

A low competitiveness of Serbian economy also results from its delayed transition and, in its framework, a slowed down privatization and unsatisfactory quality of institutions. As opposed to successful transition economies, which have accomplished transformational efficiency and whose institutions have successfully adapted to the requirements of functioning market economy, Serbia is in a different situation in this respect [4, p. 7]. Namely, on the level of legislation, changes in economic system solutions have been materialized, a stabilization policy has been implemented, a monetary reform has been performed, the prices of most products and services have been liberalized and the foreign trade liberalization has been accomplished. Also, radical changes of the fiscal system have been made through the introduction of transparent public expenditures and strict control of the fiscal deficit [5, p. 390]. In view of the previously emphasized, it may be concluded that Serbian economy has mainly achieved a well-rounded quality of formal institutional facilities that should generate a competitive environment and enable the establishment of a functioning market economy. However, in spite of the formal rhetoric, competition is obviously yet to take hold, while a specific institutional vacuum may be observed that adds to the persistence of a non-market system, or, to be more precise, a quasi-market system, which is of a low developmental capacity. Competition deformity is not limited only to the public sector, but it spreads to the parts of transformed enterprises, as well. It all leads to the creation of a chaotic "non-system", which significantly affects the disruption of macroeconomic stability.

It has also been assessed that the competition in Serbian economy has been reduced to primitive market structures, that there are various market substitutes and mutant pseudo-market structures, which cannot guarantee economic efficiency. In fact, the point is that many forms of quasi-

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institutionalization of market relations were established, reflecting in paternalism, monopolism, rent-oriented behavior, etc. It is even believed that certain nomenclature-lobbyist groups tend to create "supra-institutes", that is, to monopolize further flows of institutional development by their wide network of informal ties and relations.

A widely spread reluctance to entrepreneurial behavior is an essential institutional determinant of the transition of Serbian economy. This is certainly contributed by the trait of collectivism that gives no impetus to individual entrepreneurship [6, p. 360]. A significant influence on the deep-rooted disinclination to entrepreneurial initiatives was exerted by historic circumstances abundant with bifurcations, instability and permanent uncertainty. The reluctance to entrepreneurship in the modern economy of Serbia resulted from the integrated effects of the mentioned historic factors and contemporary perception of entrepreneurship in the society. Negative apprehensions of entrepreneurs partly originate from the forms of acquiring illegal wealth during the past years, based on the connections with corrupted segments of government, on gaining extra-profit through monopoly, war profiteering, etc. In this respect, certain role belongs to the inclination of many entrepreneurs toward blatant spending, cherishing the style of *nouveau riche* instead of investing the earned income into the expansion of capacities, new technologies and new jobs [7, pp. 280-286].

Thus perceived, the economy of Serbia is obviously on an economically inefficient pathway to institutional evolution. The reason for this should be sought in the ruling cultural model that does not favor a behavior in line with marketing principles. Therefore, transition policy creators would have to fully respect the existing informal institutional structure, especially the rigidity it produces in the process of delayed transition.

2. Possibilities for competitiveness improvement

Previous analysis clearly shows that the competitiveness of Serbian economy is on a low level. As already pointed out, numerous and complex factors determine the level of competitiveness. The following ones seem to have high priority for being resolved in Serbia: intensification of microeconomic reforms in public and private sectors, establishment of competitive foreign exchange and elimination of institutional barriers for the introduction of functioning market economy.

Restructuring of the strategic public sector, which includes state-owned natural monopolies and network technologies, is of a special