FACTA UNIVERSITATIS
Series: **Economics and Organization** Vol. 7, N° 3, 2010, pp. 271 - 278

IMPROVEMENT OF SERBIAN EXPORT COMPETITIVENESS

UDC 339.564(497.11)   339.13

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Abstract. *In the last two decades, the dominant group in the structure of Serbian exports has been the primary product or products of lower stages of finalization (agricultural products, nonferrous metals and iron, timber, etc.). Exports of finished (technologically complex) products, according to many authors, mostly depended on non-pricing attributes and the skill of domestic exporters, in desperate business conditions, to offer things that will really have a go on the market of developed countries.*

Key Words: *price and non-price competition, quality market, export strategy*

INTRODUCTION

The fact that the decrease in exports of primary products in the last ten years has been less than the decrease in exports of final products, indicating a more favorable relative competitiveness of primary in relation to the final products. One gets the impression that our country is following that logic, and it should specialize in primary products, that is, Serbian comparative (and competitive) advantages lye in the sphere of primary products. It is obvious that this theory must be understood conditionally with respect to several assumptions and observations. In fact, a well known and quite economically unacceptable administrative way of determining prices and their artificial maintenance at a low level (the case with electricity prices and a range of agricultural products) has created the only apparent competitiveness of these products. This was the case with products in which the structure of inputs really occupied the dominant share of these products.

Some products have also become more price competitive thanks to low cost, particularly seasonal workers, whose social and pension insurance were not paid for a number of years, as well as other contributions. It is interesting to see whether these labor-intensive products to maintain its current price competitiveness if there is an increase in earnings, or if they will then be able to count on not-that-cheap labor as a factor to increase price competitiveness. Also, the "world" market demand for primary products recorded their real fall, and it has continued for the last ten years, resulting in exports with higher or lower

Received December 31, 2010

losses of exporters in many countries, including Serbian exporters. Serbian exporters tried to compensate, partially or totally, for these losses by selling foreign products (usually it was a commodity) at very high prices in the domestic market, where the competitiveness of domestic products of the same functionality with the foreign was much smaller.

THE SITUATION IN CERTAIN SECTORS OF SERBIAN ECONOMY

Serbian economy is mostly characterized by comparative advantage and competitiveness of primary products relative to final products. The achievement of significant foreign exchange resources to promote development is still possible by relying only on exports of primary products. It is obvious that significant comparative advantage in these products has to be realized through their "training" and transformation in several stages of finalization. This is particularly important to increase the competitive advantage of agricultural and food products, especially the use of eco-friendly food (meat, milk, mountain tea, fruit, berries, honey, wine, etc.). It is possible to achieve significant foreign currency flows from the substantially higher cost of these products in the developed countries.

After the dramatic problems that we faced during the past fifteen years and the difficulties incurred in adapting to market economy, the agriculture of Serbia is faced with a new, great challenge it imposes on joining the European Union. It is obvious that this process will bring major changes such as changes in the structure of production, farm resource management, production control system, market access, relative to the preservation of the environment and rural development. These changes, however, should not be just a product of the integration process, but also a result of established economic practices with the aim of penetrating into all aspects of the agricultural sector. In general, Serbian agriculture should aim to increase the overall profit and integration in the EU with mutual benefit. On the other hand, the agricultural policy of the EU is a moving target, which requires the makers of the agricultural policy in Serbia to make assumptions about the future of the CAP and to adapt their strategies to approach the EU.

Realization of this goal is burdened by a series of limiting factors of development, exports and increase its competitiveness in agriculture. These are primarily a low level of knowledge and use of modern technology, a lack of motivation of employees in this sector, and an insufficient number of those who choose to engage in this activity (this is especially true of young labor force). Besides them, the lack of working capital and acquisition of fixed assets severely restrict the level of prices by the state, which meant that Serbian agriculture was in a very difficult situation last year, without an optimistic outlook for a faster recovery in a number of years to come.

Achieving tangible results requires a certain allowed (defined by the principles of the WTO) to stimulate agricultural production and exports of agricultural and food products with a higher level of processing, the prices of which are higher than world market prices of primary products. For example, instead of exporting raspberries, blackberries, blueberries and other berries and wild fruit in processed form, grapes and wine in tanks, to stimulate exports of juices in Tetra-Pack or bottled wine, taking into account that the prescribed standards and requirements of developed countries in terms of quality, packaging, the amount of sugar and permitted additives, packaging and so on. Successful implementation and increase of the competitiveness of agricultural products were achieved with respect to the adoption of appropriate marketing strategies and approach to the world market. It is therefore necessary to promote some of these products branded with the joint efforts of the state, the competent ministries, banks, excellent local and international experts with maximum support of the existing brands - "Moc prirode (The Power of Nature)", "Zuta osa (Yellow Wasp)", "Zelena jabuka (Green Apple)" and others, and the introduction of new brands of products with attractive geographic origin or superior quality.

The Serbian farmer has to follow the activities of the states in the agricultural sector, that is, what is the message it sends with these activities, what to protect and what to subsidize. Traditionally, countries around the world have used this dual approach, foreign trade strategies and domestic support, to send a clear message to manufacturers and to focus the direction in the way the states thought to be the best. Bearing in mind that agriculture is the last listed in the policy of the WTO, which Serbia wants to join, it has set a clear goal to eliminate all incentives to increase production and allow only those forms of subsidies that have no direct impact on the decision as to what the farmer will produce. Thus, the objective to be achieved is to progressively reform the system of tariff protection and domestic subsidies in Serbia so that they will have less impact on what manufacturers decide to produce, leaving them free market monitoring and a selection method of adjustment to that market.

The fact is that tradition, availability of natural resources and geographical position of Serbia favor agricultural production. However, they certainly should not become an excuse for ignoring high accumulation sectors of the economy, such as industrial production, the highest level of processing and new services based on modern technology (computer, computer services, etc.). Consistent strategy of Serbia's economic development must reckon with the policy of encouraging agricultural production and improving the quality of the same, although it is also necessary to say that its relative share in the structure of GDP has to fall just in time for the benefit of industry and services.

Long-term export orientation of agriculture exists because, based on research of numerous scholars, the basic condition of increasing the overall efficiency of agro production and its rapid integration into the European (and global) market. Serbia has a net export potential in agricultural production and processing, which is not sufficiently valorized in the absence of development and export strategies and related incentive measures of economic policy. Going forward, the agricultural policy makers would have to stimulate significantly direct producers, in order to achieve successive years of sustained growth of agricultural production as a precondition for good results in foreign trade. Serbian agriculture can have a significant contribution to the stabilization of economic trends in the country, and it is therefore necessary to define development priorities based on the export strategy.

Increasing exports in the short term should be used to promote the EU market comparative advantages in the production of biologically safe, organically produced ("healthy") food of high quality, with geographical indications obtained in a traditional way, particularly early (berry) fruit and vegetables, products of continental fruits (juices and jams), meat and meat products, alcoholic beverages (wine and fruit brandy), vegetable fats and oils, sugar and other products. Organic farming should be given a special treatment in our export offers. It is particularly necessary in a higher degree advantageous to use the preferential status of agriculture in the EU market, in order to obtain greater production and export quotas in negotiations for EU accession.

It is also interesting to note a phenomenon particularly marked in recent years, that Serbia by many authors to be the maximum to use. Specifically, we learned that the world trade in food and goods of agricultural origin caused by the international mobility of inputs used in the production process, and that it is the larger of the goods the production of which increased dependence on the land and geo-climate factors - products that are "land based" (land-based products). The said commodity group also includes, in addition to raw materials of agricultural origin (grains, oilseeds, coffee, tea, fruits and vegetables), semi-products that are the most common of Serbian exports to the EU market and EU-15 and EU-27 - sugar, processed fruit and vegetables, fresh and chilled meat, cooking oil and others.

As for the wood industry sector, Serbian producers and exporters have to work if they want to increase the competitiveness of their products; changes in the qualitative structure of exports take place, where products of higher stages of finalization (furniture for example) become predominant and the share of sawn materials, records, logs is reduced. This is possible because the Serbian timber industry is a solid basis in experience, labor force, and the reputation of individual companies and individual products in the world market. What must be done in the field of increasing exports of finished wood products and its competitiveness in the field of improving quality, design, import high quality raw materials, modern technologies and equipment, significant foreign experience and knowledge and effective promotions, the advent of the famous exhibitions in the countries that could become our largest customers and the like. In order to provide the raw material base for future production of furniture and other finished wood products and environmental protection, export of primary products (logs, sawn timber, board) should be put under more control (even though exports in general should not be limited).

Exports of ferrous metals, iron and steel industry in recent years had a prominent place in the structure of Serbian exports, although the participation in the structure of exports in the years to come and the first decade of the twenty-first century has been in decline for many reasons, and on that basis will come to a decline of rationality of our exports and its overall competitiveness. One of the reasons mentioned above is that the world market has a tendency of a real decrease in prices of these products (steel, iron, lead and zinc) in the long term, except for some products in this sector such as copper and aluminum, which will record a slight increase in price. Such developments will certainly adversely affect the volume and value of Serbian exports of these products, so in the near future Serbian exporters can not count on favorable economic and financial evaluation of the global market. We should also keep in mind that export-oriented development strategy, particularly industry and finished products, brings much more profit than orientation to export unprocessed products and the lower stages of finalization. Therefore, the export of these products is much more cost effective and efficient through the export of components, parts and components and final products of metal complexes. The mentioned fact was confirmed by the fact that in the early 1990s in the EU market for a ton of steel you could get $ 200-800, for a ton of classic machines around $15,000, and the ton of sophisticated products, even $ 50,000.

The sector of chemical and pharmaceutical industry compared to other sectors in the Serbian economy, has showed significantly higher relative vitality in the last decade. If we take into account the fact that the export of chemical products in 2009 reached the amount of approximately $ 600 million (in 1998, it amounted to about $ 300 million), then one can conclude that the products of petrochemical and pharmaceutical industries in the future may become holders of dynamic export growth. It is possible to achieve improvement and modernization of their operations in accordance with international standards, particularly to stimulate substantial investments in research and development work when it comes to pharmaceuticals. Thus, competitiveness and development of this sector is, to a large extent, determined by significant investment in research and development work. It is particularly important to organize local production in line with existing international standards regarding the protection of human health and the environment, but also stimulate domestic producers and exporters to enter into strategic alliances with large and well-known foreign companies, and any transfer of domestic production abroad.

Taking into account the many difficulties that befell Serbian textile industry during the 90s and even today, starting with the dissolution of a unified Yugoslav market, the introduction of sanctions, suspension of the agreement on textiles with the EU under the International Agreement on Textiles, exclusion from the World Trade Organization, the inability to import quality raw materials, machinery and know-how due to the sanctions and because of the insufficiency of foreign exchange generated by exports, are just some of the factors that led to a complete collapse in its development. A large number of unemployed labor force, workers on forced leave, employment of capacity, with only 20-30%, dramatically reducing processing tasks, reducing domestic sales because of the impoverishment of the population and low purchasing power are the facts that indicate that a number of reasons must stimulate the sector towards export orientation. Significant increase in price and nonprice export competitiveness can be achieved by importing modern machinery and equipment, high technology, development of high quality and design, enrich the product range and its adaptation to the needs of potential customers in certain segments of the world market, establish a market niche where the products of the textile and shoe industry may be of interest and the like. Faster development of this sector is achievable because it still has a lot of young people employed labor force that could become the driving force of future development, given its expertise and solid experience. Also, labor costs will in the future in this sector is likely to still be low, which is unfortunately a big competitive advantage, and on that basis significant price competitiveness will be implemented, but not necessarily aiming at developing and nonprice competitiveness based on high quality, design, product range and others. Despite the saturation of the world market of textile products and footwear and apparel industry, our exporters have to find specific segments of the global market which will perform with the original, small-batch fashion products.[1] Although the labor intensiveness of the sector decreases, they will continue to be above-average labor-intensive, which is very important if we take into account the dimensions of the unemployment in our country, especially among female workers, who are mostly employed in this sector because of the nature of work.

These negative trends and a series of adverse external and internal circumstances have led to a drastic fall of Serbian export sector in the field of machinery and transport equipment too. These problems can be overcome by eliminating certain limiting factors of faster export-oriented development. Taking measures to address the issue of ownership transformation, structural adjustment, to attract foreign direct investment, reduce risks of investing in our country, hiring foreign experts, forcing R & D work, adoption of international standards of quality, efforts towards higher forms of cooperation with foreign companies, opens the possibility of significant increase in exports in this sector. Optimism for

[1] A long jacket knitted in Sirogojno, with distinctive rural motifs, for which nearly two pounds of premium Icelandic wool are used, costs between 150 and 200 euros on the local market. In Germany such a jacket is sold for between 700 and 900 euros, and in Japan for as much as 1,500 euros.

growth and development of this sector in the future lies in the fact that world exports of machinery and transport equipment still has an above-average pace of growth, raising the possibility of our exporters to price and time to strengthen their export non-pricing offer. In particular, the small but competitive exporters of good market research identified segments where their products have a good pass, good use of higher exports and greater foreign exchange inflows. This particularly applies to exports of those products in late stage of maturity and which by their nature do not fall into massive scale products (eg, ships, etc.). Also, the current qualification structure of labor, equipment, facilities, knowledge and experience gained may serve as a good basis for future development of export-oriented sectors of machinery and transport equipment. Success in this development involves solving the above mentioned limiting factors.

Competitiveness of the final product is different from the specific characteristics of each observed product. Serbian engineering, for example, mainly manufactures tractors small and medium power (from 35 to 80 hp.) That price and other performances are achieved at a lower price on the international market price of the domestic market. It is even very difficult to talk about the competitiveness of the tractor on the international market, since exports are mostly taking place within the compensating operations, which are embedded in the price of all the weakness and inefficiency of domestic exporters. High cost of tractors on the domestic market is a result of inadequate economic policies in the field of agricultural production. In fact, state regulation of prices of agricultural products and their "freeze" on economic unrealistic low level for the sake of preserving social peace and the survival of the poorest segment of the population, have led to the inability of farmers to purchase new machinery at current market prices. With such low purchasing power, they can not afford tractors, the factory price of which was about 5500 euros, and with the applicable purchase price of wheat it was necessary to deliver about 70 tons of wheat, which farmers are rarely able to achieve.

On the other hand, lower export prices of tractors do not show our price competitiveness, but the fact that Serbian tractors are poorly equipped and that the low quality of the tractors that are available on the world market come from other countries. Foreign competition from the West offers certain advantages for their products, such as credit to foreign buyers, this is one of the factors that significantly affect the competitiveness and better sales on foreign markets, which is still not the practice of Serbian producers and exporters.

CONCLUDING REMARKS

Based on the previously presented data and information about the (lack of) competitiveness of some sectors of the Serbian economy, it is possible to draw some conclusions. Specifically, price competitiveness and non-price range of Serbian products and services in recent years have been dramatically reduced by the activity of numerous internal and external factors. Insufficient efficiency of the domestic economy with a decline in productivity and growth in unit production costs has negatively affected the final prices applicable product and their competitiveness. Many additional burdens and non-tariff customs duties of our export products further emphasized the lack of competitiveness of Serbian export pricing.

Also, it is obvious that the price competitiveness of almost all sectors of the Serbian economy is extremely weak taking into account the pronounced reduction in export unit values, especially for products of high processing. Reduction in unit values of exports and its negative price performance is recorded in traditional export sectors, textile and agriculture products. Such negative developments in our export prices generally lead to increased pressure on domestic prices to cover the uncovered costs of such exports. It is therefore necessary to take concrete steps towards increasing the price, but also non-price competitiveness of our exports.

Serbian economy is still located at the level of economic development, where the competitiveness of their products is based on the classical availability of factors of production, and only then on other factors such as the structure of demand and target markets, strategies and rivalry of the company, the competition and the like. Adverse performance of the Serbian "diamond of national competitiveness" the necessity of creating a long-term strategy to increase competitiveness. It can be achieved only with the process of redefining the economic system oriented towards creating an enabling institutional environment. This effectively means synchronized application of monetary, fiscal policies to attract foreign direct investment, investment and foreign trade policies in the field of export promotion promoted economy. With the necessary real exchange rate, correcting distortions in the system of prices of goods and factors of production and the structural adjustment of the economy, it is possible to significantly improve the structure of Serbian exports, and lower stages of product processing and primary products, the move towards producing products of higher and highest stages of finalization. The aim is therefore to provide not only the maximum use of the export potential that successfully been evaluated in the global market, but also to radically change the profile of the domestic economy.

The only way for Serbia is to "brag" about cheap and educated manpower, and on that basis to build a favorable price competitiveness of export supply. However, previous experience of Serbian producers of standardized products, which exclusively base their competitiveness on low prices, is very unfavorable. Therefore, it is necessary in the future to provide a unique blend of educated manpower and modern technology to local companies enabling it to produce sophisticated products, whose prices and quality are much better on the world market. The world market is possible to achieve a more favorable position than competitors only if they are developed and the price and nonprice elements of competitiveness, which determines the interweaving of buying and profit.

The biggest weakness of the Serbian economy in the area of improving the competitiveness of the lack of capital, inadequate technological infrastructure and under-developed utility and transportation infrastructure, and infrastructure in telecommunications and financial services. Also, the low purchasing power of domestic population focused mainly on consumer products to safeguard the subsistence minimum living standard, do not provide sufficient incentive to improve the competitiveness. By building a comprehensive system of export-oriented market economy would provide the specialization of production, increase exports and foreign exchange earnings, which would finance the growing import needs. This requires foreign capital to effectuate the modernization of production capacities through technological improvements and repairs, as well as opening new facilities in parallel with the process of privatization and foreign investment. So far the most important group of export sectors are labor-intensive sectors (textile industry and leather and footwear), sectors with advantages in raw material base (non-ferrous metallurgy, tobacco and food industries) and the dynamic development of sectors (metals and chemical industries).

Particular importance for the stimulation of exports of industrial products has achieved the liberalization of imports of appropriate inputs to produce the propulsive industrial sectors. In some sectors of the economy able to export and its structure according to the degree of processing is largely dependent on the presence of transnational companies and their motivation and willingness to invest in the industry (production and processing of chemical products). To increase exports and foreign exchange earnings significantly and export promotion services sector (trade, tourism, transport, telecommunications, financial and IT services). Orientation to the faster development of services based on the geographical advantage of the country and the experiences of staff in dealing with foreign countries in relation to the provision of transport and telecommunication services, construction works and engineering abroad, providing tourism, banking, financial and information services and insurance services.

In the immediate realization of these goals, the state and its institutions, as well as banks should be actively involved so that together they could stimulate and support the export of any new product no matter from which sector it originates (state, private, social). Only in this manner, it is possible to create a favorable environment in which all innovators, manufacturers and exporters with maximum effort can increase the competitiveness of their products and help the development of a sound economic base.

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UNAPREĐENJE KONKURENTNOSTI SRPSKOG IZVOZA

Ivan Marković

U strukturi srpskog izvoza poslednje dve decenije domonantna je grupa primarnih proizvoda, odnosno proizvoda nižih faza finalizacije (poljoprivrednih proizvoda, obojenih metala i gvožđa, rezane građe i sl.). Izvoz finalnih (tehnološki kompleksnijih) proizvoda je, prema većini autora najviše zavisio od necenovnih atributa i umešnosti domaćih izvoznika da u očajnim uslovima poslovanja ponude ono što će zaista imati prođu na tržištu razvijenih zemalja.

Ključne reči: *konkurentnost, tržište kvaliteta, izvozna strategija*