

**BUSINESS ENVIRONMENT AND COMPETITIVENESS
OF SERBIAN ECONOMY IN THE CONDITIONS
OF GLOBAL ECONOMIC CRISIS**

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Abstract. *With the outbreak of the global financial and economic crisis, the trend of continuous improvement in global business environment as a result of economic growth, liberalization and investment in infrastructure was stopped, while in some areas, regressive movements are reported. Increasing the competitiveness of the domestic economy and stable economic growth presupposes the creation of a supportive business environment. Therefore, ensuring a healthy business environment that will facilitate business activities is an imperative. This paper will analyze the quality of the business environment and competitiveness of the Serbian economy during the global financial and economic crisis. On the basis of the analysis of business environment and competitiveness of the Serbian economy the aim of this paper is to identify the main areas in which it is desirable and possible to improve the quality of business environment. These changes are a necessary precondition for improvement of competitiveness of the Serbian economy.*

Key Words: *economic crisis, business environment, enterprise, competitiveness.*

1. INTRODUCTION

The quality of business environment determines competitiveness of an economy, level of productivity and returns on investment compared to other economies. The business environment which the company operates in consists of factors that are largely, if not totally, external and beyond the control of the firm and its management. These include, among other things, existing political, legal and regulatory framework; macroeconomic

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policies; institutional infrastructure; social and cultural context within which transactions are performed, the quality of physical and social infrastructure, etc.

Sustainable long-term economic growth and competitiveness of the domestic economy presupposes creation of a stimulating business environment. This includes development and implementation of appropriate strategies, focused on continuous improvement of business environment. The subject of analysis in this paper is the quality of business environment and competitiveness of the Serbian economy in the conditions of the global financial and economic crisis. In the analysis of competitiveness of Serbian economy we will use generally accepted framework for measuring the competitiveness of the economy - Global Competitiveness Index (GCI), which includes microeconomic and macroeconomic foundations of national competitiveness. These foundations are necessary but not sufficient for ensuring a competitive business environment. In assessing the quality of business environment in Serbia we will rely on the *Ease of Doing Business* indicators, defined by the World Bank (World Bank, 2013), which show the challenges and obstacles individual countries face in the area of business regulations and practices. Based on this analysis, we will try to identify the main areas in which it is desirable and possible to improve the quality of business environment, which is a prerequisite for the improvement of competitiveness of the Serbian economy.

2. FOUNDATIONS OF COMPETITIVENESS

Competitiveness is a multifaceted concept. Although primarily associated with the firm, this concept is also applied at the level of industries and territorial units (regions, countries). In other words, competition is analyzed from a micro and macro aspect (Spence and Hazard 1988).

As far as a company is concerned, competition is associated with a market share, profitability and growth of the company. Microeconomic concept and indicators of competitiveness have a firm theoretical foundation because they focus on the essential characteristics of companies that compete with each other in an effort to achieve a greater market share and profit. The competitiveness of a company can be quantified by the size or growth of the enterprise share on the market, performance indicators, price relations, cost per unit or through multidimensional indicators (Siggel 2006). Porter defines competitiveness as the company's ability to survive and thrive in the conditions of competition (Porter 1990). Achieving competitive advantage results from the ability of a company to generate a product or service which consumers value more than products or services of competing companies, while sustainable competitive advantage stems from its capacity to innovate and upgrade its own capabilities more efficiently than competitors. This advantage eventually materializes through sale growth and improved profitability (Porter 1985). While exploring determinants of competitiveness, Porter had in mind not only company but also the quality of business environment where competition between companies takes place. If these conditions are inadequate, macroeconomic, political and social reforms can not give their full effects (Porter 2004). Microeconomic foundations of productivity are based on two interrelated factors: sophistication of competition between firms and quality of business environment. Sophistication of competition is closely related to the quality of business environment. Sophisticated strategies of competition re-

quire, among other things, adequate information, infrastructure, research institutions, actors with appropriate knowledge and skills, strong competitive pressure.

The most controversial concept of competitiveness certainly is macro competitiveness. Although in the last few decades theoretical debate focused more on macro concept, it is theoretically less founded than a micro concept of competitiveness. Krugman pointed out to the problems related to application of this concept to the national economy. He argued that it is pointless to apply this concept to the national economy and that "the obsession with competitiveness is wrong and dangerous" (Krugman 1994, 30). The issue of competitiveness, according to Krugman, should be viewed as the problem of domestic productivity (Krugman 1997). Countries can compete for market share and foreign investment, but features such as stability, good governance and profitable investment opportunities can be seen more as a favorable business climate than competition.

According to Faberberg (Faberberg 1988, 355), national competitiveness represents ability of a country to produce goods and services that meet demands of the international market in free and fair market conditions, while maintaining and increasing real income of the population in the long term (environmental sustainability of such growth is assumed). According to Newall (Newall 1992), successful realization of domestic products in domestic and international market should provide adequate social services and support to socially excluded groups of the population. OECD also defines competitiveness as the country's ability to produce goods and services that can be exchanged on the world market, in terms of free trade and fair market conditions, while increasing the real income of the population (OECD 1996, 24). The standard of living in a country is determined by productivity, measured by the value of goods and services produced per unit of capital invested. Only productivity growth provides the basis for wages growth, strong and stable national currency and increasing returns on capital and hence higher standard of living. The main challenge in terms of competitiveness and economic development, therefore, is to create conditions for rapid and sustained productivity growth. From this point of view, national competitiveness is a set of factors, policies and institutions which determine the level of productivity in the economy. Productivity growth - including better use of resources - determine returns on investment, which affects the rate of economic growth. Productivity is considered as a key determinant of economic prosperity of a country over time.

The best known indicator of competitiveness at the macro level is called *Global Competitiveness Index*, which is calculated annually and published by the World Economic Forum, since 1995. This index provides the base for the international ranking of countries from the perspective of microeconomic and macroeconomic foundations of competitiveness. It is of composite character and includes effects of several factors. Although it is considered important for international investors, the theoretical basis and method of its aggregation is a controversial issue. The underlying assumption is that competitiveness is a complex phenomenon, which is influenced by many factors. These factors are grouped into 12 pillars of competitiveness, which are divided into three different groups. The first group of factors relates to the basic requirements and includes the following: (1) institutions, (2) infrastructure, (3) macroeconomic stability, and (4) health and primary education. The second group encompasses factors that increase efficiency, including: (5) higher education and professional training, (6) goods market efficiency, (7) labor market efficiency, (8) financial markets sophistication, (9) technological readiness and (10) market size. The third group includes innovation and sophistication factors: business sophistica-

tion (11) and innovation (12). The relative importance of individual groups of factors depends on the degree of development of an economy (measured by the value of per capita gross domestic product). For the least developed countries, the first group of factors (basic requirements) has the highest value. For a middle-income country group (including Serbia), beside basic requirements, factors fostering efficiency are also of great significance. For developed countries, the most important are factors classified in the second and third group. Higher position and better ranking are the result of a higher factor productivity in the country.

3. BUSINESS ENVIRONMENT IN THE CONDITIONS OF THE GLOBAL ECONOMIC CRISIS

The results of recent studies (World Bank, 2013; Economist Intelligence Unit, 2009) of business environment suggest that current global economic crisis has a negative impact on the business environment in the medium term. According to research conducted by the Economist Intelligence Unit (2009), changes in the global business environment following the global financial and economic crisis, reflects deterioration in market opportunities, growth of macroeconomic and political risks and problems in the financial system. The recession was a key reason for the deterioration of market opportunities in the period 2009-2013 compared to 2004-2008. According to Economist Intelligence Unit estimates (2009), the average annual world growth rate for the period 2009-2013, measured by purchasing power parity (PPP), will be 2.3%, which is half of the growth rate achieved in the previous five-year period (4.6%). This reduction is partly due to the global recession which started in 2008, weak recovery in 2010 and growth rates below the trend line for the period 2011-2013. The Global Competitiveness Report 2013-2014 (World Economic Forum, 2013) provides a basis for optimism that the global economy is finally on the path of a stable recovery. Precondition for sustainable recovery is that governments continue to implement structural reforms.

Growing budget deficits and public debts (as a result of slow recovery and application of expansionary fiscal policy), instability of exchange rates and increased risks in the financial markets have significantly affected macroeconomic environment in the period 2009-2013. Decline in liquidity and limited access to financial resources contributed to the reduction in cross-border capital flows.

Effects of the global financial and economic crisis are also being felt in the countries of Central and Eastern Europe. Higher interest rates, diminished inflow of foreign direct investment, reduced exports, already have caused a decline in production, investment and employment in these countries (EBRD 2013). High internal and external debt, high current account deficits and a lack of foreign exchange reserves make those countries particularly vulnerable. Reduced FDI inflow affects all countries of the region, but it is most pronounced in those countries where FDI constituted the main source of growth in recent years (Štriblar, 2009). Reduction in the foreign capital inflow will escalate the issue of deficit financing, especially in countries with large external debt and current account deficit, such as Serbia.

European Commission forecasts (European Commission, 2013, p. 9) indicate that gradual stabilization and beginning of recovery of European economies should not be expected before the end of 2013. In Serbia, however, nearly 5 years since the outbreak of the crisis there are only weak signs of economic recovery on the horizon. Sharp decline in

economic activity during 2012 is a consequence of decline in domestic demand (due to years of declining of private consumption), which is accompanied by decrease of the total volume of investment. A slight recovery in economic activity during 2013 can be attributed to the production and export of the automotive industry. Because of the lack of domestic demand, which is not expected to rise until 2014, and the fiscal consolidation measures, expected rate of economic growth for this year is below 2% (European Commission 2013, p. 109). In the conditions of slow recovery of the euro zone economy and reduced bank lending, an increase in the inflow of foreign investments in the Serbian economy could not be expected. Export growth and cyclical decline in imports should lead to a reduction in trade deficit, but external debt is expected to grow further. Fiscal consolidation measures have not led to a reduction in budget deficit, so the projected deficit at the end of 2013 is 4.5% of GDP, which could be even higher next year if appropriate measures of economic policy are not implemented.

As a result of the recession and rising unemployment, there has been a deterioration of political environment in the form of the rising risk of political unrest and political instability. Particularly high risk of political instability exists in Balkan countries, mainly due to the high rate of unemployment. Many of these countries have characteristics that increase the risk of political instability, such as the history of political conflicts, inefficient bureaucracy, low levels of trust in political institutions. Given the incomplete and unstable nature of political transition, as well as the fragility and underdevelopment of institutions in the Balkan countries, the global economic crisis could have serious implications for social and political stability in the region. The global economic and financial crisis could cause serious political crisis and destabilize the region, unless something is done to mitigate its consequences (Stubbs, Venancio, 2009). As the effects of global crisis gradually expose institutional, political and managerial weaknesses in the Balkan countries, social instability could become a serious challenge to the political structures of the region.

The global crisis has prompted skepticism about the free market, which will affect regulatory environment in many countries. Further progress in the liberalization and deregulation of domestic markets is expected to be slower than before the crisis. To which extent will crisis affect the growth of regulation in the financial markets and other areas of the economy remains an open question. The greatest resistance to deregulation and liberalization is in developed countries since they first felt the impact of the financial crisis. Nevertheless, in these countries we do not expect significant growth of regulation and state intervention in the economy. In developing market economies situation is more complex. In some of these countries growth of regulation will occur. In others, which are at the lower level of economic development and have relatively recently begun the process of liberalization, reforms will continue, although it is reasonable to expect them to slow down.

The business environment is an important determinant of competitiveness and economic growth. According to Global Competitiveness Report 2013-2014 (World Economic Forum, 2013), for the fifth consecutive year Switzerland holds the leading position in the ranking of countries according to competitiveness. Among the ten most competitive countries are also Singapore, Finland, Germany, the USA, Sweden, Hong Kong SAR, the Netherlands, Japan and the UK. At the bottom of the list of 148 countries, there are three sub-Saharan African countries - Burundi, Guinea and Chad. It is important to note that almost all countries that are in the top ten on the list according to Global Com-

petitiveness Index are characterized by a high degree of innovation and supportive institutional framework. As in previous years, countries of North America are among the most competitive economies in the world, with the United States and Canada occupy 5th i.e. 14th place. The U.S. remains one of the key leaders in the field of innovation, which is a prerequisite for productivity growth. American companies are highly sophisticated and innovative, supported by an excellent university system that collaborates with firms in the field of research and development. Combined with a flexible labor market and large domestic market, these factors create favorable conditions for the further growth of competitiveness.

In recent years a considerable number of European countries were faced with the challenge of financial and structural reforms. A lot of effort has been invested in the preservation of euro area and encouraging economic growth, primarily through macroeconomic policies and structural reforms. Measures aimed at boosting competitiveness are already beginning to bear fruit, but the deficit of global and regional demand remains a serious impediment to growth. Despite these problems, six European countries are among the top ten according to the Global Competitiveness Index, and ten of them are among the top twenty. Some European countries (particularly Greece and Spain), after several years of decline are gradually improving their position according to GCI index.

It should be noted, however, that Europe is a region characterized by large differences in the degree of competitiveness between countries. The Western Balkan countries, in contrast to the Central European and Baltic countries, have failed to create an adequate business environment that would ensure a better position from the standpoint of competitiveness. In table 1, we compared the rank of the Western Balkan countries according to Global Competitiveness Index (GCI) in 2008 and 2013.

Table 1 Comparison of the Western Balkan countries according to Global competitive index (GCI) 2008 and 2013

Country	Country	GCI index 2008	GCI index 2013
Albania	Albania	108	95
Bosnia and Herzegovina	Bosnia and Herzegovina	107	87
Montenegro	Montenegro	65	67
Croatia	Croatia	61	75
FYR Macedonia	FYR Macedonia	89	73
Serbia	Serbia	85	101

Source: World Economic Forum (2009; 2013)

From the given data we can conclude that between 2008 and 2013 several countries made progress in terms of competitiveness: Albania (improvement by 13 positions), Bosnia and Herzegovina (improvement by 20 positions) and FYR of Macedonia (improvement by 16 positions). Montenegro, Croatia and Serbia deteriorated their positions on the list, with the most pronounced deterioration in the case of Serbia (16 positions).

4. COMPETITIVENESS OF SERBIAN ECONOMY

According to the latest Global Competitiveness Report (World Economic Forum, 2013), with the index value of 3.8, Serbia currently occupies 101st position out of 148 countries ranked in the report. This means that the position of our economy, regarding competitiveness, has deteriorated, as a fall of 6 positions has been recorded compared to the ranking list in 2012. The specific index values and the positions within the individual pillars of competitiveness are shown in Table 2.

The deterioration of Serbian economy ranking in the global competitiveness list is the result of decreased index values in each of the three groups of competitiveness factors, with the largest decrease recorded in the first group of indicators, that is accounted for 40% in calculating the overall GCI index (from 88th position, in one year's time, the rank of Serbian economy declined to 106). A detailed insight into the values of the indicators that make up the first group of factors shows that the declining competitiveness of the Serbian economy has mostly been caused by the deterioration in the macroeconomic environment - according to this pillar of competitiveness, the current rank of Serbia is 136, compared to last year's 88. As mentioned above, a stable macroeconomic environment, as one of the pillars of competitiveness, is a necessary prerequisite for conducting economic transactions. In this sense, growing budget deficit, increased public debt, credit rating drop and inflationary tendencies have been the factors that influenced deterioration of macroeconomic stability in Serbia, and hence decrease of the competitiveness index value.

Table 2 The rankings and GCI values of Serbian economy (2013-2014)

Pillars of Competitiveness	Rank (out of 148)	Value (1-7)		Rank	Value
<i>Basic requirements</i>	106	4.0	Institutions	126	3.2
			Infrastructure	90	3.5
			Macroeconomic environment	136	3.4
			Health and primary education	69	5.7
			Higher education and training	83	4.0
			Goods market efficiency	132	3.6
<i>Efficiency enhancers</i>	92	3.8	Labor market efficiency	119	3.9
			Financial market development	115	3.5
			Technological readiness	60	3.9
			Market size	69	3.7
<i>Innovation and sophistication factors</i>	125	3.0	Business sophistication	137	3.2
			Innovation	112	2.9

Source: *Global Competitiveness Report 2013-2014, World Economic Forum*

In the first group of indicators, besides macroeconomic environment, there has been a decline of the index values for all the pillars of competitiveness - institutions, infrastructure, and health and primary education. Concerning the first pillar (Institutions), Serbia is still coping with problems of property rights and intellectual property protection, low level of trust in politicians, irresponsible government spending, ensuring judicial independence, excessive government regulation, inefficient legal system, organized crime. There were no significant improvements in the quality of overall as well as individual infrastructure in Serbia - roads, railways, airports and harbors, so that Serbia's rank regarding the infrastructure quality is currently 90.

5. EASE OF DOING BUSINESS IN SERBIA – MEASURING THE QUALITY OF BUSINESS ENVIRONMENT

Laws, regulations and institutional arrangements that shape daily transactions in an economy affect the quality of the business environment and the ability of firms to invest, create jobs and increase productivity. Assuming that a strong legal and regulatory environment with simple regulatory processes encourages entrepreneurship and boosts economic growth, Serbia needs to undertake a continued reform of business regulation. In terms of deteriorated macroeconomic environment as a result of the economic crisis, it is essential for the revival of economic activity to ensure a healthy business environment that will facilitate business transactions. The way business rules are created in an environment, determines whether they will have a positive impact on the volume of economic transactions and development of the private sector, or themselves represent an obstacle to efficient business operations.

Annual World Bank reports on *Doing Business* in 185 countries (World Bank, 2013) point out the challenges and obstacles that individual countries face in the field of business regulations and practices. Based on the values of various indicators of the business environment, a unique index is calculated, that determines the position of a given country in the world rankings. There are two types of indicators: the first refers to the strength of formal institutions relevant to business regulations, while the second group of indicators relates to the cost and efficiency of the regulatory processes. These indicators point to the necessary procedures, time and costs of transactions in accordance with the relevant rules. The values of individual indicators are calculated as the average value of its sub-indicators (number of procedures, time, cost).

Serbia's position in the ranking of countries according to the quality of the business environment, i.e. *Doing business*, is not satisfactory, due to the presence of numerous problems and obstacles that hinder creation of an attractive business environment. The World Bank indicators suggest that doing business in Serbia is not easy so Serbia currently holds 86th position in the ranking of 185 countries. The values of these indicators, determining the current ranks, are presented in Table 3.

Table 3 The values of individual indicators and Serbian rankings in 2013

<i>SERBIA</i>	<i>RANK: 86</i>
<i>Starting a business</i>	<i>Rank: 42</i>
Number of procedures	6
Time (in days)	12
Cost (% of income <i>per capita</i>)	7.7
Minimum capital (% of income <i>per capita</i>)	0.0
<i>Dealing with construction permits</i>	<i>Rank: 179</i>
Number of procedures	18
Time (in days)	269
Cost (% of income <i>per capita</i>)	1427.2
<i>Getting electricity</i>	<i>Rank: 76</i>
Number of procedures	4
Time (in days)	131
Cost (% of income <i>per capita</i>)	502.6
<i>Registering property</i>	<i>Rank: 41</i>
Number of procedures	6
Time (in days)	11
Cost (% of income <i>per capita</i>)	2.8
<i>Getting credit</i>	<i>Rank: 40</i>
Strength of legal rights index (0-10)	7
Depth of credit information index (0-6)	5
Public registry coverage (% of adults)	0.0
Private bureau coverage (% of adults)	100.0
<i>Protecting investors</i>	<i>Rank: 82</i>
Extent of disclosure index (0-10)	7
Extent of director liability index (0-10)	6
Ease of shareholder suits index (0-10)	3
Strength of investor protection index (0-10)	5.3
<i>Paying taxes</i>	<i>Rank: 149</i>
Payments (number per year)	66
Time (hours per year)	279
Total tax rate (% of profit)	34.0
<i>Trading across borders</i>	<i>Rank: 94</i>
Documents to export (number)	7
Time to export (days)	12
Cost to export (US\$ per container)	1,455
Documents to import (number)	7
Time to import (days)	14
Cost to import (US\$ per container)	1,660
<i>Enforcing contracts</i>	<i>Rank: 103</i>
Number of procedures	36
Time (days)	635
Cost (% of claim)	31.3
<i>Resolving insolvency</i>	<i>Rank: 103</i>
Time (years)	2.0
Cost (% of estate)	20
Recovery rate (cents on the dollar)	29.1

Source: World Bank *Doing Business Report 2013*, p. 192

Although currently 86th in the world, it is important to note that this position is the best that Serbia has had in the last 5 years (chronological review of individual and aggregate indicators and rankings is presented in Table 4).

Table 4 Chronological review of Serbia's positions in "Doing business" rankings (aggregate and individual indicators) for 2009-2012

	2009	2010	2011	2012	2013
<i>Aggregate ranking</i>	94	88	89	92	86
<i>Indicators:</i>					
Starting a business	106	73	83	92	42
Dealing with construction permits	171	174	176	175	179
Getting electricity	/	/	/	79	76
Registering property	97	105	100	39	41
Getting credit	28	4	15	24	40
Protecting investors	70	73	74	79	82
Paying taxes	126	137	138	143	149
Trading across borders	62	69	74	79	94
Enforcing contracts	96	97	94	104	103
Resolving insolvency	99	102	/	113	103

Composed from: World bank *Doing business reports*, 2013.

The table shows that for the past year, Serbia has improved its position by as much as 6 places, and thus joined the group of 10 countries that have achieved the most visible progress in three or more areas. Improving the rank of Serbia can be ascribed to reforms in the area of starting a business, enforcing contracts and resolving efficiency. Specifically, according to the *Doing Business 2013* report, the largest improvement, of as much as 50 positions, Serbia has made in the area of starting a business, by eliminating the requirement of paid-in minimum capital. Second, measures regarding contract enforcement also had a positive effect on the rankings. Introducing the institution of private bailiffs and providing choice for the execution of the sentences between court or private bailiffs resulted in improving the efficiency of contract enforcement. Third, Serbia has improved the process of resolving insolvency, through the introduction of online public registry of injunctions, making all prohibitions on the disposal of movable and immovable property, issued by the judicial authorities, public and transparent. Also, the improvement of this process is a result of additional measures, such as the introduction of private bailiffs, prohibiting appeals and lowering the initial price for the sale of property.

6. COMPARATIVE ADVANTAGES AND DISADVANTAGES OF BUSINESS REGULATION IN SERBIA

Based on the latest measurements of the business environment in Serbia it can be concluded that Serbia has a comparative advantage in regulatory areas related to *starting a business* (42nd in the rankings), *registering property* (41st) and *getting credit* (40th).

Beside the reforms undertaken in the past year (eliminating minimum capital requirement), significant progress in the area of starting a business has been achieved after the Law on the Registration of business entities became effective in 2005, according to which

the registration process is entrusted to the Business Register Agency, instead of commercial courts and municipalities. This way, the time necessary for registering a firm was reduced from 23 to only 5 days, and the process became much easier. As a result, today in Serbia it takes only 12 days to start a new company.

Significant progress in the past years has also been recorded in the field of registering property, owing to the measures that led to decreasing of the time required to register property - from 91 days in 2011 to only 11 days in the 2012, allowing buyers to immediately dispose of their property or use it as collateral for loans. Thus, the process of registering property includes only 6 procedures and costs 2.8% of the property value. Also, in 2009 property transfer tax was reduced from 5% to 2.5%.

Until last year, indicators in the field of getting credit in Serbia had high values, given the fact that existing regulations had encouraged credit activities. The new law on personal data protection, implemented in 2010, improved access to credit information, which made obtaining credit easier and safer. Currently, Serbia stands 40th in the ranking, although this position was higher in the previous years. The decline of the index of strength of legal rights of lenders and borrowers through collateral laws in the last year is the main cause of deterioration in this area.

The most obvious disadvantages of the business environment in Serbia have been recorded in the area of dealing with construction permits and paying taxes. Serbia is at the very bottom of the list, standing 179 of the total 185 counties ranked, regarding the number of required procedures, time and cost of obtaining construction permits. In order to obtain the necessary permits for building, connecting to power sources, acquiring the licenses from all inspections and other relevant authorities, Serbian companies have to perform 18 different procedures and for that they need 269 days. Such a lengthy and complicated process deters and discourages investors, so that an urgent reform is needed in this area.

Likewise, concerning regulations about paying taxes and other compulsory fees, Serbia's current rank is highly uncompetitive, due to the extremely complicated tax system. The average company in Serbia must make as many as 66 payments in order to settle all taxes and other obligatory fees during the calendar year. For performing all procedures related to these payments (preparation, calculation, form filling, the payment itself), Serbian companies spend 279 working hours a year. An additional concern is the fact that in recent years no reforms have been undertaken in this area.

7. THE LINK BETWEEN THE QUALITY OF BUSINESS ENVIRONMENT AND COMPETITIVENESS OF SERBIAN ECONOMY

Improving the business environment by removing the excessive bureaucratic obstacles and inadequate regulation, and introducing transparent, efficient and clear rules, has a stimulating effect on the development of entrepreneurship and strengthening the firms' competitiveness. In this sense, the quality of the business environment plays a role of a specific barometer of the business climate, and can serve as an indicator of competitiveness. In fact, comparing the rankings of countries in *Ease of doing business* and *Global competitiveness Index* (GCI), a high degree of correlation (0.83) is recorded (World Bank, 2013).

Table 5 shows the rankings of Serbia on both lists for the past 5 years. Based on these data, it can be concluded that there is no correlation between *Doing business* and com-

petitiveness indicators in the case of Serbian economy. In fact, over the past 5 years, Serbia's position on the list of competitiveness declined by 8 positions, while it improved for the same number of positions on the list concerning business environment quality. It is obvious that recently implemented reforms in the domain of business regulation have not yet significantly contributed to strengthening competitiveness.

Table 5 Chronological review of Serbian rankings in Global Competitiveness and Doing business listings (2009-2012)

	2009	2010	2011	2012	2013
GCI	93	96	95	95	101
Doing business	94	88	89	92	86

(Source: World bank *Doing business reports*, 2013;
Global Competitiveness Report 2013-2014, World Economic Forum).

The values of analyzed indicators and current rankings of Serbia regarding the quality of the business environment suggest that it is necessary to continue and intensify reforms aimed at improving the quality and attractiveness of the business environment, as well as adopting of good business practices, processes and procedures that have proven to be effective. The main purpose of the analysis of the business environment in Serbia is to detect the key problems and obstacles that stand in the way of facilitating economic activity and economic recovery.

Table 6 The most problematic factors for doing business in Serbia

Factor	% of respondents
Corruption	13.8
Inefficient government bureaucracy	13.1
Access to financing	11.1
Government instability	10.9
Inadequate supply of infrastructure	7.3
Foreign currency regulations	5.9
Crime	5.6
Inflation	5.6
Tax rates	5.5
Policy instability	4.7
Tax regulations	4.2
Poor work ethics in national labor force	3.3
Inadequately educated work force	3.1
Insufficient capacity to innovate	2.6
Restrictive labor regulations	1.7
Poor public health	1.4

(Source: *Global Competitiveness Report 2013-2014*, World Economic Forum)

According to the *Global Competitiveness Report* (World Economic Forum, 2013), the largest problems of doing business in Serbia are related to the inefficient public admin-

istration, corruption and lack of financial resources (Table 6). The results are based on respondents' choice of 5 key issues from the given list of factors and their ranking from 1 (most problematic) to 5 (least problematic).

Characteristics of the business environment significantly affect the new business creation and private sector development. In countries that provide entrepreneurs a stable legislative and regulatory environment, with low tax rates and the ability to quickly and cost-effectively register a new business, the pace of opening new businesses is intense. Research shows that new business entry density (number of newly registered firms per 1000 working-age population) in high income countries for the period 2004-09 was 4.21, while in the group of countries with medium and low income countries that number was 1 new business per year (World Bank, 2010, p. 12). According to the same survey, new business entry in Serbia 2009 was 1.94 per 1,000, comparing to 2.24 in 2007, before the economic crisis (Table 7).

Table 7 New business entry density in Serbia (2005-2009)

	2005	2006	2007	2008	2009
Number of newly registered firms per 1000 pop.	2.02	2.14	2.24	2.15	1.94

(Source: World Bank Entrepreneurship Snapshots, 2010, p. 24)

In the years preceding the outbreak of the economic crisis, the number of new firms in Serbia gradually and steadily augmented, while first visible effects of the crisis manifested after 2009 (Table 8). The crisis has caused the reduction in the number of new businesses, firstly in most developed economies, and then in other countries with developed and globally exposed financial systems, especially those that rely on external funding. Therefore, high income countries experienced stagnation in the number of newly registered companies already in 2008, while in middle and low income countries such effect has been postponed. The crisis in Serbia manifested with a certain time lag after an economic downturn has caused a decrease in the volume of foreign trade, given that Serbian economy is heavily dependent on exports.

Table 8 Number of new businesses registered in Serbia 2008-2011

Year	2008	2009	2010	2011
Number of new businesses	10769	9717	9260	8238

(Source: World Development Indicators)

8. CONCLUSION

Assuming that the quality of the business environment is a determinant of the competitiveness of an economy and a prerequisite for sustainable long-term economic growth, the paper analyzed the relationship between the quality of the business environment and competitiveness, as well as their changes during the global economic crisis. The global economic crisis has caused deterioration in the global business

environment, aggravating the conditions for conducting daily business transactions. Lack of funding and increased risks in the financial markets have reduced cross-border capital flows, with the growing need for regulation in different areas of the economy.

While the latest reports on the competitiveness optimistically announce that the global economy is finally getting in the way of a stable recovery, the effects of the global economic crisis still persist in Serbian economy, with obvious negative effects on the macroeconomic environment. The deterioration of the macroeconomic environment, as a relevant factor of competitiveness, is manifested in the form of slow economic growth, high foreign trade deficit, rising unemployment with a negative impact on consumption growth, high budget deficit and public debt, decreasing investment, profits and real wages. As a consequence of all these developments, the competitiveness of the Serbian economy in recent years is continuously worsening.

One of possible ways to stimulate economic activity and speed up the economic recovery in described conditions is to create a healthy and stable business environment, through reforms of business regulation. Measuring the quality of the business environment in Serbia indicates insufficiently incentive business environment and the presence of numerous obstacles and problems that hinder business, which places Serbia at 86th position in the ranking of 185 countries. Recently, a significant progress has been recorded in three of ten monitored areas, owing to the implemented reforms in the areas of starting a business, enforcing contracts and resolving insolvency. However, the achieved improvement of the business environment has clearly not been sufficient to offset the effects of the worsening of most macroeconomic indicators, so positive effects on the growth of competitiveness of Serbian economy failed to appear.

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POSLOVNO OKRUŽENJE I KONKURENTNOST PRIVREDE SRBIJE U USLOVIMA GLOBALNE EKONOMSKE KRIZE

Sa izbijanjem globalne finansijske i ekonomske krize, trend kontinuiranog poboljšanja globalnog poslovnog okruženja, kao rezultat ekonomskog rasta, liberalizacije i ulaganja u infrastrukturu zaustavljen je, a u nekim oblastima beleže se i regresivna kretanja. Povećanje konkurentnosti domaće privrede i stabilan ekonomski rast pretpostavlja stvaranje podsticajnog poslovnog okruženja. Zato obezbeđenje zdravog poslovnog okruženja koje će olakšati poslovanje preduzećima predstavlja imperativ. U radu će se analizirati kvalitet poslovnog okruženja i konkurentnost privrede Srbije u uslovima globalne finansijske i ekonomske krize. Cilj rada je da se na osnovu analize poslovnog okruženja i konkurentnosti privrede Srbije identifikuju osnovne oblasti u kojima je poželjno i moguće ostvariti poboljšanje kvaliteta poslovnog okruženja. Te promene pretpostavka su povećanja konkurentnosti srpske privrede.

Ključne reči: ekonomska kriza, poslovno okruženje, preduzeće, konkurentnost