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Review paper

COMPETITIVENESS ENHANCEMENT AND EXPORT INCREASE IN SERBIAN ECONOMY

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Goran Milovanović[1], Goran Radisavljević[2], Saša Bjeletić[3]

[1]Faculty of Economics, Niš
[2]Municipality of Sokobanja
[3]Bor

Abstract. *Enhancement of economic competitiveness, increase of export and conquest of new markets are the main objectives of the strategy in the development of each country. Regardless of the fact that Serbia has been in transition for thirteen years, the competitiveness of the Serbian economy is extremely low, as evidenced by the criteria and indicators of the relevant institutions and researches. The essential reasons for the weak competitiveness are the unfinished structural reforms of the industrial sector, and the lack of activation in its export and developing potential. In order to achieve easier and better access to world markets and improve its competitiveness, the Republic of Serbia has to make structural changes in the economy by introducing appropriate technologies and increasing exports based on technology-intensive products. To achieve this, it must improve the investment climate and attract foreign direct investments (FDI) in those sectors that may be carriers of exports and economic growth in the coming years.*

Key Words: *competitiveness, structural change, increasing exports, FDI, the Republic of Serbia*

INTRODUCTION

The Global Competitiveness Index (GCI) in our country according to the criteria of the World Economic Forum (WEF) is extremely low. The report for 2013-2014 which shows the competitiveness of countries based on 114 indicators grouped in 12 categories (6), the Republic of Serbia was the 101st out of 148 ranked countries. This placement is a drop by six positions in relation to the year 2012. The data in this forum show that the

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Corresponding author: Goran Milovanović
Faculty of Economics, Trg kralja Aleksandra Ujedinitelja 11, 18000 Niš, Serbia
Tel: +381 64 8096210 • E-mail: goran.milovanovic@eknfak.ni.ac.rs
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ranking of the Republic of Serbia in the period from 2007 to 2013 deteriorated as the ranking of the other former Yugoslav republics improved. Therefore, the Republic of Serbia is forced to increase the international competitiveness of its economy. To achieve this goal, it must change the structure of its production and exports.

After the year 2000, the growth in exports was achieved with stagnation of its structure, or with the growth of exports of products at lower stages of finalization. Inconsistency of export supply with the structure of the global import demand and lack of specialization in exports are significant factors of non-competitiveness of Serbian exports. In order for the Republic of Serbia, like the successful countries in transition (CIT), to improve its export structure and maintain its strong growth in the long term, it is necessary to attract sufficient FDI in activities that require a higher level of applied technology, called propulsive activity. Transfer of modern equipment, technology and management knowledge through FDI aims to accelerate the development and innovation of new products that were highly sophisticated and competitive in foreign markets.

1. Competitiveness of Serbian Economy in International Framework

When considering the state of competitiveness of the Serbian economy we must take into account certain factors that influence significantly both its economic developments and economic trends of other Eastern European countries. The economic position of the Republic of Serbia in the period from 2007 to 2013 was greatly influenced by: the acceleration of the globalization process, the process of joining the EU, unfinished transition and the first and second wave of the global economic crisis. The specificity of transition in Serbia is reflected in the fact that it took place under the influence of nine years of international sanctions (ranging from those imposed by resolutions of the Security Council of the United Nations 757 of May 30, 1992 until September 10, 2001 when the resolution of the UN Security Council no. 1367 to lift the ban on import of Yugoslavia weapons and military technology and equipment was adopted) and in terms of NATO aggression (from March 24, 1999 to June 10, 1999) and it is a long period of transitional recession. Regarding the average value of GCI for the period 2007-2013, the best ranked of all the observed CIT are: Estonia, the Czech Republic, Poland, Slovenia, Slovakia, Hungary, Montenegro, Croatia, Romania, Macedonia, Greece and the Republic of Serbia, followed by only Bosnia and Herzegovina and Albania (7).

Table 1 Ranking countries according to the GCI in the period from 2007 to 2013 (Schwab, 2012)

	Albania	Bosnia and Herze-govina	Croatia	Greece	Hungary	Macedonia	Montenegro	Romania	Serbia	Slovakia	Slovenia
2007	3.48	3.55	4.20	4.08	4.35	3.73	3.91	3.97	3.78	4.45	4.48
2008	3.55	3.56	4.22	4.11	4.22	3.87	4.11	4.10	3.90	4.40	4.50
2009	3.72	3.53	4.03	4.04	4.22	3.95	4.16	4.11	3.77	4.31	4.55
2010	3.94	3.70	4.04	3.99	4.33	4.02	4.36	4.16	3.84	4.25	4.42
2011	4.06	3.83	4.08	3.92	4.36	4.05	4.27	4.08	3.88	4.19	4.30
2012	3.91	3.93	4.04	3.86	4.30	4.04	4.14	4.07	3.87	4.14	4.34
2013	3.85	4.02	4.13	3.93	4.25	4.14	4.20	4.13	3.77	4.10	4.25

According to the values of GCI for the year 2012 (3.87), The Republic of Serbia is ranked 95th. The value of GCI in 2012 decreased by 0.01 points compared to the year 2011, which did not influence the change in rank of the Republic of Serbia. However, if one takes into account the fact that the list of countries was expanded for the year 2012 in comparison to 2011 by adding two countries, the Republic of Serbia's maintaining 95th position, despite a small decline in the value of GCI, can be considered stagnation at the same level of competitiveness, not regression.

Some countries in South East Europe, such as Albania and Bosnia and Herzegovina, have improved their position in the list of the WEF, while some other countries in the region lost their positions on the list. For example, Greece had the status of a developed country until 2012, but after that, due to the onslaught of the global economic crisis, the collapse of the banking system and lack of repayments of extremely high external debt (which exceeded 110% of Gross Domestic Product i.e. GDP, in the year 2008), it got the status of a developing country.

Table 2 The value of GCI by categories of indicators of competitiveness 2012-2013 (Schwab, 2013)

Categories of indicators of competitiveness	Years		
	2012	2013	Changes
1. Institutions	3.16	3.20	+
2. ***Infrastructure***	3.78	3.51	-
3. ***Macroeconomic environment***	3.91	3.36	-
4. Health and social security	5.73	5.75	+
5. Higher education and training	3.97	4.05	+
6. Goods market efficiency	3.57	3.64	+
7. Labor market efficiency	4.04	3.90	-
8. ***The sophistication of financial market***	3.68	3.48	-
9. Technological capability	4.10	3.94	-
10. Market size	3.64	3.68	+
11. Business sophistication	3.11	3.18	+
12. Innovation	2.81	2.85	+

Table 2, among other things, shows that the most significant negative deviations (most pronounced declines) in two adjacent years are present in three categories of indicators of competitiveness respectively: *infrastructure, macroeconomic environment* and *sophistication of financial market.* Decline in the value of the indicator "*infrastructure*" is a consequence of the lack of concessions to rebuild roads and railroads, then a slight decrease in quality of port infrastructure, then substantial decline in the number of mobile subscribers to 100 inhabitants (from 125.4 to 92.8) and even fixed telephony subscribers. Decline in the value of the indicator "*macroeconomic environment*" can be attributed to external factors (such as an increase in the budget deficit from -4 % to -7% of GDP, reduction of national savings from 16.1 % to 8 % of GDP and the growth of the public debt of the country from 47% to 63 % of GDP) and internal factors (such as insufficient quality corporate management of large public systems that have a natural monopoly and government agencies). One of the important factors of mild impairment indicator of sophistication *of financial markets* is primarily the consequence of the lack of effective management of interest rate risk and relatively expensive business borrowing from banks. In the two adjacent years a slight decrease was recorded in two categories of competitiveness indicators: 1) *the efficiency of the labour market* and 2) *the technological capability of companies*. *The efficiency of the labour market* suggests that labour is cheaper than the average cost of labour in 15 countries of the European Union (EU), but it also lacks training for specific occupations in demand. The level of *the technological capability of companies* shows that privatization does not significantly contribute to technology transfer in manufacturing and sectors that have achieved continuous growth after the year 2000. Investments of the Republic of Serbia in Research & Development are two to four times lower than the ones in the Czech Republic, Poland, Estonia, Slovenia, Slovakia and Croatia. Value *greenfield* and *brownfield* investment is relatively small in view of the absorptive capacity of the economy of the Republic of Serbia, the number of free zones and benefits which municipalities along the Corridor 10 and Highway E -75 offer to investors.

From the above-mentioned table it can be seen that there were no significant positive changes in 2013. Moderate improvements were present for the two categories of indicators of competitiveness: *Goods market efficiency* and *business sophistication*. *Goods market efficiency* is improved, primarily by goods arriving from abroad, and business sophistication is enhanced by establishing a better network of suppliers and in particular the establishment of clusters in all sectors where this is necessary because they are the basis for development of small and medium-sized enterprises (3). It should be said that there are industries in which clusters are still in formation and would significantly contribute to the reduction of unemployment and reduction of regional differences which, in the Republic of Serbia, are among the highest in Europe. Innovations were and still are a key factor in the rapid development in almost all countries that have successfully completed the transition time. The Republic of Serbia did not still fully use the potential that their economic growth is based on a higher degree of innovation, which is primarily reflected in the relatively low number of applicants, as well as granted patents at the national level. The twelve presented categories include relevant microeconomic and macroeconomic factors which, with the factors of institutional development by the standards of the WEF, are indicators of the competitiveness of an economy. It should be noted that the total amount of data that make up the composite category of competitiveness about 70 % of the data are the results of the survey and responses of top managers to the asked questions in the company. The results show that these are the so-called "*soft data*" - soft data consisting of a composite index, while about 30% of the quantitative data of the International Monetary Fun, World Bank, etc. which are the so-called "*hard data*" (7) - hard data of composite index of competitiveness. This does not diminish the accuracy of the indicators, but only emphasizes that one of the indices are made of predictions of managers and executives of large public enterprises and the leading companies in the region which potential foreign investors have in mind when making strategic decisions related to the placement of investments. For other categories of indicators of competitiveness that we have not mentioned, the change may be considered minor, and their impact on the change in the total value of GCI in this year is also minor.

2. Change of the Export Structure as a Factor of Increase in Competitiveness and Export in Serbian Economy

Certain information concerning the export structure of the Republic of Serbia may be provided by Standard International Trade Classification (Standard International Trade Classification - SITC) - hierarchical, economic classification of products that participation in the exchange of goods between countries according to the level of production.

The data in Table 3 show that the Republic of Serbia in eight months of 2013, compared to the same period in 2012, achieved a total export growth of 28.14 %, which was the first serious growth since 2007. By sectors, Group 7 records the greatest increase (102.06 %) - (machinery and transport equipment), then products from Group 3 (69.73 %) - Mineral fuels, fats and related products, products from Group 8 (21.8 %) - many kinds of final products and product from Group 6 (21.28 %) - manufactured goods classified by material. Due to the significant growth in export, products from category 8 are flowing most of optimism. In the first eight months of 2013 the share of intermediate goods in total exports amounted to 33.3 % (36.9 % in the same period of 2012), capital goods 23.9 % (16.8% in the same period of 2012), non-durable consumer goods 23.1 % (26.3% in the same period of 2012), energy products 6.1% (2.7% in the same period of 2012), unclassified consumer goods 9.0% (12.4% in the same period of 2012) and durable consumer goods 4.5% (4.8% in the same period of 2012). These data indicate a very unfavorable structure of the factor intensity of products that are exported from the Republic of Serbia.

Table 3 Serbian Exports by SITC sectors in 2012 and 2013 (4, 5)

	2012		*2012 (I –VIII)*	*2013 (I –VIII)*	*Growth (in %)*
	Value (in US$)	*Value (in %)*	*Value (in US$)*	*Value (in US$)*	
Total	*11,353.5*	*100.0*	*7,208.6*	*9,236.8*	*+28.14*
0 Food and animals	2,108.4	18.6	1,349.7	1,223.6	-9.34
1 Beverages and tobacco	286.3	2.52	188.4	218.0	+15.71
2 Raw materials, inedible, except fuels	589.9	5.20	393.4	444.0	+12.86
3 The mineral fuels, greases and related products	401.2	3.53	255.0	432.8	+69.73
4 Animal and vegetable oils, fats and waxes	195.8	1.72	135.8	111.1	-18.19
5 Chemicals and related products, non-specified	717.6	6.32	609.9	825.1	+36.99
6 Manufactured goods classified by material	2,634.0	23.19	1,791.0	1,913.3	+21.28
7 Machinery and transport equipment	2,546.2	22.42	1,405.4	2,839.9	+102.06
8 Many kinds of final products	1,559.7	13.74	972.1	1,179.0	+31.57
9 Products unspecified in CITS	107.8	0.95	62.8	50.9	-18.95

The increase in exports of higher value-added products and advanced technology features should be based on export strategies in the future. In this, export strategy should be seen as a long-term commitment of the Government to create incentives for exporters from propulsive sectors that can ensure sustainable growth of exports in the future by help of measures of economic policy. By signing the Central European Free Trade Agreement (CEFTA) on December 19, 2006 at the Summit of The Prime Ministers in South East Europe in Bucharest (the Treaty was ratified on March 31, 2007, and entered into force on May 1, 2007), huge opportunities were created to increase exports due to the elimination of customs duties for the companies from the Republic of Serbia, as well as from other member states.

Although the companies, due to the free flow of goods and services, may count on the use of the effects of economies of scale, they will not be able to successfully conquer certain markets without the production of specialized products. It is a specialization of production that was the key to the success of CIT. The most successful CIT with investments of strategic investors, specialized their production to meet the demands of the market segments in the global market.

Small and medium size enterprises in South Eastern Europe must be linked to multinational companies (MNCs) to create markets in which that could compete on an equal footing through the chains of mutual deliveries. Companies of the Republic of Serbia should follow this logic.

Privatized domestic companies and those that are foreign-owned, generally counted on the sale of products on the domestic market (with the exception of U.S. Steel Serbia with its partners such as: Impal Sevojno, Ball Packaging, Fiat Automobiles Serbia, Tigar and several other major exporters). With the elimination of customs and non-customs measures such companies are becoming increasingly pressured by foreign competitors. Because of these pressures, privatized domestic companies and those that are foreign-owned are forced to sell their products and expand to other countries in Central and Southeast Europe, which will result in the growth of exports. On the other hand, the competition on the domestic market will bring the companies that are exclusively oriented to the domestic market in a more difficult position. It is especially important that small and medium-sized enterprises should be timely connected with companies from abroad in international production networks, with the aim of continuous production and delivery of parts, assemblies and sub-assemblies for foreign customers. Also, connecting small and medium-sized enterprises in clusters in propulsive sectors can contribute to specialization of production and reducing the enormous unemployment (in September 2013 in Serbia it amounted to about 24%).

Until mid 2012, the Republic of Serbia registered interruption in cooperation between domestic suppliers of inputs and large privatized enterprises, which caused a reduction in the growth of domestic production and imports, and an increase in unemployment. However, since the beginning of the third quarter of 2012, the opposite trend has become evident.

3. Attracting of FDI To Strengthen the Export Competitiveness of the Republic of Serbia

FDI are mainly resource-oriented FDI, i.e. marketed primarily to secure strategic resources and metals that are difficult to recycle. On the other hand, market-oriented FDI are placed primarily with the aim of reaching a large market share of goods and services. For example, the largest privatization is the sale of Mobtel to Telenor Company for 1.6 billion $.

The Serbian government was trying to attract export-oriented FDI as much as possible, but the results are still lacking. It was these investments in the most successful CIT that played a major role in the rapid recovery of their industry after a short period of transition recession. These investments have played the same role in other CIT. In Hungary, in the period from 1990 to 2006 after initial skepticism, foreign investors played a major role in large-scale privatization of the telecommunications, energy and transport sectors. Today in Hungary, about 40% of industrial production and 25% of export are generated only by ten companies which employ about 70.000 people. All these companies are from these three sectors that were predominantly privatized through FDI. Similarly, Hungary, Ireland with only 4 companies privatized through FDI (Dell, Intel, Pfizer and Hewllet Packard) achieves 90% of exports (13).

Countries that receive a larger amount of FDI per capita have a higher share of capital-intensive products and intensive skilled work in total exports. In order to increase the export competitiveness of its economy, it is essential for the Republic of Serbia to have an annual inflow of FDI between 2.5 and 3 billion euros. In Serbia, the export should cover at least sixty percent in relation to GDP and it is currently only at about thirty per cent of GDP.

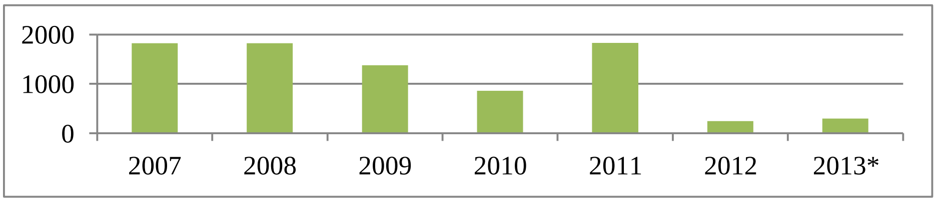

Fig. 1 Net of FDI in Serbia from 2007 to June 2013 (Bulletin of Public Finance, 2013, p. 24).
* Note: Data for 2013 relate to the period January-June

If we consider the period of the last five years, when the economic crisis was first felt in the most developed parts of the world and then transferred to the CIT and developing countries, we can observe a trend of considerable reduction in FDI in the Republic of Serbia. In 2011 FDI inflows amounted to 1.827 billion $. This is 40% more than in 2009 and more than triple compared to 2012 and 2013*. Nevertheless, this FDI is less than half the amount of FDI from the record 2006, when, mostly due to the sale of Mobtel, it was a total of 4.387 billion $. Unfavorable facts about FDI are that, regionally speaking, Belgrade and its surroundings attracted almost 80% of FDI.

FDI can significantly improve the export performance of the economy and increase its competitiveness particularly in the case of a vertical type of investment.

"Horizontal" FDI is aimed mainly at domestic market, while the "vertical" FDI tend optimal geographical allocation of the various stages of production within mutinacionalnih companies, which were the dominant investors in the past decade in the economies of CIT. These investments aim mainly at export in the direction of further stages of production or manufacture of final products for foreign markets, or products of more added value. Based on empirical studies realized in the past decade (Janicki, Wunnava, 2004), we can conclude that the gravity factors (such as market size and proximity to the country where the SDIs come from) influenced the final destination of FDI. "Vertical" FDI, especially if they are placed in the tradables sector, almost inevitably contribute to the increase in exports (Kovačević, 2012, p. 400). This could be seen in the last decade, especially in the privatization of various sectors in the "Visegrad" group, in which the export of goods and services reached and in some places exceeded 80% of GDP in 2007.

The formation of clusters in Serbia could be a significant incentive for a stronger inflow of FDI in the future. Recent research shows that in addition to domestic investors, who are an important factor in the formation of clusters, it is necessary to engage foreign companies as well. This would raise the efficiency of the cluster to a higher level and create opportunities to increase export competitiveness (Yehoue, 2005).

Table 5 Direct and indirect effects of FDI on the economy of the host country (13)

The direct impact of FDI	The indirect impact of FDI
Growth of industrial branches	Institutionalization
The emergence of new services	Privatization
Trade development	Competition
Transfer of technology	Innovated knowledge

With the restructuring of the economy, determining the propulsive and fast growing sector as the leading sector of the economy in the future, with the removal of restrictions that are listed in the second part of this paper, while reducing excessive and dynamic legislation as well as the reduction of non-economic risk, and corruption, a dynamic growth in FDI can be expected in the future.

Past experiences show that the main driving factors of FDI in the past referred to conquering large markets, available natural resources and gaining cheap labour. These factors are gradually losing importance, giving way to the general policy of liberalization, increasing technical progress and the evolution of corporate strategy.

Liberalization stimulates migration of important corporate functions such as design, research and development and financial management, with the aim of achieving competitive advantages, increase efficiency and competitiveness. New knowledge, new technologies and new products are commercialized in locations where the host country is ready to provide complementary skills, infrastructure, suppliers and related institutions that are able to materialize modern technology. Technical progress makes a severe distinction between companies that own modern technology and those that do not. Organizational management method, supported by new technologies, allows more efficient management of global operations of the company (Savić, 2012, pp. 47-48).

Most of the less developed countries take a very sophisticated economic policy measures to attract FDI. Holders of FDI select only those places where there are so called effective complementary factors. This implies that FDI concentrate in those countries or regions that can fully provide what is expected of them. Serbia must improve the investment climate to be able to attract foreign investors, because the high subsidy policy as a long-term measure is financially sustainable. It could be justified in the beginning when it was possible to avoid the possibility that existed with regard to freeze investments and remove the Republic of Serbia from the investment world map. For the large flow of FDI in the Republic of Serbia, a key role is in the creation of long-term stable and predictable business environment, which is primarily the task of the state and its relevant institutions.

CONCLUSION

Analysis of the report of the WEF and the World Bank, in recent years, according to the competitiveness of the Serbian economy has stagnated considerably. The lack of significant changes in the production and export structure of the economy, are the main reason why it does not reach higher positions in the world rankings, as do the other economies of the Western Balkans. The structure of exports is mainly based on the dominance of traditional industrial production of low technological intensity. At this stage of development the Republic of Serbia should reform the structure of the industry, ie. to restructure its offer and improve its competitive potential.

At the moment the world economy is developing very rapidly due to deep structural changes and a new business model based on scientific and technological information and communication activities. The Serbian economy is small but it has an opportunity to be well positioned in order to use these movements rationally. Application of new technologies, production processes, aligning with international procedures and regulations, as well as the adoption of new knowledge and innovation, the Republic of Serbia can improve its export competitiveness and position in international markets.

For the revival of production based on high technology Serbia needs substantial FDI flow by MNCs and / or its affiliates. Large inflows of FDI would be the main driving factor in the restructuring and expansion of export-oriented production capacity of the economy of the Republic of Serbia. Export of technology-intensive products would significantly improve the competitiveness and prospects of the economy, the growth in global demand and high added value which can be realized from their sale.

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JAČANJE KONKURENTNOSTI I POVEĆANJE IZVOZA PRIVREDE REPUBLIKE SRBIJE

Jačanje konkurentnosti privrede, povećanje izvoza i osvajanje novih tržišta osnovni su ciljevi strategije razvoja svake zemlje. Nezavisno od toga što je trinaest godina u tranziciji, konkurentnost privrede Republike Srbije je izuzetno niska, što potvrđuju kriterijumi i pokazatelji relevantnih institucija i istraživanja. Suštinski razlog slabe konkurentnosti su nezavršene strukturne reforme industrijskog sektora, i nedovoljno aktiviranje njegovih izvoznih i razvojnih potencijala. Da bi ostvarila što lakši i bolji pristup svetskom tržištu i unapredila konkurentnost Republika Srbija mora da izvrši strukturne promene u privredi uvođenjem odgovarajuće tehnologije i povećanjem izvoza baziranog na tehnološki-intenzivnim proizvodima. Da bi to postigla ona mora da poboljša investicionu klimu i privuče strane direktne investicije (SDI) u one sektore koji mogu da budu nosioci izvoza i privrednog razvoja u narednim godinama.

Ključne reči: *konkurentnost, strukturne promene, povećanje izvoza, strane direktne investicije, Republika Srbija.*