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## SUSTAINABLE GROWTH AND REGIONAL COMPETITIVENESS OF SERBIAN ECONOMY

### Abstract

*Backwardness in economic development in comparison with EU and countries from region, expressed especially after big crisis from 2008, demands a change of country's economic policy in order to create assumptions for a long-term sustainable development and competitiveness' increase in regional and world contexts. Having in mind results realized so far, there is a real danger that current economic policy will stabilize country on a low level of GDP, high unemployment rate, with low wages and bad working conditions in a large number of enterprises, in domestic or foreign ownership. Such situation is a result of non-existence of adequate strategy of economic development in transitional period. The goal of paper is to point that new economic policy should be based on support to sectors which most of its added value create through internationalization of business and which have faster growth of revenues on foreign than on domestic markets, such as IT sector, agro-business, medium-tech developed industries.*

**Key words:** sustainable development, regional competitiveness, globalization, Serbia

**JEL Classification:** O11, P51

## ОДРЖИВИ РАСТ И РЕГИОНАЛНА КОНКУРЕНТНОСТ ПРИВРЕДЕ СРБИЈЕ

### Апстракт

*Заостајање у привредном развоју у односу на земље ЕУ и земље региона, изражено нарочито после велике кризе из 2008. године, захтева промену економске политике земље како би се створиле претпоставке за дугорочни одрживи развој и повећање конкурентности у регионалним и светским оквирима. Имајући у виду досадашње резултате, постоји реална опасност да текућа економска политика стабилизује земљу на ниском нивоу БДП-а, високој стопи незапослености, уз ниску цену рада и лоше радне услове у вели-*

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*ком броју предузећа, у домаћем или страном власништву. Оваква ситуација је резултат непостојања адекватне стратегије привредног развоја у транзиционом периоду. У раду се потенцира да нова економска политика треба да буде заснована на подршци сектора који највећи део додате вредности реализују кроз интернационализацију пословања и који остварују бржи раст прихода на страном у односу на домаћа тржишта, као што су ИТ сектор, агробизнис, средње технолошки развијене индустрије.*

**Кључне речи:** одрживи развој, регионална конкурентност, глобализација, Србија

## Introduction

Globalization process of world economy led to the creation of big multinational companies which rule the world market. Global companies define world's production, trade and investment flows managing, on that way, world economy. Modern trends of mergers, acquisitions of smaller companies and enlargement became unavoidable trend in countries in transition, too. These countries have to adapt to current situation and to create assumptions for sustainable development of its economy and competitiveness' increase on international level. Baseline of sustainable development concept is based on interrelation between development and environment, their interdependence, as well as complementarity of development policy and protection of environment along with obeying of ecological principles.

The Republic of Serbia's economy realized very modest results in transitional period: low GDP per capita, high unemployment rate, low level of average salaries, deepening of regional disparities in development and other. These results are a consequence of acceptance of neoliberal concept of development whose axioms are privatization, deregulation and liberalization, along with reduction of state's role in economic movements. Optimism for a faster economic growth in perspective is provided by enterprises that most of its added value growth realize through internalization of business and whose turnover is growing faster on foreign than on domestic markets. Because of that, the support to sectors which will be the bearers of economic growth in future will be of key significance for sustainable economic development and competitiveness improvement of the whole country's economy.

## Trends of enlargement in world economy

Globalization process at the end of twentieth century changed the structure of world market and made conditions for creation of monopoly and oligopoly relations in world economy. In a large number of economic activities only the biggest companies can make profits, while the functioning of small firms is more and more dependent on cooperation with big global concerns. The most important changes in international business surroundings are market barriers reduction, fast movements of markets, continuous competitive pressures, large separations or mergers, global accesses to capital

markets (Danielle, et al, 2006). New trends on globalized market ask from management to provide successful positioning of a company on world market, and adaptability to challenges of local markets, too (Colin, 1992).

Globalization is a process of widening of various knowledge and experiences worldwide, process of standardization and convergence between different cultures, economies, laws and policies worldwide (Popovčić-Avrić, Vidas-Bubanja, 2009). Viewed from the aspect of liberalization, globalization implies a process of creation of conditions for a more dynamic movements of production factors between countries in order to create open world economy without borders. Globalization process is supported by governments of most developed countries in the world, numerous measures through supplying infrastructure, liberalization of international transactions, guaranteeing property rights, support to global management arrangements and similar. Global production and global market is promoted and supported by global financial system, too.

Most modern companies are included in globalization process, whether they, by its size and significance, occupy a significant segment of world market, have its branches and representative offices worldwide, or create strategic mergers with other enterprises which are located in more regions. Global companies define world's production, trade and investment flows and, by that, manage world economy. Strategic alliances enable companies to attract big financial sources, to expand its business activities and shape market in order to jointly advance. For example, agreements on mutual licensing between global pharmaceutical companies created very high profits in that sector (Gilroy, 1993).

After big financial crisis from 2008, very important question of globalization's role in modern world movements was posed: does this process enable economic development of all countries or leads to an increase of already big inequalities in development of certain countries. Big economic crisis which affected numerous countries, even members of the EU such as Greece, Spain, Italy, Portugal, additionally sharpened question of relations between developed part of world and deepening of indebtedness and poverty of economic periphery.

Big multinational companies rule the world economy, from car industry, agriculture, trade to IT sector. Trend of enlargement and creation of monopoly and oligopoly structures still continues. In the processes of mergers and taking over, energy companies, media companies, health sector, classical industries, finance and hi-tech companies are standing out so far.

Modern small companies and their founders find their interest in, after fast development and market positioning, selling its businesses to big world giants. They are aware that they cannot successfully compete with big companies regardless of their quality, originality, innovativeness and market for its products or services. On the plus side of big companies are economies of scale effects, possibility to bear big promotion expenses, established distribution channels and customers network and other advantages that will, in the long term, bring small companies into unfavorable position and bankruptcy.

By buying small, innovative companies, big multinational companies achieve numerous positive effects: they get rid of potential competition and improve its financial strength through increase of market share and number of users. Through buying they come to key staff resources for further research and future development, by which they strengthen its competitiveness and future position on market. Also, through vertical

integration, they unite all phases of technological process and product development and have it under the control. Company's balance is improved by taking over, because it increases market share, number of buyers, total revenue and the amount of realized profit.

Modern trends of mergers, taking over of smaller companies and enlargement are unavoidable in countries in transition and less developed countries. In those countries numerous questions appear how to answer to these challenges and have a result of economy's competitiveness increase in both regional and world frames.

### **Macroeconomic results of Serbia in transitional period**

Economic reforms process in countries in transition was conducted by Washington consensus' recommendations, strongly supported by IMF and the World bank, as main advocates of neoliberal concept of economy. In the period between 1990 and 2000 most countries in transition had a negative growth rate (EBRD, 2010). Besides recession, growth of unemployment and an increase of social stratification of population was also expressed. After 2000 and all the way to emergence of global economic crisis, countries in transition had high economic growth rates (5,7% on average) and optimistic forecasts of further growth (Lissowska, 2014).

High economic growth rates were kept all the way to the emergence of global economic crisis. Crisis weakened economic activity, reduced consumption and investments which led to slowing down of economic growth, loss of work places and reduction of salaries. Most countries face budget deficit problem and a way of its financing. Because of current macroeconomic instability countries are concluding certain arrangements with IMF and by that increase their foreign debt. According to Stiglitz (2004), world's financial institutions did not give an answer to developmental problems of countries in development, so it is necessary to offer new solutions which enable economic development alongside with cooperation of state and market.

Serbia has, after 2000, accepted neoliberal concept of development which is based on privatization, deregulation and liberalization. Realized results of Serbian economy in transitional period (Table 1) point out numerous weaknesses and a big backwardness behind economies of developed world. GDP growth rates are far below expected, so GDP per capita in Serbia today is, almost three decades since the start of transition, lower than it was in 1989. In order to get close to developed countries' level, forecasts show that the GDP growth rate of at least 4% is necessary. Unfavorable economic structure represents a big problem, because economic policy lead to a deindustrialization of the country and neglecting of real sector of economy. According to Mićić and Savić (2018), manufacturing industry is the most important sector of Serbian economy in which, even besides growth, specialization is not high, which affects the fact that this sector does not realize comparative advantages and is not competitive on the EU market.

Table 1: Basic macroeconomic indicators for period 2012-2017

	2012	2013	2014	2015	2016	2017
GDP's real growth (%)	-1,0	2,6	-1,8	0,8	2,8	1,9
NBS' foreign-currency reserves (million EUR)	10.915	11.189	9.907	10.378	10.205	9.962
Export of goods and services (million EUR)	11.469	13.937	14.451	15.728	17.385	19.330
Import of goods and services (million EUR)	16.992	17.782	18.096	18.643	19.597	22.365
Current account of pay balance (million EUR)	-3.671	-2.098	-1.985	-1.234	-1.075	-2.090
Unemployment by Survey (%)	23,9	22,1	19,2	17,7	15,3	13,5
Average salaries (EUR)	366,1	388,5	379,8	367,9	374,5	383,9
RS' public debt (central state level, % of GDP)	56,2	59,6	70,4	74,7	71,9	61,5

Source: The National Bank of Serbia, 2018.

Big developmental challenge of Serbia is that only a small part of economy is transformed into a new, modern economy which employs a small part of population. Increase of quality employment would have a great effect on reduction of inequality and poverty, because inequality and poverty rates are among highest in Europe. Serbia has a big problem with a reduction of number of citizens in the country, especially young educated people which are seeking for their existence in developed countries in west. There are big unfavorable migrations from undeveloped regions of the country towards big city centers, which as a consequence have devastated villages and smaller settlements in certain undeveloped parts of the country.

Such movements endanger country's sustainable development concept which is based on three main aspects: equal economic growth (economic aspect), protection and preservation of environment (ecological aspect), respecting and improving of social and human rights (social aspect). Sustainable development strategy represents a process of search for vision and sustainability solutions in social community (Milosavljević, 2009).

Natural resources and environment protection are of priceless importance for current and future generations and because of that all countries should adapt its development to principles and goals of sustainable development. This adaptation, in the short term, can slow economic growth down, but in the long term it has better effects because as a result, it gives better quality of population's life, not only economic growth. Because of that, the protection of nature and its resources is imposed as a primary objective of all development efforts, before production, economic, regional and others (Pokrajac, 2009).

Republic of Serbia's government adopted Sustainable development strategy of the Republic of Serbia for period from 2008 to 2017. This strategy defines sustainable development as goal-oriented, long-term, continuous, comprehensive and synergetic process which affects all aspects of life (economic, social, ecological and institutional) on all levels. Serbia has numerous other strategies and planning documents, but they

often contain too many priorities and problems, so their realization is often times half-successful.

For a faster sustainable development, appropriate institutions that will create assumptions for entrepreneurship and investments, as well as the rule of law in economic relations, are necessary. Besides that, a large number of development matters and projects should be left to local authorities which could, because of their familiarity with them, solve them in a more successful way than central authorities. Local authorities need a greater autonomy in order to take over development initiatives, as well as responsibility for its realization.

Analysis of foreign direct investments' effects in Serbia indicates necessary corrections of overall investment policy in order to establish sustainable and efficient economy. Serbia had a policy of stimulating and attracting foreign investors, at domestic investors' expense. However, it is not good that one country's development is based on foreign investments only, because that, in the long term, increases value of foreign property which affects profits outflow and withdrawal of dividends. In case of bigger crisis (such as in 2008) capital is withdrawing, too. Also, because of unfavorable economic structure foreign investments were put into sectors which create small added value, so efficiency of investments is a lot lower than in surrounding countries. Foreign direct investments represent a significant addition to domestic accumulation, but it cannot be permanent substitute for insufficient domestic savings (Cvetanović, et al, 2018).

Transitional period in Serbia is characterized by unfavorable crediting conditions of economy (and population) by banking sector, so the users of credits were paying interests and fees which are among highest in Europe. Such conditions lead to capital spillover from real to banking sector, with the National Bank of Serbia which was a silent observer of those processes. Interest rates' reduction of the biggest world's central banks such as FED, European central bank, Central bank of Japan came to Serbia with a big delay, which is particularly visible on the National Bank of Serbia reference rate's movement in comparison to rates of mentioned banks. The biggest world's banks were, after big crisis, injecting large amounts of money into economy for the sake of its faster recovery, in which they succeeded. Now there is an indication that base interest rates on world level will be increased, which will affect an increase of interest rates on banking market of Serbia. That will be an additional aggravating circumstance for a faster development of enterprises and their internationalization of business, as well as a reason for the state to rethink forming of national development bank for support to big investment projects and growing economy.

### **Economy's competitiveness in regional and world frames**

Serbian economy, after economic crisis from 2008, realizes a slower growth in comparison with average of western Balkan countries or new members of the EU. There are numerous reasons for such position of economy of Serbia, starting from economic policy, unfinished reforms, undeveloped institutions and other. As far as the economy itself is concerned, three segments can be differentiated: first, state, public enterprises; second, new-private economy, which is a bearer of export and GDP's growth; and third, a group of non-formal-existing enterprises and entrepreneurs, which are surviving



thanks to grey economy. Non-commercial agricultural farms are also in the third group (CEVES, 2018).

Among the sectors which are bearers of economic growth are agro-business, mid-tech developed industries such as sectors of rubber and plastic, metal products and machines, electrical equipment and devices. Third sector is made of smart services led by IT sector. What is common for these sectors is the fact that they, most of its added value growth, realize through internalization of business and their turnover is growing faster on foreign than on domestic market. The biggest part of growth is realized through conquest of market share on foreign markets, so it will be very important to systematically support these sectors in the future.

Support to sectors which will be bearers of economic development in future will be of key importance for acceleration of overall economic growth and its sustainability. Also, solutions which will provide transition of small agricultural farms into market oriented ones should be found, and with public enterprises the solution is professionalization of management. One of key assumptions for sustainable growth is availability of quality work force because it became, in many segments, a limiting factor for faster growth. State's role should still be in building an infrastructure of development – to facilitate access to information, market, finances and knowledge.

According to World Economic Forum for 2018, Serbia takes the 65th position on Global Competitiveness Index ranking list, out of 140 countries observed (last year it took 70th position which indicates an improvement of 5 positions). It is characteristic that among countries from region the best position is, in both viewed years, taken by Slovenia (35th position) ahead of Hungary, Bulgaria and Romania, as well as others countries from region (Table 2).

Among elements which contributed most to position improvement, some stand out: Macroeconomic stability, Financial system, Ability to innovate, Skills and Goods market. Inside of macroeconomic stability two indicators are observed: average inflation on annual level and public debt dynamics. Indicators that follow development and stability of financial system and which are very important for sustainable development of enterprises, gave a great contribution to competitiveness increase. Those are accessibility of financing of small and medium enterprises, availability of capital for new entrepreneurial ventures and stability of banking sector.

Table 2: Countries' rank according to Global Competitiveness Index (2017-2018)

Country	2017	2018
Albania	80	76
Bosnia and Herzegovina	90	91
Bulgaria	51	51
Croatia	66	68
Hungary	48	48
FYR Macedonia	-	84
Montenegro	73	71
Romania	52	52
Slovenia	35	35
Serbia	70	65

Source: WEF, 2018.



Significant contribution to GCI's growth for Serbia in this year is owed to the pillar which observes economy's capability to generate new innovations. All indicators within this pillar realized better marks in comparison with last year. The biggest advancement was realized by indicators that follow a number of international co-inventions, number of registered patents and the level of expenditures for research and development as a percentage of GDP (FREN, 2018). Also, higher marks were realized in area of clusters' development in economy and the degree of cooperation between employed, enterprises and universities.

According to Arsić (2016) Serbia is, after two and a half decades of transition, in a small group of countries from central and eastern Europe (CEE) which haven't reached the level of development from pre-transitional period, while some countries from CEE, in the same period, have increased their GDP for close to 60%. As a result of divergent development in mentioned period, countries from CEE were in 2015, on average, more developed than Serbia for 85%, although Serbia was on the average level of development of these countries in 1989.

Table 3: Serbia, countries from CEE and region: participation of investments, export and import in GDP, average for 2014-2017

	Investments	Export	Import
Participation in GDP			
Serbia	17,7	48,1	57,4
Countries from CEE (weighted average)	21,2	60,9	58,6
Regional countries (weighted average)	22,0	56,1	56,5

Source: Eurostat, 2018

Results shown in Table 3 point out structural problems which are present for many years in the economy of Serbia, because participation of investments and export in GDP is significantly lower than average in CEE countries, as well as average in countries in region. Main bearers of economic growth have to be investments and export, and consumption has to grow slower in comparison to GDP. Possibilities for an increase of investments and export exist, and some of them are: state's public investments which have a positive impact on growth of other branches of economy, public enterprises reform, corruption reduction, efficiency increase of state's administration and other.

Having in mind previously mentioned, there is a real danger that current economic policy stabilize country on a low level of GDP and high unemployment, along with low price of work and bad working conditions in numerous privatized enterprises or those in foreign ownership. This situation is a result of non-existence of adequate strategy of economic development in whole transitional period. Without domestic banks directed towards financing of development, without independent monetary policy, without credit control and directing of credits towards domestic enterprises on the basis of clear strategy and priorities, there won't be efficient investments nor independent development.

## Conclusion

Backwardness in economic development in comparison with EU countries and countries from region, expressed particularly after 2008 crisis, requires a change of country's economic policy in order to create assumptions for a long-term sustainable development and competitiveness increase in regional and world frames. For achieving faster growth and development, more efficient role of state's institutions and improvements in tax, monetary and investment policy are necessary, in order to prevent negative consequences of globalization's affecting insufficiently developed countries. Serbia, just like other countries in transition, has to find adequate strategy to answer to challenges of world's economic trends in order to keep up with developed countries.

Because of that, main tasks of economic and development policy in next period are macroeconomic and market stability, sustainable economic growth based on growth of industrial production and export, increase of employment of work force, foreign debt and negative foreign-trade balance reduction. Serbia needs much faster growth of GDP and a recovery of industrial production in relation to average rates of these aggregates in world's economy in order to restore its relative position of development from eighties of last century. Development policy should redirect investments into enterprises which deal with production and export of products of higher degree of processing, with orientation on sectors which will contribute most to stable and dynamic economic development and an increase of country's competitiveness.

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