

„Structural adjustment and Competition Policy – Key forces – Serbian case“

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Abstract

Serbia together with other republic of former Yugoslavia for decades has developed specific mix of plan and market mechanism. Its economic structure was unfavorable taking into account too high share of primary and secondary sector within GDP formation, high share of energy, food and raw material production within industry on the one side, and low share of service in GDP formation and low involvement of SMEs and private sector within economy, on the other. Its export products were not competitive abroad. This economic structure became even worsen during the 1990s (the share of agriculture, energy and food production in GDP formation became even higher then before), mainly due to non economic reasons (split of market of former Yugoslavia and because of overall sanctions introduced by World community). Serbia has started transition as the last among Central and Eastern European countries at late 2000. Instead of a holistic development strategy and strategy of transition an extreme neo liberal approach prevailed. So, GDP growth, although encouraging, was suboptimal, macroeconomic and development policies were not well coordinated and pure economic rational in decision making process on company level prevailed. High rate of growth was achieved due to high public spending and increasing in PB deficit. So, Serbia is facing non sustainable development in medium - term not only because of world (financial) crisis, but because of its own growth limits mainly. Its export is still non competitive on the world market. Regarding market reforms the first phase is finished, but reforming processes lost momentum in 2008. So, Stabilization and Association Agreement with EU could be seen as powerful vehicle for further, more qualitative reforms, like it used to be in other transitory countries.

Key words: transition, structural adjustment, competition policy, development strategy

JEL Classification: O29, O52, R19.

1. Introduction

After political changes, which happened in October 2000, Serbia has started transition process among the latest countries in Central and Eastern Europe. Its economic structure, with high share of primary and secondary sectors in GDP formation, has become even worsen during 1990s, due to brake of the union market of former SFR Yugoslavia and due to overall sanctions introduced by International community. At the same time competitiveness of Serbian companies worsened, as well.

During the period 2000-2008 much better economic environment was created, as market reforms were introduced, but a Neo liberal concept of transition was realized. Neither Development strategy nor Transition strategy were adopted. So, pure economic rational of decision making process of economic agents prevailed. Serbian very fast growth rate in the period examined was based on internal and external consumption increase, e.g. it was due to expansive public consumption, liberalized import and inflow of FDI. As a consequence high GDP growth rate was combined with high Budget deficit and high and increasing Balance of Payment deficit, as well. World financial crisis and recession pointed those limits of growth especially. In other words, Serbia is facing with essential development problem: future economic growth is not sustainable in medium - term and Serbian economy became very fragile to external shock.

Different analyses of competitiveness of Serbian economy prepared by different international organizations and institutions pointed out its weaknesses. Serbia was ranked as 85th by World Economic Forum, by World Bank was ranked as 91st, while EBRD has assessed Serbian achievement in competitiveness with remark 1 and recently with 2. Those ranking and remarks are, among other, reflecting structure of Serbian export which is with high share of primary product and high share of labor intensive products, but with low high technical involvement.

If consider chances for improvement one can say that the Stabilization and Association Agreement with EU would be seen as efficient instrument for structural reforms, as it was in other countries of Central and Eastern Europe. Further recommendations also could be: R&D encouraging, education, especially permanent education encouraging, creation of clusters and gazelles, anti monopoly policy measures, simplification of administrative procedures, lowering public consumption, introduction of ISO standards, restructuring of public companies, SME internationalization and high tech introduction.

Aims of the paper are: a) to pint what are competitive weaknesses of Serbian economy in the light of World financial crisis and recession, b) why they became more serious in the recent past and c) to point some of essential elements of future Competitive policy.

2. Competitive weaknesses until period of transition

As a part of former SFR Yugoslavia Serbia has realized during 1950s and 1960s high rate of growth and development, which have been accompanied with deep structural changes of economy and society. During next two decades Serbia has faced with stagnation and lagged behind developed market economies. The maximal GDP of USD 28 billion was reached in 1989, while GDP p.c. was 2.800 USD at the same time.

At the beginning of the last decade some steps toward fully market economy were executed, as a pioneering among ex communist countries. However, the brake of union market of former SFR Yugoslavia and overall sanctions of International community caused that production and GDP were more than halved. At the end of 1993 GDP was 46% of its maximal level, while GDP p.c. 1.100 USD only.

During the past several decades Serbia has developed a specific mix of plan and market mechanisms. At the same time its development strategy was typical example of an autarchic strategy of industrialization, with very widely defined development priorities, which had a privileged position within development policies. Several attempts have started in order to change development strategy toward more world market oriented one, but unfortunately have been unsuccessful¹. Development policy was not changed for several decades and was rather inertia like, although development circumstances were considerably changed, taking into account oil shocks in 1973 and 1979 and in spite of the fact that developed economies started policy of structural adjustment, especially.

Those development strategy and development policies were based on natural sources disposed. So, development priorities were widely defined as energy, raw materials and food production. Investment policy has been in line with those priorities although it was not in line with the most propulsive sectors like tourism, hosting and construction. Investments were based on domestic saving of citizens and foreign financial sources, credit lines, mainly. Those investment sources were transferred with important state indirect influence threw banking sector and more directly threw state funds. Investments threw credit lines from banking sector were realized with low

¹ So - called Overall Economic Reform in 1965, Economic Stabilization and Openness toward World market at the beginning of 1970s and during the mid 1980s and at the beginning of 1990s.

interest rate² and low rate of return by corporate sector, where SFR Yugoslavia was not exemption among ex -communist countries from soft budget constraint³.

Serbia – main economic indicators 1991-2000 (Increase %)

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-------------------------|-------|-------|-------|-------|------|------|------|------|-------|-------|
| GDP | -11.6 | -27.9 | -30.8 | 2.5 | 6.1 | 5.9 | 7.4 | 2.5 | -17.7 | 8 |
| Industry | -14.3 | -22.9 | -38.1 | 1.2 | 4.3 | 7.7 | 9.9 | 3.9 | -24.8 | 11.8 |
| Agriculture | 9.3 | -17.7 | -3.7 | 5.9 | 4 | 1.1 | 7 | -2.8 | -1.1 | -19.7 |
| Employment | -3 | -3.4 | -2.8 | -2.1 | -1.4 | -0.5 | -1.5 | -1.8 | -2.5 | -2.7 |
| Empl. soc.sector | -7.7 | -4.5 | -3.7 | -2.9 | -2.9 | -1.7 | -3.1 | -2.5 | -3.1 | -4.1 |
| Export | -19.1 | -46 | 15 | -49.2 | 3.3 | 31.8 | 32.7 | 6.8 | -46.9 | 15 |
| Import | -25.6 | -30.4 | -21.4 | -37.5 | 40.5 | 54.5 | 17.2 | 0.5 | -30.4 | 12.6 |
| Wages | -5 | -40.9 | ... | 314 | 14 | 1.2 | 21.2 | 1.9 | -15.1 | 6.1 |
| Inflation | 121 | 9237 | 116* | 0 | 74.1 | 93.1 | 18.5 | 29.8 | 42.4 | 75.7 |
| Investments | -14.7 | -29.9 | -37.6 | -12 | -3.7 | -5.7 | 0.8 | -2.2 | -7.8 | 21.2 |

Source: Republican Statistical office

Note: - Without data for Kosovo for 1999 and 2000.

- Inflation in 1993 in thousand billion

During the 1990s Serbia has faced deep economic and political crisis. GDP and GDP p.c. was more than halved, economic efficiency was declining severely and, more important, structure of GDP formation and its distribution were negatively affected. The Government reacted with stopping reforming processes started earlier. At the end of 1990s, in front of political changes which opened room for market reform, Serbian economy was characterized with: 1) low capacity utilization, 2) low economic efficiency, 3) surpluses of work force, 4) technological level was very low and lagging behind the top for several technological generations.

² Theorists of self - managed firm, so - called „Iliric firm“, like Estrin & Svejnar (1983) or Ireland & Law (1982), even have proved that from theoretical point of view the self managed firm can be profitable only with low or negative real interest rate for credit lines – sources of investments.

³ Kornai J. was launched term „soft budget constraint“ in order to point that during communist era in corporate sector habit existed that company spent more than generated as a rule. Kornai J. – The Way to Free Economy, Economics Institute, Belgrade , 1992

If one considers development limits then structural misbalances were the strongest one. Serbian economic structure was out of balance in several meanings, as follows: 1) the share of primary and secondary sectors⁴ in GDP formation was too high, 2) the share of energy and raw materials production within manufacturing were too high, 3) the importance and involvement of SMEs in total capital and total employment was too low, 4) private ownership, excluding agriculture, within economy was minimal.

The last three decades Serbian economic structure and structure of GDP formation staid more or less unchanged, because of inertia in development priorities defined, e.g. energy, raw materials and food production were priorities, only, although the world was changed so much in meantime. During the 1990s economic structure was even worsened. The share of manufacturing and agriculture was increasing to more than ½ of GDP, with more than average decreasing of construction and traffic. Within manufacturing the share of energy production (for more than 20 structural points) and food processing (for 7 structural points) were increasing at the same time.

The counterpart of Serbian economic structure, with dominance of energy and raw material production, was the existence of huge companies with so - called social ownership⁵. In ex - communist countries those companies were labeled as white elephants. This economic structure, with dominance of huge socially owned companies, on the one side, and with minor importance of SMEs, on the other side, was low flexible, especially to external shocks.

External supply and import demand of Serbian economy during the last few decades, considering structure of external trade and volume of export and import, was non adequate, as well. It means that from the point of view of external trade development strategy was inward oriented one. Some attempts to change it toward more world market oriented, as was explained, were unsuccessful. During the last decade with overall sanctions introduced by World community external trade was forbidden generally, with exemptions related to humanitarian purpose kind of

⁴ Agriculture and fishery: primary, while industry and construction is secondary sector.

⁵ Social ownership has been officially defined that sources belonged to everybody in society and at the same time to nobody particularly. In practice this mean that in the scenario where company was profitable, whole profit was distributed threwh salaries (kind of group ownership), and in the non profitable company workers asked government for help – subsidies (kind of state ownership).

import, like energy, pharmaceuticals and food. So, development strategy became rather import substitution strategy, like in less developed countries decades ago.

In comparison to other countries in the region the share of external trade in GDP was very low. During 1980s the value of export was around 20% of GDP on average, while import volume was 25% of GDP (at the same time in Hungary more than 40%, Greece 20%, Austria 40%). It can be explained by policy of cutting external debt, which prevailed during 1980s, with suppressing overall demand, especially import demand.

The structure of external trade, bought export and import, as a measure of level of development and competitiveness of an economy, was unfavorable and still is. Export structure was mainly related to product of low level of processing. For instance in the second half of 1990s bought export and import structure was with share of raw materials and semi product with 2/3 of total volume. Technological balance was negative, especially for highly technological products (like computers and related equipment, professional and scientific instruments, medical equipment, turbines and generators, audio – visual equipment). Serbian international competitiveness was achieved by price competitiveness mainly (due to cheap work force), which can be easily fight with and overcome by competitors.

During the years of overall sanctions introduced (during the 1990s) the most hampered were industries - traditional exporters, like textile industry, production of leather and shoes, secondly, highly import dependent industries, like oil processing, chemical industry, equipment production and thirdly, huge and no flexible systems, like basic chemistry and steel production. However, import substitution which was forced by macro policy was with sporadic effect.

3. Transition period - competitiveness even weaker

Political changes in Serbia, which happened in October 2000 were the latest among ex – communist European countries, has opened the room for fast development and economic prospective. After years of economic and social crisis the expectations of citizens were very high. A kind of consensus toward transition to fully market economy of the most influential interest groups was achieved. Free capacities, as production was in meantime more than halved, gave a chance to overcome problem of transition recession. However, Serbia faced old development

limits: structural discrepancies were serious, and more important, those free capacities did not supply articles competitive abroad. It means that fast economic growth and development could not be achieved on the basis of those capacities, but rather on a new one.

One could see that prerequisite for economic transformation to market oriented economy required to define development strategy and strategy of transition. However, instead of a comprehensive development strategy a neo – liberal approach prevailed and still is. Until now Serbia did not create its strategy for transition, because at the top position in ministries and governmental bodies responsible for financial and economic matters were and still are those who are afraid of any word like plan and strategy.⁶ This is a reason that development and macroeconomic policies were not coordinated well and consequently rate of growth and development were suboptimal.

For instance instead of more complete external policy and strategy for better approach to world market import was more or less immediately liberalized fully. Privatization strategy was created in order to attract foreign strategic investors. However, it was not a realistic approach and quickly was changed into privatization strategy which favoured domestic taykoons instead, which consequently ruined broad consensus for transition, achieved earlier. SMEs supportive policies were adopted lately and introduced partially.

Serbia – main economic indicators 2001-2008 (Increase %)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|------------------|------|------|------|------|------|------|------|------|
| Inflation | 19.7 | 14.9 | 7.8 | 12.7 | 17.7 | 6.6 | 19.1 | 6.8 |
| GDP | 5.1 | 4.5 | 2.5 | 8.4 | 6.2 | 5.7 | 7.5 | 6.1 |
| Industry | 0.1 | 1.8 | -3.0 | 7.1 | 0.8 | 4.7 | 4.6 | 9.0 |
| Trade | 19.8 | 23.9 | 13.8 | 18.0 | 26.5 | 7.7 | 22.8 | 10.3 |
| Traffic | 9.6 | 6.9 | 5.0 | 4.8 | 4.4 | 10.4 | 1.7 | 1.1 |
| Export | 10.5 | 20.6 | 32.8 | 27.8 | 27.2 | 43.4 | 38.1 | 28.2 |
| Import | 28.0 | 31.8 | 33.2 | 43.8 | -2.7 | 25.9 | 41.5 | 28.9 |

⁶ Those are representatives of former NGO, later political party, named „G17” pretending to be experts, but in scientific circles rather recognized as market fundamentalists. They are advocating fully market competition without any governmental role in economy and approach to transition which was prevailed during the first half of 1990s(shock therapy), although it was overcome later by more gradualist approach.

Source: Republican Statistical office

As results of neo - liberal approach to transition a pure economic rational prevailed in decision - making process within companies, which means that development was rather spontaneous and chaotic. During transition period Serbia realized high rate of GDP growth – 5.4% on average. This kind of development had positive outcomes, but unfortunately negative prevailed. During transition period service sector – tertiary one - increased above average and increased its share in GDP formation very much, reached even 2/3 of total. At the same time industry – secondary sector – increased modestly and, consequently, its share in GDP formation dropped.

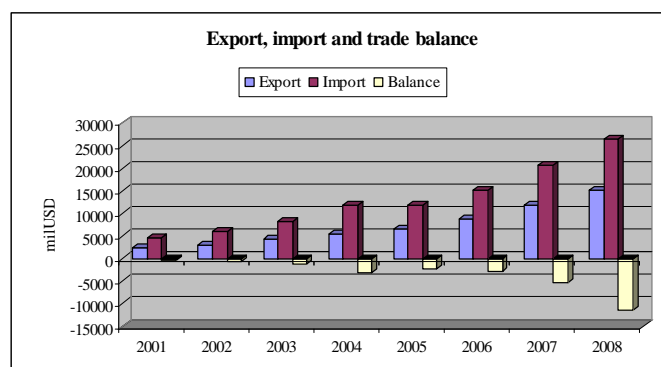
Structure of GDP Serbia and EU-25 (%)

| | Serbia | | | | EU – 25 | | |
|-----------------------------------|--------|------|------|------|---------|------|------|
| | 2003 | 2004 | 2005 | 2006 | 2003 | 2004 | 2005 |
| Agriculture, forest, fishery | 13.6 | 15.0 | 13.5 | 12.9 | 2.5 | 2.7 | 2.5 |
| Industry and Construction | 26.1 | 25.6 | 24.6 | 24.3 | 28.1 | 28.0 | 27.9 |
| - Manufacturing | 22.4 | 22.1 | 21.2 | 20.8 | 22.8 | 22.8 | 22.7 |
| - Construction | 3.7 | 3.5 | 3.4 | 3.5 | 5.3 | 5.3 | 5.2 |
| Services | 60.1 | 59.3 | 61.8 | 62.8 | 69.4 | 69.2 | 69.5 |
| - Market service | 40.4 | 40.8 | 44.2 | 46.7 | 48.1 | 48.2 | 48.5 |
| - Trade, hotel, catering, traffic | 18.5 | 19.8 | 22.8 | 25.1 | 22.2 | 22.3 | 22.4 |
| - Financial services | 21.9 | 21.0 | 21.4 | 21.6 | 25.9 | 25.9 | 26.1 |
| - Other | 169.7 | 18.5 | 17.6 | 16.1 | 21.3 | 21.1 | 21.0 |

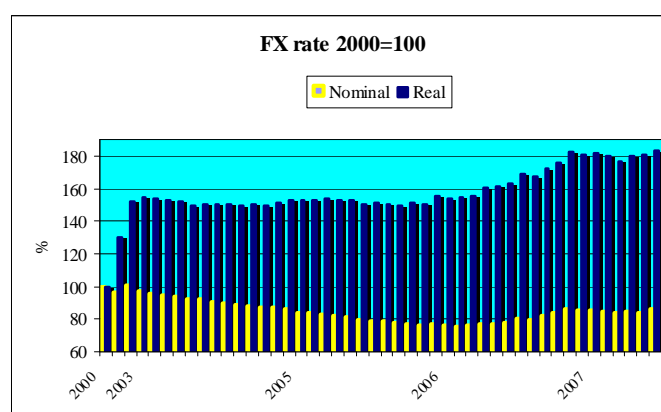
Source: Serbian Statistical office, Eurostat

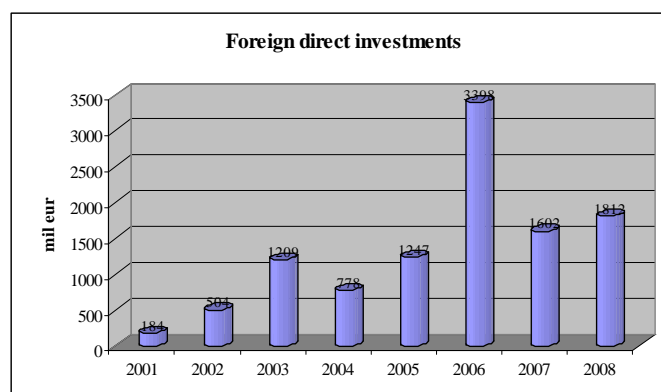
Serbian economy executed 60% of its export on EU market. It is mainly due to primary products and work and resources highly dependent products. Those are comparative advantage of Serbian companies on EU market. At the same time those products are sign that Serbian export is not well structurally adopted to EU needs. It means that long - term competitiveness of Serbian economy can not be achieved with existed economic structure, which defines the export structure. The sole good characteristic of its export is its increase. The aim is, among others, to increase the importance of technologically intensive products and its share in the structure of export.

During the whole transition period, with exemption in 2005, external trade deficit was increasing and reached volume of USD 11.2 billion in 2008, which is dangerous for its stability and at the same time it is medium - term limit of sustainable growth. It is just emphasized by world financial crisis as external shock. Although the export rate of growth is very high Serbian economy is legging behind other transitory countries and EU members especially. The most important market for Serbian companies is market of ex - Yugoslav countries. High rate of growth of external trade with EU during transition period was not accompanied with changing structure of export, while import structure was improved. Import of new technologies and equipment is prerequisite for Serbian companies to become more competitive, however it can not be achieved in short term period.



If we consider competitiveness of Serbian economy we have to take into account FX rate. Serbian dinar (RSD) used to be a nominal anchor for prevailed period under consideration. In order to curb inflation National bank of Serbia (NBS) made RSD rather stable (with slight exemption in 2004 and 2005), like other countries in region, Croatia and Romania and unlike so-called Asian tigers - fast developing countries in the past. During transition NBS policy of FX rate can be labeled as a policy of appreciation of RSD toward EUR and still is. Foreign direct investment increased during the period under consideration and FX inflow, as well, which additionally supported strong RSD and at the same time additionally made Serbian export weaker.





Privatization, although important and under the very careful public monitoring, can not be seen as a sole and most important factor of structural changes. Instead, new SMEs and private entrepreneurs have to be seen as the basis for new, more competitive economy in the future. From this perspective one can say that Serbia achieved starting steps in structural changes of its economy. It can be said that influence of SMEs and private companies are increasing and their share in total added value and total work force, which make the economy more efficient and flexible and resources allocation, more rational. Majority of companies within industry are privatized, especially chemical, metal, machinery, oil processing and plastic and rubber production. New SMEs were established in service sector predominantly, especially in trade, traffic, tourism. However, the basic structural problems of Serbian economy are related to unstructured traditional industry and unstructured public companies, especially. This is a reason that those companies are with low technological level and low level of competitiveness, dispersed but non favorable export assortment (raw materials and other product with low level of processing are prevailing).

In the period under consideration (transition period) institutional conditions for SME and entrepreneurship development and their strengthening are considerably improved. The growth of number of SME and small shops is result of improvement of overall climate for business and stimulative measures from governmental to local level, as well. The main activities were oriented toward:

- Improvement in overall business climate,
- Establishment of institutions responsible for SME support,

- Legal infrastructure for SME strengthening,
- Tax, custom and investment incentives,
- Financial support.

According to World Bank and International Financial Corporation analyses Serbia was labeled as the leader of market reforms in 2005 and improved its place from 95th to 68th position in 2006⁷. According to the Report Serbian improvement in business climate is encouraging: time necessary for enterprise foundation is now 18 days, for registration 11 days, for licenses issuing 211 days, for tax payment 168 hours per year. At the same time period for custom declaration issuing is shortened to 11 days for export and 12 days for import. Investment climate is improved, as well: index of credit reporting is 5 and index of investor preservation is 5.3. The liquidation of enterprise is more easy then earlier, as for court disputes it is necessary 635 days and 2.7 years for regular liquidation. In comparison to other countries in transition in surrounding Serbia is well positioned, even in some segments better positioned then some new EU members. All in all, realization of SME Development Strategy 2003-2008 pushed Serbia from the group of countries with modest market reforms into the group of countries with fast reforms.

Today SMES sector is dominant within Serbian economy. SMEs are 99.7% of total number of companies (276.695 companies), 97.5% are companies in private ownership (270.454 companies). Those companies employed 55% of total workforce employed in Serbia. Turnover of SMEs is 2/3 of total turnover, which says that those companies are simply more efficient and made 55% of total added value. However, one has to bear in mind that huge economic systems – white elephants – still determine total economic activity and its efficacy. It means that 694 companies (0.3% of total economic units only) made 1/5 of total turnover, more than 40% of total added value and almost 50% of total profit.

⁷ In 2005 155 countries were included and 175 in 2006, Doing Business 2007, World Bank.

SME Development Index

| | | Share of private sector in GDP % | Share of SME in GDP % | Share of SME in total employment % | GDP PER CAPITA (US\$/capita) | SME Development Index | |
|----------|------|----------------------------------|-----------------------|------------------------------------|------------------------------|-----------------------|---------------|
| | | | | | | - | (US\$/capita) |
| Hungary | 2002 | 80,0 | 57,0 | 49,5 | 4.552 | 0,23 | 1.027,0 |
| | 2003 | 80,0 | 36,9 | 56,8 | 6.581 | 0,17 | 1.103,5 |
| Croatia | 2002 | 60,0 | 50,0 | 67,0 | 4.179 | 0,20 | 840,0 |
| | 2003 | 99,0 | 56,0 | 65,0 | 5.053 | 0,36 | 1.820,9 |
| Romania | 2002 | 60,0 | 55,0 | 20,8 | 1.644 | 0,07 | 113,0 |
| | 2003 | 65,0 | 55,0 | 20,8 | 2.091 | 0,07 | 155,5 |
| Bulgaria | 2002 | 70,0 | 30,0 | 64,7 | 1.476 | 0,14 | 200,0 |
| | 2003 | 75,0 | 30,0 | 42,2 | 1.984 | 0,10 | 188,4 |
| Slovenia | 2002 | 65,0 | 56,6 | 64,4 | 9.073 | 0,24 | 2.150,0 |
| | 2003 | 65,0 | 56,5 | 62,6 | 11.026 | 0,23 | 2.534,9 |
| Serbia | 2002 | 40,0 | 46,6 | 32,4 | 942 | 0,06 | 57,0 |
| | 2003 | 55,0 | 46,6 | 32,4 | 1.879 | 0,08 | 156,0 |
| | 2004 | 46,4 | 51,8 | 54,7 | 3.007 | 0,15 | 460,0 |
| | 2005 | 64,4 | 54,1 | 59,0 | 3.298 | 0,19 | 643,1 |

Source: www.unece.org/indust/sme/sme-role.htm.

Serbia started market reforms later than other countries of East and Central Europe and this is clear from several reports of international (financial) organizations and bodies, which tried to estimate level of national competitiveness. In the Competitive Report 2008-2009 prepared by World Economic Forum, which covered 134 countries, Serbia was ranked as 85th with GDP p.c. of USD 5.596. Serbia improved its position for seven places, but it is positioned as the last with Ukraine among 27 European countries which are intending to improve their competitive position. The most important advantages are in the field of health security and education, and disadvantages are institutions and complexity of business. According to 105 indicators the conclusion is not favorable for Serbia – there is no readiness of the economy to move into the second stage of more qualitative development.

EBRD used to prepare on regular basis Transition report, as the analyses of achievement of market reforms in European countries. Until 2006 EBRD index of competitive policy for Serbia was not more than 1, the last among European transitory economies and in 2007 above 2, which

indicated that legality and institutions were established within competitiveness area. In the Report for 2008 Serbia is assessed as country with highest improvement in reforms. Precisely, average remark was improved from 2.74 to 2.85, mostly due to strengthening of financial sector and external trade liberalization.

World Bank investigation published in Report called Doing business for 2009 unfortunately pointed worsening position of Serbia regarding business environment from 91st (in 2007) to 94th, as market reforms slow down. In comparison to countries in the region Serbia is better positioned only in comparison to Croatia and Bosnia and Herzegovina. The Report pointed out that Serbia in 2008 did improve business environment solely in the field of land registry

Comparative Matrix of Competitiveness

| Indicators | Serbia | Bulgaria | Rumania | Croatia | Hungary |
|-----------------------------|--------|----------|---------|---------|---------|
| World Economic Forum | | | | | |
| - World rank | 85 | 76 | 68 | 61 | 62 |
| - Value | 3.90 | 4.03 | 4.10 | 4.22 | 4.22 |
| EBRD | | | | | |
| - Price liberalization | 4 | 4+ | 4+ | 4 | 4+ |
| - Trade and custom | 4- | 4+ | 4+ | 4+ | 4+ |
| - Competitiveness | 2 | 2 | 3- | 3- | 3+ |
| World Bank | | | | | |
| - External debt/export % | 223 | 155 | 129 | 174 | 104 |
| - External debt/GDP % | 61 | 97 | 31 | 86 | 81 |
| Credit ranking | BB- | BBB | BB+ | BBB | BBB |
| - Investments(% GDP) | 23 | 30 | 31 | 28 | 22 |
| - Inflation % | 6.8 | 9.6 | 7.9 | 6.5 | 5.5 |
| - Wages net – EUR August | 401 | 200 | 351 | 694 | 476 |
| - Productivity EU 27=100% | 59.5 | 34.9 | 43.8 | 71.7 | 73.0 |
| - Work force cost p.u.% | -2.8 | 5.9 | 2.6 | -8.7 | -0.8 |

4. Elements of possible Competitive Policy

Introduction of adequate competitive policy can be useless without more general framework, as it can be a Sustainable Development Strategy. During period of transition Serbia had a few unsuccessful attempts to define broad development strategy⁸, but from different reasons, like non sufficient quality of the documents or changes within more broad political content, no one of them was officially accepted. There is opinion in scientific circles that until proponents of market fundamentalism⁹ are on the top position of ministries and bodies responsible for economic and financial matters there is no chance to get it.

Development strategy is not same as advocating for five years development planning process, like during communist era. It can be seen as a general framework for transition strategy, as well. A Comprehensive development strategy¹⁰ could be important for the extraordinary situation like world economic crisis, which Serbia could not avoid, but can be better adapt to it. It is also useful for better coordination of development and macroeconomic policy. The development strategy can not be seen as one channel approach, it is rather multivariant path to fully market economy and encouraging environment for more competitive companies prepared better for supply to the global market.

In September 2008 Serbia officially adopted Stabilization and Association Agreement with EU, by which it became a potential EU candidate and, more important, from 1 January this year introduced free trade zone¹¹. Two most important obligations for Serbia regarding SAA are: free trade regime introduction and harmonization with EU legal framework. Firstly, free trade zone is introducing while Serbia is obliged gradually to annul custom duties for products originated from EU in period of six years and same with products from Serbia on the EU market. Timing of liberalization is depending of sensitivity of different products. Secondly, at the same time by SAA Serbia is obliged to harmonize its legal infrastructure with EU legal framework. Priorities are defined as follows: competition strengthening, state subsidies controlling, intellectual

⁸ The Development Strategy of Serbian Economy until 2010, Ministry for Science, Technology and Development –, Matejić V. (ed.), The Expert team, Belgrade, 2001., National Development Strategy 2006-2012, Ministry of Economy, Republican Development Bureau, 2006.

⁹ G17 is still among parties which are forming ruling coalition and Serbian Government.

¹⁰ See more - Wolferson J.D., 1999

¹¹ Unfortunately it was done unilaterally by Serbia, as some countries member of EU are still opposite to it (The Netherlands).

property right, public tenders, standardization and consumers preservation. In three years period Serbia is obliged to introduce competition in the field of public companies in attempt to make room for them to adapt to competitive environment.

The experience of other transitory economies, which joined EU, pointed that stabilization and association agreement was very efficient instrument for structural reform. Trade liberalization motivated those countries and their enterprises to strengthen their effort to improve and increase export volume, FDI inflow and GDP, as well.

Effects of trade liberalization related to SAA

| Positive effects | Weaknesses and threats |
|---|---|
| <ul style="list-style-type: none"> - Long term preferential approach to EU market - Increase in FDI - Trade increase and export increase with productivity increase - Increase in employment in the second phase - Positive effect to Balance of Payment - Better integration into EU and global market | <ul style="list-style-type: none"> - Increase in import and Balance of Payments deficit - Decrease in custom revenues - Costs of adjustment to stronger competition - Social costs and social program introduction costs during the first phase |

Competitive position of Serbian economy and enterprises can be improved, in order to become strong enough to be resistant to the pressure originated from EU market, by continuation and stronger state engagement in several fields as follows:

- Education,
- Innovation and technological development,
- State administrative capacities strengthening,
- Harmonization with EU legal framework,
- Entrepreneurship strengthening,
- Regional development and cluster development.

Education, entrepreneurship and R&D Development – It would be useful to support spending for additional training and permanent education of employees given by local community and companies. National strategy of R&D has to be defined with aim to increase public and private spending. Entrepreneurial culture has to be supported and related national policy of education for entrepreneurship. It is necessary to estimate future need of labor market and to improve secondary level education for educators. Regarding education system priorities are to support additional training and education of employees, introduce system of accreditation for high level education and increase private sector involvement.

Strengthening state administrative capacities - First of all it is important to continue with training of public servants. Law on state officials has to be introduced fully in an attempt to strengthen recruitment system, professionalism and responsibilities. Those are prerequisites to improve governmental and local, community level services given to citizens and economic agents.

Harmonization of legal framework with EU requirements – There is obligation to change or enact even a few hundreds of laws in order to harmonize legal framework with EU¹². At the same time, even more important task, is to annul several dozens of unnecessary laws and other legal decrees in order to make administrative framework more transparent and simple.

Introduction of antimonopoly policy and strengthen competition policy – Although there is antimonopoly law and antimonopoly commission which is responsible body there is a plenty of examples of misusing of monopoly or dominant position on the Serbian market. It is related to the privatization process and past period in which related law and responsible body did not operate. In some sectors there is already monopolistic or dominant situation (milk production, food industry, even retail trade etc.). As the law is not missed the emphasis has to be on strict execution of regulation. In line with unstructured public companies (airlines, energy, railway) there is resistance to their restructuring and privatization in order to defend their privileged

¹² So called administrative guillotine is especially oriented to habit from the self management past to have more legal laws and other documents than necessary.

position. Those companies still generate losses, which has to be covered by budget expenses through different kind of subsidies. At the same time restructuring and opening room for competition in those sectors will make room for decreasing fiscal duties and generally speaking public consumption.¹³

Encouraging entrepreneurship, dynamic companies, clusters and gazelles – In the second phase of SME supportive policy measures the emphasis should be on financial support and its improvement, while financial support is estimated as the main bottleneck for faster SME development. It means that it is important to encourage some new forms of financial support like development banks, different kind of funds, local community engagement, micro financing, venture capital funds, business angels etc. Especially important should be encourage R&D and innovative activities and its application within companies. It should be, at the same time, prerequisite for SME internationalization through export programs support, including financial support for international fair presence, financing market investigation, financing organization of business meetings, support cooperation between SME and big companies.

New technology acceptance and international standards introduction - New law on standardization should be enacted and rest of European standards introduced. Cooperation between companies and R&D sector should be supported, with subsidies for new equipment, technological development and consultancy services.

Those measures would be part of more general and precise national Competitive policy (with catching up approach), which has to be implemented through a medium term action plan, with precise time table and responsibilities, check points, indicators and regular measurement of achievement and alternatives, as well.

Conclusion

From review above one can see that Serbia during the transition achieved high rate of growth of GDP, export volume and wages, as well. At the same time it is important to be aware that its

¹³ One of the main limits for growth is budget deficit and/or huge public spending which is more than 45% as the share in GDP instead of 38-40%, which can be estimated as optimal.

unfavorable economic structure and export structure during this period were not changed in positive direction, but unfortunately rather negatively. Its competitiveness became even weaker in comparison to the most advanced transitory economies, although some achievements were realized. Especially important problem for further development and for rational decision making in the future is the lack of development strategy, which has to be overcome quickly.

As Serbia is facing limits for sustainable growth in medium - term the world (financial) crisis emphasizes the importance to start more coordinate development and macroeconomic policies in order to strengthen its comparative advantages. Useful tool for forcing more qualitative development in near future could be Stabilization and Association Agreement with EU, like it used to be in other transitory economies. There is room for improvement overall entrepreneurial climate, especially in some areas as follows: research and development encouragement, high level education improvement, antimonopoly policy and competitive policy strengthening, public consumption dismantling as share in GDP and public companies restructuring and privatization. Those are the core elements of a structural adjustment and competitive policy which have to be implemented through medium term action plan.

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