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COMPARATIVE ANALYSIS OF COMPETITIVENESS: SERBIA, THE WESTERN BALKANS AND THE EU

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Abstract: *This paper is a comparative study of the competitiveness of Serbia, on the one hand, and the countries of the Western Balkans and the European Union, on the other hand, realized on the basis of data from the annual report on global competitiveness of the economy of the World Economic Forum. Available data indicate a major lag in development in Serbia, by the largest number of indicators of competitiveness, not only in relation to the countries of the European Union but also to the countries of the Western Balkans. Serbia's low position on the list of competitiveness is a signal for potential investors to take additional caution to measure their intention to invest. Improving competitiveness in Serbia is imposed as one of the most important goals of economic development policy. Only competitive economy can withstand the challenges and pressures of other market participants, and at the same time ensure the economic growth and social welfare.*

Keywords: *macro competitiveness, pillars of competitiveness, global competitiveness index.*

Introductory Remarks

Competitiveness of the country is talking about the ability to sustain its economy and increase its share in the world market due to the successful utilization of manufacturing resources and to improve the quality of goods, services and processes. (Cvetanović, p. 2) In terms of the competitiveness of the country, there is always an emphasis on company competitiveness, since the macro competitiveness reflects capabilities of businesses in considered countries to successfully engage in production and trade globally. The competitiveness of many companies are influenced by many price and

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non-price factors. Among the most important non-price factors are the level of technology, product quality, delivery, durability, design, packaging, development and sales network availability, payment terms, after-sales service, spare parts availability, customer credit and payment terms, market structure, trade reputation of the company, the network of business relationships with external partners, encryption of products and their international certification, and so on. (Madžar, Lj. p. 6).

The state has a first class function in shaping the environment conducive to the improvement of the competitiveness of enterprises, and thereby improves the competitiveness of the economy as a whole. In many instances it appears that the extent of economic and overall development policy had a stronger influence on the competitiveness of companies and the economy, even in relation to the quality and efficiency of enterprise activities of economic agents. In short, successful economic agents are an important prerequisite for high competitiveness of the country, but in no case are the guarantee of a satisfactory level of macro competitiveness, if lacking adequate measures and economic development policies. "Competitive success is contributed by the su differences in national values, culture, economic structures, the institutions and history. Countries differ noticeably in terms of the structure of competition, none of them can not and will not be competitive at all, even in most sectors. Finally, countries in certain sectors fail because their domestic environment is most advanced, most dynamic and challenging. " (Porter, M. p. 159)

In economic theory to explain the essence of a country's competitiveness is approached from different aspects. In its broadest context, the country's competitiveness is based on the quantification and comparison of key macroeconomic indicators and indicators of the achieved standard of living, where a special place belongs to the indicators of productivity. Competitive country is capable of producing a larger amount of material and immaterial goods to its citizens.

In literature there are many approaches to the operationalization of the competitiveness of countries. There are no, however, isolated opinions from economic analysts in the theoretical sense with a very controversial concept and logics of macro competitiveness. (Stefanovic, p. 7) This time, without going into even a superficial explanation of this controversy, a key starting point to the phenomenon of competitiveness of the country speaks of its ability to increase production of goods per capita, and to further enhance its position in the international division of labor.

In practice, several approaches exist to quantify the country's competitiveness. Two of them stand out with their significance - "Doing business" *(Doing Business), a* report on the business climate in the countries that was developed by the World Bank and especially the Global Competitiveness Report (The Global Competitiveness Report) designed by the World Economic Forum (World Economic Forum).

The paper consists of two parts. The first part gives a brief overview of the metrics in the Global Competitiveness Index, with an emphasis on explaining the structure of individual pillars of competitiveness of countries. The contents of the second part is an attempt by authors, based on available indicators of global competitiveness index of the World Economic Forum presented with competent comparative view of Serbia's competitiveness on the one hand, and the countries of the Western Balkans and the European Union, on the other hand. Also, in this paper an attempt is made to highlight relatively strong position, on one hand, and the most critical areas of Serbia in shaping the values of the coefficient of global competitiveness, on the other hand.

The aim is to draw the attention of policy makers in the development of indicators of competitiveness of Serbia who have the least value, to taking adequate measures to act in the direction of their improvement. This is considered important since competition policy is a key area of activity in macro-management, including less developed economies in the present context of economic performance. Irrespective of the challenges to the relevance of the concept of competitiveness of the country and especially the really problematic ways of arriving at a number of the information on which to compose the GCI, given its popularity, there is no doubt that it is a source of important information on the basis that foreign investors are building their own perceptions about the potential of its future investment returns.

Component of Economic Competitiveness by the World Economic Forum Methodology

The World Economic Forum is publishing data on the production potential of countries for more than thirty years. Report for 2011 covers 142 countries, and is the most comprehensive assessment of the macro competitiveness which has so far been published by this body. It contains detailed data tables and 105 indicators with global rankings. All components of competitiveness are grouped into the following twelve units, or pillars of competitiveness:

1) Institutions
2) Infrastructure
3) Macroeconomic Environment
4) Health and primary education
5) Higher education and vocational training
6) Goods market efficiency
7) Labor market efficiency
8) Development of financial markets
9) Technological readiness
10) Market Size
11) Business sophistication
12) Innovation

1. The institutional environment is determined by the legal and administrative framework within which individuals, businesses, and government influence each other to create the income and increase their property. The quality of institutions is strongly related to competitiveness and growth. Institutions affect the investment decision-making process and the organization of production and represent important determinant of how societies distribute the benefits and bear the costs of various policy development.

2. Developed Infrastructure is important to ensure the efficient functioning of economic entities, such as the recognition of the important factors of local economic activities and the types of activities and sectors that may drive the development of the economy. Well-developed infrastructure reduces the effect of distance between regions, resulting in the integration of national markets and connectivity at a low cost to markets in other countries and regions. Developed road and communication infrastructure network is a prerequisite for efficient connection of the main economic activities in disadvantaged

communities. Efficient transport of goods, people and services, enables businesses to promptly sell their goods and services to market, and facilitate the movement of workers to the most suitable jobs. Quality of functioning of the economy also is a function of supply of electricity and the development of telecommunication networks.

3. The stability of the macroeconomic environment is important for business and also for the country's overall competitiveness. Macroeconomic stability alone can not increase the productivity of the country but manifestation of macroeconomic imbalances harms economic performance. States can not provide effective services if you are paying high interest rates on loans in the past. Public debt reduces the ability of countries to respond to the emergence of future business cycles. Companies can not work effectively with uncontrolled inflation.

4. A healthy workforce is essential for the competitiveness and productivity of a country. Sick workers are not able to realize their potential. The low level of population health leads to an increase of operating costs because sick workers are often absent or their work is ineffective. In addition to health care, for this pillar, scope and quality of primary education is also very important. Basic education increases the efficiency of individual workers.

5. Quality higher education and training are crucial for those who want the economy to improve production processes and improve products. Globalization requires that the education system educates individuals who are able to adapt to changes in turbulent environments. This pillar measures the enrollment in high schools, colleges and universities as well as the quality of education that is estimated from the business community. Level of staff training is also taken into consideration because of the importance of continuous training and professionalism at work, which will ensure the continuous improvement of employee skills and adaptation to the demands of the developed economies.

6. States with efficient goods markets are in a good position because they can produce goods for which there is demand, and are also able to trade with these goods. Healthy competitive market, nationally and internationally, is essential to achieve market efficiency.

7. The efficiency and flexibility of the labor market are crucial to ensuring the most efficient use of workers in the economy, provided that the market encourages employees to put their best efforts into their work. The labor market must therefore be flexible to quickly move workers from one area to another with minimal cost, to allow earnings without much social unrest.

8. Well-functioning financial sector plays a significant role in the economy. An efficient financial sector allocates rationally the resources of households, firms and the state, as well as funding from abroad entering the most productive activities.

9. In the modern business environments, technology becomes increasingly important determinant of competitiveness on all levels. Information and communications technology is pervasive feature of particularly large effect, and they are becoming increasingly evident necessary infrastructure for commercial transactions.

10. The market size effects productivity because large markets allow firms to take advantage of the effects arising from economies of scale. Traditionally, the markets available to firms are restricted by national borders. In the era of globalization, international markets have become a substitute for domestic markets, especially for small countries. It has been shown that trade openness is positively correlated with economic growth.

11. Business sophistication is the determinant of efficiency in the production of goods. This in turn leads to increased productivity, improving macro competitiveness. Business sophistication cares about the quality of the country's overall business networks as well as the quality of the respective companies. This is particularly important for countries in the advanced stage of development, and economic development which is predominantly based on innovation.

12. In the long term, the standard of living can only be improved by innovation. Although less developed countries can still improve their productivity by adopting existing technologies or to make improvements in other areas, for those who have reached innovation-driven level of development, it is not enough to increase productivity. Companies in these countries need to create and develop superior products and processes to maintain competitive positions that are already achieved. Therefore, innovation activities have been supported by the public and the private sector. In particular, this means sufficient investment in costly and, by definition, always risky research and development activities, especially by the private sector, the presence of high-quality research institutions, broad cooperation in research between universities and industry, and intellectual property protection.

The importance of the pillars in the group for particular country depends on the achieved level of its economic development. Grouping of countries according to their level of development used to be relatively accurate and simple criterion based on the realized level of GDP *per capita*, denominated in U.S. dollars. The division was based on three primary and two intermediate stages of economic development. Depending on the stage of where the country is the values of weights that are assigned to groups that form the pillars of the Global Competitiveness Index will depend on it. Ala-i-Martin, X.Blanke, J, Drzeniek, H. M, Geiger T, Mia, I. (2010) The Global Competitiveness Index 2010-2011:

According to the Global Competitiveness Index there is the assumption that countries go through three developmental stages. In the first stage of development *(factor-driven stage)* there are crucial determinants of the productivity and competitiveness of the country to look for in a quality operation of public and private institutions (1st pillar), a well-developed infrastructure (2nd pillar), a stable macroeconomic environment (third column) and healthy and educated workers (4th pillar).

Improving their own economic development, states enter into the second stage *(efficiency - driven stage)* which organize efficient production processes and product quality significantly. At this stage, the improvement of the competitiveness of the country is mostly influenced by factors related to higher education and vocational training (5th pillar), efficient goods market (6th pillar), functional labor market (7th pillar), financial market sophistication (8th pillar), the level of technology (9th pillar), and also the size of the national and foreign markets (10th pillar).

The countries are crossing in the third stage of development *(innovation-driven stage)* thanks to improving productivity and competitiveness based on high business sophistication (11th pillar) and innovation (12th pillar). [The Global Competitiveness Report 2011-2012, p. 9]

Table 1. The weights for the calculation of the Global Innovation Index

	Factor driven economy	Efficiency driven economy	Innovation driven economy
The main factors	60%	40%	20%
Factors critical to the efficiency	35%	50%	50%
Factors for Innovation	5%	10%	30%

Source: The Global Competitiveness Report 2011-2012, World Economic Forum

Table 2 presents the ten most competitive economies in 2011.

Table 2. Ten most competitive economies of the world in 2011.

Country	Rank	The coefficient of competitiveness
Switzerland	1	5.74
Singapore	2	5.63
Sweden	3	5.61
Finland	4	5.47
USA	5	5.43
Germany	6	5.41
Netherlands	7	5.41
Denmark	8	5.40
Japan	9	5.40
Great Britain	10	5.39

Source: The Global Competitiveness Report 2011-2012, World Economic Forum

The highest value of global competitiveness index (5.74) in 2011 is recorded in Switzerland, and the lowest (2.87) in Chad.[1] Six countries of the European Union are among ten most competitive economies in 2010. These are the two countries that are members of the EU from the very beginning of this regional economic organization (Germany, Netherlands), two (Britain and Denmark) are members since 1973, while two (Finland and Sweden) are members of this leading regional economic integration since 1995. [Prokopijevic, p. 23]

Serbia's Position in the Global Competitiveness Reports of the World Economic Forum

The Competitiveness Report 2011-2012 Serbia is ranked 95th place. According to this indicator among the countries of the Western Balkans only Bosnia and Herzegovina is ranked worse (100). All the other countries of the Western Balkans have fared better; Montenegro on the 60th, Croatia at 76th, 78th Albania and Macedonia on the 79th place (Table 3).

[1] The value of global competitiveness index theoretically can reach minimum value of 7, lowest value is also theoretically 1

Table 3. The competitiveness of the Western Balkans in the period 2004-2011

Year and number of ranked countries	2004 (104)	2005 (117)	2006 (125)	2007 (131)	2008 (134)	2009 (133)	2010 (139)	2011 (142)
Albania	-	100	98	109	108	96	88	78
B & H	81	95	89	106	107	109	102	100
Macedonia	84	85	80	94	89	84	79	79
Serbia	89	80	87	-	85	93	96	95
Croatia	61	62	51	57	61	72	77	76
Montenegro	89	80	87	-	65	62	49	60

Source: The Global Competitiveness Report 2005-2006, 2006-2007, 2007-2008, 2008-2009, 2009-2010, 2010-2011, 2011.2012, World Economic Forum.

Historically, the highest value of global innovation index and rank of Serbia has been recorded in 2008 when it was on the 85th position with the value of the index of 3.9.

Table 4. Changing competitiveness of the Western Balkans in 2011 compared to 2010 and GDP per capita in 2010

	2011	2010	Change	GDP per capita in U.S. dollars, 2010
Albania	88	78	10	3677
B & H	102	100	2	4319
Macedonia	79	79	0	4431
Serbia	96	95	1	5233
Croatia	77	76	1	13720
Montenegro	49	60	-11	6589

Source: The Global Competitiveness Report 2011-2012, World Economic Forum

Serbia has in 2011 compared to 2010 moved up one position increasing the value of the global innovation index of 0.04. Evidently, it's minimal progress, even if we take into account the fact that the shift started simultaneously with the increase in the number of ranked countries (with 139 in 2010 142 countries on the 2011).With the amount of the gross domestic product per capita of U.S. $ 5233 in 2010, Serbia and other Western Balkan countries, with the exception of Croatia, is found in the so-called group. efficiency-driven *economies.*In short, the countries that are in this stage of development, according to the Global Competitiveness Index makers strive to increase economic growth and improve their overall competitive position by raising to a higher level of efficiency factors.[2] Croatia, which during the 2013 should become the 28th member of the European Union is on the road to innovation-driven economy. This means that all Western Bakans, with the exception of Croatia have the level of economic development that they practically can not

[2] Sala-i-Martin, X.Blanke, J, Drzeniek, H. M, Geiger T, Mia, I. (2010). The Global Competitiveness Index 2010-2011.

provide a high level of competitiveness and therefore their place in the so-called. international division of labor can not be satisfactory. "Therefore major changes are necessary in the development paradigm, and above all, a better evaluation of the knowledge resources and intellectual capital." (Pokrajac, p. 9)

In order to better recognize the key factors that have influenced the formation of Serbia ranking, we examine the dynamics of the 12 pillars of competitiveness in 2011 and compare the value of each of the pillars with the same average for the 27 European Union countries and the average for the six countries of the Western Balkans.

Table 5. Ranking position of Serbia by pillars of competitiveness in 2011 (absolute and relative to the EU and the Western Balkans)

	Serbia (rank)	Serbia value	EU 27	The Western Balkans
The Global Competitiveness Index	95	3.88	82.3	96.3
Subindex A: GENERAL REQUIREMENTS	88	4.28	82.2	96.3
First pillar: Institutions	121	3.15	68.5	84.8
Second pillar: Infrastructure	84	3.67	72.2	95.0
3rd pillar: Macroeconomic stability	91	4.48	90.7	95.4
4th pillar: Health and primary education	52	5.82	93.7	100.9
Subindex B: Increased efficiency	90	3.73	80.0	96.7
5th pillar: Higher education and training	81	3.98	78.3	95.9
6th pillar: Goods market efficiency	132	3.49	75.7	86.1
7th column: Labor market efficiency	112	3.94	87.9	92.8
8th pillar: Financial market development	96	3.74	82.4	97.7
9th pillar: Technological readiness	71	3.63	71.5	93.9
10th pillar: Market size	70	3.61	84.1	120.9
Subindex C: Innovation factors	118	2.99	69.0	92.3
11.stub: Complexity of operations	130	3.08	66.7	86.9
12th pillar: Innovation	97	2.90	71.7	98.8

Source: The Global Competitiveness Report 2011-2012, World Economic Forum

The value of the Global Competitiveness Index and certain pillars of competitiveness of the Western Balkans was calculated as the average of these indicators for Albania, Bosnia and Herzegovina, Macedonia, Croatia, Montenegro and Serbia.

From the data in Table 5 shows that the average Serbian rank is better than six countries of the Western Balkans only in size of the market, according to all old pillars of competitiveness, Serbia is lagging behind the average of the 27 countries of the European Union and the Western Balkans. The subordinate position of Serbia in relation to that country is particularly pronounced in sub-Innovative factors (69.0% of the average of the European Union). Absence of Serbia is very pronounced with the subpillar of institution (68.5% of the EU27 average) and subpillar of Infrastructure (72.2% EU27 average).

Table 6. Competitive advantages of Serbia

	Column	Rank
Telephone lines	2	26
Number of mobile phone users	2	28
Impact of HIV / AIDS on business	4	17
Prevalence of HIV	4	21
Impact of tuberculosis on the business	4	34
Infant Mortality	4	40
The incidence of tuberculosis	4	43
Inclusiveness in Higher Education	5	50
Total tax rate	6	50
Time required to start a business	6	51
Severance costs	7	50
Legal Rights Index	8	20
Internet traffic	9	34

Source: WEF Global Competitiveness Report 2011/2012

Table 7. The most critical areas in Serbia

	Column	Rank
Protection of small shareholders	1	140
The efficiency of the dispute resolution	1	137
The success of state corporations	1	136
The burden of state regulation	1	134
The scale of market regulation	6	139
Efficacy of anti-monopoly policy	6	137
Strength of local competition	6	136
Sophistication of customers	6	136
Brain Drain	7	139
Cooperation between employee – employer	7	136
The introduction of new technology in the enterprise	9	136
The quality of competitive advantage	11	136
Willingness to delegate authority		

Source: WEF Global Competitiveness Report 2011/2012

We think that policy makers and economic development policies at all levels must pay particular attention to the most critical indicators of the competitiveness of Serbia in 2011 which were contained in Table 7. They can serve as a guideline in which direction macro managers should direct their activities. No detailed elaboration of thirteen reported indicators in Table 7 by which Serbia is on one of the last position in the world in the 142 countries ranked, we pay attention to only two: the indicator relating to the protection of the interests of minority shareholders (140 place), and indicator that tells about the brain drain in the seventh column (139 place).

Development of domestic financial markets is the assumption of efficient financing of economic development of Serbia. Extremely low ranking of Serbia in terms of protecting the interests of minority shareholders is a confirmation of underdevelopment in stock trade in the country. When companies do not practice fundraising by issuing shares, dividend policy is not implemented. Therefore, the action in the hands of minority business owners after the formation of the control package has almost no significance, because at the moment of formation interest in any further trade on the stock market stops.

Serbia is faced with an unprecedented outflow of trained personnel for years. Contrary to many expectations, the trend over the past several years is stronger than ever before. Despite government attempts to slow this trend, the transfer of the fittest takes place predominantly in the direction of the fittest out of the country, while the return of renowned researchers from abroad into the country is only hinted.

Remediation of vulnerabilities in national competitiveness can have a positive impact on increasing the value of the composite Global Competitiveness Index, which could be positively reflected on Serbia's ranking on the list of the World Economic Forum. However, when looking for reasons for the low positioning of Serbia, one must have in mind that the place in the rankings of competitiveness is a relative phenomenon that depends not only one's own achievements, but also from the results of other countries on the list. Metaphorically speaking, you sometimes need to run in order to stay in the same place, as policymakers must take this into account as increasingly important competitive component of the overall policy development.

Picture of the relative backwardness of Serbia will be completed by the criteria of competitiveness comparative review of data on its rank and high competition of the four countries that are full members of the European Union in the sixth expansion in 2004 (Hungary) and the seventh expansion in 2007 (Bulgaria and Romania). In Table 8 we show data for Slovenia as an EU member since 2004, which is not directly bordering Serbia, and is not strictly speaking country in its immediate environment.We did this primarily because it is the country that was once part of a common country, that has to function in an identical economy environment as Serbia and other Western Balkan countries, except Albania.

Table 8. GCI - Rank and the Global Competitiveness Index: Serbia, Bulgaria, Hungary and Slovenia

	Serbia	Bulgaria	Romania	Hungary	Slovenia
Rank	95	74	77	48	57
The coefficient of competitiveness	3.88	4.16	4.08	4:36	4.30
GDP pc U.S. dol.	5233	6334	7542	12,879	23,706
A	-	93.26	95.10	88.99	90.24
B	-	82.49	69.38	40.63	22.07

Source: The Global Competitiveness Report 2011-2012, World Economic Forum

A coefficient of Serbia competitiveness/competitiveness coefficient of corresponding country
B gross domestic product per capita of Serbia / gross domestic product per capita of the corresponding country

The data contained in Table 8 for Serbia confirm the large gap in the four countries by the criteria of competitiveness and the achieved level of GDP per capita.

Conclusion

Reached level of competitiveness of the country has a decisive role in its economic growth and economic development.Poor positioning of the country signals to potential investors to take additional measures of caution about their investing intentions.Given the popularity of the Global Competitiveness Report, we must be aware that it is a source of important information on the basis that foreign investors are building their own perceptions and assess potential returns on their investments. The complex composition of global indexes provides insight into many aspects of competitiveness that may influence decision-making in foreign entrepreneurs. The World Economic Forum provides investors a quick, preliminary insight into the business environment of countries that are potential destination of their investments. Investors are often not able to independently obtain information on specific factors, because it requires costly research that would have to be implemented for a number of different countries that are potential candidates for their enterprise.

There is no realistic possibility that signals a low of competitiveness of the country, especially according to certain criteria and spill over to foreign interest rates that lenders require for their financial investments. Countries that show a low level of competitiveness, can become candidates for higher interest rates.

Without prejudice to the ability to quantify the competitiveness of some national economies, particularly in the light of international comparisons that are always vulnerable, there is some degree of bias is primarily due to the circumstance that some of its aspects are extremely hard to measure, we categorically claim that the global competitiveness ranking of the World Economic Forum, as undoubtedly the most famous calculation of macro competitiveness in international relations, should be observed with maximum attention. It is beyond dispute that bad ranking of

Serbia on the list compiled by the competitiveness of the World Economic Forum affects the formation of its poor image in the business world and beyond.Picture of a country that has declared itself as a candidate for the date to start negotiations with the European Union to meet the conditions for accession to the Union, certainly does not fit into the mosaic of the state in which the business environment for the large number of indicators lag behind the ambient of less developed African and Asian countries.

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KOMPARATIVNA ANALIZA KONKURENTNOSTI: SRBIJA, ZEMLJE ZAPADNOG BALKANA I EVROPSKA UNIJA

Rezime: U radu je komparativno istraživanje konkurentnosti Srbije, s jedne, i zemalja Zapadnog Balkana i Evropske unije, s druge strane, realizovano na osnovu podataka iz godišnjih Izveštaja o globalnoj konkurentnosti privreda Svetskog ekonomskog foruma. Raspoloživi podaci ukazuju na veliko zaostajanje Srbije po daleko najvećem broju indikatora konkurentnosti, ne samo u odnosu na zemlje Evropske unije već i u odnosu na zemlje Zapadnog Balkana. Niska poziciija Srbije na listi konkurentnosti je signal potencijalnim investitorima da sa dodatnim oprezom mere svoje namere o ulaganju. Politika unapređenja konkurentnosti Srbije se nameće kao jedan od najvažnijih ciljeva poltike privrednog razvoja. Isključivo konkurentna privreda može odoleti izazovima i pritiscima drugih tržišnih učesnika, a istovremeno obezbediti privredni rast i društveno blagostanje.

Ključne reči: makrokonkurentnost, stubovi konkurentnosti, indeks globalne konkurentnosti.