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THE PRIORITY DIRECTIONS OF NATIONAL ECONOMY DEVELOPMENT

RECENT PERFORMANCE OF THE ECONOMY OF SERBIA IN THE DOMAIN OF INSTITUTIONAL COMPETITIVENESS

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Abstract: *In order to gain desirable position in the globalized division of labour, national economies must continuously adapt their institutional structures. Institutional arrangements are important contributor to the ability of society for economic growth, which is reflected in national competitiveness. As the basis of national productivity improvement, institutions can be classified in numeous manners. Of special interest can be classification offered by World Economic Forum, which dividides institutions in two large groups – public and private institutions, with their sub-institutional arrangements – and evaluate their contribution to national productive ability (competitiveness). Problems of competitiveness and institutional development are particularly relevant for the economy of Serbia, which is passing through the process of belated transition. Thepaper offers insight into the problem of institutional competitiveness and provides review of the recent achievements of Serbian economy in that domain.*

Keywords*: competitiveness, institutions, the economy of Serbia.*

1. Introduction

Despite controversies and different interpretations, competitiveness is very present concept in economic theory and policy. National competitiveness is the outcome of the mixture of of heterogenous factors, both direct and indirect. Among them, significant place is occupied by the institutional environment. Institutional structures shape competitive ability in two ways. First, institutions represent the context, an environment in which social relations, relevant for competitive ability determination, take place. Secondly, institutional structures themselves, especialy those included in generating and processing innovation activities in an economy, are direct input of the competitiveness. Nowadays, institutions are widely accepted conceptual component of competitiveness definition and considered legitimate dimension of national productivity improvement. As a factor of competitivenes,

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institutions comprise of long list of actors, their relations, levels of activity and types of interactions. Due to this complexity, comprehension of institutional dimension of competitive ability of societies is certainly a challenge for contemporary economic theory. However, there is no shortage of efforts to grasp institutions as a determinant of national productivity, which can be identified with competitiveness. Most known is the one contained in the famous publication of the World Economic Forum, the Global Competitiveness Report. In this annual report, institutions are included in the group of basic requirements for promotion of competitiveness, together with infrastructure, macroeconomic stability, health and primary education. Various institutional arrangements are being observed and valued in accordance with criteria of the World Economic Forum. The Report provides solid basis for evalution of institutional basis of competitiveness of national economies, and offers possibilities for international comparations in this respect.

The paper first breafly sketches most popular conceptualizations of the role of institutional environment in promotion of competitiveness. For the purpose of the paper, the concept of institutions will rely on North's definition – which determines institutions as rules of the game (both formal and informal) that structure social, political and economic interaction among individuals within society (North, 1994). Then, some important remarks will be given on measuring institutional competitiveness within the methodology of the World Economic Forum. Finally, the paper presents recent achievements of the Serbian economy in the domain of the institutional "pillar" of competitiveness, in accordance with the Global Competitiveness Report.

2. Competitiveness, Institutions and Globalization

There has been a long history within economic theory of attempts to clarify competitive ability of nations. The concept of competitiveness evolved from comparative advantages, conception with a long tradition in theory of foreign trade, developed by Smith, Ricardo, Mill, which culminated with Hecksher-Ohlin-Sammuelson theorem. Comparative advantage is based on cost advantage. However, in contemporary business conditionscharacterized by uncertainty, constant change and struggle for greater participation in benefits offered by flows of globalization, the concept of comparative advantage simply becomes too narrow. Sources of advantages do not have to be found only within the costs, but advantage can be achieved with multitude of various domestic and external circumstances, and criteria forvalorization of that advantage extend to a wide set of more or less measurable variables(Stefanović, 2011).

Until present, no unique definition of the concept of competitiveness has been accepted, while huge number of definitions is result of participation of different actors (science, business, politics) in efforts to determine its content more closely (Pedersen, 2008, p.14).

Competitiveness was firstly linked to location and related to micro-level of economy. Porter defines competitiveness as productivity that company can achieve at particular location. Therefore, national competitiveness is essentially reflection of productivity. Productivity allows high national income, strong national currency and high return on investment, which alltogetherdefines the high standard of living. Central challengefor economic development of each country becomes the creation of conditions for fast and sustainable growth in productivity (Porter, 2004, p. 21).

In practice, dichotomy is presentregarding understanding of the concept of competitiveness by economic policy makers. On one hand, competition is considered to be ability to provide high standard of living (for example, countries such as Sweden are prosperous due to the achieved high level of competitiveness). On the other hand, competition is associated with local advantages that provide growth (for example, countries like China are competitive because of their low labor costs which can easily adapt to new qualitative requirements) (Delgado, Ketels, Porter, Stern, 2012, 2).

There are also views that the concept of competitiveness should be decomposed. Defined as the ability of society to create wealth, competeviveness consists of two components. The first is outcome competitiveness, which describes the success of the state or region in achieving this goal, while the second one, process competitiveness, describes how this ability is being created. Both of these components of competitiveness are influenced by numerous societal, environmental and economic factors (Aiginger, 2007).

Given the wide range of possible impacts of institutional structures on the economic process, it is logical that there must be links between institutions and competitiveness. In some conceptualizations, institutions explicitly serve as generators of competitiveness (Global Competitiveness Index), elsewhere they appear as mechanisms of transmission and commercialization of technologies (Porter's model), while in above presented model, the institutional factor is decomposed both into elements of outcome competitiveness (limited abilities to create prosperity in the form of political sustainability and level of culturally conditioned leisure) and process competitiveness (institutions and trust that empower the nation's production function). There are, therefore, multiple connections between the quality of the institutional structure and the competitive advantage of a nation.Societes, therefore, must adapt their institutions in order to improve their productivity and promote competitiveness. Institutional dynamics, consequently, must be taken into account when discussing competitiveness and relevant policy measures(Stefanović, 2011).

Every economy is, therefore, in front of the task of adapting its institutional structure in accordance with requests generated by the need for improving competitiveness as a vehicle for stable economic growth. In this respect, a concept of institutional competitiveness arises, which can be determined as the capacity of a country to achieve socio-economic success, as the result of its political and economic institutions (Campbell, Pedersen, 2007, 230).

The process of globalization brings significant novelties regarding competitive ability improvement, particularly in the domain of institutional structures. Well known is that the main implications of globalizing of the world economy are intensive removal of bariers to resources mobility on international scale, increasing velocity of reallocation of resources between countries and concentration of economic activity in multinational companies. At institutional level, the process of globalization is intersected with the global expansion of the neoliberal economic ideology, which insists on removing all the remaining constrains on free movement of resources, especially those represented in the social control of the market forces, contained in the national economic policies and social protection systems (Stefanović, 2012). Supported by the neoliberal ideological matrix, globalization tends to create uniform institutional structures around the globe, which will provide favorable conditions for various sorts of investment. Free market institutions are to be installed instead of existing, heterogenous and culturaly conditioned institutional arangaments in national economies. There is a strong pressure for this institutional movement, since the capital has become the dominant strategic force in the world economy. The rising global power of capital originates from the intensive liberalization of capital accounts in the last four decades, which enabled mobilization of this factor of production on probably unprecedented scale.The world financial capital can easily enter and exit national economies. This made national economies extremely vulnerable to reverseal of capital flows, which easily brings banking crisis, liquidity crunch and recession. Therefore, in order to avoid these destructive economic occurences, national economies, especially those from the less developed part of the world, must pursue capital friendly economic policy. Moreover, they must adapt domestic institutions to the requests of the world financial capital. National economies are pushed into the competition for attracting (and retaining) international capital. More competitive economies are considered to be more hospitable to international capital which prefers free market and neoliberal institutional arrangements. This reflects on institutional policy – national economies should direct their institutional regimes toward capital-friendly solutions (Stefanović, 2012).

3. Recent Results of Serbian Economy in the Domain of Institutional "Pillar" of Competitiveness

The method most frequently used for perceiving competitiveness can be found in publication of the World Economic Forum, the "Global Competitiveness Report". There, competitiveness is defined as a set of institutions, policies and factors that determine the level of productivity of a country, which then determines the level of prosperity of the economy (WEF, 2015, 4).

Synthetic expressionof competitiveness of an economy is the Global Competitiveness Index (GCI), which consists of pondered average of several components, grouped within 12 "pillars" of competitiveness. The first four pillars are grouped as "basic requirements": institutions, infrastructure, macroeconomic stability, health and primary education. The second group comprises "efficiency enhancement factors": education and training, efficiency of goods market, labor and capital, technological readiness and market size. The third group of the pillars comprises "innovation and sophistication factors": sophistication of business processes and innovations (WEF, 2015, 4-5).

According to the WEF report for the year 2015-2016, Serbia occupies the 94th position on the list which includes 140 countries, with realized GCI value of 3,89 (GCI value ranges from 1 to 7) (WEF, 2015, 6).

All the elements of social, political and cultural milieu, which are scattered in different definitions of competitiveness, can be unified through the concept of social institutions. As emphasized earlier, institutions contribute to productive ability of society both as environment and and input or productivity improvement. According to the Global Competitiveness Index, the institutions explicitly figure as generators of competitiveness and represent the first pillar within the group of basic requirements. The institutional environment includes legislative and administrative network that affect investment, organization of production and distribution, including the state's attitude towards the market, freedom and efficiency of public administration. In this regard, the pillar of institutional competitiveness includes two main groups of indicators: public institutions and private institutions - with the emphasis on ensuring transparency of the private sector (WEF, 2015). Most of the data regarding institutions are collected through surveys of representative groups of domestic business leaders in countrires. They are expected to give numerical answers (on a scale from 1 to 7) on questions related to specific institutional features of a national economy. Most commonly they have to evalatue to what extent some specific institutional solution constrains or improves their bussines. Numerical answers pass through further statistical processing, in order to produce sintheticalevalutions for each component of the institutional pillar of competitiveness.

Public institutions group includes the following institutional subgroups: property rights, ethics and corruption, undue influence, public sector performance and security. For each of these groups, value (from 1 to 7) and rank is determined and these values are synthetic parts of the Global Competitiveness Index. Group named “property rights” consists of two types of institutional arrangements: property rights and intellectual property protection. Within the group of ethics and corruption are: diversion of public funds, public trust in politicians and irregular payments and bribes. The group that relates to undue influence consists of: judicial independence and favoritism in decisions of government regulation. The group public sector performance includes: wastefulness of government spending, burden of government regulation, efficiency of legal framework in setting disputes, efficiency of legal framework in challenging regulations and transparency of government policymaking. Security group includes: business costs of terrorism, business costs of crime and violence, organized crime and reliability of policy services.

Private institutions group includes two institutional groups: corporate ethics and accountability. Corporate ethics is related to ethical behavior of firms, while accountability is a synthetic value of the four types of institutional arrangements: strength of auditing and reporting standards, efficacy of corporate boards, protection of minority shareholders' interests and strength of investor protection.

Overall, the institutional competitiveness index (which is a composite part of the Global Competitiveness Index) is obtained as a weighted average of 21 different indicators, ie. the institutional arrangements.

According to the level of institutional development, in 2015 Serbia is ranked on the 120th position with an institutional index value of 3.2. From Table No.1 it can be seen that Serbia has improved its position in comparison with the previous year for two ranks, but not due to higher index value, but because of changes that had been made in rankings of other countries that are under consideration. The index value in the past six years has been remained the same - 3.2, which indicates that the development of institutional arrangements has been stagnated. The worst ranking in the past six years, Serbia has made in 2012 with 130thposition, again just because other countries have improved their positions, while the estimated growth and development of the Serbian institutions stagnated.

Table 1. Institutional Competitiveness Rankingsof SEE Countries (2010-2015)

Countries	Year	2010	2011	2012	2013	2014	2015
Serbia	Value	3,2	3,2	3,2	3,2	3,2	3,2
	GCI Rank	120	121	130	126	122	120
Montenegro	Value	4,5	4,5	4,4	4,1	3,9	3,9
	GCI Rank	45	42	44	52	59	70
FYR Macedonia	Value	3,8	3,7	3,8	4	4,2	4,1
	GCI Rank	80	81	78	60	45	52
Croatia	Value	3,6	3,6	3,5	3,6	3,6	3,6
	GCI Rank	86	90	98	93	87	89
Romania	Value	3,7	3,5	3,3	3,3	3,5	3,6
	GCI Rank	81	99	116	114	88	86
Bulgaria	Value	3,29	3,3	3,4	3,3	3,3	3,4
	GCI Rank	114	110	108	107	112	107
Albania	Value	3,9	4	3,6	3,3	3,3	3,7
	GCI Rank	63	57	84	118	103	84
Bosnia and Her.	Value	3,1	3,3	3,6	3,8	/	3,1
	GCI Rank	126	109	75	1	/	127

Source: Global CompetitivenessReport(2010-2015)

According to GCI concept, institutions are in some sense a sign of economy's openness to market norms. Judging by the presentedrankings, it could be concluded that the Serbian economy is in the process of institutional "maturation".Among the countries of South East Europe, only Bosnia and Herzegovina is at a lower position (127thpostiton), with a significant drop compared to their last ranking in 2013 (71st position). Albania, Bulgaria and Romania have improved their rankings, while Croatia, Montenegro and Macedonia, despite the minimal differences in index value achieved in the previous year, took lower placement (Montenegro from 59th to 70th position).

Table 2. Institutional arrangementsby GCI rankings of Serbia

INSTITUTIONAL ARRANGEMENTS	2013		2014		2015	
	Value	Rank	Value	Rank	Value	Rank
1. Property rights	3,2	**130**	3,1	**127**	3,1	**128**
2. Intellectual property protection	2,9	**115**	2,9	**113**	3	**129**
3. Diversion of public funds	2,8	**94**	2,7	**99**	2,7	**107**
4. Public trust in politicians	2,1	**120**	2,1	**118**	2,1	**115**
5. Irregular payments and bribes	3,7	**78**	3,9	**69**	3,7	**85**
6. Judical independence	2,6	**124**	2,6	**118**	2,6	**123**
7. Favoritism in decisions of government regulation	2,4	**127**	2,4	**120**	2,4	**112**
8. Wastefulness of government spendings	2,3	**130**	2,2	**132**	2,2	**129**

Recent performance of the economy of Serbia in the domain of institutional competitiveness

9.	Burden of government regulation	2,3	**142**	2,2	**140**	2,2	**136**
10.	Efficiency of legal framework in setting disputes	2,5	**137**	2,7	**128**	2,7	**125**
11.	Efficiency of legal framework in challenging regulations	2,5	**136**	2,3	**128**	2,6	**127**
12.	Transparency of government policymaking	3,7	**118**	3,6	**108**	3,6	**108**
13.	Business costs of terrorism	5,6	**66**	5,5	**58**	5,4	**71**
14.	Business costs of crime	4,3	**89**	4,2	**86**	4,4	**80**
15.	Organized crime	4	**127**	4,1	**106**	4,3	**100**
16.	Reliability of policy services	4	**81**	3,8	**89**	3,8	**87**
17.	Ethical behavior of firms	3,3	**127**	3,4	**119**	3,4	**115**
18.	Strength of auditing and reporting standards	3,9	**117**	4	**109**	4	**107**
19.	Efficacy of corporate boards	3,7	**138**	3,8	**125**	4,2	**111**
20.	Protection of minority shareholders' interests	2,7	**144**	2,8	**138**	2,8	**138**
21.	Strength of investor protection	5,3	**69**	5,3	**68**	6,3	**32***

Source: The Global CompetitevenessReport 2013 – 2015

Detailed analysis of the Serbian institutional development, by different kinds of institutional arrangements, can be seen in Table. 2. The yellow colored rows show the placement lower than 120thposition, while gray colored rows indicate the placement better than the 100thposition. It may be noted that Serbia takes rank lower than 120th position in 8 institutional arrangements: property rights, intellectual property protection (even 16 places lower rank compared to the previous year), judicial independence, wastefulness of government spending, burden of government regulation, efficiency of legal framework in setting disputes, efficiency of legal framework in challenging regulations, protection of minority shareholders' interests – where Serbia for many years takes the lowest rank comparing to ranks of other institutional arrangements (138th position). Taking into account the institutional sub-groups, critical segments are public sector performance and property rights.

On the other hand, the best ranking is achieved in groups that relate to security and ethics and corruption, although certain rankings are lower compared to those achieved in previous year. It is interesting that institutional sub-group responsibility includes institutional arrangements with the best and the worst ranking. The worst is, as already mentioned, protection of the minority shareholders' interests, while the best performance and the greatest progress Serbia has made within the institutional arrangement - strength of investor protection (position is improved by up to 36 ranks, from 68th to 32nd). Progress in the last two years has not been made with better index value, but with changes in the rankings of other countries under consideration. Certainly, the strength of investor protection is very important in attracting foreign investment, thus high ranking in this arrangement increases the level of investors trust, and therefore the investment attractiveness of the Serbian economy.

Institutional competitiveness of Serbia is still at a relatively low level. The reasons for this are numerous and can be found in inefficient regulations, in the adoption of the laws that are often incomplete and non-compliant, in the mismatching regulations, in underdeveloped and non-transparent procedures (Maksimović, 2009). In addition, the judicial efficacy in resolving disputes is also at a low level, which, combined with the sketchy and incomplete legislation, leads to the still insufficient degree of rule of law. One of the consequences of lack of adapted institutional structures for the market economy' needs is the privatization process in Serbia. The reform package, which itself on a large scale represents a kind of institutional change, since 2001 has been driven by the new regulations (method of sale through tenders and auctions), produced unsatisfactory effects in all relevant areas: efficiency, improvement of corporate governance, equity, revenues for the state. More than that, these reforms stimulated the process of deindustrialization of the domestic economy, which has led to its vulnerability to crisis flows (more on that in:Uvalić, 2012). The process of privatization, at a strictly institutional level, has proven to be disputable and problematic. There is a dominant public perception that privatization enabled transfer of resources in the hands of predatory individuals. In many situations privatization was only a mean for stripping the resources of former socialist entreprises or obtaining the communal land on exclusive locations at favorable prices (Vujačić, Petrović-Vujačić, 2011). Due to the absence of appropriate institutional control, the process of privatization unleashed destructive powers (which were also detected in other less successful transition economies), and compromised the very process of economic transition. This contributed to diminishing overall institutional support for instalment of market economy.

4. Conclusion

Social institutions are important component of competitiveness. With their broad effect on the actor's motivation, innovation, property relations, institutions represent a factor which in the peculiar way permeates various aspects of competitiveness. Institutional structures also have found their expression in the conceptualization of competitiveness by the World Economic Forum. Institutions are located within the so-called "basic requirements" and are constituted of relatively large number of individual institutional components, divided into public and private institutions.

Assessment of the institutional competitiveness pillar for the Serbian economy is unfavorable. The Serbian economy is in institutional domain ranked lower than comparable neighboring countries, with the exception of the B&H economy. In the area of institutional structure, there are eight arrangements with rankings that are among the last thirty countries on the list of institutional competitiveness: property rights, intellectual property protection, judical independence, wastefulness of government spending, burden of government regulation, efficiency of legal framework in setting disputes, efficiency of legal framework in challenging regulations and protection of minority shareholders' interests. The lowest ranks, as can be inferred from the above, are within the field of public institutions (except for the protection of minority shareholders' interests, which belongs to private institutions). Four out of seven of institutional arrangements with the lowest scores belong to the group "public sector performance" as a subset of public institutions. For this reason, institutional policy should pay considerable attention to issues of public governance.

It should be noted that measurement of institutional competitiveness arising from Global Competitiveness Report of the World Economic Forum includes the perception of the business world on how institutions operate. These kinds of indicators, like any similarly obtained indicators, include a certain level of subjectivity. Indicators of institutional competitiveness do not completely reveal institutional structures that provide the aforementioned institutional functions. In this way, one very important part of the institutional environment remains invisible - informal institutions. Their complex and hardly predictable but very strong effect greatly affects the process of building a market economy and improving competitiveness. Strategy of competitiveness improvement must at all stages include the effects of this hardly measurable but very influential part of the institutional structure. Building the competitiveness is actually the outcome of several factor's interactions: public governance aimed at competitiveness improvement, inherited institutions which may be more or less hospitable to a market economy and the degree of social tolerance to the costs caused by the construction of a market economy (Sekulović, 2004). Institutional policy should be well informed abut this multiplicity of heterogenous and very often conflicting factors, in order to produce well adapted and sustainable model of competitiveness improvement.

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SKORAŠNJA POSTIGNUĆA PRIVREDE SRBIJE U DOMENU INSTITUCIONALNE KONKURENTNOSTI

Apstrakt: U cilju postizanja povoljne pozicije u globalnoj podeli rada, nacionalne privrede moraju kontinuriano da adaptiraju svoje institucionalne strukture. Institucionalni aranžmani su od značajnog doprinosa sposobnosti društva za privredni rast, koja se reflektuje na nacionalnu konkurentnost.Kao osnova nacionalne produktivnosti, institucije mogu biti klasifikovane na različite načine. Od naročitog interesa može biti klasifikacija od strane Svetskog ekonomskog foruma, koja institucije deli u dve velike grupe – javne i privatne sa njima pripadajućim podgrupama institucija – ivrednuje njihov doprinos nacionalnoj produktivnoj sposobnosti (konkurentnosti).Problemi konkurentnosti i institucionalne dinamike naročito su relevantni za privredu Srbije, koja prolazi kroz proces zakasnele tranzicije.Rad nudi uvid u probleme institucionalne konkurentnosti kao i pregled skorašnjih postignuća privrede Srbije u pomenutom domenu.

Ključne reči: konkurentnost, institucije, privreda Srbije.