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**LEVELS OF GLOBALIZATION AND COMPETITIVENESS OF
THE REPUBLIC OF SERBIA COMPARED TO THE COUNTRIES
IN THE REGION¹**

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***Abstract:** This paper will examine the level of globalization and competitiveness of the Republic of Serbia compared to other countries in the region. Within the region we encompassed the most countries of Central Europe and the Balkan countries. We will use the KOF Index of Globalization and Global Competitiveness Index for data collection and comparison between countries. Our goal is to point out some advantages and disadvantages of the countries covered by the survey. The main hypothesis that we tested is whether the higher level of globalization necessarily leads to a higher level of competitiveness of the country. Then we will concentrate on the Republic of Serbia, analyze its main advantages and disadvantages, position in relation to other countries and finally give specific suggestions on how this position can be improved.*

***Keywords:** globalization, competitiveness, The Republic of Serbia, Central Europe, Balkan countries.*

1. Introduction

Globalization is a world known process that has been defined by many authors, although there is still no worldwide recognized and unified definition of this term. It gets into all aspects of life, economic, social, political, and cultural. Globalization is not an independent, comprehensive process which is present throughout the world. Globalization

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is a phased process. It comprises a number of processes that allow quick and free movement of goods, people, companies, money and information on the global scale, regardless of state borders and territorial restrictions. The term globalization was first used in the 1960`s, but it is in constant use since the 1980`s. Globalization is a very dynamic process which is strongly encouraged by the progress of technology. It produced vast benefits for companies, branches and national economies (Stojanović, Milovanović, Radukić, 2011.). Paul Krugman points out that although globalization has been positive on a whole, since the 1980`s the process known as hyper-globalization has at least played a part in rising inequality. In 2000, the International Monetary Fund identified four basic aspects of globalization: trade and transactions, capital and investment movements, migration and movement of people, and the dissemination of knowledge. Globalizing processes affect and are affected by business and work organization, economics, socio-cultural resources, and the natural environment (IMF, 2000). Academic literature commonly subdivides globalization into three major areas: economic globalization, cultural globalization and political globalization (Salvatore, 2008, 146). It is considered that more economically developed countries are the ones which are more globalized.

In recent years, the concept of competitiveness has emerged as a new paradigm in economic development. Competitiveness captures the awareness of both the limitations and challenges posed by global competition, at a time when effective government action is constrained by budgetary constraints and the private sector faces significant barriers to competing in domestic and international markets. The Global Competitiveness Report of the World Economic Forum defines competitiveness as "the set of institutions, policies, and factors that determine the level of productivity of a country" (WEF, 2010, 3). Competitiveness is a measure of a country's advantage or disadvantage in selling its products in international markets, as defined by the OECD. The competitiveness of an economy is to a large extent determined by its ability to produce key resources to increase its productivity or to obtain them from external sources. Although the relative importance of the factors involved in the process of production and those that affect the creation of new values vary from country to country, it is generally accepted that capital, technology and technological knowledge, organizational and managerial skills, as well as knowledge and labor, in quantitative and qualitative terms represent factors of decisive importance in determining output and its growth rates (Radukić, Petrović-Randelović, 2014, 12).

In this paper we will try to prove the main hypothesis and that is a question whether the higher level of globalization necessarily leads to a higher level of competitiveness of the country. In this attempt we will be using the KOF Globalization Index made by a Swiss company and the Global Competitiveness Index made by World Economic Forum. By using and comparing the data from these two world-known sources we hope to prove our hypothesis. Firstly we will introduce the indexes we will be using in this paper, present the scores of these indexes, and then make the comparison between the countries in the specified region. For comparison we took most of the countries from Central Europe as well as Balkan countries. Then our focus is going on the Republic of Serbia, its position among the countries in the region, and lastly some directions about the further development and improvement of its position will be stated.

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2. Measuring the level of globalization and competitiveness

The KOF Index of Globalization was introduced in 2002 (Dreher, 2006) and is updated and described in detail in Dreher, Gaston and Martens (2008). The overall index covers the economic, social and political dimensions of globalization. Following Clark (2000), Norris (2000) and Keohane and Nye (2000), it defines globalization to be the process of creating networks of connections among actors at multi-continental distances, mediated through a variety of flows including people, information and ideas, capital and goods. Globalization is conceptualized as a process that erodes national boundaries, integrates national economies, cultures, technologies and governance and produces complex relations of mutual interdependence. More specifically, the three dimensions of the KOF index are defined as:

- ◆ Economic globalization, characterized as long distance flows of goods, capital and services as well as information and perceptions that accompany market exchanges;
- ◆ Political globalization, characterized by a diffusion of government policies; and
- ◆ Social globalization, expressed as the spread of ideas, information, images and people.

Data are available on a yearly basis for 207 countries over the period 1970 - 2013. The 2016 index introduces an updated version of the original index, employing more recent data than has been available previously. Now we are going to present the scores of the countries we encompassed in our survey in the Table 1, where you can see the overall rank of the countries, overall score as well as the scores of Economic, Social and Political Globalization sub-indexes. All the scores go from 0 to 100.

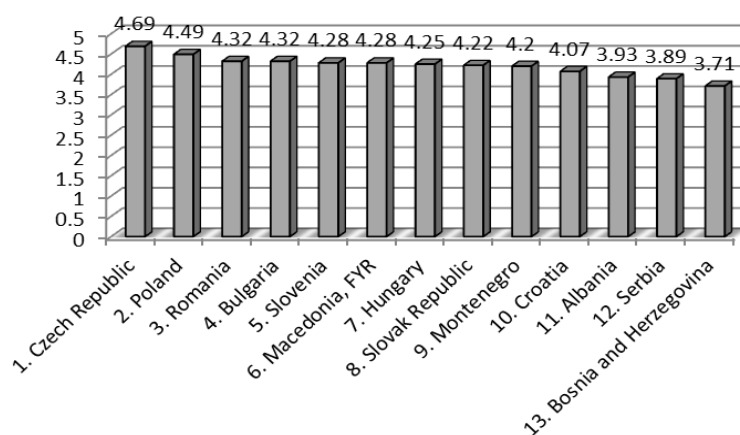
Table 1. Global Competitiveness Index overall rank, overall score, pillar groups, 2015

Country	Overall rank	Overall score	Basic requirements	Efficiency enhancers	Innovation and sophistication factors
Albania	93	3,93	4.29	3.78	3.21
Bulgaria	54	4,32	4.57	4.31	3.37
Bosnia and Herzegovina	111	3,71	4.15	3.48	3.05
Czech Republic	31	4,69	5.27	4.78	4.14
Croatia	77	4,07	4.56	4.05	3.43
Hungary	63	4,25	4.67	4.31	3.57
Macedonia, FYR	60	4,28	4.65	4.11	3.62
Montenegro	70	4,20	4.67	3.97	3.45
Poland	41	4,49	4.91	4.64	3.70
Romania	53	4,32	4.55	4.37	3.48
Serbia	94	3,89	4.15	3.85	3.02
Slovak Republic	67	4,22	4.73	4.34	3.68
Slovenia	59	4,28	4.90	4.21	3.99

Source: World Economic Forum

From the standpoint of the Global Competitiveness Index the best standing country is Czech Republic with the position 31 out of 144 countries worldwide, with the overall score of 4,69 out of 7. Next country is Poland which takes the 41st position with the score of 4,49 out of 7. Afterwards there comes Romania, Bulgaria, Slovenia, with 53rd, 54th and 59th position, respectively. The lowest ranked country here is Bosnia and Herzegovina taking a far 111th position. The country that made the biggest surprise here is Macedonia taking the 60th place, right below Slovenia. This is mostly due to the sixth pillar - Goods Market Efficiency, and especially score for total tax as a percent of profit where it takes the first place out of 144 countries. Out of the surveyed countries we can make three groups. First group are the countries which are still efficiency driven with the range of GDP per capita between \$3.000 and \$8.999 and here we have: Bulgaria, Bosnia and Herzegovina, Serbia, Montenegro, FYR Macedonia and Albania. Next group are the countries in the transitional stage from efficiency driven to innovation driven economies, with a range of GDP per capita from \$9.000 to \$16.999 that includes: Hungary, Poland, Romania, and Croatia. And the third group where we have innovation driven economies which have more than \$17.000 of GDP per capita with the following countries: Slovenia, Slovak Republic and Czech Republic. Here we can also notice a rule that North countries are more developed than the South ones included in the survey. For the purpose of clarity data from the Table 2 will be presented on the following chart as to see better the order of the countries according to the GCI.

Figure 2. Global Competitiveness Index overall score, 2015



Source: Created by the authors based on Table 1

Unfortunately Republic of Serbia is second from the bottom in the region taken into survey, and it takes 94th place on the list. Its economy is efficiency driven, but the sub-index of Innovation and Sophistication Factors is substantially lower than in other countries in the region. One of the worst indicators are country's ability to retain and to attract talent by which it takes 140th and 139th place respectively. Although when taking into account the methodology of GCI, considering that one part of the score is based on the opinion polls of the managers, it can be that this subjective point of view is distorting the real image.

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3. Comparison of the positions of surveyed countries

After presenting both indexes individually, we made a comparison between the positions of the countries observed, according to the KOF Index of Globalization and Global Competitiveness Index, both by the overall rank and by the position that they have in this surveyed region. This is done in order to test our main hypothesis and to observe are the more globalized countries, measured by the KOF Index, the ones that have higher competitiveness rank and score, measured by the GCI. We put the countries in the Table 2 by descending overall rank and score achieved in the KOF Index, and then next to it presented the overall rank by the GCI, and which place in this group of countries they take. And now let us see the comparative positions of these countries according to these two indexes.

Table 2. Comparison of surveyed countries based on KOF Index and GCI

Country	KOF Index of Globalization overall rank	Position in surveyed region	Global Competitiveness Index overall rank	Position in surveyed region
Hungary	9	1	63	7
Slovak Republic	16	2	67	8
Czech Republic	17	3	31	1
Poland	23	4	41	2
Bulgaria	30	5	54	4
Slovenia	32	6	59	5
Croatia	35	7	77	10
Romania	36	8	53	3
Serbia	46	9	94	12
Bosnia and Herzegovina	55	10	111	13
Montenegro	59	11	70	9
Albania	88	12	93	11
Macedonia, FYR	93	13	60	6

Source: KOF Index, WEF, Values compared by the authors

Hungary was the best ranked country out of all compared based on the KOF index, but it is just on the 7th place if we look from the point of GCI. Slovak Republic also fell by 5 places just like Hungary, while on the other hand Macedonia rose from the last position to the upper half, to the 6th place out of 13 compared countries. We explained this in the section linked to the GCI, but to mention it again, Macedonia has some very high scores, especially in the tax percentage out of profits, where it takes up the first place out of all the countries according to GCI. On the other hand the reason for having such low score in the KOF Index lies in the very low value of Political Globalization.

Therefore we can divide surveyed countries in three groups, first group are the countries with the biggest differences in the positions of these two indexes, second is the group with smaller differences, and the third is the group with least differences between the

relative positions in the surveyed region. Extreme cases are Hungary, Macedonia, Slovak Republic and Romania which all achieved a change of over five positions inside the surveyed group of countries. Next group is the one with a change of medium intensity and here are the countries: Serbia, Croatia and Bosnia and Herzegovina. All of them changed their relative position for three places. In the last group we have countries that changed for just one or two positions. With only one position change we have Slovenia and Bulgaria, and with two places changed there are Montenegro, Poland and Czech Republic. The least change in the positions can be seen with Bulgaria and Slovenia which have only moved for one place.

General rule that we noticed is that almost all of the surveyed countries have much higher overall rank by KOF Index than by GCI, some of them are triple, some double. Some do not have such strong variations and here we see Albania which went from 88th place to 93rd and Montenegro from 59th to 70th. Reasons for these are twofold: First these are two completely different indexes comprised of different sub-indexes and parameters for measuring, and secondly KOF index includes 207 countries while GCI has only 144.

If we look at the best ranked country by the KOF Index, Netherlands, it is on the 5th position in the GCI index, and on the other hand Switzerland is positioned 1st by the GCI index and 5th by the KOF Index of Globalization. What is interesting is that Switzerland is on the 10th position for sub-index Political Globalization and 27th position in the sub-index of Economic Globalization and yet it is the most competitive economy in the world. The conclusion here would be that it is not so good for an economy to be very opened and globalized, and that it does not mean that it can help her to achieve better economic results.

Concentrating on Serbia it fell even further and instead of 9th place by the KOF Index, it is now the second last country among these 13. So being more globalized than other countries does not make it more competitive. Here we can notice a rule that is being repeated and that is: There is no direct connection between the level of globalization and the level of competitiveness.

4. Position of the Republic of Serbia

According to the KOF Index of Globalization the position of Serbia is not standing so well, it takes 9th position out of 13 countries encompassed in this survey. Analyzing further we notice that Serbia has the highest level of Economic Globalization lower level of Social and the lowest level of Political Globalization sub-index.

When looking from the point of GCI position is even worse, it is second last out of the group of countries. Based on GCI, Serbia is an efficiency driven economy although what is not good are the scores of pillars inside the group Innovation and sophistication factors. Serbia has substantially lower score in the third group of pillars than all the other countries in the region. The highest scores Serbia has for the pillars of Health and Primary Education and for Technological Readiness. The two things that we are ranked number one in the world by the GCI are the annual percentage of change of Inflation, where we have only 2.1% and in HIV prevalence among adults, where we also take up the first place, having the lowest percentage here. On the other side the most problematic factors for doing business are access to financing, inefficient government bureaucracy, as well as policy instability and corruption. When we compared the relative positions according to two

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mentioned indexes, we discovered that Serbia has moved for three positions relatively inside the surveyed group, but if we look at the overall rank its position is more than double worse, it takes 46th position in the KOF Index out of 207 countries included, and by the GCI it is ranked 94th out of 144 countries. Relatively speaking similar changes we saw with Slovenia and Croatia, although we have to notice that both of them are on a lot higher positions than Serbia no matter which index do we analyze.

Looking forward to some measures that Serbia should take, it should be careful to balance between globalization and competitiveness. First of all Republic of Serbia should work on its institutions, in order to develop strong, independent system which should serve to all the people equally. Regulations and laws should be adjusted so they can improve business environment and facilitate starting new businesses and encourage entrepreneurial spirit. What is even more important is to apply these regulations in praxis consistently, so they do not end up being just a “dead letter” on the paper. Educational institutions, universities and research centers, should become tightly connected with the economy and the government so the best effects can be achieved. There should be more investments directed towards science, education, innovations and people. These measures should treat the biggest problem in Serbian economy, high level of unemployment. Specific problem is a huge brain drain that we encounter by observing the scores of the indicators in country’s ability to retain and to attract talents where it achieved very bad results taking 140th and 139th rank respectively out of 144 countries by GCI. Measures should be taken in order to keep the young experts in our country and prevent them from going abroad. One of our main focuses needs to be to introduce more innovations and sophistications into the business sector as this group of pillars is the weakest point by GCI. Because of the numerous disadvantages in all aspects of competitiveness it is necessary to distinguish those components to which the Serbian economy is at the end of the world list, because these disadvantages are the most pronounced and require urgent and decisive measures of the state. Although Serbia has expressed numerous competitive weaknesses, they also represent a chance to improve competitiveness in the coming period, especially taking into account the forthcoming accession of Serbia to the European Union (Marković, Radukić, 2014).

5. Conclusion

In this paper we analyzed the level of globalization and the level of competitiveness of 13 countries. Among those countries was the Republic of Serbia. For this purpose we used KOF Index of Globalization and Global Competitiveness Index, as well as some of its sub-indexes.

We discovered that it does not necessarily mean that the higher level of globalization will inevitably lead to the higher competitiveness of a country. To sum up we found our main hypothesis not to be true. It is not certain that the higher level of globalization leads to a higher level of competitiveness, nor does it mean vice versa, that the higher competitiveness of a country would lead to the higher level of globalization.

Although we must say that these methodologies used here are not perfect and that they partly rely on opinion polls and so they are based on subjective judgment and not the real situation, so we must take these results with a lot of precaution.

Considering the position of the Republic of Serbia it is considerably bad, in the group of 13 analyzed countries by the KOF Index it takes 9th place and from the point of GCI it is second last and gets 12th place. There are some indicators that point the advantages of Serbia, but inevitably there are more disadvantages. Our strong points are Economic Globalization while weaknesses are Social and Political Globalization within the KOF Index. Health and Primary Education as well as Technological Readiness pillars are seen as advantages by the GCI, on the other hand the lowest score is in the third group of pillars concerning Innovation and Sophistication factors.

Definitely Serbia has to continue down the path of becoming more globalized country, while striving to achieve better results in the level of competitiveness. It should not sacrifice competitiveness in order to become more globalized, as we have seen in this paper that being more globalized does not mean that the country will have a higher competitiveness score. We consider that it is more important to pay attention on the measures which will improve the level of competitiveness of a country then on the measures to make a country more globalized, since the process of globalization is inevitable and unstoppable which cannot be said for the competitiveness. Here we also must state that it depends on a specific state which measures it needs to take, and those measures must be well adjusted to its economy as well as to the culture and to be more specific to the mindset of the people living in that country.

In our further research we would like to extend our survey, encompass more countries and also to look at the trend of these indicators during a longer period of time in order to see a pattern of movement.

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NIVO GLOBALIZACIJE I KONKURENTNOSTI REPUBLIKE SRBIJE U POREĐENJU SA ZEMLJAMA U REGIONU

Apstrakt: Ovaj rad će sagledati nivo globalizacije i konkurentnosti Republike Srbije u poređenju sa zemljama u regionu. U okviru regiona obuhvatili smo većinu zemalja Centralne Evrope, kao i Balkanskih zemalja. Koristićemo KOF indeks globalizacije i Indeks globalne konkurentnosti za prikupljanje podataka i poređenje među zemljama. Naš cilj je da istaknemo određene prednosti i nedostatke istraživanjem obuhvaćenih zemalja. Osnovna hipoteza koju ćemo testirati jeste pitanje da li viši nivo globalizacije nužno uslovljava i viši nivo konkurentnosti zemlje. Zatim ćemo se koncentrisati na Republiku Srbiju, analizirati njene glavne prednosti i nedostatke, njenu poziciju u odnosu na druge zemlje i na kraju dati određene sugestije kako ta pozicija može da se poboljša.

Ključne reči: globalizacija, konkurentnost, Republika Srbija, Centralna Evropa, Balkanske zemlje