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SYSTEMIC LIMITATIONS OF THE COMPETITIVENESS OF SERBIA'S ECONOMY

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The paper analyzes the ways for measuring competitiveness as well as the Global Competitiveness Index which, pursuant to the methodology of the World Economic Forum, ranks countries' competitiveness within global frameworks. The analysis begins with a hypothesis that the macroeconomic performances of national economies are positively correlated with their global competitiveness index, which has been shown on the examples of Serbia, Croatia, Slovenia and Slovakia. The other hypothesis is that the bad macroeconomic performances of the Serbian economy and its bad ranking according to the Global Competitiveness Index are the result of the systemic limitations in the Serbian economy. The analysis presented in the paper shows that systemic limitations such as the concept of transition (privatization) and its realization, the concept of macroeconomic stabilization, the concept of institutional reforms and the concept of restructuring economy are the main originators of the non-competitiveness of Serbia's economy.

Keywords: competitiveness, The Global Competitiveness Index, systemic limitations

JEL Classification: E02, D02, F43, O11, O12

INTRODUCTION

The subject of the analysis is the competitiveness of Serbia's economy, which is being compared to the competitiveness of Slovenia, Croatia and Slovakia. The aim of the paper is to show that the systemic limitations in Serbia's economy were more emphasized than those of the aforementioned countries in transition, which is reflected in the balance of trade and the global competitiveness index of the observed countries. The paper starts from the following hypotheses: the first hypothesis is that the macroeconomic performance of Serbia and of the observed countries is positively correlated with their global competitiveness index; the second hypothesis is that the systemic limitations in Serbia's economy (the concept of transition, the concept of macroeconomic stabilization, the concept of institutional reforms and the restructuring of public companies) are the major cause for the non-competitiveness of Serbia's economy.

In order to confirm the hypotheses, we carried out a comparative analysis of the macroeconomic performances and the global competitiveness index of Serbia and the observed countries and Pearson's correlation coefficient between the global

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competitiveness index and the GDP p/c of the analyzed countries.

THE CONCEPT OF NATIONAL COMPETITIVENESS

Economists have different ways of understanding and defining national competitiveness, therefore the concepts of national, international and global competitiveness overlap in many aspects. In addition to various formal differences in defining national, international and global competition, most definitions contain many common elements. Thus, all the definitions of competitiveness highlight a country's ability to achieve the high sustainable economic growth rates of the GDP p/s and its ability to produce goods and services that meet the world market test. In accordance with a variety of competitiveness concepts, different approaches for measuring competitiveness have been developed. McFetridge (1995) concluded that, generally, two options in measuring competitiveness can be distinguished. The first is based on determining income *per capita* or productivity growth, and the other on determining the performance of international trade.

The contemporary concept of the competitiveness of an economy means that companies struggle for markets and resources and use business strategies to improve their performances and profitability at the national and international level. It connects the micro- and macroeconomic factors of competitiveness (Nurbel, 2007) or price competitiveness (which is a microeconomic concept) with the balance of trade (which is a macroeconomic concept). The microeconomic concept of price competitiveness is based on the costs and the business strategy of a firm and affects the balance of trade through export and import prices. On the other hand, the macroeconomic factors such as exchange rates (which a firm cannot have an influence on), affect a firm's price competitiveness. The microeconomic decisions of a firm and macroeconomic factors affect the price competitiveness of export and import, and price competitiveness is the force driving trade flows and affects the balance of trade.

Price competitiveness is not the only determinant of the balance of trade. The balance of trade reflects the collective actions of individual consumers, firms and the government, and is the difference between domestic aggregate production and aggregate consumption. When a country spends more than it produces, it will have a deficit even if workers (in terms of pay) and producers (in terms of product prices) are competitive in the world market.

Prices are the measure of competitiveness at a given moment. In the long-term, competitiveness is based on the quality of the resources that firms utilize in the production of goods and services, as well as on the decisions of households, firms and the government on how to spend and save. In addition, there are many factors influencing the long-term capacity of a country to produce and compete on the world market: the efficiency with which financial markets transform savings into investments, the ability and speed of accepting technological innovations, the ability of workers to acquire the skills demanded by the labor market, the quality of the business decisions made by the management and the government's policy-related decisions and other factors (Dani, 2007).

Today, attention is focused on the importance of the competitive advantages of nations and their impact on economic growth and living standards (Porter, 2001). The basic idea is that if a country effectively identifies the true source of its competitiveness, it will face fewer problems during its economic development. In this context, competitiveness is linked to productivity. Productivity growth is the key factor of the growth of income per capita; the key factor of productivity growth is innovation; the key factor of innovation is the functioning of the diamond of the national advantage (cluster) as an innovative system. According to Porter (1990), the countries with strong clusters will have higher rates of productivity growth and an unquestionable advantage compared to the countries with weak clusters. In this context, it is important to understand the determinants of productivity and the rate of productivity growth in specific industries and the industry's segments (Porter, 2008).

According to Porter (1990) the international competitiveness is determined by the following phenomena: 1) the macroeconomic phenomena such as exchange rates, interest rates, a budget deficit, 2) the cheap and abundant labor force, 3) the availability of natural resources, 4) various management practices, 5) low unit labor costs, 6) a positive balance of trade, and 7) high and constantly increasing productivity.

Paul Krugman (1994) criticized the concept of national competitiveness, pointing out that domestic factors are the ones that dominantly influence the level of the GDP p/s and welfare, not the national competitiveness confirmed in the global market. He emphasizes that, in defining national competitiveness, the importance of the structural factors (productivity, innovation, and skills) is highlighted and the essence of the competitive advantage is ignored, and those are comparative advantages. When economies trade, they do not compete in a confrontational way (as firms do); instead, they operate so that each side has some benefits (a plus-sum game). Countries specialize in goods that are produced cheaply, i.e., in those whose opportunity costs are lower (Krugman & Obstfeld, 2003).

Although analysts have pointed out the shortcomings and deficiencies in its drafting (Smith, 2010), today, the widely accepted indicator of the global competitiveness of countries is the Global Competitiveness Index (GCI), established according to the methodology of the World Economic Forum (WEF). Researchers of the WEF, with the help of the GCI concept, conducted a synthesis of the micro- and macroeconomic indicators of competitiveness, taking into account and harmonizing the recommendations of the theory of the growth and development of contemporary institutional economics and applied business economics. In this way, they theoretically and practically linked the strategic aspects of business competitiveness at the level of an individual company with the total environment at the level of the sectors, industries and the whole economy (Maksimović, 2010a). The analysis showed (Schuller & Lidbom, 2009) that countries highly ranked according to the GCI are highly ranked according to income per capita and the standard of living. Pearson's coefficient of correlation between the rank of the GCI and the GDP *per capita* is very high and positive.

The GCI is a composite index formed as the weighted average value of the twelve pillars of competitiveness (Institutions, Infrastructure, Macroeconomic stability, Health and primary education, Higher education and training, Goods market efficiency, Labor market efficiency, Financial market sophistication, Technological readiness, Market size, Business sophistication, and Innovation). The pillars include microeconomic and macroeconomic factors which, together with institutions, determine the competitiveness of a national economy in global terms. Each of these pillars is a composite index formed as the weighted average of sub-indicators. Composite indicators are obtained by aggregating a number of individual indicators measuring the specific dimensions of the observed multi-dimensional phenomenon. The methodology for the construction of composite indexes relies on a consistent theoretical framework, a choice of individual indicators, the use of the appropriate type of a multivariate analysis and determining the system of weights and aggregation procedures. The values of sub-indicators are obtained either from statistical reports or based on standardized questionnaires, filled out by the "top" management of a company's representative sample every year. The value of sub-indicators, for which there are no internationally comparable databases, is determined only on the basis of the survey, ranking from 1 to 7 (the business conditions, the market climate, the freedom of the press, the efficiency of the legal framework, the political situation, the financial market sophistication, the effectiveness of the anti-monopoly policy).

For calculating the competitiveness, sub-indicators such as inflation, the budget deficit, thetax level, the number of telephone lines, and the number of procedures to start a business, the internationally comparable databases of the United Nations, the World Bank, the IMF, and the World Trade Organization are used. Within the GCI, the data from the survey (the primary data or soft data) have an about-70% share, while the secondary ones (the hard data) have a share of about 30%.

The fact that some categories, those considered to be important for the competitive profile of a country, can only be assessed through a survey, includes

a possibility that the rating of sub-indicators may be over- or underestimated. The unrealistic rating of sub-indicators is transferred from the pillars of competitiveness to the final value of the Global Competitiveness Index and a country's ranking.

THE COMPETITIVE POSITION OF SERBIA, CROATIA, SLOVENIA AND SLOVAKIA

Serbia's position in the WEF competitiveness report is very unfavorable. In the WEF report 2011, Serbia was ranked 95th on the list of 142 countries, while Croatia was ranked 76th, Slovenia 57th and Slovakia 69th.

Table 1 Rank and index value for Serbia, Croatia, Slovenia and Slovakia in 2011

Country	GDP/pc US$	GCI, rank	Score (1-7)	Basic requirements, rank	Efficiency enhancers, rank	Innovation factors – rank
Serbia	5233	95	3,9	88	90	118
Croatia	13720	76	4,1	52	72	82
Slovenia	23706	57	4,3	39	51	45
Slovakia	16104	69	4,2	60	44	71

Source: The Global Competitiveness Report 2011-2012

According to the GDP per capita (US$ 5233) and the methodology of the WEF, Serbia is at the middle level of development, i.e. in the second phase of development, in which the key drivers of competitiveness are the pillars of the Efficiency enhancers group. The low values of the sub-indicators from this group show the real shortcomings of Serbia's competitiveness and consequently its very bad ranking (Table 2).

While the intensity of the local competition in Serbia is of Rank 136, in Slovenia it is 51, in Croatia 115, and in Slovakia 37. According to the firm-level technology absorption, Serbia is 136th, Slovenia 84th, Croatia 80th, and Slovakia 58th. Serbia is ranked as 139th when it comes to brain drain, while Slovenia is 58th, Croatia – 128th and Slovakia – 111th. According to the extent of the market dominance, Serbia is ranked as 139th, Slovenia – 63th, Croatia – 119th, and Slovakia – 50th.

Table 2 The weakest sub-indicators from the Efficiency enhancers group in Serbia (2011)

Efficiency enhancers	Value	Rank
Extent of staff training	2,9	132
Intensity of local competition	3,6	136
Extent of market dominance	2,5	139
Effectivness of the anti-monopoly policy	2,8	137
Buyer sophistication	2,2	136
Reliance on professional management	3,3	133
Brain drain	1,8	139
Firm-level technology absorption	3,7	136
Cooperation in labor-employer relations	3,3	136

Source: The Global Competitiveness Report 2011-2012

Table 3 The share of "soft" and "hard" sub-indicators in the structure of GCI (absolutely and in %)

	Number of indicators and % of share		
	Total	Hard	Soft
Basic requirements	46	16 (34,8%)	30 (65,2%)
Efficiency enhancers	52	18 (34,6%)	34 (65,4%)
Innovation and sophistication factors	18	1 (5,6%)	17 (/94,4%)

Source: The Global Competitiveness Report 2011-2012

In the structure of the Efficiency enhancers, the predominant ones are the "soft" indicators (65%), whose value is determined through the questionnaires. Since this is a subjective rating in the process of an

international comparison, the under- or overestimation of the sub-indicators and the impact on the objectivity of the position a country takes are possible.

Pearson's correlation index of the (GCI) and the GDP p/c rank for the observed countries is very high and amounts to 0.986, which is indicative of the fact that there is a very strong positive correlation between the productivity and competitiveness rank. To a certain extent, a small sample of only four countries affects the value of Pearson's coefficient.

Comparing the "hard" indicators (the government deficit), the national savings rate in the GDP (%), the inflation, and the government debt in the GDP (%), we can observe that Serbia is ranked worse than Slovenia, Croatia and Slovakia (Table 4) for all the indicators, except for the budget deficit.

In relation to the observed countries in 2011, Serbia had the highest inflation (6.2%), the smallest savings rate in the GDP (14.8%) and the largest rate of the government debt in the GDP (44%).

The macroeconomic indicators for the observed countries (Tables from 5.1 to 5.6), presented in the report of the European Bank for Reconstruction and Development for 2011, show that Serbia had the highest inflation, with the largest deficit of the current account balance (9,6 % relative to the GDP), with a low rate of economic growth (1,6%) and a high budget deficit (4,8% relative to the GDP).

Table 5.1 The growth rates of Gross Domestic Product (GDP) in % (GDP growth)

Country	2007.	2008.	2009.	2010.*
Serbia	6,9	5,5	-3,1	1,6
Croatia	5,5	2,4	-5,8	-1,5
Slovenia	6,9	3,7	-8,1	1,1
Slovakia	10,6	6,2	-4,7	4,0

* Projection

Source: Tranzition Report 2011

Table 5.2 Inflation during the year

Country	2007.	2008.	2009.	2010. projection
Serbia	11,0	8,6	6,6	7,7
Croatia	5,8	2,9	1,9	2,8
Slovenia	5,6	2,1	1,8	2,1
Slovakia	3,4	4,4	0,5	1,0

Source: Tranzition Report 2011

Table 5.3 Government balance relative to GDP

Country	2007.	2008.	2009.	2010.
Serbia	-1,9	-2,6	-4,2	-4,8
Croatia	-2,5	-1,4	-3,3	-4,7
Slovenia	0,0	-1,8	-5,8	-5,7
Slovakia	-1,8	-2,1	-7,9	-7,5

Source: Tranzition Report 2011

Table 4 Hard indicators for Serbia, Croatia, Slovenia and Slovakia (2011)

Countries	Budget deficit (%GDP)	Rank	National savings (%GDP)	Rank	Inflation	Rank	Government debt (%GDP)	Rank
Serbia	-3.5	66	14.8	103	6.2	106	44	85
Croatia	-5.3	99	21.7	59	1.0	1	40	74
Slovenia	-5.2	98	22.2	56	1.8	1	37.2	60
Slovakia	-8.2	130	20.2	68	0.7	1	42.0	81

Source: Global Competitiveness Report 2010-2011

Table 5.4 Current account balance in % relative to GDP

Country	2007.	2008.	2009.	2010.
Serbia	-15,7	-17,9	-5,6	-9,6
Croatia	-7,6	-9,2	-5,2	-3,8
Slovenia	-4,8	-6,1	-1,0	-1,0
Slovakia	-4,7	-6,3	-3,2	-1,5

Source: Tranzition Report 2011

Table 5.5 Net FDI (in million US $)

Country	2007.	2008.	2009.	2010. projection
Serbia	2523	2717	1865	1364
Croatia	4736	4653	1600	390
Slovenia	-273	514	-743	-200
Slovakia	2881	3156	-481	1500

Source: Tranzition Report 2011

Table 5.6 External debt in % relative to GDP

Country	2007.	2008.	2009.	2010. projection
Serbia	64,9	65,5	73,6	No data
Croatia	83,4	81,9	101,9	No data
Slovenia	100,6	105,2	113,4	No data
Slovakia	52,7	53,4	74,3	No data

Source: Tranzition Report 2011

There is a consensus reached by economists that the movement of the GDP is a good initial indicator of the successfulness of the countries' economic development. The EBRD report shows that, out of these countries, only Serbia did not reach the pre-transition level of the GDP, while the other countries had a dynamic growth. Croatia's GDP in 2010 is slightly above the level of the GDP in 1989, Slovenia's GDP is 160%, the GDP of Slovakia is 145% and Serbia's GDP is only 70% compared to the level in 1989.

Serbia's balance of trade deficit represents low economic competitiveness. Tables 6.1.- 6.4. provide an overview of the trade balance of the analyzed countries.

Import, export and international trade deficits of Serbia, Croatia, Slovenia and Slovakia (2007-2010), Tables 6.1. - 6.4.

Table 6.1

Serbia	2007.	2008.	2009.	2010.
Import (a+b)	21337	26227	18791	20884
a) products	18554	22875	16047	16734
b) services	2783	3352	2744	4150
Export (c+d)	11445	14275	11279	14018
c) products	8825	10972	8345	9795
d) services	2620	3303	2934	4223
Balance (a+b)-(c+d)	-9892	-11952	-7512	-6868

Source: http://www.trademap.org/countrymap/Product_SelCountry_TS.aspx

Table 6.2

Croatia	2007.	2008.	2009.	2010.
Import (a+b)	29741	35327	25073	23519
a) products	25829	30727	21205	20067
b) services	3912	4600	3868	3452
Export (c+d)	24877	28951	22263	22831
c) products	12360	14124	10492	11811
d) services	12517	14827	11771	11020
Balance (a+b)-(c+d)	-4864	-6376	-2810	-687

Source: http://www.trademap.org/countrymap/Product_SelCountry_TS.aspx

Table 6.3

Slovenia	2007.	2008.	2009.	2010.
Import (a+b)	33716	39183	28271	30740
a) products	29476	33985	23844	26360
b) services	4240	5198	4427	4380
Export (c+d)	32224	36640	28269	29966
c) products	26551	29253	22294	24188
d) services	5673	7387	5975	5778
Balance (a+b)-(c+d)	-1492	-2543	-2	-774

Source: http://www.trademap.org/countrymap/Product_SelCountry_TS.aspx

Table 6.4

Slovakia	2007.	2008.	2009.	2010.
Import (a+b)	65698	82499	64143	73562
a) products	59208	72612	55160	65916
b) services	6490	9887	8983	7646
Export (c+d)	65058	79332	62596	71244
c) products	58036	70189	55553	64687
d) services	7022	9144	7043	6557
Balance (a+b)-(c+d)	-640	-3167	-1547	-2318

Source: http://www.trademap.org/countrymap/Product_SelCountry_TS.aspx

One of the indicators of Serbia's low competitiveness is its very low export, either viewed in the absolute values or in relation to the population or as the ratio of the exports and the GDP. Based on the data on the GDP and the population from the WEF report for 2011 (8 million people in Serbia, 4.4 million in Croatia, 2.0 million in Slovenia and 5.4 million in Slovakia) and the export value of the analyzed countries, it is concluded that Serbia only had US$ 1752 export per capita, Croatia US$ 5183, Slovenia US$ 14983 and Slovakia US$ 13193. In the year 2010, the coverage of the import by the export was 67.1% for Serbia, 97.1% for Croatia, 97.5% for Slovenia and 96.8% for Slovakia.

PROBLEMS IN THE TRANSITION OF SERBIA'S ECONOMY

Economic experts had predicted, and the twenty-year time period has confirmed their predictions, that transition is a long and destabilizing process. The radical transformation from the socialist system into the capitalist one included the implementation of the synchronized activities (macroeconomic stabilization, corporatization, privatization, institutional reform, the liberalization of prices and trade and the foreign trade regime), which inevitably caused the transitional stagflation (a drop in the economic activity and a high inflation). In countries that had been consistent in implementing the transition program and had implemented it in the short term, the transitional crisis lasted for a short time (3 to 5 years) and had less severe economic and social consequences. Even ten years after the transition, a number of successful transition economies have reached the level of the GDP from 1989, while Serbia has not achieved it in 2012, either. Transition in Serbia had been slow and inconsistent, further hampered by the disintegration of the country, the wars in the region, the UN sanctions, the NATO bombing and the deep-rooted systemic corruption (Maksimović, 2010b). The ill-conceived privatization process was realized in a disordered institutional environment characterized by the incomplete and conflicting laws and regulations, the underdeveloped and non-transparent procedures. Privatization is not successful if the results of privatization are considered in the light of the proclaimed goals, which are: the increased economic and production efficiency of companies, providing companies' healthy financing; the introduction of efficient management; ensuring the inflow of foreign capital; making space for entrepreneurship; freeing a company from the impact of the state and politics; the increase in the competition; breaking monopolies and limiting their impact; the liquidation of unprofitable companies.

The effects of the growth of the privatized companies' economic efficiency do not significantly influence the growth level of the economic activity. The expectations of the volume of foreign direct investments (FDI) in the real sector did not come true because foreign capital

was primarily aimed at banks, insurance, monopolistic companies and excise goods, and less at the tradable goods sector. The net amount of the FDI's in the time period 2001-2011 was about 15 billion Euros, of which 40% was invested in the privatization of the economy and the financial sector. This amount was not sufficient for the recovery of the economy, especially the industry, because about 35% of the total inflow of the FDI's was directed towards the sector of untradeable goods and services, and only around 15% were Greenfield investments (Survey of Republic of Serbia, 2012). The efficiency of the FDI's in the privatization process was low: out of 222 companies which were offered for sale by tender in the time period 2002-2010, 108 were sold and 24 contracts were terminated. In the case of the auction privatization, out of 2453 offered companies, 1645 were sold and nearly one-third of the contracts were terminated (501), (Zec & Radonjić, 2010). The privatization by tender started from the top companies: these are cement factories, tobacco factories, breweries, pharmaceutical companies, oil companies. By such an offer, the state sought to improve the investment image and attract transnational corporations. The smaller companies purchased primarily for the assets and liquidation were sold through auctions. Under the pressure of the entrepreneurial lobbyists, the state sold the companies in auction privatizations at a low starting price, since it valued them as businesses. The buyers were using cheap bank loans to buy the companies with an intention to liquidate them and obtain the property. Entrepreneurship in transition was manifested in the following way: some people became entrepreneurs because they had a possibility of transferring the wealth into their hands through business transactions during hyper-inflation; others used loans for takeovers, mistakenly believing that they could continue taking loans for capital investments and current assets. It turned out that the new entrepreneurs based the survival of their takeovers on the non-economic and political levers.

MACROECONOMIC STABILIZATION

The quality of macroeconomic stabilization is measured by price stability, a balanced and stable exchange rate of a national currency, the elimination of a state's budget deficit. The economy's macroeconomic performances indicate that there is a constant inflationary pressure in the country, because aggregate demand exceeds aggregate supply. Due to the delay in the restructuring of the public companies and the monetary expansion, primarily caused by the inflow of the credit capital, the fiscal expansion further strengthens the inflationary pressures. Inflation in Serbia was accompanied by the appreciation of the domestic currency, which resulted in a decline in economic competitiveness and a slower growth. Some economists point out that the range of the restrictive monetary policy in controlling inflation is very limited and the exchange rate appreciates even in the regime of free fluctuation, which is explained by the Balassa-Samuelson effect (Candelon, 2000; Djuričin, 2006; Dedu, 2010). Balassa and Samuelson started from the assumption that economy can be divided into two sectors: the tradable goods sector (goods), goods which are the subject of international trade, and non-tradable goods sector (services), goods which are not traded on international markets. Productivity grows faster in the tradable goods sector, resulting in the growth of employees' salaries in the sector. Due to the emulation effect, there is the growth of salaries in the non-tradable goods sector, which can only be covered by an increase in prices (Baldwin & Wyplosz, 2010). By applying the Balassa-Samuelson effect in the case of Serbia, the following conclusion is made: a relatively higher rate of domestic inflation than the one of foreign inflation does not entirely affect the nominal exchange rate, since the prices of tradable goods (which grow more slowly) are more important for its formation than the prices of non-tradable goods (which grow faster). As the purchasing power parity does not work in the transition economies, their currencies depreciate by less than the inflation rate. The result is the appreciation or the slower growth rate of the domestic currency than the inflation increase is. The real appreciation of the Dinar, thanks to which the prices of the products and services in Serbia expressed in Euros have significantly increased, has resulted in large profits in trading. This encourages investments in trade and discourages investments in production.

Serbia is a highly indebted country, which is portrayed in the correlation between the GDP and the external

Table 7 Serbia's external debt to debtors (mill. EUR)

	2006.	2007.	2008.	2009.	2010.	2011.
External debt balance (A + B)	14182.0	17138.7	21088.4	22487.3	23786.4	24125.4
A (1+2) Long-term debt	13224.1	16088.7	18954.1	20482.5	21956.0	23477.5
1. Public sector	6535.3	6251.1	6503.0	7762.3	9076.4	10773.3
2. Private sector	6688.9	9837.6	12442.1	12720.3	12879.6	12704.2
B (3+4) Short-term debt	957.9	1050.0	2143.3	2004.8	1830.4	647.9
3. Public sector	56.9	33.9	17.7	1.5	-	-
4. Private sector	900.9	1016.1	2125.6	2003.3	1830.4	647.9

Source: Survey Republic of Serbia, 2011, 4

debt. A big problem is the unregulated private debt, which essentially finally becomes the public one. This is corroborated by the fact that the loans concluded before December 2000, in the amount of 884.7 million Euros (of which 405.1 million Euros relate to domestic banks and 479.6 million Euros to domestic companies), are excluded from the external debt of the private sector.

The public debt in the GNP is growing as well: it rose from 30.8% in 2007 to 45.1% in 2011 (Survey of Republic of Serbia, 2011).

The distribution of the GDP shows that the Serbian economy spends more than it produces. In 2009, the consolidated government balance showed that the public expenditures exceeded the public revenues by 121.4 billion RSD. In the distribution of the GDP in 2009, consumer spending accounts for 76.5%, and the final consumption of households and the state accounts for 95.9%. In the same year, that ratio in Croatia was 58.2% and 77.4%, in Slovenia 53.7% and 73.3%, and in Slovakia 60.3% and 79.1%, respectively (Zec & Radonjić, 2010). The imbalance between consumption and production is covered by the imports of consumer products and energy-generating products, not by the import of equipment and machinery. As the expenditure on equipment and machinery is very small, and without investing it is not possible to increase exports, the imbalance of consumption and production is not sustainable in the long-term.

PROBLEMS IN THE RESTRUCTURING OF SERBIA'S ECONOMY

The problems in the restructuring of the economy are associated with the problems in the privatization of the companies (through tenders and auctions), the problems related to the lack of the autonomous development of the small and medium companies and the restructuring of the public sector.

The effects of the tender privatization in the commercial sector (the tradable goods sector), whose production is intended for export, are unsatisfactory. In this sector, the tenders were mainly unsuccessful (as in the case of the metal sector), or the buyers were incompetent, without the necessary financial resources and with no clear strategy for the recovery and development of the company.

The sale of the small and medium companies through the auction sale was ineffective because at least 30% of the contracts were terminated. It turns out that the overriding interest of the customers was not the one of buying a business but the one of buying the buildings and the land of those companies. The outcome of such an entrepreneurship is that the damages and future costs of the state for reconstructing the unsuccessfully privatized companies are larger than the revenues from sales.

The restructuring and privatization of the public companies is a problem that has been lasting for almost two decades. The profitable systems were sold under

such circumstances when social peace needed to be preserved and the budgetary expenditures covered, as was in the case of the sale of Mobtel and Telecom. Financing the expenditure with the privatization revenues and a loss of future profits (which can be reinvested elsewhere in the world) severely reduce the potential for economic recovery. Many economists point out that the restructuring of the public sector can be found a solution to either through privatization or through bankruptcy and liquidation.

The experience of the Western countries in the privatization of the public sector in the 1980's demonstrated that all public companies operating in competitive industries should be privatized, and that it is better to keep natural monopolies in the state's ownership. It turned out that the availability of information from public companies and their control by the state as well as the possibility of applying a large number of industrial policy instruments provide greater benefits than shifting to the capital market control. In other words, in the case of natural monopolies, the efficiency of regulation rather than ownership is a more significant factor for efficient operations, assuming that the de-politicization of regulatory agencies is performed.

CONCLUSION

Raising national competitiveness has become the most important task of the government of every country. Despite numerous debates on national competitiveness, there is no comprehensive theory to encompass all the aspects of the competitiveness of a country. In an effort to evaluate the economic and business potential of the world economies, the WEF researchers have developed the concept of the Global Competitiveness Index (GCI), linking the micro- and macroeconomic indicators of competitiveness.

The hypothesis that the macroeconomic performances of the national economies are positively correlated with their global competitiveness index is confirmed in the paper in the case of Serbia, Croatia, Slovenia and Slovakia.

The paper confirmed the hypothesis that the poor macroeconomic performances of Serbia's economy and the bad ranking according to the GCI are caused by the systemic limitations in its economy.

The systemic limitations in the Serbian economy are primarily the result of the transition concept and its realization, the concept of macroeconomic stabilization, the concept of institutional reforms, and the restructuring of the economy. The poorly conceived, poorly institutionally arranged and slow process of privatization has destroyed a significant degree of production resources. The deindustrialization of the economy resulted in a decline in competitiveness and the growth of the trade deficit. The institutional reform was inefficient and failed to implement institutions corresponding to the contemporary development of society, technique and technology. In an economy where there is no productivity growth and no profitable production valorized in the world market, macroeconomic stability cannot be achieved in the long term by restrictive monetary and credit policies, which has a number of limitations. The abovementioned systemic limitations reduce the ability of an economy to produce and compete efficiently in the world market.

The ultimate goal of raising the competitiveness of an economy, i.e. raising the standard of living, cannot be achieved without a new development strategy and the elimination of systemic limitations. This means the correction of the economic policy, the strengthening of the market institutions and the rule of the law institutions, the completion of the privatization process (which includes company liquidation) as well as the restructuring of public companies based on the model of the Western countries.

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