Competitiveness of Economy of **Vojvodina**

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Content

SURVEY ON COMPETITIVENESS FACTORS

7.1 Position and competitiveness factors of Serbia and Vojvodina according to international studies

The significance of certain competitiveness factors depends on the structure of economy and article structure of its export. If the economy is less developed and exports products with low newly added value (semi-finished products) price factors are of the key significance for its competitiveness. If, however, the economy is at a higher developmental stage and exports products with high content of newly added value, the key role in its competitiveness is played by non-price factors. Generally speaking, non-price factors of competitiveness of products have become dominant1 in the world economy, ever since the industrial products became dominant in the world trade since the 1960s, and took over the primacy from primary products.

Different researches of international macro competitiveness, that analyse the competitive position of national products on the world market, list a large number of factors that affect the competitiveness of a national economy. World Economic Forum – WEF is one of the institutions that observes a large number of factors in analysis of competitiveness of national economies, and observes most of the world economies in its sample. This institution has developed its methodology on the basis of theoretical assumptions of Michael Porter, who believes that competitiveness of companies that operate within certain economy has large impact on competitiveness of that economy, and vice versa. Analysing a large number of factors that are grouped in 12 pillars of competitiveness, the World Economic Forum uses objective sources (official statistics) and subjective sources (surveys done with the executives) every year to analyse more than 130 national economies. The competitiveness of certain national economy is a relative concept since the rank of is affected not only by the analysed national economy, but also by competitiveness of other national economies that the analysed national economy is compared with. This institution analyses only national economies, and not their integral parts, such as provinces etc.

In our region, the World Economic Forum analyses all countries of former Yugoslavia. Even though this institution does not analyse competitiveness of certain parts of national economies (provinces) let us look how Serbia is placed in comparison with other countries from our region, since the economy of Serbia presents an economic frame that companies from Vojvodina operate within as well.

According to the research results published in the latest Global Competitiveness Report for the period from 2009 to 2010, presented in the first column of the Table 4.11, we can see that from our region only Montenegro is in the upper part of the Table, while Croatia and Macedonia are in the second third of the Table in which countries are ranked by global competitiveness. All other countries from the region, including Serbia, are ranked in the last third of the Table. If we look at the column on the right side of the Table, which contains the data from the previous Report from 2008, we can see that Croatia and Montenegro are in the upper half of the Table while all other countries from the region are in the bottom part of the list of competitiveness for period from 2008 to 2009. We have to point out that Serbia and Croatia have recorded a significant worsening of their competitive position at a global scale.

1 See more in: Predrag Bjelić "Međunarodna trgovina" ("International Trade"), Faculty of Economics, Belgrade, 2008, pg.99.

Table 7.1.1. Global competitiveness of countries according to WEF

2009-2010	Rank	2008-2009
Switzerland	**1**	USA
Sweden (4)	**2-10**	Sweden (4)
Great Britain (13)	**11-20**	France (16)
Ireland (25)	**21-30**	Ireland (22)
Slovenia (37)	**31-40**	Czech Republic (33)
Italy (48)	**41-50**	Slovenia (42)
Hungary (58)	**51-60**	Russia (51)
Montenegro (62)	**61-70**	**Croatia (61) Montenegro (65)**
Croatia (72)	**71-80**	Bulgaria (76)
Macedonia (84)	**81-90**	**Serbia (85) Macedonia (89)**
Serbia (93) Albania (96)	**91-100**	**Albania (108)**
Bosnia and Herzegovina (109)	**101-110**	**Bosnia and Herzegovina (107)**
Venezuela (113)	**111-120**	Tajikistan (116)
Tajikistan (122)	**121-132**	Kyrgyzstan (122)
Burundi	**133**	Chad

Source: World Economic Forum, Global Competitiveness Report 2009-2010, Davos, 2009, p.13

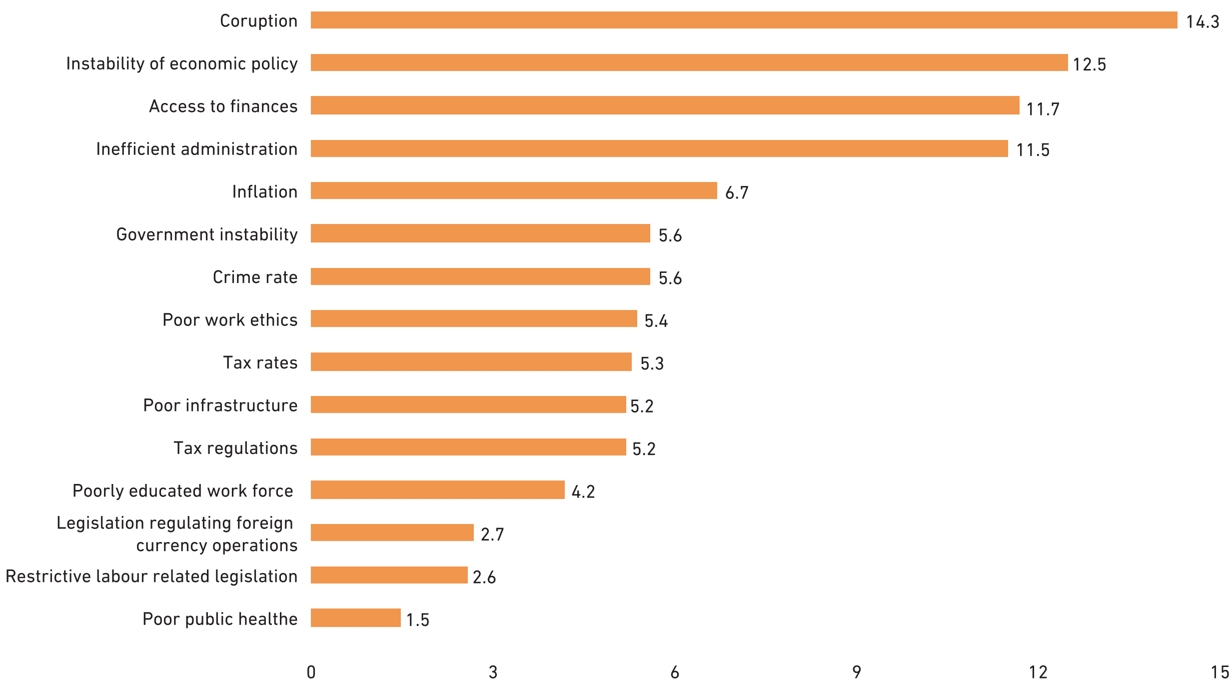
According to the analysis of World Economic Forum, the main factors that affect non-competitiveness of the West Balkan economies include:

- Corruption, that represents a big problem for all West Balkan economies;
- Inefficient state/public administration, the problem present in five out of six analysed West Balkan economies;
- Instability of state economic policies, the problem present in most West Balkan economies;
- Access to finances;
- Tax regulations and tax rates.

Other factors that affected poor competitiveness of West Balkan economies, which were specific for certain countries included poor infrastructure, government instability, poorly educated labour force, and poor work ethics.

Specifically for Serbia, according to the research performed by the WEF, corruption (Chart 7.1.1.) is the most important obstacle for doing business in this economy, as well as in all other West Balkan countries. The second significant obstacle is instability of the governments' economic policies, considering that changes in laws and conditions for conducting of business activities are frequent. The third obstacle is access to finances, which entails providing of capital for extending of business activities through additional investments and loans. Other relevant factors include inefficient administration, inflation, government instability, crime rate, and others. The results were obtained from the survey on attitudes of executives/leading managers and represent subjective source of information on competitiveness.

Chart 7.1.1. Main obstacles for doing business in Serbia, according to the WEF research (%)



Source: World Economic Forum, Global Competitiveness Report 2009-2010, Davos, 2009, p.274.

Apart from the World Economic Forum, the Institute for Management Development - IMD is another institution that deals with researches on international macro competitiveness. This institution analyses competitiveness of national economies as well as of their narrower parts -regions or provinces. However, it is specific that this institution analyses only the developed countries, meaning that West Balkans countries are not included in the analysis. Implementation of its methodology in Serbia is not entirely possible because there are no statistical data for lower levels of territorial organisation other than the national level.

The World Bank conducts the analysis of competitiveness in a unique way in its study titled "Doing Business" that is published every year with updated results. This study analyses the procedures that are related with doing business, such as procedures for starting a business, registering property, enforcing contracts, and obtaining of permits/licences. These procedures are analysed by the number of days it takes to complete a certain procedure, number of documents that are necessary to complete the procedure and by the costs necessary to complete the procedures. A regional study that analyses conditions for doing business in South East Europe was elaborated in 2008[2].

Cities in Serbia analysed in this study can be found in the middle of the list where the selected cities from South East Europe were ranked by ease of doing business for companies from those cities. Bitolj is the first on the list, followed by Zrenjanin, as the best ranked city from Serbia and the only representative of Vojvodina´s economy.

2 World Bank "Doing Business in South East Europe, 2008", Washington, 2008

Table 7.1.2. Rank list of the West Balkan cities according to ease of doing business

Rank	City
1.	Bitolj
2.	**Zrenjanin**
3.	Skadar
4.	Pljevlja
5.	Kruševac
6.	Valora
7.	Osijek
8.	Prizren
9.	Skoplje
10.	Užice
11.	Tirana
12.	Priština
13.	Beograd
14.	Vranje
15.	Varaždin
16.	Šibenik
17.	Nikšić
18.	Podgorica
19.	Zagreb
20.	Banja Luka
21.	Sarajevo
22.	Mostar

Source: World Bank ²Doing Business in South East Europe, 2008², Washington, 2008, pg. 1

Zrenjanin is the best-ranked city from the region of South East Europe by efficiency of court enforcement of contracts, because it takes only 300 days for the contract to be enforced by the court and under the lowest costs. However, Zrenjanin is the worst ranked city in Serbia according to conditions for business start up and among the worst ranked according to procedures for property registration.

Table 7.1.3. Ease of doing business in cities of Serbia

	Serbia				
	Belgrade	Krusevac	Uzice	Vranje	Zrenjanin
Ease of doing business (Rank of cities in the SEE)	13	5	10	14	2
BUSINESS START UP (rank)	11	10	9	11	13
Procedures (number)	11	11	11	11	11
Time (number of days)	23	29	25	28	37
Price (% of income per capita)	8.9	8.6	8.8	8.8	8.6
Minimum capital (% of income per capita)	8.02	8.02	8.02	8.02	8.02
OBTAINING OF PERMITS/LICENCES (rank)	10	19	21	20	13
Procedures (number)	20	20	17	20	20
Time (number of days)	204	304	414	2S3	183
Price (% of income per capita)	2.713,1	2.593,1	2.818,3	2.796,0	2.613,3
PROPERTY REGISTRATION (rank)	7	2	7	3	6
Procedures (number)	6	6	6	6	6
Time (number of days)	111	74	104	84	100
Price (% of income per capita)	2,8	19	2,9	2.9	2,9
COURT ENFORCEMENT OF CONTRACTS (rank)	10	2	4	11	1
Procedures (number)	36	36	36	36	36
Time (number of days)	635	355	390	650	300
Price (% of income per capita)	28.4	27.6	27	28.4	25.7

Source: World Bank "Doing Business in South East Europe, 2008", Washington, 2008, pg. 29

7.2 Competitiveness of economy of Vojvodina according to the field research

Methodology of research of competitiveness carried out by the World Economic Forum requires the use of two sources of data - objective and subjective. Objective data are the ones that were obtained from the official statistics, while subjective data represent the attitudes of selected executives/leading managers expressed in the prepared questionnaires.

Considering that objective, statistical sources of data on economy of Vojvodina are very limited due to the lack of regional accounts in the official statistics, we based our research on competitiveness of economy of Vojvodina primarily on subjective sources that we obtained with the assistance of questionnaire on attitudes of executives/leading managers.

7.2.1 Methodology of field research and sample

The field research in the territory of the AP Vojvodina was conducted in September and October of 2009.

The framework for selection of the sample was made out of all companies in the territory of the AP Vojvodina that have submitted the balance sheet for 2007. Based on the available data, the sample with proportional probabilities was planned and selected. The value taken from the balance sheet given under business revenues – (AOP_201) was chosen as the relevant variable, on the basis of which the probability of selection was determined.

The main set that makes up the framework for selection of the sample was reduced to companies that recorded a positive business revenue, i.e. AOP_021>0. Within this set, we singled out a group of companies working in the fields of industry (companies that are involved with agricultural production were added to this group, i.e. the companies dealing the activity 0201= "agricultural production" according to business activities codes), and trade. In the following stage, we made a sample based on the list of companies in the territory of the AP Vojvodina that included 476 companies operating in the fields of industry, agriculture, and trade. The research was supposed to incorporate 180 companies dealing with industry and agriculture and 120 dealing with trade. For each company, apart from its title, there are also the data related to its head-office (address, phone number), name, and family name of the owner, business revenues and number of employees.

For industry and agriculture, we got the data for 255 companies. Based on the title of the company, it was rarely possible to conclude which branch of industry/agriculture they were involved in. In the final sample (which by the statistical calculation represents the minimum size for this type of research), we also included the number of employees.

The non-proportional stratified random sample was applied in selection of companies based on the number of the employees. Considering that companies with a higher number of employees were represented in basic group in a very low number, all of those companies were included in the sample. In comparison with the basic group, the share that was held by the companies that have up to 500 employees was reduced.

In the field of trade, we disposed with the lists of data on 221 companies. The data were identical in nature as those used for industry and agriculture. The non-proportional stratified random sample was applied in selection of 120 companies.

Graduates and students of sociology participated in data collecting. After initial attempts to establish contacts, the following problems were noticed - some of the companies have declared bankruptcy; some have changed the location of their head-office (they are no longer in the same settlement, nor even in the territory of Vojvodina); some have merged with some other companies, or split into several different companies; some do not longer exist; some have changed the title of the company; some are not on the stated location; some have registered office in the residential building, but a) there are no visible markings on the site itself, that is b) there is i.e. the marking is in place, but the premises are empty. Because of that, even with the inclusion of the companies from the reserve list, the interviewers prepared the lists with titles of the companies that are currently active in the territory of a municipality in which they conducted the survey/poll, and that are dealing with industry, agriculture, or trade. The alleviating circumstance was the fact that the interviewers, mostly, collected data in the municipality in which they lived themselves, so they had a direct insight into the situation in the field. The survey/poll was conducted in 301 companies, 170 from the groups of industry and agriculture and 131 from the group of trade. The sample incorporated companies based in the whole territory of Vojvodina

The analysed companies were mostly founded with domestic capital, i.e. 85.7% of them, while the rest were founded with mixed and foreign capital. The number of companies in the fields of industry and agriculture, on the one hand, is almost the same as of those in the field of trade, on the other hand. Most of the analysed companies belong to the category of small and medium-sized enterprises, considering that companies with less than 100 employees make up 75.7% of the total number of surveyed companies.

Trade competitiveness represents the most important segment of total competitiveness. Serbia is small and insufficiently developed country and is hence very dependent on co-operation with the world economy. According to the data of the World Bank, we calculated that the export coefficient [3] of Serbia, which refers to trade with goods, was only 26.36% that is

3 Export coefficient is obatined by comparing the export of one country for the analysed year with the GDP of that country for the same year.

an extremely low value. For small and less developed countries, this coefficient should be over 50% so that it could be said that the economy is significantly integrated into the world economy and uses the benefits of the world economy for its development.

Industrial products with the share of 66% are dominant in the structure of the export of goods from Serbia, while agricultural products participate with 2% in this structure. Out of agricultural products, the most important are food products that participated with 19% in the total export of goods from Serbia in 2007, while agricultural raw materials were much less present. Manufactures of mining have significant share in export of goods from Serbia and they are, ores, and metals, with the share of 10% and fuels with only 3% of share in the total export of goods from Serbia 4

Vojvodina, as the most developed part of Serbian economy, should be the leader in export, as a vast agricultural area with developed food and other forms of light industry. Companies from the AP Vojvodina participate with around 1/3 in the total export of Serbia5, while their share is below 30%. Even though the share of Vojvodina is lower than its share in export of Serbia, the negative foreign trade balance (deficit) of 3 billion USD for the analysed years was registered in foreign trade that is carried out in the territory of the AP Vojvodina. These are the initial indicators of poor competitive position of economy of Vojvodina at a global scale.

Table 7.2.1. Foreign trade indicators for Vojvodina

Indicator	2007	2008
Share of export realised in Vojvodina in the total export (%)	32.2	32.5
Share of import realised in Vojvodina in the total import of Serbia (%)	27.1	28.7
Foreign trade balance (mill. USD)	- 2,188.2	- 3,029.2

Source: Data of the Statistical Office of the Republic of Serbia, Press release ST 12, no. 23 dated 30.01.2009.

Our research has shown that export is of relatively small significance for the analysed companies from Vojvodina considering that over 40% of the surveyed companies that have declared to have realised export of their products (80 companies submitted their data on export while other companies have not realised export of their products, and some did not want to disclose the amount of their export) that makes up 10% of their total sales. Only 18.25% of companies form Vojvodina that have declared export of their products have export values that are higher than those realised on the domestic market. Those results are disappointing having in mind that Vojvodina and Belgrade are the most developed regions of Serbia, so it would be correct to assume that export of companies form Vojvodina should be higher. However, it should be taken into consideration that companies from our sample are dominantly small and medium-sized enterprises, and that they play a much smaller role in foreign trade, especially in the developing countries.

Table 7.2.2. Significance of export for the analysed companies from Vojvodina

Share of export in the total sales (%)	Number of companies	Share of the analysed companies that have realised export of their products (%)	Cumulative (%)
1-10	33	41,25	41,25
11-20	10	12,50	53,75
21-30	6	7,50	61,25
31-40	6	7,50	68,75
41-50	10	12,50	81,25
51-60	4	5,00	86,25
61-70	2	2,50	88,75
71-80	3	3,75	92,50
81-90	3	3,75	96,25
91-100	3	3,75	100,00
Without reply	221	-	-
TOTAL NUMBER	301	-	-

Source: Data obtained from the field research conducted by CESS

First, let us see how entrepreneurs have ranked business and legal climate for doing business in Vojvodina. Large majority of entrepreneurs (around 60% of them) have agreed to a greater or lesser extent that the legal framework for doing business that is being implemented in Vojvodina is not providing stimulus for their business activities. As far as legal procedures, safety

4 Data from: World Bank "World Development Indicators 2009" Washington DC, 2009, p.218.
5 Data for Kosovo and Metohia are not included.

of property and payment for goods are concerned, entrepreneurs consider that they are only partially developed. Large majority of them agree that the biggest problems they encountered are related with payment for the sold goods.

The following factors were determined as the main obstacles for doing business and they are related to the work of the public authorities, such as high taxes and contributions (at the first place), inefficient administration (at the second place), inefficient judicial system (at the third place) and high level of corruption (at the fifth place).High level of grey economy that is placed fourth is something that public authorities should try to repress. Factors that represent significant obstacles in doing business in Vojvodina are high costs of bank services and lack of consultancy and other business services. At the bottom of the list, we find factors related to the labour force -low productivity and inadequate labour related legislation that is overprotective towards the labour force.

Table 7.2.3. Main obstacles for doing business in Vojvodina

Rank	Obstacles for doing business
1	High taxes and contributions
2	Inefficient administration
3	Inefficient judiciary system
4	High level of grey economy
5	High level of corruption
6	Costs of the banking system
7	Lack of consultancy and other business service
8	Low productivity of the labour force
9	Inadequate labour related legislation

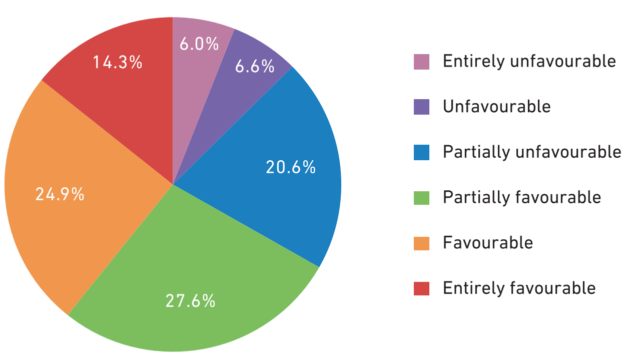
Source: Data obtained from field research conducted by CESS

If we compare the results of the research conducted by the World Economic Forum on obstacles for doing business in Serbia with the results of the research that was conducted by Centre for Strategic Economic Studies «Vojvodina-CESS» on obstacles for doing business in Vojvodina, we will see that corruption, as a factor that was placed first on the list of obstacles for doing business in Serbia, was placed fifth in Vojvodina. This cannot be automatically interpreted as if there is less corruption in Vojvodina compared to the average for Serbia, although there are such indications, but it should be taken into consideration that the studies on the level of corruption are known to depict a worse image for one country than it actually is the case in practice. High rates of taxes and contributions make the most important obstacle for doing business in Vojvodina. In the case of Serbia, they take the seventh place on the list of obstacles. The inefficient administration was ranked second in Vojvodina, and in Serbia, it was ranked fourth. Low productivity of the labour force was ranked ninth in Vojvodina, and in Serbia, it was ranked thirteenth.

The field research of Vojvodina-CESS concluded that the large majority of the interviewed entrepreneurs in Vojvodina consider that the fiscal system that is being used in Vojvodina is adequate for doing business.

As a conclusion we can point out that the large majority of the interviewed entrepreneurs, i.e. around 66% of them, consider that the business climate in Vojvodina is favourable, while the rest think that it is unfavourable (Chart 7.2.1.). Out of the total number of the interviewed who consider that business climate in Vojvodina is favourable, the majority of them declared that it is only partially favourable, i.e. 27% of them.

Chart 7.2.1. Business climate in Vojvodina in 2009, based on the attitudes of entrepreneurs



Source: Data obtained from the field research conducted by CESS

If we wish to venture deeper into the issue of competitiveness of economies, we need to deal with concrete competitiveness factors.6 Those factors influence the level of competitiveness of national economies and are linked with production structure of export of a certain national economy. Since we divide competitiveness factors of national economies into two major groups - price and non-price competitiveness factors, as we have mentioned earlier, we must point out that first ones are related to primary products and were dominant up to 1960s. Non-price competitiveness factors are dominant for competitiveness of economies main export of which are industrial goods, so they became dominant competitiveness factors after the 1960s.

The main non-price factors include:

1. Innovations;
2. Technology;
3. Quality;
4. International standardisation;
5. Design.

It was already noticed at the beginning of the 20th century that competitiveness of companies, as well as of national economies, originates from innovation process yielding with new products, new production procedures etc. The results of our research on attitudes of executives/leading managers have shown that 67.5% of the interviewed entrepreneurs think of Vojvodina as an adequate environment for research and development and innovative activities. Within the companies from Vojvodina the research-development activities are partially or insufficiently developed, because only in 6.6% of companies those activities are at a high level of development. Large scale financial investments are needed for promotion of research-development activities, and in Vojvodina and Serbia, those investments are not additionally stimulated by the government measures, such as taxes, subsidies, mobility of researchers etc., which is something that 70% of the interviewed entrepreneurs agree on.

Technology is the second important non-price competitiveness factor of national economies. Economies that have the most advanced technology at their disposal are very competitive at the international scale, and they can make up their lack in abundance of natural resources with technology. The development of technology in the world requires a strong connection between science and research, on the one hand, and economy, on the other hand. Economy can finance researches that are conducted at universities and scientific institutes and the results of these researches are later on applied in economy. The co-operation between economy, i.e. companies and universities is at a very low level in Vojvodina, which does not contribute to technological development, which is something that 68% of the surveyed companies agree on. However, an encouraging fact, the information about which was received from the field research, is that 60% of the surveyed companies have recently adopted new technologies in their business operations.

Information-communication technologies (ICT) are certainly most advanced technologies that are being widely used in doing business worldwide. In Vojvodina, these technologies are still not being fully used, adequate technological infrastructure is needed and for their more significant use. Around 60% of the interviewed entrepreneurs think that Vojvodina needs ICT infrastructure that supports the development of business.

Quality is the following non-price competitiveness factor. It is a highly ranked factor and is considered the most important criterion for differentiating between good and bad products nowadays. Adequate quality control of products is one of important technological components. Our field research has shown that most companies in Vojvodina use the basic quality control, i.e. 63% of them, or they are not using the quality control systems at all (around 5% of the interviewed). Advanced quality control systems, such as testing of products and Total Quality Management-TQM system, are used by only 14%, i.e. 18% of companies, respectively.

Table 7.2.4. Distribution of quality control systems in Vojvodina

Quality control systems	Share (percentage)
Basic quality control	63.1
Testing of products	14.3
Total Quality Management(TQM)	17.9
Not using quality control systems	4.7
Total	100.0

Source: Data obtained form field research conducted by CESS

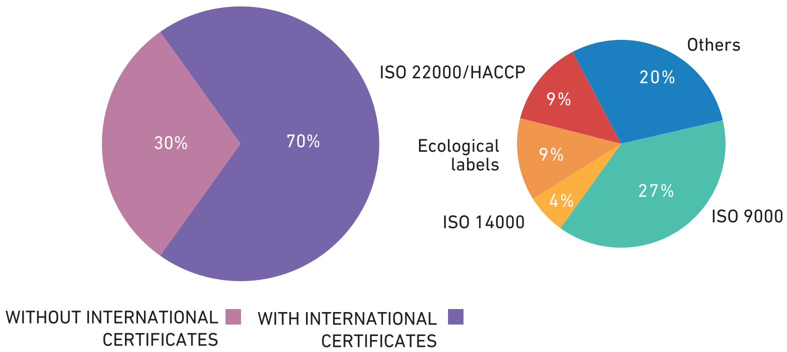
During their historical development, national economies have developed different standards for products and services.

6 See more in: Predrag Bjelić "Međunarodna trgovina" ("International Trade"), Faculty of Economics, Belgrade, 2008, pp. 99-105; and Mladjen Kovačević "Međunarodna trgovina" ("International Trade"), Faculty of Economics, Belgrade, 2002, pp. 243-315.

7.2.2 International standardisation

International standardisation made it possible for quality control to be almost self-implied, so that quality does not represent differentiation between companies on the world market any more.

Chart 7.2.2. International standardisation in Vojvodina in 2009, based on the attitudes of entrepreneurs



Source: Data obtained from the field research conducted by CESS

Design is a new strongest competitive weapon of companies. Buyers are nowadays oriented towards products that are well-shaped, but at the same time functional. According to our research in Vojvodina, 68% of the surveyed companies consider design as an important competitive factor, and 30.2% know that design is extremely important.

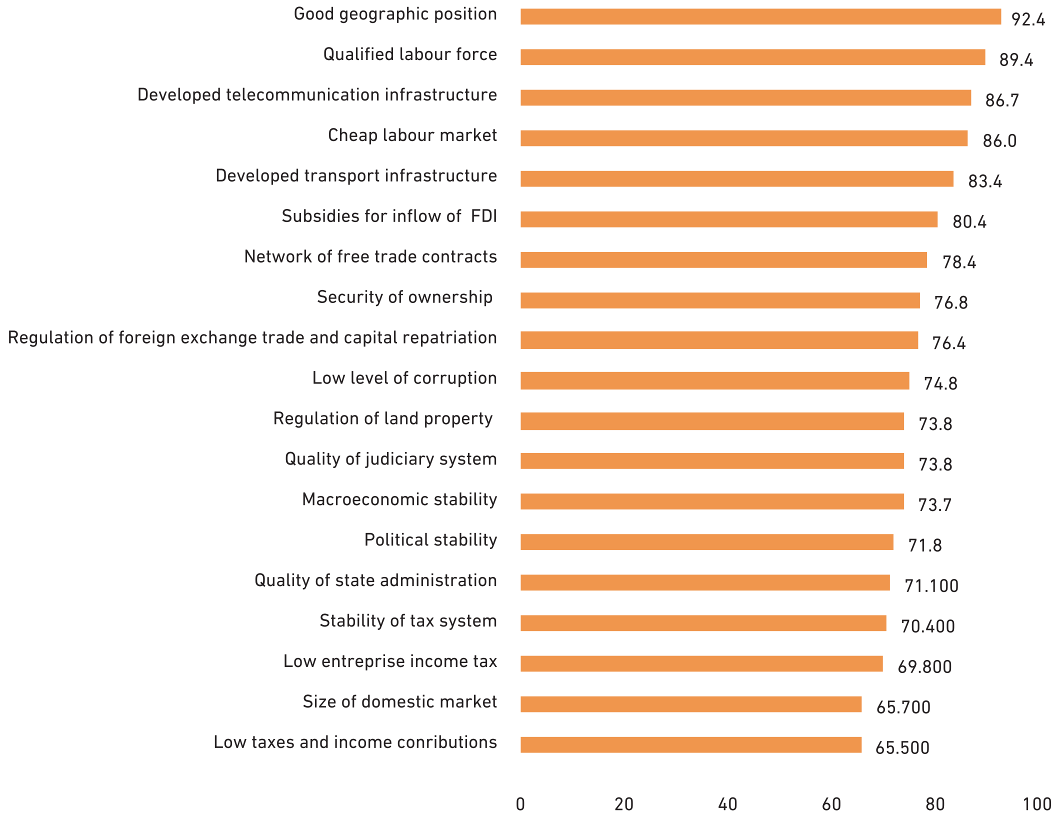
Apart from those dominant non-price factors, there are many other non-price competitiveness factors, of both companies and national economies. Considering that we do not dispose with statistical data in many fields for the territory of the AP Vojvodina, we are not able to fully evaluate the impact of non-price factors in this province. We have to restrict ourselves only to subjective sources of data obtained from a field research on attitudes of entrepreneurs from Vojvodina. The most important competitiveness factors of Vojvodina and their ranking, based on their opinions, are presented in the following Chart. The entrepreneurs believe that geographical position of Vojvodina is the main competitive advantage, since 92.4% of entrepreneurs agree with that thesis. Vojvodina is on the crossroads, i.e. on the European Corridor 10, which links Europe with Asia, and the Danube flows through it as well, as the European water corridor 7. This is an important opportunity for providing of different transit services, as well as for foreign investments attracting. According to entrepreneurs, qualified labour force is the second competitiveness factor of Vojvodina by importance. Our workers are skilled in many fields, but sometimes they lack practical experience. In addition, in the last two decades since advancements in technology have not been followed, many workers are not trained to work with the latest technology. However, combining this factor with a factor that is ranked fourth - cheap labour force, it could be said that there is a significant potential for development of Vojvodina.

The level of development of telecommunication infrastructure is ranked third by importance among competitiveness factors. Even though Serbia and Vojvodina have significantly developed fixed and mobile telephone network, they are far the European average behind in other fields, such as Internet infrastructure and the use of it. The developed transport infrastructure is a complementary, and it is ranked fifth on the list of most important competitiveness factors of Vojvodina according to entrepreneurs from this province. However, the problem with transport infrastructure is that it has been poorly maintained in the last decades.

Factors that were ranked sixth and seventh are related to international economic co-operation and in particular with exchange of foreign direct investments and trade with goods and services. Entrepreneurs believe that subsidising foreign direct investments by Serbia would be of significance in attracting of this form of foreign private capital. Foreign investors are subsidised based on the number of employees in newly formed branch offices in Serbia. Serbia signed a large number of free trade agreements with its most important partners, including the European Union, West Balkan countries, Russia, but also with Turkey, Belarus, and Iran, members of the European Free Trade Association etc. This represents an important framework for international business operations of our companies, including branch offices of foreign companies. However, these agreements are regulated by customs regime while, according to entrepreneurs from Vojvodina, the problem remains in non-customs obstacles, which we will talk about more later on.

Other competitiveness factors of Vojvodina that are ranked eighth on the list and lower include, according to their rank: property safety, regulation of foreign currency transactions and repatriation of capital, low level of corruption, legislation related to property over land, quality of the justice system, macroeconomic stability, political stability, quality of public administration, tax system stability, low corporate profit taxes, size of the national market and low taxes and contributions on salaries. Considering that entrepreneurs from Vojvodina have placed those factors on the lower part of the list, we can conclude that those factors are rather non-competitiveness factors of Vojvodina than factors that contribute to its competitiveness. Entrepreneurs often point out that the regulations on foreign currency operations are too restrictive, and studies that deal with international comparisons show that corruption is at a relatively high level in Serbia (Study of the Transparency International), that the quality of the justice system is unsatisfactory as well as the legislation regulation property over land (studies of the World Bank)

Chart 7.2.3. Competitiveness factors of the AP Vojvodina, based on the attitudes of entrepreneurs (%)

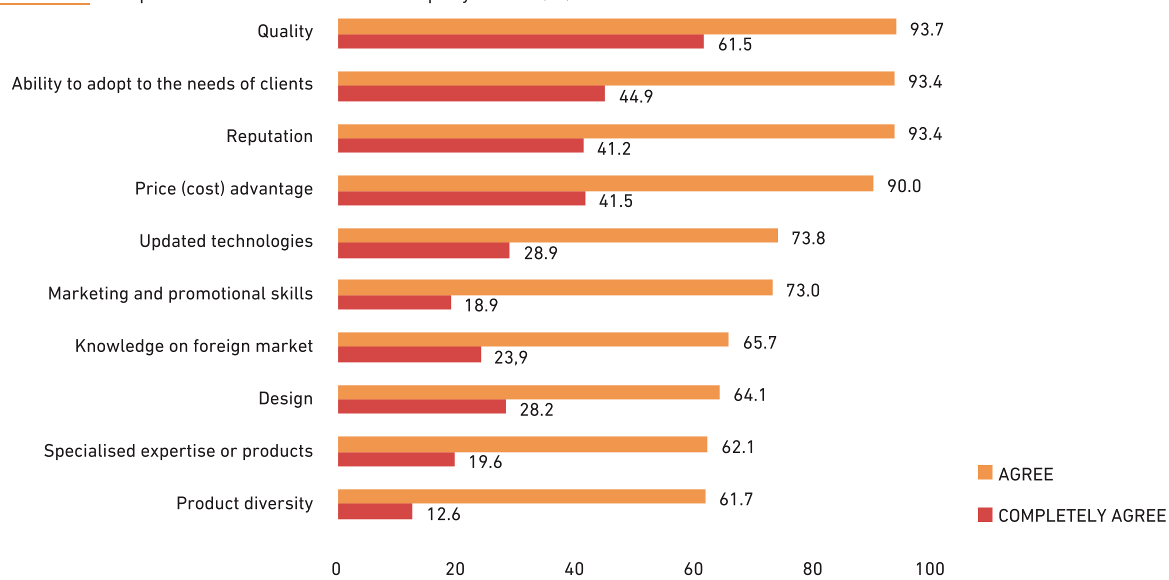


Source: Data obtained from the field research conducted by CESS

Microeconomic competitiveness represents the basis of each kind of macroeconomic competitiveness, namely the competitiveness of national economies depends dominantly on competitiveness of companies that operate in it. Because of that, we have to focus on competitiveness factors of companies from Vojvodina, based on the results of our research on attitudes of entrepreneurs.

Entrepreneurs believe that quality is the most important competitiveness factor of their companies, because 93.7% of the interviewed thought of quality as important factor of their competitiveness. There are 61.5% of the interviewed who thought of quality as exceptionally important factor of competitiveness. The ability to adapt to the needs of clients, namely the market was emphasised as the second important competitiveness factor of companies from Vojvodina, because 93.4% of the interviewed entrepreneurs thought of this factor as important. The reputation that one company has on the market and with the business partners as well was ranked third, because 93.4% of the interviewed entrepreneurs thought of that factor as important as well. The results for each factor are presented in the following Chart, and we would like to add that other factors that were ranked by relevancy include price, i.e. cost advantage of the company, use of updated technologies in doing business, marketing and promotional activities, knowledge on foreign markets, design, specific expertise, and products and diversification of products.

Chart 7.2.4. Competitiveness factors at the company's level (%)



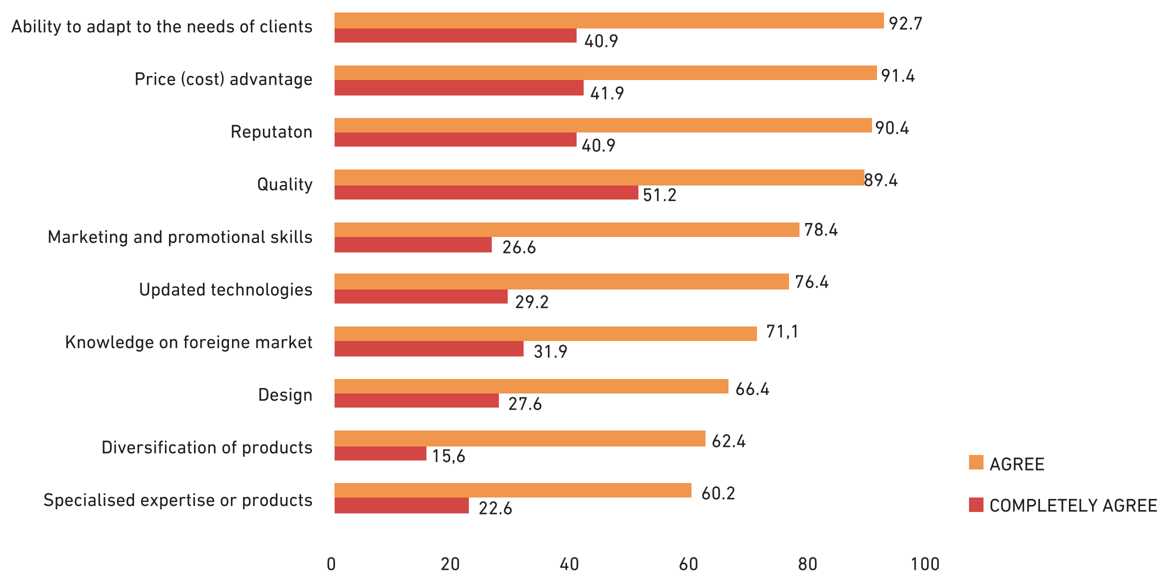
Source: Data obtained from the field research conducted by CESS

Our research provided us the insight into elements that entrepreneurs from Vojvodina see as main competitiveness factors of their companies, and since they are well acquainted with market mechanisms, we can conclude that the market of Vojvodina is at a low level of sophistication because quality is looked at as the main category that needs to be achieved and secured. In the developed economies, quality represents a standardised category that is taken for granted, and the companies that are unable to provide constant quality cannot maintain their position on the market. We have seen that the system of complete quality control is at a very low level in Vojvodina. The ability to adapt to the needs of clients is also something that is taken for granted in the developed economies. Emphasising reputation as the third important competitiveness factor tells us that there is high uncertainty in doing business in Vojvodina, and Serbia in general, and we can assume that it is connected with problems related to payment collection for the sold merchandise, observing of contractual obligations and functioning of commercial judicial. In the developed countries, the important competitiveness factors include diversification of products, application of updated technologies, design, and implementation of marketing activities.

If we look at competitiveness factors that our entrepreneurs point out to at the level of branches, we will see that the first place is taken up by the ability to adapt to the needs of clients, because 92.7% of the interviewed have pointed out that this factor was of varying relevance Up to 40.9% of the interviewed consider this factor as extremely important competitiveness factor at the level of their branches. Entrepreneurs point out that price (cost) advantage is the second most important competitiveness factor at the branch level, and 41.9% consider this as an extremely important competitiveness factor. Reputation represents also an important competitiveness factor at the branch level, because around 90% of the interviewed consider it to be of relevance. We would like to point out that 51.2% of the interviewed point out that quality, the fourth factor by importance at the branch level, is an important competitiveness factor.

Even at the branch level, we can see that the important factors are the ones that are taken for granted in the developed national economies. The information that price advantage is the second by importance at the branch level is of great significance, since it signalises that competitiveness between companies is still based on offering lower prices and reduction in business expenses, which is characteristic for underdeveloped economies that manufacture products with lower added value.

Chart 7.2.5. Competitiveness factors at a branch level (%)



Source: Data obtained from the field research conducted by CESS

The research has shown that there is a satisfying level of competition on the market of Vojvodina because the number of competitors was higher than 10 in more than a half of the analysed sectors. The competitors were mostly domestic companies that belong to the group of small and medium-sized enterprises according to the number of employees. At first sight, this points to a significant level of competition. However, the information on the number of competitors is not sufficient itself and we also need the information on the structure of competitors. For example, if there are 12 companies in the branch and one of them is large and dominant and 11 are small, we cannot talk about high level of competition in that branch. We assume that in future we can expect a higher level of concentration of capital in Vojvodina. Production capacities in Vojvodina are mostly harmonised with the demand, while around 10% of the interviewed think that they are too big and 7% think that they are insufficient.

If we look at markets that are relevant for sales of companies from Vojvodina, we will see that most of them, i.e. around 91% of the surveyed companies, sell their products in Vojvodina. The second most important market is the rest of Serbia (outside of the AP Vojvodina) where 66% of the sampled companies sell their products. The third by importance is the market of the European Union (EU), and the fourth is the free trade zone of created in the West Balkan thanks to the signed Central European Free Trade Agreement (CEFTA) from 2006.

Table 7.2.5. Significance of certain markets for companies from Vojvodina (share in the total number of the surveyed companies)

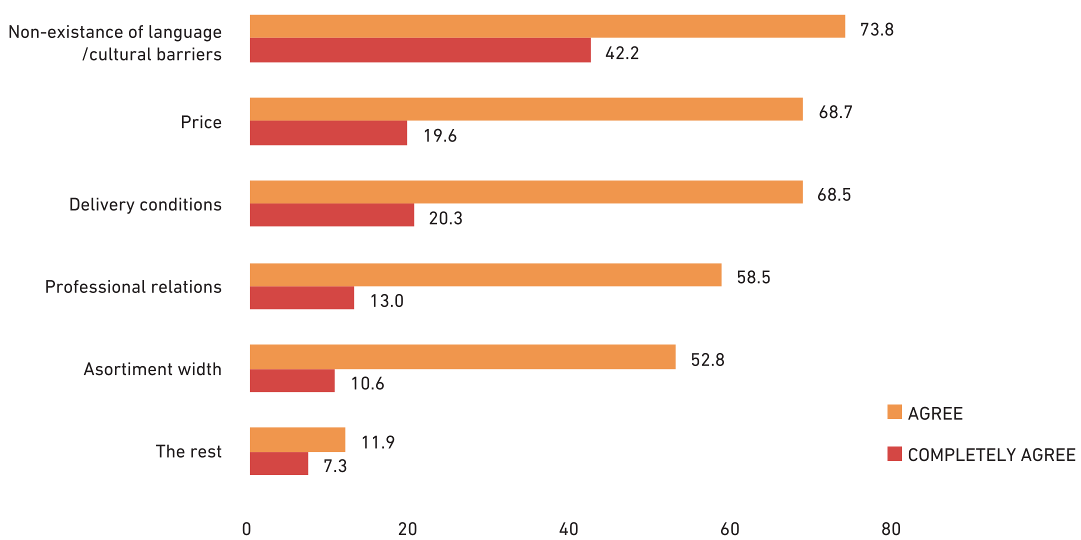
Market	Share in the total sale				
	0-20%	21-40%	41-60%	61-80%	81-100%
AP Vojvodina	11.3	14.9	13.9	12.0	39.2
Serbia (outside of the APV)	20.3	17.6	15.3	10.0	3.3
CEFTA Member States	11.6	2.7	1.0	0.3	0.0
EU Member States	11.6	3.0	2.3	2.0	2.0
The rest of the world	6.6	1.0	0.0	0.7	0.7

Source: Data obtained from the field research conducted by CESS

Our research has shown that 40% of the surveyed companies from Vojvodina realise almost entirely all their products on the market of Vojvodina. Realisation in the rest of Serbia is significant as well, and that the export to the markets of the EU and CEFTA in 2006 did not exceed 20% of total sale of companies from Vojvodina. The negotiating position of companies from Vojvodina in relation to their buyers is quite strong.

Suppliers for companies from Vojvodina are mostly from Vojvodina or the rest of Serbia, while the percentage of suppliers from the EU and CEFTA Member States was small in 2006. Considering that companies from Vojvodina mostly choose suppliers from Serbia, we wanted to see the main advantages of suppliers from that market. The interviewed entrepreneurs from Vojvodina (73.8% of them) mentioned that the main advantage in selection of suppliers from Serbia was the fact that there were no linguistic and cultural barriers. Other advantage that was mentioned was that suppliers from Serbia were more competitive by price. The main advantage must be the fact that Vojvodina is an integral part of Serbian market, which is reflected through prices that are offered by those suppliers, hence, there are no customs and other charges and there is a unique/ single tax system for all entrepreneurs in Serbia. The third important factor, which 68.5% of the interviewed emphasised were delivery conditions that were more favourable with suppliers from Serbia than with those from abroad.

Chart 7.2.6. Main advantages of suppliers from Serbia (%)



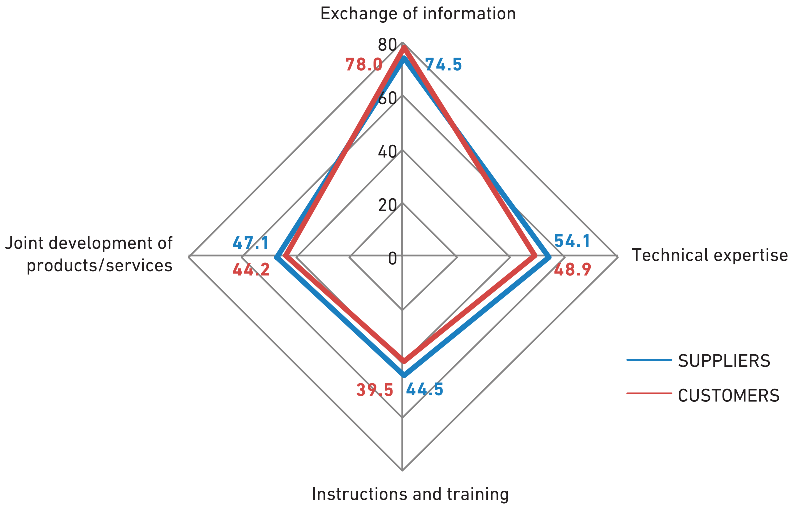
Source: Data obtained from the field research conducted by CESS

The interviewed entrepreneurs have for the most part claimed that it was difficult to replace the existing suppliers, but that their negotiating position in relation with their suppliers was strong.

The interviewed entrepreneurs from Vojvodina have agreed that they receive the most relevant information on competitiveness of their companies from the competition (70% of the interviewed have claimed that). Economic associations or chambers of economy represent the second most relevant source of information on competitiveness of the company. When it comes to public authorities, the relevant information come primarily form Republic authorities and then from provincial authorities.

When it comes to linking and closer co-operation with the partner companies, we investigated their relationship with the buyers and suppliers. We can see that relationship with buyers/customers is dominant in exchange of information, while the relationship of companies with both their buyers/customers and suppliers is almost balanced, with a slight advantage on the side of suppliers, when it comes to other modalities, such as technical expertise, instructions and training and joint development of products and services. This could have been expected because the relationship with the buyers/ customers is based on obtaining information on their needs, and the relationship with the suppliers is based on execution of after-sales services by the supplier.

Chart 7.2.7. Linking of companies with suppliers and buyers/ customers (%)

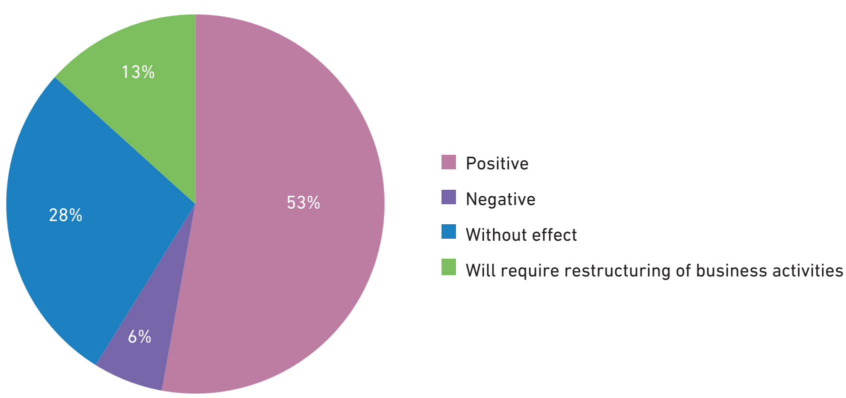


Source: Data obtained from the field research conducted by CESS

When it comes to availability of human resources, the entrepreneurs in Vojvodina consider that there is a sufficient number of individuals in the labour force corpus who are skilled in accounting and finances and who dispose with technical skills (70% of the interviewed are certain about that), while the individuals with marketing and managerial skills are available as well, but this was claimed by 63% of the interviewed entrepreneurs from Vojvodina. For companies it is mainly important to attract talented individuals to become their future employees. Among the measures that are being implemented by the state in order to boost the employment rate, the entrepreneurs from Vojvodina find that those reducing taxes and contributions on salaries are the most important (85% of the interviewed entrepreneurs claimed that). In addition to that, the entrepreneurs from Vojvodina thought positive of subsidised hiring of interns (80% of the interviewed), while measures related to promotion of the labour force mobility in the AP Vojvodina were ranked third by importance (67.4% of the interviewed).

For small economies such as that of Serbia, the integration into international economic flows is of vital importance. Small economies need to «expand» their market so they would be able to develop economically. One of the ways is to be a part of some regional trade integration through which regional market would be created or to integrate into the world market. According to our research that we conducted in the territory of AP Vojvodina in October 2009, investigating the attitudes of entrepreneurs, we learned that majority of them (55.8% of the interviewed) believed that competitive position of their companies would improve at regional or international market. However, only 10% of them were entirely certain when it comes to validity of this claim, while the rest of them hoped that their competitive position would improve. It is interesting to analyse the attitudes of entrepreneurs from Vojvodina related to effects that membership of Serbia in the EU would have on their business. Majority of them, i.e. 53% of the interviewed, think that association with the EU will have positive effects on their business, while only 6% of the interviewed think that association of Serbia with the EU will have negative effects on entrepreneurs from Vojvodina. Almost one third of entrepreneurs from Vojvodina (28%) think that association of Serbia with the EU will have no effects on their business, while 31% of them think that this membership will require them to restructure their business.

Chart 7.2.8. Effects of association of Serbia with the EU on business activities of companies based in the AP Vojvodina



Source: Data obtained from the field research conducted by CESS

However, when we asked the entrepreneurs whether they enhanced economic co-operation with companies from the EU during the process of association of Serbia with the EU, we saw that the vast majority of them claimed they had not, i.e. 68% of the interviewed. This was expected because the system of trade with the EU did not change significantly considering that Serbia was the beneficiary of autonomous trade measures unilaterally imposed by the EU nearly a decade ago. Most entrepreneurs point out that they are not informed to a great extent about the process of Serbia's association with the EU.

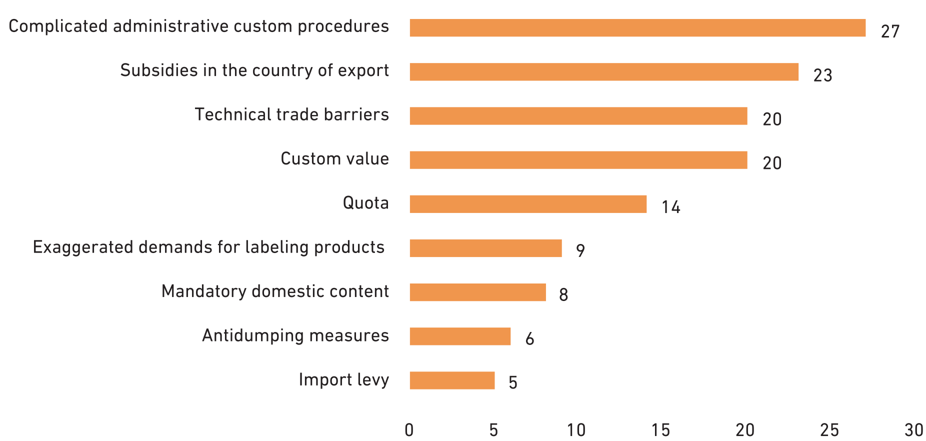
Taking into account that customs duties are eliminated as obstacles in process of regional trade integration, and due to the process of multilateral liberalisation of international trade regimes, these instruments of foreign trade policies lose in significance. However, this does not mean that international trade regime is becoming fully liberal because more and more other foreign trade regulatory instruments are jointly called non-customs barriers. They incorporate all regulatory instruments that are not customs duties and that can limit or stimulate export of a certain country and in that way cause disturbances in international trade. Non-customs barriers are classified in three major groups:

1. Traditional non-customs barriers in trade;
2. Technical barriers in trade;
3. Administrative barriers in trade.

Traditional non-customs barriers in trade were used back in the 20th century already and they were regulated by the General Agreement on Tariffs and Trade (GATT) from 1947. Technical barriers in trade evolved from implementation of different standards and technical regulations in certain countries. Administrative barriers in foreign trade emerge because of excessive legal and administrative procedures, and are commonly manifested at border crossings in the form of complicated procedures of customs clearance.7

Our research has shown that most important obstacles in international operations of companies from the AP Vojvodina are administrative barriers at border crossings and technical barriers in trade. Chart 7.2.9. shows certain kinds of non-customs barriers together with the number of companies that have identified these barriers as problematic. Our research has shown that out of 301 of the analysed companies, 168 of them do not export their products so they have not given their opinion on this matter. Apart from administrative and technical barriers, quotas were identified as obstacles in international trade, along with demands for compulsory domestic contents and levies.

Chart 7.2.9. Most important non-customs barriers in international trade according to entrepreneurs from Vojvodina (%)



Source: Data obtained from the field research conducted by CESS

Non-customs barriers have become the most important regulatory instruments that hinder free world trade ever since the end of multilateral trade negotiations related to GATT that lasted for eight rounds and that brought about significant decrease in customs duties. While the traditional non-customs barriers are regulated by the rules of GATT and nowadays the World Trade Organisation (WTO), technical and administrative barriers in trade remain problematic. In the study of the UN Conference on Trade and Development (UNCTAD) on Globalisation those facts were put in focus and it was concluded that those two groups of non-customs barriers increased in significance during the last decade.8

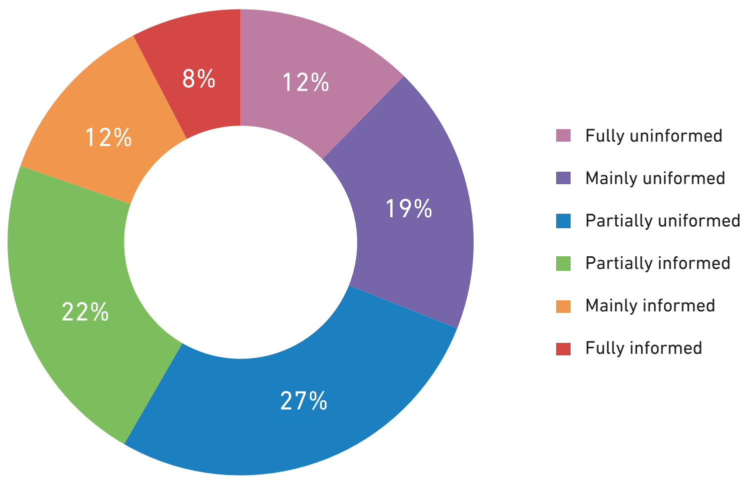
Apart from regional, there is also the international trade regime that is being created under the wing of the World Trade Organisation (WTO). Serbia is still not the member of this organisation and it is currently in the final stages of negotiations on the market access, where the existing WTO Member States require significant trade concessions as compensation for

7 See more in: Predrag Bjelić "Necarinske barijere u međunarodnoj trgovini" ("Non-customs barriers in international trade"), Prometej, Belgrade, 2004
8 UNCTAD, Development and Globalization: Fact and Tables, Geneva, 2008, p.53.

entering into this trade club. In most countries, it is a common practice that entrepreneurs are consulted during such negotiations because the future trade system that will be in place upon accession into the WTO will have significant impact on their businesses.

Our research has shown that most of entrepreneurs from Vojvodina were not informed about the effects that Serbia's access into the WTO would have on their business (this was claimed by 58% of the interviewed entrepreneurs). There were 12% of those who were completely uninformed. The rest of about 42% of the interviewed entrepreneurs said that they were partially, mostly, or fully informed.

Chart 7.2.10. Level of information that entrepreneurs from Vojvodina received regarding the effects of Serbia's accession into the WTO



Source: Data obtained from the field research done by CESS

The exchange of private capital in form of Foreign Direct Investments (FDI) is one of the most important forms of linking with the world market today. Global companies open their branch offices by placing foreign direct investments in all economies of the world and generate higher sales through their branch offices than through direct export of products and services. Since the end of 20th century, when it opened its doors to foreign capital, Serbian economy has also recorded a significant inflow of foreign investments. Entrepreneurs from Vojvodina, according to the results of our research, consider foreign direct investments as a significant factor of strengthening of competitive position of Vojvodina (74.7% of them agree with this claim), and these investments are of exceptional importance for technological advancement of the country, as it is seen by 80% of the interviewed entrepreneurs from Vojvodina. During the last two decades, industry in Serbia has experienced significant technological degradation and foreign investments often bring along new technologies.

Entrepreneurs from Vojvodina think that in future most of the investments will also come from the EU Member States, since they ranked them as the first source economy of foreign direct investments. Russia is the second, which is possibly due to large scale investments in the energy sector. It is surprising that the third position belongs to investors from the USA who have surpassed the investments from the EFTA Member States that are placed fourth, when it is known that entrepreneurs from Norway have invested large sums of money in Serbia so far. On the list of significant investors, we find companies from Israel, while the investments that come from economies that conduct business as free trade zones (offshore) are small, which is significant because the investments from these economies are often linked with capital the origins and the legality of which are difficult to trace.

Table 7.2.6. Most important source economies of investments for Serbia in the future

Rank	Investors economies
1	European Union
2	Russia
3	USA
4	EFTA Member States (Norway and Switzerland)
5	Israel
6	Off-shore economies

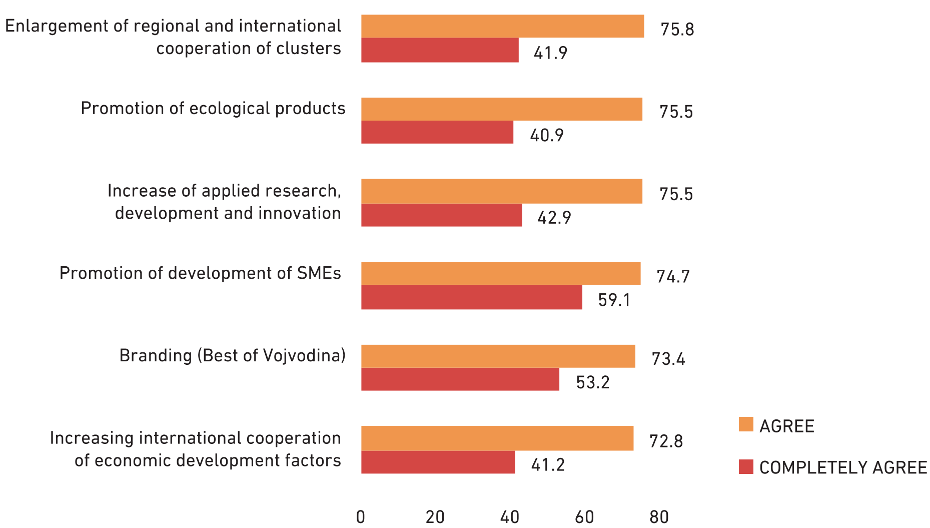
Source: Data obtained from the field research conducted by CESS

However, if we look at investing expectations in the future, we see that most of the interviewed entrepreneurs, i.e. 56.8% of them think that increase in investments in their branches or companies will take place, but this percentage is not so convincing as it was the case with previous claims, especially when we bear in mind that only 12.3% of the interviewed entrepreneurs from Vojvodina agree entirely with this claim. When we asked the entrepreneurs to rank sectors of economy according to the expected investments, we obtained results showing that agriculture took the first place, as the sector in which the greatest inflow of investment was expected to take place in the future, while production sector took the second place. According to the opinions expressed by entrepreneurs, the third place by expected inflow of investments in the future belongs to the energy sector, followed by trade, financial services, and insurance sectors. When we asked the entrepreneurs about their readiness to invest in the future business undertakings we saw that in majority of cases the sum in question was below three million RSD, irrespective if it was the case of medium-term investments (up to three years) or long-term investments (over three years).

Competitiveness of economy and companies that operate within it will be able to improve through implementation of target specific state measures. We asked the entrepreneurs from Vojvodina about their opinion on how high was competitiveness placed on the political agenda of the Serbian government and we found out that 65% of entrepreneurs from Vojvodina thought that national bodies were not attributing sufficient significance to competitiveness of Serbia. A lot of them are not aware that there is the National Council for Competitiveness, within the Republic bodies. However, concrete state measures are still missing.

When it comes to involvedness of provincial authorities of Vojvodina, most of the interviewed think that these bodies are not offering support to competitiveness of companies that operate in Vojvodina up to a significant extent, i.e. this was claimed by 57% of the interviewed. Specific measures in that direction are still missing. When we asked them to evaluate the significance of certain measures that could influence the enhancing of competitiveness of companies from Vojvodina, the entrepreneurs have opted for the listed measures, ranked by percentage of entrepreneurs who opted in favour of those measures. The first place belongs to expanding of co-operation in networks and clusters at regional and international level since 75.8% of the interviewed entrepreneurs agreed with that measure. Apart from those, there were also other measures that were ranked high, such as promotion of ecological products, and more intensive application of research and development, and innovations. Other measures that would contribute to higher competitiveness of companies from Vojvodina include promotion of development of small and medium-sized enterprises, as well as branding of products from Vojvodina, such as "Best from Vojvodina" label. One of the measures is to intensify international co-operation between economic factors of development, and this refers to co-operation between business community, science, and public administration.

Chart 7.2.11. Measures proposed by the by Executive Council of the AP Vojvodina intended for strengthening of competitiveness (%)



Source: Data obtained from the field research conducted by CESS

We tried to compare the data obtained from the field research conducted by CESS for the territory of Vojvodina per selected modalities with the data obtained from the questionnaire on attitudes of the executives/leading managers that was compiled under the methodology of the World Economic Forum and distributed in countries of the region and selected countries of the EU. The selected modalities include property rights, quality of infrastructure, foreign direct investments and technology transfer, and co-operation between universities and economy in the fields of research and development.

General impression is that Vojvodina is above the average for Serbia according to all the analysed criteria, as the most advanced region in Serbia. It should be kept in mind that attitudes of executives/leading managers were ranked according to an older scale where the values range from 1 to 6, while the WEF methodology implies the scale ranging from 1 to 7, which leads us to the conclusion that the grades for Vojvodina in comparison with this new scale (1-7) are slightly underestimated. Because of that, we can claim with certainty that Vojvodina above the average for Serbia according to all the analysed criteria.

The evaluations that entrepreneurs from Vojvodina have given to the quality of total infrastructure in Vojvodina (4.91) and to property rights (4.61) are particularly impressive. However, according to most modalities, Vojvodina was ranked worse than some countries from the region, such as Montenegro and Croatia, and is far behind in comparison with the developed countries such as Austria and Hungary.

Table 7.2.7. Comparison of Vojvodina with economies from the sample of the World Economic Forum

	Property rights	Quality of infrastructure	Foreign Direct Investments and technology transfer	Co-operation between universities and economy in research and development
Vojvodina	4.61	4.91	4.66	3.33
Serbia	3.42	2.59	4.65	3.31
Albania	3.23	3.13	4.59	2.20
Bosnia and Herzegovina	2.78	1.97	3.95	2.33
Croatia	3.96	4.53	4.08	3.48
Macedonia	3.84	3.21	4.09	3.32
Montenegro	4.68	2.74	4.90	3.61
Austria	6.37	6.60	4.85	4.87
Bulgaria	3.44	2.77	4.20	3.03
Czech Republic	4.72	4.48	5.42	4.37
Greece	4.98	4.42	4.27	3.17
Hungary	4.62	4.33	5.21	4.21
Poland	4.25	2.64	5.09	3.32
Romania	4.10	2.37	4.98	3.33
Slovakia	4.55	4.12	5.85	3.31
Slovenia	4.85	5.21	4.22	4.22
Turkey	3.90	4.16	4.92	3.41

Source: Data obtained from the field research for Vojvodina conducted by CESS and the World Economic Forum, obtained from CEVES, for other countries

Chart 7.2.12. Comparison of Vojvodina with selected countries from the sample of the World Economic Forum