

# Competitiveness of Economy of **Vojvodina**

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# Competitiveness of Economy of **Vojvodina**

INVESTMENTS

FOREIGN TRADE

DEMOGRAPHY

AGRICULTURE

ENERGY

ECONOMIC ENTITIES

SURVEY ON COMPETITIVENESS FACTORS

LEGAL FRAMEWORK OF THE AP VOJVODINA



COMPETITIVENESS OF VOJVODINA:  
FINDINGS AND RECOMMENDATIONS



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# COMPETITIVENESS OF VOJVODINA: FINDINGS AND RECOMMENDATIONS

## 9.1 Introduction

The objective of the research was to analyse the competitiveness of Vojvodina both in relation to economy of Serbia as a whole and in relation to other countries and certain regions up to the extent possible in terms of available data. The competitiveness is not the objective. It is rather the means, or more widely speaking, a set of economic circumstances within which the economic entities, primarily companies and entrepreneurs, can accomplish the existing comparative or development advantages and potentials. It is clear that those circumstances can be affected by economic policy at all levels, naturally in compliance with the objectives that are available to them and means they dispose with. Having that in mind, the research is dealing with (i) general macroeconomic and development conditions of economy of Serbia and Vojvodina, (ii) export potentials, (iii) investment needs, (iv) situation in small and medium-sized enterprises, (v) two particularly important sectors – agriculture and energy, and (vi) general legal and system conditions making the basis for economic policy that can be implemented at the level of autonomous province. The present summary contains also the recommendations of this research.

## 9.2 Macroeconomic and development framework

The main macroeconomic framework is the same for Serbia and for Vojvodina. Furthermore, the most important instruments affecting that framework are at the Republic level. Naturally, the characteristics of the economic system, economic policy, and their changes can and they certainly do have different regional effects. Due to that, in addition to general effects of certain system and political measures, it is also necessary to analyse specific effects for Vojvodina. This also enables proper directing of measures that are within provincial responsibility in order to influence additionally the improvement of economic and development conditions.

The world (global) financial crisis that occurred by the middle of 2008 found fertile land in Serbia and other Balkan countries to activate chronic risks that had been accumulated within a longer period of time. The basis of those risks consists of mutually linked and nourishing fundamental imbalances:

- (1) High current account deficit and continuous growth of both private and public foreign debt; in other words, a significant gap between savings and investments of households, companies and in the public sector and consequently a significant relying on financial resources from abroad;
- (2) Insufficient investments in production of exchangeable goods and improvement of infrastructure, the consequences of which are small export and high foreign trade deficit;
- (3) Low employment rate and high unemployment rate due to structural problems at the labour market;
- (4) Pro-cyclic property of fiscal policy causing the growth of public debt in situations when economic growth is strong and when it is slowing down or when economy is in recession;
- (5) Rooted euroisation of savings, bank deposits, and loans, banking loans and a significant portion of cash transactions.

The above-mentioned imbalances have been getting deeper throughout the period since the year 2000 and in particular in 2006, 2007, and 2008. Financial crisis in 2008 and 2009 had three main consequences:

- Monetary destabilisation caused by pressure exerted onto the exchange rate;
- Budget crisis caused by decline of revenues, and
- Liquidity crisis in economy.

They resulted with a significant decline in economic activities, import, export and industrial production as well as general turnover and employment in 2009.

The model that has been described is not sustainable because, among other things, of the lack of non-selective commercial sources in international environment during the financial crisis and after overcoming of financial crisis. Therefore, it is necessary to rely more on domestic saving and increase of investments into development projects, primarily in infrastructure and increase of qualification level of the labour force. In order to achieve that, it is necessary to accomplish faster growth of production of exchangeable goods and thorough public sector reform that would lead to increase of total productivity and competitiveness of economy.

### 9.3 Investments

Looking from macroeconomic aspect, the investments represent a part of gross domestic product that is allocated for extending or replacement of the existing production capacities and/or for investments into operating assets. From the aspect of companies, the investments, in addition to investments into building works and equipment, imply also other investments such as procurement of licences, investments into scientific-research work etc. The investments make the pre-condition of economic development and increase of economic activity results with the increase of employment and increase of export. There is no domestic capital that can be used for such purposes, or it is available in insufficient amount and that is why foreign direct investments (in particular the so-called Green field investments) make the *conditio sine qua non* for further development.

It is primarily necessary to invest into production of exchangeable goods. Manufacture of exchangeable goods includes first of all industrial and agricultural production. Manufacture of chemicals and chemical products, as the field that recorded the highest export in the period from 2004 to 2008, occupied on the average from the fourth to the fifth position among investments in Vojvodina. Manufacture of food products and beverages, which is the second field according to the recorded export, occupied either the first or the second position among investments. It is interesting that much less was invested into manufacture of rubber and plastic products, which was the third export field, compared to some other fields so that it occupied the position between the 10th and 11th according to the value of investments. It should be pointed out that although agriculture and hunting recorded almost the highest investments (average rank: 1.5), export of this field occupied only the fifth place. The existence of quotas for export of agricultural produce conditioned export from this field up to the highest extent so that the question is if additional increase of investments into this field would affect significantly the increase of export. However, having in mind the fact that there are many individual estates in Vojvodina, their merging into co-operatives could result with both higher productivity (accompanied by reduced costs) and possibility of joint appearance on the market, either domestic or foreign, with competitive prices compared to those with which they could appear as individual producers. The enhanced investing into work-intensive activities such as manufacture of textile yarns and fabrics, production of clothes made of leather and fur, etc. would certainly result with increase of employment.

In the period from 2004 to 2008, the largest share of foreign investments in Serbia belonged to investments into financial intermediation while manufacturing sector was at the second place with almost double less funds. Agricultural production took only the ninth position according to the value of foreign investments in Serbia. Therefore, the issue of attracting of foreign capital and its re-directing into the sector of exchangeable goods arises as necessity. Reduction of the country's risk (through political stabilisation and public sector reform) as well as simplifying of administrative procedures ("guillotine of regulations") is considered the pre-condition for creating of business environment that would attract foreign capital. This means that it is necessary to create a positive business environment for foreign investors in the whole territory of the country for the purpose of economic development, growth of employment rate and growth of export of each territorial unit of Serbia.

## 9.4 Foreign trade

The key consequences of economic model on competitiveness of economy are reflected in foreign trade. The continuous deficit with the tendency of increase along with the increase of foreign trade exchange makes the main characteristic of foreign trade exchange of the AP Vojvodina. In addition, agricultural and different semi-processed products dominate in the structure of export of the AP Vojvodina, which is an unfavourable fact from the aspect of competitiveness. The absence of export strategy that is reflected in its insufficient specialisation is another unfavourable fact.

The level of development of economy of the AP Vojvodina resulted with the fact that comparative advantages were realised mainly with primary products, in particular with primary agricultural products. Such export structure cannot be a long-term solution. Namely, the competitive advantage of such products can be lost easily because a large number of factors affect such production, in particular those related to climate.

In parallel with the growth of export of products that already provide the competitive advantage to the AP Vojvodina, speaking in the medium term sense, the activities should be focused on establishment of clusters as the development model since they are based more on natural advantages and less on high technology. The establishment of clusters is significant as the way towards the accomplishment of competitiveness with somewhat smaller investments since they would improve conducting of business activities and enable accomplishing of competitiveness that exceeds the average one. Vojvodina has the Cluster Development Strategy, which is currently not implemented up to the full extent mainly due to the budget contractions caused by recession. Furthermore, in order to achieve competitive advantage through the establishment of clusters it is necessary to find good managers, implement constant innovations and investment necessary funds. The economy of the AP Vojvodina disposes with significant potentials for establishment of clusters in agriculture as a strategic branch of economy, in particular in production of organic food, the prices of which are much higher at the world market than prices of primary agricultural produce that already make the competitive advantage of the AP Vojvodina.

Speaking on a long-term basis, additional efforts should be invested in exerting changes in the structure of production and export directed towards conquering of new production programmes and introducing of new technologies aimed at obtaining of sophisticated products the quality of which could provide a sound basis for successful competition at the world market. However, this can be achieved only with significant foreign direct investments, primarily in the sector of exchangeable goods. According to our opinion, the most efficient way for companies from the AP Vojvodina to keep pace with the developed economies is to rely on trans-national companies as the main holders of foreign direct investments (which should be the result of an adequate economic development policy). Such a strategy would enable raising of foreign trade exchange onto a higher level in terms of both quantity and quality.

Stimulating of export is the activity that should be undertaken within a short-term period through economic policy instruments, through further employment of production capacities at those economic entities that have managed to survive at the international market and remain competitive during the whole previous period despite the difficulties they have been faced with. Those entities have to be exempted from all administrative restrictions related to export. Employment of production capacities should be directed towards creating of products with more newly added work that could achieve higher price at the international market. More precisely, this means that instead of exporting primary agricultural products we should export products of a higher processing level that have been manufactured from them. Furthermore, the promotion strategy should be formulated for products that would be recognisable, meaning competitive with the appropriate marketing strategy that would improve sale of such product.

In order to implement the proposed measures for increase of competitiveness of the AP Vojvodina, it is necessary to pay special attention to the role of research and development in modernisation of economy through stimulating of the research-development activities. Contemporary conditions of business activities conducting require a new profile of employees who are educated, creative, dynamic and dedicated to the aim of quality creating. This cannot be accomplished without changes in the educational system. Similarly, an adequate export strategy created on a long-term basis can not be implemented successfully if appropriate environment is not created by the state and provincial authorities through investments into the existing infrastructure, telecommunications, transport, and commercial services. In the end, modernisation of public administration, in particular within the process of EU integrations is also necessary since there is a significant lack of profiles that could manage the integration processes.

## 9.5 Human resources

Vojvodina is characterised by a long-term tendency of decrease in the number of young and increase in the number of elderly population. The birth rate decrease and ageing of the population have also caused changes in gender structure, the main characteristic of which is reduction of male population in the total number of inhabitants.

In addition to the impact of the world economic crisis, the labour market in our country is faced with multi-annual cumulated transition related problems. A high unemployment rate in Serbia is caused in particular by a high share of long-term unemployment, namely a high unemployment rate of young and unskilled persons and a high unemployment rate among women.

The Employment Strategy was passed in the Autonomous Province of Vojvodina with the aim to improve conditions at the labour market. The Strategy implies, primarily, decentralisation in the field of employment, implementation of active employment policy measures, stimulating of employment in the fields of agriculture and tourism, gender equality when it comes to opportunities at the labour market and cross-border co-operation in the field of employment.

In 2033, the total population of Vojvodina will be reduced for 12.9% compared to the Census from 2002, with the option of increasing fertility or for 16.6% with the option of decreasing fertility. Within the forthcoming fifty years, however, the situation will be much worse: the number of inhabitants will be reduced in the range from 24.1% to even 38.6%. The reduced number of inhabitants is not the worst perspective. The worst will be the fact that this process will be accompanied by proportional worsening of "quality" of certain functional groups, which means that competitiveness of Vojvodina will be significantly reduced.

The global replies to the fear of extinction have resulted in the modern world with several different types of population policy measures. The main premise has to be: higher fertility has to be an economic advantage. If children are partly a kind of commodity, as any other, the society without the sufficient number of children has to offer the price in order to "buy" a child more.

## 9.6 Agriculture

**The development strengths of agriculture of Vojvodina include:**

- ▶ Good natural conditions for production (land, climate, water resources).
- ▶ Comparative advantages of micro-region (Fruska Gora, Subotica Sands, Vrsac Mountains).
- ▶ Excellent conditions for multi-functional agriculture (favourable natural resources for development of tourism, catering, production of energy from renewable sources).
- ▶ Relatively qualified and educated labour force.
- ▶ Development of processing capacities.
- ▶ Existence of educational, scientific-research institutions and agricultural consulting services.
- ▶ Readiness of provincial institutions for development of agro-complex.

**Development possibilities include:**

- ▶ Regulation of land surfaces.
- ▶ Increase of land surfaces covered by irrigation (possibilities of late and additional harvest).
- ▶ Intensification of plant and cattle production.
- ▶ Higher level of finalisation of production in self-owned processing capacities.
- ▶ Improvement of processing technology of agricultural produce.
- ▶ Development of multi-functional production and diversification: development of agro-eco tourism (rural tourism, rural touristic events, spa tourism, fishing and hunting tourism), catering (of "salas" farm type, fresh-healthy food, domestic cuisine), production of energy from renewable sources (harvest remains, wind power, etc.).
- ▶ Raising of competitiveness through the development of SMEs and integration via clusters.
- ▶ Increase of export potentials through setting of ISO standardisation and improvement of quality of products.
- ▶ Development of environmental friendly production, production of medicinal and aromatic herbs.

**Stimulation measures for development of agro business in rural areas of Vojvodina include:**

- ▶ Stimulating of construction/development and use of irrigation systems.
- ▶ Stimulating increase of investments in rural areas.
- ▶ Regulation and rational use of the land fund.
- ▶ Regulation of infrastructure and development of institutions in rural areas.
- ▶ Foreign direct investments, state, and investment of local self-governments in the development of companies in villages.
- ▶ Consistent and expert/professional agrarian policy in the function of development of agro-business.
- ▶ Development of institutions, education, and improvement of organisation (development of clusters, co-operatives, and consulting services).

## **9.7 Energy sector**

Availability and use of energy are of vital significance for competitiveness of economy of Vojvodina. Leaving aside the demographic issues, it can be said that other factors of competitiveness of Vojvodina can be brought up to the European average. However, availability of energy is far below the European average. The available sources of energy are of lower quality, insufficient density, and economy of scale to provide the basis for competitiveness. Furthermore, the available energy is more expensive per unit compared to countries with the exit onto the sea or with their own significant resources. Obtaining of energy in Vojvodina is possible only with involvement of significant physical infrastructure. This requires advanced relations with the neighbours and accomplishment of the minimum economy of scale, which is inaccessible for Vojvodina due to its size. Therefore, the infrastructure that is needed has to be used together with the neighbours.

There are two aspects of economy of scale that need to be taken into account: (1) total volume of energy and energy related services, and (2) temporal utilisation. In cases when there are significant seasonal variations in energy consumption, temporal utilisation remains insufficient, which further eliminates the possibilities for competitiveness. Limitations related to availability of energy and its high prices would require a highly efficient use of energy – much above the European average. However, this is not the case. Vojvodina uses energy with the efficiency that is multifold lower compared to the West European average.

Among the available sources of energy, only the biomass can be brought up to the above-average availability and optimum economy of scale. Geographic position, quality of soil and available waterways make it possible to produce, concentrate, and use large volume of biomass in Vojvodina better than in other places in Europe. This requires significant adaptations in spatial organisation, administrative set up, spatial planning and method of energy utilisation. Massive industrial use of biomass in the (reconstructed) Thermo-electric heating power plant Novi Sad and burning of biomass together with lignite in the already existing power plants in Serbia is the most significant question, since it would only have the capacity to provide for necessary economy of scale for further development of biomass use. In case of all other forms of energy, the issues of energy efficiency and seasonal variations of consumption are of the primary significance. Energy losses caused by burning of natural gas for the purpose of heating and other low-temperature uses cannot be compensated with anything and they currently represent a physical restriction of potential development of Vojvodina. The costs of environmental protection and health care are increased due to inadequately managed energy processes the effects of which are designated to users outside Vojvodina. A relative reduction of Vojvodina's share in the national product of Serbia is an unavoidable consequence of the current structure of energy use. The potential change of this structure corresponds with the implementation of appropriate European legislation and process of accession into the European Union, but it requires the implementation of the latest technological, administrative, managerial, and organisational solutions – much above the minimum requests of the accession process itself.

## 9.8 Productivity

Productivity in Vojvodina and in Serbia is the result of general development and macroeconomic conditions. That is why the performances (productivity, economic efficiency and accumulation) of economy of Serbia are relatively homogenous according to territories, except for the energy sector, i.e. sectors of "ore and stone mining" where coal mining and exploitation of crude oil and gas are the most important, and "production and supply with electricity, gas and water". Several successful companies in the field of production and transport of oil and gas, along with the fact that large losers, i.e. companies in electricity and mining industries are located in the territory of central Serbia and Belgrade, give completely equalised result in terms of the share of Vojvodina in gross added value and employment (25%). The situation is somewhat different in the sector of small and medium-sized enterprises, where Vojvodina is showing worse results. The performances of small and medium-sized enterprises in Vojvodina are poorer compared to the same set of enterprises in Belgrade and somewhat better compared to the same set of enterprises in central Serbia, i.e. Vojvodina is somewhere between Belgrade and Serbia according to those performances.

The dynamics of productivity and labour costs throughout the whole analysed period from 2002 to 2007 was in a gap, i.e. spending was ahead of productivity. This tendency has got somewhat milder since the middle of the above-mentioned period so that the labour cost coefficient in 2007 declined and productivity recorded significant increase. This was a general trend, regardless the territory as the consequence of macro economic environment and expansion of public spending. Productivity of Vojvodina is generally at the level of productivity of Serbia, in both cases thanks to the above-mentioned distribution of large enterprises dealing with energy and mining.

More significant productivity and share in the number of employed persons in Vojvodina is recorded in the sectors of: "Land transport and pipeline transport", "Transportation, storage and communications", "Mining and quarrying", "Electricity, gas, steam and hot water supply", and "Real estate related activities". In addition to the above-mentioned, more significant productivity and number of employees in Serbia as a whole is recorded in the sectors of "Manufacture of tobacco products", and "Other business activities". Manufacturing sector is not at the level of productivity of the above-mentioned sectors, either in Serbia as a whole or in Vojvodina. However, within the Manufacturing sector in Vojvodina we can single out the following fields as those that are relatively significant according to productivity and number of employees: "Manufacture of chemicals and chemical products", "Manufacture of products made of other non-metallic minerals", "Manufacture of food products and beverages", "Manufacture of medical, precision and optical instruments, watches and clocks", and "Manufacture of rubber and plastic products". When it comes to Serbia as a whole, we can also add "Manufacture of tobacco products", and "Manufacture of office machinery and computers".

The share of privatised companies in the total number of employees and also in gross added value is relatively small in Serbia on the whole and in Vojvodina, while performances of privatised companies are generally much lower compared to performances of originally private companies. If we exclude large privatised companies that strategic foreign capital was introduced into and that have the advantage in terms of input prices (such as e.g. price of energy) and both export and domestic market (basic metals, cement production, manufacture of tobacco products, rubber and plastic products, parts of chemical and food industry and manufacture of beverages), it can be concluded that a set of privatised small and medium-sized enterprises remained in a negative zone of financial results and in the zone of low productivity. Vojvodina and Serbia as a whole are not different in that respect. Certain level of productivity in privatised enterprises has been reached primarily thanks to reduction of the number of employees.

More productive fields and sectors with a significant number of employees among privatised companies in Vojvodina include "Manufacture of products made of other non-metallic minerals", "Manufacture of food products and beverages", "Manufacturing" on the whole, "Agriculture, hunting, forestry and water management", "Transportation, storage and communications". In addition, in Serbia on the whole, more significant fields and sectors according to the number of employees and competitiveness among privatised companies include also "Manufacture of tobacco products", "Mining and quarrying", "Manufacture of basic metals", "Manufacture of chemicals and chemical products", "Sale, maintenance, and repair of motor vehicles and motorcycles; retail trade with automotive fuels".

Economy of Serbia reached a positive zone with the total financial results rate in 2004 already and it continued with a certain growth, but the rate of net financial results barely entered a positive zone in 2006 and remained in it in 2007. The total financial progress was the result of strong conjuncture, i.e. growth of demand at the internal market and certain, although weaker growth of export thanks to macroeconomic circumstances (primarily of relative macroeconomic stability), which have been described previously, and privatisation process, as well as of faster growth of efficiency and productivity in large and some medium-sized privatised enterprises with deepening of non-efficiency of the remaining non-privatised socially owned and some enterprises in mixed property, as well as the survival of chronic non-efficiency and losses on different grounds in the public property sector, namely of the public sector of economy on the whole. Therefore, the progression of conjuncture remained the same all until the middle of 2008 when first signs of crisis started to occur (decline in industrial production) but it was accompanied by progression of foreign trade imbalance. On the other hand, it pushed domestic industry up to a certain extent, and it was even more emphasised with import due to very low investment receptiveness, more of consumers' goods than of capital goods. Re-industrialisation did not advance, but in the times of progression of conjuncture, namely demand

we witness a rapid progress of economic efficiency in trade, transport and telecommunications and real estate business. In 2008, when foreign indebtedness stopped due to the world financial crisis, the activities of economy started to decline, but a direct problem of non-liquidity arose as a unique problem of sustainability of foreign commercial debt. Within the analysed period, the social property sector was reduced drastically (from 473,284 employees in 2002 to 93,466 employees in 2007). The remaining socially owned companies lost the conditions for any kind of positive business activities, and certain number of them continued to survive in an active status thanks to subsidies. Those companies are devastated up to such an extent that they cannot function in positive financial zone. The reasons for their devastation – in addition to the heritage of burden of costs of over-employment and other costs and under-invested fixed assets and loss of markets – can be found in the managerial sphere that is “fishing in the mud” in privatisation processes through the so-called “tunnelling” of those companies.

Problems of that kind and of the whole insufficiently efficient privatisation process have been generated significantly by the status of social property that has not been protected by the state in an adequate way, just as it was the case with public (state) property itself. The situation with economic efficiency (profitability) of public property was not better at all. In 2007, the energy sector, i.e. the sector of “production and supply with electricity, gas, and water” showed even worse result because of the above-mentioned reason.

Throughout the analysed period, only the private property recorded significant and positive accumulativity, namely investment capacity (the ratio between business financial result and gross added value), which was even progressing until 2007, thanks primarily to the original private sector and, up to a certain extent, to large privatised companies. All other forms of property, including public (state) property show either negative or very low positive accumulativity within the whole analysed period. This is also reflected onto the picture of profitability, depending on the size of companies. Profitability is positive and most significant among small enterprises; it is lower among medium-sized enterprises and negative among large enterprises. Privatised small and medium-sized enterprises did not contribute to a significant positive result of the total set of small and medium-sized enterprises in 2007 in as much it was the case with private small and medium-sized enterprises that were established in the previous period and that survived until 2007, which was also mentioned from the aspect of productivity and labour costs.

Profitability and accumulativity of economy according to territory differs in general, which is not dominantly the consequence of business climate, and efficiency in terms of management, marketing, market etc., primarily due to differences in structure and distribution according to activities in the set of large enterprises. If we can talk about certain advantages and effects on the side of business climate, management, marketing, and market, we can say that Belgrade, namely Belgrade and Vojvodina are in the forefront. This means that when it comes to the set of small enterprises, the most profitable region is Belgrade, followed by Vojvodina and, in the end, central Serbia.

The general level of accumulativity in Belgrade and Vojvodina is approximately the same (about 18.5%); whereas in central Serbia it is much lower (5.8%). This difference is the consequence of the above-mentioned reason.

The accumulativity is the most significant in the following sectors in Vojvodina:

1) Agriculture, forestry and water management (7.6%); 2) Manufacturing (18.2%); 3) Construction (23.9%); 4) Wholesale trade and retail trade (35.4%); 5) Transportation, storage and communications (18%); 6) Real estate, renting and business activities (31.8%).

Important branches within the Manufacturing sector include: Manufacture of food products and beverages (24%); wood processing (11.2%); other non-metallic minerals (29.7%); machinery and apparatus (9.5%); metal products except for machinery and apparatus (19.9%).

#### **General risk related to investments is rooted in the public sector.**

(A) Because the public sector reform is the initial assumption, without which there is no further progress or transfer of economy onto sustainable track. It has to be complex, comprehensive, and systematically linked. This reform is not only the issue of necessary rationalisation in the public sector and public services such as education, health care and pension system, and social welfare and subsidies in economy but also the change of the ownership and management model as reform of the fiscal and rent system. It is the matter of corporativisation and privatisation of public and utility companies, as well as of the municipal and building land, but on new bases in relation to legal solutions and practice of the previous privatisation of socially owned companies. This is creating of new corporate structure within which social funds should find their place, primarily the Pension and Disability Insurance Fund, state, local government and private capital in the case of land funds and restitutioners. If such a road is not possible to take, and it seems as if the manoeuvring space is significantly narrowed after the enactment of the Law on Planning and Construction, which also includes the chapter on building land as the subject of privatisation, the compensations have to rely on fiscal revenues from property and rents.

Consolidation and organisational and structural changes in companies under a new umbrella advocating much wider interests and requiring professionalisation of management is the pre-conditions for attracting of investment capital based on the public-private partnership (PPP) model that follows after corporativisation. In parallel, it will be necessary to implement reforms in the fiscal system and system of rents so that a part of fiscal burden could be transferred from indirect taxes onto direct, i.e. onto property and revenues based on property, regardless if it is the matter of physical or

ideal assets. This means that in addition to reduction of public expenditures, partial compensation has to be provided for social functions since the final aim of the reform is three-fold and conditioned within itself by: 1) relaxation of the budget and public expenditures on the whole; 2) setting up of sustainable and socially acceptable social functions of the state; 3) raising of public sector efficiency and its opening for the capital market.

(B) Spatial plan and regional development strategy that will link the development of industry, energy sector, agriculture, and transport in a wholesome way make the second main assumption for further development. This implies certain conjunction of those elements, which has been described in more details within the chapter on energy sector.

(C) Strengthening of institutions (judiciary system, non-conflicted regulations, institute of bankruptcy, decentralisation of local infrastructure development, capacities etc.) is the third assumption. Euro-Atlantic integrations, as well as regional re-integration of the market, economy, resources, and capacities are certainly the *conditio sine qua non*.

## 9.9 Small and medium-sized enterprises

According to the amount of available durable operating assets and indebtedness rate in 2007, companies from Vojvodina had much better financial structure compared to companies in Serbia. Companies from Vojvodina disposed with 3.1 times higher amount of net operating assets on the average compared to companies in Serbia. However, this is the consequence of a higher amount of net operating assets that large enterprises disposed with since small enterprises from Vojvodina recorded the lack of net operating assets in the amount of 1.7 billion dinars, and medium-sized enterprises from Vojvodina disposed on the average with 2.5 lower amount of net operating assets compared to enterprises from Serbia. Thus, looking on the whole, small and medium-sized enterprises from Vojvodina disposed with more than 2.5 times lower amount of net operating assets compared to the sector of small and medium-sized enterprises of economy of Serbia.

The amount of indebtedness per company in Vojvodina is lower than the average of economy of Serbia. At the same time, companies in Vojvodina have more favourable structure of loan sources since short-term loans participate less in the structure of borrowed funds than it is the case in economy of Serbia. Looking on the whole, the sector of small and medium-sized enterprises in Vojvodina records about 18% lower indebtedness compared to the sector of small and medium-sized enterprises from Serbia. However, since small and medium-sized enterprises from Vojvodina dispose with 2.5 times lower amount of net operating assets, short-term loans have a higher share in the structure of borrowed funds of those companies compared to the share in the structure of borrowed sources of financing of companies from Serbia.

Measured by the rate of return/yield on total assets and return/yield rate on its own assets, the economy of Vojvodina makes the most profitable segment of economy Serbia.

Higher share of short-term loans in financing of the sector of small and medium-sized enterprises in Vojvodina compared to Serbia points to the need to stimulate longer-term financing of this sector through measures of economic policy. The creators of economic policy in Vojvodina have two groups of measures at their disposal for such purposes. The first group includes measures that will be able to affect reduction of credit risk in the SME sector, which will stimulate financing activity of banks and affect the structure of loans in favour of longer-term financing. The additional increase of capital of the Guarantee Fund of the AP Vojvodina with funds from the budget, grants and other sources in order to increase the guarantee potential and multipliers (from the current 2.5 to 2.75), as well as of the leverage of this Fund, can result with the increase of issued guarantees and stimulate financing activity of the banks. The second group of measures implies the change in structure of the granted loans of the Development Fund of the APV in favour of the SME sector, as well as in favour of long-term loans. The Government of the APV should relocate the focus from quantitative measures (start up) to qualitative, i.e. growth measures and to assist in the growth of small into medium-sized enterprises. These processes are accompanied by relocation of the focus from development of entrepreneurial properties to the development of managerial profiles capable of managing the fast growing medium-sized enterprises.

Profitability of economy of Vojvodina can be increased through relocation of funds of the Development Fund from large enterprises towards the SME sector. Changes in policy of the Guarantee Fund of the APV can also contribute to the increase of profitability of economy of Vojvodina. Until now, the Fund has been supporting mainly marginalised social groups, such as women entrepreneurs, young farmers, etc., or special purpose loans for purchase of agricultural equipment, whereas the change towards the support to projects that are more economically justified would make a significant difference.

Indirectly, taking into account the fact that companies from Vojvodina use the borrowed funds more efficiently than companies from Serbia, measures of economic policy of the Republic that would result with relocation of credit resources towards Vojvodina companies could affect the increase of profitability of economy of Serbia and Vojvodina.

The fact that SMEs from Vojvodina recorded lower return/yield rates on total and own funds compared to SMEs in Serbia and Belgrade in 2007 indicated the need for intensification and change of the system of financial support to those companies (new credit lines, establishment of specialised investment funds for small and medium-sized enterprises, etc.).

## 9.10 Factors of competitiveness – field research

Factors of competitiveness of national economy are divided into two large groups – one consists of price competitiveness factors and the other of non-price competitiveness factors. While price competitiveness factors used to be important in the past, when mainly products of lower processing level were exchanged in international trade as crude materials, the dominant products in the structure of international trade are currently industrial products, which means that the dominant factors of competitiveness include quality, design, international standardisation, technologies applied and others that we classify as non-price competitiveness factors. When we analyse competitiveness factors we mainly need data from two sources – official statistics (the so-called objective data), and opinions of businessmen who are well-informed about contemporary business activities management (the so-called subjective data). It has become practice in the world to analyse competitiveness of economies below the national level, i.e. at the levels of regions, provinces etc.

In October 2009, we conducted the field research, the aim of which was to find out the attitudes of successful businessmen in the territory of Vojvodina related to competitiveness factors of the province through a questionnaire. We were missing the objective data because the official statistics in Serbia does not dispose with the so-called regional calculations and data.

This field research showed that in the segment of trade competitiveness, Vojvodina had a smaller share in export of Serbia than it had in import of Serbia, although the final balance of foreign trade operations from the territory of Vojvodina was negative (with deficit), which was the first indicator of poor competitiveness of economic unit.

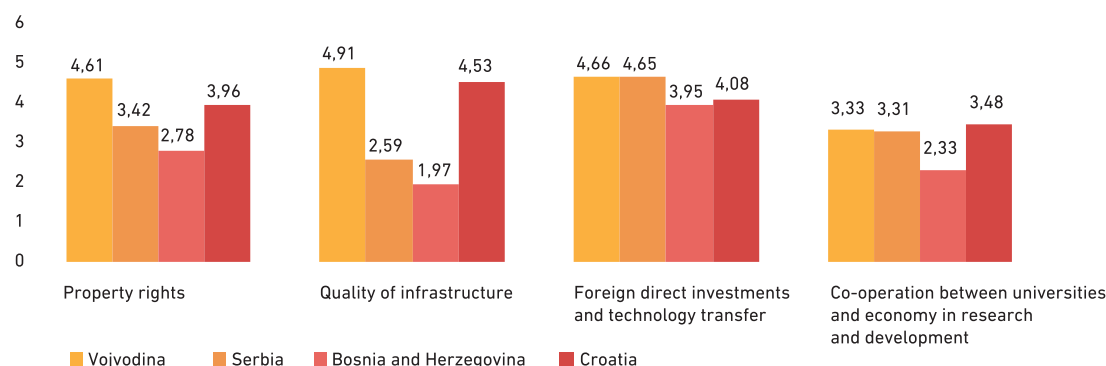
We tried to compare the data we obtained in the field research of CESS for the territory of Vojvodina, according to selected models, with the data obtained from the poll on attitudes of managers that had been conducted in accordance with the methodology of the World Economic Forum (WEF) in the countries of the region and selected EU countries. The selected modalities included property rights, quality of infrastructure, foreign direct investments, technology transfer, and co-operation between universities and economy in the fields of research and development.

It is a general impression that Vojvodina is above the average for Serbia according to all the analysed criteria, as a more advanced region within Serbia. It should be taken into account that the attitudes of managers were tested according to the older scale where the ranks range from 1 to 6, whereas the WEF methodology implies the scale in the range from 1 to 7, which made the marks for Vojvodina somewhat under-valued compared to a new scale (1-7). That is why we can claim with certainty that Vojvodina is above the average for Serbia according to the analysed criteria. The evaluation of entrepreneurs from Vojvodina given to the quality of general infrastructure in Vojvodina (4.91) and to property rights (4.61) is particularly impressive. However, according to majority of modalities, Vojvodina was evaluated lower than some other countries in the region, such as Montenegro and Croatia, and it is significantly lagging behind the developed countries such as Austria and even Hungary.

**Table 9.10.1** 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
<b>Vojvodina</b>	4.61	4.91	4.66	3.33
<b>Serbia</b>	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: results of the field research of CESS for Vojvodina and Data of the World Economic Forum obtained from CEVES for all other countries.

**Chart 9.10.1.** Comparison of Vojvodina with the selected economies from the sample of the World Economic Forum

Although the entrepreneurs from Vojvodina evaluated mainly the business climates as favourable, they listed the following as the main obstacles in business activities conducting: high taxes and contributions, inefficient public administration and inefficient judiciary system. These are all factors that are under direct “jurisdiction” of public authorities.

When it comes to involvement of provincial authorities of Vojvodina, the majority of participants in the poll are of the opinion that those authorities do not provide significant support to competitiveness of companies that conduct their business activities in the Province (57% of the interviewed). They also claim that there are no concrete measures in that direction. Being asked to evaluate the significance of certain measures that would affect the increase of competitiveness of companies from Vojvodina, the entrepreneurs have primarily emphasised the extending of co-operation within networks and clusters at both regional and international level (75.8% of the interviewed entrepreneurs). Furthermore, they also ranked highly the measures such as promotion of ecological (“healthy”) products, and increase of number of applied researches 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 originating from Vojvodina such as “The best from Vojvodina” label. Intensification of international co-operation of economic development factors, meaning the co-operation of business community, science, and public administration is also one of the measures.

When it comes to the main non-price competitiveness factors, the entrepreneurs believe that Vojvodina is a good environment for research and development, but that there is the lack of proper measures that would stimulate this significant activity for competitiveness and general economic growth. In the case of technology, a large number of companies in Vojvodina have adopted new technologies, but the level of co-operation between universities and institutes, on the one hand, and companies, on the other hand, in the process of transfer of technological knowledge is still not satisfactory. The entrepreneurs from Vojvodina ranked quality as one of significant competitiveness factors of Vojvodina, which is less and less true in the world today since the process of standardisation implies good quality. However, the segment of quality keeping in Vojvodina shows certain problems because the quality control systems are outdated and inefficient. In terms of international standardisation, it seems as if the companies from Vojvodina have gone a long way because 70% of them have international quality standards. However, only one third of them have adopted the most important standards. Entrepreneurs still believe that main comparative advantages of Vojvodina include its good geographic position and qualified and cheap labour force, which is not the picture of successful and competitive economy.

In a modern world with significant level of liberalisation of international trade regime, the economies do not exchange products and services alone but also the production factors. That is why the competitiveness of a certain economy is not based on its natural resources any more, since no one can compete with China and India when it comes to labour force, and no one can supersede the USA and other developed countries when it comes to capital. The aim is to find a specific resource that is rare in the world, which is much more connected with technology and knowledge.

Measures of the state that are directed towards increase of competitiveness should stimulate transfer of economy from resource-based production into knowledge based society. Production should be based on application of the best available technologies and services are becoming the dominant segment of economic activity. In a short run, all the measures of public authorities should be turned towards creating of the most favourable climate possible for conducting of business activities in Serbia, which will suit to both domestic and foreign investors. Most entrepreneurs in Vojvodina evaluated positively the effect of accession of Serbia into the EU onto their business activities. However, our full accession into the Unique EU Market will bring large structural changes in economy of Serbia and the Government should know how to manage those changes in order to make that re-structuring process as painless as possible. The Government of the province has to work on creating of the most favourable climate possible and some towns in Vojvodina already have a significant experience in that.

Some of the concrete measures of the provincial administration should be oriented towards the sector of development of technology and enhancing of co-operation between universities and industry. This could be achieved by granting of funds

for applied researches through projects that would be developed at universities and institutes, and their discoveries and findings should be transferred into production process of companies in the end. Even the World Trade Organization allows subsidies for technological development. This could be linked with the development of business incubators in Vojvodina through providing of consulting services for new entrepreneurs on selection of technology for business start up that would be financed by the Government of the Province.

The state could stimulate and approve loans for introduction of international standards into production through different forms of tax reliefs to companies that enter such process. Those standards are necessary in order to provide consistence of product quality. This should also be one of the criteria in deciding on granting of the "The best from Vojvodina" label.

When it comes to attracting of foreign direct investments, the measures should be undertaken for attracting of investments that bring higher benefits to local economy, such as higher scope of production, higher employment and, as by the rule, it is the case of new (Greenfield) investments. For that purpose the key recommendation refers to passing of the Strategy of the Government of the AP Vojvodina for FDI attracting that will focus on attracting of FDIs into the sector of exchangeable goods in order to improve a foreign trade balance of economy of Vojvodina. In such a way, Vojvodina Investment Promotion Agency would have a clear programme of work on a long term basis.

Nevertheless, if we want to look strategically at things in the future the state has to initiate the development of regional accounts in the official statistics, at both NUTS2 and NUTS3 levels, because it is not necessary only for proper managing of economic policy at the regional level but it is also the request of the EU that is defined in the Stabilisation and Association Agreement.

## 9.11 Competitiveness increase policy

After the enactment of a new Statute of the Province, the AP Vojvodina disposes with enhanced possibilities to affect the economic development of the Province. Macroeconomic and system frameworks belong to the responsibility of the Republic and that it the level where it is possible to affect their contents and reforms. There is no doubt that changed relations in the world economy shall affect turning of macroeconomic measures towards the increase export and investments as the main driving engines of development. More stressed emphasis on faster development of the sector of exchangeable goods should be the focus of measures that fall within responsibilities of Vojvodina. A large number of them has been analysed in this Study and appropriate recommendations have been stated and explained. It would make sense to point to several more comprehensive and strategic measures in the summary.

Strategic framework of development of competitiveness of Serbian and Vojvodina economy is certainly defined by the process of integration with the European Union. It opens up significant possibilities for the use of resources from the EU funds as well as for take over of institutions and utterly concrete knowledge. Favourable geographic position of Vojvodina as the edge region provides the Province the possibility to use much more funds from the cross-border co-operation programmes that are financed from the pre-accession EU funds. However, in order to take those opportunities, it is exceptionally important to develop capacities for the use of those funds, in both public and privates sectors. Creating of modern public administration will result with the increase of absorption rate not only for pre-accession assistance of the EU but also for structural funds of the EU, once they become available for Serbia and AP Vojvodina. Therefore, investments into institutional and infrastructure in general are of great development significance and they should have direct positive impact on productivity and competitiveness of Vojvodina economy.

Furthermore, dynamically speaking, competitiveness depends largely on technological progress, which in turn depends on qualification level of available labour force. That is why it is exceptionally important to invest into education, which is largely the responsibility of Vojvodina. Other measures of affecting the enhancing of knowledge and innovations are also of exceptional significance and they fall within the responsibility of the Province.

In addition to that, flexibility of the market – labour market, market of products, knowledge, services – is also very important because fast growth implies significant structural changes, which again can not be accomplished if economic resources and markets are monopolised. It is very important to influence the increase of competition in both private and public sectors, which is also largely the responsibility of the Province.

Similar can be said for the development of sectors in which Vojvodina has comparative advantages. A significant progress can be achieved in agriculture and in the sector of energy production, as well as in their linking. Spatial economy plays an important role in competitiveness of an economy and responsibilities of Vojvodina in that area are neglectable.

In the end, regional policy does not dispose with macroeconomic instruments but its advantage is the fact that it is the matter of managing an open economic system. There are big advantages from elimination of cross-border barriers of all types through processes of European and regional integrations. This enhances competition, which places a special gravity on instruments of directing that affect competitiveness of economic entities that belong to responsibility of provincial and local community authorities.



