

PERSPECTIVES ON THE STRENGTHENING OF THE SERBIAN EXPORT COMPETITIVENESS IN THE POST-COVID PERIOD

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ABSTRACT

International trade plays a crucial role in fostering economic development, which is particularly important for relatively small open economies like Serbia. Apart from faster growth, international trade enables countries to improve productivity and provide higher income and more opportunities to domestic companies and citizens. The Covid-19 pandemic had a tremendous negative impact on global trade development. World merchandise trade recorded a decline of 7.4% in 2020, but it was recovering fast, achieving a pre-crisis level by the end of 2021. Serbian trade declined 3.4% in 2020, while it marked a strong recovery with a growth of 25.5%. Despite a recovery and remarkable growth rates, a non-diversified export structure with a high presence of low value-added products, a low level of participation in GVCs, absence of a strategic approach to export promotion remain the main challenges Serbian trade faces. In order to enhance export competitiveness, it is necessary to make attempts for export diversification by attracting investments in strategically important industries and sectors. Furthermore, it is essential to develop an active and well-conceived export promotion policy based on appropriate measures and tools to support the export activities.

Key words: Serbia, Trade, Exports, Competitiveness.

INTRODUCTION

International trade is considered one of the main drivers of economic and social development (Bakari & Mabrouki, 2017). The results of most empirical research show that openness to international trade encourages economic growth (Marjanović, D. & Domazet, I. 2018). Apart from faster growth, international trade enables countries to improve productivity and provide higher income and more opportunities to domestic companies and citizens. According to Eberhard-Ruiz and Calabrese (2018), the level of export competitiveness is of great importance for a country's effective participation in international trade, as well as eventual management of balance of trade distress. Export competitiveness is the ability of a country or firm to produce and sell goods and services in foreign markets at a price and quality that ensure long-term viability and sustainability (Gaglio, 2015). Exports contribute to higher levels of specialization in production, which leads to higher productivity and increased economic growth (Nguyen, 2011). As exports grow, resources are allocated more efficiently by shifting factors to more productive export sectors. It is considered a key indicator of the success of firms through increased export of value-added goods and services (Atkinson, 2013). Yet, export-led economic growth is crucial for enhancing economic growth in developing countries (Hakobyan, 2017), and it is particularly important for small or relatively small countries (such as Serbia), which are more dependent on cooperation with foreign partners (Baranenko & Đukić, 2012).

International trade has been rising steadily during the last decade. But the situation was dramatically altered by the Covid-19 pandemic when world merchandise trade recorded a decline of 7.4% in 2020, which is the most considerable annual decrease since 2009 (fell by 22%) (UNCTAD, 2021). After a sharp decline, world trade recovered in 2021. But although total world trade has reached pre-pandemic levels, a significant imbalance among trade partners and products remained at the end of 2021, and not all

accumulated losses from previous steep declines have been offset (OECD, 2022). There were very heterogeneous trade impacts on specific goods, services and trade partners, that created pressure on sectors and supply chains. Furthermore, these impacts and pressures were much more prominent than during the global financial crisis and signified high uncertainty and adjustment costs across products, sources and destinations.

When it comes to Serbia, the Serbian merchandise trade also declined 3.4% in 2020, while it marked a strong recovery with a growth of 25.5% in 2021. Despite a recovery and remarkable growth rates, there are still many challenges Serbian trade faces. In this regard, the paper aims to investigate current global trends' impact on the development of Serbian trade flows (with a special focus on exports). Also, the paper attempts to identify the main obstacles and challenges Serbian trade/exports face and explore perspectives on the strengthening of Serbian export competitiveness in the following, post-covid period.

METHODOLOGY

The analysis was carried out based on data from the Republic Statistical Office of Serbia and the National Bank of Serbia. Merchandise trade data is presented in current euros and covers the period from 2017 to 2021. The changes in the trade structure are observed in terms of SITC (Standard International Trade Classification). The average annual growth rates for trade and exports are based on geometric mean rate calculation.

SERBIAN TRADE FLOWS DEVELOPMENT

In the period 2017 – 2021, the total trade of Serbia has been almost steadily growing, except in 2020 (Figure 1). Compared to 2017, total trade increased by 45.8%; exports and imports grew by 43.7% and 47.5%, respectively. The average annual growth rate of exports was 10% and 11% in terms of imports. In 2021, Serbia recorded a trade deficit of 6980.5 million euros, which is almost twice as high as in 2017. The export-import coverage ratio stayed at a relatively high level of 75.6% in 2021, but a declining trend was recorded from 2017 to 2020. The exports to GDP ratio slightly increased from 38.4% in 2017 to 40.6% in 2021, but the ratio (40.6%) does not represent a desirable level despite the upward trend.

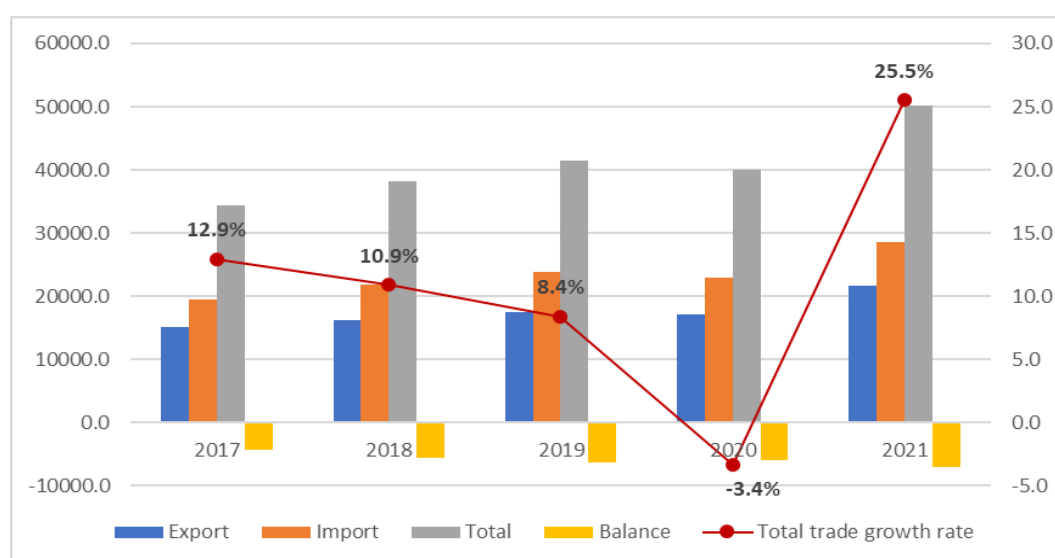


Figure 1: Dynamics of Serbian trade in goods, 2017-2021

Source: Authors' compilations based on Statistical Office of the Republic of Serbia data

When it comes to the impact of the Covid-19 pandemic, the exports declined by only 2.7% year-over-year, while the import was lower by 3.8% in 2020. Serbia's trade deficit was reduced despite a reduction in

external demand and a significant increase in medical products and devices imports. Within the total exports of goods, exports of manufactured products decreased by 5.0%, primarily due to lower external demand and disruption of global production chains. On the other hand, exports of agricultural products after a pleasant growing season grew by 19.8%. The data shows that the Serbian trade, generally, was not affected so severely as trade in many other countries over the world. Furthermore, in 2021, total trade experienced a robust recovery, amounting to 50222 million euros, which is an increase of 25.5% compared to 2020. A remarkable growth was recorded in both exports (26.8%) and imports (24.6%).

According to the analysis of the data on the trade structure in terms of SITC, the structure of Serbian exports has not significantly changed in the last five years, except for sector 2 - Raw materials, except fuels, which share grew more than three times compared to 2017 (Table 1). The Machinery and transport equipment and Miscellaneous manufactured articles remain the main sections with a share of 26.7% and 22.4% in total exports of goods, followed by Food and live animals, Miscellaneous manufactured articles and Chemicals (14.1%, 11.4% and 10.3%, respectively).

The most highly affected by Covid-19 pandemic sectors in 2020 were: Commodities and transactions, n.e.s (decline by 17.9% compared to 2019), Mineral fuels and lubricants (-16.7%), and Manufactured goods classified by materials (-14.3%), or, in other words, sectors that experienced reduced demand for goods including sectors that were more integrated into the global supply chains. Nevertheless, all sectors of SITC recorded positive growth rates in 2021, showing signs of recovery.

Table 1: The structure of the Serbian exports of goods by sectors of SITC, 2017-2021, in million euros

	2017	2018	2019	2020	2021
Total exports	15050.8	16282.0	17533.4	17054.5	21620.8
0 Food and live animals	2035.5	2052.1	2304.9	2580.7	3054.4
1 Beverages and tobacco	438.3	456.2	520.5	606.2	666.3
2 Raw materials, except fuels	532.8	562.1	558.2	677.4	1423.4
3 Mineral fuels and lubricants	382.5	492.9	469.1	390.8	630.4
4 Animal and vegetable oils and fats	166.3	143.0	198.8	193.5	259.7
5 Chemicals	1390.9	1575.1	1614.3	1694.8	2230.2
6 Manufactured goods classified by materials	3553.2	4039.9	4268.8	3657.5	4838.6
7 Machinery and transport equipment	4220.8	4515.1	4979.5	4821.7	5766.7
8 Miscellaneous manufactured articles	1997.6	2091.2	2296.7	2167.2	2458.9
9 Commodities and transactions, n.e.s	332.9	354.2	322.6	264.7	292.3

Source: Authors' compilations based on Statistical Office of the Republic of Serbia data

Regarding the main export destinations, the most important trade partners (top 10) of Serbia in 2021 were: Germany (12.7% of total exports), Italy (8.5%), Bosnia and Herzegovina (7.2%), Romania (5.5%), Hungary (5.0%), the Russian Federation (3.9%), China (3.8%), Montenegro (3.8%), North Macedonia (3.8%) and Poland (3.5%). Compared to 2017, there were several changes recorded. Firstly, the share of China and Hungary in total exports remarkably increase (from 0.2% to 3.8%, and from 3.2% to 5.0%, respectively). Secondly, the share of Italy and the Russian Federation decreased (from 13.2% to 8.5% and from 5.9% to 3.9%).

DISCUSSION

Due to the high value of the trade-to-GDP ratio (110% in 2020 according to WB estimations), Serbia is recognized as an open economy. The high degree of trade openness has been followed by steady export growth, enhanced by expanding exports supply with a gradually increasing share of knowledge-intensive products. Namely, according to the UNECE study (2021), export-oriented manufacturing enterprises are exhibiting increased engagement in knowledge/technology-intensive activities, with many registering high scores on both the product complexity index (PCI), as well as the economic complexity index (ECI). Serbia's score, for instance, was estimated at 0.68 in 2020, placing it in the 37th position in a ranking of 127 countries.

Despite certain improvements in trade structure, as well as significant achievements in generating inclusive trade-led growth, there are some challenges the Serbian exports still face. First of all, the substantial problem remains the non-diversified export structure - although there were recorded some positive changes mentioned above, trade structure is characterized by a high presence of low value-added products. Export of knowledge-intensive products is still on an insufficient level, while exports of raw materials and lower value-added products, such as insulated wire, steel, copper, corn, wheat, tobacco, apples, and raspberries are growing. As Frias et al. (2019) mentioned, Serbia introduced only 47 new export goods between 2008 and 2017, and the complexity of its exports did not increase.

One of the main challenges could be considered the fact that more than half of the Serbian exports originate from foreign-owned companies that do not use the services and products of Serbian suppliers on a sufficient level. For instance, domestic inputs, except for labor and energy, accounted for only 9% of input costs in 2019, while almost 30 percent of the increase in exports included the imports of goods for processing in Serbia in order to be exported later to the country of origin – which means there are few opportunities for overflowing positive effects and participation of local companies in global value chains (Rabrenović, 2020).

In addition, the low level of participation of Serbian companies in GVCs, the high presence of foreign-owned companies in the exports, the low level of investments in new technologies and the absence of a strategic approach to export promotion should be mentioned when indicating the obstacles that could also prevent the growth of export competitiveness.

In order to overcome the main challenges, it is essential to focus the Serbian exports policy approach on fostering exports competitiveness, primarily by the diversification of the exports structure, which means attracting investments in strategically important industries and sectors producing goods of higher stages of processing and thus bringing higher added value. In this regard, it is important, among other things, to increase investments in R&D activities.

Further improvements are necessary within trade facilitation and an overall raising openness of the domestic economy. Hence, Serbia should continue the process of creating a better environment for exporters, which implies improvement of domestic regulations and the institutional framework, stability and non-discrimination of the exchange rate, sound monetary and fiscal policy, reducing the level of corruption and development of the business climate, upgrading export-supporting services, etc. (Ignjatović, 2020). Of great importance is also the implementation of an adequate policy of export-oriented domestic companies' support, especially for small and medium enterprises.

When it comes to the prospects of the future development of Serbian exports, since Serbia has succeeded in providing of adequate response to the crisis provoked by the Covid-19 pandemic, which led to the achievement of macroeconomic stability and recovery of the main macroeconomics indicators, it could be expected that trade, as well as exports, will continue to increase in the forthcoming period. The global trade revival, as well as the fact that the Covid-19 situation appears to be relatively stable and on a downward trend, also argues in favor of that assumption.

CONCLUSION

The paper's purpose was to investigate the impact of the Covid-19 pandemic on the Serbian trade flows and exports development. Special attention was paid to identifying the main obstacles and challenges Serbian trade/exports face and exploring perspectives on the strengthening of Serbian export competitiveness in the following period.

According to the conducted analysis, Serbian trade was not affected as severely as trade flows in many other countries worldwide. Furthermore, in 2021, total trade experienced a robust recovery. A remarkable growth was recorded in both exports and imports as well. The most highly affected by Covid-19 pandemic

sectors in 2020 were: *Commodities and transactions, n.e.s, Mineral fuels and lubricants* and *Manufactured goods classified by materials*, or, in other words, sectors that experienced reduced demand for goods, including sectors that were more integrated into the global supply chains. Nevertheless, all sectors of SITC recorded positive growth rates in 2021, showing signs of recovery.

Despite certain improvements in trade structure and significant achievements in generating inclusive trade-led growth, there still remain challenges that could negatively impact Serbian economy competitiveness and hinder opportunities to increase exports. The most important obstacles are defined as follows: a non-diversified export structure with a high presence of low value-added products, a high presence of foreign-owned companies in exports, a low level of participation in GVCs, absence of a strategic approach to export promotion, the low level of investments, etc.

In order to enhance export competitiveness, it is necessary to make attempts for export diversification by attracting investments in strategically important industries and sectors. Furthermore, it is essential to develop an active and well-conceived export promotion policy based on appropriate measures and tools to support the export activities.

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