CORRUPTION AND THE DOMESTIC MARKET – PROBLEMS AND CHALLENGES

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Abstract

In this paper the authors analyze the process of improving the efficiency of the national economy in regards to solving the problem of transitional recession, with a special review of the issue of corruption. The problem of improving the efficiency of the national economy, apart from the direct economic factors, is in close correlation with the establishing of efficient state regulations, efficiency of the legal system and an independent judiciary system, but also with the establishing of professional management in previously state-run companies.

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Introduction

One of the issues crucial to the development of a nation's economy is establishing an efficient state apparatus which, by working together with a functional, independent judiciary system, resolves problems in the economy in a way that is satisfactory to its citizens.

Corruption has been present as a big problem in all the transitional economies, indicated by the fact that all countries in transition, including the ones that successfully joined the European Union (Croatia, Bulgaria, Romania and to a certain extent Slovenia), had or currently have considerable issues. Large capital naturally finds its way towards the sphere of politics via the political elites, who are not immune to cooperation that is in mutual interest.

The most common opinion of our socio-economic analysts [1] is that, like in the majority of the former communist countries, corruption in Serbia has roots spanning from the previous regime. The social crisis and upheavals have benefited corruption greatly. Totalitarian regimes, the absence of democratic institutions and a non-functioning market economy were prerequisites for a wide spread of corruption.

The default period that was analyzed were the nineties, however the period before 1990 and the socialist system, built upon the annulment of a majority of modern values (private property, market mechanism, democratic state system) should also be kept in mind.

The period of the socialist system and the ruling communist party (SKJ) has created a fertile soil for what would follow during the nineties: a strong bureaucratic apparatus has been created existing solely for its own sake, a party state, nepotism followed by a negative cadre selection, politically incentivized investments and the collapse of the economy over the interests of a small number of political and economist groups (oligarchies of the former SFRJ Republics). Even though the transition had begun in 1989, there were no major changes in

Serbia until the democratic upheaval in 2001. The Republic of Serbia had much bigger problems in the last 30 years than the other countries in transition – political deadlock and wars in the former SFRJ have led to a systematic crisis in the Republic of Serbia, and the political oligarchy of the previous regime had destroyed a considerable part of the state institutions, leading to a part of them being “privatized” by the new ruling regime (judiciary system, internal affairs and intelligence, finances, education etc.).

The institutions of the Republic of Serbia were in a very bad shape during the democratic shift, and the transitional recession that followed has benefited the further interconnection between the political oligarchy and the big domestic capital (which was acquired with the help of rather shady practices during the nineties). The first few years were marked by the clear connection between the political structures and the big domestic capital, whose goal was to establish a good position for the times to come.

After the real transition of the economy had begun in the year 2000, there was a noticeable sentiment that the will of the new state administration is capable of overcoming the limitations of managing the newly democratic country and turn the things around. It had proven to not be enough and had failed, due to being included in the systemic corruption – both small and large.

Analysis of Some Aspects of Corruptive Practices in the Domestic Economy

The issue of corruption is often mixed with the other social problems, such as the abuse of authority or nepotism. These problems are considerable and their resolution would improve the social picture of Serbia, but are certainly not substantial problems related to corruption.

The main source of corruption is within the system itself and within the mechanism of function of the state apparatus. The essential problem is within the close interconnectivity between the political and the financial oligarchies. In every transitional country both groups are rather new and have the need to prove themselves as well as satisfy their own interests.

When it comes to big domestic capital, it is evident that the connections on the domestic market date back from the communist era, and the main relations are high state officials – political parties – intelligence structures – big capital. Sometimes the gray zone of the economy is included in this correlation.

When it comes to the foreign capital the relations are far less complicated, due to the direct connection between the political parties and their cadre in the state administration and the representatives of the foreign capital.

Therefore, the problem of corruption is in a natural correlation between the political groups and the representatives of big capital, primarily due to the inadequacies in the functions of the state institutions. Corruption is also sometimes linked to the unrealised process of lustration – the cadres of the previous regime have completed a transition of their own towards the democratic parties in order to maintain their economic and social positions and continue with the realization of non-market business practices (maintaining a monopoly, setting up jobs for the selected few, inappropriate financial stimulation of the party cadre employed in public enterprises etc).

The best example of such behavior could be found in the results of a research conducted in the domestic market during 2010. “How the citizens of Serbia view the transition from socialism to capitalism” had been conducted on a sample of 1813 respondents from the entire territory of Serbia. Respondents aged from 16 to over 70 and coming from different educational backgrounds and social strata have been included in the research [2].

When it comes to the transition of government, 23% of the citizens of the Republic of Serbia believed that the country was still governed by the criminals, 18% believed that it was ruled by the president, the Government and the Parliament, 18% believed it was ruled by the

owners of the big companies, 12% believed that it was ruled by the political parties, 12% believed that Serbia was ruled by the international community and 15% were uncertain as to who was governing Serbia.

When it comes to the transition of property and ownership the majority of the citizens, around 44% of them considered that the process was a “highway robbery”, 27% believed that privatization was a necessity but was conducted in a wrong way, 26% were unable to rate it and only 3% had supported such a way of privatization.

When it comes to the trust in the institutions, while observing the 10 most important social institutions, only the trust in the educational system has received the median grade of 3 with the remaining institutions receiving far worse scores. The levels of trust were higher with the institutions of order (military, police and the legal system), than with the political institutions (the president, the government, political parties) and the evaluation ratio was 2,86 to 2,83.

The most common sources of corruption on the domestic market have been cited as:

- The crisis of morality,
- General poverty,
- A practically non-existent legal state [1].

It is evident that there is a problem with the development of democratic institutions and markets in Serbia and a prominent pessimism among the citizens in regards to the methods, tempo and the quality of social reforms.

In order to deal with the problems in this area, the Government of the Republic of Serbia has established the Anti-corruption Agency which began operating in January of 2010, preceded by the founding of the Board of the agency in 2009. Some of the main activities are monitoring the sources of financing for the political parties, as well as monitoring the dual functions of the state officials. The general rule book on gifts received by the state officials has been adopted in November of 2010, according to which no state official was to receive gifts whose total value, in a single year, was higher than the average wage in the Republic.

Every gift must be recorded, which relates not only to products but also services such as traveling abroad etc. The main goal of the actions by the Agency is to create an ambient which would lead to lowering the levels of corruption without appearing repressive.

Special responsibility is on the political groups acting within the Parliament, which are expected to set an example to the other organs of the state administration.

Opportunities for Increasing the Efficiency of the Domestic Economy

The World Economic Forum annually publishes the report on global competitiveness, in which the key indicators impacting the competitive position of a national economy are analyzed. The global competitiveness index analyzes several groups of indicators such as:

- Environment,
- Human capital,
- Market,
- Innovations and the ecosystem [3].

Factors included in the environment are the institutions, infrastructure, ICT implementation and macroeconomic stability. The human capital includes individual indicators such as healthcare, skill levels etc. The market indicators include the products market, labor market, the financial system and the size of the market. The last group of indicators – innovations and ecosystem, include the dynamics of doing business and the capacity for implementing innovation. Based on said indicators, the most competitive nations in the world are the USA, Singapore, Germany, Switzerland, Japan, The Netherlands, Hong Kong, The United Kingdom, Sweden and Denmark.

According to the report for 2018, Serbia is ranked as the 65th out of 140 analyzed countries and is ranked higher than some of the nearby countries, such as BIH (91st place), North Macedonia (84th place), Montenegro (71st place) and Croatia (68th place). The only FYR republic ranked higher is Slovenia (ranked 35th). When it comes to possible issues with corruption, Serbia is ranked as 66th which is an expected rank for a country with a transitional economy.

According to the Report on global competitiveness for 2018, the most significant problems experienced by the economy of the Republic of Serbia related to the set of indicators are shown in the table.

Table 1. The most significant problems of the economy of the Republic of Serbia based on the indicators of competitiveness in 2018

	In depth analyzed indicator	World ranking
1.	Level of buyer sophistication	127
2.	Reliance on professional management	122
3.	Relation toward entrepreneurship	119
4.	Protection of private property	115
5.	State regulations efficiency	113
6.	Legal system efficiency	108
7.	Adequate system of reporting	108
8.	Independent judiciary system	107
9.	Level of market dominance	106
10.	Intellectual property protection	100
11.	Cooperation between the employers and the employees	100

Source: The Global Competitiveness Report 2018, World Economic Forum oct. 2018, pp. 500-501, www.weforum.org

As it can be concluded from the table, some of the key problems of the economy of the Republic of Serbia are not economical in nature, such as the protection of private property, state regulation efficiency, legal system efficiency, adequate system of reporting and independent judiciary system.

These problems, all within the top 10 worst ranked characteristics of the economy of the Republic of Serbia according to the report by the World Economic forum for 2018, are having a detrimental effect on the general efficiency of the economy. Solving them could improve the corruption levels within the economy.

Another important element that could have a positive effect on lowering the levels of corruption is the establishment of the institution of professional management in all the state companies and enterprises. It can be deduced from the table that one of the key problems of the economy is the general unreliability of the professional management, particularly in the state companies, where it was chosen based on belonging to a political party, which opens the doors for various forms of corruption. Furthermore, one of the problems of the domestic economy is the probability of preventing the conflicts of interest, in which aspect Serbia is ranked higher than the general average – in 2018. Serbia was ranked 95th in the world in said criteria.

The management is considered the most responsible for the way an organization is doing business. The greatest responsibility of the management is to adequately manage the resources of the organization [4]. Management creates plans (stages and time for applying strategies) and activities (turning the plan into activities) [6].

The role of the management is of essential importance to a successful business result, the process of applying the modern management methods and techniques and the improvement of quality in doing business. Global economy demands that a competitive economy is built based on knowledge, new technology application and innovation. Innovation becomes a basic factor

of growth and development of the company. Namely, it always leads to new solutions, new ideas and new ways of doing business [7]. Therefore, today, innovation-based industries are the most important factor for creating value and creating a competitive advantage [8].

Customers are considered the most important source of innovative ideas in the process of developing a new product [9].

Adequate application of knowledge is key for improving the competitiveness of domestic businesses. We are at the crossroads between the hitherto dominant “mass economy” whose basis was the mass production and use of energy from one and the so-called. “Knowledge economy”, on the other hand [10]. It implies that the management of state companies (especially those state-founded and of essential importance) must be appointed based on professionalism and not based on politics.

When it comes to the role of state companies and their management in this area, it is considered [5] that an underdeveloped market mechanism and the existence of an inadequate tax system, which clearly recognizes different areas of socially responsible initiatives such as philanthropy, allows for certain companies in transitional countries to use this form of corporative social responsibility in the goal of achieving their personal profit interests (financing certain groups with the goal of achieving profit).

Conclusion

Economy progress demands for the creation of a competitive economy based on knowledge, the application of new technologies and innovation.

The globalization trend, initiated in the late 20th century, continues in the 21st century. It is a complex; multidimensional process presents in all sectors of the economy and society [11].

Globalization is considered as the only road for every transitional country, for which it is crucial to develop a market economy based on the industrial production. It is also important that an efficient system of institutions is established in a domestic economy, which would function in accordance with the defined legal infrastructure and with the end goal of achieving welfare for the citizens and the economy itself.

Establishing the efficiency of the state regulations, the legal system and independent judiciary system has an impact on reducing the corruption on a national economy level. Establishing the institution of professional management in state companies, independent from the political structure, is also an important factor in the reduction of corruption.

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