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KNOWLEDGE ECONOMY AS A FACTOR OF COMPETITIVENESS OF THE REPUBLIC OF SERBIA ON A WAY TO THE THE EUROPEAN UNION

Abstract

Knowledge, that is the obtained knowledge level of a certain community, its capacity to develop innovations, to adopt modern scientific and technological achievements, in other words, its capacity to create a new knowledge, which leads to further prosperity and development, is in the basis of competitiveness. Emphasizing knowledge and innovations as the main resources of development and relying on them in creating the competitiveness index surely leads to quality display of competitive capacities of a certain society which is the basis of this paper. Today, the Republic of Serbia is a candidate country for the EU membership and it is at an economic and social turning point, which brings the new challenges and chances. Just as it does for every European country, the European Union represents a basis for stable development and improvement of national competitiveness for Serbia.

Keywords: *competitiveness, knowledge economy, competitiveness index, innovation*

1 INTRODUCTION

Nowadays, in the knowledge era, the competitive advantage of an economy is based on technological development and innovativity, as well as using the potential chances and opportunities for realization which knowledge is necessary. Constant investment in the human capital increases the productivity, employment, and a direct source of innovation and long-term competitiveness is obtained. Human resources and their knowledge represent a key to the success for economy and companies, while an incompetent workforce represents one of the most important obstacles in their business. Development of competitiveness on the domestic and foreign market has become an imperative for development a modern economy. Knowledge is a factor that generates

the rapid changes. Changes are the condition for survival, thus it can be concluded that learning and training are, in fact, survival. For all these reasons, the modern management systems are based on changes, knowledge and constant learning. Human knowledge is a dynamic category that is constantly improved with development of science and technology directly resulting in a rapid obsolescence of the existing knowledge. "From the economic standpoint, with the function of gaining and improving an competitive advantage, as a prerequisite for development, the modern companies enable an efficient use of knowledge which can be seen in realization of innovations, at the same time decreasing the time required for its practical application" (Premovic, 2010).

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Knowledge enables to the individual and community to cope in reality. Know-ledge is the awareness of the cause, functioning and anticipaton of events. Nowadays, the main role in the economy belongs to a worker with knowledge. Know-ledge is the basic instrument for creating wealth.

According to the National strategy of sustainable development, knowledge society and knowledge economy do not refer to rigid, that is textbook knowledge, but rather a set of skills, abilities and competences used for creating innovations, solving problems, cooperating with others and working with the aim of general well-being (Government of the Republic of Serbia, 2008).

In order for countries to be able to respond to the challenges of an economy based on knowledge, the following factors in the National strategy for sustainable development of Serbia are listed:

- modern education and permanent training;
- means for research and development, especially for investment in the modern industries (computers, biotechnology, pharmacology...);
- adequate scientific-technological and cultural policy of a society;
- adequate management of economic changes in accordance with the changes in the world and its close surroundings;
- choice of a macroeconomic policy, systematic and structural economic solutions;
- telecommunications, massive use of computers and other modern technical devices;
- High technology sectors and defining incentive measures for attracting foreign investments into those sectors;
- degree of ownership rights protection and especially of intellectual property and
- social responsibility of a company's business.

The strategic course of Serbia is its integration in EU and launching domestic companies and economy on the European and world market among competitors from a great number of successful, export-oriented companies from the other countries, multinational companies with world famous products - brands, modernorganized companies with the use of the most modern information technology and modern - designed organizational structures with very educated, professional and experienced management (Vesic, 2010).

2 KNOWLEDGE ECONOMY – WHY AND HOW

Knowledge is the basis for progress and development of a society. Investing in knowledge includes the costs of education, research and software. It is very complex to be measured. Managing investments in knowledge and measuring these investments have developed into one of the most important issues which knowledge economy is dealing with. Knowledge economy has resulted out of the rise of knowledge intensity and increasing globalization of economic affairs. The rise of knowledge intensity is mutually moved by the information revolution and technological changes that are moving rapidly. Globalization is moved by deregulation and revolution in communication related to the Internet. However, it is important to note that the term “knowledge economy” refers to not only any individual phenomenon, or their combination, but the overall economic structure which occurs nowadays. Investing in knowledge that increases economic efficiency and economic growth will enable technological development and set the basis for increasing employment (Albjanic, 2010).

By analyzing the world economy today and its basic features, Draskovic emphasizes that there are “three basic driving and strategic forces of modern economy:

knowledge, changes and globalization“ (Draskovic, 2010, pp. 83-90).

Improving the existing and introducing new products can be realized through the systematic and continuous implementation of processes for innovation and learning in companies. “Innovation in the knowledge economy is not only the process of creating the new products. In essence, it is an element of production and other business processes because a company either realizes innovations or it disappears“ (Krstic, Petrovic, 2010, pp. 215-225). Knowledge and effective management of organizational knowledge encourages creativity of employees that is realized through various innovations. The ability to innovate is one of the important factors of change and success, which is why innovation is a necessity for the survival and vitality of

companies and for the national economies and whole society (Premovic et al., 2011).

Knowledge economy is formed and spread through the basis of knowledge as a unique, unlimited and individual factor of production that cannot be substituted by the other resources. This same knowledge is converted into the economic goods and income in most economic activities, not only in those which are conditionally associated with the advanced technologies. In the knowledge economy, innovations are not only reserved for the new products and technologies, but are also of value for the new ways of organization and, therefore, for mutual relationships with customers. Innovations are a precondition for the company's competitiveness and whole economy, where knowledge enables the sustainable economic growth and development (Figure 1).

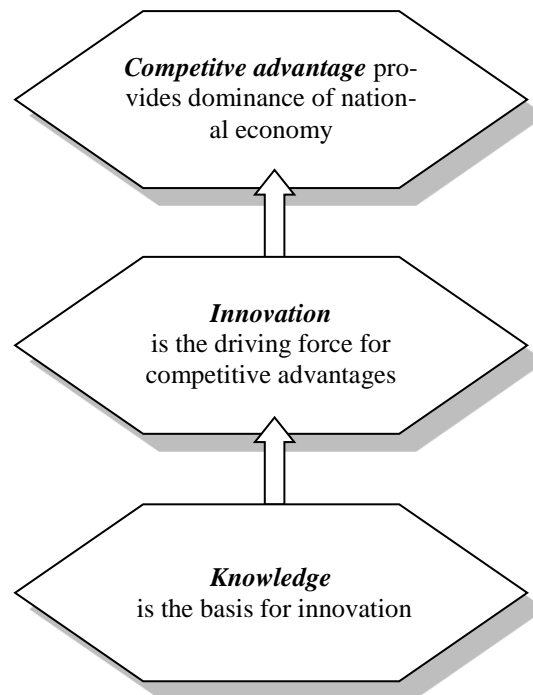


Figure 1 Knowledge as the source of competitive advantage (Albijanic, 2010, p. 56)

In order for knowledge economy to evolve towards a higher development level, it is necessary to create the conditions for compromise, equal and joint membership of countries into the global economy. Of course, knowledge here occurs as a necessary corrective of neoliberal globalization and precondition for the reconstruction of mankind. Only then, we will have an intelligent, sustainable and inclusive economy.

3 LEADING GOALS OF THE "EUROPE 2020" STRATEGY

The "Europe 2020" strategy, which entered into force in 2011, also focuses on the competitiveness which recognizes knowledge as one of the three crucial pillars of development (Kronja, 2011).

The Lisbon agenda, in many respects, represented a decisive step in the EU access to the social and economic development. There are open tensions, which must be dealt with by the EU protagonists in the near future. First of all, the tensions are related to the political and economic establishment of the EU and reform of the European society model in the global economy. The Lisbon agenda presented the first attempt at finding a new compromise through a clear Strategy (Natali, 2010).

Investing in knowledge is of crucial importance for research and development. The Lisbon strategy (Kronja, 2011, p.12) was started as a response to globalization. The idea was for the EU and member countries to cooperate in reforms, the aim of which is to enable growth and more jobs by investment in the intellectual capital and technological development and, in that way, overcome recession and transform the EU into a more innovative, sustainable and greener economy. The EU has revised the growth strategy for the period after 2010 by intro-

ducing more reforms at all levels. The new strategy tends to aid EU in overcoming the crisis and movement towards a society based on knowledge (Kronja, 2011).

Three crucial initiators of growth are the basis for a new strategy and they should be used through the specific activities at the national level and level of the EU: intelligent, sustainable and inclusive growth. The leading goals of the Europe 2020 Strategy can be seen in Table 1. The leading integrated guidelines for Europe until 2020 are:

1. Quality assurance and providing longterm sustainability of public finances,
2. Removal of macroeconomic disbalances,
3. Removing the disbalance in Eurozone,
4. Optimization of research and development and investment in innovation; strengthening the knowledge triangle and releasing the potential of a digital economy,
5. More efficient use of resources and reducing gas emissions which cause the greenhouse effect,
6. Improving the basic conditions for companies and consumers and modernization of the industrial base,
7. Increasing the employment rate and removing structural unemployment,
8. Educating workforce, the qualifications of which match the demands of the labour market, improving the quality of jobs and learning throughout life,
9. Increasing the efficiency of general education and training at all levels and facilitating access to the higher education institutions,
10. The fight against exclusion and poverty (Vukovic, 2011, p.507).

Table 1 *Leading goals of the Europe 2020 Strategy (Vukovic, 2011, p.500)*

LEADING GOALS		
<p>To increase the employment rate of 20-64 year olds from current 69% to at least 75%.</p> <p>To invest 3% GDP into research and development; primarily, to improve conditions for investment of the private sector into research and development; also, to develop a new indicator for the assessment of innovativity.</p> <p>To reduce gas emissions which cause the greenhouse effect for at least 20% in comparison to 1990, that is 30% if the conditions permit so.</p> <p>To increase the share of renewable energy in consumption to 20%, as well as energetic efficiency for 20%. To reduce the rate of students leaving school from current 15% to 10%; to increase the share of 30-34 year olds with a college diploma from 31% to at least 40%.</p> <p>To reduce the number of Europeans who live below the national poverty line for 25%, which would lift 20 million people out of poverty.*</p>		
INTELLIGENCE GROWTH	SUSTAINABLE GROWTH	INTEGRATIVE GROWTH
<p><i>Innovations</i></p> <p>The EU initiative “Innovation Union” which improves the main conditions and availability of financial funds for research and development, with the aim of strengthening the innovation chain and increase investments by the Union.</p>	<p><i>Climate, energy and mobility</i></p> <p>The EU initiative “Europe resource efficiency“ needs to contribute to separating economic growth from using resources by decarbonizing the economy, intensifying the use of renewable energy, modernizing traffic and improving energy efficiency.</p>	<p><i>Employment and qualifications</i></p> <p>The EU initiative “Agenda for new employment qualifications and opportunities“ should modernize the labour market by facilitating mobility of the employed and acquiring qualifications throughout life, with the aim of increasing the employment rate and better compliance of supply and demand on the labour market.</p>
<p><i>Education</i></p> <p>The EU initiative “Youth on the move“ which improves the education systems and makes the European universities more attractive for students from the whole world.</p>	<p><i>Competitiveness</i></p> <p>The EU initiative “Industrial policy in the globalization era“ should improve the business environment, especially for small and medium size companies and build a strong and sustainable industrial structure which is competitive on the international market.</p>	<p><i>Fight against poverty</i></p> <p>The EU initiative “European platform for the fight against poverty“ provides the social and territorial cohesion in order for everyone to benefit from growth and employment, and the people who live in poverty and social exclusion can actively participate in social life.</p>
<p><i>Digital society</i></p> <p>The EU initiative “Digital agenda for Europe agenda za Evropu“ which accelerates the spreading of fast Internet and provides households and companies with the advantages of digital unique market.</p>		

* The national poverty limit is defined as 60% median of available national income in every member country

In a function of research, Table 2 offers an outline of ranking the countries in transition towards the realized progress in relation to the priorities determined by the “Strategy 2020“.

Table 2 Ranking of countries in transition towards the priorities determined by the “Strategy 2020“

Country	Intelligence growth				Integrative growth		Sustainable growth
	Company environment	Digital agenda	Innovative Europe	Education and training	Labour market and employment	Social inclusion	Environment protection
Sweden	5,05	6,13	6,12	5,75	4,65	6,40	6,31
Croatia	3,30	4,72	3,14	4,27	3,55	4,24	4,83
Estonia	4,13	5,94	4,07	5,03	4,66	4,66	4,67
FYR of Macedonia	3,70	4,7 2	2,72	3,84	3,98	3,36	3,47
Hungary	3,61	4,60	3,53	4,51	3,97	4,52	3,70
Lithuania	5,33	5,35	3,49	4,81	4,69	3,75	4,59
Montenegro	3,95	4,74	3,62	4,37	4,67	4,79	4,60
Poland	3,65	4,44	3,39	4,89	4,01	3,97	4,20
Romania	3,44	4,08	2,89	4,14	4,00	4,03	3,97
Serbia	3,12	4,10	2,79	3,81	3,53	3,85	3,49
Slovenia	3,73	4,88	4,08	4,95	4,26	5,19	5,04
Turkey	3,90	4,27	3,29	4,01	3,42	4,01	3,32

Source: WEF; *The Europe 2020 Competitiveness Report: Building a More Competitive Europe, Edition 2012.*

This battle for growth and jobs requires the accepting strategies at all levels and mobilization of all actors throughout Europe. On its way towards EU, Serbia must harmonize its development strategy with those demands if it wants to join the EU family. Europe is reducing the innovation gap in comparison to USA and Japan, but the differences in terms of success among the EU member countries are still great. The innovative and technological gap is increasing at a regional level: success in the innovation area has worsened in almost 20% of EU regions. This development is measured in knowledge indexes that describe the knowledge competitiveness. Namely, there are 23 composite indexes which define the competitiveness of an economy and they include the knowledge parametres. It has been noted that they can be classified into four categories (Katic et al., 2012, p.32):

1. Competitiveness indexes,
2. Knowledge competitiveness indexes,

3. Innovativity competitiveness indexes, and
4. Information-communication technologies competitiveness indexes

The mentioned knowledge indexes KEI, KI and IKT can be seen in Table 3 and in Figure 2 where data for the basic pillars of these indicators is presented.

Countries that realized the biggest shift are Estonia and Lithuania. The total progress was contributed by the openness and attractiveness of the EU research system, cooperation in the area of business innovations and knowledge commercialization, which is visible from income from permits and patents of abroad. However, the growth of public expenditures related to research and development is neutralized by the reduction in investment of venture capital and business investments in innovations, which are not in the area of research and development.

Table 3 Ranking of the leading countries in transition towards indexes KEI and KI

Ranking	Country	KEI	KI	EIR	Innovation	Education	IKT
-	Sweden	9.43	9.38	9.58	9.74	8.92	9.49
1	Estonia	8.40	8.26	8.81	7.75	8.60	8.44
2	Czech Republic	8.14	8.00	8.53	7.90	8.15	7.96
3	Hungary	8.02	7.93	8.28	8.15	8.42	7.23
4	Slovenia	8.01	7.91	8.31	8.50	7.42	7.80
5	Lithuania	7.80	7.68	8.15	6.82	8.64	7.59
6	Slovakia	7.64	7.46	8.17	7.30	7.42	7.68
7	Latvia	7.41	7.15	8.21	6.56	7.73	7.16
8	Poland	7.41	7.20	8.01	7.16	7.76	6.70
9	Croatia	7.29	7.27	7.35	7.66	6.15	8.00
10	Romania	6.82	6.63	7.39	6.14	7.55	6.19
11	Bulgaria	6.80	6.61	7.35	6.94	6.25	6.66
12	Serbia	6.02	6.61	4.23	6.47	5.98	7.39
13	Russia	5.78	6.96	2.23	6.93	6.79	7.16
14	Ukraine	5.73	6.33	3.95	5.76	8.26	4.96
15	FYR Macedonia	5.65	5.73	4.99	5.15	6.74	-

Source: The World Bank; KEI and KI Indexes (KAM 2012);

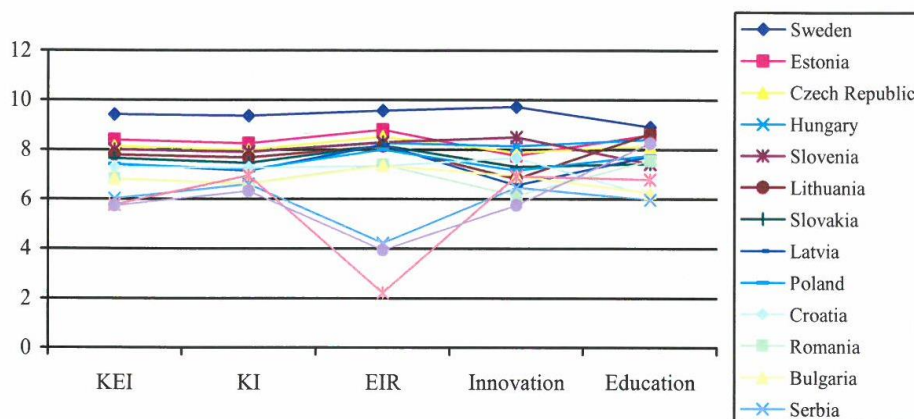


Figure 2 Ranking of the leading countries towards the KEI and KI indexes

Table 4 and Figure 3 show a comparison of the global competitiveness index

and innovativity in the leading countries of the world for the period 2012-2013.

Tabela 4 Comparison of competitiveness ranking (GCI) and innovativeness ranking for 2012-2013

Country	GCI 2012-13		Innovativity	
	Ranking	Results	Ranking	Results
Switzerland	1	5.67	1	5.72
Singapore	2	5.61	13	5.14
Finland	3	5.54	2	5.65
Germany	4	5.51	4	5.59
USA	5	5.48	6	5.43
Sweden	6	5.48	5	5.46
Hong Kong	7	5.47	7	4.83
Netherlands	8	5.52	7	5.36
Japan	9	5.40	3	5.62
Great Britain	10	5.37	10	5.15

Source: Schwab, K., World Economic Forum, *The Global Competitiveness Report 2013–2014*

“Realization of innovations throughout Europe is still a priority if we want at least 20% of GDP of EU to come from production by 2020, which is the goal of our industrial policu. The key to growth is more business investments, greater demand for the European innovation solutions and a

reduced number of obstacles to the innovation commercialization. We need the innovative companies and a framework adapted to a growth so that the innovations can be successfully launched onto the market” (Tijanac, 2014).

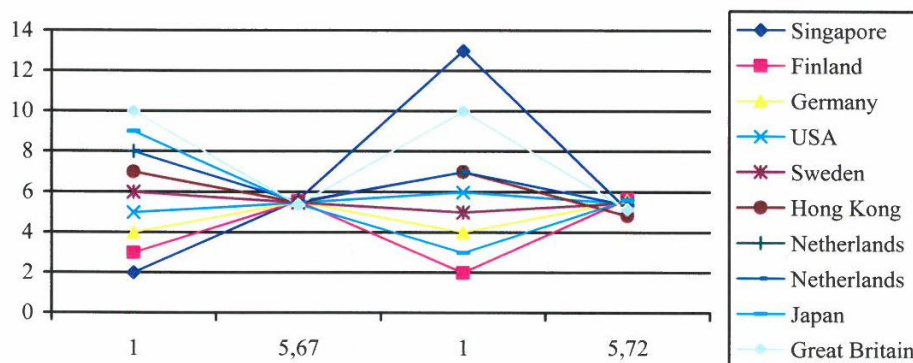


Figure 3 Comparison of the ranking of competitiveness (GCI) and innovativity of the leading countries in the world for 2012-2013

The main obstacle for development of Serbia is a bad macroeconomic environment –deepened budget deficit, reduction of national savings and increase of the public

debt. For years, Serbia has been at the bottom of a competitiveness list, which is certainly a precondition for the pessimistic attitudes of businessmen.

4 SERBIA AND THE GLOBAL COMPETITIVENESS INDEX

WEF measures the quality and competitiveness of the business environment in 148 countries of the world by the Global Competitiveness Index. The GCI is obtained by analyzing more than 110 indicators, based on a research of the main managers' attitudes in the countries included in the research and reports of other international organizations, such as the World Bank and its Report on the facility of doing business. In the WEF report for 2013, Serbia takes only the 101st position in competitiveness, which is a fall for 6 spots when compared to the previous year and a worse result in comparison to all countries in the region, including Albania (95th place), Bosnia and Herzegovina (87th position), Croatia (75th position), FYR Macedonia (73rd position), Montenegro (67th position) and Hungary (63rd position) (www.dw.de/zastoj-u-reformama).

Serbia has improved its position on the global competitiveness list of WEF for 2014 for seven spots and taken the 94th position among 144 countries. The jump from 101st position on the list for 2013 Serbia noted, based on the increase in the value of the GCI from 3.8 to 3.9, as stated in the report published by the Foundation for Development of Economics (FREN) as a partner of WEF (*World Economic Forum, The Global Competitiveness Report 2013–2014*). The most competitive country in the world is Switzerland; Finland and Germany are leaders in the EU and on the Western Balkans, the leader is the FYR Macedonia. The value of the GCI ranges from 1 to 7, where 1 is the worst and 7 the best mark (www.istmedia.rs/srbija-je-manje-konkurentna-od-clanica-evropske-unije). According to the results for 2014, Serbia has repeated the historically largest value of the GCI, which is the result of the current perception of the business world about the capacity of a country to provide a

longterm stable economic growth, as stated in the report. The biggest index value of 3.9 was realized by Serbia shortly before the first wave of the crisis in 2008. The value of GCI notably dropped to 3.77 the following year, in 2009 and after that, there was a period of gradual recovery of the index. Serbia is in the category of institutions on the 122nd position with the index 3.2; according to the infrastructure, it is on the 77th position (index 3.9); according to the macroeconomic environment, it is on 129th position (index 3.5) in the world and in the healthcare and elementary education on the 68th position with an index of 5.8. According to the criteria higher education and training, Serbia takes the 74th position on the list (4.3), and in the efficiency of the goods market – position 128 (3.8), efficiency of the labour market – position 119 (3.7), sophistication of the financial market – position 109 (3.5), technological readiness – position 49 (4.4), and according to the size of the market – position 71 (index 3.7). According to the sophistication of the business processes, Serbia takes the 132nd position (index 3.2) among 144 countries on the list and according to the innovations – position 108 (index 2.9) (Table 5).

According to the ranking on the list of competitiveness for 2014, among countries of the West Balkans, the only country that has a worse ranking than Serbia is Albania, with the 97th position. Its index is 3.84. The FYR Macedonia is the best ranked, at the 63rd position, with an index of 4.26. It has jumped 10 spots on the list. Montenegro kept the 67th position. Based on the position of GCI basic value of 4.23, Slovenia takes the 70th position. The position (fall for 8 spots) with the index value of 4.22 was noted, while Croatia is on the 77th position according to competitiveness, two spots lower than in 2013.

Table 5 *The most important indicators of competitiveness of the Republic of Serbia*

Indicators	Position	Index
Institutions	122	3.2
Infrastructure	77	3.9
Macroeconomic environment	129	3.5
Health an elementary education	68	5.8
Higher education and training	74	4.3
Efficiency of the goods market	128	3.8
Efficiency of the labour market	119	3.7
Sophistication of the financial market	109	3.5
Technological readiness	49	4.4
Market size	71	3.2
Sophistication of business processes	132	3.2
Innovativity	108	2.9

Source: adapted according to the report of WEF for 2013-14.

With the GCI value of 4.13, Bosnia and Herzegovina was not ranked on the list for 2014 because of inability to collect data. In 2013 it was on the 87th place, with an index of 4.02 (Table 6 and Figure 4).

In the EU, there is still a gap between a very competitive north, on one hand, and south and east which are behind in competition, but there is a new classification among countries that perform the reforms and the ones which do not. Several countries greatly influenced by the economic

crisis, such as Spain, Portugal and Greece, have made a significant progress in terms of improvement the functioning of its markets and allocation of product resources. In the SEF report for 2014-2015, Spain is on the 35th position, where it used to be in 2013-2014 too, when the list included four more countries than today. Portugal is on the 36th position in compariso to the 51st from the previous year and Greece is on the 81st, which is ten spots higher than in the year before.

Table 6 *The absolute ranking of the former Yugoslav countries for the period 2007-2014*

Ranking	Slovenia	Montenegro	FYR Macedonia	Croatia	B&H	Serbia
2014	70	67	63	77	-	94
2013	62	67	73	75	87	101
2012	56	72	80	81	88	95
2011	57	60	79	76	100	94
2010	45	49	79	77	102	96
2009	37	62	84	72	109	93
2008	42	65	89	61	107	85
2007	39	82	94	57	106	91

Source: Adapted according to the Neighbour countries more competitive than Serbia, GCI Global Competitiveness Index - Rank

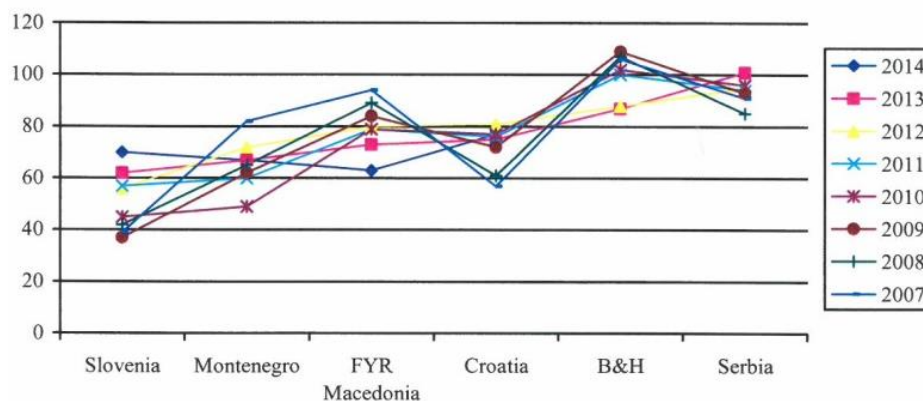


Figure 4 Competitiveness of the former Yugoslav countries for the period of 2007-2014

The most competitive countries in the EU are Finland and Germany. Both countries have fallen on the list for one spot, so Finland is now the fourth in the world and Germany is the fifth. Generally, Finland has a good performance in all areas and a small fall on the world list is mainly the consequence of weakening the macroeconomic opportunities. In addition, according to the SEF, a small fall of Germany is a consequence of fear about the institutions and infrastructure, which has only partially recovered the improvement of the macroeconomic environment and financial development. The German education system received the worse marks than earlier. Great Britain improved for one spot and it is now in the ninth position. The performances of that country have improved owing to the results which arouse from a lower fiscal deficit and public debt. Britain still benefits from an efficient labour market and high level of financial development (Lojpur, Peković, 2013, pp.61-75). The first position in the world for competitiveness and the highest index value of 5.7 in 2014 is held by Switzerland, while the worst value of 2.79 and the 144th position is held by Guinea and pushed Chad one spot up. The order of the leading three on the list is slightly changes

in comparison to 2013. Switzerland and Singapore were joined by the USA on the top of the list and, by doing so, passed Finland and Germany. Russia is the 53rd, which is ten spots better than in 2013, China is the 28th, Turkey is the 45th, Brazil is the 57th and India is the 71st.

5 SERBIA ON THE WAY TOWARDS THE EU

The Republic of Serbia is going to encounter many challenges on the way to the EU. In order for Serbia to join a supranational community of countries such as the EU, based on a combination of international agreements, practices which must be respected and bodies which control the EU behaviour, it needs to carefully prepare. Serbia will not be able to become a part of the great European family until it meets all the criteria for joining the EU. Even if it could skip some phases that all countries of the EU passed, and be accepted in the Union for a shorter time period – it would return to as a boomerang. In fact, the effects of rapid acceptance would be in many ways negative. The economic consequences for the country would exceed the wish itself to join the European Union.

If we compare the goals set by the EU and Serbia for the period of 2010-2020, we can see that they differ in many respects that can be seen in Table 7.

Based on the results, it can be seen that the Republic of Serbia is ten years behind the European Union (Milicevic, 2014, p.120).

Table 7 *Priorities of the European Union and Serbia for the period 2010-2020*

	EUROPEAN UNION		REPUBLIC OF SERBIA	
	2010	2020	2010	2020
Employment of population from 20-64 (%)	68	75	49	65
Investments in research and development (%GDP)	1.9	3	0.3	2.0
Participation of energy use from the renewable sources in the total energy use (%)	16	20	12	18
Energy efficiency (that is /1000\$ BDP-a)	0.21	0.17	0.96	0.57
Population of 30-34 who have a university diploma (%)	31	40	21	30
Poverty rate (below 60% median of the available population income)	16	12	17	14

Source: Serbia 2020: The development concept of the Republic of Serbia until 2020, 2010, p.3

Joining the European Union represents a significant incentive for the rapid economic growth and creation the new jobs. The previous experience shows that all countries which joined the EU, after a longer or shorter time period, entered a phase of dominant economic growth. In that context, funds which Serbia would receive as a developing country are of great importance. Free performance on the market of EU would present a great incentive for the development of some economy branches, such as the textile industry, agriculture, food industry, construction and the like. Of course, at the same time this presents a potential danger, having in mind that a number of producers could not keep up with the competition of the other producers from the EU.

CONCLUSION

For Serbia, there is no simple or fast way to remove the numerous and big determinants of incompetiveness because the creation of competitive advantages needs a lot of time, investment and knowledge.

The Republic of Serbia is on a development intersection, which means that it is necessary to change the concept of development and system in which it is being realized. In the following development phase, Serbia needs to build an open, competitive economy, based on knowledge, which implies strengthening of institutions as crucial factors of competitiveness and development which enable the growth of resource quantity and the technology level and the growth of the range and quality of products and services. The disfunctional and undeveloped legal and institutional order in Serbia presents a great development limitation. The system is missing many laws, institutions of capital markets and, up to very recently, the international standards of accounting reports, a fast and efficient bankruptcy proceedings and so on. For the growth of competitiveness of the Serbian economy, system mechanisms for stimulating and mobilizing the savings and credibility of the financial institutions are of special significance. They should contribute the company's competitiveness growth and the economy's as a whole. The central

problem of Serbia on the way to the EU is incompetiveness of the economy and financial sector and incompetence of the public sector. Timely and high quality preparation of Serbia for the entrance in the European Union requires building a competitive market economy. Being very late when compared to the developed countries and successful countries in transition, which have become the members of the European Union, Serbia needs to adapt the strategy of its development to a new developmental and technological paradigm. In the other words, the Republic of Serbia should accept the new developmental and technological paradigm and change the previous development strategy and previous production-technological, social and institutional system, with the aim of establishing an innovative environment and innovative behaviour and for all decisions, initiatives and activities to contribute to the creation of an innovative economy and knowledge society.

The main goals of knowledge economy in the Republic of Serbia are:

- a) increasing the competitiveness of the economy,
- b) joining the European integrations and
- c) developing sectors and products which can be more intensive with knowledge and technology.

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