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EXPORT AND FOREIGN TRADE COMPETITIVENESS IN THE REPUBLIC OF MACEDONIA

Abstract

Competitiveness is one of the most popular concepts in contemporary macroeconomics. Having a competitive advantage on the targeted market means higher profit on a micro level and higher growth and living standard on a macro level. Competitive advantage is one of the key instruments for faster integration of the national economy in the global market that, in turn is expected to lead to higher exports and higher overall growth and long-term prosperity of the national economy. External trade and integration in the world market are especially important for small and open economies such as the Republic of Macedonia. Domestic companies will need to internationalize their production and business activities in order to be able to sell and to compete on the world market. The goal of this study is to provide insight about the competitive position of the Macedonian economy, to identify some of the weakness in this area and to propose some guidelines for the policy makers. Today, economy with competitive advantages and strong external sector can withstand the challenges of the constantly changing global environment, thereby providing strong economic growth and higher living standard for it citizens.

Key words: competitiveness, competitive advantage, real effective exchange rate, export, import, external trade.

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Introduction

Transformation of the Republic of Macedonia after disintegration of Former Yugoslavia required higher external openness of the Macedonian economy, as well as successful integration in the international movements of labor and international trade. To do so the country has to improve its external competitiveness. There are certain preconditions that must be met as a support for these processes. Namely, the economy has to be transformed into an open national economy with all the mechanisms to provide free movement of the economic subjects on the international goods', services', technology's and capital markets. The economic agents must have business independence, market flexibility, as well as responsibility for their success or failure.

Economic theory predicts (and this is, also supported by practical experience) that in small and open economies the external sector and exports have an important impact on their growth performance. The Republic of Macedonia is small economy with a population of two millions. With this size, left alone, the Republic of Macedonia is unable to take advantage of the economies of scale; to enhance growth and prosperity the Republic of Macedonia must implement a growth strategy based on export. Export expansion is an efficient mechanism to improve performances of the domestic companies, increase their flexibility and to support external debt servicing by providing higher inflows of foreign capital. Additionally, the true picture for the efficiency and competitiveness of the national economy can only be tested on the international market.

This study starts with a discussion of the definition on competitiveness and competitive advantages. In the second section we analyze the competitiveness of the Macedonian economy by looking at two indicators – the real effective exchange rate and the global index of competiveness. Additionally, we present an overview of the export and import structure in order to identify the key weakness in the external sector. The theoretical predictions and the data analysis in the second section expected to provide solid foundation for formulating guidelines and recommendations for competition policies and future improvements of the competitive position of the Macedonian economy.

1. Competitiveness and competitive advantages – definition and characteristics

There are many formal definitions of the term competitiveness. In developed countries competitiveness is closely associated with growth dynamics[3]. The academic definition of IMD World Competitiveness Center states that competiveness "analyzes the facts and policies that shape the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people" (S. Garelli, The Fundamentals and history of competitiveness, IMD World Competitiveness Yearbook 2009). According to OECD, international competitiveness is a measure of a country's advantage or disadvantage in producing and selling its products in international markets, in order to sustain or increase the real income of the population. International competitiveness is connected with the country's ability to sustain and/or improve its share in the global market by following international standard for efficiency and quality of the products (Velloso, J.P.R., International Competitiveness and Creation of an Enabling Environment 1991). Competitiveness depends upon country's capacity to export its products, to use its resources efficiently and to increase the productivity and living standard of its citizens (Haque, I.ul International Competitiveness: Interaction of Public and Private Sectors, Washington, D.C.: World Bank, 1991).

One of the most citied definitions of competitiveness is the World Economic Forum that "competitiveness is set of institutions, policies, and factors that determine the level of productivity of a country"[4]. In turn, "the level of productivity sets the level of prosperity that can be earned by an economy". Defined in this way, competitiveness is directly related to the capacity of the economy for generating and sustained growth in the long-run. In other words, it is expected that more competitive economies will tend to have higher growth rates. Many factors influence the competitive position of a country such as labor, human capital and education, investment and technology, macroeconomic environment and stability, innovation, institutions etc.

Competitiveness can be analyzed on three leveles – macro, mezzo and micro. On a macro level competitiveness is the ability of a country to

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[3] Kovačević, M., *Faktoi konkurentnosti domačih preduzeča na inostranom tŕźiśtu,* Tŕźiśte, novac, кapital, Beograd, br.3 / jul-septembar 2005.

[4] *World Economic Forum*, http://www.weforum.org/ (20.04.2014)

produce and distribute goods and services on the international markets and to compete with the goods and services produced by other countries, which will, ultimately, enhance the living standard of its citizens[5]. The mezzo aspects of competitiveness refer to the competitiveness between economic sectors in a country, whereas the micro aspects are conected with the ability of domestic companies to compete, grow and increase profitability on the market. In essence, these three levels are interconnected. Higher comeptitiveness of the companies leads to higher comeptitiveness of the sector and to better competitive position of the economy as a whole. The opposite also holds. Competitiveness is a combination of the performances of companies, sectors and the economy as a whole; in a way it is an aggregate indicator for the international rating of acountry. Interconnection between different levels of competitiveness has been acknowledged by UNCTAD as "the ability of the national economy to export is a result of the sucess of its comapnies, their dynamics and their ability to compete, as well as from the complex set of structural parameters of the environmnet in which they are working"[6].

When it comes to competitiveness one cannot surpass the contribution of Michael Porter. According to him, the fundamental economic goal of every national economy should be to increase long-term growth and to provide higher living standard for its citizens[7]. This goal is largely determined by the productive use of the resources, i.e. the labor and the capital. From here, he concludes that it is wrong to define competitiveness at a national level. Instead, one should look at the specific sectors in the economy, as well as at their sub-sectors. In order to give answer for the competitive advantages that one firm has as opposed to the other domestic and foreign firms, Porter postulates the theory of competitive advantages less formally known as the Porter's "diamond" of competitiveness. The "diamond" of competitiveness consists of four fundamental factors that determine the competitive advantages of the economic sectors of one country – factor conditions; demand conditions; related or supporting industries; and firm strategy, structure and rivalry.

[5] Milisavljević M., Todorović J., *Marketing strategija*, Univerzitet u Beogradu, Ekonomski fakultet, 1995, str.127.

[6] UNCTAD, *Trade and Development Report 1987*, Geneva, 1987.

[7] Kovačević, M., 2004. *Dugoročne tendencije, stanje i ograničenja rasta konkurentnosti privrede i izvoza Srbije.* Ekonomski anali: Savetovanje ekonomista, privrednika i bankara „Ekonomsko finansijski odnosi – Konkurentnost privrede i izvoza". Beograd, 16. i 17. septembar 2004, str.39.

According to Porter, companies can gain competitive advantage by using a combination of factors from domestic environment embodied in the "national diamond".

Competitive advantage refers to the ability of the company to outperform other companies in the same industry or market in order to accomplish its pre-defined goals. In other words, competitive advantage is a combination of factors that allow the company to gain a unique market position, superior compared to the other firms. In a world of dynamic changes and high degree of uncertainty on the global, as well as one the national markets, firms are actively searching for new factors of competitive advantages instead of relying solely on cheap labor and resources[8]. In other words, competitive advantage is a specific "answer" of the companies to constantly changing environment. Some of the factors that enhance firm's ability to gain competitive advantage are: innovation and change; strong value system, adaptability and growth strategy that takes into account the principles of the global market[9]. All in all, a company that sells on the international market identifies its competitive advantages by matching its specific abilities with factors that are critical on the targeted market. At the moment when the company acquired specific abilities that are unique as compared to other companies on that market (other companies need to spend significant amount of time or finance to acquire such ability) the company has a competitive advantage on that market.

2. Competitiveness and external trade in the Republic of Macedonia

In this section we present an analyis of the competitive position of the Macedonian economy based on two indicators – the real effective exchange rate and the global competitiveness index constructed by the World Economic Forum. The purpose of the descriptive analyis is to provide overview of the current degree of competitiveness of the economy, to identify some of the weknesses and to propose guidance for

[8] Jović M., *Inovacioni aspect strateške konkurentnosti,* http://www.ien.bg.ac.yu/download/wp02-02pdf (15.02.2012)

[9] more detailed in: Петковска Т." *Иновациите - значаен фактор за унапредување на конкурентноста на малите и средни претпријатија (МСП)*" paper published in" Научен собир, Зборник на трудови: Претприемништво - иновации и конкурентност", Економски Институт - Скопје, Скопје 2008, стр.22.

future policies. Having in mind the interconnection between competitiveness and external sector we close the section with a disscussion for the structure of the exports and imports of goods.

2.1. The Real Effective Exchange Rate

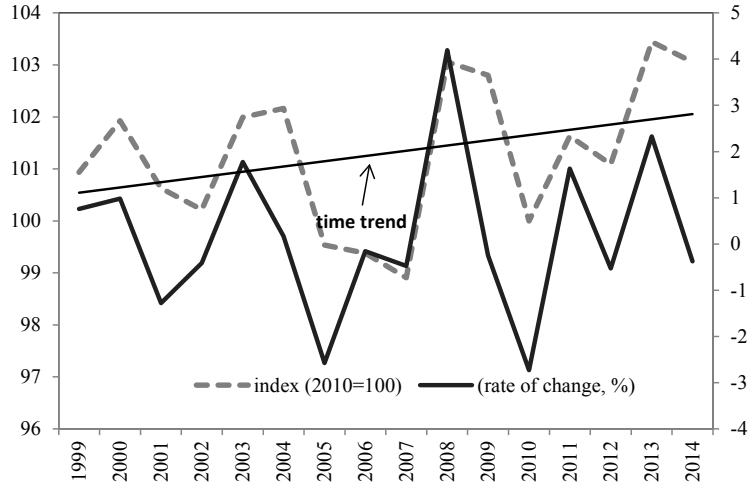
The real exchange rate is an indicator for the undervaluation/overvaluation of the national currency. If the national currency is undervalued that will have positive impact on competitiveness as domestic products will become cheaper for the foreigners and this will have positive impact on exports and growth. On the other hand, if the domestic currency is overvalued that will have negative consequences for competitiveness. The real exchange rate is defined as a ratio between domestic prices of tradable products and foreign prices. Domestic prices of tradable products are usually proxied by the consumer price index[10].

When it comes to competitiveness it is more informative to look at the effective indicator i.e. the real effective exchange rate (REER) which is defined as the ratio between domestic prices and the prices of the most important trading partners of the country[11]. Graph 1 shows movements in REER in the Republic of Macedonia for the period 1999-2014. REER is defined as a ratio between domestic and foreign prices; hence an upward movement means real appreciation of the domestic currency and it has a negative effect on competitiveness. In the period 1999-2014 there is a mild upward trend - the value of the REER index has increased from 101 to 103. Looking at the growth rates, they average rate of change is very close to zero (for the whole period average growth rate is 0.2%). In 2013 one can notice signs of real appreciation, but the intensity is very small. All this suggests that in the period under analysis movements in REER has largely been balanced. In economic terms this means that REER doesn't indicate any significant improvements or worsening of the competitive position of the Macedonian economy in the period 1999-2014.

[10] Alternatively, REER can be calculated also by using the producer prices or unit labor costs.

[11] Јовановиќ Б., *Фактори на економскиот раст во транзициските економии, со посебен осврт на земјите од Југоисточна Европа и Република Македонија*, докторска дисертација, Економски институт – Скопје, Скопје, 2015, стр.221.

Graph 1: Real Effective Exchange Rate in the Republic of Macedonia in 1999-2014



Source: World Development Indicators database, http://data.worldbank.org/data-catalog/world-development-indicators (18.10.2015)

REER is one of the most widely used indicators for the competitive position of the economy. However, it will be wrong to draw conclusion regarding one country's competitive position solely relying on one indicator. Namely, as mentioned in the previous section competitiveness is a multidimensional concept, whereas REER gives information only for one aspect – the price competitiveness. Prices are important competitiveness factor, especially in countries with smaller income per capita as the market in these countries is more sensitive to changes in prices, as well as in markets with standardized product (such as the commodity markets). However, when it comes to more sophisticated products (product with higher degree of finalization) the importance of price as a competitiveness factor looses its significance, whereas the influence of the so-called non-price competitiveness factors becomes more important. Namely, in the last three decades the empirical literature concludes that non-price competitiveness factors such as quality of the product, shape, use, certainty, reliability, speed of delivery, guarantees, servicing[12] etc. are becoming increasingly important. The use

[12] Rakita, B., *Medjunarodne marketing strategije*, Konzorcijum Ekonomskih instituta Jugoslavije, Beograd, 1989, str.212.

of non-price competitiveness factors leads to greater flexibility of the business strategies of the companies, influences the preferences of the buyers and increases the demand for targeted products.

2.2. Global Competitiveness Index

Competitiveness is a complex combination of many characteristics of the national economy and therefore, as previously mentioned, one can not measure competitiveness only by using one indicator. This explains the existence of many methodologies, models and indicators constructed by different institutions aimed towards measuring, estimating and comparing competitiveness between different countries[13]. One of the most popular methodology for measuring competitiveness is developed by the World Economic Forum (WEF). The WEF methodology consists of many factors that determine the competitive position of a country and unlike other approaches, it starts from the micro level i.e. the economy is competitive if its companies are competitive on the world market.

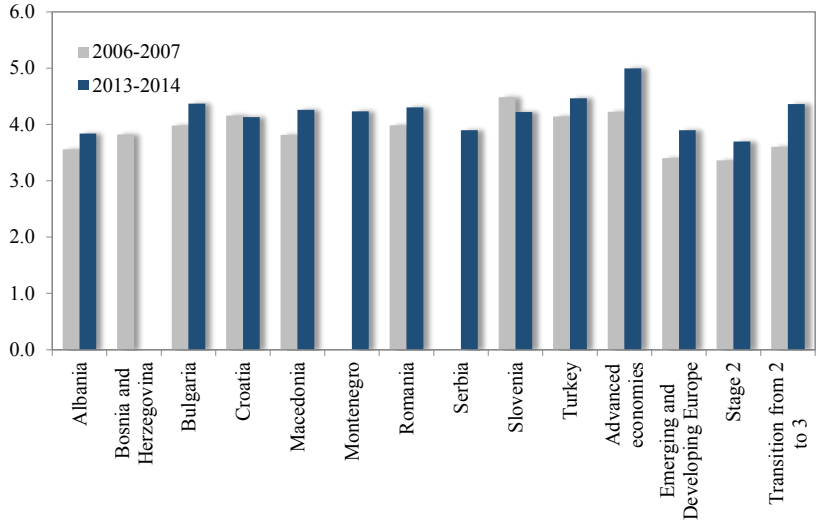
WEF global competitiveness index is a multidimensional indicator that captures different dimensions of competitiveness (unlike the REER index that was focused solely on price competitiveness). In a way, WEF index captures different stages of development of a country. Non-technically, the index describes the dynamics of the economic growth – at the beginning every country starts from stage one when growth is being determined by basic factors, then, in the second stage the country develops and invests, whereas in the third stage, in order to sustain and enhance growth, the country is focused on stimulating innovation and research. Following this argument, the WEF index separates countries into three stages: factor-driven, efficiency-driven, and innovation-driven, each implying a growing degree of complexity in the operation of the economy. Technically, the total index is weighted average of three sub-indices – index of basic requirements, index of efficiency enhancers and index of innovation and sophistication factors. The weights of these sub-indices are not equal for every country – they

[13] Different methodologies might give different results and conclusion. Besides World Economic Forum, institutions that measure competitiveness and factors of competition are: World Bank (WB), European Bank for Reconstruction and Development (EBRD), International Institute for Management Development (IMD), National Competitiveness Council, Herritage Foundation. Indicators constructed by these institutions provide information on certain characteristics and dimensions of competitiveness.

depend on the country's stage of development. For example, if the country is classified to be in the factor driven stage where growth is generated by the basic factors, then the sub-index of basic requirements will have highest weight in the total index and, consequently it will have highest impact on its competitive position.

In 2014 Republic of Macedonia was ranked on place 63 (out of 144 countries) with a global competitiveness index of 4.3. Compared with the countries from the region this is relatively good competitive position (Graph 2). This score is in line with the regional average (4.2) and above the average values of the index for emerging and developing Europe (3.9) and for stage 2 economies (3.7). Analyzed through time, one can notice continuous improvement in the competitive position of the Macedonian economy as measured by the global competitiveness index. Namely, the value of the index has increased from 3.9 in 2006 to 4.3 in 2014, followed by an upward movement in the world competitive ranking of Macedonia - from place 84 (out of 122 countries) in 2006 to place 63 (out of 144 countries) in 2014.

Graph 2: Global competitiveness index in selected countries in the period 2006-2007 and period 2013-2014



Source:http://www.weforum.org/reports/global-competitiveness-report-2013-2014

Table 1 gives the WEF global competitiveness index and its rang, as well as the sub-indices for the Republic of Macedonia for the period 2006-2014.

Table 1: Global Competitiveness Index* of the Republic of Macedonia for the period 2006-2014

	2006		2007		2008		2009		2010		2011		2012		2013		2014	
	index	rang	index	rang	index	rang	index	rang	index	rang	index	rang	index	rang	index	rang	index	rang
Global Competitiveveness Index	**3.9**	**84**	**3.7**	**94**	**3.9**	**89**	**3.9**	**84**	**4.0**	**79**	**4.1**	**79**	**4.0**	**80**	**4.1**	**73**	**4.3**	**63**
Basic requirements	**4.4**	**69**	**4.2**	**72**	**4.4**	**68**	**4.3**	**73**	**4.4**	**70**	**4.0**	**69**	**4.5**	**71**	**4.6**	**70**	**4.6**	**64**
1st pillar: Institutions	3.1	102	3.3	102	3.6	90	3.7	83	3.8	80	3.7	81	3.8	78	4.0	60	4.3	45
2nd pillar: Infrastructure	2.8	80	2.9	85	2.9	89	3.0	90	3.5	91	3.7	86	3.6	81	3.6	86	3.7	82
3rd pillar: Macroeconomic environment	5.0	40	5.0	53	5.5	31	4.8	49	4.9	47	5.3	37	5.0	47	4.9	59	4.9	55
4th pillar: Health and primary education	6.5	46	5.7	47	5.7	55	5.5	60	5.7	69	5.5	80	5.6	77	5.6	79	5.6	78
Efficiency enhancers	**3.5**	**89**	**3.4**	**98**	**3.6**	**92**	**3.8**	**85**	**3.8**	**83**	**3.8**	**87**	**3.8**	**84**	**4.0**	**76**	**4.1**	**69**
5th pillar: Higher education and training	3.9	67	3.5	75	3.8	73	3.9	70	4.0	72	4.0	80	4.0	81	4.2	76	4.3	71
6th pillar: Goods market efficiency	3.7	100	3.8	98	3.9	98	4.1	76	4.2	57	4.3	63	4.3	68	4.5	44	4.6	38
7th pillar: Labor market efficiency	4.1	103	3.9	112	3.9	113	4.2	86	4.4	71	4.3	72	4.1	94	4.2	79	4.2	71
8th pillar: Financial market development	3.6	74	4.0	83	4.0	83	4.1	75	4.0	87	3.9	82	4.0	79	4.1	62	4.5	41
9th pillar: Tecnological readiness	2.7	91	2.8	90	3.0	83	3.9	52	3.6	64	3.7	67	3.8	71	3.8	67	4.0	62
10th pillar: Market Size	2.1	92	2.5	106	2.7	104	2.9	103	2.8	106	2.8	107	2.8	104	2.9	109	2.9	108
Innovation and sophistication factors	**3.2**	**86**	**3.1**	**101**	**3.2**	**105**	**3.2**	**93**	**3.2**	**97**	**3.1**	**104**	**3.1**	**110**	**3.4**	**94**	**3.5**	**76**
11th pillar: Business sophistication	3.5	91	3.3	108	3.5	107	3.6	96	3.5	96	3.5	105	3.4	111	3.6	100	3.8	89
12th pillar: Innovation	3.0	79	2.9	92	2.9	99	2.9	92	2.9	97	2.8	105	2.8	110	3.1	86	3.3	68

* The Global competitiveness index moves for 1 to 7.
Source: The Global Competitiveness Report, World Economic Forum, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014 and 2015.

The analysis of the sub-indices shows that in the case of Republic of Macedonia the best ranking is scored in the area of basic requirements, whereas the worst in the area of innovation and sophistication factors. This is an expected result given that Macedonia has moved from the first stage in the second, efficiency driven stage. This result also gives some powerful implications for the policy makers. First, competition policies need to be focused on factors that promote competitiveness and growth in the second stage of development, such as investing in education and training, goods and labor market efficiency, financial market development, the ability to use the benefits of existing technologies and market size. Second, Republic of Macedonia will need to prepare for the transition from the second stage in the third stage of development. As seen from the table this is the area were Republic of Macedonia has weakest performance which doesn't come as a surprise in the current setting. However, it is important to start the preparation on time and to invest in policies that will promote sophisticated business practices and innovation.

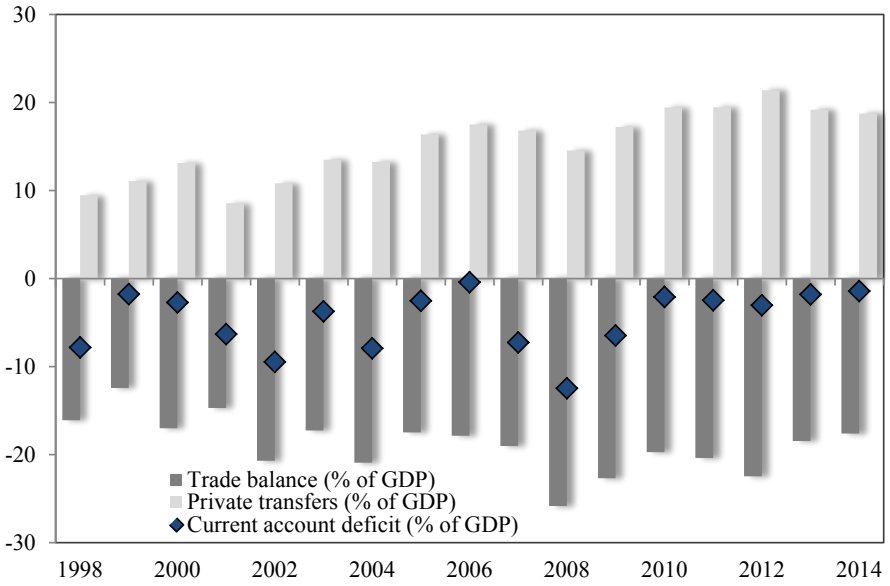
2.3. External trade in the Republic of Macedonia

Competitiveness and external trade are interconnected concepts – better competitive position of a country means higher exports, and consequently, better trade balance and smaller current account deficit. This explains why improvements in competitiveness are of great importance for small and open economies, with negative trade balance such as the Republic of Macedonia. In this section we present a descriptive analysis of the movements in the external sector in Republic of Macedonia, as well as analysis of the structure of Macedonian exports and imports of goods.

The average current account deficit in the Republic of Macedonia in the period 1998-2014 has accounted for 5% of GDP (Graph 3). The largest part of this deficit is explained by the negative trade balance, which, in the same period, is equal to, almost 19% of GDP (average value for the period). These characteristics make the external sector very vulnerable in case of large external shocks which in turn can produce huge external imbalances. For example, in 2008, the year before the start of the global financial and economic crisis, we saw large widening of the current account deficit and significant increase in the negative trade balance. Trade balance accounted for 26% of GDP in 2008 and this was explained by increase in domestic demand and consequently, increase in

imports that was not followed by increase in exports with the same intensity. This situation outlines how important are improvements in competitiveness and changes in the external trade structure for the sustainability of the current account balance, as well as for the overall economic stability and growth in the country.

Graph 3: External sector in the Republic of Macedonia in the period 1998-2014 – main indicators



Source: National Bank of the Republic of Macedonia and State Statistical Office.

The average growth rate of exports of goods for the period 1998-2014 is around 10%. Macedonian companies are exporting mainly in the EU countries and in the region. Namely, statistical data shows that among the ten most important exporting partners of the Macedonian companies, whose average share in total exports for the period 1998-2014 is around 70%, the only country outside the region is the United States[14]. Closer analysis of the data reveals changes in trends among separate countries. First, one can notice a decline in the share of Greece over the period – Greece was contributing with 15% in the total exports

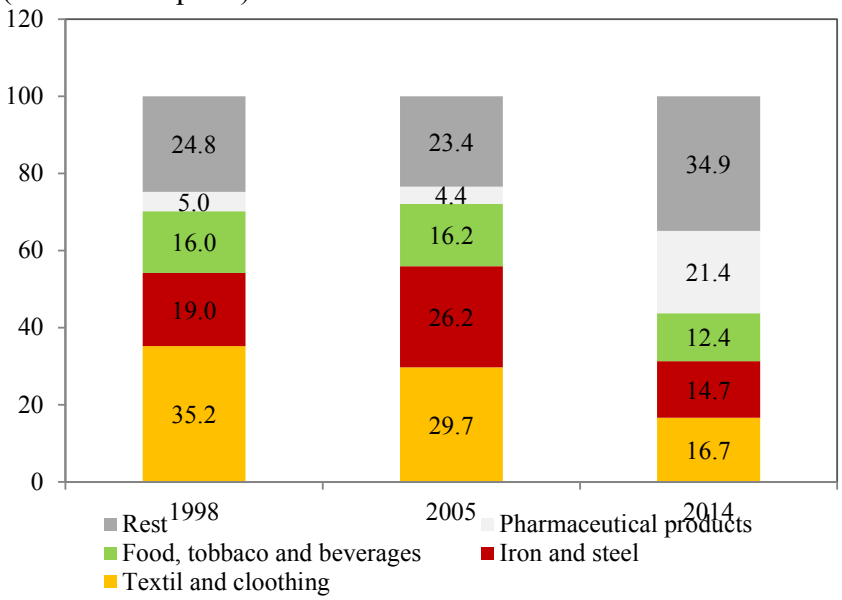
[14] Ten most important trading partners on the export side are Germany, Serbia, Montenegro, Greece, Italy, Netherlands, United States, Croatia and Switzerland. Source: National Bank of the Republic of Macedonia.

in 2006 and with only 4.6% in 2014. The second more significant change in the structure of the trading partners is the decline in the share of Serbia (from 19% in 2007 to only 5% in 2014). However, this change is mainly statistical – up until 2009 export in Serbia was also including exports to Kosovo. Starting from 2009, after proclamation of Kosovo independence, Kosovo is included in the category "export to other countries". This change can be clearly seen in the data – in 2009 there is a significant fall in the share of Serbia and increase in the share of the "other countries"[15].

When analyzing trends in exports in Republic of Macedonia, special attention needs to be devoted to the sectoral structure of the exports. Namely, data shows high degree of concentration of exports in three sectors – "food, tobacco and beverages", "iron and steel", and "textile and clothing" (Graph 4). Starting from 2010 there is an increase in the share of pharmaceutical products and this is explained by an entry of a new foreign company in this sector (*"Johnson Matthey"*). High degree of concentration of exports in only few sectors whose performance, in turn, depends heavily upon movements in the world prices and external demand, has negative influence on economy's ability to adjust and absorb negative external shocks. The episode in 2008/2009 provides a good overview of the negative consequences for the domestic economy and growth. Besides high concentration, additional problem with Macedonian export is decline in attractiveness of some of the key Macedonian exporting sectors on the world market. Namely, World Trade Organization (WTO) data shows that the share of exports of iron and steel in the world export has declined form 3% in 2005, to 2.6% in 2012, whereas the share of textile has declined form 1.9% in 2005 to 1.5% in 2012[16]. This means that, in the future, we might see decline in the external demand for our products and consequently lower export growth rates.

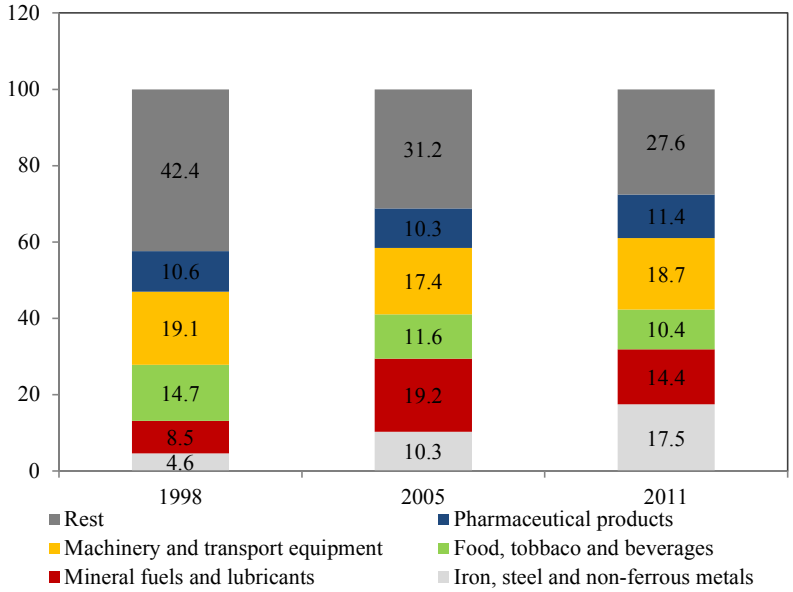
[15] Source: National Bank of the Republic of Macedonia and own calculations.
[16] World trade organization, http://www.wto.org/english/res_e/statis_e/tradebysector_e.htm (20.04.2014)

Graph 4: Exports of goods in Republic of Macedonia
(% of total exports)



Source: National Bank of the Republic of Macedonia and own calculations.

Graph 5: Imports of goods in Republic of Macedonia
(% of total imports)



Source: National Bank of the Republic of Macedonia and own calculations.

The average growth rate of imports of goods for the period 1998-2014 is around 10%. Analysis of imports of goods by main trading partners shows higher diversification in comparison to exports; however, as in the export case, the main trading partners are the EU countries and countries from the region. Additionally, Russia appears on the list of the most important partner countries[17] which is explained by the high import of crude oil and oil derivatives given the fact that Republic of Macedonia is not oil producing country. This is also the main reason why the sector "mineral fuels" appears among the most important sectors on the import side (Graph 5). Besides this sector, the export and import sectoral structure look quite similar. Sectors "food, tobacco and beverages", "iron and steel", and "textile and clothing" that dominated the exports structure, account for one third of the total imports. The appearance of same sectors as dominant on the export and import side points out to high import-export dependence of the external trade of the Republic of Macedonia. Second problem that can be identified when analyzing the import structure is that Macedonian economy is highly dependent on imports of crude materials and imports of energy (this two categories account for around 62% of the total imports in 2014)[18]. Given that prices of these products are adjusted on the world market (some of them are commodity products) each positive or negative shock will automatically be imported in the domestic economy.

Republic of Macedonia is small and open economy. In line with this, developments in the domestic economy depend, to a high degree, on the developments in the external markets and changes in the world prices. Descriptive analysis in this section point out to two important weaknesses of the Macedonian economy - high degree of export concentration in only few key sectors, whose share in the world export is decreasing and high dependence on import of crude materials and energy. Having in mind the linkages between competitiveness, external sector and economic growth policies that promote diversification of exports, improvements in the energy sector (to decrease dependence of energy imports) and increase competition will be of great importance if Republic of Macedonia wants to enhance the growth of the economy and increase the living standard of its citizens.

[17] National bank of the Republic of Macedonia (http://nbrm.mk/) and own calculations.
[18] Ibidem.

Conclusion

In this study we presented descriptive analysis of the competitive position of the Macedonian economy by using two indicators – the REER and WEF global competitiveness index. Looking at the REER data one can conclude that movements are largely balanced or, in other words, REER doesn't indicate any significant improvements or worsening of the competitive position of the Macedonian economy in the period 1999-2014. However, it will be wrong to draw conclusion regarding one country's competitive position solely looking at the REER given that it gives information only about one aspect of competitiveness – the price competitiveness. Price competitiveness means that companies (or countries) that sell cheaper products will be more competitive. On the other hand, today, non-price competitiveness factors, such as quality of the product, shape, use, certainty, reliability, speed of delivery, guarantees, servicing etc. are becoming increasingly important.

WEF global competitiveness index is a multidimensional indicator that captures different dimensions of competitiveness. According to WEF methodology WEF Republic of Macedonia is classified to be in the second stage of development i.e. in the efficiency driven stage. Republic of Macedonia wants to enhance its competitive position on the medium run, competition policies should be focused on developing the human capital capacity, increasing goods and labor market efficiency, financial market development, promoting the ability to harness the benefits of existing technologies and market size. Additionally, Republic of Macedonia will need to invest in policies that will promote sophisticated business practices and innovation in order to prepare for the transition from the second stage in the third stage of development.

Furthermore, competitiveness and external trade are two interconnected concepts. The negative trade balance, is equal to, almost 19% of GDP (in the period 1998-2014). More detailed analysis of the external trade structure points out to several structural weaknesses that need to be addressed. First, high degree of export concentration in only three sectors - "food, tobacco and beverages", "iron and steel", and "textile and clothing" – that accounted for almost two thirds of the total export in the period 1998-2014. Second, high export-import dependence – same sectors turned out to be dominant on the import and export side. Third, high dependence of the Macedonian economy on imports of crude materials and energy – products whose prices are formed on the world

market which increases the vulnerability of the Macedonian economy in case of a negative external shocks.

Competitiveness is an important enhancer of long-term economic growth. Improvements in competitiveness are conditioned on implementation of "healthy", business oriented economic policy, responsible and accountable behavior of all agents in the economy and stable political and economic environment. The attitude towards competitiveness as an important factor that will facilitate integration of the Macedonian economy in the world economic trends should be embodied in all levels of the economic and political system. Special attention and support should be devoted to competition policies and policies that promote exports sector in order to decrease the degree of concentration, increase competitiveness of the Macedonian companies on the world market, attract new foreign direct investment and enhance long-term economic growth and the standard of living in the economy.

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