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NEW STRATEGIC CYCLE IN THE SERBIAN TRADE AND TOURISM DEVELOPMENT

Novi strategijski ciklus u razvoju trgovine i turizma
Srbije

Abstract

Trade and tourism, as significant areas of the service sector in Serbia are entering a new development cycle. In fact, in commerce as well as in tourism, previously adopted strategic documents expire. This creates a need to provide new development strategies for the coming development period in order to coordinate and guide the efforts of the public and private sectors. In both cases, a similar set of questions arises: what has been achieved that was planned in the previously adopted strategies, what is still very relevant and whether it is necessary to make radical shifts or only purifying, complement and update of the existing strategic documents is acceptable. The macroeconomic environment is not favorable neither for tourism nor commerce. However, at least when it comes to tourism, global trends suggest the continual growth of demand for tourist services so it can be expected from Serbian tourism to grab some effects of this global positive trend. This paper specifically examines unrealized projects in both areas and investigates the causes of these failures. The aim is to give some recommendations in conclusion. One option is a possible change of attitude, if the strategic goals were wrong. Another possibility is to change the ways of solving problems and the realization of the project, if the attitudes remain the same, but the way of implementation proved to be ineffective. In the conclusion, it was argued that, so far used strategic documents were basically correct and that the new document should bring updated suggestions on how to start and develop tourism and trade in Serbia more successfully, in the future.

Key words: *trade, tourism, strategy, development, development policy, state intervention*

Sažetak

Trgovina i turizam, kao noseće grane uslužnog sektora u Srbiji, ulaze u novi razvojni ciklus. Naime, i u trgovini i u turizmu ističe važnost prethodno usvojenim strateškim dokumentima. Tako se stvara potreba da se za naredni razvojni period obezbedi nova strategija razvoja koja će koordinirati i usmeravati napore javnog i privatnog sektora. U oba slučaja se postavlja sličan set pitanja: šta je ostvareno od planova iz prethodno usvojenih strategija, šta je još uvek aktuelno i da li su potrebni radikalni zaokreti ili samo pročišćavanje, dopuna i ažuriranje strategijskih dokumenata koji su do sada bili u upotrebi. Makroekonomsko okruženje ne ide na ruku ni turizmu niti trgovini. Ipak, bar kada je reč o turizmu, globalni trendovi ukazuju na kontinualni rast tražnje za turističkim uslugama pa se i od srpskog turizma može očekivati da iskoristi deo tih globalnih povoljnih kretanja. Ovaj tekst posebno ispituje nerealizovane projekte u oba područja i istražuje uzroke ovih neuspeha. Cilj je da se u zaključku dođe do preporuka. Jedna mogućnost je eventualna promena stava, ukoliko su se strateška opredeljenja bila pogrešna. Druga mogućnost je promena načina rešavanja problema odnosno realizacije projekta, ukoliko su opredeljenja ostala ista, ali se postojeći način implementacije pokazao kao nedelotvoran. U samom zaključku je iznet stav da su do sada korišćeni strateški dokumenti u osnovi bili ispravni i da novi dokumenti treba da donesu u sebi ažurirane predloge kako da se započeti razvoj i turizma i trgovine u Srbiji mnogo uspešnije nastavi u narednom periodu.

Ključne reči: *trgovina, turizam, strategija, razvoj, razvojna politika, državna intervencija*

Serbian trade and tourism economic environment

Serbia is a small economy and very vulnerable to the impacts of the global market. In particular, it is *under the strong impact of the European economic trends. In the Serbian foreign trade exchange*, European countries participation is very high as can be seen from the brief review in Table 1.

Table 1: Foreign trade exchange between Serbia and European countries

| | Participation in % | | Import export ratio | |
|-------------------------|--------------------|------|---------------------|------|
| | 2013 | 2014 | 2013 | 2014 |
| Participation in export | 93 | 95 | 82 | 81 |
| Participation in import | 81 | 85 | | |

Source: [19, p. 53]

Over 80% of total imported goods in Serbia are coming from European countries. Export dependence on the European market is even higher. This suggests that the development of export sales channels for the Serbian goods is very limited and directed toward neighboring countries and the countries in which they were inherited from the ex-Yugoslavia. Sales channels in distant countries, due to the cost of their maintenance, were abandoned. Now, weak Serbian economy does not have the capacity to open new channels on distant markets. This result is high dependence of Serbian economy of European economies and the inability to diversify. Aggravating circumstance is that Serbian companies have not developed connections even with all European countries. Actually, the main part of the foreign trade exchange is focused on the countries of the European Union (mostly to the geographically closer ones), then the countries of the Central and Eastern Europe region (surroundings) and the Russian Federation. Therefore, it is useful to monitor trends in these trade zones in order to understand their future impact on the Serbian economy.

Global macroeconomic trends are not encouraging concerning the prospects of Serbian economy, particularly trade and tourism. Modest growth of the global economy is projected for 2015-2016 compared with 2014, on the level of 3.1% and 3.4%, respectively. However, the growth will not be equal in the regions worldwide. It is expected that growth of the economic output will be only 1.7-

2.1% in the EU, then 1.2-2.0% in the Central and Eastern Europe, and 0.5-1.2% in Russian Federation. Serbia is making the majority of the foreign trade exchange with these countries and also, majority of the foreign tourists are coming from these countries. It is obvious from the presented projections that these countries will have slower growth of the economic output comparing with the global average of 3.6-3.9% [21, p. 7]. Serbian companies and government cannot expect the foreign trade exchange with these countries to increase spontaneously, as well as it is not expected to record more tourist arrivals made by their citizens. Such results could be achieved only after strong and successful marketing efforts.

One of the most important and globally existing problems in modern economy is the unemployment. Very high unemployment rate is projected for European economies in 2015 (11.3%), and the expectations for 2016 are not much better. In addition, high unemployment rate is accompanied by a fall in the percent of the working age population in the total population. The only one country is not faced with the unemployment, and that is Germany (4.9% in July, 2014). Totally opposite situation is in some other countries, facing extremely high unemployment rate (Greece – 27%, Spain 24.7%). Furthermore, in some countries there is high level of unemployed young people (Spain – 53%, Italy – 44%, Portugal – 35% in September 2014) [21, p. 13]. Unemployment has already affected the number of tourists from Italy, who are not growing anymore in Serbian arrivals. The erosion of the purchasing power will also restrict exports to these countries, which may adversely affect the Serbian industry (for example, the Fiat Automobile export). The decline in purchasing power will have same effect on the arrivals of foreign tourists in Serbia, which will be reflected through shorter stays, the demand for cheaper arrangements and again with high level expectations, based on experiences in other destinations.

World Economic Forum's panel of experts in Davos in 2015, ranking the most important trends in 2015, gave two highest ranks to growing income inequality and economic growth without employment growth. Although the rising gap between rich and poor does not affect Europe so severely as other parts of the world, it

is still present in the Mediterranean countries and the countries that surround Serbia. In situations like this, middle class is suffering, and this middle class actually is the target market for Serbian industry and tourism. In addition, the trend of productivity growth has negative effect on employment, causing that economic growth does not initiate employment growth and the growth of final demand, but possibly only increase in investment demand.

The light at the end of the tunnel in which the European economy entered 2008 can, maybe, bring a new policy of the European Central Bank, which announces the implementation of the so-called quantitative easing. Euro zone monetary authorities are injecting fresh money into the economy, trying to discourage the current behavior of investors, natural for unstable conditions, to invest in liquid and safe securities, such as money deposits. It is expected that a controlled inflation, while the benchmark interest rate is close to zero, simulates a new equilibrium negative interest, natural for a crisis and “move forward” the money in other investments. It is assumed that new investments will stimulate the economy and its growth. The success of the operation depends on the successful delivery of the so-called “helicopter money” to the citizens or state institutions who are inclined to spend it. However, there are serious doubts that the money will still be retained in the layer of institutional investors, which, in this case, could opt for other relatively safe and liquid investments (foreign currencies, government securities), instead of the equity in economic projects [1]. So, for the sake of uncertain expectations, this relief is not so sure and need to be proven.

Macroeconomic trends in the Serbian economy are even less favorable than those in Europe and are further exacerbated in 2014 and 2015 due to the floods of March 2014. The estimated decline in Serbian GDP in 2014 was about 2% and it is estimated that the decline in 2015 will be around 0.5%. However, analysts have found that the downward trend in Serbian economic activity would be present even without the negative impacts of natural disasters in March 2014. If floods effect were excluded, the decline is estimated at 1.7% for 2014 and 0.8% for 2015. Very disturbing is significant decline in investments that were not recovered during 2014, which may cause the

delay of the economic recovery in 2015 and 2016. Based on these expectations, there will be no significant increase in purchasing power of domestic demand neither in the retail nor in domestic tourism services.

Summarizing these trends, it can be concluded that the Serbian companies will have to make business on the international market in worse circumstances than before. If it is known that companies are exhausted, the economy is in poor condition and the budget cannot cover all existing needs, it is clear that it will not be easy to find a solution. And, the solution obviously will be in raising the competitiveness of domestic offer in order to conquer the markets that is economically weak and uncertain in the future, thus less ready for spending. To find the best ways how to conquer such a market, it is necessary to have a good plan and a list of implementing activities derived from this plan, ranked by urgency and possibility to be implemented.

Serbian government has such plans, i.e. strategies for trade and tourism, but both of them are in the final phase of its lifetime. The existing tourism development strategy in its name carries the limit “... by 2015” [8]. This formal as well as substantive reasons stemming from the changed circumstances from 2005, when the existing strategy was created, impose the need for updating. It is enough to just to mention the fact that the hospitality sector in Serbia has completely restructured from 2005. Some new tourist centers have emerged (Stara Planina, Tornik Zlatibor), and some already existing but at the time ruined tourism products, such as business (conference) tourism, have experienced a renaissance.

The strategy of trade development is in similar phase, although it was adopted somewhat later, in 2009. However, trade in Serbia has witnessed some critical changes. There have been some major takeovers of companies. In one case, sequence of acquisitions has brought independent companies Mercator Serbia, Tus, Rodic and Idea within a sole ownership. In the other case, major food retailer Maxi was acquired by one of the leading international retailers, Delhaize. In addition, some large distributors entered the market and spread their activities upwards. The most prominent is the Atlantic group which acquired Droga Kolinska Stark system (along with the Grand kafa division). All of these changes in the domestic market, as

well as those in closer and wider environment, indicate that it is time to review and update the strategic objectives of further trade development in Serbia.

Text that follows contains the analysis of the existing level of validity and reach of the existing strategies in these two areas. The conclusion will outline some basic directions and the framework for the new strategic initiatives. Before anything else, it will be answered to the key question: *Do we need really new master plans for the trade and tourism development in the Republic of Serbia or some amendments and updates of existing documents will serve the purpose?*

Recent experiences in adopting trade development strategy in the Republic of Serbia

Critical analysis of the transitional process in the Republic of Serbia has led to a sequence of conclusions related mainly to numerous tries and errors accompanied with some open or hidden resistance in the modern trade and modern market development. The sequence of occurrences fully confirmed the hypothesis of the authors of this paper, announced long ago, that building of modern market and modern trade is one of the most difficult problems in the process of transition. Intentionally, it is emphasized “market and trade” because these categories are mutually dependent. It is known that there is no modern market without modern trade, and vice versa. But despite this knowledge, nobody could even imagine that so evident and strong opposition to the development of modern market economy would exist in period of more than 30 years. The optimism that modern market and economy would be developed constantly declines and it probably would disappear by this moment if there is no decisive commitment to joining the European Union. This process requests creation of market institutional framework that will be appropriate to the standards of the EU market. In other words, today’s optimism is primarily based on “homework” that Serbian authorities receive in the process of joining the European Union. The fact is that given “tasks” are largely related to crucial institutional prerequisites for the effective integration of Serbia into the system of European Union single market.

Exposed notes, perhaps, sound confusing and unnecessary to the reader, but to the authors of this

paper cause some relief and wake up certain optimism and motivation to engage in a discussion related to the creation of new or amend existing Master plan of Trade Development in the Republic of Serbia. Until 2000 the trade in Serbia developed spontaneously and without meaningful and consistent trade policy. The shift was made at the beginning of 2000 with great optimism and expectation that in a relatively short period of time key tasks in economic transition would be implemented in order to build a modern market structure. Foothold was given by the first strategy and policy of trade development, done in 2003. Unfortunately, despite clear commitments, mentioned in the Strategy adopted, processes in practice went spontaneously and with enormous problems in ownership transformation. Numerous visible and invisible individual interests also existed, not aimed at building modern market economy, and the modern trade.

A significant shift occurred in April 2008 when the Stabilization and Association Agreement between the European Union and the Republic of Serbia was signed. With this agreement, the Republic of Serbia committed to harmonize its legislation with the *acquis*, including the domain of market development and policy as priority. Some of these areas are: protection of competition, state aid control, intellectual property rights, public procurement, standardization, and consumer protection. All this gave rise to the Government of the Republic of Serbia to adopt a new Strategy of Trade Development in the Republic of Serbia by 2012, until the end of January 2009. It should be noted that this is the first time in the history that the Strategy of Trade Development, as an official document, was adopted by the Government of the Republic of Serbia.

The conditions in which the adopted strategy of trade development was designed, still were favorable providing plenty of optimism for the consideration about the future course of overall economic growth and development, including trade. There was a general consensus that Serbia until 2012 will be fully ready to join the European Union. On that platform, key projections of economic development were carried out, along with the projections of trade sector key indicators and trade network development. Unfortunately, given forecasts were not realized since the global and local economic crisis gained momentum and still

is strongly present in Serbian economy. Nevertheless, the adopted Strategy resolved the dilemma whether to build a modern trade and modern market in the Republic or not. In principle yes, but as will be seen later, in practice, no.

Are the key orientations set out in the Strategy questionable?

The key orientations set out in the Strategy for the Development of Trade from 2009 are not in dispute and still are fully valid. Starting point, still valid, was that Serbia has not yet emerged from the process of transition towards full and functional market economy. It was pointed out that the Republic of Serbia too slowly builds modern market structure. That was the platform to define clearly key strategic decisions. These decisions stem from the need to build such a market structure that will enable more intensive and effective competition between trading actors.

All proposals in the Strategy were on the straight line of building a modern market economy and modern trade. The focus was on faster integration into the European Union framework. It was pointed out that trade sector should play a key role in this process of Serbian economy integration in the economy of the European Union. The basic orientation, still fully valid, referred to the fact that the entire trade sector should be market-driven and indirect state intervention can only be directed to support and not to weakening of the free market and free trade.

Taking into account all exposed, the key commitments set out in the Strategy have been gaining on its agenda, given the even greater national consensus on Serbia's accession to the European Union. These are the following commitments:

- The need to build such a trade structure and network that will enable intense competition in the Serbian market;
- Encouraging more intensive internationalization of trade activities, fitting trade network in the European and global trends;
- Protecting the interests of consumers, manufacturers and other stakeholders through appropriate development of market-oriented trade;

- Full consumer protection on the Serbian market;
- Supporting SME development as well as the entrepreneurship in trade sector;
- Intensifying the development of e-commerce and other means of multi-channel marketing; and
- Harmonization of the legal framework regulating the market and trade with the EU legal framework.

As can be seen, exposed commitments are not disputed. On the contrary, today it is more than obvious that all solutions in the strategy and policy of trade should fully be in accordance with the solutions that exist in the single market of the European Union.

To what extent Strategy for Trade Development in Serbia is implemented?

It has passed five years from the creation of Strategy and it is rightly today, to raise the question: To what extent suggested solutions are implemented? There is no doubt that the key effects were expressed in the process of creating a national consensus about the construction of a modern market economy, and the modern trade consequently. Conviction about the importance of trade in the overall economic and social development is maturing. Commerce is increasingly becoming a key engine of market economy development. The institutions of the European Union are fully aware of this interrelationship, emphasizing the role of the retail sector for the efficient functioning of the single market and the overall economic development. Thus, for example, official record of the Commission of the European Union is pointing out that “the retail sector (is) driver for growth, competitiveness and jobs in Europe and plays a key role in reaching the goals of the EU 2020 strategy.” Then, it states the following: “The retail sector is the pillar of the European economy.” It is particularly significant that “Retail services act as a link between a multitude of upstream and downstream markets, making it a key player in the European economy [4, p. 3].”

Similar processes are also manifested in the Serbian market. It is certain that the role of trade in the overall economic and social development strengthens. During the crisis, trade sector proved to be one of the vital parts

of the Serbian economy [7, p. 16]¹. As a result, the share of trade in gross domestic product and in total employment rises. Along with that, the processes of concentration, computerization and modernization of trade are evident. New trading formats are emerging, encouraging the development of new forms of competition in the market of Serbia.

Solutions exposed in Strategy fully support the unique treatment of internal and external trade. The authors of this paper repeatedly emphasized the need for an integrated treatment of internal and external trade. Hence, it should be noted that three years ago a single Ministry of Trade was formed, combining internal and foreign trade. The role of this Ministry should certainly be stronger in the future development, maintaining capability to cope with the increasing complexity of total trade sector activities.

The main contribution of the Strategy should definitely be in the development of legal framework regulating market and trade. Thanks to the Strategy to great extent, Ministry actively approached to the process of drafting numerous laws, bylaws and other acts that regulate the field of market and trade. These regulations largely were prepared according to the solutions in the single market of the European Union in this domain. Hence, it was not surprising that by the authorities of the EU gave a lot of favorable reviews related to the adopted legislation in the field of market and trade.

It is to be noted that the adoption of the Strategy initiated adoption of the following acts: Law on General Product Safety, 2009 (Official Gazette of RS, 41/2009); The Law on Electronic Commerce (Official Gazette of RS, 41/2009); Law on Protection of Competition (Official Gazette of RS, 51/2009); Law on Trade (Official Gazette of RS, 53/2010); Law on Consumer Protection (Official Gazette of RS, 73/2010); Law on Market Surveillance (Official Gazette of RS, 92/2011); Law on Amendments to the Law on Foreign Trade (Official Gazette of RS, 2011); Law on Monetary Obligations Settlement Deadlines in Commercial Transactions (Official Gazette of RS, 119/2012); Law on Amendments to the Law on Trade (Official Gazette of RS,

10/2013); Law on Amendments to the Law on Protection of Competition (Official Gazette of RS, 95/2013); Law on Amendments to the Law on Electronic Commerce (Official Gazette of RS, 95/2013); The Law on Brokerage in Selling and Leasing of real estate (Official Gazette of RS, 95/2013); Law on Commodity Reserves (Official Gazette of RS, 104/2013); Law on Consumer Protection (Official Gazette of RS, 62/2014). In the pipeline, there are: Law on Commodity Exchanges, Law on Advertising; Law on Services; and Law on Lobbying.

The list enclosed clearly indicates strong activity in recent period resulting in numerous laws which regulate market behavior from various aspects. Also, numerous updating acts containing amendments may be noted, indicating intensive changes not only in Serbian but also in EU trade sector.

What is not implemented from the Strategy of Trade Development in Serbia?

The adoption of the Strategy analyzed, among the other things, created a higher awareness level of the increasingly important role that trade plays in the overall economic and social development. It was necessary to make a turn in the treatment of modern trade and its growing role in the economy. Starting point in the process of Strategy creation were modern market trends, which may be encapsulated in a phrase "trade revolution". The effects of trade revolution manifest in all segments of the economy and the markets. The fact is that the current market is becoming increasingly a complex mosaic of networked relationships between different trading partners [18]. Rigid boundaries among subjects dealing with production, trade and consumption are fading away. Trade is increasingly becoming an active factor in the development of production. At the same time, with the intensive development of marketing activities, it is taking an active role in the creation of new value to consumers [9], [14].

This was the platform for further development of the proposals in the Strategy. Hence, naturally emerges the question if the proposals created were widely accepted by professional and political circles. Unfortunately, the answer to this question is essentially negative. This

¹ Number of employees projected, based on permanent growth of the number of employees during the whole period of crisis in trade, in 2020 compared with 2009 is 150.8 thousand, or 43.5%, being the biggest projected growth in the number of employees in the service sector.

estimate is based on widely present public opinion that trade plays minor and supporting role in economic and social development instead of very active one [16]. As an illustrative case it is just to remind of easily announced decision that retail and distributive margins on some food products will be frozen, by the end of 2011. Or, to remind of permanent orientation to avoid small and medium sized retail and wholesale enterprises when planning government financial instruments for support to new employment, self-employment, investments, etc. Still, there is no single vision on the national level how distributive and retail sectors should look like, which cause “slowly drifting away” from expected development. The statements, like this one that “the trade develops at the expense of the agricultural and industrial sector” are of particular concern. It is obvious that if the trade was better developed, the impact on agriculture and manufacturing sector would be only positive.

In given environment and under the pressure of overwhelming global economic crisis, the implementation of proposed “distributive trade sector management model”, as the mentioned Strategy set out, absolutely failed. Proposed management model was designed in order to facilitate the balance between corporate and public policy, contributing to the distributive trade sector sustainable growth [10]. Essentially, it is all about the balance between liberal and restrictive policy of trade companies growth. Particularly, it is important to understand the weight of balanced growth of new trade institutions, which is the key policy area that EU Commission for single market development is dealing with [13].

Unfortunately, two completely opposite policies have been recognized in Serbia, and none of them respected suggested solutions. On the one hand, the requirements for restrictive trade practices and restrictive trade development were easily accepted. In rude way, it has manifested in the case of direct state interference in wholesale and retail margin rates of food products. On the other hand, extremely liberal policy was demonstrated regarding the development of trade and particularly retail network. It is enough in this regard to consider the spontaneous development and location of big box retailers and shopping centers in major urban areas in Serbia, especially in Belgrade.

Experiences from the developed market economies assure us that there were no successful efforts in order to resolve satisfaction of the individual needs through state intervention instead of market mechanism. Furthermore, distributive trade sector development experiences in different economies showed that state government cannot minimize the costs of trade and transactions, influencing the efficiency of the whole chain of relationships between manufacturers and consumers. Direct state intervention in trade sector is redundant in developed markets, gives counterproductive effects, deforming the market relations and overall functioning of the market mechanism. It is commonly adopted fact that efficient relationship management in trade sector can be regulated primarily by market mechanism and competition among actors competing for the customers. So, dilemma “market or state intervention” is basically, false. Existing Strategy fully affirms the statement that the state intervention that is thought-out and rich in content, is necessary not to replace the market but in order to support its functioning in the interests of the consumers and the whole society.

An active role of the state administration dealing with the development of trade and market is important in order to establish balance between public and corporate policy. In other words, the relevant state authorities dealing with markets and trade should have a “proactive” role in their development. This applies primarily to the ministry responsible for trade, which must have a proactive rather than passive (observing) role in the development of trade network, the current market trends and the level of competition in the market. The precondition for acting, certainly is development of an appropriate information system [11].

National Bureau of Statistics and Informatics created a distinct project on this topic for the Ministry of Trade [12]. The project considered all methodological issues in the process of building an adequate information system covering the whole commerce. The methodology for new research has been, also, established and new solutions in order to provide continual monitoring of key market and financial indicators on wholesale and retail trade were proposed. Foothold in all of this is given in the first Trade Law (Official Gazette of RS 53/2010.), where it is envisaged

that the obligation to commercial entities to submit data electronically to the Centre for Development of Trade under the Ministry of trade.

Unfortunately, subsequent amendments the Law on Trade erased it all. As a result, we now have the complete devastation of a database on trade sector of the economy. In particular, there are no data on the structure of retail and wholesale network, as well as on the structure of the prices and margin rates in wholesale and retail trade. Particularly disturbing is the fact that there is no accurate insight in the retail market and its structure. In the absence of these key performance indicators, there is lack of adequate analytical basis for the adoption of key macro-economic decisions. Simply, it is not possible to make neither exact effects of on budget income, nor the size of the gray market that are present at all stages of marketing channels and in all commodity groups.

Furthermore, it is of particular concern that an adequate control of the implementation of the requirements for trade in goods and services, which is specially elaborated in Law on Trade (Official Gazette RS, 53/2010). Therefore, should not be surprising that today we are witnessing excessive flows in gray market and illegal relations between entities in the market. In particular, there are almost no sanctions for non-registered dealing with the trade in goods and services, as well as skillfully maneuvering and disregard of legal provisions regarding trade formats.

As a result of these and related failures to implement the proposed solutions, there is no adequate information data base for managing the development of trade and trade networks in the Republic of Serbia. And, just to add in order to avoid any confusion that the authors of this paper are not in favor of administration in the process of trade network development. On the contrary, it is a proactive influence in the process of development that will function as a support to more intensive competition in the market.

Evaluation of the current level of trade development in Serbia

The development of trade and trade networks in the past period proceeded in directions predicted in the Strategy. The processes of modernization, concentration,

computerization and internationalization in the development of trade and trade networks were manifested. The fact is, however, that in spite of the results achieved, still some significant structural problems at the macro and micro levels of trade development exist. It should be noted the following structural problems:

- Fragmentation and low level of concentration, consolidation and integration of wholesale and retail trade, on average, with a widening gap between small and large through disproportionate and rapid enlarging of certain entities;
- Excessive development of wholesale compared to the retail trade sector;
- Fragmentation of trade network and big number of retail outlets, as well as their inadequate dispersion and development in certain market areas of the Republic of Serbia;
- Absence of the trade formats that could, to a significant extent, improve competition in the market, such as “Cash and Carry” centers in wholesale trade or discounts in retail trade;
- Insufficient level of electronic commerce development;
- Vulnerable position of small retail companies and entrepreneurs and the absence of any public assistance or support in their development.

The gap between big retail chains, distributive giants and big-box formats, on one side, and small companies and stores on the other, is increasing, thanks to the explained conditions and structural problems.

Concluding remarks and key proposals for further work on the Strategy for the Development of Trade

Based on the above presented, the authors of this paper do not see the need to prepare a completely new strategy for the trade development. Instead, it is more adequate to propose paper complement to existing Strategy for the Development of Trade of the Republic of Serbia. In this regard, there is a need to obtain one concise document with the appropriate amendments. That kind of document would be aimed to fully and in more details specifically strengthen present solutions and commitments in order

to develop modern and market-oriented trade. It should be trade that will be the real “engine” in the process of linking the economy of the Republic of Serbia with the single market of the European Union. The amendments to the existing strategy should answer the following key questions:

- How to develop management model and statistical basis so that ministry in charge of trade can run an active policy and implement concrete measures in the process of modern market and trade structure development?
- How to establish and in what areas, the balance between corporate and public policy in the process of sustainable trade development?
- Which areas of the existing legal framework, covering the process of modern market and trade structure, should be improved and planned in details, particularly having in mind segments of the competition, consumer protection and the development of SME trade sector?
- How to support and which measures to use in order to develop trade formats enabling the modern trade structure development and the increase in the competition level in the market?
- Which measures to use in order to develop e-commerce and other multi-channel marketing initiatives?
- How to provide efficient monitoring of the market in order to support competition and gray market suppression?

In addition to proposals for the improvement of the public sector in charge of trade issues, amendments need to contain proposals for the other stakeholders, involved in the implementation of the Strategy. This particularly refers to consumers, improvement of the organizations that protect the rights of consumers and articulate their interests. Besides consumers, we refer to the entities that directly operate in the trade sector. The update of Strategy need to answer the question of how to organize direct actors in trade to enable their active participation and influence to support strongly trade profession and its role in development of production and the overall process of creating new value for consumers. Actually, the creation of a new understanding of the contemporary role of trade

in the overall economic and social development needs to be supported.

Global industry performance/trends in tourism

Over the past 60 years the tourism industry recorded significant growth and diversification, proving its image of one of the most growing economic sectors in the world. In accordance with the statistics, constant international arrivals have shown uninterrupted growth from 25 million in 1950 to 278 million in 1980, 528 million in 1995, up to 1,138 billion in 2014. Despite global economy restrictions, international tourism demand exceeded expectations, with additional 51 million international tourists travelling around the world in 2014, which proved the growth of 4.7% year-on-year. It is expected that the market share of emerging economies, grown from 30% in 1980 to 47% in 2013, will reach 57% in 2030.

In accordance with the UNWTO forecasts it is expected that international tourist arrivals will grow by 3.3% and in 2030 will reach 1.8 billion [22]. Interesting observation regards travel trends shift between new (emerging) destinations and the developed ones. It is expected that, within the period starting from 2010 up to 2030, new destinations will record the increase of 4.4%, while international arrivals to developed destinations will grow by the half of that rate. Tourism has developed in global phenomenon – one of the most significant market sectors and social activities of modern times; this sector has proven growth of 5% in the world GDP, and every 11th of employees is working in tourism. Globally, tourism is growing by the rate higher than of GDP, doubling created jobs within the 10-15 years period [15]. Tourism is the main export sector for many countries – developed, as well as developing ones. Undoubtedly, there is prominent link between tourism and economic growth and tourism is the important part of the new economic growth in the period of stronger influence of unproductive sector [17]. Progress of this sector is especially expected within next 20 years. At the same time, these will be years when tourism will be the engine of the economic growth, investments, overall social progress, and sustainability of environment. For this achievement, it is obvious that tourism gains priority

in development of national economy policies, fostering competitive and responsible business models and practices as well as promotion of public-private partnership.

As defined in the World Tourism Organization (UNWTO) *White Paper*, tourism development should address both short-term market challenges and long-term sustainable development imperatives. This fundamental need represents two basic priority pillars of tourism development – competitiveness and sustainability, while additional ones are: positioning tourism's contribution to economic growth, inclusive social development, and environmental sustainability on the national and international agenda. In this sense particular importance have UNWTO activities with the UN Environment Programme in the post Rio+20 period [24], namely in the coordination process of the *10-Year Framework of Programmes on Sustainable Consumption and Production (10YFP)*, considering that tourism is among the five global economy initial programmes, then definition process of the *Aims of the post-2015 Sustainable Development Goals (SDGs)* [23], under the auspices of the UN General Assembly, as well as promotion of links between tourism and culture, tourism and security (through the Committee on Protection of Critical Tourism Infrastructure in order to implement the Strategy for support fight against terrorism), raising awareness about the most common illicit goods and services that tourists might be exposed to while travelling, fighting against trafficking in persons etc.

The key topics considered at the global level as considerable for enhancement of the overall, global tourism program and turnover are as follows: travel facilitation (activities refer to visa procedure facilitation), taxation (advocate for intelligent taxation, raising awareness of the need to evaluate the economic impact of the raise or introduction of new taxes on tourism industry achievements; an econometric model was created to assess the impact of changes in fiscal policies in tourism [24]. The focus is also on the following topics: connectivity and accessibility (considering that half of all international tourists arrive to their destinations by air, there is a prominent need for closer coordination between tourism and aviation policies), innovation and application of new technologies (new distribution channels, new tourist infrastructure, new

business models), mitigation (of programmes for seniors, young people, people with special needs). The global tourism market is diversifying further in accordance with different life styles and patterns of behavior, i.e. changes in the demographic structure. The average number of trips per year increases, so as a number of reasons for tourist trips.

The key results of the Tourism Development Strategy 2005-2015

Tourism Development Strategy (Official Gazette of RS, No 91/06) determined the strategic development goals for Serbian tourism, as well as measures for their implementation. Expected global results of the implementation of the Strategy are as follows: rise in Serbian tourism competitiveness, increase in foreign exchange earnings, rise in domestic tourism turnover, increase in the number of international tourists, as well as increase in employment through tourism in order to transform Serbia into a competitive tourist destination.

In a year when expires the current, first Tourism Development Strategy of the Republic of Serbia, for the first 11 months Serbian tourism recorded a growth of foreign exchange earnings of 9%, amounting to RSD 1,017 million and showing a real chance to be a record year (RSD 1,052 million in 2013), drop in domestic tourists arrivals of 9% in comparison with 2013 and permanent increase in international tourists arrivals (increase of 12% in comparison to 2013) [20]. During the previous decade demand structure of the tourism product of Serbia was significantly changed: share of international tourists arrivals increased from 23.3% in 2006 to almost 47% in 2014, in regard to total arrivals structure, from 15.4% to 35% in a total number of overnights structure.

The current Tourism Development Strategy has already defined key tourism products, as well as recommendations for their development (city breaks, round trips, business tourism, health tourism, mountain and lake tourism, nautical tourism, events, conferences and other events, rural tourism and special interests), five tourism clusters (Belgrade, Vojvodina, Kosovo, Western and Eastern Serbia), provided an analysis and guidelines for improving the competitiveness of Serbia as a tourist destination.

Some products recorded significant results: owing to an active approach of the Congress Bureau of Serbia since its establishment, Serbia moved from 72nd in the world among *Top 50* and in 2014 ranks as 41st among the destinations for congress tourism with a total of 66 organized congresses; Belgrade and Novi Sad recorded a permanent increase in the number of tourists, especially foreign, different manifestations of cultural, tourist and economic character (estimates are about 1,200 of them per year) have become recognizable tourist product/brand of Serbia, some of which have important international significance (Guča Festival, EXIT, Beer Fest). After assessing the identified tourism products of Serbia and in accordance with development potential, *mountain tourism* is defined as a product with the highest rank in priority to the development of tourism in Serbia. In this sense, the public sector has in the previous period invested significant resources in the modernization and development of the ski resort Kopaonik, but also in the development of new ski centers: Tornik in Zlatibor and Stara Planina. One of the first measures and recommendations in the Action Plan was the modernization of accommodation, mainly in hotel capacities and change in their structure. In 2005 the 2&3 star hotels (32% and 33%, respectively) dominated, while in February 2015, in the Republic of Serbia there are 33% with 3 stars and 27% with 4 stars, out of 328 hotels. Besides, 25% of these hotels were built in the last 5 years. In comparison to 2005, the share of hotel rooms with global and regional hotel brands in the total number of hotel rooms increases (*Radisson Blu, Crowne Plaza, The Luxury Collection – Starwood, Falkeinsteiner, Holiday Inn, Best Western, Hyatt*), and according to recent announcements, the opening of the *Courtyard by Marriot* is expected by the end of 2015 and of the first hotel of the *Hilton Chain* in 2016. The result of a strategic partnership with Etihad is the launch of a new national airline “Air Serbia” which has connected Belgrade and Serbia to 39 destinations in 29 countries and an additional 20 popular destinations around the world through “code share” partnerships with leading airlines. Investment and modernization of the airport *Nikola Tesla* in Belgrade, as well as the introduction of low-cost companies, have resulted in a record number of passengers

in its history, 4.6 million, which is a European record in terms of growth in the amount of 32% per annum. If it is known that foreign direct investment has a significant role in the development of tourism around the world [3], the project “Belgrade Waterfront”, in addition to the overall economic importance, should further position our capital city in terms of tourism as one of the most attractive destinations in this part of Europe.

The system of benefits (for instance: proposed a lower rate of VAT) and incentives for the development occupy an important place in the action plan of existing Strategy. In a recent time period, the state has committed significant investment in tourism and public infrastructure, tourism signalization, promotion and education projects (see Table 2).

Table 2: Investments through a system of incentives: subsidies + NIP (2006-2013)

| Cluster | No. of Projects | Total in RSD |
|-------------------------|-----------------|-----------------------------|
| Belgrade | 10 | 166,221,571 |
| A.P. Vojvodina | 49 | 954,313,786 |
| Eastern Serbia | 115 | 3,244,401,959 |
| Western Serbia | 96 | 2,337,350,390 |
| Other projects from NIP | 12 | 1,252,570,299 + EUR 410,000 |
| TOTAL | 304 | 7,954,858,005 + EUR 410,000 |

Source: Work Report of the Sector for Tourism, August 2013, Ministry of Finance and Economy

In accordance with the system of incentives for the most part was completed the following:

- Rehabilitation projects of collapsed urban parts;
- *Greenfield projects* – river (freshwater) marinas and *breakthrough projects* of destinations development;
- Projects related to the environmental protection;
- Projects related to culture – protection of historical monuments and cultural heritage as well as the arrangement of the urban centers and city parks.

Also, in accordance with the Investment projects through a system of incentives mostly was invested in projects: Stara Planina, Palic, Zlatibor – Zlatar, Iron Gate, Divcibare, Fruska Gora, Upper Danube, Sokobanja, Stig – Kucajske planine – Beljanica, Archeological site Felix Romuliana, Lepenski Vir, Golubac, and then in the projects: Kopaonik, Lower Danube, Mokra Gora, Vrnjacka Banja and more. Beside subsidies, lower VAT rates for categorized accommodation capacities, also a

system of loans for small and medium-sized enterprises were introduced in order to improve the quality of tourist offer, with a *grace* period of one year (*brownfield*) and 2 years (*greenfield*) investments, with the repayment period of 5, i.e. 7 years, respectively, and an interest rate of 1% per annum. Finally, the Government of the Republic of Serbia in October 2014 introduced visa facilitation for holders of passports with valid Schengen, American and British entrant visas, which is of a great importance for the development of regional tourism products and joint appearance in third, especially overseas markets.

On the other hand, although the number of cruise ships and foreign tourists on cruise ships that dock in Serbia is growing (in 2014 is approximately 64,000 passengers), it can be said that the Cruise tourism (nautica) recorded the expected results. Underdeveloped infrastructure (marinas, docks, fuel supply) and disordered banks significantly influenced the development of this product; in 2015, Belgrade or any other Serbian cities, were not the starting point for line ships and cruise ships. It was not recognized by the private capital as a challenge and a good investment. What to say about the incredible potential that Serbia has in spa, i.e. medical tourism? Due to unresolved property relations, litigations and undefined priorities, undefined strategy for rehabilitation and disease prevention, rejection of privatization process and strategic partnerships, also in 2015, spas have remained at the potential level equal to past decades, with a tendency to stagnation in terms of tourist arrivals and overnight stays, despite the fact that spas, after Belgrade, are the most visited tourist destinations in Serbia (386,345 tourists in 2014).

The concept of Destination Management Organizations, of a public and/or private character, was not implemented, although they were supposed to represent a kind of catalyst for initiating and implementing the priorities of destination development and establishment of a comprehensive value chain. Arrival of international companies, primarily international hotel chains should have a strong positive impact on improving the quality of the existing human resources, but also on developments in the labor market in the hospitality and tourism industry in general. Serbia has failed to establish a system of experience and completed products, positioned and ready to be introduced in the global market. Consequently,

it was not fully established recognizable tourist image of Serbia as an attractive, safe, new, and undiscovered tourist destination. One gets the impression that, among other issues, due to insufficient investment in marketing and tourism promotion, Serbia failed in the previous period to sufficiently commercialize existing tourism offer and realize the full effect in regard to returns from tourism and employment. Also, there was not enough progress in the development of main, planned investment projects (*greenfield*); one of the few examples is the construction of the ski center and mountain resort in Stara Planina.

Framework for defining new strategic development

Despite the continuous increase in arrivals, mainly of foreign tourists and, consequently, foreign exchange earnings from tourism in the past, forecasts and recommendations of the current Tourism Development Strategy of the Republic of Serbia have not been fully realized. According to the Strategy, the basic development control model of Serbian tourism is based on strong coordination role of the state (privatization, major new investment), including the establishment of the National development agency for tourism as a leading organization that will deal with the implementation of the Strategy, while being a promoter of investment projects for private and public sector (The National Tourism Development Corporation was founded in July 2009, in the framework of the IPA 2007 project, based on the provisions of the Law on Tourism "Support to implementation of Tourism development strategy". After three years, Corporation entered the liquidation process, as part of measures of rationalization of state agencies and institution of the Government of the Republic of Serbia). This was influenced by both objective (global financial crisis and budgetary constraints) and subjective circumstances (incomplete development of basic infrastructure: Corridors 10 and 11, undeveloped nautical infrastructure along the corridor 7, incomplete or canceled privatization of hotel and tourism enterprises, unresolved property questions in spas, etc.).

Regarding tourism, it seems that in 2015 Serbia still faces the same or similar choice or dilemma, just as in 2005: on the one hand, uncoordinated and slower way of

tourism development that is, based on offer and demand market principles, largely dependent on the development of other economic sectors and the overall social situation in the country. On the other hand, tourism development is coordinated, integrated, based on the plans and principles of sustainable development still in the current Strategy proclaimed by the state of which will bring together all stakeholders of the public and private sector in order to implement the defined goals. With this in mind, we can say that valid tourism strategy provides a good basis for defining and/or redefining the new strategic directions of the development of Serbian tourism.

The necessity of making new Tourism Development Strategy which will define clear objectives, measures and expected results in the short, medium and long term is not in question, but the new strategy document should not be lengthy and descriptive, but concise and concrete with a precise action plan. Also, it is necessary to consistently include the findings and recommendations of several important documents that have been delivered and adopted in the meantime: *The Danube Strategy*, *Strategy for Sustainable Development of the Carpathians*, *Program of development of sustainable rural tourism in Serbia*. We should not ignore the basic recommendations arising from the project “Support implementation of tourism development strategy”, EU IPA 2007 project, which was publicly named “revision of strategy,” though it was not a defined objective.

Recently presented “Territorial marketing strategy – Danube Serbia Region” provided the important input that indicates three possible focuses: 1. Cost management strategies (low tax rates, low cost of land, low regulatory barriers), 2. The strategy of differentiation (the uniqueness of resources and costs in a specific location is highlighted which will in a global context affect the investments decisions), and 3. Segmentation strategy (targeting market niches and operation through the development and maintenance of relationships, by the application of specialized knowledge and custom support tools). Strategically set goals are: creating awareness of the Danube region in Serbia and its resources, ensuring high quality level of offered mix of products and services, and focus on market segments with the highest potentials. “The place where the Danube meets Balkans”[2] – is the

slogan for an internationally famous region for its quality products, a dynamic and stimulating environment that fosters creativity, knowledge and understanding for the business development; which creates the benefit for their community through sustainable growth and development mechanisms presenting a vision of the Danube region in Serbia [5] which has to be implemented in the new strategic document in view of its importance and potential.

In defining the future directions of development of Serbian tourism in the next decade, we should also bear in mind the framework and development trends of the World Tourism Organization of the United Nations defined in the documents *Tourism 2020 Vision* (trends and forecasting on the state of the global tourism market in the first 20 years of the third millennium) and *Tourism Towards 2030*, which provides for further growth in the number of international arrivals, but at a moderate rate, a lower rate elasticity of travel in relation to changes in the level of GDP, an increase of transport costs and others. Long-term growth of tourism by the year 2030 will be based on sustainable and inclusive development. With regard to its European orientation, in defining strategic orientations Serbia should take into account the Europe 2020 strategy, which was created as a result of the global challenges faced by the EU, and especially the economic empowerment of certain emerging countries, reorganization of global finance, climate changes and limited resources. Identified priorities include: intelligent growth (economy based on knowledge and innovation), sustainable growth (economy that consumes resources efficiently, environmentally focused and competitive) and integrative growth (economy, which has a high rate of employment and social and territorial integrity) [6].

In the study “*Development potentials of Serbia in the tourism and travel industry from 2011 to 2023*” World Travel and Tourism Council (WTTC) identified seven key areas in order to strengthen its position in the international tourism market [25]:

- Strategic Value of Travel & Tourism (Encourage and proactively plan stakeholder engagement in long term tourism planning and implementation);
- Long Term Planning & Research (Collect and strategically use accurate and relevant data to measure

- and monitor domestic travel and international tourism arrivals as well as tourism's economic and employment impact across the economy);
- Co-ordinated Branding, Promotion and Marketing (Invest in countrywide and tourism-specific branding and promotion);
- Infrastructure Development (Prioritize the maintenance and upgrade of core infrastructure);
- Transparent Business Environment (Simplify and enable a business-friendly environment);
- Unique Product Differentiation and Development (Make the tourism offer a uniquely Serbian experience);
- Investment in Human Resources & Education (Professionalize the industry by establishing leading-edge vocational training).

Key recommendations for further activities in the new Tourism Development Strategy

Recognizing the key international trends (financial, technological, innovation) and recommendations, set forth in the aforementioned international papers, the new tourism development strategy, starting with the guidelines and recommendations of the current Strategy and the Law on Tourism, which in Article 7 defines precisely the basic elements of a strategy, among others, should:

- Define the model of growth and the key drivers, the role and place of the state/public sector in the growth and development of tourism;
- Contain measures and proposals that should improve the work efficiency, but also the impact of the National Council for the development of tourism, as tourism will be finally bring into focus of national economy policies, and identify what measures should be taken to achieve greater synergy of tourism with other sectors: finance (system of fiscal and monetary stimulus), culture, environment protection, planning and construction, education and others;
- Similar to the trade, tourism development strategy should contain clear measures for improvement of managerial skills and information base of the Ministry in charge of tourism in order to build the necessary

- capacity for the creation of development policies and an adequate regulatory framework in tourism;
- Identify the key measures and proposals for the tourism products competitiveness increase, which should result not only in an increase in revenues from tourism, but also in new investments and, consequently, new jobs – it is necessary that the public sector has a concrete development plan, guidance and a framework; after the adoption of Strategy by the Government of the Republic of Serbia, it will represent a solid basis in the coming years for budget funds planning, which would be achieved through national consensus;
- Provide clear guidance and propose measures for further improvement in the institutional framework, but also for organizational promotion of work concepts and activities of all *stake-holders* and the introduction of the destination management organizations concept, as the concept of comprehensive value chain management on the territory of Serbia;
- Identify the key measures to combat the gray economy;
- Harmonize and improve consumer protection in accordance with European practices and legislation,
- Define the priorities and measures to improve the quality of human resources in tourism;
- Contain an action plan with precise measures, holders of activities and deadlines for their implementation.

Such a master plan for tourism development, simply and convenient, seeks for national consensus of many participants. It appears that it is possible at this stage. Positive trends provide basis for optimism and energy of the private sector. Difficulties, known from the previous period, are sufficient challenge to motivate actors to finally resolve the long-existing problems. The adoption of a new strategic document, as a guideline for the future work of the private and public sectors, is expected.

Conclusion

Taking into account both sectors, trade and tourism, the validity of the medium-term development strategic documents, adopted by the Government of the Republic of Serbia, expires. Analyzing the position of both sectors of

the economy, it can be shown that trade and tourism in the previous period recorded qualitative, and even, in the case of tourism, quantitative progress. This progress has been achieved, to a large extent, thanks to the guidelines derived from the previously adopted strategic documents. Primarily, state authorities in both areas, significantly improved the legal framework regulating the business operations, protection of competition and consumer protection. Improvement of the legal environment, accompanied by economic optimism of the first decade of the 21st century initiated, to some extent, the arrival of new players in the market of Serbia who built modern facilities and brought with them new technologies. Of course, some opportunities were exploited, but many of them were missed, partly because the governmental bodies were slow to implement the necessary changes and partly because of inadequate instruments for the implementation. Summarizing the situation in both Serbian economic sectors in the beginning of 2015, it is possible to conclude that further planned activities of state bodies are required. The role of the state should be to direct activities towards fostering further development of market economic conditions. National authorities will have positive impact only if they respect the two principles. The first is to work on the improvement in the market environment (and not to replace it) by using the interventions that are public, visible to everyone and limited in time. The second is that interventions can only refer to accelerate some of the changes that the market normally initiate, but slower, except in the case of protection of competition and consumer protection. The best guide to planning a new development cycle is in the documentation and rules of the European Union. The task of the creators of the new strategy is to link the solutions that have been implemented on the basis of previous strategies and to design activities for the new five (ten)-year-period. For such activities, the best approach is to update, extrapolate and amend previously adopted strategic documents.

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