

DEVELOPMENT PROCESSES IN THE INDUSTRY OF THE REPUBLIC OF SERBIA DURING THE FIRST DECADE OF THE 21ST CENTURY

Živorad Gligorijević^{1*}, Enes Ćorović², Aleksandar Manasijević¹

¹University of Niš, Faculty of Economics, Niš, Serbia

²State University of Novi Pazar, Novi Pazar, Serbia

**zivorad.gligorijevic@eknfak.ni.ac.rs*

Abstract

The first decade of the 21st century in the Republic of Serbia is characterized by numerous changes of an economic nature. It was, in fact, a period of accelerated reforms based on the neoliberal concept, whose implementation was to steer the economy of the Republic of Serbia towards market economy, enable relatively high rates of economic growth, raise the level of national competitiveness and, ultimately, prepare the Serbian economy for the market match. However, the ten-year application of this concept has directed the Serbian economy in a different direction: towards foreign austerity, the disproportionate growth of the non-tradable goods and services sector and the overheating of domestic demand as the main driver of growth. The inability to autonomously or partially autonomously create their own sources of growth, on the one hand, and the continuation of the spiral of borrowing abroad, on the other, are the key indicators of the current state of the economy. Therefore, the Republic of Serbia was forced to change its economic growth model. According to many opinions, the development processes in industry, their position in the newly formed economic structure of the country, as well as the structural changes within the industry itself, are one of the key causes of negative development flows in the economy of the Republic of Serbia during the first decade of the 21st century. With this in mind, this paper analyzes the development processes in the industry of the Republic of Serbia during the first decade of the 21st century, namely: the changes in the structure of industry, the results of privatization of industry, the trends in employment in industry and the developments in foreign trade of industry.

Key words: Industry, development processes, privatization, employment, the Republic of Serbia.

РАЗВОЈНИ ПРОЦЕСИ У ИНДУСТРИЈИ РЕПУБЛИКЕ СРБИЈЕ ТОКОМ ПРВЕ ДЕЦЕНИЈЕ 21. ВЕКА

Апстракт

Прва деценија 21. века у Републици Србији карактерише се бројним променама економске природе. То је, у ствари, био период убрзаних реформи заснованих на неолибералном концепту чија је реализација требало да усмери привреду Републике Србије према тржишном начину привређивања, омогући релативно високе стопе привредног раста, подигне ниво националне конкурентности и, на крају, да припреми српску привреду за тржишну утакмицу. Међутим, десетогодишња примена овог концепта усмерила је српску привреду ка другом правцу: ка страниј штедњи, несразмерном расту сектора неразмењивих добара и услуга и прегревању домаће тражње као основног покретача раста. Немогућност аутономног или делимично аутономног стварања сопствених извора раста, на једној страни, и наставак спирале задуживања у иностранству, на другој страни, кључни су показатељи тадашњег стања привреде. Због тога је Република Србија била принуђена да приступи промени модела привредног раста. Према многим мишљењима, развојни процеси у индустрији, њен положај у новоформираној привредној структури земље, као и структурне промене унутар саме индустрије – један су од кључних узрока негативних развојних токова у привреди Републике Србије током прве деценије 21. века. Имајући то у виду, у овом раду анализирају се развојни процеси у индустрији Републике Србије током прве деценије 21. века, и то: промене у структури индустрије, резултати приватизације индустрије, кретање запослености у индустрији и кретање спољнотрговинске размене индустрије.

Кључне речи: индустрија, развојни процеси, приватизација, запосленост, Република Србија.

INTRODUCTION

At the beginning of the 21st century, the Republic of Serbia began implementing accelerated reforms by applying the neoliberal (“spontaneous”) concept of structural adjustment, that is, by applying a universal transition doctrine based on the recommendations of the Washington Consensus (*macroeconomic stabilization, market and market institution building, privatization and enterprise restructuring and economic policy liberalization*).

A development model was established on the concrete realization of the basic elements of the concept of structural adjustment of the economy of the Republic of Serbia. It was supposed to result in a relatively fast consolidation of economic opportunities in comparison to other countries. On this basis, high development goals were made and expectations of rapid results were created.

However, the spontaneous action of the market mechanism, under conditions of partial macroeconomic stability, led to the configuration of the development processes that can, at the very least, be characterized as

an unsustainable growth trajectory. The expectations of the protagonists of this, theoretically rounded, model did not materialize. It was necessary to move away from the idea of "spontaneous" growth as soon as possible.

According to many opinions, the development processes in the industry of the Republic of Serbia and their position in the newly formed economic structure of the country, as well as the structural changes in industry, were one of the key causes of negative development flows during the first decade of the 21st century.

Starting from the importance of the aforementioned facts, and based on the relevant knowledge about the course of structural adjustment of the economy, the aim of the research in this paper is to point out the *development processes in the industry* of the Republic of Serbia with a focus on the empirical analysis of the results of those processes.

1. CHANGES IN THE INDUSTRY STRUCTURE

In the first decade of the structural adjustment process, the structure of the industry of the Republic of Serbia, observed by related industries, was largely formed as a result of the failed privatization, especially in the manufacturing industry.

While mining grew at an average annual rate of 7.42% between 2001 and 2008, and electricity and gas supply 3.82%, the manufacturing industry stagnated over the observed period with an average annual growth rate of 0.47% (Gligorijević, Ćorović, 2018).

Industries and areas that were the dominant growth drivers in the world in this period (manufacture of machinery, office and computer equipment, manufacture of electrical machinery and communication equipment and production of vehicles) recorded minimal growth rates in the Republic of Serbia.

This resulted in their low share in the gross value added of the manufacturing industry. The bright spot, among others, was the growth of the chemical industry, whose relative share was approaching contemporary developments in developing countries. (Table 1)

Table 1. Structure of manufacturing industry in developing countries and Serbia (in%)

	Countries in development		Serbia	
	2005	2010	2005	2010
Manufacture of food products and beverages	16,7	15,8	27,1	33,2
Manufacture of tobacco products	2,3	2,2	2,9	1,7
Manufacture of textiles	4,6	4,3	2,0	1,6
Manufacture of clothing and leather goods	4,7	4,3	4,2	3,6
Manufacture of wood and of products of wood, except furniture	1,6	1,3	1,8	3,2
Manufacture of paper and paper products	2,8	2,7	2,6	3,1
Print and duplicate audio and video	1,2	1,1	6,0	3,1
Manufacture of coke and refined petroleum products	7,2	5,9	3,9	5,0
Manufacture of chemical and pharmaceutical products	11,1	11,4	8,5	7,5
Manufacture of rubber and plastic products	4,0	3,8	5,4	5,9
Manufacture of non-metallic mineral products	5,2	5,5	5,6	5,6
Manufacture of basic metals	9,8	10,1	6,1	4,7
Manufacture of fabricated metal products, except machinery	4,6	4,8	6,1	8,6
Manufacture of computers, electrical and optical instruments	5,1	5,9	6,3	3,0
Manufacture of electrical equipment	3,4	4,0	3,4	4,0
Manufacture of motor vehicles and other transport equipment	8,5	9,0	2,6	2,6
Furniture production	2,1	2,1	2,7	1,7
Manufacture of other machinery	4,7	5,8	2,2	1,8

Source: UNIDO, Industrial development report 2018, p. 164, Republic Institute for Statistics, Statistical Yearbook 2013, 2014 u 2017.

In addition to the chemical industry of the Republic of Serbia, positive changes were also recorded by industries and fields dealing with related import and export. These are the industries with the highest dependence on raw material import, so the undervalued dollar and euro benefited them most. Losses in export finishing jobs were offset by these industries with cheap import, the monopoly structure of the domestic market and the relatively higher prices. These are, first of all, the production of petroleum products, the production of rubber and plastic products, as well as the production of base metals.

A more noticeable decrease in the relative share of classic labor-intensive branches in the structure of the manufacturing industry (production of textiles, clothing, leather and footwear) was observed as a result of inadequate foreign trade and fiscal policies, which obviously discouraged their development. The tendency of their relative participation in the structure of the manufacturing industry, as observed in the Republic of Serbia after 2000, has been in conflict with the logic of structural changes in all countries at a similar level of development, in particular, contrary to the interest of alleviating the unemployment problem. While other developing countries used the comparative advantages of cheap labor and based a part of their development on this, the Republic of Serbia easily renounced the "services" of labor-intensive branches, as a relic of the socialist past, thus building a virtual picture of modern development, beyond the obvious facts (Ćorović, 2012).

The rapid and continuous growth throughout the transition period was recorded by industries which had agriculture as their raw material base. Food and tobacco production, which had a relative share far exceeding the averages of the world and developing countries, came first. It is an indicator of an outdated economic structure and a prolonged stalemate in the development of propulsive industries, characteristic of other countries with similar or higher levels of economic development.

Given the low growth rates, structural changes in the manufacturing industry were more cosmetic. It is, first of all, about forced structural changes, due to the lack of any serious industrial development policy. However, this is more pronounced if one considers the movement in labor force employment, where agricultural production, as a raw material base, became a depot for structural surplus labor from other sectors and activities.

Structural changes within the manufacturing industry of the Republic of Serbia, viewed from the aspect of technological groups, to which certain industries belong, were of particular importance. The dominant share of industries with low technological level is noticeable, which is significantly higher than both the world and the average of developing countries. (Table 2)

Table 2. Structure of manufacturing industry in developing countries and Serbia (by technology groups)

	Countries in development		Serbia	
	2005	2010	2005	2010
Low technology	36,0	33,8	48,4	51,3
Medium low technology	35,9	35,9	29,4	31,5
Medium high and high technology	28,1	30,3	22,2	17,2

Source: UNIDO, Industrial development report 2018, p. 200, Republic Institute for Statistics, Statistical Yearbook 2013, 2014 u 2017.

In developing countries, structural changes are clearly expressed and are moving towards a relative share of medium- and high-tech industries, with a continued decline in low-tech industries. Dynamics are much slower than the global average, but the trends are clearly noticeable. Such flows are even more visible in the export structure, which is an additional indicator of the absence of a strategic aspect of the industrial development in the process of formulating and implementing the industrial policy of the Republic of Serbia.

2. INDUSTRY PRIVATIZATION RESULTS

The realization of the process of structural adjustment of the economy in the Republic of Serbia has been accompanied by high expectations of profound changes and rapid results. Privatization was intended to be the cornerstone of all reforms and a saving recipe for tackling accumulated problems. The transformation of social into private

property and the establishment of market competition should have been in the function of revitalizing and restructuring the economy, and in particular industry.

With the sale of socially-owned enterprises, the necessary financial resources were needed to support the process of structural change. However, instead of the privatization of the Serbian economy becoming a universal cure for solving numerous developmental problems from the previous period, it has become a problem in itself. (Savić, 2006, p. 238). Neither was the process of privatization nearing its realization, nor were its results meeting expectations.

From mid-2001, when the new Privatization Law was passed, and by the end of 2010, slightly more than 40% of the total social and state capital was privatized (if we also take into account the sale of the minority shareholdings of companies privatized under the Law on Ownership the 1997 transformation).

After the period of initial acceleration, which lasted until the end of 2003, the dynamics and dimension of this process were decisively determined by the level of potential investors' interest in buying the remaining companies, or rather, the privatization process was limited by the institutional framework of its dominant model - direct selling capital.

As of December 2010, through tenders and auctions, the Privatization Agency sold 1,688 socially-owned enterprises, EUR 2.3 billion of which had to be generated. However, 94 of these privatizations were terminated, so that, following the privatization of 1,594 companies, the agency generated EUR 1.85 billion (Privatization Agency, internal data).

On the *capital market*, 734 socially owned shares were sold and, on that basis, an income of approximately EUR 667.3 million was generated. The sales of 2,328 socially-owned enterprises totaled € 2.52 billion. *Tenders*, between 2002 and 2010, sold 93 large companies and contracted investments of 1.2 billion euros. At the same time, 222 companies were offered for tender sale, so the percentage of sales success is 36%. 1,514 companies were sold at *auctions* and generated EUR 0.86 billion in revenue, with investments of EUR 240 million contracted. Since 2,453 companies were offered for auction sales, the percentage of auction sales success is 62% (Privatization Agency, internal data).

If we look at the total number of registered companies in the Privatization Agency, the results are much worse. By the end of 2010, 51% of the total number of registered socially-owned enterprises were sold, and the results were most favorable in the services sector. Out of 759 companies in the sector sold, the sales percentage was 54.6%, while in the industrial sector the sales were 48% of the registered enterprises, and in the agriculture sector 44%.

Between 2002 and 2010, 590 privatization contracts were terminated or 26% of the total number of companies sold. The most common reasons for

the termination of the contract are related to late payment of the contracted price, non-compliance with the mandatory investment clause and the lack of continuity of production activity. In terms of the number of terminated privatization contracts, industry is the leading sector with 67%, the service sector accounts for 27% of the total number of terminated contracts, while, in this respect, the most successful sector is agriculture with 6%.

In the industrial sector, the most successful privatization was in the mechanical and electrical industries, while the worst results were recorded in the labor-intensive branches, such as the textile industry, the wood processing industry and the production of leather and leather footwear, where, due to the termination of the privatization contract, there were no jobs left leaving 61,000 workers unemployed. Revenues of €815 million were lost and so were the investments worth over €210 million. During the same period, 116 unsuccessful privatizations were registered in the sale of minority shares in the capital market. At the same time, around 16,000 workers were left without work, and the loss from privatization was EUR 58.9 million.

As already pointed out, by 2010, the percentage of sales of socially-owned enterprises in the industry sector was below half, accounting only for enterprises that have voluntarily entered this process (Table 3).

Table 3. Unsuccessful privatizations of socially-owned enterprises in the period 2002-2010

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Sold auction companies	54	161	65	35	34	35	1	96	77
Sold businesses - tender	1	3	2	3	4	1	3	8	7
Sold enterprises - total	55	164	67	38	38	36	4	104	84
Number of employees - auctions	4167	16684	9388	3499	3425	3431	22	4457	3657
Number of employees - tender	258	1961	2688	1372	5222	0	1490	1234	987
Number of employees - total	4425	18825	12076	4871	8647	3431	1512	5691	4644
Revenue - tender mil. €	25,1	94,9	27,5	19,1	39,8	72,3	0,2	12,3	11,4
Revenue - auction mil. €	0,1	5,6	4,0	0,2	14,5	0,0	461,1	12,1	3,6
Revenue - total mil. €	25,2	100,5	31,5	19,3	54,2	72,3	461,3	24,4	15,0
Investment - auction mil. €	3,3	12,7	14,3	11,2	4,6	3,7	0,0	3,6	2,8
Investments - tender of millions of €	1,9	47,5	8,9	3,6	56,2	0,0	20,3	6,9	5,8
Investments - total mil. €	5,3	60,2	23,2	14,9	60,8	3,7	20,3	10,5	8,6
Social auction program in mil. €	1,3	0,7	0,0	0,1	0,0	0,0	0,0	0,0	0,1
Social tender program in mil. €	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,6
Social program mil. €	1,3	0,7	0,0	0,1	0,0	0,0	0,0	0,0	0,7

Source: Privatization Agency (internal data).

After the economic crisis, given the very small number of privatization procedures implemented, the results have not changed significantly. A more realistic assessment is that the results were even worse given the termination of privatization contracts after 2010. In doing so, representative data refer to the manufacturing industry.

In the observed period, 878 companies were privatized, while in the restructuring phase, 58 companies were retained. By the number of contracts terminated, this sector of the economy was leading with two thirds of the total failed privatizations. With 258 contracts terminated, this sector had the lowest success rate in the whole economy. Most of the companies in the fields of food and beverage had been privatized, and so were those in the field of wood processing and metal processing, as well as textiles, clothing and leather products. However, the number of contracts terminated and bankruptcy proceedings completed give a somewhat different picture of the success of privatization (Table 4).

The lowest percentage of success was recorded in the production of textiles, clothing and leather products, where more than 30% of contracts were terminated, while 140 companies went bankrupt (more than the number that went into privatization). Similar results were observed in the wood and metal processing industries, which greatly reflected the change in the structure of the entire manufacturing industry. Taking into account the total of 445 companies in which the bankruptcy procedure was completed, the reasons for the deformation in the economic structure of the Republic of Serbia after the first ten years of transition become clearer. The legal conditions under which the privatization process took place were very unfavorable for companies in the labor-intensive sectors (Ćorović, 2011, p. 569).

*Table 4. Privatization of manufacturing industry in 2002-2010
(number of enterprises)*

Sector / Subsector	Privatized	Restructuring	Terminated contracts	The Bankruptcy rest	rest
Manufacturing industry	878	58	258	40	445
Food articles, beverages and tobacco	202	3	48	12	29
Textiles, clothing and leather goods	91	7	44	2	140
Wood industry and paper, printing...	144	4	58	10	70
Chemicals, Rubber and Plastics	66	6	17	3	31
Products of other minerals	77	4	23	1	23
Metal and metal products	116	6	24	2	82
Other machines and appliances	40	4	10	3	16
Electrical and optical devices	68	6	10	7	25
Means of transport	38	17	16	0	20

Source: *Strategy and Policy of Industry Development of the Republic of Serbia from 2011 to 2020*, RS Official Gazette, No. 55 of July 27, 2011, p. 14.

Bankruptcy information relates to the period from 2002 to 2017.

Source: Bankruptcy Licensing Agency.

The dominant model of privatization, the sale of social capital, favored financially more stable companies with a stable market position,

attractive real estate and no significant redundancies, which were also privileged by the incentive system of taxing capital-intensive activities.

On the contrary, the labor-intensive branches of industry entered these processes with accumulated financial problems from the previous decade, in which, at the expense of companies of this type, constant social pressures were directed. Prohibiting the dismissal of technological redundancies, in the face of a drastic decline in production during the 1990s, created a high level of obligations that needed to be addressed, with the problems of accumulated unproductive labor. In these circumstances, it was normal that these companies were at the bottom of the potential investors' interest list and that their negative selection most affected the companies in these industries.

The problems were further compounded by the sudden liberalization of the country's foreign trade regime. With a stimulating dinar exchange rate, the domestic market was recognized as a place to sell goods and not as an attractive environment for investment in production. This was especially pronounced in the textile market which was flooded with cheap imported products, mostly from Turkey and China (Raičević & Ćorović, 2010, p. 193.) Such circumstances were, of course, a serious disincentive for large investors, who also bought potential markets in addition to companies.

In preparation for privatization, quite superficially, the importance of large systems for the process of functioning of labor-intensive industrial sectors of the Republic of Serbia was noted. Most of them provided a tender method of sale, which was to be preceded by a process of overall restructuring. However, the creation of the conditions for the sale of the tender ended, in the main, with the resolution of redundancies, the free expression of workers for social programs and their departure from the company with severance pay. The new owners were left to exhaust themselves in the business of financial consolidation and the implementation of restructuring programs, which had no legal force for the creditors. In addition, the absence of the previous division of large systems into technological and organizational units, repelled serious investors, who specialized in the production and marketing of intermediate products (Ćorović, 2012, p. 111).

Forcing them to buy other technology units was a bad option, with no visible market perspective. Such conglomerates were not the subject of interest of serious investors, but their privatization was realized with market incompetent and financially insufficient domestic buyers.

As a result of privatization, the structure of manufacturing industry has been formed in the Republic of Serbia, in which labor-intensive branches have a smaller relative share than other developing countries, with visible negative effects on total employment in the country.

3. EMPLOYMENT MOVEMENT IN THE INDUSTRY

The Republic of Serbia entered the process of structural adjustment with a large number of unemployed working-age population. This was due to the general state of the economy in the conditions of the economic blockade, the wars in the environment, the collapse of the common state and NATO bombing in the late 1990s (Gligorijević, 1999, pp. 21-30) In doing so, there was strong and hidden unemployment due to the forced social function of social enterprises and the prohibition of dismissal (Ćorović, 2010, p. 209).

Therefore, there was also an expected need for relief from redundancies during the process of ownership and business restructuring of the company. However, the depth of the decline in employment, much higher than in other post-socialist countries, raises the question of its objective necessity and the causes of the post-2000 economic policy. The period from 2002 to 2009 was marked by a continuous decline in total employment and an increase in the unemployment rate.

The short-term improvements of some labor market indicators after 2007 were more the result of a statistical expansion of the coverage of certain categories of employment than a radical positive change in established trends.¹

In the period from 2002 to 2009, in terms of the total decrease in the number of workers with formal employment, 80.7% came from the industry sector or 180,000 workers, most of them from the manufacturing industry. Despite the dynamic growth of gross domestic product in the services sector, it also saw a fall in employment, most notably in trade, where the highest growth was recorded in gross domestic product.

The employment trend in the industry of the Republic of Serbia in the first part of the transition period is perhaps the best indicator of structural changes in this sector, as well as changes in its position in the country's economy (Table 5).

At the end of 2010, the industry of the Republic of Serbia employed 377,500 workers, 295,400 of which were in the manufacturing industry. This reduction in formal employment reveals a great deal of turbulence, especially in the manufacturing sector, caused by the rapid and unsuccessful privatization.

The slightly larger relative decline in employment in mining by 33.6% is the result of a decrease in employment in all branches of industry. In coal mining, a decrease in employment was recorded by the coal mine, while the surface mine maintained a stable level due to the placement of coal in

¹ It is a Labor Force Survey, which, in addition to formal employment, with the existence of the Employment Contract, also takes into account various forms of informal employment. As a rule, this methodology produces better results and more employees.

electricity production. In the extraction of metal ores, the largest decline in employment was recorded in the mining of copper, lead and zinc.

Table 5. Trends in formal employment in the industry of the Republic of Serbia from 2002 to 2010 (in thousands)

	2002	2003	2004	2007	2008	2009	2010
Mining	33,6	32,9	32,2	23,5	23,3	22,3	21,7
Coal exploitation	19,2	19,1	18,9	13,1	13,4	13,2	12,5
Exploitation of crude oil and natural gas	2,2	2,1	2,1	1,8	1,8	1,7	1,4
Mining of metal ores	6,6	5,9	5,5	3,7	3,8	3,6	3,7
Other mining	5,3	5,8	5,6	4,8	4,3	3,7	3,5
Manufacturing industry	511,8	525,3	474,8	391,3	370,4	329,5	295,4
Manufacture of food products and beverages	99,6	98,7	95,3	75,9	75,2	72,3	54,3
Manufacture of tobacco products	3,6	3,4	3,4	2,3	2,0	1,6	1,4
Manufacture of textiles	33,8	29,6	23,3	17,2	15,4	6,8	6,2
Manufacture of clothing and leather goods	43,1	38,0	32,4	19,7	18,8	22,3	20,5
Production of leather and leather goods	14,3	18,5	14,4	11,8	10,7	8,7	8,9
Wood processing and wood products	11,3	14,3	13,5	10,7	10,0	9,0	7,9
Manufacture of paper and paper products	10,3	10,7	10,3	7,9	7,0	6,5	6,0
Prints and duplicates audio and video	14,5	19,8	19,8	16,4	15,4	6,6	6,2
Manufacture of coke and refined petroleum products	5,5	5,7	5,3	4,5	3,6	3,3	3,8
Manufacture of chemical and pharmaceutical products	33,9	31,3	28,8	27,0	23,1	21,4	13,7
Manufacture of rubber and plastic products	19,2	23,1	21,4	20,1	19,3	17,5	16,3
Manufacture of non-metallic mineral products	36,4	34,0	29,8	24,5	19,9	15,8	13,5
Manufacture of basic metals	31,7	26,8	24,3	22,2	17,9	17,4	14,2
Manufacture of fabricated metal products	38,3	38,1	32,9	31,1	31,4	34,0	30,0
Manufacture of computers and electronic instruments	6,1	6,5	8,6	8,7	7,7	10,7	8,8
Manufacture of electrical equipment	24,2	26,8	25,0	20,4	19,3	15,3	13,3
Manufacture of motor vehicles and trailers	38,7	37,4	33,4	35,9	26,3	23,1	15,5
Furniture production	21,4	21,5	19,2	16,4	15,8	12,0	11,8
Manufacture of other machinery	32,4	36,6	38,0	30,8	28,6	18,5	17,4
Supply of electricity and gas	31,2	30,1	29,3	26,2	28,1	28,0	28,0
Water supply and wastewater management	15,8	17,0	17,2	17,5	17,1	32,3	32,4
Industry total	592,4	605,3	553,5	458,5	438,9	412,1	377,5

Source: Statistical Office of the Republic of Serbia, Statistical Yearbook 2002-2017.

Manufacturing, in the observed period, recorded the largest absolute decline in formal employment of 216,400 employees. In real terms, this drop was statistically reduced by about 100,000 persons in the last two years of the observed period. Taking into account the employment of assisting household members and the self-employed is not a guarantee of year-round work engagement of the aforementioned categories. Therefore, this data should be taken into account with a great deal of reserve, that is, full year employment in this sector of industry should be taken into account.

During the observed period, employment growth in individual years was recorded in the production of rubber and plastics, due to successful privatizations and export orientation of the manufacturers of this industry.

Continuous employment growth was recorded only in the manufacture of computer equipment. Positive developments in this industry are the result of the successful export performance of several newly formed domestic private companies.

All other branches of the manufacturing industry recorded a decline in employment as a result of a continuous decline in production during the first decade of the transition processes.

The biggest drop was recorded by the labor-intensive branches, which, after the liberalization of the foreign trade regime, were the first to come under the influence of competition from fast-growing developing countries, especially China and Turkey.

A comparative analysis of employment problems among countries in the process of structural adjustment indicates that the Republic of Serbia was a rather extreme example of a low-employment country. In addition, the employment structure was very unfavorable. One of the questions that arises is: what are the root causes of this condition and what is their relationship to the process of implementing the structural adjustment concept?

The key reasons should be sought, of course, in the process of the structural adjustment of the economy and the chosen model of privatization. The determination to sell capital, as the sole model of privatization, is undoubtedly the root cause of these developments. The interest of top quality investors has been relatively quickly exhausted by the purchase of successful companies, market monopolies and commercial real estate companies. The mass of less interesting companies, mainly in the industrial sector, through failed privatizations and without interested buyers, ended up in bankruptcy or liquidation.

The picture would have probably been, in many respects, different if the recapitalization had bridged the problem of the lack of solid customers and provided a chance for business restructuring of these companies.

The worsening labor market situation was also significantly influenced by the wage tax reform of 2001, which greatly aggravated the situation in the labor-intensive sectors. By introducing a proportional 14% payroll tax rate and setting a minimum contribution base of 40% of average earnings, a regressive wage taxation system was actually introduced, favoring capital-intensive investments with above-average earnings. "The tax wedge on total labor costs by the end of 2006 for a person earning only a third of the average salary was 47.1%, for a person earning an average salary that wedge was less than 42.2%, to fall further to only 34.5% for a person who earned as much as eight average salaries, after calculating the additional annual income tax" (Arandarenko, 2009, p. 232.). This, on the one hand, sent a signal to foreign investors that Serbia was less interested in labor-intensive projects

with below-average salaries and, additionally prevented formalizing employment in small, labor-intensive companies that have established mass.

This system contributed to the collapse of enterprises employing unskilled labor and further hampered the privatization process in the labor-intensive industries and regions with predominantly such industries. The regressive system of wage taxation influenced the volume and structure of foreign direct investment and facilitated their arrival in competing countries.

In addition, it should be noted that changes in the structure of gross domestic product have significantly contributed to the dynamics of the decline in employment. The rapid growth of the services sector, despite its labor-intensive character, has not led to a more extensive relocation of employment. Due to the negative resilience, employment in this sector has been moderately reduced.

The real sector is, therefore, prospectively the only basis for solving this burning problem. This is certainly the biggest limiting factor in the conditions of optimistic scenario in the future economic development.

4. MOVEMENT OF THE FOREIGN TRADE EXCHANGE INDUSTRY

Changes in the foreign trade of the Republic of Serbia after 2000 are a direct consequence of the internal structural imbalances and the chosen model of economic growth. The chosen (spontaneous) growth model, based on stimulating domestic demand, was financed by copious borrowing from abroad, regardless of the industry's ability to repay its growing debts through export.

The relatively high economic growth in that period, with the rapid and unsuccessful privatization of the industry, was accompanied by changes in the economic structure towards the then more profitable service sectors, in accordance with the interests of the potential investors.

Commodity flows in the industry were decisively driven by the rapid liberalization of the foreign trade regime, under conditions of real appreciation of the national currency, which opened the door to dynamic growth in import.

The low competitiveness of domestic production, with cheap foreign exchange, has been further exacerbated so that the industry sector has been stifled, even more vulnerable to the effects of a prolonged economic blockade. In essence, this was an elegant way of concealing internal imbalances and turning them into external imbalances, with long-term negative effects on the national economy.

These processes were reflected through the constantly high foreign trade deficit, which, with a tendency of continuous growth, culminated in 2008, when it reached the level of \$ 13.35 billion, which was 7.5 times more than in 2000.

As a result of the economic crisis, the volume of foreign trade with the world dropped in 2009, leading to a significant reduction in the trade deficit. The slow and insufficient growth of export was accompanied by a very dynamic growth of import. In terms of export, only in 2006, with the separation of Montenegro, Serbia reached its 1990 level. However, except for export to the former Yugoslav republics, this goal was only achieved in 2008. The huge growth of import was due to the long stagnation of industrial production, as well as the benefits created by inconsistent economic policy.

Despite the tendency of export growth in the first ten years of transition, it can be stated that the long-term characteristic of our economic development is a high foreign trade deficit, high dependence of export growth on import growth and low coverage of import by export. The correlation between export and import flows is a consequence of the pronounced import dependence of our industry and the structural imbalance between the underdeveloped raw material base and the capacity of the processing industry. Hence the unsatisfactory level of coverage of import by export. In that period, it was still far from the level of 77.4%, from 1990, so it was only in 2009 that it exceeded 50%.

The export of the Serbian industry in 2008 amounted to over US \$ 10.5 billion, accounting for 96.34% of total export. Within the industry, nearly 98% of export were generated by manufacturing, with \$ 10.34 billion reached. The largest exporters were base metal production with 20.67% of total export, food industry with 14.01%, manufacture of chemicals and chemical products with 9.51%, mechanical engineering with 6.99%, rubber and plastic production with 6, 32% and textile industry at 5.98%. The export of the first five industries accounted for over half of Serbia's export (Table 6).

Table 6. Balance of foreign trade of Serbia from 1990. to 2010.

Year	Export in mil. (rsd)	Import in mil. (rsd)	Export in mil. (Euro)	Imports in mil. (Euro)	Export in mil. (\$)	Import in mil. (\$)	Export / Import in mil. (\$)	% export in import
1990	8871	11432	-	-	5453	7044	-1591	77,4
2001	112773	292691	1896	4763	1721	4261	-2540	40,3
2002	133059	259139	2192	5925	2075	5614	-3539	36,9
2003	158782	429508	2442	6589	2758	7477	-4721	38,9
2004	207035	629838	2832	8623	3523	10753	-7230	32,8
2005	299919	702280	3808	8439	4482	10461	-5980	42,8
2006	428051	878227	5102	10468	6428	13172	-6744	47,8
2007	514866	1090108	6432	13507	8825	18554	-9729	47,6
2008	603550	1340088	7429	16478	10974	24331	-13356	45,1
2009	559851	1080965	5961	11505	8344	16056	-7710	51,1
2010	762974	1280676	7393	12423	9795	16470	-6675	59,4

Source: Statistical Office of the Republic of Serbia, Statistical Yearbook 2008-2010.

The import of the Serbian industry in 2008 amounted to \$ 22.3 billion, accounting for about 97.5% of total import. Within the industry, 80.71% was accounted for by import of the manufacturing industry, while crude oil and gas import, within the extractive industry, accounted for over 15% of total import.

The largest importers were the chemical industry, with over US \$ 3 billion in import or 13.19% of total import, manufacturing of machinery and equipment with 10.77%, production of basic metals with 8.62%, automotive industry with 8.02%. manufacture of coke and refined petroleum products with 4.96%, and textile industry with 4.5%.

It is noticeable that the largest exporters are also the largest importers, which speaks to the undeveloped raw material base of the domestic industry.

The largest positive balance in foreign trade in 2008 was achieved by the food industry, with over \$ 700 million in surplus. In addition, the surplus was generated by the production of base metals, metal processing, tire production and recycling.

The lowest export-import ratio was recorded in the manufacture of office and computer equipment with 0.15%, in the manufacture of motor vehicles and precision instruments with 0.16%, in the manufacture of radio and television equipment with 0.23%, and in the mechanical industry with 0.31%.

In the first decade of transition, the regional orientation of Serbia's export industry has significantly changed compared to the previous period. While in the early 1990s, almost two-thirds of the Serbian export were exported to developed countries, after 2000, an average of 55% of export were made to the EU region. Over 30% of export to the CEFTA countries, mainly to the former Yugoslav republics, were completed. Despite exceptional customs relief, export to Russia and other CIS countries have been very modest.

Obviously, a more serious recovery of export could not have taken place without the consolidation of the industrial production. Its slow growth is also a sign that Serbia did not have enough goods to export and that the issue is at the core of the foreign trade deficit problem.

In addition, the high correlation of export growth with import growth is a clear signal that it must have gone in the direction of alleviating structural imbalances in the industry and that the development strategy should in part be directed towards import substitution, however anachronistic it may sound.

CONCLUSION

At the beginning of the 21st century, the Republic of Serbia opted for accelerated reforms that were based on the then-current doctrine of transition. The results of such a determination were, at first glance, satisfactory. Namely, during the implementation of the mentioned model, in the period from 2001 to 2008, that is, until the onset of the economic crisis, the average annual rate of economic growth was at a relatively high level (5 to 6%).

However, such growth, accompanied by significant imbalances (internal and external), was structurally inadequate to address the problem of high unemployment, while the change in economic structure was too abrupt, aimed at the growth of the then more profitable, service sector and almost unsustainable (industry participation in GDP was reduced to only 17.4%). Based on the above, it can be concluded that the high growth rate does not necessarily provide for the desirable changes in the structure of the economy.

Therefore, after ten years of implementation of the aforementioned concept of structural adjustment of the economy, the Republic of Serbia was forced to change the model of economic growth, which resulted in the drafting and adoption of a document titled Strategy and policy for the development of industry of the Republic of Serbia from 2011 to 2020, with a new growth model. Changing the model of economic growth of the Republic of Serbia represented a development necessity.

The key change, of a structural nature, is contained in the foundation of future economic growth on the growth of industry and the relative increase in its share in the creation of gross domestic product, assuming a dynamic growth of investments, instead of the previous growth of domestic consumption.

Future industrial growth should primarily be based on the growth of the manufacturing industry, with a change in its structure, with the dominance of the most propulsive industries affected by rapid technical progress, based on knowledge and innovation, and with a shift in its export orientation, primarily towards the European Union market.

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РАЗВОЈНИ ПРОЦЕСИ У ИНДУСТРИЈИ РЕПУБЛИКЕ СРБИЈЕ ТОКОМ ПРВЕ ДЕЦЕНИЈЕ 21. ВЕКА

Живорад Глигоријевић^{1*}, Енес Ћоровић², Александар Манасијевић¹

¹Универзитет у Нишу, Економски факултет, Ниш, Република Србија

²Државни универзитет у Новом Пазару, Нови Пазар, Република Србија

Резиме

Почетком прве деценије 21. века, са значајним закашњењем у односу на земље са планском привредом, Република Србија отпочела је са спровођењем убрзаних реформи применом општеважеће доктрине о транзицији заснованој на препорукама Вашингтонског консензуса (макроекономска стабилизација, изградња тржишта и тржишних институција, приватизација и реструктурирање предузећа и либерализација у економској политици), односно са спровођењем процеса структурног прилагођавања (транзиције) применом неолибералног („спонтаног“) модела раста у циљу изградње тржишно-конфигурисаног привредног система. Циљ овог процеса био је економски дубоко заснован, јер приватна својина, тржишне институције, конкуренција и предузетништво не уводе се ради себе самих или ради остварења радикалних политичких и/или идеолошких заокрета, већ ради повећања ефикасности појединих привредних структура.

На конкретној реализацији основних елемената концепта структурног прилагођавања привреде Републике Србије успостављен је развојни модел, који је требало да резултира релативно брзом консолидацијом привредних прилика у односу на друге земље. Емпиријска основа за такву одлуку били су јасно изражени развојни процеси током 90-их година 20. века и резултати већ предузиманих активности структурног прилагођавања ка тржишној привреди. Међутим, спонтано деловање тржишног механизма, у условима делимичне макроекономске стабилности, имало је за резултат усмеравање привреде Републике Србије ка странијој штедњи, несразмерном расту сектора неразмњивих добара и услуга и прегревању домаће тражње, као основног покретача раста. Немогућност аутономног или делимично аутономног стварања сопствених извора раста, на једној страни, и наставак спирале задуживања у иностранству, на другој страни – представљали су кључне синтетичке показатеље тадашњег стања привреде. При томе, према мишљењу бројних аутора, развојни процеси у индустрији, њен положај у новоформираној привредној структури земље, као и структурне промене унутар саме индустрије – један су од кључних узрока негативних развојних токова. Изречене оцене су једноставно проверљиве увидом у релевантну емпиријску анализу развојних процеса у индустрији током прве деценије 21. века.

Дугогодишње акумулирање макроекономских дефицита довело је до конфигурације развојних процеса који се, најкраће, могу означити као неодржива путања раста. Очекивања протагониста овог, теоријски заокруженог, модела нису се остварила. Било је неопходно да се, што пре, одступи од идеје о „спонтаном” расту. Због тога је Република Србија била принуђена да, после десетогодишњег периода спровођења неолибералног концепта структурног прилагођавања привреде, приступи промени модела привредног раста. У том смислу, општа сагласност о постојању озбиљних развојних проблема, како у научној и стручној јавности тако и међу тадашњим ствараоцима економске политике, резултирала је израдом и усвајањем документа под називом Стратегија и политика развоја индустрије Републике Србије од 2011. до 2020. године, са новим моделом раста.

Промена модела привредног раста Републике Србије представљала је развојну нужност, која је у први план истакла: отклањање слабости фискалног система, стварање потребног баланса у изворима финансирања раста уз промену структуре бруто домаћег производа и јачање конкурентности домаће извозне привреде. Кључна промена, структурног карактера, садржана је у утемељењу будућег привредног раста на расту индустрије и релативном повећању њеног учешћа у стварању бруто домаћег производа, уз претпоставку динамичног раста инвестиција, уместо дотадашњег раста унутрашње потрошње. Будући индустријски раст требало је, превасходно, да се заснива на расту прерађивачке индустрије, уз промену њене структуре, са доминацијом најпропулзивнијих грана захваћених брзим техничким напретком, заснованим на знању и иновацијама и уз промену њене извозне усмерености, првенствено према тржишту Европске уније.