

МЕЂУНАРОДНИ ЧАСОПИС
ЗА ЕКОНОМСКУ ТЕОРИЈУ И ПРАКСУ И ДРУШТВЕНА ПИТАЊА



ЕКОНОМИКА

Часопис излази шест пута годишње

Година LV, V-VIII 2009, број 3-4

ИЗДАВАЧ: Друштво економиста “Економика” Ниш

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1. Часопис “Економика” покренут је јула 1954. године и под називом “ Нишки привредни гласник” излазио је до јуна 1957. године, а као “Привредни гласник” до краја 1969. године. Назив “Наука и пракса” носио је закључно са бројем 1/1973. год. када добија назив “Економика” који и данас има.

2. Часопис су покренули Друштво економиста Ниша и Друштво инжењера и техничара Ниша (остало као издавач до краја 1964. године). Удружење књиговођа постаје издавач почев од броја 6-7/1958. године. Економски факултет у Нишу на основу своје одлуке броја 04-2021 од 26.12.1991. године постао је суиздавач “Економике”. Такође и Економски факултет у Приштини постао је суиздавач од 1992. године. Почев од 1992. године суиздавач “Економике” је и Друштво за маркетинг региона Ниш. Као суиздавач “Економике” фигурирали су у току 1990-1996. године и Фонд за научни рад општине Ниш, Завод за просторно и урбанистичко планирање Ниш и Корпорација Винер Брокер Ниш.

3. Републички секретариат за информације СР Србије својим Решењем бр. 651-126/73-02 од 27. новембра 1974. године усвојио је захтев “Економике” за упис у Регистар новина. Скупштина Друштва економиста Ниша на седници од 24. априла 1990. године статутарном одлуком потврдила је да “Економика” има статус правног лица. На седници Скупштине Друштва економиста Ниш од 11. новембра 1999. године донета је одлука да “Економика” отвори посебан жиро-рачун.

4. Према Мишљењу Републичког секретариата за културу СР Србије бр. 413-516/73-02 од 10. јула 1973. године и Министарства за науку и технологију Републике Србије бр. 541-03-363/94-02 од 30. јуна 1994. године “Економика” има статус научног и ранг националног часописа “Економика” је поћев од 1995. добила статус међународног економског часописа.

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1. The journal EKONOMIKA was initiated in July 1954. It was published as "Nis Economic Messenger" till June, 1957 and as "The Economic Messenger" till the end of 1969. The title "Science and Practice" it had till the issue 1/1973 when it changed its name into EKONOMIKA as it entitled today.

2. The Journal was initiated by the Society of Economists of Nis and the Society of Engineers and Technicians of Nis (the latter remained as the publisher till the end of 1964). The Society of Accountants became its publisher starting from the issue no. 6-7/1958. The Faculty of Economics, Nis, on the basis of its Resolution No. 04-2021 from December 26, 1991, became the co-publisher of EKONOMIKA. Likewise, the Faculty of Economics of Pristina became the co-publisher since in 1992. Starting from 1992, the co-publisher of EKONOMIKA has been the Society for Marketing of the Region of Nis. Other co-publishers of EKONOMIKA included, in the period 1990-1996, the Foundation for Scientific Work of the Municipality of Nis, the Institute for Spatial and Urban Planning of Nis and the Corporation Winner Broker, Nis.

3. The Republic Secretariat for Information of the Socialist Republic of Serbia, by its Resolution No. 651-126/73-02 from November, 27, 1974, approved of EKONOMIKA's requirement to be introduced into the Press Register. The Assembly of the Society of Economists of Nis, at its session on April 24, 1990, by its statutory resolution, confirmed the legal status of EKONOMIKA. At the session of the Assembly of the Society of Economists, Nis, on November 11, 1999, the resolution was adopted the EKONOMIKA was to open its own bank account.

4. According to the Opinion of the Republic Secretariat for Culture of the Socialist Republic of Serbia No. 413-516/73-02 from July 10, 1973 and the Ministry for Science and Technology of the Republic of Serbia No. 541-03-363/94-02 from June 30, 1994, EKONOMIKA has the status of a scientific and national journal. Starting from 1995, EKONOMIKA has been having the status of international economic journal.

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ИЗДАТЕЛЬ: Общество экономистов „Экономика” Ниша.

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1. Журнал „Экономика” начал издаваться с июля 1954 года и под названием „Нишский хозяйственный вестник” выходил до июня 1957 года, а как „Хозяйственный вестник” - до конца 1969 года. Название „Наука и практика” носил заключительно с № 1/1973 г., когда и получил название „Экономика”, которое имеет и сейчас.

2. Журнал основали Общество экономистов Ниша и Общество инженеров и техников Ниша (оставались издателями до конца 1964 года). Объединение бухгалтеров становится издателем начиная с № 6 - 7 / 1958 года. Экономический факультет в Нише на основании своего Решения № 04 - 2021 от 26.12.1991 года стал соиздателем „Экономики”. Также и Экономический факультет в Приштине стал соиздателем с 1992 года. Начиная с 1992 года соиздателем „Экономики” становится Общество маркетинга региона г. Ниша. Как соиздатели „Экономики” в течении 1990 - 1996 года фигурировали Фонд по научным работам, общины Ниш, Институт урбанистического планирования Ниша и Корпорация Winner Broker Ниш.

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TRANSITION IN SERBIA AND ROLE OF INSTITUTIONS

Abstract

The transition process in Serbia should be analyzed in light of institutional economics and the place and role of institutions and good governance, as opposed to simplify and economy insisting on the establishment of property rights and privatization. Performance of transition in the past two decades because they focuses on institutions and institutional barriers.

Key words: transition, institutions, good governance.

ТРАНЗИЦИЈА У СРБИЈИ И УЛОГА ИНСТИТУЦИЈА

Апстракт

Процес транзиције у Србији треба анализирати у светлу институционалне економије и места и улоге институција и добре владавине, за разлику од поједностављеног и економистичког инсистирања на успостављавању својинских права и приватизацији. Оцене успешности транзиције у прошле две деценије због су се усредсредиле на институције и институционалне баријере.

Кључне речи: транзиција, институције, добро управљање.

Introduction

Transition process in Serbia in view of institutional economy is at the focus of this paper. The term transition (lat. *transire*- to pass) has been used by M. Dobb in his analysis of the transition from feudalism to capitalism.¹ In modern literature, transition means applying economic theory and practice with the aim of transforming former socialist economies into market economies. O. Blanchard defines transition as passing from an economy in which state owned firms dominate to an economy with the dominant private sector.²

¹ "Discussion on the transition from feudalism to capitalism", Marksizam u svetu, No 2, 1979; N. Buharin, The economy of the transition period.

² O. Blanchard, The economics of post-communist transition, OUP, 1997.

The „import” of institutions of developed market economies is at the essence of these processes. It is not an utopian social engineering process that builds society according to fictitious model that might never be realized, but it is rather an imitative social engineering process that builds society according to real model.³

It is argued that the transition economy is both 1. market economy and 2. capitalist in nature: „the road to free economy comprises main and accessory roads. The question is what kind of capitalism they lead to, at what pace, at what costs, and who are the winners and losers in the process.”⁴

Emphasizing the diversity of capitalisms being established, H. Alavi wrote about peripheral capitalism, and J. Taylor about the problem of *homoficent capitalism* - of different effects in different environments.⁵ J. Kornai argues that: „in each country historians view some unique characteristics of their systems that have emerged only there as result of unique and unrepeatable factor constellation. According to the geographical criterion, distinction is made between capitalisms in different parts of the world: in the USA characterized by a high degree of individualism and limited role of the state; Scandinavian as welfare capitalism with its extensive income redistribution; Japanese capitalism with strong state intervention and intertwining of bank and large industrial capital.”⁶

Peripheral capitalism in Serbia characterizes: a) emerging from the sphere of trade; b) dominant role of trade and banking capital, c) deformed and crumbled production process. This is drawn upon the role of state in the transition process: of the three potential roles – the „invisible hand of state” (well organized, uncorrupted, dominance of law), the „assisting hand” of state (bureaucratic differentiated support to some and sanctioning of others, corrupted) and the „grabbing hand” of state (bureaucracy and political parties lead solely by their own interests, „taxation” pressed on everything).⁷

1. Capitalist development in the twentieth century

The evolutionary-Keynesian perspective focuses on institutional factors in the effort to find explanation of development cycles and macroeconomic problems of stabilization, rejecting *stylized facts* on balanced and smooth self-balanced market mechanism. Every system, true also for market-capitalist system, is slowly adapting and changing in response to the environment producing greater or smaller disturbances.⁸

There exists a path-dependance – dependence on trends established in the past, in both stimulating and limiting sense: development has to coincide with given circumstances and mechanical transplanting of models cannot bring effect on a long-term basis: macroeconomic

³ M. Ellman, „The Political Economy of Transformation”, Oxford Review of Economic Policy, vol. 13, no. 2, 1927, p. 26; Z. Stefanović, Neoinstitucionalistička ekonomska teorija, m. a. thesis, Faculty of Economics, Beograd, 2003, p. 123.

⁴ J. Kornai, Highway and Byways, MIT Press, 1995.

⁵ M. Jakšić, Savremeni svetski sistem, Čigoja štampa, Beograd, 1999.

⁶ J. Kornai, op. cit.

⁷ T. Frye, A. Sheifer, „The Invisible Hand and the Grabbing Hand”, American Economic Review, vol. 87, no. 2, 1997, p. 354.

⁸ J. Cornwall, W. Cornwall, Capitalist development in the twentieth century, Cambridge University press, 2001.

results of an economy intertwine with its institutional heritage and when this is recognised to a certain degree it may contribute as stimulating and not limiting factor. Such development path, dependent on „what was before”- hysteresis – shows that insurmountable predetermined factors and limitations do not exist, as we could be lead to believe from the practice of mechanical transplantation of stabilization models proclaimed and strongly advised by the *International Monetary Fund – IMF*. These „universal” mechanically implemented models in different environment, conditions and circumstances have always been designed by definition to be successful in their stabilization dimension, but unsuccessful in developmental sense, as it has never been in their focus.

The institutional model, in comparison to neo-liberal, is far more complex as it comprises: a) institutions as structural variables, and b) political and social power distribution. Market economy functioning in this complex network is not less flexible because of the fact.

Capitalist economy in the twentieth century does not prove the existence of self-balancing automatism that brings an economy back to steady state after periodic and temporary exogenous shock. The changes from good to bad times, and vice versa, are viewed by endogenous factors of heritage – hysteresis - intertwining of macro-economic performance and environment, as the present developments depend on the past. The solution could be found by referring to the model of mixed economy with institutions limiting the infinitely free market game that might still exist only in textbooks. Political change of institutions eliminate these limitations: in the society that satisfies human needs it is necessary to set the path for future development. Famous historian F. Braudel concludes: „Capitalism is a force that is moving, but a force that does not know where it is going to”.

D. Acemoglu argues that two paradigms are of central significance when explaining different developmental pathways of individual countries and absence of guaranteed and certain economic prosperity: geographical and institutional paradigm.⁹ Geographical is based on the thesis that geography is central for such pattern, and more precisely, it is stated that climate, ecology and other factors determine technology and behaviour of individuals. Institutional points to the crucial importance and central role that institutions play in stimulating investment in human and physical capital, technology and give powerful incentive for the overall development.

Good institutions are characterized by three main features: first, they generate and protect ownership rights in society, second, they limitate and disenable any potential elite trying to expropriate someone else's income or estate, and third, to the highest possible degree they provide equal chances in terms of employment, social security and human rights for the broadest part of the society.

In the absence of these well established (good?) insitutions, as Acemoglu points out, economic and social prosperity is not possible. There exists a correlation between geography and prosperity, but correlation does not mean causality.

In the effort to assess the relative significance of geography and institutions, Acemoglu investigates external, except geographical, causes of change of institutions. Colonization represents an example of such an experiment: in colonies it introduced and brought change to many old institutions, without changing the geography. If geography had been decisive, rich countries would have continued to be such even after colonization and the arrival of Europeans, and would have still been rich even today. On the other hand, if institutions are the ones that are crucial, introducing and development of the new – European – institutions would be decisive, and these good institutions

⁹ „Institutions and economic development”, Finance and Development, no. 2, 2003.

would stimulate development, as opposed to those regions where colonization meant mere plunder without development of institutions.

The experience of colonization serves in this sense as an edifying example, because Europeans used different strategies: „bad institutions” were established, as in the cases of slave trade in the Carribeans or forced labour in Central America, as instruments of plunder, and not aimed at establishing and protection of property rights, nor at disabling the elite, nor for the diffusion of benefits for the people. On the other hand, colonial settlements completely alike those in the metropolies, e.g. in Australia, New Zealand, Canada and USA, were created in some colonies where the territory was vast and void, with scarce resources and unpleasant climate. There „good institutions” were built and they stimulated development. In the former case, favorable geography and bad institutions have not stimulated development, and in the latter, unfavorable geography and good institutions have produced development, pointing towards the predominant significance of institutions in social development.

In the colonies where Europeans were not concerned with building of good institutions that would establish and protect property rights or restrict the obstinacy of the elite, there was no development and these societies have found themselves in a position much worse than the one they held half a millenium before. The arguments stated by Achemoglu are an echo of the great *Discussions on Asiatic mode of production* and on geographical determinism lead by V. I. Lenin and G. Plehanov. Plechanov argued that the threats of despotism, backwardness (*in Russ.* „azijatchina”), were correlated to unfavorable climate conditions and absence of institutions, while Lenin considered these factors as driving forces of socialist development.¹⁰

Institutions can have different influence on economic development:

- emerging market institutions establish and protect property rights, that enable the functioning of the market;
- market regulating institutions deal with regulation, externalities, economies of scale, imperfect information;
- market stabilizing institutions reduce macroeconomic instability and financial crisis, and
- market law establishing institutions ensure social protection, health and old-age benefits.

In conclusion: if institutions change, even at slower pace, and if twenty countries have raised their institutional quality by 40 percent, IMF and the World Bank must also change their *Conditionality* policy and evolve towards taking greater consideration of the institutional environment, as more significant in the middle and long run, than the short-term macro-economic indicators, e.g. inflation, budget, exchange rate, interest rate, etc. The concluding remark that success is not to be expected in the period of three to five years, as the normal period for the duration of the stabilizing package, is stated in writing now in the official journal of the IMF, Finance and Development, and this obliges us even more to take this fact into consideration. The IMF, itself, admits to the conclusion that *conditionality* policy does not represent the powerful enough anchor nor the obligatory framework in absent or weak institutional environment.

2. Transition and Washington consensus

The doctrine of economic transitionis based upon Washington consensus, formulated by IMF and the World Bank in 1989, aimed at resolving the problems if chronic, endemic

¹⁰ M. Jakšić, *Azijski način proizvodnje*, Naučna knjiga, Beograd, 1991.

inflation in countries of Latin America, was based on the principles of neoclassic economy. This doctrine contained elements of macro-economic stabilization price liberalization, foreign trade liberalization, privatization and development of financial markets, and from the viewpoint of institutional economy, the focal question was the choice between shock therapy and gradualism. Gradualism is concerned with upgrading of institutional and legal infrastructure. M. Ellman wrote: „No country in transition succeeded in quickly developing the legal framework and institutions that would ensure adequate protection of private property.”¹¹ From the institutional perspective, it is pointed out to institutional inertia which is in collision with shock therapy and prolonged “transitional recession”.¹²

Country	Number of years with output reduction	Cummulative output reduction in %	Real GDP in 2000, (1990 = 100)
Albania	3	33	110
Bulgaria	4	16	81
Croatia	4	36	87
Hungary	4	15	109
Romania	3	21	144
Slovenia	3	14	105
Moldavia	7	63	35
Check Republic	3	12	99
Slovakia	4	23	82

Source: World Bank, Transition: Ten years later, Washington, 2002, p. 5.

The results of transition up to now are much better in Poland, Hungary, Check Republic, Slovakia than in the former USSR and countries of West Balkan.

3. Integration of Serbia in the EU

Institutional criteria posed by EU highly exceed those technical ones established by Washington consensus:

1. candidate countries must have established and stable institutions that guarantee democratisation, legal control, human rights protection and minority rights protection;
2. former socialist economies applying for membership in the EU must have developed market economy;
3. candidate countries must be in the capacity to take over obligations concerning the fulfilment of the political, economic and monetary union goals.¹³

The transition principles in Serbia after 2000 are more in accordance with institutionalist gradualist reforms:

1. transitional recession is to be avoided;
2. reforms are to be gradual and socially sustainable on a long term;
3. state and socially owned firms are to be sold on a tender or auction basis, avoiding voucher privatization;

¹¹ M. Ellman, „The Political Economy of Transformation”, Oxford Review of Economic Policy, vol. 13, no. 2, 1997.

¹² Z. Stefanovic, op. cit., p. 137.

¹³ Commission of the European Communities, Towards the Enlarged Union, Brussels, 2002, p. 8.

4. banks are to be revitalised;
5. domestic production is to be protected;
6. significant role in transition is given to the state.¹⁴

EBRD evaluated the present state and perspectives of economic reforms in Serbia in the following way: „The economies of both Serbia and Montenegro have been growing modestly over the past two years. In the Union as a whole, real GDP growth in 2003 was estimated to be around 3 per cent. Annual inflation at the end of 2003 was in single digits, the currency is relatively stable, and foreign reserves have risen steadily.“¹⁵

The key transition challenges are to:

- Implement key reforms to boost private sector development and improve the investment climate.
- Reforms in public sector administration and the judiciary system, measures to increase the external competitiveness of locally-owned businesses, and further efforts to attract sustained FDI inflows, including through large-scale privatisation.
- Reduce red tape and combat corruption.
- Improve financial and commercial discipline in state-owned enterprises and public utilities and restructure major public sector companies.
- Strengthen financial intermediation and increase the capital base of the banking sector through consolidation and the restructuring and privatisation of state banks in Serbia.”

Challenges Serbia is confronting, according to IMF, are:

1. Implementing the new constitutional arrangement between Serbia and Montenegro.
2. Harmonisation of the two separate economic systems will be the decisive factor in completing The Stabilisation and Association Agreement with the European Union.
3. Maintaining the fiscal sustainability of external debt in the medium term. This is one of the major economic challenges that lie ahead as economic recovery remains highly vulnerable, particularly to external shocks.
4. Improving governance and building effective state institutions. Weak state institutions, poor governance, inadequate legislation, and an inefficient judiciary are the main deterrents to foreign investment. Building effective state institutions and implementing comprehensive legal and judicial reform is, therefore, essential for a turnaround to sustainable growth.
5. Improving the well-being of the most vulnerable, and building human capacity. The political sustainability of the reform effort will depend to a large extent on the government's success in protecting the most vulnerable from the negative effects of transition and in building human capital.
6. Large enterprise restructuring will invariably strain social protection mechanisms and require better targeting of resources to the most vulnerable.
7. Improving the sustainability of the health system and boosting the quality and efficiency of health services will also be key challenges.

In the light of Washington consensus IMF gave the following evaluation of economic reforms in Serbia: „The reform process has made significant preogress in many areas, particularly in macroeconomic stabilisation, trade liberalisation, privatisation, bank resolution,

¹⁴ V. Gligorov, Srbija i Crna Gora: stanje i predlozi reformi, Vienna, 2004, p. 17.

¹⁵ Serbia and Montenegro country strategy, EBRD, 2004. strategy overview.

pension reform, and social protection. However, in many areas reforms are still incomplete. One of the highest priorities is the reform of the public sector, whose institutions are crucial for implementation of the overall reform agenda.”¹⁶

Conclusion

The conclusions of the IMF for further direction and pace of transition in Serbia and Montenegro points towards four main pillars of government strategy:

1. Restoring macroeconomic stability and external balance;
2. Stimulating short-term growth;
3. Improving social well-being of the most social vulnerable and building social capacity;
4. Improving governance and building effective institutions.

Third and fourth pillars clearly indicate abandonment of Washington consensus even on the part of IMF: monetary and fiscal stabilisation is necessary, but not sufficient condition on the road of building democratic society and market economy. In the focus of reform now are public sector reform (governance and public sector reform, public sector reform, judicial reform) and social sector reform (education, health care, pension reform, social protection). Key priorities in those spheres are the increase of capacity of public institutions, transparency, effectiveness, accountability.

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¹⁶ Serbia and Montenegro – Recent Progress on Structural Reforms, 11. Nov. 2003.

**THE STRATEGY OF DEPENDENT MODERNIZATION – THE ROAD
TO SUBDEVELOPMENT: PERIPHERIZATION OF ECONOMY,
SOCIETY AND CULTURE¹**

Abstract

In this paper the author examines the theoretical and methodological strength of the Theory of Dependent Modernization with regard to the analysis of transition in Serbia and the postsocialist Balkan states.

The paper presents a critical overview of the results of the Balkan transition processes, which have led to the peripherization of economy, society and culture.

The author calls for a critical rethinking of the reigning strategy of development and the economic and cultural policy in Serbia and the Balkans, and urges for redefining the strategy of overcoming the crisis.

Key words: *neoliberalism, strategy of dependent modernization, transition of postsocialist states, Serbia, the Balkans.*

**СТРАТЕГИЈА ЗАВИСНЕ МОДЕРНИЗАЦИЈЕ - ПУТ У СУБРАЗВОЈ:
ПЕРИФЕРИЗАЦИЈА ПРИВРЕДЕ, ДРУШТВА И КУЛТУРЕ²**

Апстракт

Аутор у раду проблематизује питање теоријско-методолошке могућности теорије зависне модернизације за анализу транзиције у Србији и балканским постсоцијалистичким друштвима.

У фокусу његове анализе је критички осврт на биланс транзиције на Балкану, која је произвела периферизацију привреде, друштва и културе.

Аутор се залаже за критичко преиспитивање владајуће стратегије развоја, економске и културне политике у Србији/Балкану и редефинисању програма изласка из кризе.

Кључне речи: *неолиберализам, стратегија зависне модернизације, транзиција постсоцијалистичких друштва, Србија, Балкан.*

¹ This paper has come into being within the project entitled *The Culture of Peace, Identities and Interethnic Relations in Serbia and in the Balkans in the Process of Eurointegration* (149014D) supported by the Ministry of Science and Technology of the Republic of Serbia., and carried out by the Centre for Sociological Research at the Faculty of Philosophy, University of Niš.

² Рад је припремљен у оквиру реализације пројекта *Култура мира, идентитети и међукултурни односи у Србији и на Балкану у процесу евроинтеграције* (149014D) који подржава Министарство за науку и технолошки развој Републике Србије, а реализује Центар за социолошка истраживања Филозофског факултета у Нишу.

Introduction – the theoretical and methodological background

In contemporary sociology, the analysis of problems of development and transition processes most often relies on the concept of modernization, which represents a central category in the relevant Anglo-saxon literature. This concept is used in neoevolutionism, and is exemplified in the works of Smesler, Eisenstadt, Black, Wayner, Epter, Moore, Robertson, Appelbaum and Rostov. The Theory of Modernization, together with the Theory of Dependence and the Theory of Systems, is one of the three contemporary development-oriented theories that have developed in the United States after the Second World War. Gnoseologically, it is based on neoevolutionism and structural functionalism. In American sociology, it represents the dominant paradigm used in the explanation of the global transition processes which shape traditional societies into modern ones. Rostov's theory of modernization (from his *Stages of Development*) is based on technological determinism. It claims that the technologically developed societies set direction for the future development of the less developed societies. It also claims that the strategy of modernization should help such underdeveloped societies make a transition from one social state to another through external financial and technological support. The concept of transition is also used by S. Huntington in his *The Third Wave*, in which he emphasized the importance of the political processes of democratization for the modernization and transition of postsocial societies, pointing thereby to the importance of the urban middle class and its active involvement in these processes.

Contrary to these affirmative views of modernization, which are founded on the high dependence of the third-world countries on the highly developed ones and the uncritical application of the given model, there has appeared in the relevant contemporary literature an alternative approach to modernization, to the strategy of development and to the relations between the developed and the underdeveloped countries in the contemporary world. Such an approach was developed in the works of *A.G. Frank*, who is the founder of the theory of dependent modernization, and *I. Wallerstein*, who is the founder of the world-system theory and the critical theory of global transition.

A. G. Frank dedicated his whole professional life to the analysis of the societies of Latin America. His best-known works include: *Capitalism and Underdevelopment in Latin America* (1967), *Latin America: Underdevelopment or revolution* (1972), *Dependent Accumulation and Underdevelopment* (1978), *Essays on Dependence and Reformism* (1984) and *Lumpenbourgeoisie and Lumpenddevelopment*. In these works he developed the idea of asymmetric forms of interdependence among the countries of the centre, the periphery and the semiperiphery, trying to account for such interdependence by neoimperial dependent modernization, created through unequal exchange of labour between the developed countries and their satellite states, emphasizing thereby that it is in such an interaction that the former countries produce poverty in the latter ones. In the works of the Neomarxists, the theory of dependent modernization has long served as a theoretical model for the explanation of the relationship between the developed countries and those of the third world. It was used to account for the international character of exploitation and the formation of a specific structure of social relations and social classes through the peripherization of economy and societies of the dependent countries. In the in this context of the materialization of the strategy of dependent modernization that Frank explored the satellite development of the third world countries led by 'comprador lumpenbourgeoisie' and puppet governments, and defined the specific appearance of subdevelopment as an expression of lumpenddevelopment and lumpenpolitics.

I. Wallerstein, as a follower of Brodel's structural historiography, is the founder of historical sociology and the world-system theory. The basic idea he has put forward is that capitalism, through its class division of labour, polarizes the global world system into three zones: the countries of the world centre, the semiperiphery and the periphery. The place of the given zones and of the societies, countries and nations they encompass respectively, is determined by the class division of labour and by the roles those regions play in the global system. In his research books *The Modern World-System*, *The Dynamics of the Global Criss*, *Capitalism – A Historical system*, *After Liberalism* and *The Sociology for the 21th Century*, this author has developed a critical theory of the global transition of the the world system, emphasizing thereby that "when a historical system enters transition, anything can happen. The outcome is unforeseeable and what comes after transition itself is historically uncertain. There is no foreseeable, secular direction in human history that would guarantee that the next phase will always prove more progressive than the previous one"³, adding thereby that "transition is not a friendly sport game; it is a fierce battle for the future and will bring about a sharp division among us"⁴. Wallerstein also writes that today we live in "transitional chaos" – in today's world, there is a systemic crisis of the old system (as an expression of its internal structural limitations), the decline of the left and the rise of conservative ideologies and movements, a change in the geostrategic division of power, the rise of the neoimperial power, the decline of the power of the United States, the rise of the new regions such as Europe, Japan and China. This author puts forward the view that 1989 saw not only the fall of socialism and communism, but also that of the values of classical neoliberalism and the rise of conservative historical restoration. He expresses his view of the future of the world, according to which the middle 21st century will see a major change in the world-system – that of capitalism changing into its postcapitalist alternative. An important question here arises: How much can these concepts, which represent a reaction to the theories of modernization and which are a product of the Neomarxists and their exploration of the development of Latin America with respect to the developed countries, be still used today for a scientific analysis of contemporary relations and processes, especially in the countries in transition? The rest of the paper will try to apply the given concepts to the contemporary economic development of Serbia and the other Balkan countries.

1. The contemporary crisis as a product of the neoliberal doctrine of social development

The neoliberal doctrine came into being in the 1960s at Chicago University and its Institute of Economy. Its founders are F. Hayek and F. Milton. This theory especially emphasizes the myth of the all-powerful market and monetary economic policy as the chief means of global development and monocentric globalization. It is on this platform that the economic and development policy of the two major countries of the world-centre – the United States and the United Kingdom – was formed, with its main advocates being R. Reagan and M. Thatcher (hence the terms Reaganomanics and Thatcherism). The doctrine was first put into practice during the reign of Pinochet and his dictatorship in Chile, its efficiency then being recommended to other countries, and (via the World Bank and the IMF) to the countries in

³ I. Volerstin, „Posle liberalizma“, Službeni glasnik, Beograd, 2005, p. 118.

⁴ I. Volerstin, „Opadanje američke moći“, CID, Podgorica, 2004, p. 174.

transition as well. The essence of the strategy is the shock doctrine (shock therapy as a means of radical economic and social reconstruction), which in practice only led to the creation of *the capitalism of catastrophe*. It is about this that the sociologist N. Klein writes in her the *The Shock Doctrine*, emphasizing that the given doctrine is a generator of social-darwinistic capitalism with disastrous consequences, enormous exploitation, asymmetric imperial globalization and the spreading of the antagonistic system of the division of power in the world. As this model thrived on the independence of the financial sphere - the export of capital and the global spreading of its power, not adequately paralleled by the development of the real sector of economy (which would increase production, the employment rate and the like), this system has produced crises and conflicts in the world. As a result of unbridled influence of the megacapital and the appetites of the financial oligarchy, we are confronted today with the consequences of the global financial crisis, which belongs to the structural 'second wave' and which heralds a profound economic, social and political crisis of capitalism.⁵

2. Serbia and the Balkans – a new zone of European periphery and global semiperiphery

A critical analysis of the results of the transition of Serbia and of the other Balkan states over the last twenty years confronts us with the disastrous effect of the application of the neoliberal strategy of dependent modernization. Up to 1989, judging by strength of their economies, most of the Balkan countries had belonged to the middle developed countries in Europe and in the world. The implosion of socialism and the removal of the monoparty system was deemed necessary and was suffused with great hope and expectations – as a need for a new, democratic, model of development. The new elites exultantly talked about people's capitalism, the social welfare state, democracy without frontiers, human rights and liberties, and modernization. Unfortunately, in actual social reality, the transition has been carried out without there being social accountability. Apart from the overthrow of the monoparty regime, the changes also involved radical privatization and political pluralization of society. It was there that the awakening of the social and political powers began. However, that potential was deadened by the political elites' choice of the neoliberal strategy of dependent modernization. What was imposed was shock therapy, the concept of development and economic policy which led the economy and the society into an even deeper crisis and peripherization, rather than into the establishment of new developmental and civilizational standards.

When we view today the economic and social structure of most of the Balkan countries, we are bound to notice that it is devastated and degenerated, and still in depression and crisis. Many indicators show that Serbia today is in a worse economic state than it was back in 1989. Instead of modernization and development, there are negative trends at work: countermodernization and subdevelopment. It ought to be pointed out that such 'results' of transition in Serbia and most of the Balkan countries are not a coincidence but a consequence of the chosen strategy of neoliberal modernization embraced by the ruling elites dictated by the IMF and the World Bank. As a result of this lumpenpolitics, we stand confronted with the following facts: the economy in ruins, deindustrialization, enormous exploitation, all-out

⁵ For further details please see: N. Klein, *Документација шока - усљон капијализма капијализације*, Графички завод Хрватске, Загреб, 2008.

impoverishment, the decline of the standard of living, unemployment, selling the key resources to foreigners (the banks, natural resources, water...), countries in debt, the crumbling of the class structure (and the rise of the red-black-yellow bourgeoisie), social disorganization, the increase of social deviation and pathology, the spreading of contradictions and conflicts with negative outcomes regarding social development, the increase of political disintegration and making Serbia a "torso state" (after the declaration of independence of Kosovo).

If we take a look at the agents of social change, we will be able to identify that beside the meagre entrepreneurial class, which constitutes the main agent of development and plays a progressive role in the society, there is also the comprador and the nomenclature bourgeoisie. On the borderline between these social groups, one can find the lumpenbourgeoisie whose actions verge on criminal and produce pathology and a number of disfunctionalities in the emerging order.

The neoliberal strategy of development, that the careless regulators of our economy seem to be exulted about, leads directly to the breakdown of the economic potentials of our country, and the bankruptcy of the state whose sole function seems to be loaning money from the IMF. In a word, we have travelled the road from the destruction of economy in the system of nomenclature capitalism in the period from 1990 to 2000, to the economy of destruction, which makes the state bankrupt and once again blocks the developmental perspectives of Serbia.⁶

It is on such neoliberal strategy of dependent modernization, that the Balkan political elites have opted for (and that advocates selling the economic capacities away, radical privatization and market fundamentalism, together with a wrong monetary policy), that something akin to capital-parliamentarism is formed, alongside puppet regimes and satellite elites that are highly dependent on the West. It was along these lines that the geopolitical transition of the Balkans (from the East to the West), the Natoisation and protectorization of this region has been carried out. The Euroenthusiasts represent the European Union as a project without alternative, and Bruxelles as the new Rome. No difference is made thereby between the European orientation of the region and the Eurointegration processes as challenging and positive things, on the one hand, and the European Union as a representative of the new order of power functioning on behalf of financial oligarchy, on the other hand. The EU's expansion to the East, as critical researches tend to point out, is primarily a result of the geoeconomic interest of multinational corporations aimed at increasing their profits and establishing new geopolitics, rather than an act of philanthropy (H. Hoffbauer).⁷ There are few critical researchers who point to the fact that behind the polished institutional facade of the architecture of the EU, there operate contradictory processes tearing the very structure of the European society into 'the Europe of workers' and 'the Europe of bankers'. (P. Bourdieu).⁸

Economic neoliberalism as the philosophy of market fundamentalism, has led to the neglect of culture and of the need to create an autonomous modern culture policy. Under the guise of modernization, the "reformers" have also tackled numerous other aspects of life (social welfare, the health system, the media, education, etc.). The principle of deregulation and liberalization was first carried out in the sphere of employment and social relations, where the

⁶ For further details please see: Љ. Митровић, *Пут у зависно друштво (биланс транзиције на Балкану)*, Институт за политичке студије, Београд, 2004.

⁷ Н. Хофбауер, *Проширење ЕУ на Исток*, Филип Вишњић, Београд, 2004.

⁸ Р. Бурдије, *Сигнална светла - прилози за оштор неолибералној инвазији*, Завод за издавање уџбеника, Београд, 1999.

position of the workers was degraded: the workers were left without protection, at the mercy of capital, and exposed to enormous exploitation, the loss of certainty of employment and even of their very existence, and became exposed to mobbing. On top of all, many have been deprived of social and pension insurance. Under the guise of rationalization and restructuring, the institutions of social and health insurance have almost been destroyed. Currently, the processes of the destruction of cultural institutions are taking place. The reform of education, under the 'banner' of the Bologna Declaration, is being carried out mechanically, as a technical process of standardization and McDonaldization. The system of the local media in the Balkan countries is subjected to the symbolical power of the global media, which create the culture of dependence. The life style of the younger generation is being americanized. Youth subculture characterized by superficiality, insufficient education and the culture of death (violence in all forms and spheres, from the verbal to the physical one) is progressively emerging. It is in this context that contradictory processes of the socialization of the younger generation are taking place, together with the metamorphosis of the identity of various ethnic and other groups and that the Orwellian strategy of oblivion is practised: *I will empty you out and then fill you with myself* (G. Orwell). In addition, new ideologems characterized by eurosism (Velikonja) are being produced and seem to imply that it is enough to simply copy the European constitution and "enter paradise"!!!.

3. The need for a critical re-evaluation of the current strategy of development, economic and cultural politics in Serbia and in the Balkans, and of redefining the strategy of overcoming the crisis

The presented summary of the economic and social development achieved so far points to the fact that one cannot possibly be satisfied with it. In most of the Balkan countries, the project of modernization has ended up in countermodernization and the on-going structural production of crisis and violence in the region. The ruling elites that have carelessly been giving various promises over the last twenty years, have found themselves in the state of 'moral panic' now that they are under the influence of the on-coming wave of the global financial crisis. The confrontation with the crisis cannot be achieved through moralizing and pacification of the dissatisfaction of the general population. All the more so as this crisis will truly be radical not only locally but also globally as far as its consequences are concerned.

It is high time the ideas and warnings given several decades ago by serious scientists and theoreticians with regard to the neoliberal strategy of development were seriously taken into consideration.

As early as 30 years ago Nick Tinberger warned: 'Unless we opt for another road, we are lost', which has nowadays, in the context of the current crisis and the need for disillusionment, been reiterated today by President Obama: "Unless we act immediately, the crisis is bound to develop into a disaster!" In a word, what is needed is a radical reconsideration of the doctrine of neoliberalism and of the strategy that has thus far dominated the global economy. Such a radical break is needed in order not only for the crisis to be stopped but also in order for a new healthy and rational alternative for the world and the human race to be found. What is needed in the countries in transition for their development is the concept of *transition coupled with social responsibility*. In that sense, what needs to be reaffirmed is *the social-democratic model of development*, in whose centre lies the the concept of socially oriented market economy, the unity of true social equality and freedom, and a new historical compromise of the capitalist employers, on the one hand, and the workers, on the other hand, as

partners in development. A radical change is needed or else the system will crash. The current economic policy of the government can only lead to the increase of debt and bankruptcy. In the 90s we were faced with the destruction of economy; today, we have come to the state of the economy of destruction and the destruction of society, and the poorly managed economic affairs leads us into lumpenpolitics that, in turn, produces subdevelopment and lumpendevlopment, so that we are currently entering an even deeper second-wave crisis that is bound to sooner or later destroy not only the political structure of the society but also the society itself.

The situation is extraordinarily difficult and complex. There are no prescribed solutions for coming out of it. When faced with a similar situation, Ruvarac exclaimed: "We cannot be saved, we mustn't perish!" The solutions need to be found today in a new strategy of global development, which will affirm the principles of social partnership and responsibility of all the agents - above all the entrepreneurial, scientific and political elites, so that the region and the world could be pulled out of the crisis.

The imitative dependent modernization that is dictated by the neoliberal doctrine and that has been in use in the Balkans so far, has in most of the countries in the Balkans produced a *peripheral capitalism of disaster*, together with conservative restoration, all of which has detrimental consequences for the quality of life and the future of most of the citizens. Time has come for a critical confrontation with the wrong development strategy and its consequences, as well as for the search for a new – social-democratic – strategy: the one that will not experiment with humans, as is represented in Orwell's *Animal Farm*. We have had enough of delusion. Time has come for new radical humanistic changes – those that will boost the quality of life and bring about hope about the future for most citizens rather than only for the privileged class of the bourgeoisie and the political elites influenced by it. Should that fail to happen, 'the great deceit' and the acute social contradictions and clashes will render the crisis extremely difficult to control. "A peaceful nest is hard to make in the mouth of the volcano", as it were, and those currently in charge are bound not to have peace for a long time. They will be engulfed by a social tsunami, in the same way as poverty engulfs and destroys dozens of families every day, and millions of hungry people in the world. Therefore, we should urgently and responsibly be searching for new solutions that will show more solidarity with those that are most vulnerable and most numerous, as tomorrow it may be late for doing so.

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EXPERIENCES AND CHALLENGES OF SERBIAN COMPANIES IN THE PRIVATIZATION PROCESS²

Abstract

Adjustment of companies to changes in surroundings is an imperative of their vitality preservation. This adaptation process includes various directions and scope of changes starting from changes in activities extent and structure, through changes in ownership and management system. That is to say, dynamism of surroundings causes certain shifting in direction such as stimulation of different business portfolio, business philosophy, management structure and technology.

Key words: *changes in surroundings, ownership and market structure, business portfolio, management structures*

ИСКУСТВА И ИЗАЗОВИ СРПСКИХ ПРЕДУЗЕЋА У ПРОЦЕСУ ПРИВАТИЗАЦИЈЕ¹

Апстракт

Прилагођавање предузећа променама у окружењу је императив очувања њихове виталности. Тај процес адаптације укључује различите правце и обим промена почевши од промене обима и структуре делатности, преко промена власничке структуре и система менаџмента. Наиме, услед динамизма околине настају одређена померања у смеру фаворизовања другачијег пословног портфолиа, пословне филозофије, управљачке структуре и технологије.

Кључне речи: *промене у окружењу, власничка и тржишна структура, пословни портфолио, управљачк структуре.*

1. Current situation in the economy

If we exclude the impact of general economic crisis on economic trends, the macroeconomic situation in Serbia is characterized by restrictive NBS monetary policy and very small or insignificant participation of existing economic activity in the country. The reason

² Work was made in the project Multifunctional agriculture and rural development in the Republic of Serbia association to EU

¹ Рад је рађен у оквиру пројекта Мултифункционална пољопривреда и рурални развој у функцији укључења Републике Србије у ЕУ

is that production activity is not at a satisfactory level and can not cover the existing spending. Production activity is still pressured by fundamental limiting factors like inadequate credit support, high interest rates and too high fiscal burdens. For being highly import dependent and in the absence of its own working capital, production activity is not able to produce many quality products and monitor the state of competitiveness on foreign markets. Also, for being unable to offer many quality products and wide range of goods on domestic market, there's a problem with structure of foreign trade flows, which is registered in the dominant imports of final goods, primarily consumer goods, while we have products of lower treatment phase on the side of exports. In the situation of forcing rigorous credit and monetary NBS policy, with the aim of combating inflation pressures on one side, and (non)strengthening the dinar on the other side, with recession in the privatization of large systems and corporations that was expected, and with reducing demand and offer of bank potential credit, with tightening up conditions for loans, there are small chances that the economy get to its significant revival and development. Hope remains that the greater part of funds from future privatizations will be towards production and towards strengthening its production potentials.

2. Theory and practice - flows and results of privatization

Advocates of market economy emphasize that the private ownership is basis of healthy economy and a prerequisite of a market economy. It is considered in professional circles that basic goals of privatization are raising the efficiency of business and expansion of personal freedoms. Number of analysis has found that private ownership is necessary for a healthier social relationships. The more common attitude is that state-ownership excludes efficiency and economy progress, so it should be eliminated as soon as it's possible. Some researches showed that corporation becomes more efficient after privatization. However, assessing the effects of privatization proved to be unreliable. Except the availability of data, there's a question of the adequacy of parameters for assessing the effects of changes in ownership. Many researchers are not unique in assessing the effects of privatization. Off course, there are companies that had, before privatization, upward profitability path, which continued so after privatization. When evaluating the success of privatization should be kept in mind company performances that are relevant depending on state and the sector where company belong to.

In many cases we found results that significantly deviate depending on whether the utility (electric power industry, petrol, telecommunications, waterpower engineering) or non-utility companies are privatized. Also, there are differences between privatized and private companies. Process and the effects of privatization are more successful in companies with the control package of shares in relation to ownership of larger number of owners. In terms of the lack of legal state, new owners can be only interested in quick money-making, with very cheap appropriation of shares of former state companies and other attractive companies and they have the opportunity to cash the property and not to maximize profit. Unfortunately, in our situation, that happens too often.

Past results in the privatization of Serbian economy impose the fact that is likely to happen that privatization process can not be completed in the following, 2007., year, what was determined by law, since the large part of the economy is still state-owned. As an additional difficulty, the remaining state owned companies are not attractive for sale, and numerous obstacles are present on a path to privatization that can not be overcome in short period, as for example, unresolved ownership structure and a lack of documentation about property and

liabilities. But any further privatization, especially of large, capital intensive and business failed companies, brings new concussion to already high unemployment (between unemployed, each fifteenth works in black market, every second is on labor market, and only every seventh started small business).

Concerning above as well as the fact that not only the socially-owned companies should be privatized but the largest part of public ones too whose capital makes 50% of total economy value, and facing the fact that privatization of many mixed companies is almost completely ignored, we could say that Serbia faces the tougher part of transition path.

Greater accreditations for Agency for privatization and Agency fund have brought new difficulties, because, instead of quick privatization effect, we have greater bureaucracy interference in company work and conflict of interest, because Agency still sales companies alone and controls their work. Therefore the state got the idea to cut debts towards funds and public companies, which should be refund later from realized incomes from their sale, thence the term called debt release was introduced. There is no such practice in the world, so such originality leads to increasing counterproductivity.

Slow and unsuccessful course of socially-owned companies restructure, in order to their preparation for privatization proved to be multiple damaging. Not only that we face irrational spending of large funds, but great interference of administration in economy, and companies depending on subventions instead of concentrating on market survival. Restructure concept, for more successful privatization, do not contribute to better company value. Besides, the state is poor investor and especially from that standpoint we can not expect its positive influence in privatization. Only the owner or contractor who knows the market can achieve that, therefore it should be all leave to him.

3. Small and medium companies development support

The existence of new ideas, concerning new product programs or expanding the existing ones, with adequate financial impulse, should be the signal of starting a new investment activity. And the main investment activity initiators should be predominantly foreign investors through the ownership transformation and direct investments as well as the domestic investments in small and medium-sized companies development in the meaning of starting domestic private initiative. Of course, it is necessary to provide a stable legal and political infrastructure.

However, there's very small percentage of industry, also, that made programs of joint investment as well as long-term production and technical cooperations. Although there's initial investment risk reduction, a great part of foreign investors is still skeptical for direct appearance, and a support to private entrepreneurship development in the production revival context, investments in new capacities and employment of a number of workers is still insufficient.

A development of small and medium-sized companies is having difficulties, because they face large and similar problems as well as the whole of our economy. In quite adverse business environment, with a ton of administration and aggravating circumstances, with long-term procedure and inability of winning new technologies and know-how knowledge, a support to their development is not encouraging. In favor of its importance is the example of very slow and difficult large systems restructuring process, where we find a reduction of activities, and in such constellation of slowly functioning business cooperation with small and large companies would be of great help.

Though, according to statistics, there's a positive trend starting from the year of 2001. , because the number of private entrepreneurs increased from year to year, so that their participation in the total employees moved from 16.6%, over 18.8% and 21% in the next two years, to be 22.9% in 2004., 25.2% 2005., 27.3% and 28.4% in 2006. and 2007. and 27.3% in 2008. But according to the employment dynamics which is positive, these are insufficient growth rates for small and medium-sized companies which should be able to accept the army of workers remained without a job, due to restructuring of large systems.

Seen by category, although market and services dominate over the sector of small and medium-sized companies, they do not employ the most workers. The processing industry holds primacy which employs about 38% workers, though there's a presence of decreasing trend here too. In market and repair services works over 25% workers, and in companies engaged in activities related to real estate- over 8%. Interesting is the fact that in hotels and restaurants worked only 2.3% workers employed in the private sector, which is twice less than in the companies engaged in ores and stone extraction, although the number of companies in catering sector is much larger.

All the data point to a slight growth in this sector in relation to its low initial basis, and that can not be an impressive result. Fact that MSP have over 30% of capital overall economy, actually indicates that there is more than enough space for improvement and that MSP has yet to start serious development. The truth is that a large number of them operated non profitably in the last few years and that such companies made even a third of all companies in the economy of Serbia. However, 60% of companies that made profits come from this sector. As a main cause of non profit business well known, general places, are mentioned such as insufficient investment in equipment and technology modernization, primarily due to lack of long-term sources of funding. State support through the Development Fund and Guarantee Fund is not sufficient, while commercial banks' loans are too expensive so the businessmen are reluctant to take them. In total liabilities of Serbia economy about half belong to a small and medium-sized companies, what shows that their owners are unprepared to get into debts or have great difficulties to raise funds for the operation, so getting-started business are mainly related to the investment of personal savings. Total liabilities are significantly larger than total capital and interesting moment is that a big part of MSP do not survive first few years of work. Guilt is attributed to the owners too who get into business insufficiently familiar with all the difficulties they may encounter. Lack of entrepreneurial skills affects a serious lack of planning, organizing and running the company as it affects creating new and competitive products. One source of this absence is lack of entrepreneurs knowledge. As a result, we find a poor estimates of risk and business opportunities, poor management, equipment, technology selection, as well as bad or even not existing a business plan creating.

4. Experiences of neighbouring countries in attracting direct foreign investment

In order of Serbia's achievement a full membership in the EU, by reaching the economic level from eighties, last century, it is necessary, among other things, that foreign direct investments level raise over two billion euros per year. Record of 1.6 billion was reached in 2005. and announced large public system privatization has yet to make a significant foreign exchange inflow in the coming years. However, the question is how will Serbia keep a high

level of foreign direct investments after that. Examples from region showed that is Greenfield investment significant economic development originator, but not found often in Serbia. The main obstacle for that is investors` inability to buy a land on which he wants to build a section and any delay of solving this problem is slowing the implementation of economic development strategy in which capital inflow from abroad occupies a significant place. Although the information about foreign investments in Serbia seems imposing at first sight, in comparison with countries in region or with those that recently entered EU, the results are very modest.

Necessary condition of the future sustainable economic development is a minimum of 25% of investment in gross domestic product, and sources of these funds are - domestic savings or fresh capital from abroad. The first possibility is unlikely because of the low level of domestic savings, so the only exit is in direct foreign investment. However the fact that last year`s investment amount was 1.4 billion dollars is not correct, because these figures were a result of addition of incomes from sale of banks, stocks and shares in domestic companies, buying real estate, while the actual investment were only a few hundred million dollars.

The primacy of attracting foreign investment in 2005. has Slovakia, attracting 13 billions of dollars of which 10.9 billion were completed in corporate sector, and two billion in the banking sector. Most investments were focused to the manufacturing sector (5.2) billion, then financial intermediation (two billion), trade sector (1.6 billion). Right after the Slovakia is the Czech Republic, which attracted 11.4 billion dollars last year. Foreign companies invested five billion dollars in transport and communications, 1.9 billion dollars in real estate, and 1.4 billion dollars in production sector. 7.9 billion dollars was obtained through privatization or stocks and shares sale, and reinvestment profits exceeded 3.3 billion dollars. Poland can boast of 7.7 billion dollars of income, although, in comparison with 2004. year, when the income of 12.8 billion dollars was achieved, that is drastic decline. From 7.7 billion dollars in 2005. , 2.3 billion (in year of 2004. seven billion) was obtained through stocks and shares sale, and 3.8 billion dollars through reinvestment.

When talking about region countries, a leader in attracting foreign direct investment is Hungary, with 6.8 billion dollars, as it is recorded in 2005. Most money was made from selling the airport in Budapest for 2.3 billion dollars, while two billion dollars was obtained through capital reinvestment. Also, since 1994., Hungary attracted more than 63.3 billion dollars DSI , and has more than 25.000 companies with foreign participation in capital, today. About 49% of investment was realized in service sector, and 46% in the manufacturing sector. Romania follows with with last year`s result of 6.6 billion dollars. This was achieved despite the fact that in 2005. there were no large privatization, and Romania expects 6 billion euros of investment this year. If it is a comfort, Croatia obtained income of only 1.6 billion dollars last year. Croatia has attracted 14.6 billion dollars DSI, since 1993. Their investment in financial intermediation brought them about 51% of incomes last year, 9.4 % was invested in oil and gas extraction, 5.9% of investment ended in retail trade sector in non-specialized stores.

Perhaps the most representative example for Serbia is a result of Bulgaria. That countrie made the biggest rise in attracting direct foreign investments when the foreign investments amount of 969 million dollars in 2002. increased to more than two billion dollars in 2003, and the level of investment does not descend below the magic cipher, since then. Interesting fact is that Bulgaria attracted 2.3 billion dollars through Greenfield investments last year.

Between 2002. to 2005. year 4.8 billion dollars of foreign investment entered Serbia. The fact that only 10% of foreign investment, collected in last 4 years, was invested in

equipment, is not encouraging because pure company sales does not affect the increase in gross domestic product. When we talk about gross domestic product, as an important economic parameter, Serbia, with annual production of 3.000 dollars per capita, is among the poorest countries in the world. In long-terms, Serbian companies sales will not solve the problem of lack of capital in Serbia, since these investments are achieved through privatization of companies, especially strong propulsive economic sectors, such as tobacco industry, breweries, cement plants, food complexes. Therefore, the eyes are upon the so-called Greenfield investments, but they are not having the expected dynamics.

While it may sound paradoxical, the fact that Serbia is still not in the EU can be used to attract, for example, American investors who do not have free access to European market. If they would open the representative offices or companies in Serbia, they would even get the preferential status for a large number of products on the occasion of export to the EU market. Foreign investors are also interested in markets that have agreements on free trade with Russian Federation, but Serbia declines potential investors because the rule of law and private property protection are still weak.

Representatives of foreign investors` Council alert on shortcomings about the implementation of Law on competition protection and Law on the work, so as the problems that follow the realization of projected inflation and dinar exchange-rate policy. They emphasize that, though a lot of laws was adopted last year, they seem like being in vacuum, because they haven`t been applied in practice. It is crucial for foreign investors to have parameters on the basis of which they can predict price growth and exchange rate movement. Serbia don`t even have the lowest tax rates in Europe, what should serve as a stimulus for attracting foreign investment. On the contrary, the total impost are still high, and market economy foundations aren`t set yet either.

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UNDERSTANDING THE FIRM-LEVEL PRICE-SETTING BEHAVIOUR: THE DEVELOPED COUNTRIES EXPERIENCES AND INSTRUCTIONS FOR SERBIA

Abstract

It is important for central banks to understand how firms set prices. The price-setting behaviour plays a key role in the monetary policy transmission mechanism. To be able to understand and predict how monetary policy impacts on macro variables such as output, employment and inflation, it is useful to have information on what lies behind the choices made by each individual economic subject. Which factors determine firms' price-setting is a particularly important question. This paper outlines the major themes and results on price-setting behaviour that have emerged from international research on the basis of surveys conducted by central banks of many developed countries.

Key words: price-setting behavior, price stickiness, frequency of price changes, survey data, monetary policy.

РАЗУМЕВАЊЕ ПОНАШАЊА ПРИ ОДРЕЂИВАЊУ ЦЕНА НА НИВОУ ФИРМЕ: ИСКУСТВА РАЗВИЈЕНИХ ЗЕМАЉА И ПОУКЕЗА СРБИЈУ

Апстракт

За централне банке је важно да дознају како фирме одређују цене. Понашање у погледу одређивања цена игра једну од кључних улога у трансмисионом механизму монетарне политике. Да би били у стању да разумемо и предскажемо како монетарна политика делује на макро варијабле, као што су производња, запосленост и инфлација, корисно је имати информације о томе што стоји иза избора учињених од стране сваког економског субјекта. Фактори који одређују фирму при одређивању цена, представља посебно значајно питање. Овај рад скицира главне теме и резултате у погледу понашања при одређивању цена који су проистекли из међународног истраживања на бази анкета, сprovedених од стране централних банака многих развијених земаља.

Кључне речи: понашање при одређивању цена, лепљивост цена, учесталост промена цена, подаци анкете, монетарна политика.

Introduction

The way on which the firms set their prices is highly important for formulating and implementation of monetary policy. The price-setting behaviour influences the way of monetary policy affecting the economic activities flows. The key issues for the central bank are whether the prices are sticky – i.e. is their response slow to changes in the economic environment – namely, are they responding asymmetrically to excess demand and excess supply. The answers to those two questions have implications on the conduct of monetary policy: for example, how rapidly are monetary authorities capable to bring inflation back to the defined target after the economy had suffered a shock. Also, those answers are shaping the process transmitting changes in monetary policy to the real activity (output and employment) and inflation.

In many economic models, often used in analyzing monetary policy, some constraints are assumed in price adjustment. Some time interval is assumed to exist between each individual change in the price of goods or services. Such a sluggishness in price setting is the factor enabling monetary policy to impact, in short-term, real interest rate as well as real variables (like output and employment). In long-term monetary policy determines only the inflation rate. The potential of monetary policy is higher with stickier prices, since the central bank is capable to largely lessen fluctuations in output and employment. In other words, one of the key issues for the central bank is how slowly are prices in the economy adjust to market conditions.

During the last decade the central banks in the developed countries conducted a new research, tending to enhance their understanding on the firm-level price-setting behaviour. In this research work new information had been revealed on the frequency with which firms change prices and explanations acquired about the reason of the prices being sticky. Using the surveys in order to get a better insight into the firm's price-setting behaviour was first applied in USA. The way of such an application was cleared by the work by Blinder (1991) and Blinder et al. (1998). Those works led to similar surveys in other developed countries – in United Kingdom (Hall et al., 1997), Sweden (Apel et al., 2005) and in Euro areas countries (Fabiani et al., 2006).

The paper is structured as follows. Section 2 explains why price setting is important to a central bank concerned with controlling inflation. The next section is a brief overview of the major themes and results on price-setting behaviour that have emerged from international research on the basis of surveys conducted by central banks of many developed countries. Section 4 presents some general information regarding the price-setting behaviour of Serbian firms: up to now no research was conducted regarding the pricing behaviour of Serbian companies, and hoping that such a research is going to be conducted soon; and the assumptions regarding some characteristics of price-setting behaviour in Serbia. The final section contains our conclusions and some directions for further researches work.

1. Why is Price Setting Important?

Understanding price setting in the companies is important for the central bank's attitude in inflation controlling. The price-setting behaviour determines how decisions about monetary policy – on interest rate, money and inflation - affect the economy. In the former

theories on macroeconomy monetary variables were assumed to exert no influence on the real ones. Those theories were partly based on the idea that price-changes are costless and instantaneous. However, anyone having participated in buying or selling an item knows that in reality prices are set by buyers and sellers, and costs and time appear as factors in the sale contract. Two factors take part in calculating the right price of any product, i.e. determinate how prices should respond to a change on the market. Anyway, a number of empirical proofs supported the view about the changes of money and prices (nominal quantities) being capable to influence production and employment (real quantities), at least in short-term.

The views referring to the importance of price stickiness as one of the major issues in macroeconomics varied in time. In the 1960s and 1970s the economists generally accepted the presence of sticky prices and their ability to generate real-side disturbances in the face of monetary policy shocks. At the end of 1970s and 1980s a number of academic research was focused on real side of the economy. Two economic paradigms – the rational-expectations and real-business-cycle models – rejected the presence of sticky prices and denied the role of monetary policy in stimulating growth during the periods of slack demand.

On the contrary, in 1990s and 2000s, the literature dealing with macroeconomic issues revealed a general acceptance of price stickiness and a possible important role of monetary policy in an economy functioning beneath its potential capabilities. Consequently, the economists turned to accessory means for assessing the price stickiness level. An approach having reached a rapid popularity consists in a direct survey of the economic agents-firms about their price setting.

The modern theory of monetary policy is the theoretical basis of the approach by survey. In this theory a number of assumptions are presented of how an individual firm is setting its prices. For example, it is often assumed that the firms are alike, that there is a certain interval between each time a price is changed and that price-setters are forward-looking. Simultaneously, aggregate price movements are the result of the pricing decisions of all participants on the market. Consequently, knowing the determinants of prices on the individual firm's level is highly useful to each central bank.

2. Price-setting Behaviour

For a long-time it was proved in the economic theory that the speed of the firms changing their prices is determined by the extent to which fluctuations in the demand of goods and services lead to fluctuations in production rather than in prices. When the prices are inflexible, sticky, i.e. sluggish, a disproportional part of the adjustment of the economic subjects-firms to economic shocks appears through the changes in the scope of production, employment and the level of the capacity utilization, rather than through changes of their products prices. The sluggish price adjustment makes the implementation of monetary policy more difficult, not only due to possible long lags between the changes of monetary policy and changes of prices, but also due to resultant fluctuations of output levels, possible to be expensive.

During the last decade researchers in a number of countries used new data sources in order to investigate the frequency of the firms adjusting their prices. Some of those researches were based on detailed surveys regarding the individual firm's behaviour, and some relied on data gathered by the national statistical agencies. The results acquired by those researches

pointed to considerable differences. At one extreme point stood the firms (in fact not numerous) adjusting their prices on a weekly basis. On the other extreme point were those (relatively numerous) adjusting their prices less than once every two years. Between those two extremes were the firms adjusting their prices in regular calendar cycles and those taking such measures only after their cost structure underwent a shock from the environment they carry on their business.

The works by Okun (1981), Kahneman, Knetsch and Thaler (1986) and Blinder (1991) largely traced the path of all recent research regarding the way the firms adjust their products prices. Okun developed the theory of the firm price adjustment, based on the idea of “costly search”. He proved that the customers find costly searching for those firms offering reliably and timely products of high quality and reasonable prices. When the customer finds such firms he (or she) sticks to them permanently. So long-term and stable connections are set between the customers and the firms. The firms still change their products prices, but taking care not to harm their connections with the customers. And finally, Okun assumed that the firms are reluctant to rise their prices level as the way of responding to demand shocks, worrying about their customers possible reluctance.

Kahneman et al. (1986) surveyed people on their views about when changing the firms products prices would be acceptable. A great majority of people are of opinion that rising the products prices in a firm would be justified with the increase of its business operation costs. On the other side, the respondents told that they would not object to the firm not lowering the prices after decreasing the costs of its business operation. The respondents consider as acceptable the decrease of products prices with a low demand. But it would be unfair if the firms rise their products prices above a normal level in case of a high demand. The author argues that the firms should act accordingly, so that their asymmetric responses to demand and cost shocks could be observable.

Blinder (1991) and his associates (Blinder et al., 1998) conducted intensive interviews in a number of firms in USA regarding their pricing behaviour¹. The authors asked a number of questions, as: How often are the firms changing their prices? How do the firms respond to changes of costs and demand? Do the firms set their prices according to the theories in textbooks regarding price stickiness? The answers were convincing enough, so the application of surveys on price-setting behaviour appeared also in a number of other countries. Most frequently the surveys were conducted by the central banks. The researchers in Europe and in North America analyzed the firm-level price data to get an insight how often are the firms changing their retail and wholesale prices.

The results of the reasearch by Blinder and his associates provide a better understanding of not only the frequency of the firms prices changes, but also of the reasons for such changes. Considering the frequency of price changes, the results obtained pointed that just some firms change their prices very often, and a number of them do it occasionally. Blinder found out that 10% of the American firms change their prices once a week, and 50% not more than once a year. According to more recent resaerch in this field, 25-30% firms in USA change their prices each month, while an average duration between price changing amounts to 6 or 7 months (Bils and Klenow, 2004; Klenow and Kryvtsov, 2005). It seems that the European consumer prices are stickier. The interviews conducted in a number of European countries point

¹ Prior to Blinder, mainstream economists were skeptic to the use of firm-level survey and interview data. Due to the success of this survey, this situation is changing rapidly.

that approximately 15% consumer prices are changed each month, while the average duration between price changes amounted to somewhat over a year (Dhyne et al., 2006).

Also, the reasearches of price-setting behaviour were focussed on the reasons of the firms changing their products prices. The survey used by Blinder (and his associates) contained a section where the respondents were confronted with different theories of price rigidity and were asked to answer to what extent do those theories appropriately present the situation in their firm. Namely, the respondents were asked to rank the importance of each statement formulated to summarize different theories explaining why prices must be sluggish. The firms got a list of twelve assumed reasons for their not changing prices more frequently. Each of the reasons offered represented one of the theories of price stickiness. The surveyed firms were asked to rank those reasons according to their importance. In the survey by Blinder, the first five explanations (presenting the theories of price stickiness) by rank were:

- Firms hesitate to raise prices in case their competitors will not follow (coordination failure),
- Firms change prices, with a lag, to changes in costs (cost-based pricing),
- Firms change non-price features, such as varying the quality of service (non-price competition),
- Firms have an implicit understanding with their customers not to increase prices when supplies are tight, unless justified by higher costs (implicit contracts),
- Firms have written contracts which usually make it difficult to change prices within the contract period (explicit contracts).

In Table 1 the complete list of explanations (theories) is presented, not only from the survey by Blinder, but also those presented and ranked by the firms in United Kingdom, the Euro area, Canada and Sweden. As we may notice, the firms in each of those countries presented considerably similar rankings. In general, the surveys conducted in the mentioned countries support the thesis about the firms changing their prices responding more to cost changes than to demand changes .

Table 1
Explanations, importance and ranking of price stickiness theories
Country Study and Rank

Theory	Explanation	US	UK	EA	CA *	SW
Cost-based Pricing	Prices depend mainly on the costs of labour and raw materials used in producing goods and services. Therefore, prices don't change until costs change	2	2	3	1	2
Explicit Contracts	The price is regulated in formally-written contracts that are costly to renegotiate	5	1	2	3	3
Implicit Contracts	Customers prefer a stable price and a change could damage customer relations, even if competing firms also change their prices	4	5	1	2/7	1

Coordination Failure	Firms delay price increases because they do not want to be the first in the industry to raise prices. Firms delay price cuts because they do not want to be the first in the industry to cut prices	1	3	4	5/8	4
Non-price Competition	Firms are more likely to amend product characteristics (e.g., warranty, delivery lag) than prices	3	8	7	4	-
Pricing Thresholds	Psychological “thresholds” for the price exist. The article/service is assumed to sell much better at \$49.95 than \$50.05, for example	8	4	10	-	7
Constant Marginal Cost	Factors influencing prices, such as marginal costs, do not change over the business cycle	9	6	-	9	-
Manu costs	There are “physical” costs connected with price changes, e.g. printing new price lists, the cost of notifying retailers, etc.	6	11	8	10	11
Information-gathering costs	It is costly in terms of time and/or money to gather relevant information for pricing decisions	11	-	9	11	12
Procyclical Elasticity	Prices are sticky because firms lose customers when prices raised but gain few when lowered	7	9	-	-	10
Stock Adjustment	Firms adjust stocks rather than prices to accommodate shocks to market conditions	10	7	-	-	-
Price Means Quality	Firms may be unwilling to cut prices in case customers think there is a decline in quality	12	10	5	-	-

*) In the column for Canada, two figures are reported for the implicit contracts and coordination failure theories, because in the Canadian questionnaire there are two different statements related to these theories.

Sources: United States (US): Blinder et al. (1998), United Kingdom (UK): Hall et al. (2000), Euro Area (EA): Fabiani et al. (2006), Canada (CA): Amirault et al. (2004), Sweden (SW): Apel et al. (2005).

In the research of the dynamics of prices conducted in some developed countries, a number of other valid findings were presented as well. The following list of findings, based on the work of Fabiani et al. (2007, pp.7-8, 47), presents a summary of research conducted (by the Eurosystem Central Banks) in the majority of the Euro area countries:

- The frequency of price changes varies considerably from firm to firm,
- The average frequency of price changes varies by sectors,
- Energy sector firms change prices more frequently than other firms,
- Firms that use a lot of raw materials change prices more frequently than firms that use few raw materials,

- Firms that are labour intensive, particularly in the service sectors, change prices less frequently than others,
- Firms in the Euro area change their prices less frequently than those in the United States,
- There is little evidence of downward price rigidity, except in the services sector,
- Price-setting responds asymmetrically to factors such as changes to cost and demand.

3. Do We Know Something About the Price-setting Behaviour of Serbian Companies?

Monetary policy in Serbia is oriented towards maintaining a low and stable inflation. In order to be capable to understand and predict the way of the monetary policy's influence on macro variables, like output, employment and inflation, we should dispose of information about the determination of the basic economic subjects behaviour (in the sense of taking different choices). What factors do determine the firm's price setting is a question of particular importance.

The research capable to identify the empirical features of price-setting behaviour at the level of price setter in Serbia was not conducted by now. According to some indications, such a research could be conducted soon. We can just guess that the price-setting patterns are more or less similar to those observed in Euro area countries. Probably our future analysis shall point to the following:

- that different factors influence price rises and price falls. Higher costs – in particular, labour costs and raw materials – are the most important driver behind price rises, whereas lower demand and competitors' prices are the main factor resulting in price falls;
- that firms adjust prices asymmetrically in response to shocks: cost shocks are more important for resulting in price increases than price decreases; reductions in demand are more likely to induce price changes than increase in demand;
- that the frequency, inflation persistence and inflation rate are higher in Serbia as compared to West;
- that firms change prices in Serbia more in response to changes in monetary policy than demand shocks.

Conclusions

Long ago the central banks noticed that the speed of firms adjusting their products prices is one of the key factors considerably influencing the monetary policy effectiveness and the costliness of its realization. The academic economists, but also bankers from the central banks, hold an opinion that a better insight into the reasons of the firms changing their products prices could be of great help to the central banks, being the monetary policy carrying institutions. A better understanding of the firms asymmetric adjustment to the positive or negative demand shocks is possible to provide

the central bank with a better “textbook” of the monetary policy operation, particularly in the economy with a downward in business activity.

On the international level, future research should focus on the analysis of monetary policy rules under asymmetric price rigidity and cross-country comparisons of monetary policy practice. More empirical evidence on asymmetric pass-through and asymmetric reaction of prices to positive and negative money supply shocks is desirable for Serbia as well as for other countries. Also, a microfounded theoretical explanation of asymmetric price rigidity could additionally contribute to our understanding of the problem.

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ПРЕГЛЕДНИ ЧЛАНЦИ

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STRATEGY AND SOCIAL RESPONSIBILITY IN THE TRANSITION

Abstract:

There are two reasons why a company's strategy should be ethical: because a strategy that is unethical in whole or in part is morally wrong and reflect badly on the character of the company personel involved, and because an ethical strategy is good business and in the self-interest of shareholders. The term corporate social responsibility a company's duty to operate in an honorable manner, provide good working conditions for employees, be good steward of the environment, and actively work to better the quality of life in the local communities where it operates and society at large.

Key words: Strategy, corporation, social responsibility, transition.

СТРАТЕГИЈА И СОЦИЈАЛНА ОДГОВОРНОСТ У ТРАНЗИЦИЈИ

Апстракт

Социјално одговорна стратегија у транзицији претставља аспект демонстрација друштвене одговорности привредног субјекта. Резонски издвајају се два гледишта зашто компанијске стратегије требају бити етичке: зато јер се неетичке стратегије лоше одражавају на карактеристике персонала који је укључен и зато што је етичка стратегија одраз доброг бизниса и самоинтереса акционара. Термин корпоративна социјална одговорност односи се на дужности компаније да ради на чистан начин, обезбеђујући добре радне услове за раднике, да је добра за пословање, и активан рад за бољи квалитет живота у локалним условима где је оптимална и социјално обимна.

Кључне речи: Стратегија, корпорација, социјална одговорност, транзиција

Preface

The idea that business have an obligation to foster social betterment, a muchdebated topic in the past 40 years, took root in 19th century when progressive companies in the aftermath of the industrial revolution began to provide workers with housing and other amenities. The notion that corporate executives should balance the interests of all stakeholders – shareholders,

employees, customers, suppliers, the communities in which they operated, and society at large – began to blossom in the 1960s. A group of chief executives of America’s 200 largest corporations, calling themselves the Business Roundtable, promoted the concept of corporate social responsibility. In 1981, the Roundtable’s “Statement on Corporate Responsibility” said:¹

Balancing the shareholder’s expectation of maximum return against other priorities is one of the fundamental problems confronting corporate management. The shareholder must receive a good return but the legitimate concerns of other constituencies (customers, employees, communities, suppliers and society at large) also must have the appropriate attention....(Leading managers) believe that by giving enlightened consideration to balancing the legitimate claims of all its constituents, a corporation will best serve the interest of its shareholders. Today, corporate social responsibility is a concept that resonates in Western Europe, the United States, Canada, and such developing nations as Brazil and India.

1. What Do We Mean by Social Responsibility?

The essence of socially responsible business behavior is that a company should balance strategic actions to benefit shareholders against the *duty* to be a good corporate citizen. The thesis is that company managers are obligated to display a *social conscience* in operating the business and specifically take into account how management decisions and company actions affect the well-being of employees, local communities, the environment, and society at large. Acting in a socially responsible manner thus encompasses more than just participating in community service projects and donating money to charities and other worthy social causes. Demonstrating social responsibility also entails undertaking action that earns trust and respect from all stakeholders – operating in an honorable and ethical manner, striving to make the company a great place to work, demonstrating genuine respect for the environment, and trying to make a difference in bettering society. As depicted in Figure 1., the menu for demonstrating a social conscience and choosing specific ways to exercise social responsibility includes:

- *Efforts to employ an ethical strategy and observe ethical principles in operating the business* – A sincere commitment to observing ethical principles is necessary here simply because unethical strategies and conduct are incompatible with the concept of good corporate citizenship and socially responsible business behavior.
- *Making charitable contributions, donating money and the time of company personnel to community services endeavors, supporting various worthy organizational causes, and reaching out to make a difference in the lives of the disadvantaged* – Some companies fulfill their corporate citizenship and community outreach obligations by spreading their efforts over a multitude of charitable and community activities; for instance, Microsoft and Johnson&Johnson support a broad variety of community art, social welfare, and environmental programs.

Others prefer to focus their energies more narrowly. McDonald’s, for example, concentrates on sponsoring the Ronald McDonald House program (which provides a home away from home for the families of seriously ill children receiving treatment at nearby hospitals).

¹ Business Roundtable, “Statement on Corporate Responsibility”, New York, October, 1981, p. 9.

ls), preventing child abuse and neglect, and participating in local community service activities; in 2004., there were 240 Ronald McDonald Houses in 25 countries and more than 6.000 bedrooms available nightly. Many companies work closely with community officials to minimize the impact of hiring large numbers of new employees (which could put a strain on local schools and utility services) and to provide outplacement services for laid-off workers. Companies frequently reinforce their philanthropic efforts by encouraging employees to support charitable causes and participate in community affairs, often through programs to match employee contributions.

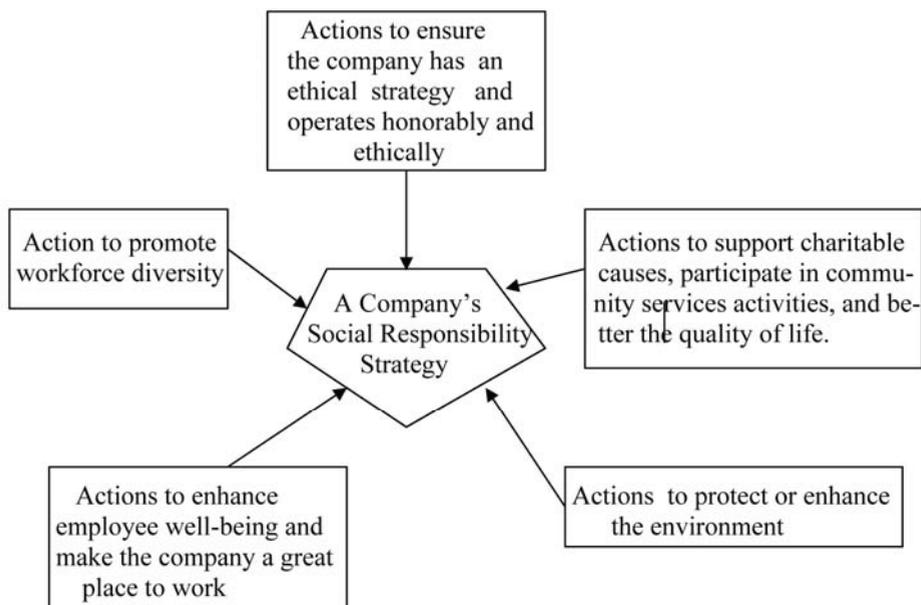


Figure 1. Demonstrating a Social Conscience: The Five Components of Socially Responsible Business Behavior

Source: Adopted from material in Ronald Paul Hill, Debra Stephems, and Smith, *Corporate Social Responsibility: An Examination of Individual Firm Behavior*”, *Business and Society Review* 108, no. 3 (September 2003), p. 348.

- *Efforts to employ an ethical strategy and observe ethical principles in operating the business* – A sincere commitment to observing ethical principles is necessary here simply because unethical strategies and conduct are incompatible with the concept of good corporate citizenship and socially responsible business behavior.
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- *Action to protect or enhance the environment and, in particular, to minimize or eliminate any adverse impact on the environment stemming from the company's own business activities* – Social responsibility as it applies to environmental protection means doing more than what is legally required. From a social responsibility perspective, companies have an obligation to be stewards of the environment. This means using the best available science and technology to achieve higher-than-required environmental standards. Even more ideally, it means putting time and money into improving the environment in ways that extend past company's own industry boundaries-such as participating in recycling projects, adopting energy conservation practices, and supporting efforts to clean up local water supplies. Retailers such as Home Depot in United States and B&Q in United Kingdom have pressured their suppliers to adopt stronger environmental protection practices.²
- *Action to create a work environment that enhances the quality of life for employees and makes the company a great place to work* – Numerous companies go beyond providing the ordinary kinds of compensation and exert extra efforts to enhance the quality of life for their employees, both at work and at home. This can include varied and engaging job assignments, career development programs and mentoring, rapid career advancement, appealing compensation incentives, ongoing training to ensure future work schedules for single parents, workplace exercise facilities, special leaves to care for sick family members, work-at-home opportunities, gender pay equity, showcase plants and offices, special safety programs, and the like.
- *Action to build a workforce that is diverse with respect to gender, race, national origin, and perhaps other aspects that different people bring to the workplace*-Most large companies in the United States have established workforce diversity programs, and some go the extra mile to ensure that their workplaces are attractive to ethnic minorities and inclusive of all groups and perspectives. The pursuit of workforce diversity can be good business – Johnson&Johnson, Pfizer, and Coca-Cola believe that a reputation for workforce diversity makes recruiting employees easier (talented employees from diverse background often seek out

² Sarah Roberts, Justin Keeble and David Brown, "The Business Case for Corporate Citizenship", a study for the World Economic Forum, www.weforum.org/corporatecitizenship, October 14, 2003., p. 3.

such companies). And at Coca-Cola, where strategic success depends on getting people all over the world to become loyal consumers of the company's beverages, efforts to build a public persona of inclusiveness for people of all races, religions, nationalities, interests, and talents has considerable strategic value. Multinational companies are particularly inclined to make workforce diversity a visible strategic components: they recognize that respecting individual differences and promoting inclusiveness resonate well with people all around the world. At a few companies the diversity initiative extends to suppliers – sourcing items from small business owned by woman or ethnic minorities.

2. Crafting a Social Responsibility Strategy: The Starting Point for Demonstrating a Social Conscience

While striving to be socially responsible entails choosing from the menu outlined in the preceding section, there's plenty of room for every company to make its own statement about what charitable contributions to make, what kinds of community service projects to emphasize, what environmental actions to support, how to make the company a good place to work, where and how workforce diversity fits into the picture, and what else it will do to support worthy causes and projects that benefit society. The particular combination of socially responsible endeavors a company elect to pursue defines its *social responsibility strategy*. However, unless a company's social responsibility initiatives become part of the way it operates its business every day, the initiatives are unlikely to catch fire and be fully effective. As an executive at Royal Dutch/Shell put it, corporate social responsibility "is not a cosmetic, it must be rooted in our values. It must make a difference to the way we do business."³ Thus some companies are integrating social responsibility objectives into their missions and overall performance targets – they see social performance and environmental metrics as an essential component of judging the company's overall future performance. Some 2,500 companies around the world are not only articulating their social responsibility strategies and commitments but they are also issuing annual social responsibility reports (much like an annual report) that set forth their commitments and the progress they are making for all the world to see and evaluate.⁴

At Starbuck, the commitment to social responsibility is linked to the company's strategy and operating practices via the tag line "Giving back to our communities is the way we do business"; top management makes the theme come alive via the company's extensive community-building activities, efforts to protect the welfare of coffee growers and their families (in particular, making sure they receive a fair price), a variety of recycling and environmental conservation practices, and the financial support it provides to charities and the disadvantaged through the Starbuck Foundation. At Green Mountain Coffee Roasters, social

³ Craig Smith "Corporate Responsibility: Whether and How", California Management Review 45, no. 4 (Summer 2003), p/ 63.

⁴ Jeffrey Holender, "What Matters Most: Corporate Values and Social Responsibility", California Management Review 46, no. 4. (Summer 2004), p. 112. For a study of the corporate social responsibility reports of leading European companies, see Simon Knox, Stan Maklan, and Paul French, "Corporate Social Responsibility; Exploring Stakeholder Relationship and Program Reporting across Leading FTSE Companies", Journal of Business Ethics, 61. no. 1. (September 2005), pp. 7-28.

responsibility includes fair dealing with suppliers and trying to do something about the poverty of small coffee growers; in its dealings with suppliers at small farmer cooperatives in Peru, Mexico, and Sumatra, Green Mountain pays "fair trade" prices for coffee beans (in 2002, the fair trade prices were a minimum of \$ 1,26 per pound for conventional coffee and \$ 1,41 for organically grown versus market prices of 24 to 50 cents per pound). Green Mountain also purchases about 25 percent of its coffee direct from farmers so as to cut out intermediaries and see that farmers realize a higher price for their efforts – coffee is the world's second most heavily traded commodity after oil, requiring the labor of some 20 million people, most of whom live at the poverty level.⁵

At Whole Foods Market, a \$5 billion supermarket chain specializing in organic and natural foods, the social responsibility emphasis is on supporting organic farming and sustainable agriculture, recycling, sustainable seafood practices, giving employees paid time off to participate in worthy community service endeavors, and donating 5 percent of after-tax profits in cash or product to charitable causes. At General Mills the social responsibility focus is on service to the community and bettering the employment opportunities for minorities and women. Stonyfield Farm, a producer of yogurt and ice cream products, employs a social responsibility strategy focused on wellness, good nutrition, and earth-friendly actions (10 percent of profits are donated to help protect and restore the earth, and yogurt lids are used as miniature billboards to help educate people about environmental issues); in addition, it is stressing the development of an environmentally friendly supply chain, sourcing from farmers that grow organic products and refrain from using artificial hormones in milk production. Chick-Fil-A, an Atlanta-based fast-food chain with over 1,200 outlets in 38 states, has a charitable foundation; supports 14 foster homes and a summer camp (for some 1,600 campers from 22 states and several foreign counties); funds two scholarship programs (including one for employees that has awarded more than 420 million in scholarships); and maintains a closed-on Sunday policy to ensure that every Chick-Fil-A employee and restaurant operator has an opportunity to worship, spend time with family and friends, or just plain rest from the workweek.⁶ Toys "R" Us supports initiatives addressing the issues of child labor and fair labor practices around the world. Community Pride Food Stores is assisting in revitalizing the inner city of Richmond, Virginia, where the company is based.

It is common for companies engaged in natural resource extraction, electric power production, forestry and paper products, motor vehicle, and chemical production to place more emphasis on addressing environmental concerns than, say, software and electronic firms or apparel manufactures. Companies whose business success is heavily dependent on high employee morale or attracting and retaining the best and brightest employees are somewhat more prone to stress the well-being of their employees and foster a positive, high-energy workplace environment that elicits the dedication and enthusiastic commitment of employees, thus putting real meaning behind the claim "Our people are our greatest asset". Earnings & Young,

⁵ World Business Council for Sustainable Development, "Corporate Social Responsibility: Making Good Business Sense", www.wbacd.ch, January 2000 (accessed October 10, 2003), p. 7. For a discussion of how companies are connecting social initiatives to their core values, see David Hess, Nikola Rogovsky, and Thomas W. Dunfee, "The Next Wave of Corporate Social Initiatives", *California Management Review* 44, no. 2 (Winter 2002), pp. 110-25. and Susan Ariel Aronsin, "Corporate Responsibility in the Global Village: The British Role Model and the American Laggard", *Business and Society Review*, 108, no. 3 (September 2003), p. 323.

⁶ www.chick-fil-a.com (accessed November 4, 2005).

one of the four largest global accounting firms, stresses its “People First” workforce diversity strategy, which focuses on respecting differences, fostering individuality, and promoting inclusiveness so that its 195.000 employees in 140 countries can feel valued, engaged, and empowered in developing creative ways to serve the firm’s clients.

Thus, while the strategies and actions of all socially responsible companies have a sameness in the sense of drawing on the five categories of socially responsible behavior shown in Figure 1.2., each company’s version of being socially responsible is unique.

Endnotes

1. Business Roundtable, *Statement on Corporate Responsibility*, New York, October, 1981.
2. Sarah Roberts, Justin Keeble and David Brown, *The Business Case for Corporate Citizenship*, a study for the World Economic Forum, www.weforum.org/corporate_citizenship, October 14, 2003.,
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6. www.chick-fil-a.com

ПРЕГЛЕДНИ ЧЛАНЦИ

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ECONOMIC TRENDS IN THE TRANSITION PROCESS OF THE SERBIAN ECONOMY

Abstract

The economic trends in the 2001 –2008 period are characterized by introducing the numerous reforms, establishing the macroeconomic stability and maintainable and stable economic development, large system restructuring, privatization of enterprises and initiating the convergence process to the EU, which comprises numerous legal adjustments in all economic and social segments. Basic objects of the economic policy were maintaining macroeconomic stability, and simultaneously realizing high rate of the economic growth.

Key words: *economic growth, inflation, unemployment, transition, deficit.*

ПРИВРЕДНА КРЕТАЊА У ПРОЦЕСУ ТРАНЗИЦИЈЕ СРПСКЕ ЕКОНОМИЈЕ

Апстракт

Привредна кретања у периоду од 2001 - 2008. године карактерише спровођење бројних реформи, успостављање макроекономске стабилности и одрживој и стабилној привредној развоја, реструктурирање великих система, приватизација предузећа и почетак придруживања ЕУ, који укључује бројна законска промена у свим областима привреде и друштва. Основни циљеви економске политике били су одржавање макроекономске стабилности, уз истовремено остваривање високе стопе привредног раста.

Кључне речи: *привредни раст, инфлација, незапосленост, транзиција, дефицит*

Introduction

Serbia has found itself in the midst of the process of the comprehensive transformation, i.e., transition. Economic transition represents a radical reform of the system in order to attain liberalization of commerce and financial flows, privatization of economy and integral market development as well as the changes within the institutional infrastructure of the economy. This represents a long and a complex process.

The transition process in Serbia has been so far just another example showing that initially good results can not be maintained without fundamental changes in the institutional ambience

of forecasting. A flexible and firm institutional basis, which would follow clear „signals“ of long-term increase of employment, export, investments and savings, has not still been created.

Nowadays, national economy is at its turning point. Reformative processes are gaining a new momentum, and the future in the Euro-Atlantic integration is becoming more and more certain. However, the changes, which should have been marked by establishing the macroeconomic stability, creating a favourable investment ambience since autumn of 2000, and, on that basis, stimulating the growth of the domestic economy, have not been fully carried out.

When the concept of the economic reforms is considered, the circumstantial fact that it has not been developed along with the existence of a clear and complete strategy should be taken into consideration. The reforms were carried out as partial and unsynchronized activities. The key problem lay in the fact that from the very start of carrying out the reforms, constructing the institutions had been neglected, thus creating certain institutional vacuum.

1. Gross Domestic Products and Elementary Consumption Aggregates

Within the 2001-2008 period, Serbia has effectuated significant growth of GDP with the average rate of 6.2% per annum. The structure of use of GDP still has not reached the satisfactory level. The use of GDP is characterized by high share of personal consumption, insufficient volume of investments and export.

The use of GDP in the 2001-2008 period is characterized by very high share of final consumption, which exceeded the effected GDP for 3.5% in the years 2001 and 2002. A high share of personal consumption and import of goods and services have been registered.

Table 1: GDP and its use

	2001.	2002.	2003.	2004.	2005.	2006.	2007.	2008.
GDP	5.5	4.0	2.0	8.4	6.5	5.7	7.5	6.9
Final consumption expenditures	103.5	103.5	98.9	90.5	87.9	87.4	88.7	88.3
Personal consumption expenditures ¹	83.1	81.2	76.4	70.7	70.0	70.4	72.3	75.3
Collective consumption expenditures ²	20.4	22.3	22.5	19.7	17.9	17.0	17.6	20.0
Gross investments in basic funds	10.4	11.8	16.1	17.7	17.3	19.7	21.6	15.5

¹including the sector of households and NPID

²including the public sector servicing households

Source: Republic Development Bureau, Belgrade, 2008.

Table 1 shows the ratio of GDP trends in the period from 2001 to 2008. In that period GDP had the upward tendency, which is also marked by very high share of the final, personal, and collective consumption.

The whole period from 2001 to 2008 showed the growth of GDP which was based on the growth of domestic demand. The structure of final demand is not favourable, with high share of final consumption and unfavourable share of investments.

Personal consumption increase is caused by accelerated salary growth above the labour productivity level. Low productivity and insufficient volume of investments in the fixed funds was limiting the export competitiveness.

2. The Inflation Tendency

The period of transition from 2001-2008 in Serbia was characterized by establishing stability and maintainable economic development. Relative price stability is realized in the conditions of executed market liberalization, reforms of the fiscal system, with phase elimination of the most significant price disparities. This is a marked result particularly if regarding the fact that it was achieved in conditions of high growth of the crude oil and base metal prices at world market. Basic factors increasing the pressures on domestic retail prices to grow were the external factors (growth of the administratively controlled prices, higher real effective demand, structural problems of the Serbian economy, and insufficient competitiveness).

The inflation, measured by retail prices, after high growth of 40,7% in 2001 (December-December) was reduced to 10,1% in 2007 and to 9,3% in 2008. The stability of the general price level during the observed period was based on the exchange rate stability and the continual growth of the total currency reserves, which rose from 1,8 billion US dollars at the end of 2001 to approximately 14 billion US dollars at the end of 2008. Lower inflation rates are caused, inter alia, by lower tariffs during the foreign trade harmonization process, as well as by the expressive appreciation of dinar against the dollar, which mitigated the effect of the price growth of crude oil and other raw materials at the world market.

The state on the market of goods and services in 2008 is presented by price growth below the designed framework, the fall of inflation expectations and strengthening of macroeconomic stability. The average annual retail price growth in 2008 was 10,9%, and in December of 2008 as compared to the same month of the previous year, retail prices were increased for 6,8%, regarding the fact that adjusting the prices of the electric current and price growth of oil derivatives due to the jump of the crude oil prices at the world market are the two key factors which contributed to that growth.

In addition, in 2008 the pursued dinar rate policy was considerably more flexible than in the past years which, in the conditions of growing monetary restriction, had influence on the market stability and relativizing of the inflation expectations.

Table 2: Annual inflation for the 2000-2008 period

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Annual inflation rate	111.9	40.7	14.8	7.8	13.7	17.7	6.6	10.1	9.5

Source: Eurostat, UNECE Statistical Division Database

In the 2000-2008 period, the inflation rate showed a downward tendency. During the last three years, the inflation had been reduced primarily due to the considerably more flexible dinar rate, but it still has not reached the satisfactory level.

Positive results in lowering the inflation rate were achieved by taking adequate measures, so that the relative price stability was achieved in conditions of the implemented liberalization of the market, fiscal system reforms and by eliminating the most significant price disparities.

Comparisons at the international level during the 2000-2008 period show that inflation in Serbia (measured by average annual retail price growth) is notably above the level of inflation in the EU countries.

3. Conditions in the Sphere of Employment

In the period 2001-2007, total number of employees had been gradually reduced at the average annual rate of 0.5%, whereas in 2008 total employment was approximately at the same level as in 2007, and it was about 2.002.344. Employment in the enterprises, institutions and organizations was continually falling at the average annual rate of 3.2%, whereas it grew in the private sector at the average annual rate of 10,2%. In the first three years, total employment was reduced from 2.101.668 in 2001, to 2.041.395 in 2003, and in 2004 a slight growth/rise of 0.5% was observed, as well as that of 0.9% in 2005, whereas in 2006 it was reduced for 1.9%, and the reduction was observed as well in both 2007 and 2008.

According to the results of the Survey on the labour force, the total number of the employed was increased for 0.9% in 2008 as compared to 2007 (that is, from 2.630.691 people in 2007 to 2.655.736 in 2008). The employment rate was increased from 49.8% in 2007 to 51.5% in 2008, and is lower than in Hungary (57.3%), Romania (57.9%), Croatia (58.8%), and Bulgaria (61.7%). Having the employment rate of the working-age population from 15-64 years in 2008, with -50% in comparison to the EU, as well as to neighboring countries, Serbia is at the low level (only Turkey has the lower employment rate -45%).¹

Surplus labour force in the sense of underemployment has been present here for a long time. The problem of its solving had particular importance during the last few years, that is, in the years of the transitional process. The restructuring process, transition to economic market conditions, irrational and economically justified employing in the former period, caused the surplus labour force to reach a/the high level, especially in certain economic sectors. Employment policy and (the) labour market operation rely on/are based on the fundamental/basic/elementary guidelines/directives of the National employment strategy which estimates the increase of the employment rate. The increase of the employment rate will primarily rely on/will be based primarily on the faster/more rapid development of small and medium firms/enterprises/companies and business management.

Table 3: Employment rate 2006-2008 (men and women, in %)

	Women			Men		
	2006	2007	2008	2006	2007	2008
Employment in %	44	40,8	40,6	63,1	61,2	59,2

Source: Eurostat (data abstracted from the Survey on the labour force in Serbia)

Table 3 shows the percentage of the employed women and men in Serbia and according to the data, their share in overall employment declined in the last three years. During the 2001-

¹ The major part of the data is taken from the Statistical Yearbook. Statistical Office of the Republic of Serbia, Belgrade, 2007, p.45.

2008 period, the number of the employed in our country was reduced to the average annual rate of even 0,5%. Numerous measures of precaution have been taken to prevent or mitigate the constant employment decline.

The restructuring process increased the employment surplus in certain economic sectors. The increase of the employment rate, being an important precondition which should be aspired to, will be based on faster development of small and medium-size enterprises and business management.

4. Trends in the Sphere of Unemployment

In the period of 2001-2007, unemployment was increased for 39,3%, which represents the annual growth of 5,7%. In 2008, after seven years of growth of unemployment, the situation reached a turning point on the labour market and the total number of the unemployed was 718.256, which is 66.805 less than in 2007. The total number of people seeking employment in the first three years of the transition had been increased for 178.701 (from 768.595 in 2001 to 947.296 in 2003), whereas in 2004 it was noted a slight decline of unemployment to 945.027, only to rise again in 2005 and to reach the number of 1.005.427 in 2006, 913.239 of which are actively unemployed. The number of actively unemployed people in 2008 was 717.000.

According to the Survey on labour force, the total number of the unemployed people was reduced for 15,5% in 2008 in comparison to the year 2007. The rate of the surveying unemployment was reduced for the first time in 2007 and again in 2008 as compared to the previous years. However, the unemployment rate of -19% is still the highest in comparison to Romania (6,4%), Bulgaria (6,9%), Croatia (9,1%), as well as to the EU countries.

The trends show similar behaviour when the unemployment rate of men and women is concerned. The share of unemployed men in the employable population in Serbia in 2008 was 17,9%, which is considerably above the average for the EU (7,1%). The unemployment rate of women is high and it reaches 24,7%.

Table 4: Unemployment rate 2006-2008 (women and men, in %)

	Women			Men		
	2006	2007	2008	2006	2007	2008
% of unemployment	22,9	26,2	24,7	15,1	16,8	17,9

Source: Eurostat (data abstracted from/as per the Survey/Poll on the labour force in Serbia)

Table 4 reveals the share of the unemployed women and men in Serbia, and according to the data, the percentage of the unemployed men in the employable population was rising in the last three years, whereas the percentage of the unemployed women shows the upward tendency as well, when, in point of fact, there was a slight decline of 1,5% in 2008.

5. Public finance

Since the initiation of the transitional changes at the beginning of 2000, a comprehensive reform of the public finance had been carried out: a new legal framework was set up, new

institutions were erected, and the existing ones were modernized, financial discipline was improved, the level of openness to the public in the functioning of the public sector was increased.

In the period from 2006 to 2008, fiscal deficit was eliminated as compared to the previous period of the inefficient public finance.

Table 5: The share of the consolidated public revenues, expenditures, and of surplus and deficit (in billions of dinars)

	2006	2007	2008
Public revenues	721,7	857,3	988,6
Public expenditures	706,8	818,4	977,7
Consolidated surplus - deficit	14,9	38,9	10,9

Source: The Ministry of Finance, Belgrade, various years

Table 5 shows the share of the consolidated public revenues, expenditures, and surplus and deficit for the period 2006-2008. The consolidated public revenues in 2007 amounted to 857,3 billion dinars, and the consolidated public expenditures reached the sum of 818,4 billion dinars. The 2007 fiscal year ended with the consolidated surplus of 38,9 billion dinars, that is, 1,8% of GDP. In 2008 the real growth of the public expenditures increases faster (11,9%) than that of the public revenues (8%), and the consolidated surplus was reduced to 10,9 billion dinars, that is, GDP was 0,4%.

Basic measures to reduce public expenditures in the medium-term period (until 2010) are: 1) rationalization of the government administration and public services, and enhancing the efficiency (reducing the expenditures for the employed people and purchase of goods and services), and 2) reducing of subventions given from the budget to public and socially-owned enterprises.

6. The Balance of Payments

Since 2001 the Serbian economy registers chronic deficit of the current part of the balance of payment. The deficit on the current account of the balance of payment in eight transitional years increased seven times from 2,7% of GDP in 2001 to 18,8% of GDP in 2008, and it represents a primary macroeconomic risk factor in the following period. The greatest part of the balance of payment deficit referred to the deficit of the visible trade balance, whilst the surpluses of the balance of services and net transfers (government and private ones) only partially covered the visible trade deficit. The visible trade deficit was the consequence of the absence of the merchandise-turnover control and the corresponding tax system which were in effect by the end of 2004. The uncontrolled import of a „small“ import-dependent country, such as Serbia, with undiversified import structure inevitably led to an extreme commodity imbalance. As soon as in 2002, this situation resulted in the increase of the current balance deficit to 7,9% of GDP from 2,7% of GDP in 2001, with the upward tendency of that share and during next years, and in 2008 the current balance amounted to even 18,8% of GDP. Trading of services grows much slower than trading of goods, but the main branches of service industry (transport and tourism) showed a significant growth of trade.

Table 7: Balance of the current transactions, 2000-2008, (% of GDP)*

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Current balance	-1,8	-2,7	-7,9	-7,2	-11,6	-8,4	-11,5	-16,1	-18,8
Visible trade balance	-18,4	-21,7	-20,4	-21,2	-27,1	-20,1	-19,6	-21,1	-
Balance of services	1,6	2,3	0,8	1,0	0,8	0,0	-0,2	-0,1	-

Source: The National Bank of Serbia, Belgrade, various years

Main reason of permanently high current account deficit of the balance of payment is the continual negative growth of the external visible trade of Serbia with foreign countries, whereas the surpluses of the balance of only services and net transfers (government and private) only partially succeeded in covering the visible trade deficit. During seven years of transition, an average share of the goods and services deficit in GDP was about 24%. In 2004, due to the introduction of VAT, the highest foreign trade deficit was registered. At the very beginning of the transition process, the external equilibrium was being upset by both high liberalization of the market and significantly overestimated national currency during 2001. More accelerated growth of import (particularly at the end of 2006) was primarily caused by the growth of earnings (correlation of the growth of earnings and the import of consumer goods is extremely high).

The export of the Serbian economy is still low because, after seven years of transition, it reached 22% of GDP, whereas in 2008 the import amounted to 46% of GDP, which is an indicator of the relatively closed-door economic policy in comparison to other countries of similar size (overall trade of the Serbian economy barely reaches 65% of GDP). Significant increase of export in 2007 and 2008, of about 9 billion US dollars, was realized mostly owing to the privatization, investments and revitalizing production of the privatized enterprises.

7. Total Foreign and Public Debt Tendencies

The indebtedness analysis of the Republic of Serbia in the period from/since 2001 so far has revealed that in the sphere of indebtedness foreign countries have shown negative tendencies which in the first place reflect an/the enormous increase of the absolute foreign debt amount, and the increase of the degree of indebtedness of the country. This means that in the following period the country could face a serious debt crisis, which together with the effects of the world financial crisis might have extremely negative effects/consequences on the economy in Serbia.

According to the criterion of the quantitative ratio of the foreign debt to the gross domestic product, Serbia fall in the category of the medium indebted countries, for the percentage of indebtedness is between 60 and 70% (in 2002 about 70%, in 2004 and 2005 about 60%, in 2007 and 2008 about 65%, which represents a significant improvement in comparison to the degree

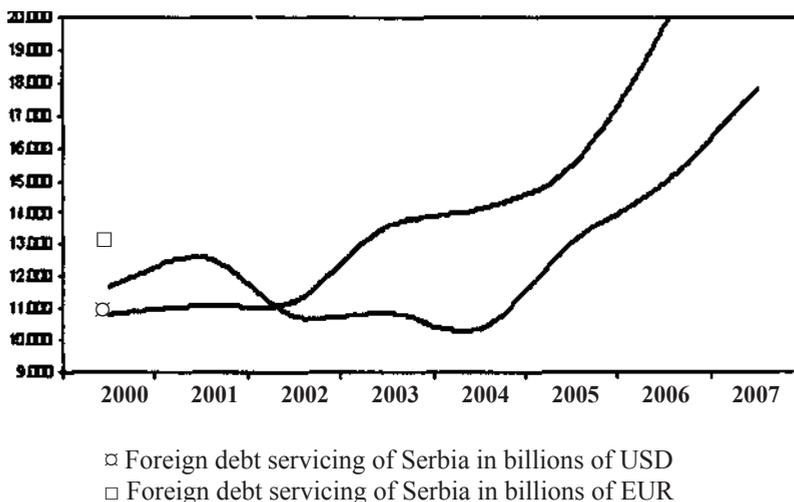
* Note: The data on the tendencies of the visible trade balance and balance of services for 2008 were inaccessible.

of indebtedness of 170% from/in 2000). As per this criterion, reducing the degree of indebtedness of the country, when Serbia is concerned, is not a result of the lower level of indebtedness abroad, but is a consequence of the gross domestic product growth.

The Scope and dynamics of the foreign capital inflow into Serbia since 2000 can be observed through the cumulative surplus of the financial transactions and the net foreign debt increase. The foreign debt of Serbia in 2006, expressed in US dollars, was 81% higher in 2000, and when expressed in Euros it was 28% higher. The external debt in 2008 increased for 142% as compared to 2000, and, expressed in Euros, it was for 53%. The inflow of the accumulation from the foreign sources is absorbed by the balance of payment deficit. High cumulative surplus of finance transactions in Serbia for the period 2000-2008 is the result of the increased use of the medium-term and long-term foreign credits and the net foreign direct investment inflow. Capital import enables Serbia to temporarily finance current balance deficit, and owing to this, the country is not obliged to increase export at any price, yet, soon the time will come when the foreign exchange inflow for debt clearance must be provided.

The foreign debt of Serbia was increased from 10.830 billion US dollars in 2000 to 26.236 billion US dollars in 2007. The sum total of foreign debt in Serbia for 2008 is 29 billion US dollars, or over 25 billion Euros.

Chart A: Foreign debt trends in Serbia in the period 2000-2007



Source: The National Bank of Serbia, Belgrade, various years

Chart A shows the foreign debt trend of the Republic of Serbia in the observed period from 2000 to 2007, based on the data of the National Bank of Serbia (www.nbs.rs).

The Serbian foreign debt structure also reveals extremely negative tendencies. In the period from 2000 to 2008, debt of the public sector fluctuates around the sum of 9 billion US dollars. The debt of the private sector, however, was almost negligible in 2000, only to rise in 2007 to 17.195 billion US dollars.

At the end of 2008 foreign debt of Serbia exceeded 29 billion US dollars, which placed our country (according to the World Bank standards of foreign indebtedness) in the group of

medium indebted countries. The analysis of indebtedness structure leads to the conclusion that national debt increases at slow rate, whilst private debt is gathering the momentum.

Conclusion

The countries in the process of transition, as well as Serbia, are tasked to change their economic structure in order to become such economies within which private property dominates, and in which there is only necessary market intervention. However, this task is not at all easy, and it takes years to be accomplished. Our country must accept the model of market economy adjusted to its specific qualities, and not only to follow the models of other market economies in the world.

It becomes clear that the key to the problem of overcoming the existing situation in the economies of the postsocialist countries, including our economy as well, lies in the gradual comprehensive economic reforms which will create favourable macroeconomic ambience for constructing institutions of market economy, business management development and foreign capital inflow.

In the period from 2001 to 2008, Serbia experienced the introduction of numerous reforms. Starting with the basic indicators of the economic trends, a significant growth of the gross domestic product was effected in Serbia in this period, at the average rate of 6.2% per annum, total number of the employed was gradually reduced at the average rate of 0.5% per annum, and the labour productivity raised (average annual growth rate was 6.6%).

According to the rating agencies for 2008, the positions in Serbia have been improved: high growth of GDP, the macroeconomic prospects are favourable, there is a flexible financial policy, public debt has been reduced, structural reforms are actively implemented, legislative activities have been improved, the continuation of negotiations with the EU is expected, political risk is reduced, so that the requirements of reaching higher level of the credit potential are gradually fulfilled during 2009.

In comparison to the countries of the region, Serbia has effected the greatest improvement of business conditions in the last 3-4 years. It is past all doubt that creating the institutions of the system, stabilizing macroeconomic policy and reformist transitional policy are not only the way toward the increase in efficiency, but also a right way to the European integration of Serbia.

Eventually, from the viewpoint of the acceleration and successful development of the transitional process, it may be concluded that all the solutions are practically known. What are necessary are a good combination and the skill of application.

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PRIVATIZATION AS THE BASIS OF REFORM PROCESS IN SERBIA

Abstract

The basic goal of every legal entity in market oriented economy is creation and increase of the profit, while for the non privatized companies are characterized by bureaucratic management that encompasses great irrationality. Market economy, focused on entrepreneurial initiative presumes private property, and the role of the owner over the company is multi task oriented. Above all, the owner decides on the engagement of his own resources, directly manages the company or selects managerial or surveillance bodies, divides profit and covers losses, employs employees, and is responsible for company's operations.

In market economies state intervention into economic life is minimal, unlike the countries where the market was almost suspended from economy, which resulted in enormous waste of social resources. The practice has shown that in economies with dominant private ownership, the rule of law is also dominant, while the countries with preferences over collective ownership where the source of legal instability and totalitarian regimes.

Countries in transition, among them is Serbia, have confronted with necessity of establishing market economy that demanded change of the ownership, that is transfer of social and community ownership into private.

Bringing in adequate laws and creation of the necessary institutions are one of the key elements for successful privatization process.

In front of our country there is established goal – involvement into international economic flows and cooperation with the market economy countries. The prerequisite of such goal is that the privatization process must come to an end in the nearest future, as well as the growth of private ownership and denationalization should be conducted. This means to take over the private ownership through nationalization and returning it to its former owners.

After several years of reforms, Serbia is even now almost at the beginning of the transition process into democratic society and market economy. With the bringing privatization legislative and creation of institutional framework for conducting this process the conditions for fulfilling the basic goals of our country – creation of democratic society, based on the market economy principals and joining European Union.

With the adoption of new Constitution of the Republic of Serbia in November 2006, private, public and cooperative ownership are proclaimed as constitutionally guaranteed forms of ownership. The law on denationalization is not yet adopted, and the effects of privatization are diminished due to the lack of consistent reforms. Although privatization process lasts for over decade, it is still acute economic problem and lacmus that clearly shows the strength of government in changing the social status and cultural template and way of thinking.

The experience shows that the privatization is prerequisite of faster economic development. Highly developed world countries, besides, have provided for the reached level of development through timely privatization. Privatization is not the act that occurs only once, but extremely complex social process, it is essential to achieve consensus on this question from all the important social strengths.

ПРИВАТИЗАЦИЈА КАО ОСНОВА РЕФОРМСКОГ ПРОЦЕСА У СРБИЈИ

Апстракт

Након више година реформи, Србија се и данас налази скоро на почетку транзиције у демократско друштво и приватну економију. Доношењем прописа о приватизацији и стварањем институционалног оквира за спровођење овог процеса, створени су услови за остваривање основних циљева наше земље - стварање демократског друштва, заснованог на принципима приватне економије и прикључивање Европској Унији. Приватизацијом се мења власник друштвеног, односно државног капитала, нај капитал губи својства административно-колективне својине, иако да је приватизација саставни део економске транзиције под којом се подразумева процес превођења планске привреде у приватну економију, што је актуелни процес у многим земљама. Класична приватног монопола, као и због тога што држава добија једнократно најмању могућу цену продајом већинског дела у предузећу. Комбиновани модел који подразумева приватизацију, са или без задржавања удела и контроле државе, као и иницијалну јавну понуду, која би увела грађане и фондове у практичне фирме, допринео би развоју приватног капитала акцијама предузећа. Приватизација је и извор прихода за државу и један од начина да се надокнади буџетски дефицит. Уколико прихода од приватизације не би било, не би могли нормално да функционишу ни државна управа, ни јавне службе. Брзе продаје великих предузећа ради остваривања крајкорочних циљева су јако типичне за државу. Превасходни циљ приватизације треба да буде унапређење привреде на добробити и задовољство грађана, а не сама продаја капитала стваришном приватизацији. Приватизација треба да допринесе бољем и ефикаснијем пословању и бољем управљању, да омогући свима у друштву да учествују у користима од приватизације. И деоничарство запослених и безбедна приватизација су управо модели који устварљају јасан власнички режим са елементима правичности и експедитивности. Приватизација омогућава стварање услова за инострану улагања у нашу привреду, при чему законом треба обезбедити потпуну равноправност и сигурност свих потенцијалних инвеститора, домаћих и страних. Тек након окончања процеса приватизације и унапређења финансијског приватизација, Србија би могла очекивати прилив иностраног капитала који би махом долазио посредством различитих институција финансијског приватизација. Приватизација јесте објективна потреба и основна полуга транзиције.

Кључне речи: појам приватизације, модели, циљеви, начела, рокови и досеђујући ниво приватизације у Србији.

1. The concept of privatization

Starting from the words of famous solicitor Valtazar Bogisic that: “Every thing looks for its master”, we can assume that market economy demands economic subjects that have ownership. The role of the owner over company is significant from many reasons.¹

The owner decides on the engagement of his or her own resources when establishing certain type of the company for performing economic activity, the owner even when does not directly manages his or her own company elects and replaces management bodies, selects supervisory agencies to control administrative and management bodies, participates in the business results of the company (divides profit and covers losses), handles his property (selling or renting the company, selling of the shares and stocks) through the subjectivity of the company, establishes labor relations with employees and defines their status in the company. Building the ownership type of the company, have its impacts on economical, social and political plan, demands giving the responses on series of opened questions. Above all, what is privatization?

Privatization is the term that is widely used in the world and directs to the process that the state or socially owned company through various agreements is transferred into private.² Privatization is the procedure of selling the social that is public capital in community owned companies, public companies and other legal entities, under the conditions defined by the law.³ Privatization changes the owner of the social that is public capital, that capital loss the adjectives of administrative-collective ownership, so that the privatization is constituent part of economical transition that means the process of translating of planned economy into market economy, which is actually happening in many countries. The enthusiasm for public companies diminished in the whole world in the last two decades, and the process of privatization of public and socially owned companies is the most present in transitional countries. Private ownership is not the only reason for good economic results of the companies, but the reasons are also good economic policy and the quality of legal and administrative institutions, especially of those that protect ownership rights and their market, capital market and the competition at all the markets. That is why privatization is usually one of the elements of the wider program of structural adaptation, which also covers institutional reforms, prices and international trade liberalization, financial system reform as well as of the public incomes and expenditures, antimonopoly laws etc.

2. The goals of the privatization

The goals of the privatization can be numerous, and are usually divided into economical and political. We should have in mind the fact that privatization is not universal remedy, so it should not have too many goals, because in that case conflicts between them are inevitable. The basic and the most important goal of the privatization is creation of the efficient economy, based on the domination of private property, instead of community property which is non rational. Experience of the former SFRY that lasted for several decades and the successor of FRY clearly tells that on social and public property and their unhealthy relations it is not possible to accomplish economic prosperity, and the crisis and stagnation are inevitable

¹ Mirko Vasiljevic, “Some opened questions of property transformation”, Legal life, no. 1-2/92.

² Jelena Vilus, “The contracts on privatization of the companies”, Legal life, no. 9-10/1993.

³ article 3 of the Law on privatization

consequences of such relations. This goal is based on the expectations that private owners and managers appointed by them increase the chances for the company to survive competition through introduction of the new technologies and products, new financial sources, better organization and working discipline, generally, better management over the company.

The second goal of the economy is improvement of the financial status of the state. Through selling of the socially owned and public capital, the state can reach significant resources that can be used for financing general and useful activities or service its debts. The poor country can not give away, but has to sell. On the financial position of the state positive impact have stopping the subvention that the state used to give until the beginning of the privatization to the socially owned or public companies and the increase the income from taxes from the bigger and more efficient production.

The third goal is elimination of social and public sector to the benefit of autochthonous private sector. The state has permanently and almost inevitably saved big and inefficient social and public companies with various subsidies (tax relieves, favorable credit terms, favors in import...), which meant transferring modest resources from more productive towards less productive or non productive companies. As one political goal we can mention expansion of private property as the basis of liberal and democratic order, denationalization, strengthening of the middle class, lack of involvement of the policy in the economy and society etc. The program of privatization must have relevant political support in order to succeed. From this reason the political circumstances are very important for the success of privatization.

The goals of privatization are also opening new jobs, growth of the economy, regular pensions, realization of the social program, growth in the standards of living, inducement of local development, financing of the program for economic growth and growth of environment.

3. The principles of privatization

In the privatization process we should comply with the principles of: economy, publicity, fairness and selling on the market price.

With the economic principle there is the question weather faster or more slowly privatization is better. Strategy of fast privatization means radical reforms in transformation of social and public property into private, where is the biggest profit for managerial level. But, if we take into consideration that the privatization is the process, and not act, we consider this process should be well thought off, controlled, institutionalized and in practice efficient, and for that certain time period is needed. Of course, we also think that the privatizations should not be continued infinitely.

One of the basic principles that should be kept in mind in privatization of the public companies is transparency. The privatization process should be under public eyes because it is subjected to corruption. The citizens should know modalities of the privatization, ways of doing business in the companies, reasons and effects of the company selling. That is the only way to avoid corruption, illegal and non economical disposal of social and public property.

There is no fair privatization, because it always enables bigger benefits for some social groups to the expense of other social groups. From this reason the criteria of fairness can be obeyed only to the extent to which does not prevent privatization and does not diminish the effects of accomplished privatization. The poor country must be persistent to sell the companies with dominant public and social capital on their market price, so that they are not sold under their price or for nothing, and the benefit from privatization in such cases goes only to the

corrupted levels. Transfer of property rights during privatization of public and social companies creates so called redistributive effects, regarding the selling prices of the stocks, and also regarding the structure of the prices of privatized companies. Bad estimation, underrated or overrated value of the company due to the lack of capital market, as well as discounts in buying the stocks, are redistribution.⁴

Until now performed privatization the most probably led to sale of net social property. If it is really the case, than this process not fair regarding the future generation.

4. Models of privatization in Serbia

Privatization models defined by the Law on privatization are: selling the capital (method of public tendering and public auction procedures) and transfer of the capital without reimbursements for the employees and other citizens. The basic techniques of the privatization are tendering and auction, while the privatization of the insolvent companies in crisis is conducted after the previous restructuring procedure that means previous organizational, financial and statutory restructuring. Tendering and auctioning selling of the capital are based on the principles of publicity, competition, equality and eligibility. Competition of the participants makes sense and the capital can be sold under the most favorable conditions only if these principles are accomplished. On the contrary, with their breaking and limitations the bidding makes no sense. The principle of publicity is satisfied if the ad is published properly, and therefore the public is informed about the subject and the conditions of the selling and if the interested parties are able to be present at selling timely and on the location defined by the ad. Unlike the principle of the publicity that affects the inducement of the demand, the principle of competition enables that the demand is expressed on the most favorable way for the organizer of the selling. For such thing, it is necessary that several persons participate in the procedure, where the competition must be conducted under good business customs. If these conditions are not satisfied, the principle of competition is not accomplished, so we can not speak about competition.

The principle of eligibility contributes in providing seriousness and regularity in competition, contracting with the person that has the necessary capacity to be the buyer in the concrete case, which is provided through the obligation for the interested buyer to pay the deposit and buy out the documentation, and the regularity by that the law lists who does not have the capacity of so called honor and who can not be buyer.

5. Privatization deadlines

The final deadline for privatization of non privatized social capital is prolonged, so that the public call for participation on public bidding, that is public auction, must be published until the December 31, 2008, on the contrary, the legislative defines the sanction which is the act on initiation of receivership liquidation of the privatization subject. Liquidation would be initiated if the social capital, that is the property of the privatization subject is not sold after III conducted public tendering, that is public auction, or if the privatization subject did not submit yearly financial report to the agency responsible for the conducting the register of economic

⁴ Aleksandra Jovanovic, "Transaction costs of privatization", Legal life, no. 9/10/1994.

subjects two years in the row. Liquidation procedure is conducted by the agency, and the funds that remain after the privatization procedure is conducted are the income of the budget of the Republic of Serbia, except from the means in private property. On the liquidation of the privatization subject we can apply respectively the articles of the Law on legal entities in the parts that define the liquidation of legal entities.⁵

Previously initiated privatization procedure until the Law on changing and adaptations of the law on privatization is enacted will continue to last according to the Law on changing and adaptation of the law on privatization from 2007.

6. Reached level of privatization in Serbia

The last day in December 2008, was the end date when it should at least generally be known the destiny of the remaining 802 socially owned companies. Deadline for privatization is moved to December 31, 2012. Currently, the chances for recovering are present in the biggest companies for whom the state would try to find strategic partners, like it is the case with Zastava from Kragujevac. Although the end date for privatization was delayed for several times, for selling until the end of this year remained the companies that have big debts or their management was not inclined to sell them. People from the Agency say that these companies will be prepared for bankruptcy.

Having in mind current dynamics of privatization where each sixth offered company is sold, new owner in relatively short time line would hardly be finding for all the remaining companies. Yet, for all the big systems, the state will try to find some solution in the concrete case with the goal to avoid bankruptcy. But it is not the solution for those companies to remain on state subsidies, so another solution must be found for them, through strategic partner or selling on some other way (maybe through selling the property of these companies). It would mean that the privatization will not be ended this year, and most likely the next one, that is we can not for sure predict the end of the privatization. In such milieu, within overall reforms in Serbia privatization process is conducted through the existing legislative that should be changed.

Regarding the funds that the state has received from privatization, they have mostly been spent on paying off debts to domestic and foreign investors.

The funds gathered in privatization procedure are used for financing: Fund for pension and insurance for the cases of emergencies in the Republic, incentives for the development, paying the compensation for the persons whose property was nationalized, paying off debts of or for whose guarantee the Republic of Serbia, special program for economic development or environmental protection that is defined by the local government body and other purposes.

In the Ministry of finance report, it is mentioned that for paying off the premature debt to the International bank for reconstruction and development (IBRD) is spent 310 million EUR, for the needs of the Ministry for capital investments is dedicated 23 million EUR, for the severance pays for the employees in "Robna kuca Belgrade" are taken 30 million EUR, while 20 million of EUR are given to the military reservists.

During the last years, the state did not define clear conception of privatization, because it did not defined in long terms the way of using obtained money. Dynamics of the incomes from privatization during the previous years was proved to be unpredictable, which was reflected in

⁵ Law on economic entities, "Official paper of the Republic of Serbia", no. 125/2004.

paying off the principal of the public loan. During 2006, Serbia earned from privatization more than it was the amount of the installments for paying off the public debt. Inflow of money was provided from the privatization of MOBI 63, but the money was spent because it was expected that during 2007. and 2008. the income from privatization would be bigger, which did not happen.

Between 2002. and 2008, 3119 companies in total were offered for selling, out of them the number of sold companies was 2276. With the tendering procedure of privatization in this period from 195 offered companies 91 were sold, which means that the percentage of the success in privatization was 47%. With the tendering procedure were privatized companies that by their strategic importance, size and potential possibilities are the great investments. Until now new owner was found in such manner for over 110 companies, and the incomes from them are over one billion EUR, as well as the investments of the new owners in such companies. Due to the fact that contracts were not fulfilled by the investors' 12 contracts were broken. In the portfolio of the Center for tendering are currently 80 companies, out of them for 28 of them privatization procedure was initiated. Some of them are very attractive for domestic and international companies, like for examples "River shipping industry in Yugoslavia". This company, specialized for the transportation of goods on rivers is the fourth biggest company in this branch in the region of so called downstream Danube. The selling of ski center on Kopaonik is ongoing, the center is located on the elite destination of winter tourism in the region.

Number of companies offered for selling via auction between 2002. and 2008. was 2162 companies. The number of sold companies was 1583 companies. With the auction privatization until now were privatized 2000 smaller companies, and it was created the income of around 1,3 billion EUR. Almost total inflow of capital from tendering comes from foreign investors, while it is totally opposite in case of auctions, where the dominant inflow of capital comes from domestic investors.

In order to simplify the selling of the remaining of Serbian companies, Ministry of economy has suggested that the state gives the possibility for the buyers to pay in installments. The total debt should be paid in 5 years period, when the buyer would become the rightful owner of the company. Regarding this suggestion the government would decide soon. Experience from privatization shows that in this process the companies that produce strategic goods, like cement, or have the market, like in cases of cigarettes or food, found their strategic owner.

7. Privatization models in Serbia

Privatization models in Serbia defined by the Law on privatization are selling the capital through the method of public tendering and public auction method, as well as the transfer of the capital without reimbursement: to the employees and other citizens. the basic privatization techniques are tendering and auction, while the privatization of non solvent companies in crisis is conducted after the previous procedure of restructuring that means previous organizational, financial and statutory restructuring. Tendering and auction selling of the capital are based on the principles of publicity, competition, equality and eligibility. Bidding of the participants is meaningful and the capital can be sold under the most favorable conditions only if these principles are fulfilled. On the contrary, with their breaking and limitations, bidding loses its meaning. The principle of publicity is satisfied if the ad is published in the proper

manner, where the public is informed on the subject and conditions of selling and if the interested parties are enabled to be present at selling timely and on the spot defined by the ad. Unlike the principle of publicity that impacts the inducement of the demand, the principle of competition enables for the demand is expressed on the most favorable manner for the organizer of the selling. For such thing, it is necessary that several persons participate in the procedure, where the competition should be conducted according to the good business customs. If these conditions were not satisfied, the principle of competition is not fulfilled, so we can not talk about competition. The principle of eligibility contributes that it is provided seriousness and regularity of the competition, contracting with the person that has necessary capacity to be present as the buyer in this case, which is provided through the obligation that interested buyers pay the deposit and buy out the documentation, and the regularity with that that legislative lists who does not have so called capacity of the honor, that is who can not be the buyer.

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INFLATION TARGETING - THE FINAL GOAL OF THE NEW FRAMEWORK OF MONETARY POLICY IN SERBIA

Abstract

In September 2006 National Bank of Serbia adopted new framework of monetary policy, i.e. Inflation targeting strategy. Accepting the experiences of the countries which have been implementing this strategy and the most successful practice, but also references of IMF, NBS in coordination with the Government of Serbia, due to preserving price stability, defined basic framework of inflation corridor, using the referent interest rates, as the key instrument for sustainable and transparent model of inflation targeting. Beside this key instrument, NBS defined using the other measures and instruments of monetary policy, as additional instruments with the main goal of suppressing inflation trends and unpredictable circumstances which could influence inflation. The goal of implementing this strategy refers to establishing the base inflation i.e. growth of retail prices which are under control of NBS instruments. Within a framework of this paperwork, and on the bases of implemented strategy, Inflation targeting of NBS and defined framework of monetary policy which are included in annual NBS Memorandums, the efficiency of realization of goals of monetary policy has been analyzed. NBS has accomplished successfully these goals, despite high inflatory pressure which has been passed on in the first quarter of 2008.

Key words: inflation targeting, monetary policy, base inflation, price growth, transparency

ТАРГЕТИРАЊЕ ИНФЛАЦИЈЕ - КОНАЧАН ЦИЉ НОВОГ ОКВИРА МОНЕТАРНЕ ПОЛИТИКЕ У СРБИЈИ

Апстракт

Септембра 2006 год. Народна банка Србије је усвојила нови оквир монетарне политике, односно, стратегију таргетирања инфлације. НБС је у координацији са Владом Србије а ради очувања ценовне стабилности, дефинисала оквире инфлаторног коридора, уз коришћење референтне каматне стоје, као кључног инструмента за одржив и транспарентан модел таргетирања инфлације. Поред овог, кључног инструмента, НБС, је дефинисала и коришћење осталих мера и инструмента монетарне политике, као помоћне инструменте, са циљем сузбијања инфлаторних трендова и непредвидивих околности које утичу или могу утицати на инфлацију. Циљ примене ове стратегије односи се на ујврђивање базе инфлације иј. раст цена на мало које су под контролом инструмента НБС. У оквиру овог рада, а на основу усвојене стратегије таргетирања

инфлације од стране НБС и дефинисаног оквира монетарне политике садржаних у Меморандумима НБС по годинама, анализирана је успешност реализације постављених циљева монетарне политике. Овај циљ НБС је у 2007 год. успешно реализовала упркос високим инфлаторним притисцима, који су се пренели у 2008 год. и поред других екстерних и интерних фактора, уиштели да НБС не оствари циљ у 2008 год. Да би се обезбедила ценовна стабилност као оквир за постизање стабилности цена у средњорочном периоду, НБС је објавила формални прелазак на режим таргетирања инфлације у 2009. години. Принципе овог режима монетарне политике Народна банка Србије је постепено уводила у праксу на основу Меморандума о новом оквиру монетарне политике, усвојеног у августу 2006.

Кључне речи: Таргетирање инфлације, базна инфлација, референтна кампајна стопа расне цена, транспарентност

Introduction

The first positive experiences of implementation of inflation targeting strategy are in New Zealand¹ whose application started in 1989. Since then, this regime of inflation targeting was spread in about fourty countries in the world. During the last few years MMF and ECB² recommend this regime within their arrangements.

Table 1. Countries with formal inflation targeting

The name of the state	Year of application	
New Zealand	1990	0-2% (from 1996) 0-3%
Israel	1991	8-11 (from 1998) 7-10%
Canada	1991	1-3%
England and Scotland	1992	1-4% (from 1997) 0-2.5%
Australia	1993	2-3%
Sweden	1993	1-3%
Czech Republic	1997	5.5-6.5% in 1998, 4-5% in 1999, 3.5-4.5% in 2000
Switzerland	1999	0-2%

Source: Central banks web-site

Inflation targeting implies, according to F. Mishkin, (2006) five phases:

1. Public announcement of medium-term and numerical goals regarding inflation.
2. Institutional commitment to price stability as the basic, long-term goal of monetary policy, as well as commitment towards achieving target inflation.

¹ From being the the most dependent bank in developed countries, Central Bank of New Zealand became the most independent one, having one goal – price stability, thanks to the passing of law on CB. The Governor and minister of finance are obliged to determine the agreement on financial goals of monetary policy through negotiations and to present it to the public, and to make numerically specific targeted ranges, i.e. frameworks for inflation movements and time period in which the goals of monetary policy are going to be achieved.

² Although European Central Bank didn't officially recognize this concept, monetary policy monitored by European Bank is very similar to inflation targeting. Even after debates in the USA on application of targeting, FED haven't approved it yet.

3. Strategy which involves numerous information and in which many variables are used, and not only monetary aggregates, when making decisions about monetary policy.
4. Increased transparency of monetary policy strategy through communication with the public and markets in terms of plans and goals of monetary policy creators.
5. Bigger responsibility of Central Bank in achieving goals regarding inflation.

Thus, we can emphasize that inflation targeting includes numerical framework of monetary policy activity, which is specific because of the public announcement of official numerical targets, i.e. the range of targets, such as inflation rate, time periods of forecasting and explicit perception that low, stabilized inflation is a fundamental, long-term goal of every monetary policy.

Irrefutable primacy of price stability contributed to the domination of monetary policy, and, furthermore, it implied the concepts of Central Bank's autonomy, as well as credibility and reputation of economic policy creators. The ascent of monetary policy was followed by fiscal policy withdrawal: it was not used for fine regulation any more, it was limited to budget balance at all costs, and the impact on the real side of economy lost its importance in relation to the irrefutable primacy of monetary sphere. It was New consensus in macroeconomics (NKM) in whose hub is inflation targeting. That targeting is expressed in Taylor's rule according to which nominal interests are the sum of real interests increased in inflation and reduced in real growth. The problem is, however, that with low growth and exclusive primacy of inflation targeting, the interests are remaining at high level that jeopardizes the investment and growth. (Jakšić, M. 2005).

Inflation targeting is characterized by the following processes (Arestis, P. Sawyer, 2002) :

1. monetary policy which publically announces the target of inflation, along with explicit emphasizing of price stability as a long-term goal of monetary policy, furthermore, it implies discipline, responsibility, transparency and flexibility,
2. the restriction of discretionary rights, because inflation targeting is a nominal anchor of monetary policy , which obliges autonomous Central Bank and imposes monetary liabilities for the Government,
3. monetary policy becomes the most important element of macroeconomic policy,
4. fiscal policy loses its importance and becomes passive, in terms of obligation of balanced budget,
5. in order to preserve price stability there cannot be any bargain between inflation and unemployment, the economy has to be at the level of natural employment rate for which the prices are stable or, at least, the inflation is not accelerated.

The antagonists that contest New consensus in macroeconomics, point out the limited scopes of monetary economics, which reflect in the following:

1. The appearance of wider monetary mass which is hard to control.
2. Slight impact of change of interests on the inflation impact (1% of the change of interests cause the impact from 0.2 to 0.3 per cent on the output, and the prices are even smaller);
3. The unemployment rate does not directly depend either on functioning of the market or on the wage rate, it depends on insufficient demand.
4. Restrictive monetary policy has unfavourable impact on the effect of investments and the scope of capital.

F. Arestis and M. Savier (2002) draw a conclusion that there are many canals of monetary policy impact, that effects are delayed, uncertain and negligible in terms of impact of intrests on inflation depreciation.

1. Reasons for application of new strategy in serbia

Serbia has led monetary policy without monetary strategy for a long time. The absence of competition and domination of the state in carrying out monetary policy during the past two decades, led to the decline of public trust in financial system and domestic currency. It had negative effects on functioning of the banking system, which was a bad, corrupted and unreliable partner due to inefficiency of state machinery. Therefore, there were frequent alternating intervals of money expansion, high inflation and hyperinflation, and reduced using of the dinar as means of payment and maintaining worth.

Lost trust and deteriorated credibilty of the financial system and domestic curency was the basic indicator that was slowing down economic and social development of Serbia. Therefore, effective resource allocation was absent, which affected, above all, the domestic savings, which was out of monetary currents and wasn't effectiely utilized in economy.

Despite positive trends in the banking system, relocation and the use of surplus liquid dinar means are limited to the existing public mistrust in domestic currency and monetary policy. The scepticism which still exists is the result of

1. not so far economic past,
2. the euro expansion,
3. expectations from the rate of exchange,
4. external shocks due to high influx of capital and shocks of prices of food products, as well as other products on the market.

The choice and guidance of the rate of exchange regime affected the creation of inflation. Serbia, having a liberal economics regime in the transition phase and large share of export, is not immune to the impact of the rate of exchange on the growth of domestic prices. The analyses of NBS for the period after 2001 indicate that the effect of transmission of the rate of exchange is not less than in other transitional countries, and that it is a lot more prominent and stronger than in developed countries. Plus the impact of the rate of exchange on inflation was greater and faster, which directly prompted the public to realize that the chage of exchange rate is a permanent appearance. The rate pf exchange during 2001and 2002 was used as a nominal anchor in deflation process. The goal of application of the rate of exchange was in stopping and reducing the accelaration of price growth after sudden growth at the end of the nineties. The goal was successfully achieved by tough policy of rate of exchange and inflation was reduced to 10% by the middle of 2003. However, from 2003 the rate of exchange gradually depreciated, which caused the reduced disnflation and contributed to the increase of inflation in 2004.

Due to inflation growth and strong influx of capital, in 2005 the concept of continual depreciation is discarded. The increasing influx of capital prompted the increase of liquidity on the market, which affected the rapid credit growth followed by the potential possibility of exposing the financial system to risk. In that period the gross influx of capital was above 20% of the gross national product, which is a very high figure according to international standards,

while credit growth was alarming with 57%. High credit growth affected the deterioration of the deficit of the current balance, which was alarming with 12% of the gross national product, in 2004, while inflation was 17% by the end of 2005. Finally, by the end of 2005, the policy of guided depreciation was discarded. Further, great influx of capital, along with greater fluctuation of the rate of exchange led to the depreciation of the rate of exchange, which directly contributed to the fall of inflation below 10% by the end of 2006.

Because of that, monetary authorities in Serbia are trying to reestablish trust in monetary institutions by increasing the monetary policy capacity aimed at achieving sustainable and low rate of inflation.

In that period the public sector policy also directly or indirectly, in its own way, gave its significant contribution to the fight against inflation, as well as the policy of rate of exchange. Fiscal stability and fiscal policy were important factors in maintaining the fiscal rate of exchange and revival of economy. Fiscal sufficit made the acceleration of inflation and deterioration of the current payment deficit impossible during 2004 and 2005.

The state had a significant control over inflation by regulating 45% of retail prices. During 2001-2002 regulated prices grew faster, which is justified by the policy of eliminating maladjustment of prices, as well as the intervention role of the state in achieving price stability.

In addition, the role and importance of IMF in giving support to the reform process in the public sector, cannot be neglected. Although support and aid of IMF was positively reflected in the improvement of investment climate in Serbia, in the deficit of current transactions and in the interior convertibility of the currency, as well as in capacity building in fiscal and monetary policy, yet, the IMF programmes contributed to the increase of macroeconomic imbalance over the following years. It was specially reflected in discrepancy between simultaneous targeting of the real rate of exchange, low inflation and low level of foreign reserves, as well as in establishing the balance between targeted exterior balance and targeted inflation. Therefore, using the policy of gradual depreciation, NBS was trying to stop the appreciation of the real rate of exchange, but of no avail. In the final instance, such a policy did not produce results, the current balance did not improve significantly, and inflation had two digits again.

2. Implementation of new monetary framework

Aiming at achieving sustainable, low and predictable inflation in September, 2006, NBS adopted the strategy of inflation targeting in leading the monetary policy. New monetary framework is very similar to the regime of targeted inflation, which should be understood as the first step towards the complete implementation of inflation targeting strategy. New monetary framework leans on the following principles:

1. The published targeted rates of inflation are only numerical guidances for monetary policy conducted by NBS.
2. NBS achieves the targeted rate of inflation by corrections of interest rate which are applied in two weeks long repo operations (2W), which is the referential interest rate and main instrument of monetary policy. The other instruments, including interventions on the exchange market, have assisting roles.
3. NBS carries out the regime of slightly administered fluctuating rate of exchange and maintains the right to intervene in the exchange market in case of huge exchange oscillations of rate of exchange, jeopardized financial and price stability and risk of maintaining the appropriate level of foreign reserves.

4. The Monetary Board makes decisions on changes of referential interest rate on the basis of analyses and forecasts of economic and monetary movements at the meetings whose schedules are set in advance.
5. The Monetary Board is regularly informing the public about the achieving the established goals and measures which it undertakes in order to achieve them in the future. (The basic elements of the new framework, NBS, 2006)

Base inflation is defined as inflation of retail prices which is subject to the influence of NBS instruments and it is concerned with changes of index of retail prices which are not caused by correlations of regulated prices and tariffs or changes of prices of agricultural products, as referred in the Appendix to the Memorandum of NBS on principles of the basic elements of the new framework, adopted on August, 30, 2006. (The basic elements of the new framework, NBS, 2006)

Taking into consideration the experiences of the countries which are already conducting this strategy and the best existing practice, in order to achieve price stability and in coordination with Serbian Government, NBS defined the frameworks of inflationary corridor, i.e. the base, targeted inflation on the basis of the growth of retail prices which are influenced by the instruments of NBS, with the use of referential interest rate as a basic instrument for sustainable and transparent model of inflation targeting. NBS affects the targeted rate of inflation through corrections of referential interest rate in two weeks' repo operations. The change of referential interest rate is determined on the basis of analyses and forecasts of macroeconomic inflationary movements.

Apart from this basic instrument, NBS also defined the use of other measures and instruments of monetary policy, as well as subsidiary instruments, aimed at suppressing inflationary trends and unacceptable circumstances which affect or can affect inflation, without neglecting other goals, unless they jeopardize the attainment of the targeted rate of inflation.

In addition, NBS opted for leading a proactive monetary policy, gradual withdrawal from the exchange business, the reduction of the presence on the exchange market and other measures of monetary policy, as well as the solid regime of the flexible rate of exchange.

The application of inflation targeting in Serbia, similar to other countries, demands the fulfilment of certain conditions. Inflationary measures, targeted variables and time horizons are indisputable as technical aspects of implementation of inflation targeting, despite being theoretically disputable. Therefore, there has to be the focus on providing and permanent promotion of assumptions and conditions for concrete realization of defined goals and targeting policy.

Transparency of inflation targeting is provided by informing the public by means of notifications given to the media, conferences and three months' report on inflation and other means of communication.

Achieving the goals of new monetary policy, strategies of inflation targeting and creating a transparent economic environment, which are going to have low and stable inflation, is going to take place through coordinated monetary policy of NBS and economic policy of the Government. With the conditions of high participation of regulated prices, NBS can control inflation on competition markets, while the Government is responsible for the part of the influence of inflation, due to corrections of regulated prices.

3. The achieved results of new monetary framework for the period 2006-2008

In the beginning of implementation of the strategy of inflation targeting, NBS has adopted the short-term goals regarding inflation for the end of 2006 and 2007, defined in the form of base inflation, on the basis of the changing of index of retail prices, which are not resulting from the correction of regulated prices and tariffs. The framework of corridor of base inflation is determined in ranges:

1. With the growth on inter-year level in the interval of 7-9% for December
2. With the growth on inter-year level in the interval of 4-8% for 2007
3. With the growth on inter-year level in the interval of 3-6 % for 2008

From the moment of application of New framework of monetary policy, base inflation in the last quarter of 2006 reached 5.9% on the inter-year level. Thus, base inflation was lower than the projected corridor. The main reasons of lower level of base inflation than the projected one were high appreciation pressures, and the minor reason was the indirect effects of substantial fall of prices of oil on the world market.

In 2007 NBS achieved its goal by having base inflation of 5.4%, which was within the limit of targeted corridor, which was 4-8%.

After the very low rate in the first half of the year (1.6% at the yearly level), base inflation in the second half of the year was strongly accelerated.

The acceleration of base inflation is the consequence of two factors of demand, above all, the growth of prices of food and oil.

The prominent effects of the growth of prices of food and agricultural products, with parallel growth of prices of oil, were stronger than the disinflationary effects of nominal and real appreciation of the dinar and increased appreciation gap of the real exchange rate during the second half of 2007, which, in the fourth quarter, indirectly administered to maintain the base inflation at the level of the previous quarter.

Namely, above the two thirds of the growth of base inflation in the second half of the year is resulting from the growth of prices of food products. The effects of agricultural shock were stronger and long-lasting, than it was thought at first, spreading over inflationary expectations on other prices. The initial shock didn't receive a reaction from monetary policy in the third quarter, due to the growth of prices of agricultural products and prices of fuel, but it there was a reaction to the growth of inflationary expectations as a consequence of that shock.

In order to achieve the targeted rate of base inflation in 2007, NBS reduced the referential interest rate from 14% to 10% at the beginning of year. During the year NBS reduced the referential interest rate six times, while the increase was carried out twice. The first increase of referential interest rate took place on 28th of August, when the rate was increased from 9.5 to 9.75% (+25bp) and again, at the end of October it was reduced to 9.5%. The goal of the first increase of referential interest rate was the alleviating the effect of the growth of the prices of agricultural products. The second increase of referential interest rate was carried out in December to 10% (+50bp), aimed at alleviating inflationary effects, which became strong especially in the last quarter.

With other instruments of monetary policy, it is important to emphasize the operations of NBS on the open market, which rose for nearly 2.75 billion of euros in 2007 on the basis of repo-operations. In order to maintain the targeted inflation in planned frameworks NBS, led restrictive monetary and credit policy, whose restrictiveness was prominent in the fourth quarter due to expansion of appreciation gap between the real rate of exchange (nominal appreciation

of the dinar and growth of inflation), expansive growth of monetary aggregates (above the average, due to spending of state deposit), additional increase of monetary mass through the exchange and monetary transactions.

The expressed negative trends in the last quarter of 2007 transferred the inflationary pressures into 2008. There is an increased inflationary activity of all relevant factors, of which the most important are:

1. Inflationary expectations of the monetary authorities are increased.
2. Historic record rise of oil prices on the world markets.
3. Export inflation has noted the highest growth in this quarter for the last three years.
4. Appreciation gap of the real rate of exchange was reduced, as a result of nominal depreciation of the dinar.
5. Production gap passed from the negative gap into the positive one. (Petrović, P. Vasiljević, D. 2007)

The determined rate of targeted inflation, ranging from 3-6%, compared with December in 2007, is decreased, aimed at more efficient suppression of inflationary tendencies through the direct impact on inflationary expectations.

By the end of 2008 inter-year base inflation was 10.1%, which is 4.1% above the upper level of targeted corridor, which is projected in the range from 3-6%. Thus, the goal for base inflation in 2008 was not achieved. The exceeding of the projected corridor of base inflation in 2008 was influenced by a large number of factors. Record growth of prices of oil and oil derivatives in the first half of the year, the growth of prices of food and expansive fiscal policy directly affected the growth of base inflation. Then, instability on the exchange market, the increase of risk premium with substantial decrease of influx of foreign capital stirred the high inflationary expectations even more. Despite real reduction of pressure of aggregate demand, high inflationary expectations neutralized the positive effect of disinflationary activity.

By using restrictive monetary policy, NBS was trying to neutralize inflationary pressures. Although, according to some valuations, NBS should have led a more restrictive monetary policy, especially by the end of the year. The stronger restrictiveness was not introduced because of fear, due to possible unpredictable inflationary shocks, and also due to evaluation that such an increase in referential interest rate would cause reverse effects on unstable financial markets. Besides, in the second half of the year, NBS orientated its focus of interest in targeted base inflation from retail prices towards the new goal: consumer prices, which prompted the lower level of restrictiveness.

Despite high inflationary pressures, due to high depreciation of the rate of exchange in the fourth quarter, base inflation shows signs of slowing down. The slowing down of inflation was caused by the fall of prices of food at the end of the year, the prices of oil and the reduction of effective aggregate demand, which prompted many firms to raise the prices, despite the high depreciation of the dinar. In addition, the total inflation shows more slowing down, influenced by the fall of prices of oil on the world market.

In October NBS increased referential interest rate for 200 basal points. Despite the increase in referential interest rate, monetary policy in the last quarter was less restrictive, primarily due to high depreciation of the dinar.

Appreciation gap of the real exchange is almost closed, and referential interest rate is below the neutral level, due to the growth of trend of real interests. (NBS report for 2008, February 2009).

4. Negative connotations of targeted inflation in serbia

In addition, it is necessary to point out the specific negative points of inflation targeting which are reflected in Serbia, in our opinion:

- The important fluctuation at the level of income and total revenue caused by implementation of this strategy.
- Necessary flexibility of rate of exchange in some circumstances may cause occasional instability of the economic environment and results of economic activity in Serbia. The economy of Serbia constantly has to find possibilities of increasing the growth rate, which would indirectly affect the reduction of unemployment and increase in life standard of the population.
- The high level of partial use of the euro in Serbia may, even in the conditions of successful implementation of flexible strategy of the rate of exchange, cause potentially big problems in inflation targeting. Like many other markets in transition, the financial market of Serbia is not immune to the fact that balance sheets of firms, banks and households contain the euro. Thus, many long-term liabilities are denominated in euros, because inflation targeting demands the flexible nominal rate of exchange, where fluctuations are inevitable.
- In addition, high depreciation of the dinar, expressed by the end of 2008, along with global financial crisis, may cause higher risk of financial crisis.

Serbia, like most transition countries, cannot ignore the strategy of the rate of exchange and interventions on the exchange market in the conditions of extreme instability, such as the one that took place by the end of 2008 due to high appreciation of the rate of exchange, when it creates monetary policy by means of inflation targeting.

Conclusion

Inflation targeting was chosen as the only reasonable alternative, despite numerous challenges, such as low credibility and weak monetary transmission. The acquiring of credibility was especially hard for the new regime, despite the endeavour of CBS to create the image of a respective institution.

Short-term referential interest rate became the key instrument in monetary policy for achieving inflationary goals. Interventions of NBS concerning the exchange market and rate of exchange are reduced, except in extreme situations with fluctuation of the rate of exchange. The importance of macroeconomic forecasts and analyses grew in decision making process and in creating monetary policy. The report on inflation and other notifications through the media and press-conferences became the main means of communication which promote transparency and responsibility of NBS policy.

Flexible rate of exchange is the key factor of the new regime, although it pointed out certain deficiencies regarding the movement of rate of exchange, especially in the conditions of the existing big deficit of current payments. As means of achieving price stability, the flexibility of rate of exchange is a shock absorber for inflationary shocks, providing the economy with the new level of balance. With high impact of the rate of exchange on the level of prices,

appreciation of rate of exchange was the main measure for reducing inflation and achieving targeted inflation.

Since inflation rate in Serbia is increasing and since base inflation in 2008 was above the upper level of the defined corridors, the specific points of inflation targeting are reflected in a very interesting and contradictory fact that due to the introduction of inflation targeting, unlike most countries where the reduction of inflation is expected, in Serbia the inflation pressure is expected, i.e. the increase in inflation is expected.

Similar to inflation targeting, the new monetary regime leans on the interest rate as the basic instrument, as well as the flexibility of the rate of exchange and intensive communication with the public and target groups, in order to earn credibility through transparency and responsibility. Unlike the regime of inflation targeting, the goals here are set relatively widely, NBS is still present at the rate of exchange, financial market is underdeveloped, and transmission of monetary policy is hard, due to absence of long-term instruments and effective curve of returns. Finally, the decision making process demands more time to develop a middle-term focus and to firmly encompass the valuations of economic conditions and short-term projections.

In order to achieve price stability that would contribute to the sustainable economic growth, National Bank of Serbia and the Government of the Republic of Serbia made Agreement on inflation targeting (referred to as: Agreement) as a framework of achieving price stability in the medium-term period, which announces the formal transit of National Bank of Serbia to the regime of inflation targeting in 2009. National Bank of Serbia gradually introduced the principles of this regime on the basis of Memorandum on the new framework of monetary policy, adopted in August 2006. (NBS Agreement on inflation targeting).

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ПРЕГЛЕДНИ ЧЛАНЦИ

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OUTCOMES OF UP-TO-DATE PRIVATIZATION

Abstract

The paper presents data and observations related to the transition process carrying out in the Serbian economy. It exposes known concepts, efforts and difficulties encountered by the society in attempting to achieve the transition results. There is also given a critical review of measures taken to date by the society in terms of implementation of privatization in our country, and estimation of their effects to privatization speed and results.

Although there are positive movements in the transition of Serbian economy, it is expected that they could be better and bigger if the Government monetary and fiscal policies were less restrictive. Then, the competitiveness of our economy would also be better, because the foreign exchange policy would be different. With all that, privatization would not be just the bare change of the title, but it would be carried out by introduction of better (modern) technology.

Keywords: Transition, privatization, reform, business, market economy, competition, socially-owned capital and state capital, property.

РЕЗУЛТАТИ ДОСАДАШЊЕ ПРИВАТИЗАЦИЈЕ

Апстракт

Резиме: У раду су презентирани подаци и виђења процеса спровођења транзиције у привреди Србије. Изложене су познате концепције, залагања и потешкоће друштва да транзиција да резултате. Дат је и критички осврт на до сада предузимане мере друштва на плану имплементације приватизације у нас, те оцена њиховог дејства на брзину и резултате.

Иако има позитивних помака у транзицији српске привреде, очекивања су да би они били бољи и већи да су монетарна и фискална политика Владе мање рестриктивне. И конкурентност наше привреде била би тада боља, јер би и политика девизног курса била другојачија. Уз све то, и приватизација се не би сводила на промену титулара, већ би се вршила уз увођење модерније технологије.

Кључне речи: Транзиција, приватизација, реформа, бизнис, тржишна привреда, конкуренција, друштвени и државни капитал, својина.

Introductory Considerations

From the very beginning of transition in Eastern Europe and up to date, there have been discussions in economic science regarding the best strategy – is it better to carry out the reforms in the widest front as soon as possible, or is it better to establish a reasonable order of reforms and carry them out gradually. The basic argument of the first consideration is that it is necessary to use a good opportunity for reforms, which, for political reasons, may not be maintained for a long time and everything should be done to quickly carry out the basic reforms in order to prevent forces wishing to return to the old situation. Main arguments of the second consideration are, firstly, that it is necessary to introduce order in the sequence of reforms carrying out to ensure efficiency, and secondly, that for political reasons, it is necessary to build up other measures on first measures good results, which would bring growing respect for authorities carrying the reforms out.¹

The rethorics of our economic and political elites, all the more frequently contain „the stop-watch“ – term-bound privatization, more and more worse forecasts of current transition status, but also proofs of all the more present disputes of some, until yesterday, untouchable beliefs of our economists. However, we all know well that transition has its price and that the authorities and the public should eventually understand the situation in which the economy and businessmen are, the climate for successful business and that finally they should take the side of development-relevant people, entrepreneurs, those who save and dispose of the property significant for our economy. Namely, the practice of rejection and first reactions (like „Where and how he/she could acquire that and what dishonest actions and procedures he/she undertook to accumulate the wealth“) addressed to those who acquired something and have possessions, must be left behind?

With such behaviour and mentality it is very difficult to overcome the existing bad business climate and speed up the transition to the market economy.²

It may often be heard that transition of our economy could go much faster, without thinking of what it would eventually mean. I am not one of those who think that way, and I urge that neither the speed nor the progress degree of the transition way should be fetishized, because it is a big issue at what speed and tempo should the transition of our economy and the society be carried out. I think that there are two basic problems which are often neglected, and even mixed up in our professional, but political public, as well. One of them is: how we see ourselves in the future? Here, it seems that there are no dilemmas and disagreements, we travel the road which leads to: the market economy, with democratic government, fair elections, transparent control of all centers of power, safe and protected private property, observed contracts, and independent and efficient judiciary.

¹ See about this in more detail in: Prof. dr Borivoje B. Prokopović; Modern Economic Systems (3rd issue), Proinkom, Beograd, 2005., pp. 314 to 324.

² Opinions, according to which the basic obstacle to transition in Serbia is in self-management awareness of many citizens, are true. The expression of such awareness are opinions that enterprises exist in order the employees could receive wages and „hot meals“, that the state is responsible in case the wages payment is not regular, or in case somebody lost the job, that it must be compensated on the account of tax payers, that the one who earns something should share it with those who have not, that an individual should not bear the risk, but the state should fully insure the citizens from all risks, that each citizen of Serbia has inalienable rights to various services free of charge, etc..

But, when it is to do with speed of goals achievement, there are differences; so many people think that it can be done overnight, right away and now. And, at that point, it seems as if it is being forgotten that great speed may cause demolishing of those bad institutional mechanisms, which are better anyway than no mechanisms at all. Asymmetry which is present in these processes – old structures demolishing goes quickly, while new structures are being built slowly - is burdened with risks of entering into institutional gaps, which may be very bad. And it may be particularly bad when the existing enterprises are liquidated, leaving a great number of employees without jobs. It is bad, in the first place because of the fact that, when one company ceases to exist, there emerges the question if there will ever be established some new or similar company. Secondly, by a company liquidation, many people lose jobs and work on which their existence depends, because they have no possibility of employment. In that way, it is not only that a great number of jobs is lost, but also a part of newly created value, that contributing to decrease of our gross domestic product.³

Anyway, I think that the speed of transition and the speed of Serbian economy and society restructuring should be adjusted to our abilities to build new institutions and relations in order not to have the situation where we disintegrate old structure, without starting to build something new. It would be the worst possible variant, where higher speed may cause invaluable damages.

1. Up-to-date Problems and Outcomes

When the deputies of the National Assembly of the Republic of Serbia were passing the new Privatization Law (in July 2001), which replaced the Law of 1997, they had in mind the efforts of the society to speed up the privatization process of socially-owned and state capital, in the first place that of medium and big enterprises. It really happened, because for only two years of its application, there were privatized 1.999 enterprises, of that number 878 in 2003., and 1.121 in 2004.

From the total number of privatized enterprises the greatest number goes to small ones (1422), while the least number goes to big companies (around 100). The number of employees in them was 175.625, which makes around 15 % from the total number of employees (1,196.833) of all 75.885 enterprises at the end of 2004.

The buyers of privatized enterprises capital (stocks and shares) are domestic and foreign natural and legal persons. In that, foreign companies and natural persons were primarily buying social capital of big enterprises, in the first place, those solvent and prospective.

It is always spoken about the necessity to attract much more foreign direct investments, because it would significantly increase the level of economic activity.⁴ And we are the witnesses that currently there are no such effects, because, generally, the enterprises are being bought with the existing technology. As a rule, new owners want to get rid of a significant number of workers, in order to effect in that way the expected increase of the labour productivity.

It can also be often heard: „Let the foreign investors go in, and the export sector of economy would develop, increasing export significantly in that way“. The question may be immediately posed at that point, in terms of how the export could be increased when, according

³ Ibid.

⁴ See Ekonometar; Četiri godine tranzicije u Srbiji (Four years of the Transition in Serbia) (1).

to MMF Report, we have lost a lot in price competitiveness. Namely, in the existing conditions, productivity should enormously grow in order to provide space for much better sales of our economy at the world market. In that, it is not doubtful at all, that we need direct foreign investments, particularly *greenfield* investments, but currently some essentially significant inflow implies much better business climate.

Actually, the circumstance that big enterprises (total 667) are most endangered and with biggest losses, is the main reason for their slow privatization. It is clearly confirmed by facts that these 667 big enterprises used to employ 543.392 workers by the end of 2004, which makes 45.4 % of the total number of employees, that 67.75% of totally cumulated and 55.53% of current losses may be subscribed to these, that their missing long-term capital amounts to RSD 378.2 billions (dinars), which makes 52.9 % of the missing socially-owned capital of all 75.885 enterprises, that 1/3 of them lost the entire or prevailing part of their own capital through various losses.⁵

Therefore, it is clearly expected that privatization of 500 big enterprises with around 400.000 employees, implies, in the first place, taking over of endangered enterprises, with recapitalization, the primary goal being rehabilitation, and which is, certainly, not possible to do with current privatization regulations, as well as the practice of privatization revenues inclusion in the state budget, which are spent to cover the projected budget expenses, without any impacts on the financial position of the economy.

2. Credit-Based Privatization

A special privatization problem is the circumstance that buying of socially owned capital of numerous enterprises has been financed by the money, originating from bank credits, granted at very strict conditions in terms of interest and principal settlements. Due settlements of the mentioned credit liabilities means not only operating with relatively high profit, but also the possibility to use, for that purpose intended, additional capital release through, so-called „*cash flow*“ (for the amount of not spent depreciation). Otherwise, the beneficiaries of credits, intended for liabilities settlement based on social capital buying enter hopeless economic situation and insolvency.

Through public bidding (auction) and public tender method, Privatization Agency is in charge of organization and sales of enterprises with state and socially-owned capital, which, for that purpose defines the initial sales price, based on its estimation and verification.⁶ It is not rare that the price is set very low, that being achieved by shifting the assessment day even several years back in time, in which case the price is under strong influence of inflation which was very high in two consecutive years, 2003 and 2004 (11.1% and 13.7%, respectively), while in 2005 it was over 17% - the highest in Europe. Import was covered with export in 2004 with 30% and in 2005 with 41%. It explains why 70% of drugs factory „Zdravlje“ Leskovac

⁵ Big internal debts (in relation to gross domestic product) make normal functioning of financial system difficult. The biggest part of these debts is concentrated in the relation enterprise – state. The status of such debts has been tried to solve by the Law, regulating receivership and liquidation matters, but without success. There are proposals for it to be solved by multilateral system of debts and receivables settlement, and even to have the state its receivables from industry converted into temporary (till the end of financial crisis) enterprise deposit.

⁶ Ibid.

estimated value, in the amount of 2.7 billions dinars was sold in October 2002 for only 3.5 million Euro, which is not an isolated case.

In contracts on socially-owned or state capital buying, the Privatization Agency, as a rule, was imposing on buyers the obligation of some amount additional investment in facilities (investments), but in that, the opportunity was missed to impose the obligation of taking the enterprise back to its financial balance, which is the request of the safety and liquidity of the enterprise finance principle. Instead of that, new investments conditioned new aggravation of financial structure, that resulting from the fact that each new investment requires additional working capital.⁷

The circumstance that the enterprises sold had, as a rule, disturbed financial structure, which means that they did not have enough ownership, and particularly, not enough long-term capital, explains all the more difficult situation in view of capacity to settle the due liabilities (insolvency). For that reason, much more attention should be paid in future to general goals of sustainable development conditions creating:⁸ a) economically justified production, oriented to growth, which ensures opportunities for future generations; b) improvement of employment; and v) reducing pollution and other pressures to ecosystem.⁹

3. Advancement to Market Economy

According to the achieved transition results, it may be said that we have made a significant advancement towards the effective market economy, but also that additional endeavours are necessary to make our economy capable and competitive at the European Union market.¹⁰ In the past period, the economy of Serbia continued with powerful economic growth, however, on the macroeconomic plan, there were turbulences. As a backup of big challenges for Serbian economy there may be used the data as follows:¹¹

a) Insufficient number of direct foreign investments is the result of instable political climate;

b) There is a serious standstill in structural reform of the economy;

c) High unemployment;

⁷ Crucial limiting factor of private sector development in Serbia is weak banking system, which does not succeed in accompanying the finance needs. Namely, the old state banking system did not have that role, so practically, the private enterprises had not been credited. After its liquidation, still new banking system is in process of formation, which, being small, does not have necessary financial potential.

⁸ Munter, K; Counselling report on development of industrial strategy in Serbia and Montenegro in the context of EU stabilization and accession process, SCEPP, Belgrade, 2003, pages 26. to 28.

⁹ Ibid.

¹⁰ The initial orientation in transition of Serbian economy was good, because there was a sincere determination of new leaders for reforms, alleviated by the needs of a political moment or party-spirited rating. Transition was facilitated to some degree by using experiences gathered in other transition countries, owing to late transition in Serbia. In that way, for example, better privatization model was selected, and unnecessary money spending on rehabilitation of banking system was avoided. However, in every country there are local specificities, on one hand, and transition has not produced definitive instruction manuals for changes, on the other, so that there is left a lot of space for innovative approach to Serbian reforms.

¹¹ Group of authors; about our economic reality today, Ekonomika, Niš, No. 5-6/08.

- d) Increasing inflation pressures;
- e) Instability of the exchange rate and prices;

Monetary policy enabled us to achieve the goal in terms of better inflation control in 2007. Similarly, there was achieved some advancement in privatization, and significant advancement was also noted in non-banking financial sector.

In the same period, negative foreign trade balance got increased, that is, indebtedness to foreign creditors got increased. Therefore, since in the long-run, there exist all conditions for relatively fast and sustainable economic growth, it is necessary that its framework be export-oriented production, no matter if it is to do with industry, agriculture or services. In that, the greatest role should be played by new private enterprises and generally, private economy. Regarding the state, it must completely withdraw from the economy. In that, it must be started from the fact that our economy cannot rely on cheap labour force, as its competitive advantage on European or world markets. This is because of the fact that on that basis, there are many competitive economies. Therefore, it is necessary to make more investments in human resources and all forms of infrastructure, because it is possible to be competitive only with quality and lower trading and transportation costs. Nowadays, the financing quality got worsened on the internal plan, and macroeconomical vulnerability was increased due to global financial crisis. Tax policy still remained expansionistic, and, as such, it impacts the growth of external imbalances, which makes inflationary pressures in 2009, as well.

In spite of strong economic growth during the last years, unemployment is still a big challenge of the society. It is interesting that the economy of our country is, at the same time, affected by the lack of skilled workforce, which requires from the society to start dealing with reform of education.

Although in the past period some movements happened in privatization of companies and banks owned by society or state, there has not been established competitive and dynamic private sector yet. Exaggerated bureaucratic requirements and complicated legislative procedure still have bad impacts to the market and market relations. However, there are some announcements from the Companies Registration Agency that businessmen will soon be able to register companies in Serbia more easily. In order to have their company registered, the owners will not be obliged to go to Tax Administration to apply for Tax Identification Number (PIB), but together with registration application for company foundation, submitted to the Companies Registration Agency, the procedure will be automatically initiated for PIB obtaining. The Agency will get that number from the Tax Administration in one day and enter it in the Decision on Company Foundation, on the occasion of registration, and that will be the end of the entire foundation procedure.¹² The so-called legal predictability and trust in judicial system are still limited, particularly in view of exercising ownership rights, and the impact of the state and its bodies to competitiveness is still high.

In sectors and branches analyses, it is necessary to define a development role and tempo of growing of the second key activity and change in the investment plan. In that regard, it is necessary to define tasks for sectors, the basic role of which would be maximization of export and reduction of trade deficit, and ensuring of quality infrastructure and competitive

¹² According to the World Bank Report on business operations in 2008, in order to start business in Serbia, one will need 23 days and 11 procedures. Registration costs amount to 8.9 % of BDP value *per capita*. In comparison to other countries of the world, such conditions are not stimulant for investors. Anyhow, it is possible to found a company in Slovenia in two to five days, in Hungaria – in two to thirty days, in Bulgaria - in 14 days, and in Romania in three days.

domestic inputs.¹³ Priority in further transition efforts must be given to issues beyond economy, because the transition is inhibited just there. The first one is the issue of the state and its behaviour, the second – democracy stabilization and maturity and the third one – building of institutions. In parallel with them, there come narrower economic measures: continuation of privatization, key issue of monetary and financial policies (RSD exchange rate), reduction of tax and public consumption, public enterprises restructuring, etc.¹⁴

Serbian economy restructuring programme realization must, basically, be accompanied by modernization on bases of legal regulations, standards, work technology, organization and information structure of EU, and the existing and new industrial structures of EU.¹⁵

After the drop of entrepreneurial initiative by the end of the last year, in the sense of reduced number of new business entities, in the beginning of this year the number of new companies is growing. In Serbia, the new private sector has grown, but it does not represent as big driving force as it was the case in other countries in transition (e.g.: in Poland), where in a very short time it became the main bearer of the economic advancement. The causes for that were, firstly, in the fact that the private sector had existed and was relatively developed even before the October changes, while in most transition countries it was starting from zero, and for that reason, it was growing very fast during first phases. Secondly, an important limiting factor of the private sector development in Serbia, is a weak banking system, which had great difficulties in accompanying finance needs. So, from the beginning of this year, there were founded 1.969 new industrial companies and 7.133 firms.

General structure of registered companies in Serbia

Type	Number	%
Industrial companies	111.874	100,00
- Big and medium	3.373	3,01
- Small	108.501	96,99
Entrepreneurs	217.433	100,00

Source: Daily newspaper Politika, 21 March 2009

Quite a big grey economy sector still exists due to weak economic framework, inadequate tax policy, weaknesses in the law implementation, including corruption and organized crime suppression.

Conclusion

From all aforementioned, it is clear that the way of privatization, adjusted to stipulations of the Law, as of 2001, has the following effects:

1. vanishing of socially-owned capital, to be eaten by its inclusion in the budget;

¹³ See Guidelines for Doing Business with the EU – Industry, Fond za evropske integracije, Beograd, 2006.

¹⁴ Prof. dr Borivoje B. Prokopović; Ibid.

¹⁵ Smernice za poslovanje sa EU; Ibid.

2. capital outflow from the country by transfer of profit, paid on behalf of dividend and share in the profit, to the foreign companies owners;

3. difficulties in interests payments and repayment of maturity installments of credits, granted for settlement of commitments based on social capital buying in tender procedure;

4. additional disturbance of financial structure, with increase of current and cumulated losses, by conditioning the inflation increase and reduction of the employees number;

5. Inability to privatize around 400 to 500 financially broken and solvency endangered big enterprises with almost 400.000 employees, which may be a decisive reason for the state decision to solve the respective problem according to the example of Smrederevo company „Sartid“, in which case the biggest price would be paid by all big creditors, and then, viewed in long-term period, by all citizens.

Due to big difficulties on the way to privatization problems solving, with application of now valid Law provisions, it is necessary to have expert approach to this problem solving, where it is, in the first place, indispensable to have wide consideration of the complete situation in a round table discussion, where experiences and knowledge, necessary to gradually bring the transition situation of our economy to the end, could be exchanged. Otherwise, even worse situation should be expected in this field. Currently, priorities of further transition efforts must also be those beyond the economic domain, because the transition is mainly inhibited just there.

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THE FINANCIAL MARKET IN SERBIA PERFORMING THE FUNCTION OF FINANCING ECONOMY AND BUSINESS

Abstract

The financial market in Serbia, as the most important element of the financial system, and its influence on the economy and business financing is the subject of this work. The growth of the financial system in Serbia, which is extremely bank-centred, was slowed down in 2008 comparing to the previous year, due to the credit activity which was also slowed down. Banks, managing 90% of the total financial resources, are the most important factor in the growth of the financial system in Serbia. The growth of the financial market in Serbia, according to the market capitalization indicator from the beginning of 2003, has significantly expanded. Due to the shallowness of the capital market, companies, as a significant external factor of financing, used credits. Certificate of deposit trade of National Bank of Serbia, in the scope of repo-operation, is dominant on the securities market with 95% of share. The total value of share trade in 2008 was about 2.5 billion euro, which is 4.5% of all securities trade. Apart from the National Bank of Serbia securities, market bonds and other debt securities, there is no emission of corporative bonds.

The privatization market of shares is emptying, and the main reason is the fact that the market is not actually functioning as a market of shares, but a business market. A fast concentration of ownership, results from a low protection of proprietary rights of minority shareholders. Namely, capitalization, as a part of the transition process, should provide minimal quality of corporative management. If the level of protection of the investors is not raised, no improvement of business efficiency will result from the process of privatization. The process of ownership concentration eliminates shares from the financial market, in order to avoid a possible loss of control and strengthen the ownership-supervising structure, causes numerous negative effects for the corporation itself as well as for the financial market.

If the financial market remains insolvent, it will influence its future and potentials of an external financing of the companies which still exist as open corporations. The major influence of the current market condition on the corporative sector is an increased possibility of decreased value of their shares, in other words, of their owners' wealth. Certain changes in the banking sector are inevitable for the further development of the financial sector in Serbia, and that is an increase of its capacity (credit offers) and efficiency (decreased intervention cost).

In order to meet the conditions and make sense, it is necessary for the financial market in Serbia to develop its basic functions, that is, the strategic

aim of the financial market development is its qualifying to finance the business sector. It is necessary to make different kinds of changes, explained here, as to make the financial market gain the mentioned strategic goal.

Key words: *financial system, financial market, securities, financing*

ФИНАНСИЈСКО ТРЖИШТЕ СРБИЈЕ У ФУНКЦИЈИ ФИНАНСИРАЊА ПРИВРЕДЕ И ПРЕДУЗЕЋА

Апстракт

У раду се разматра утицај финансијског тржишта у Србији, као најзначајнијег елемента финансијског система, на финансирање привреде и предузећа. Раст финансијског система Србије, који карактерише изразита банкоцентричност, је у 2008. години био успорен у односу на предходну годину, услед успоравања кредитне активности. Водећу улогу у расту финансијског система Србије имају банке које управљају са 90% укупних финансијских средстава. Развој финансијског тржишта Србије, према индикатору тржишне капитализације од почетка 2003. године имао је снажну експанзију. Услед плиткости тржишта капитала, предузећа су као значајни екстерни фактор финансирања користила кредите. На тржишту хартија од вредности са 95% учешћа доминантно место заузима трговина благајничким записима Народне банке Србије у оквиру репо операција. Укупна вредност трговине акцијама у 2008. години изнела је негде око 2,5 милијарди евра, што износи свега 4,5% трговине свим хартијама од вредности. Осим хартије Народне банке Србије, тржиште обвезница и других дужничких хартија не постоји, а пре свега не постоји ни једна емисија корпоративних обвезница.

Долази до пражњења приватизационог тржишта акција, а главни разлог ове појаве је у чињеници да тржиште у основи не функционише као тржиште акција него као тржиште фирми. Брза концентрација власништва је последица, пре свега ниске заштите власничких права мањинских акционара. Наиме, приватизација као део процеса транзиције, треба да обезбеди минимум квалитета корпоративног управљања. Уколико се не увећа ниво заштите инвеститора, процес приватизације неће имати за резултат побољшавање ефикасности фирми. Процес концентрације власништва елиминисаће акције са финансијског тржишта, како би се избегла опасност од евентуалног губитка контроле и ојачала власничко-контролна структура, доводи до низ негативних последица како на саму корпорацију, тако и на финансијско тржиште.

Уколико финансијско тржиште остане неликвидно, то ће имати последице и на његову судбину и на потенцијале екстерног финансирања предузећа која настављају да егзистирају као отворене корпорације. Главна последица садашњег стања тржишта на корпоративни сектор јесте повећана вероватноћа смањивања вредности њихових акција, односно богатства њихових власника. Свакако, да су, за даљи развој финансијског сектора у Србији, неминовне промене банкарског сектора, то јест повећање његовог капацитета (понуде кредита) и ефикасности (смањивање трошкова посредовања).

Да би финансијско тржиште у Србији опстало и имало смисла, необходимо је развити његове основне функције, односно, стратегијски циљ развоја финансијског тржишта јесте, његово оспособљавање за финансирање сектора предузећа. Да би финансијско тржиште остварило наведени стратегијски циљ, необходимо је извршити промене у више праваца, који се у раду детаљније објашњавају.

Кључне речи: финансијски систем, финансијско тржиште, хартије од вредности, финансирање.

1. The analysis of the financial system in Serbia

Financial system is one of the most important parts of an economical system and its most important elements are: financial markets, financial participants and financial instruments. The financial system is highly bank oriented. In 2008 its growth was less rapid than the one in the previous year due to the less rapid credit activity. The relative share of non-banking financial institutions in the financial system is still the same, and as for the structure of owners, foreign shareholders are still predominant. The capital market has almost continually shown negative trends, and the decreased index value was caused by decreased liquidity, political uncertainty as well as by the reference rate, because of more restrictive monetary policy. Like in most of the countries in the region, bank interest rates have increased, while interest margin was the highest in Serbia during the year.

The growth of the banking section was slowed down, firstly because of the restrictive monetary policy and secondly because of the effect of the financial crisis. High capitalization and strong domestic deposit basis caused strong resistance of the sector to the demonstration of the crisis, and on the other hand, caused by decreased liquidity, there is a need for an additional improvement of the terminal and currency structure of financing sources. Credit expansion is slowed down, and as the main risk in banking sector there is still indirect credit risk which is, due to the pressure of depreciation caused by the crisis, additionally increased, as population and the actual sector are not enough currency protected.

The estimated growth in real terms of the gross national product in Serbia from 7% for the year of 2008 is mainly based on a successful agricultural year. Caused by decreased consumption and investment activity, the structure of growth of the gross national product has changed so, unlike in 2007, the dominant factor of the decreased growth of economical activity is now the service sector, not material production.

High growth rates are recorded for the basic inflation. Since the beginning of the year it has been above the upper limit of targeted range (3-6%), and in October it was 10.6%. At the same time, the overall inflation, measured by retail prices in October was 10.5%.

Balance of payment activities also changed for the worse in 2008. It is estimated that the deficiency of the current accounts will be 18% of the gross national product, which is almost the highest rate in the region.

Foreign direct investments inflow and economy and the financial sector debiting abroad were enough to make up the current deficit. Financing of current payments deficit, under the conditions of smaller foreign direct and portfolio investments inflow and increased debiting costs abroad at the same time, will be much harder. So during the first trimester foreign direct investments decreased to 15% of total net inflow, while during the first and the second trimester

they were 41% and 59%. As the greatest share of the inflow was provided by financial credits, the capital inflow structure went for worse, especially because of the significantly increased share of short term credits.

Banks still have the leading role in growth of the financial system in Serbia. Other financial institutions supervised by National bank of Serbia, despite the relatively small share in the financial system, show significant potential for growth and even more contribute financial intervention extent, as well as their share in the gross national product.

Banks have kept an extremely dominant position in the financial system in Serbia managing 90% of total financial resources.

The position of the insurance sector remains the same, so insurance companies manage 4.5% of total properties of the financial sector.

Foreign financial institutions have the share of almost 80% of balance assets of the bank sector. Foreign banking groups have implemented numerous positive trends in Serbia since the reforming of the financial system started, first of all rapidly improving the sector performances and providing firm financial sources from abroad.

Global lack of confidence for financial sector, which has been reflected on our market through the decreased investment expectations, was the factor that determined the movements on domestic capital market during this year.

On Belgrade stock exchange, in the first half of the year, the most liquid shares lost 23% of their value measured by Belex 15 index, which was the same as the level in January last year. Share prices which are under Belex line index decreased relatively less (19.3%) as most of them are not liquid.

The increased reference rates and other rates of interest on domestic monetary market, as well as the decreased liquidity, caused the decreased share prices, as investments on monetary market represent an alternative investment on the capital market.

Similar movements have been recorded on other markets in the region. Belex 15 index movement was mostly correlated with Sofix index on Sofia market and Srobex index on Zagreb stock exchange (correlation coefficient 0.85 and 0.83), while it was the least correlative with MBI 10 index on the stock exchange in Skopje and Moste stock exchange index in Podgorica (correlation coefficient 0.71 and 0.72).

At the same time, numerous factors on the domestic and foreign monetary markets caused increased banking interest rates. An average pondered active banking interest rate was increased from 11.3% to 16.61% annually. It was mostly caused by significantly increased reference rates.

2. Economy financing

The most important sources of economy financing in all countries in the world are companies' profits, therefore own sources. In European countries in transition 65% of investments are financed by profit, while the percentage is lower in Latin America and higher in Asia.

If capital market development were measured by the indicator of market capitalization (the amount shares value of all issuers present on the given market), which has had a high growing rate during the last few years, it could be concluded that Serbian market has had a significant expansion since the beginning of 2003. In case of Serbian market, the market capitalization value is very similar to the one recorded from 1998 to 2004 by the countries such

as: Slovakia, Lithuania, Hungary, Slovenia, Czech Republic and Poland. According to the amount of market capitalization, Belgrade stock exchange is the most similar to Estonia market. Also, according to another standardised indicator of market development level (relative level of capitalization related to gross national product), the share market in Serbia is, comparatively, small. However, changed relation between the market capitalization and gross national product in Serbia has been growing since 2003, unlike in most of the countries in East and South-east Europe. Even the number of shares, as one of the succeeding indicators of capital market development, indicates the market expansion in Serbia.

The total market capitalization of Belgrade stock exchange companies was about 20 billion euro or 49% of gross national product in Serbia in 2007, and comparing to the previous year this indicator was doubled. More significant growth of stock exchange value was recorded only in Ukraine and Bosnia and Herzegovina during the last several years. However, selling shares does not represent the most important source of company financing. Market capitalization shows the value of shares of all the quoted companies and all companies are quoted according to obligatory privatization and most of shares are not for sale. Namely, there are no companies in Serbia which made their capital for successful business running by primary shares selling. Therefore, market capitalization, regardless if it is about the absolute or relative value related to gross national product, is not so significant indicator from the aspect of stock exchange importance for company financing.

The shallowness of the capital market in Serbia caused companies, which are a significant external source of financing, to use credits. Companies were also in 2008 the most important committee of banking sector. In the structure of total credits, the amount of credits taken by companies reaches 512 billion RSD or 54% of total number of approved credits. The relation between the total number of credits approved to the private sector and gross national product in 2008 was over 38% which is the case in some other transitional countries in Europe. The increase in the number of credits approved to companies, as well as their relative increase related to credits in other sectors in 2008 is questionable for the fact that there is still a tendency and continuity in direct debiting abroad. As an alternative to debiting of banks abroad, for what they have provided statutory reserves, companies debited directly abroad and so one of the corporative portfolios of banks is directed to connected institutions abroad. According to the data the state of debiting of companies abroad was over 9.5 billion euro in 2008, almost 30% of gross national product.

In Serbia there is a possibility for companies to borrow money from different development government institutions, such as Fund for development, Agency for development of small and medium-size businesses and entrepreneurship, Fund for foreign trade business insurance and financing, Agency for export insurance and financing, Guarantee fund etc. The named institutions credit companies, offer guarantee to banks for business crediting, provide advisory and technical support and help running businesses in many other ways.

Also one of the indicators of underdevelopment of Belgrade stock exchange is the turnover rate which represents the relation between the value of an annual circulation of shares and the total market capitalization and amounts to 16% which ranks Serbia among the countries with the worst performances comparing to the countries in the region. The total value of share trade in 2008 was about 2.5 billion euro, which is only 4.5% of value bill trade. Apart from the National Bank of Serbia securities, market bonds and other debt securities, there is no emission of corporative bonds.

There has been a significant growth in certificate of deposit trade of National Bank of Serbia and in the structure of all securities trade on the Serbian market, certificates of deposit of National Bank of Serbia take part in the value of turnover with about 95%. The value of these securities turnover was over 70 billion euro in 2008, so the transactions have become the primary form of security trading.

When it is about external financing sources for companies in Serbia, we could point out few conclusions: 1) with security market and 95% of share, certificate of deposit trade of National Bank of Serbia is dominant in the scope of repo-operation; 2) population sector, with the share of about 40% in total credits, is relatively more present than in other countries, and the economy with the share of 60% significantly less than in other countries; 3) companies in Serbia tend to debit abroad rather than to address domestic banks, and 4) the state, through numerous institutions and funds helps companies, mostly those from the industrial sector, by credits.

3. Formation and functioning of the financial market in Serbia

On the privatization market in Serbia, there are individual investors, foreign investment funds, domestic investment funds and pension funds appearing on the side of requesting, while on the side of offer there are individual owners, that is companies that are, being in the process of privatization, quoted on the stock exchange. On the privatization market, there is a decreased relative and absolute volume of turnover, despite numerous transactions, and one of the possible reasons could be that the relative value of shares (the price / book value) is decreasing on the market. The mechanism of emptying privatization market of shares is maintained with speeding up the turnover during the period of concentration and the number of transactions grows, until forming a significant or majority block of shares, after which the shares turnover is decreased, which is quite normal, that the value of shares decrease along with the decreased request. Of course, the fact that basically the market does not function like a share market, but like a market of companies, is the cause. The final result is that, after sufficient concentration of a company share ownership has been gained (by an individual or a group of partners), the request, turnover and price decrease. As a new owner does not sell his stock of shares, they are withdrawn from the stock exchange and this mechanism explains the difference between the level of capitalization and turnover value in Serbia.

A fast concentration of ownership, results from a low protection of proprietary rights of minority shareholders. Namely, there is a negative correlation between the concentration of ownership and the quality of legal protection of the investors. Non-efficient corporative management causes the increase of capital expenses and slows down the company growth and national economy. Namely, privatization, as a part of the transition process, should provide minimal quality of corporative management. If the level of investor protection is not improved, the process of privatization will not provide efficiency improvement of the companies. The process of ownership concentration eliminates shares from the financial market in order to avoid the danger of a possible control misbalance and to strengthen the ownership-controlling structure, which causes numerous negative consequences for the corporation itself, as well as for the financial market. In this way, the corporation loses one of the possible financing sources and has a tendency to use, often, more expensive sources, such as bank credits. The financial market becomes insolvent and loses its basic functions.

It is obvious that these market characteristics have a significant influence over its future development, as well as over the national economy. The first consequence is low

liquidity of the market. Namely, market liquidity and the possibility of a fast withdrawal from the investment are significant factors of its attractiveness. The level of the present and expected liquidity will influence the forming of the critical mass of the interested investors on the side of request. Privatization market has the chances to stop the process of emptying, but this market is highly sensitive to request performance, and is basically low liquid. If the financial market remains insolvent, it will influence its future and potentials of an external financing of the companies which still exist as open corporations. In case that these requests are not complied, the lack of request will cause decrease of all issuers' share prices. At the moment, the decrease of share prices of overtaken companies occurs. In case that the current market configuration remains the same, the benefits from a company status as an open society are minored. This will cause closing even those corporations which have an objective interest to do business as open companies. This form of market will disappear gradually. The number of initial public offers will be irrelevant, and the market will function while there are resources for reallocation.

The consequences of these circumstances can be seen as impossibility to perform the basic functions of the financial market: price fixing, allocative functions, transfer function, liquidity function, informative function and trade costs decrease function. Under the conditions like these, it is hard to expect any market efficiency, while its imperfection is absolutely irrelevant. The major influence of the current market condition on the corporative sector is an increased possibility of decreased value of their shares, in other words, of their owners' wealth. This is consistent with the statement that poor corporative management faces greater variability of request caused by fast loss of investments' confidence. These problems are especially noticeable during the period of company performances and overall capital market decrease. Under the crisis conditions, foreign portfolio investors withdraw themselves from the corporations in which there is a serious risk that their property and income will be expropriated.

Certain changes in the banking sector are inevitable for the further development of the financial sector in Serbia, and that is an increase of its capacity (credit offers) and efficiency (decreased intervention cost). A significant step in further development of the banking sector was taken, passing a new Deposit insurance law amounting to 50 thousand euro in 2008.

Also a basic strategic goal is increased banking efficiency, namely decreased financial intervention cost. The fact is that expenses, profit and other banking efficiency parameters in Serbia are highly adverse. Improvement of banking and financial system security level, that is its decreased exposure, should provide its easier integrating into European processes and decrease transfer cost. Supervising banks and other financial institutions should be institutionally and technically streamlined. It is necessary to activate a new channel of financial intervention, non-banking financial institutions, provident banks and micro-credit institutions. Activating this system will certainly contribute its better efficiency and increase competitiveness on the capital and deposit market. It is possible to develop the sector of non-banking financial institutions establishing a supervising capacity in the insurance sector and adopting a strategy of medium-term development of the sector.

4. Further development of the financial market

The basic question of the financial market strategy development is the question of its subsistence, especially now under the conditions of the world financial crisis. With no doubt, other countries also had this kind of problem under the conditions of economy transition. Namely, after the enormous consumption, which is basically normal reaction of owners to the

level of risk and output of these shares, there was a significant decrease. The number of listed shares was decreased, the extent of trading decreased, and there were no new issues. In order to meet the conditions and make sense, it is necessary for the financial market in Serbia to develop its basic functions, that is, the strategic aim of the financial market development is its qualifying to finance the business sector. It is necessary to make different kinds of changes as to make the financial market gain the mentioned strategic goal.

First of all it is necessary to change, that is to reform the legal provisions. Namely, that is the Law of securities which got its new version in 2007, and in 2008 the Draft of its amendments was prepared. It is necessary to amend the drawbacks of law, but it is also important to make sure that it is obeyed and apply sanctions in case it is broken. Without the trust of the public, there will be no interested investors or issuers of the securities.

For the further development of the financial market in our country, it is necessary that companies with the direct issue of the securities are motivated to get the necessary facilities by the state. Namely, the state could take part during the preliminary stage of the emission, to educate, train, and even accept the coverage of expenses for securities emission.

When discussing the further development of the financial market in Serbia, it is questionable if it is good to quote the shares on stock exchanges abroad instead in the country. We presume that this kind of objection would be wrong as many successful and competitive companies would be impeded to gain the facilities in the most rationale way.

A positive influence on the development of the financial market would also have a government bonds emission in order to finance the public consumption. However, apart from the positive effect of this emission, there will be some negative ones as well, and they would be even more serious if it were used to finance non-productive public consumption. Also, government bonds would have an extremely high rate of interest, so the debiting of companies would be insignificant. The experience of other countries shows that Serbia should establish an Agency for qualifying the ranking of bonds issuers, as the evaluation of the agency could facilitate the investment analysis made by investors.

More numerous closed investment funds present in our country could influence the further development of the financial market, as these funds search for less attractive companies, invest them and so raise their value.

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COMPETITIVENESS OF SERBIAN ECONOMY DURING TRANSITION

Abstract

Modern business surroundings, being present on all national markets in the world, requires an open “market competition“ for all enterprises ready to compete their rivals. Having in mind the fact that in the last decade of the twentieth century this country had numerous difficulties (the war, economic and political sanctions, hiperinflation, etc.) and its economy suffered a lot, there are still tendencies (after a hard period) in the economy and society for making economical and social progress.

Keywords: *business surroundings, market, competitiveness, economical and social progress*

КОНКУРЕНТНОСТ СРПСКЕ ПРИВРЕДЕ У ПЕРИОДУ ТРАНЗИЦИЈЕ

Апстракт

Савремено пословно окружење, које је присутно на глобално свим националним тржиштима у свету, захтева отворену тржишну конкуренцију“ за сва предузећа која су спремна да се такмиче са конкуренцијом. Уважавајући чињеницу да су нашу земљу, у последњој деценији двадесетог века, праћиле бројне тежакости (ратно стање, економска и политичка блокада, хиперинфлација, итд.) које су допринеле лошем стању у коме се налази наша привреда, ипак, може се рећи да су, након тежког периода који је за нама, у привреди и друштву присутне тенденције које се одлеђају кроз скроман економски и друштвени напредак.

Кључне речи: *пословно окружење, тржиште, конкуренција, економски и друштвени напредак.*

Introduction

Transition is an intradisciplinary and complex phenomenon requiring, besides knowledge, certain abilities necessary for carrying out changes. In other words, transition means transvering from a socialism into market oriented system that exists in all developed countries in the world. As a world process, we can say that transition has started in 1990-s and hasn't been

finished yet. It still can be seen in some countries (ex Yugoslav Republics: Serbia, Croatia, Bosnia and Herzegovina, Macedonia, Montenegro).

It is important to say that all the changes following the very process of transition haven't been finished yet. Therefore, the changes as well as their consistent use are the key to successful transition. As competitiveness of Serbian economy during transition is very important for improving competitiveness of this country, this survey deals with the above mentioned theme.

1. Competitiveness of Serbian Economy

“An enterprise has a competitive advantage if its profitability is larger than the average profitability of any other enterprise in that industry during a certain period of time”

Michael E. Porter

The period of transition which is still here for Serbian companies, confirmed the theory that for efficient market, competitiveness is necessary, that is, competitive economy. In essence, restructuring of socialist economies meant increasing foreign and internal competitiveness, that is, foreign market orienting and stimulating new competitors in the country.

One of the biggest problems Serbian enterprises come across is very low competitiveness. In all books dealing with management, there is a clear difference between:

- macro competitiveness, and
- micro competitiveness

Macro competitiveness deals with competitive ability of a society; the ability to produce and distribute goods in such a way to increase the living standard of its inhabitants.

Micro competitiveness deals with competitiveness of enterprises; the efficiency of an enterprise in selling products or rendering services on markets with global competitiveness.

The level of development of a country and its competitiveness directly depend on productivity-the level of competitiveness of an enterprise on the market. If the products being sold and the services being rendered by an enterprise are not of good quality, the economy of that country is not competitive. Because of all these, there is no reason to separate microeconomic from macroeconomic competitiveness.

Despite different views and definitions of competitiveness in economic theory, most economists agree that the twenty first century will be the period of global economic competitiveness due to the process of globalization in the first place.

In today's open and integrated world economy, competitiveness is something that all countries focus on, no matter whether they are developed, half developed or in transition. According to OECD's definition, competitiveness means the ability of a country to produce such goods (or render such services), under free and equal market conditions, that can successfully find a foreign market. At the same time, the country should be capable of long time increasing its inhabitants' real income.

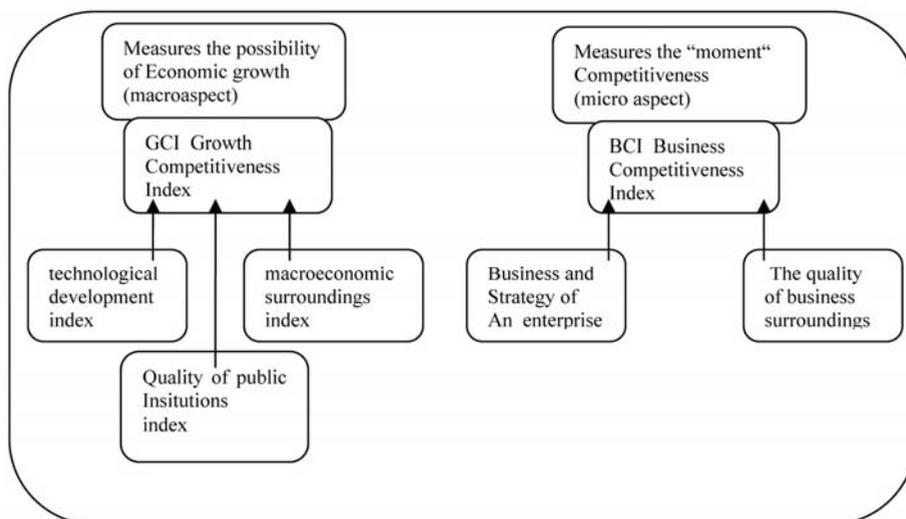
First of all, competitiveness means the expenses control. Enterprises should be organized in such a way that the enterprise value is the main motive of the economic activity. The aim for a leader in an enterprise should be gaining a maximal profit. However, the fact is that some enterprises in Serbia are still in social and government property and therefore the competitiveness of Serbian enterprises is very limited. It is also important to say that enterprises in social and government property dealt on a monopolized market. The competitiveness law is necessary but it hasn't been passed yet.

Successful enterprises do not just adapt to the existing trends but take part in their creation and changing “the rules” and thus influencing increased demand for their products and services. This makes them successful and profitable.

2. Indicators of Competitiveness

The World Economic Forum has been measuring the competitiveness of national economies using the indicators of competitiveness for the last 25 years. The World Economic Forum measures competitiveness by:

- GCI-Growth Competitiveness Index, based on the three main factors of economic growth and competitiveness: macroeconomic stability, public institutions and technological progress.
- BCI-Business Competitiveness Index enhances the series of variables important for an enterprise productivity. Factors that decide the level of productivity are the following: Highly educated staff available, the efficiency of government administration process, infrastructure and research qualities and the strength of pressure the competitors put on the enterprises.



Picture 1: Competitiveness indices

Every year, The World Economic Forum publishes the results of its research grading national economies according to the growth of competitiveness. As it is shown in table 1, Serbian economy from 2001-2008. had a low global competitiveness index although a certain improvement has been made in the last few years (from the rank 96 in 2004. to 85. in 2008.).

Država	GCI 2008	GCI 2007
USA	1	1
Switzerland	2	2
Denmark	3	3
Sweden	4	4
Slovenia	42	39
Croatia	61	57
Montenegro	65	82
Romania	68	74
Bulgaria	76	79
Serbia	85	91
Macedonia	89	94
Bosna and Herzegovina	107	106
Albania	108	109

Table 1: Country ranks according to GCI

(the source: The Global Competitiveness Report 2008-2009., World Economic Forum)

According to the above mentioned data from the table 1, it is clear that Serbia has made a positive movement as to the macroeconomical competitiveness. Still, that is not enough to reach the competitiveness level of other countries like Slovenia, Croatia, Romania or Bulgaria. It is very important to mention that there is positive business surroundings in Serbia and domestic enterprises will be present more on the global market.

As it is said in the World Economic Forum, Executive Opinion Survey, the most important factors (being 60% of all negative factors influencing business in 2008.) are: political instability, no work ethics on the labour market, inefficiency of birocracy, access to financial resources and corruption.

From the above mentioned the conclusion is to be made: Enterprises in Serbia are not competitive because of the following reasons:

1. macroeconomical policy is not defined goal oriented,
2. there are weak institutions not based on the rights and respect for the individual freedom and interests,
3. insufficient investment in modern equipment that can influence increased productivity, technology and staff,
4. business strategy of an enterprise must be changed. Only those enterprises that have noticed the changes on the market on time and those that have been adapting to the changes (proactive and flexible reaction) thereby altering their business strategies, can survive,
5. enterprises carry on their business on the non-functional and inefficient markets,
6. they do not have a good system of corporative management which is partially the result of non existing and inconsistent regulations as well as the public control.

When we talk about competitiveness we shouldn't be only global macroeconomic oriented. We should talk about the very enterprises, products, problems and solutions, with the aim to be efficient on the market. Under such conditions a customer is the one who can and

must make requests for enterprises to act on. A customer buys a product or service thus giving the final evaluation of competitiveness (whether it exists or not).

Therefore, we can say that competitiveness on the market can be reached by:

1. the quality of a product
2. delivery date
3. respect won on the market
4. costs

Nevertheless, there is no doubt that the quality of a product is the most important part of the competitiveness of an enterprise. It was long time ago when you could find products with no quality, unfashionable or “ugly” on some markets. Nowadays, we have a different approach: there is no market for non quality products. Thus, one of the most important and the most difficult tasks for an entrepreneur is making high quality products to be competitive when put not only on domestic ,but foreign markets as well.

In other words, everything that influences competitiveness of an enterprise depends on the system of producing and business; the level of efficiency and productivity; progress, knowledge and technology investment; motivating people. In fact, competitiveness must be realized in production lines and technological processes, machines, research centres and laboratories through advertising and positioning on the market, not through macroeconomical analysis or statistically processed data in surveys. For an enterprise it is essential that competitive products are more present on the market and profitable. That can only be reached with efficient leadership in enterprises.

Analysing the position of Serbian enterprises nowadays, it can be said that they are not capable of gaining access to world markets. This problem is to be dealt with, not only by the management of an enterprise, but the society as well. There is a foreign trade deficit in Serbian economy (larger import than export). We have been insisting on the importance of Serbian producers and promoting them (“buy domestic products”) while some companies dealing with computers, cars and construction machines have been rewarded by state institutions. Those companies have nothing to do with domestic companies or their products.

Conclusion

The last decade of the twentieth century which was very difficult for living and working in Serbia, influenced our enterprises so that they started the process of transition a bit late. However, despite all difficulties in the economy, the basic way to increase competitiveness should be productivity growth and efficiency of economy. Serbian enterprises must be transformed into efficient, market oriented enterprises with more aggressive role on the market, thus becoming profitable. That’s why the main goal of the management of an enterprise is not only reaction to the competitors’ behaviour or presence on the market but more active business attitude of everybody in that enterprise. Thus, it can obtain a longlasting presence on the market and efficiency, as well. To improve competitiveness most enterprises use not only cost but some other non cost elements like: products quality, shelf life, package, warranty period, etc. Our enterprises should be informed what successful companies do to be successful. Under these circumstances, the change of strategy is inevitable as well as moving the focus from the cost to non cost elements of competitiveness.

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INTERNATIONAL BUSINESS ACTIVITIES, GLOBALISATION AND TRANSITION

Abstract

Internationally-oriented enterprises have increased their role in the world economy in the last several years, which has had a positive effect as a growing number of economies is accepting international orientation – participation in international business. The processes of integration in the world economy are visible: numerous political barriers are being removed while those referring to economy and administration are getting smaller. There are more joint investments, non-typical arrangements and strategic alliances. There is a greater geographic distribution of business activities among internationally-oriented enterprises.

Key words: Transition, globalisation, business operations

МЕЂУНАРОДНА ПОСЛОВНА АКТИВНОСТ, ГЛОБАЛИЗАЦИЈА И ТРАНЗИЦИЈА

Апстракт

Последњих година дошло је до повећања улоге међународно оријентисаних предузећа у светској привреди, што позитивно утиче да све већи број привреда прихвата међународну оријентацију - укључење у међународно пословање.

Процеси интеграције светске привреде су уочљиви: уклањају се бројне политичке баријере а смањују се економске и административне. Значајан је раст заједничких улагања, неklasичних аранжмана и стратегијских алијанси. Долази до веће географске дистрибуције пословне активности међународно оријентисаних предузећа.

Кључне речи: транзиција, глобализација, пословање

Introduction

Every country's economic model is built in the conditions of fierce struggle for control over state institutions among the representatives of trans-national and national capital, the world oligarchy and national elites. All these groups have different, usually conflicting interests, share different value systems and use different business tools and methods.

There are two conflicting tendencies in the economic development at the global level today: subjugating the world economy to the interests of the leading world powers and transnational capital, and the competition between national economic systems. Since these

tendencies overlap, there is a great number of various combinations of economic systems. Thus, on one hand, we can talk of powerful national economies where the majority of transnational companies are situated, and in which national interests and the interests of bigger capital are overlapping in the greatest part (e.g. the USA), and on the other, there is a colonial dependency of a large number of economically underdeveloped countries that are dominated by the transnational capital. The majority of countries in the world today are somewhere in between these two extremes, such as the countries of the European Union that have denied national sovereignty in economy on behalf of the European transnational capital.

The world oligarchy refers to a very complex and complicated relationship among the established transnational corporations, banks, scientific, consultancy and law institutions that serve them. Besides these institutions, there are international financial institutions that work in the interest of the oligarchy as well as various formal and informal organisations that influence the public opinion.

Regardless of all this, the world oligarchy is very coordinated in practice for the simple reason that there is a common interest – free movement of transnational capital and subjugating other countries' economies to its interests with the aim of making the maximal profit. The activities and acts of the world oligarchy mean the objective economic interest of bigger capital.

Since the aim of the world oligarchy is achieving its own interests, it tries to weaken the national systems of security, state institutions and national sovereignty replacing them with international law and international institutions. The next aim is destroying the national economic structure by subjugating it to the interests of transnational capital. This is accomplished in different ways, primarily through debts and loans, discrediting the state's authority and its institutions, and influencing the public opinion.

On the other hand, every country's national interest is seen in its need to defend its independancy, to ensure high living standards and welfare of all citizens, then to protect and preserve its own culture and the possibilities to realize its own spiritual values. These interests affect the priorities in international cooperation.

1. International Business Activities

A higher risk present in international business activities is considered to be the basic difference between the domestic and foreign business environment. There are usually political, economic and financial risks in the focus of this analysis. The most common case is the correlation between the risk and the attractiveness of a country – the more attractive the market, the higher the economic and financial risks and vice versa. The political risks can be high even in the markets that are less attractive.

If the market is very attractive and the risk low, financial engagement is possible and ranges from joint investment to direct investment and opening subsidiaries in such markets. If the market is very attractive and the risk high, the undertaken market activities are those that do not entail financial obligations – export businesses and licencing. If the market activities and the risks are somewhere in the middle, limited financial obligations are desirable – that is, joint investment.

There are different ways international activities can be done and these are the following:

- *International trade* (typical businesses of import and export) encompasses the activities enterprises can do directly and indirectly. Export is a suitable way of entering the

international market but it faces serious barriers of both economic and uneconomic character in the modern economy of the world.

- A good deal of world trade has been done via *bargains – Barter or compensation business*. Compensation means exporting goods and services which are paid for through import of other goods and services. Enterprises can deal with breeding business (processing and finishing); here foreign enterprises give their goods to the breeding process.

- *Production cooperation – Coproduction contracts* is a type of cooperation between enterprises from different countries. Domestic and foreign enterprises make a deal to produce a product using certain domestic components and technology and the additional parts and technology of a foreign firm. The country in which the production process is based can thus increase employment and produce the product more cheaply than it would have been if it had been bought directly.

- *Installation production* abroad is a widespread method of production cooperation, mainly looked upon with sympathies in the majority of transition countries. It is a way that helps new economic activities appear and develop in these countries.

- *Licence* is selling the right to a foreign buyer to use part of the firm's assets as stated in the contract, and in the form of the so-called industrial ownership. The assets can be registered at the state's institution in the form of patents, designs and trademarks. The unregistered knowledge is called know-how and it is based on the firm's business experience. The licenced (technological) package is the most common and it contains a patent, a design and the commercial know-how.

- *Technology transfer* can be commercial and non-commercial. Commercial transactions include buying tangible assets and intangible know-how. Licence is used as a transfer mechanism in the situation when a technology user has the ability to absorb the technology. One way to reach technology in today's world economy is copying.

- Franchising is a hybrid form of licencing whereby the user (franchisee) is given by the one who offers (franchiser) a business system and industrial assets (marketing know-how), employees' training and sometimes capital.

- *Joint investment* has a lot in common with licenced agreements but it is a step ahead compared to a partnership consisting of two or more enterprises from different countries. Joint investment is a kind of cooperation present in all business functions.

There are two things important here: choosing a suitable partner and the goals planned to be accomplished through joint investing. As far as the goals are concerned, the first thing to pay attention to is the goal that is to be accomplished, and to see the potential benefits of both partners – in capital, technology, equipment, personnel as well as the institutional conditions (legislative standards and regulations). The share in the ownership ranges from 10-90% but it is usually between 25% and 50%. In most countries, the share of domestic firms has to be at least 51% in investment, credit, transfer.

- *Direct investments* abroad mean buying the existing or building new firms. This is a type of international business activity which requires most the engagement on the part of an enterprise. This is an activity which offers the greatest potential profit or loss. That means that the risk is all present (political, economic and financial); therefore, it is of the greatest importance to select the right country and the right production programme which will guarantee the success of a company. As with all projects, the construction of new facilities requires market analyses, necessary sources availability – finances, raw materials, workforce, tax system, working conditions and the usual ways of doing business in a country.

Direct investment is usually considered a suitable way of ensuring the needed reserves of raw materials, economical production (cheap workforce) and entering an attractive new market. A number of enterprises prefers buying the existing enterprise to investing in a new one. In some cases, joint investment develops into a complete control over the enterprise based abroad.

2. Globalisation and integration of the world economy

The processes of globalisation of business lead to the creation of global goods and services, global branches and global enterprises. The degree of globalisation of enterprises can be measured in different ways among which the important ones are the following: the volume of business activities abroad, the volume of direct investment as well as presence in strategic alliances in the international market.¹

A global enterprise widens its business orientation through and by combining its individual activities with joining other firms and coalitions with others. It is estimated that the creation of the global consumer market is primarily the consequence of the technological development. It is necessary to minimise certain irrelevant differences between countries and to use marketing with the aim of uniting demand at the world level.

Globalisation is a process in which enterprises from different countries can participate. There is no doubt that the existing transnational enterprises have a significant advantage at the very start. It is estimated that the process of globalisation will lead to a certain symmetry meaning that there will be no enterprises solely from one country to occupy a particular branch. It is obvious that some branches and activities are more susceptible to the process of globalisation than others.

Globalisation is characteristic of great interdependence between national economies and the world economy. All countries in the world are interconnected in a multidimensional network of economic, social and political relations. As these relations become more significant and complex, some national economies feel more positive, or more negative effects of general trends in the global economy.

(in percent)	Average 1	Range 2	EBRD (Nov 2008)	European Union (Apr 2008)	IMF (Oct 2008)	United Nations DESA4 (Oct 2008)	Dun & Bradstreet (Sep 2008)	Global Insight, Inc.6 (Jul-Aug 2008)
South-eastern Europe								
SEE-3								
Bulgaria	5,0	2,5	3,8	5,6	4,2	5,4	5,0	4,9
Croatia	4,3	3,0	2,0	5,0	3,7	4,2	4,5	4,4
Romania	5,0	4,5	3,0	5,1	4,8	6,0	4,0	5,6
SEE-5								
Albania	5,7	1,3	5,0	na	6,3	5,5	5,6	5,8

¹ Milisavljevic Momcilo, *Strategijski menadžment*, Belgrade Faculty of Economics, Belgrade, 2000, p. 247

Bosnia and Herzegovina	5,3	1,5	4,5	na	5,0	5,5	5,8	5,8
FYR Macedonia	5,1	2,3	4,7	5,5	5,0	5,0	5,5	3,7
Montenegro	5,5	1,0	5,0	na	5,0	6,0	na	6,0
Serbia	5,5	3,3	3,0	na	6,0	6,0	5,5	6,0
<i>Average Weighted average³</i>	<i>5,2</i>	<i>2,4</i>	<i>3,9</i>	<i>5,3</i>	<i>5,0</i>	<i>5,5</i>	<i>5,1</i>	<i>5,3</i>
	<i>5,0</i>	<i>3,6</i>	<i>3,1</i>	<i>na</i>	<i>4,8</i>	<i>5,6</i>	<i>na</i>	<i>5,4</i>

Table 1: GDP growth forecasts for 2009

Source: EBRD,(2009)

Every country tries to find a kind of balance between its economic independence and a degree to which it will participate in international economy. It is hard to find an adequate reciprocity in every situation, especially when it comes to the countries in transition. There is a growing number of economic problems that a national economy can solve successfully and on its own, with no contact with the outside world.

An enterprise as a whole is said to be competitive if, in the open market economy, its profit rate is that which is characteristic of the group of enterprises to which it belongs both in the domestic and regional (European) economy. The firm's competitiveness depends on a number of internal and external parameters. The internal parameters are the quality of combining and using available factors of production – the quality of production management, the quality of the chosen technology and its application, and especially the quality of the development strategy.

SERBIA	Large scale privatisation	Small scale privatisation	Enterprise restructuring	Price liberalisation	Trade & Forex system	Competition Policy	Banking reform & interest rate liberalisation	Overall infrastructure reform
1989	1,00	3,00	1,00	2,67	2,00	1,00	1,00	1,00
1990	1,00	3,00	1,00	3,67	2,00	1,00	1,00	1,00
1991	1,00	3,00	1,00	3,67	2,00	1,00	1,00	1,00
1992	1,00	3,00	1,00	3,67	2,00	1,00	1,00	1,33
1993	1,00	3,00	1,00	3,67	2,00	1,00	1,00	1,33
1994	1,00	3,00	1,00	2,67	1,00	1,00	1,00	1,33
1995	1,00	3,00	1,00	2,67	1,00	1,00	1,00	1,33
1996	1,00	3,00	1,00	2,67	1,00	1,00	1,00	1,33
1997	1,00	3,00	1,00	2,67	1,00	1,00	1,00	1,67
1998	1,00	3,00	1,00	2,33	1,00	1,00	1,00	1,67
1999	1,00	3,00	1,00	2,33	1,00	1,00	1,00	1,67
2000	1,00	3,00	1,00	2,33	1,00	1,00	1,00	2,00
2001	1,00	3,00	1,00	4,00	2,67	1,00	1,00	2,00
2002	2,00	3,00	2,00	4,00	3,00	1,00	2,33	2,00
2003	2,33	3,00	2,00	4,00	3,00	1,00	2,33	2,00
2004	2,33	3,33	2,00	4,00	3,00	1,00	2,33	2,00
2005	2,67	3,33	2,33	4,00	3,33	1,00	2,67	2,00
2006	2,67	3,67	2,33	4,00	3,33	1,67	2,67	2,00
2007	2,67	3,67	2,33	4,00	3,33	2,00	2,67	2,00
2008	2,67	3,67	2,33	4,00	3,67	2,00	3,00	2,33

Table 2: Transition Indicators

Source: EBRD,(2009)

With regard to enterprises, the external parameters of competitiveness are the conditions in which business is done and which is shaped by the national economic policy –

access to credits, interest rate, tax rate and exemptions, support in investments and development, in export and customs protection.²

It is necessary for an enterprise to have certain potentials if it wants to achieve success in the global market. These are: knowledge, ability, expertise, motivation, people's behaviour and the sources enterprises have. Workers' motivation is especially emphasized as it is necessary for workers to adapt to their environment which is determined by the dominant values within the social standards that create the culture of the enterprise.

Integration between countries is a significant motivator in the process of globalisation.³ There are four phases in the regional economic integration:

The first phase is creating the zones of free trade by which customs and quotas are eliminated.

The second phase means creating the customs union – the joint system of customs and quotas between the member countries.

The third phase includes forming the common market between the member countries.

The fourth phase is creating the economic union which means harmony and unification of the economic policies of the member countries. The European Union is a product of integration and it shows positive economic trends.

Conclusion

The economic goals are opening toward the international economic surrounding meaning the wise use of one's own comparative advantages, attracting foreign direct capital, the international cooperation which should be under national control and which should ensure the protection of the domestic market, the limited volume of foreign investment in those spheres that are of vital national importance, then giving support to domestic producers along with stimulating competitiveness at the national level.

There are different, often conflicting, interests between the representatives of transnational capital and the transition countries. Our country should try to avoid the destiny of a number of small and economically underdeveloped countries in which the conflicting interests were solved in such a manner that the national capital was used as international corporations demanded.

According to the report issued by the European Bank for Reconstruction and Development (EBRD) regarding transition for the year of 2008, Serbia has improved its average mark from 2.7 to 2.85, primarily thanks to the strengthening of the financial sector and trade liberalisation measures. On the scale from one to four plus, Serbia has good marks regarding the process of privatisation of small enterprises and trade (4-), mark (4) for price liberalisation, mark (3) for banks and interest rates. The marks are not so good for competitiveness (2) or overall reforms in infrastructure (2+).

According to the marks of the EBRD, the privatisation of large companies is very slow and it is important to ensure that all tenders and auctions in the future are open and public

² Kovač Oskar, *Konkurentnost i ekonomska politika*, Proceedings, Jačanje konkurentnosti preduzeća i privrede, International Scientific Conference, Megatrend, Decembar, Belgrade, 2005, p. 44

³ Petrović Pero, *Međunarodni finansijski sistem – globalizacija odnosa i tokova*, Finances no.7-8/1999, Belgrade, 1999, p. 412

in order to attract the necessary high quality investments. What also awaits Serbia are the reforms of the energetics, traffic and telecommunications systems. The representatives of the EBRD also stated that, besides Turkmenistan, Serbia is one of the two leaders in reforms and that the crucial thing for its future is the continuity of these reforms primarily in the spheres of education, infrastructure and competitiveness, and also that these spheres should be exempted from economy measures in this time of crisis. The report further says that Serbia has made significant steps towards regional and European integrations as well as in negotiations with the World Trade Organisation (WTO).

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MILK SECTOR OF SERBIA IN TRANSITION PERIOD

МЛЕКАРСКИ СЕКТОР СРБИЈЕ У ПЕРИОДУ ТРАНЗИЦИЈЕ

Апстракт

Пољопривреда, односно аграрни сектор има веома значајну улогу у привредном развоју Србије на шта указују поједини макроекономски индикатори. Учеће пољопривреде у бруто домаћем производу износи око 11%, а ако се томе дода и око 5% учешћа агроиндустрије (која свој развој базира на сировинама пољопривредног порекла) онда учешће аграрног сектора достиже око 16%. Учешће овог сектора у укупном извозу Србије износи око 20% и посебно је значајно да је Србија од 2005. године нето извозник пољопривредних производа, односно значајан фактор уравнотежења спољнотрговинског биланса земље.

Млекарски сектор Србије као један од најважнијих аграрних сектора има значајно учешће како у формирању друштвеног производа пољопривреде, тако и у спољнотрговинској размени, односно извозу. Посебно треба истаћи да је Србија од 2006. године нето извозник млека и млечних производа.

Предмети истраживања у овом раду су, пре свега, проблеми везани за организациону структуру млекарског сектора, промене покова, биланс млека и млечних производа, као и засићеност ових производа у спољнотрговинској размени Србије у транзиционом периоду.

Кључне речи: *млекарски сектор, организациона структура млекарског сектора, биланс млека.*

Introduction

Based on some macroeconomic indicators, the Serbian agriculture, i.e. the agricultural sector, plays the major role in the overall development of its economy. The share of agriculture in the gross domestic product accounts for approx. 11%. The 5% share of the food industry (raw materials of agricultural origin) added raises the share of the agricultural sector to about 16%. The share of the sector in the total Serbian export accounts for approx. 20%. Since 2005 Serbia has been the net exporter of agricultural products contributing to the foreign trade balance of the country.

The share of the Serbian dairy sector in the formation of both the social product of agriculture and the foreign trade exchange, i.e. export, is of major importance. Since 2006 Serbia has been net exporting milk and dairy products.

The aim of the investigation were issues with regard to the organizational structure of the dairy sector, trade tendencies, milk and dairy product balance, their presence in the foreign trade exchange during transition

Serbia family farms as well as commercial farms both private and state-owned are the major milk producers. Cow milk is the principle milk type produced and its share accounts for about 99% of the total milk production in Serbia. Cow milk (approx. 92%) but also most of the sheep and goat milk production predominates in the private sector, i.e. on family farms and privatised commercial farms. The share of agricultural enterprises and agricultural cooperatives in the total milk production has been declining (from 11.2% in 1990 to about 8% in 2006). Currently there are only a few milk producers in Serbia with a prevailing ownership transformation.

A relatively small portion of the total milk production is delivered to dairy plants for further processing. According to the data of the Ministry for Agriculture, Forestry and Water Management (MAFW) more than half of the total milk production is delivered for further processing. The remaining portion of the milk is used on farms to feed livestock and consumed by household members. In addition, farms owning milking cows involve in the processing of milk themselves, producing cheese, cream, etc. meeting own requirements and surpluses are usually sold on green markets.

Milk processing takes place in about 20 bigger (industrial) dairy plants and in approx. 180 small and medium dairy plants. Milk industry is the first food industry branch in Serbia to have undergone the process of ownership transformation. Foreign investments predominated in the process of privatisation.

1. Product flows within the sector

In 2007 total milked milk production amounted to 1.548 million tons, of this about 52% was delivered to dairy plants for further processing (Fig 1.). In the last few years (according to MAFW), the share rose to about 50% and in 2005 it amounted to 54%. The quantity of milked milk kept on farms was about 743 million liters, i.e. about 48%. Most of the quantity was sold on the green market as raw milk or processed on farms (25%) whereas 15% was consumed by household members. The remaining 8% of the total milk production was used as livestock feed.

Fresh milk and fresh dairy products such as yoghurt and cream make up 85% of the industrially processed milk. These are followed by cheese (12%), powder milk and butter, considered the principle products of the Serbian milk industry.

Milk processing takes place in about 20 bigger (industrial) dairy plants and in approx. 180 small and medium dairy plants. According to the data of MAFW in 2007 about 800 million liters of milk were purchased, i.e. approx. 52% of the total production. According to the data of the Business Association for Livestock, i.e. Sector for Milk Production., 25 of its dairy plant members purchases and processes about 600 liters of milk annually (37% of the total milk production). Five dairy plants, members of the Danube Food Group, are the processors of most of the purchased quantities of milk (about 380 million liters), i.e. nearly 23.3 % of the total milk produced in Serbia.

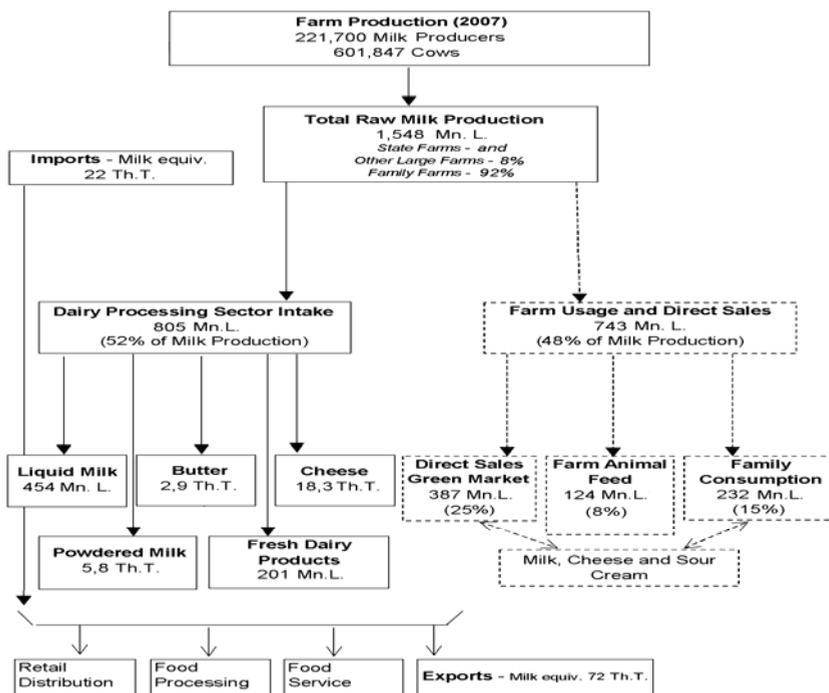


Figure 1 Overview of Serbian milk sector and milk flows, 2007

Source: Authors' estimation based on the data of the Statistical Office of Serbia; Ministry for Agriculture, Forestry and Water Management and consultations held with experts

2. Structural features of the dairy supply chain

In Serbia total number of cows amounts to about 602 000 heads (2007) (Table 1). A declining trend was noted over the analysed period whereby in 2006 the milking herd decreased by 157,637 heads (20.8%) in relation to 2000.

Table 1 Number of cows and milk production in Serbia in 2000–2007*

Year	Cows	milk production		
		Total milk production (000.000 lit)	% cow milk production on family farms	% cow milk production of social (state) farms
2000	759484	1567		
2001	733447	1576	92.0	8.0
2002	699415	1580	90.8	9.2
2003	677559	1577	91.0	9.0
2004	680692	1579	91.8	8.2

2005	672313	1602	91.3	8.7
2006	622167	1587	91.9	8.1
2007	601847	1548	91.9	8.1
I=2006/00*100	79.2	98.8	-	-

*- for the period 2000-2005, situation on 15 January, and from 2006, situation on 1 December

Source : Calculated by authors– based on data taken from documentation of Agricultural Statistics for cited years, The Serbia Republic Office of Statistics, Belgrade

About 97% of total cow number are on family farms and only a small number (21,667 heads, i.e. 3%, 2007) may be found on large social farms. The process of privatisation has contributed to the decline of the number of large social farms and today there are only a few left with about 10,000 milking cows.

The estimated average number of cows is 3 heads per holding which is considerably lower than in the EU-15 (about 32 heads) and EU-25 (about 14 heads). The number of heads ranges from 14 in Greece to 79 in the United Kingdom (2003), i.e. 86 heads in Denmark in 2005 (Eurostat, 2008). The number of cows per holding in the new EU member states is low as well, e.g. Lithuania 2.4 and Romania 1.4 heads.

The production of milk in Serbia has been increasing until 2005. In 2007 the production declined (1.2%) in relation to 2000 (Table 1). The production stagnated and amounted to about 1.6 billion litres. About 92% of total milk production in Serbia originates from family farms and the remaining 8% from social (state) farms (enterprises and cooperatives). Taking into account the process of privatisation it can be concluded that the share of social farms in total milk production declined to about 5%.

Table 2 Milk production and intake of processing capacity of dairy plants in Serbia during 2005-2007

	2005	2006	2007	Index (2005=100)
Milk production (million liters)	1,602	1,587	1,548	97.1
Dairy plant intake (million liters)	813	733	805	99.0
Dairy plant intake (%)	50.7	46.2	52.0	-

Source : Calculated by authors– on the basis of data taken from documentation of Agricultural Statistics for cited years, The Serbian Republic Office of Statistics (SROS), Belgrade and Ministry for Agriculture, Forestry and Water Management, draft (2008)

Based on the available data (Table 2), of the milk produced in Serbia, 813 million liters (50.7%) were delivered in 2005 and 733 million liters (46.2%) in 2006. Of the total production in 2007, 805 million liters, i.e. 52% were purchased. The decline in the quantities of milk purchased from part of the dairy plants may be attributed to lower milk premiums in 2006 and 2007.

In the structure of dairy products production nearly 90% accounts for fresh milk and fresh dairy products (yoghurt, cream). Fresh milk production has been noted to rise (Table 3) along with some oscillations.

Table 3. Trends in dairy production (ten most recent years)

	2000	2001	2002	2003	2004	2005	2006	2007	Index 2000 = 100
Butter t	1687	2339	2675	2307	2215	3645	2912	2970	176
Cheese products t	11700	13722	16696	15755	18781	19279	19976	18263	156
Fresh consumption milk, million L.	319	356	347	396	401	385	395	454	142
Fresh dairy products million l.	98	116	139	150	172	189	192	201	205
Powder milk t	2643	5226	4715	3768	3126	6712	4511	5773	218

Source: Calculated by authors– on the basis of data taken from documentation of The Serbian Republic Office of Statistics

In Serbia there are about 200 dairy plants (of which 20 large industrial and the rest medium and small). Most of the industrial dairy plants in Serbia were taken over by the English Investment Fund Salford–known as DFG– Danube Food Group and currently owns the three biggest dairy plants (Imlek, Mlekara-Subotica and Novosadska) and two medium dairy plants (Zemunska and Zaječarska). The French Firm Bongren is in the ownership of Mlekoprodukt from Zrenjanin and the Croatin Lura has taken over Somboled from Sombor. The remaining, mostly smaller dairy plants, were mostly bought by domestic firms.

Foreign investments played an important role in the dairy sector of Serbia, primarily in the field of specialisation, technical and technological innovations of the sector, and the application of strict quality standards. Small private dairy plants can hardly compete with large privatised dairy plants. Foreign competitiveness has had a significant impact on domestic producers, contributing to their profitability and speciality.

3. Balance sheet on dairy products

The supply and demand balance points to some principle trends in the production, consumption and trade (Table 4). The balance was made by the authors, their estimation based on the data of some relevant institutions. In Serbia the production of milked milk has been increasing since 2000, despite its stagnating 1.6 billion liters. Since 2006 export has been greater than import and Serbia is known as a net exporter of milk and dairy products. Both production and import, minus export and changes in the supplies offer sufficient quantities for domestic consumption. According to the FAO data for both Serbia and Montenegro the consumption of milk was stable and amounted to about 160 per capita of fresh milk during 2000-2003. Based on the authors' estimation total milk consumption in Serbia amounts to about 180 liters per capita which is in accordance with the data of the poll conducted by the Serbian Statistical Office. Self-sufficiency rate was raised from 98.5% in 2001 to more than 103% over the past years.

Table 4 Supply/demand balance sheet on dairy products (in 000 tons equivalent of milk)

	2001	2002	2003	2004	2005	2006	2007
Production	1576.4	1579.7	1576.4	1579.0	1602.0	1586.8	1548.5
Imports	17.2	24.1	17.4	26.5	17.1	14.4	22.3
Exports	6.4	6.7	10.8	9.2	22.8	72.6	72.1
Supply available	1587.2	1597.1	1583.0	1596.3	1596.3	1528.6	1498.7
Human consumption	1382.1	1391.2	1377.8	1389.9	1387.6	1322.0	1297.2
Av. Cons. Per capita	184.2	185.5	184.2	186.3	186.5	178.2	175.3
Self-sufficiency rate (%)	98.5	98.9	99.6	98.9	100.3	103.8	103.3

Source : Calculated by authors–on the basis of data taken from documentation of Agricultural Statistics for cited years, The Serbia Republic Office of Statistics (SROS), Belgrade and data of the Ministry for Agriculture, Forestry and Water Management, Draft (2008).

4. Export and import of milk productions

Since 2005 Serbia has been a net exporter of agricultural commodities. The net export value of milk and dairy products has significantly increased since 2006 surpassing the net import value, i.e. Serbia has become a net exporter of these products. This is primarily due to increased export to Montenegro whose market has become an exporting one for Serbia since May 2006. The share of milk and dairy products in the structure of total export of agricultural commodities increased by about 1.6% in 2000 and to more than 3% in 2006 (Table 5).

In addition, the milk and dairy product import value increased in 2007 (2-fold in relation to the previous year). The share of milk and dairy products in the import value structure of food commodities was noted to decline (from 2.4% in 2000 to 1.3% in 2006). The same value increased to 2.1% in 2007.

Table 5 Export and import, major destinations and origins, share of import and share of export of production (2000-2007)

	2000.	2001	2002	2003	2004	2005	2006	2007
Export (mil. USD \$)	1558	1721	2075	2756	3523	4482	6427.9	8824.8
Total Agro-food products	295.6	316.7	534.1	584.0	800.1	924.4	1265.6	1685.8
Of which Dairy *	4.7	4.8	5.2	8.9	8.6	11.8	423	54.7
Montenegro (%)			-	-	-	-	61.8	63.7
Macedonia (%)			43.5	33.8	58.9	61.3	15.5	17.1
Bosnia & Herzegovina (%)			48.8	56.9	31.7	35.8	19.3	17.1
Other countries (%)			7.7	9.3	9.4	2.9	3.4	2.1
Imports (mill. USD \$)	3330	4261	5614	7477	10753	10461	13172.3	18553.6
Total Agro-food products	286.7	453.1	548,7	654,2	855,6	772,8	905,6	1122,1

Of which Dairy *	6.8	6.4	10.7	11.5	18.2	12.4	11.6	24.0
EU (%)			96.3	89.8	74.2	76.5	84.9	77.2
Croatia (%)			1.3	6.4	8.6	12.6	5.9	11.1
Bosnia &Herzegovina (%)			2.4	1.7	9.1	6.3	5.3	10.1
Other countries (%)			-	2.1	8.1	4.6	3.9	1.6

*- refers to export and import value of milk, dairy products and eggs

Source: Calculated by authors– on the basis of data taken from documentation of The Serbian Republic Office of Statistics

The major export destinations are former Yugoslav republics, CEFTA members: Macedonia, Bosnia and Herzegovina. Since 2006 Montenegro has become the principle destination with a 60% share of total dairy exports. However, due to the lacking regulations for obtaining the certificate on milk and dairy products quality these products are still banned for export. Milk and dairy products are primarily exported to former Yugoslav Republics and having signed CEFTA the Serbian export has been left without export stimuli.

Milk and dairy products are primarily imported from EU member countries (Germany, Italy, France, Hungary, Slovenia) although there has been a decline of EU's share of these products in the import structure (from 96.3% in 2002 to 77.2% in 2007). Significant quantities of dairy products are also imported from Croatia and Bosnia and Herzegovina with an increasing trend of the share.

Conclusion

In Serbia milk is produced on family farms and commercial farms, both private and state-owned. The greatest share of cow milk production (about 92%) and almost all sheep and goat milk production in Serbia is concentrated in the private sector, i.e. family farms. Almost 50% of the total production is purchased, and the remaining quantities are used on the farm (natural consumption of household members and animal feed), i.e. sold on green markets both fresh and processed. Milk processing takes place in about 20 larger (industrial) dairy plants and about 180 small and medium dairy plants.

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BANKS IN SERBIA NEED TO IMPROVE THEIR CUSTOMER RELATIONSHIP MANAGEMENT

Abstract

Serbia, as well as all other transition economies, are faced with numerous problems: high trade deficit, too public spending, institutional framework that makes it difficult further privatization of social and state sector, insufficient foreign direct investment inflow, low companies' competitiveness as well as many other problems. Each of these problems requires a thorough analysis and a whole range of measures for a successful resolution. However, in this paper the intention is to focus on banks in Serbia, as very important factors of economic growth and development, and to point out the way in which they can improve their business performance and competitiveness. On the Serbian market, there are thirty-four banks, bearing in mind the number of inhabitants in the country and the development of the economy, it can be concluded that competition between banks is extremely sharp, and only banks which are able to attract and retain the most profitable customers will survive in the future. Therefore, the aim of this paper is to point out the Customer Relationship Management-CRM, as a strategy that banks may use in order to increase competitiveness and create long-term relationships with their most profitable clients. Also in the paper are presented results of research conducted on a sample of banks in Serbia. Findings get insight into to the extent that banks in Serbia are familiar with the Customer Relationship Management, and the level of implementation Customer Relationship Management processes in their business. On the basis of professional literature, positive experiences of foreign companies that successfully implement CRM, as well as the results of the research conducted in the banks in Serbia, it can be concluded what are the basic weaknesses in CRM in the banks in Serbia, what they can do to overcome the problems, and which benefits they can achieve.

Key words: Customer Relationship Management, Competitiveness of Banks in Serbia, Transition, New Economy

POTREBA ZA UNAPREĐIVANJEM UPRAVLJANJA ODNOSIMA SA KLIJENTIMA U BANKAMA U SRBIJI

Апстракт

Srbija, kao i sve ostale tranzicione ekonomije, suočava se sa mnogobrojnim problemima: visokim spoljnotrgovinskim deficitom, prevelikom javnom potrošnjom, institucionalnim okvirom koji koči dalju

privatizaciju društvenog i državnog sektora, nedovoljnim prilivom stranih direktnih investicija, nedovoljnom konkurentnošću kompanija kao i mnogim drugim problemima. Svaki od navedenih problema zahteva temeljnu analizu i čitav niz mera za uspešno rešavanje. Međutim, u ovom radu namera nam je da se fokusiramo na banke u Srbiji, kao veoma bitne činioce privrednog rasta i razvoja i da ukažemo na način na koji one mogu unaprediti svoje poslovanje i konkurentnost. Naime, na tržištu Srbije posluju trideset i četiri banke, imajući u vidu broj stanovnika u zemlji i stepen razvijenosti privrede, može se zaključiti da je konkurencija između banaka izuzetno oštra i da će u perspektivi opstati samo one banke koje budu u stanju da privuku i zadrže najprofitabilnije klijente. Stoga, je cilj ovog rada da ukaže na upravljanje odnosima sa klijentima-CRM, kao strategiju koju banke mogu koristiti radi povećanja konkurentnosti i izgradnje dugoročnih odnosa sa svojim najprofitabilnijim klijentima. Osim toga u radu se prezentuju rezultati istraživanja vršenih na uzorku banaka u Srbiji, kojima sa dolazi do saznanja u kojoj meri su banke u Srbiji upoznate sa strategijom upravljanja odnosima sa klijentima, kao i koje procese upravljanja odnosima sa klijentima i u kojoj meri primenjuju u svom poslovanju. Na bazi analize stručne literature, pozitivnih iskustava stranih kompanija koje uspešno primenjuju CRM, kao i rezultata istraživanja sprovedenih u bankama u Srbiji dolazi se do odgovora na pitanja šta su osnovne slabosti u upravljanju odnosima sa klijentima u bankama u Srbiji, preporuka za prevazilaženje uočenih problema i koristi koje banke mogu ostvariti od adekvatne primene CRM-a.

Cljučne reči: *upravljanje odnosima sa klijentima, konkurentnost banaka u Srbiji, tranzicija, nova ekonomija*

Introduction

All companies in the world are faced with dramatic changes in the environment, which influence their business. Namely, the new economy in which banks operate today is characterized by: the global character of the economy, significant competition, increasing the importance of science and technology, the great importance of intangible assets which consists of the establishment of long-term relations with customers and partners, knowledge and skills of employees, image, brand and tradition. In such circumstances it is very difficult to achieve competitive advantage. If the bank fails to find a way to be differentiated on the market, by offering customers greater value, it may face a large problem, so much that its final repercussion can lead to complete disaster and the termination of the bank. Without customers there is no existence of any company, no matter how great it is and which the business deals. Therefore, attracting and retaining customers should be the primary goal of every company on the market, and so the banks in Serbia.

Information era in which clients today live allows them twenty four hour access to banks, which causes changes in their behavior. More and more, clients become better organized, well informed, and more curious. Today it is believed that they are

independent, individualist, informed and actively involved. Even more, banks encourage clients to participate in active dialogue with them, because the clients' knowledge becomes very relevant as a possible source of new ideas. This knowledge should be implemented in the bank in order to achieve competitive advantage through optimizing and customizing customer service and creating new services. In the new economy clients are the key resource of the bank and therefore, banks must consider all business aspects from the client's point of view. It is not enough to wave flags which states that the buyer is king. Today banks need completely new strategy to make clients loyalty. And when it seems to meet clients needs become more than ever before a mission impossible, CRM strategy appears as a solution that can help the bank to find out the way of attracting and retaining the most profitable clients.

1. The customer relationship management processes

The lack of clarity about Customer Relationship Management-CRM definition is evident in the literature and practice. Moreover, the definitions and descriptions of CRM used by different authors and authorities vary greatly. At one extreme, CRM is defined as a particular technology solution. For example, Khanna¹ defines CRM as an e-commerce application. But from the opposite point of view CRM is not simply an IT solution to the problem of getting the right customer base and growing it. CRM is much more. It involves a profound synthesis of strategic vision, a corporate understanding of the nature of customer value within a multi-channel environment, the utilization of the appropriate information management and CRM applications and high quality operations, fulfillment and service.² According to Stone³ CRM is a term for methodologies, technologies and e-commerce capabilities used by companies to manage customer relationships. According to Wilson⁴ CRM is a concept that enables an organization to tailor specific products or services to each individual customer according to his or her need. In the most advanced scenario, CRM may be used to create a personalized, customized, one-to-one experience that will give the individual customer a sense of being cared for, thus opening up new marketing opportunities based on the preferences, previous behavior and history of the customer. Fayerman⁵ said that CRM as a customer-focused business strategy that aims to increase customer satisfaction and customer loyalty by offering a more responsive and customized services to each customer. However there is no universal explanation of what CRM is, since the area is fairly new and still under development. In our opinion, it is important to know that numerous

¹ See: Khanna, S., Measuring the CRM ROI: show them benefits, 2001. www.crm-forum.com.

² See: Payne A., *Handbook of CRM: Achieving Excellence in Customer Management*, Elsevier, Oxford, 2005.

³ See: Stone, M., Woodcock, N., Defining CRM and assessing its quality, in Foss, B. and Stone, M. (eds), *Successful Customer Relationship Marketing*. London: Kogan Page, pp. 3–20, 2001.

⁴ See: Wilson, H., Daniel, E., "McDonald, M, Factor for Success in CRM Systems", *Journal of Marketing Management*, (18)1, pp. 139-219, 2002.

⁵ See: Fayerman, M., „Customer and their brands", *Journal of Consumer Research*, (2)2, pp. 350-355, 2002.

attempts to defining CRM exist and the many organizations adapt the definition to their business and unique needs.

Not only that there are different attitudes about the definition of CRM, but there are a number of different approaches about CRM processes. In this paper we are point out the Payne's CRM framework which is consisted of five related and integrated processes. Those five processes are⁶

- Process 1: the strategy development process
- Process 2: the value creation process
- Process 3: the multi-channel integration process
- Process 4: the information management process
- Process 5: the performance assessment process

The strategy development process is the first in a series of processes that the bank should consider if it wants to successfully implement CRM program. This process is extremely important because it determines the general goals and parameters of which depend on all of the following CRM activities. The strategy development process demands focus on the determination of business strategy and customer strategy and it ensures that they are integrated. It is very important to understand how business strategy influences the creation of customer strategy. But it has to be noticed that the first process of customer relationship management doesn't mean creating business strategy. It only represents the need of understanding business strategy, in order to understand the direction in which the bank wants to go. That in turn, allows CRM to focus on key activities. If the CRM activities are not in accordance with the business strategy, they can lead to increased efficiency and effectiveness of operations, but rarely to achieve competitive advantage.

The value creation process is crucial to transforming the outputs of the strategy development process in CRM into programmes that both extract and deliver value. Bank should achieve the ideal equilibrium between giving value to clients and getting value from clients. It means that bank should provide clients with value that would satisfy and delighted them on the one hand, but at the other hand bank has to think about profit that can receive from its clients. Three main determinants of client value perception are: client's expectations, service quality perception and banks image.⁷ So bank should try to manage all of these three determinants. First it is necessary to identify the content and form of the clients' expectations, in order to deliver a service that can be relatively superior in comparison to the competition. Then it is important to provide clients with those service quality dimensions which they perceive as the most valuable. And in the continuity bank should try to create a positive corporate image because it reflects positively on the clients' value perception. However, as we have already mentioned CRM doesn't mean only the value that bank delivers to the clients, but also the value it receives. Namely, it is very important that bank considers strategies to attract and retain

⁶ See: Payne A., *Handbook of CRM: Achieving Excellence in Customer Management*, Elsevier, Oxford, 2005.

⁷ See: Fornell, C., Johnson, D. M., Anderson, W. E., Jaesung, C., Bryant E., B., „The American Customer Satisfaction Index: Nature, Purpose, and Findings“, *Journal of Marketing*, 60(4), 7-18, 1996.

customers, as well as to determine the profitability of its clients, in order to be able to focus on those clients who are the most profitable.

The third very important aspect of development and implementation of CRM is the existence of a large number of contact points between bank and client, which bank has to manage. Until recently banks serve their clients only through the sales staff. But, in today's business environment, most banks are facing with their clients through different channels including service staff, ATMs (cash machines), card, smart card, e-banking and TV banking. Providing quality services in new as well as traditional channels is important for banks wishing to meet the expectations of today's clients. However, many banks do not seem to recognize the need to maintain equally high standards of service across all channels. The quality of a bank's service is only as high as the weakest link in their channel offer and the bank needs to uphold the same high standard of service and client experience in all channels. If one of the channels does not function, the client will be disappointed. Therefore, it is necessary to successfully integrate several different channels. The multi-channel integration process involves making decisions about the most appropriate combination of channel participants and channel options through which to interact with bank's clients base, how to ensure the client experiences is highly positive within those channels and, where the client interacts with more than one channel, how to obtain and present a single unified view of the client.

The information management process is concerned with two key activities: the collection and collation of customer information from all customer contact points and the utilization of this information to construct complete and current customer profiles which can be used to enhance the quality of the customer experience, thus contributing to the value creation process. Selecting the appropriate IT hardware, software and systems to achieve this can be a challenging task, given the constraints of legacy systems, the enormous range of technology options and the uniqueness of every business situation. The growing variety of CRM tools and services on offer from IT vendors further complicates the questions of what constitutes the best CRM solution and whether to source the IT infrastructure externally or to construct it using internal expertise. Whatever option, or combination of options, is pursued, the underlying principle is that the IT infrastructure should create a nerve centre, integrating disparate client data into client interactions that create superior client experiences.

The last of the five processes that constitute the CRM strategic framework is the performance assessment process. The performance measurement systems adopted by organizations in the past have tended to be functionally driven. Thus, financial measures were mainly the concern of the Board and the finance department, marketing measures the domain of the marketing department and people measures the responsibility of the HR department. Such a functional separation of performance measures is inappropriate for CRM, which involves a cross-functional and holistic management approach. According to an AMR Research study, many CRM projects fail to provide real, reportable business ROI due to the lack of measurements.⁸ The inability to align the correct metrics across the business enterprise was a critical reason for such failure.

⁸ See: Preslan, L., *Aligning Customer Investments with ROI, Metrics, and Enterprise Performance Management*. AMR Research Report, August 12, 2003.

Traditional metrics that drive functional excellence often produce sub-optimizing performance. Kaplan⁹ introduces the concept of the balanced scorecard that compliments financial measures with operational measures on customer satisfaction, internal processes and organizational innovation. Khirallah¹⁰ points out that common measures of CRM today are largely sub-optimal and default quickly to sales and marketing. It further proposes a CRM balanced scorecard to include multiple variables in measurements. However, in order to improve the performance of its CRM activities, a company must develop its own composite set of measures based on its own success maps. Such efforts to develop individually tailored and relevant performance assessment processes are critical, given the high incidence of reported CRM failure and the impressive returns for those who achieve CRM success.

2. The level of implementation of customer relationship management processes in the banks in Serbia

Research study was conducted on the sample of five banks in Serbia, in order to find out the extent that banks in Serbia are familiar with the Customer Relationship Management, and the level of implementation of Customer Relationship Management processes in their business.¹¹ During the research conducted in the sample of banks in Serbia, we found that in three of five banks managers clearly understand the meaning of CRM, while in the two banks they were not completely familiar with the CRM strategy and the manner of its implementation. Then, three of the five surveyed banks have clearly defined business and clients strategy, which provide an adequate starting point for further development of CRM activities. However, in the other two banks business strategy is well defined, but they don't have clearly defined clients strategy. Therefore, the main recommendation for these two banks is to precisely define the clients strategy as a starting point for further CRM activities.

The value creation process is very well-implemented in the three banks. They concern about clients expectations and make efforts to deliver services that will meet and even exceed customer expectations. In the other two banks some of the activities in the value creation process are well implemented, but some of them don't. Namely, these banks also take care about clients expectations and service quality, but their focus is on the attracting new clients, and they don't try enough to satisfy their existing clients base. Different banks put emphasis on different quality dimensions, but the most emphasis they put on the reliability, speed and empathy. All these dimensions are some of the most important quality dimensions of banking services. Therefore, we can conclude that the banks in Serbia, put the emphasis on the appropriate elements of services quality and

⁹ See: Kaplan, R.S., Norton, D.P. „The Balanced Scorecard – Measures That Drive Performance”, *Harvard Business Review* 70(1), pp. 71-78, 1992.

¹⁰ See: Khirallah, K. “Customer Relationship Management: How to Measure Success?” *Bank Accounting & Finance (Euromoney Publications PLC)*, 13(4), pp. 21-28, 2000.

¹¹ See: Ćirić, M., *Upravljanje odnosima sa klijentima u bankama*, doktorska disertacija, Univerzitet Privredna Akademija, Novi Sad, 2009.

value, but they need to do more on service customization and the retention of the most profitable clients.

In all five banks in Serbia, there are all channels that we mentioned. Unfortunately, these channels aren't integrated in all five banks, because in some of those banks there is no adequate IT system. In the two banks the channels are completely integrated, in the one bank they are partly integrated, and in the other two banks there is no multi-channel integration. However, management is trying to provide maximum value in all contact points, by well educated sales staff, several different cards that are well designed and offer different services and e-banking which is an innovation on Serbian market.

The biggest shortcomings in the implementation of CRM in banks in Serbia are the lack of appropriate information technology support. Namely, very large investments are necessary to create well IT structure for successful CRM. So, a unique data warehouse and analytical tools haven't been implemented yet in all the banks, and IT systems and front office and back office applications should be improved. Only one bank has the appropriate information technology structure, and one plan to modernize it. But, the other three surveyed banks don't have the necessary information technology support that which is required for customer relationship management. So the investments in to the IT have to be one of the banks priorities in future business.

The results of the research in the banks in Serbia showed that in the all examined banks there are performance measurement systems that are functionally driven, and no managers are familiar with new concept as balanced scorecard. Therefore, it is very important for banks in Serbia to upgrade and update the performance assessment processes, because it is the only way to get a real data about the degree of improvement that CRM brings to the bank. Real information about the improvements is very important since it is the motivation for the continuation of efforts that the bank should make in order to achieve the benefits from CRM.

3. Expected benefits from customer relationship management

Research conducted in 2006. in the EU has confirmed that companies which haven't implemented CRM on average lose 50% of their customers every five years, about 65% of all lost customers are left because of bad service and communication, costs of attracting a new customer are five times higher than the costs of retaining the existing one. While companies that have implemented the concept of CRM have growth almost 60% faster than the competition which haven't developed CRM, expand the market for 6% per year, charged 10% more for their products, make a return on investment (ROI) of 12%, and increase in customer loyalty of 5% may result in increasing profitability by 25% - 85%.¹² According to Swift¹³ bank can get a lot of benefits from CRM. He goes on to say that these benefits could be found in these areas: higher customer retention and loyalty, increased customer profitability, evaluation of customer profitability, reduced

¹² See: Domazet I., Unapređenje konkurentnosti preduzeća primenom CRM strategijskog koncepta. www.ien.bg.ac.yu/snimanje/wp06-3.pdf

¹³ See: Swift, R. *Accelerating Customer Relationships Using CRM and Relationship Technologies*, Prentice Hall PTR, Englewood Cliffs, New York, 2001.

cost of sales, lower cost of recruiting customers, no need to recruit so many customers to preserve a steady volume of business. Crosby¹⁴ argues that, by using customer information wisely to deliver what customer needs, companies will create long-term, collaborative relationships with the customers. He further states that, this will bring many benefits since long-term customers are less costly to serve and smooth-running relationships are less resource intensive. CRM is a very big tool that contributes so much to profit indicated by Newell¹⁵ Further more he stated that if organizations could transform the customer data into knowledge and then use that knowledge to build relationships it would then create loyalty and thereby creating profit. Thompson¹⁶ argues that if CRM is a successful business strategy then it should help the organization to grow profitably and create a competitive advantage. He found in an online CRM Guru study of more than 1000 CRM projects and initiatives that the top four expected benefits were increasing customer loyalty, gaining competitive advantage, increasing sales and increasing profitability. Also increasing productivity and executive decision-making, cutting costs or expenses were some of the expected benefits from CRM initiatives. The study concluded that CRM activities and initiatives have a positive impact on a company's performance.

The empirical example of the benefits that a bank can achieve by implementing CRM is the Nordea Bank. Nordea is the largest financial services group in the Nordic region. Nordea is also one of the world-leading Internet banking and e-commerce operations. Nordea was formed base on the philosophy of creating new possibilities. The bank's focus is to concentrate on creating value for its customers and shareholders. Nordea began its CRM project in 2001. The benefits it achieved were: increased customer satisfaction that lead to customer loyalty and therefore higher profitability; cost saving and reduction; better image; and number of awards, for example the best private bank in Sweden in 2004. In February 2009 year Global Finance magazine has published an update of its much respected 'Safest Banks' listing. Nordea was ranked in 22nd place and number one overall in the Nordic region. Therefore, there are so many arguments that indicate the benefits can be achieved by well implementation customer relationship management.

Conclusion

Banks in Serbia are faced with a lot of problems: they have to do their business in the condition of transition from a socialist to a market-based economy; standard of living is low; GDP should be higher; there is a lot of banks on the market and the competition between them is high; world economic crisis has influenced Serbian economy as well. In such circumstances attracting and retaining every profitable client is a very demanding task. Customer relationship management is a strategy that has been

¹⁴ See: Crosby, L. A., „Exploring Some Myths about Customer Relationship Management“, *Managing Service Quality*, 12(5), pp.271-277, 2002.

¹⁵ See: Newell, F, *Loyalty.Com, Customer Relationship Management in the New Era of Internet Marketing*, McGraw-Hill, 2000.

¹⁶ See: Thompson, B., *Successful CRM: Turning Customer Loyalty into Profitability*, 2004. www.crmguru.com

already successfully implemented in many companies in the world. In this paper we mentioned the example of the Nordea Bank which improved their business performance, by implementing CRM. In the paper, we also pointed out a lot of benefits that banks can achieve if they implement CRM. The most important benefits are client satisfaction and loyalty, which would in turn increase banks profitability and competitiveness. According to research conducted on the sample of five banks in Serbia we can conclude that there are discrepancies between the different banks on the level of CRM implementation. In some banks, some processes are very well implemented, while in the other there are certain gaps. However, the key problem in the majority of banks in Serbia is the lack of suitable IT platform for the successful information management process and managers don't use modern methods for the performance assessment process. Therefore, it is necessary that banks' managers focus on the removal of the mentioned shortcomings in the near future. If the banks' managers are more oriented to the implementation of CRM, and if they well implement all processes explained in this paper, then they can expect many benefits of a CRM. Managers and employees in the banks in Serbia have to be aware of the fact that only if they have great base of profitable clients they can survive on the long-run.

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BOOK-KEEPING EVIDENCE AS POSSIBILITY FOR FAMILY HUSBANDRY IMPROVEMENT IN THE PERIOD OF TRANSITION

Abstract

In transition of one economy, the state has catalyst role, as through physical and institutional infrastructure, as well as through public sector, to eliminate market obstacles, supports development, technological progress and education, especially in following activities: energetic, agriculture and telecommunications. Key fault in transition is opinion that drastic changes should be made at once, big institutional changes have to be done as soon as possible, and reality should be put into the frame of on that way artificially created institutions.

In transitional countries, foreign direct investments have financial dimension, but also they are significant for competitiveness and innovations stimulation, initiation of new technologies, improvement of employees' skills and knowledge, primarily managers. Investors strive to find: natural resources, market, strategic property and to increase their own efficiency and inclusion into the global economic courses.

Family husbandry represents one of the basic segments of economic and social activities in agriculture, as one of the important economic activities for the country in the transition process. Its crucial characteristic, which makes it different from other subjects, is dual content of its function. Within are concentrated, both family and husbandry, i.e. in it are realized both, productive and consumptive activities.

In countries with high-developed agriculture, long time ago, had been observed a need for following and analyzing of the family husbandries business results. However, in our country is still not determined concept and obligation for accounting conduction on the husbandry. This paper represents an effort to analyze necessity of book keeping evidence conduction, as a base for improvement of family husbandry and possibility for better agriculture's competitiveness.

Key words: *transition, agriculture, husbandry, book keeping, competitiveness*

КЊИГОВОДСТВЕНА ЕВИДЕНЦИЈА КАО МОГУЋНОСТ УНАПРЕЂЕЊА ПОРОДИЧНОГ ГАЗДИНСТВА У ПЕРИОДУ ТРАНЗИЦИЈЕ

Апстракт

У транзицији привреде, држава има капитализаторску улогу, преко физичке и институционалне инфраструктуре, као и преко јавног сектора, да олакша пражине баријере, подржава развој, технолошки прогрес и образовање, а посебно у делатностима: енергетике, пољопривреде и телекомуникација. Кључна грешка везана за транзицију је мишљење да одмах треба највише колосалне промене, што је донели обухватне институционалне промене и стварности ограничени у оквиру тако вештачки створених институција.

У земљама у транзицији, стране директне инвестиције имају финансијску димензију, али су исто тако битне и за подстицање конкуренције, иновација, увођење нових технологија, побољшање вештина и знања запослених, пре свега менаџера. Инвеститори настоје да пронађу: природне ресурсе, највише, стваришну имовину, те да повећају сопствену ефикасност и укључе се у глобалне економске токове.

Породично газдинство представља један од основних сегмената економских и друштвених активности пољопривреде, као једне од важнијих делатности привреде земље у транзицији. Његова битна карактеристика, која га одваја од других субјеката, је дуални садржај његовог деловања. У њему се концентришу и породица и газдинство, односно у њему се одвијају и производне и појироине активности.

У земљама развијене пољопривреде, одавно је уочена потреба праћења и анализе пословних резултата породичних газдинстава. Међутим, у нашој земљи још увек није успановљен концепт и обавеза вођења књиговодства на газдинству. У овом раду је учињен покушај анализе неопходности вођења књиговодствене евиденције, као основа за унапређење породичног газдинства и могућности боље конкурентности пољопривреде.

Кључне речи: транзиција, пољопривреда, газдинство, књиговодство, конкурентност

Introduction

Transition and globalization are connected themes. Globalization is complex mechanism of interdependent, which gives *advantage* to certain countries and their elite's, pushing in the side, or marginalized others. It brings to new world politically-economic order. Because of asymmetric possibilities, globalization creates winners and losers. Main winners are politically the strongest states with their economies. In the economy of globalization it is usually started with liberalization, and than it is prolonged with gradual integration of goods, capital and labor markets. Foreign capital, which represents foreign savings invested in public and private active capital of some other economy, has influence on aggregate offer and demand, prices of products and services, prices of production factors, and of course, on foreign currency exchange course. On that way liberalization leads to decreasing of heterogeneity of local markets, so in ideal situation global companies sell their products, there where the prices are the

highest, take a loans (capital) where it is the cheapest, utilize other production factors where the costs are the lowest and organize production where exists the best conditions. However, deeper analyses shows that liberalization creates only the possibilities for development, while from other factors depend intensity of this possibility usage. Benefits from globalization could have small economies and countries too, if they have good constellation of geopolitical and competitiveness factors, and adequate strategy of integration, as for example Slovenia and Finland.

Serbia is one of the biggest losers of globalization. Reasons for that could be found partly in misapprehension of geopolitical trends by the local political elite, on the beginning of transition (1989.), and partly in crucial, one-sided and capricious action of *international community*. Strategically observed, Serbia does not have major deposits of natural resources, which could be basement for its better geopolitical positioning, and/or increment of its economic activity. Also, offer of labor force is inadequate. Negative effect, caused by disintegration of Yugoslavia, brings to fall of demographic activism, growth of demographic risks and appearance of social pathologies, which are devaluated industrial mentality and tradition of agricultural production. On the Serbian example, once more is shown, that in reforms somebody who lose time, he lost everything.

Situation in Serbia is so much chaotic, that every transfer of economy under the action of market legality could cause the state of deep shock. Hitherto growth rhythm does not guarantee stability, macro economical and political. Level of economic activity is still low, inflation increased, market of capital is in fall, investments go into the unproductive areas, influx of foreign direct investments is dropping down, debt is growing, etc. One of the tasks of the experts is to point out all fatal consequences of the negative transition effects ignoring, and to give constructive proposals from their fields of competence.

1. Economic determinates of family husbandry

Establishment and development of new private sector into the transitional countries is done, at first place, under contribution of privatization processes and creation of fresh companies. Due to these processes and some other factors, during the transition process in the Central and East European countries, powerful private sector in which dominate small and medium companies is established. In compare with underlined regions, new private sector in Serbia started with its intensive development later and today it represents really important, most efficient and most competitive part of the economy.

In contrast to companies, husbandry, as production unit, are closely connected with household, as consumption unit. Also, household is major resource of manpower. It distinct agricultural company from non agricultural, separates husbandry from other actors in agriculture: land owners, rural entrepreneurs, even from agricultural workers. All of them could deal with agricultural activities, but it is not obligatory. Access to the land represents essential characteristic of the family husbandry. Except economical importance, it provides long lasting safety, social status in rural community, etc. In his aspiration for better use of grew up agro technological capacities, farmer have to increase his land resource. Family labor force represents basic characteristic of family husbandry. Their usage explains internal economy potentials, as: high motivation, better knowledge and experience of some production factors – own land parcel, own cattle, etc. Achieved profit on invest capital, as control of assets and

accumulation, is also relevant clause of family husbandry, especially in the part of production which is not dedicated to the consumption by them self, so it is exposed to checking on the market. How exists integration of production and consumption into the arms of one entity, and how all production factors could not be reduced on invested capital, it should be pointed on two groups of problems. At first, how to determine profit on invested capital into the frame of kinship character of labor force, where is strictly kept on working abilities and individual needs, which are of course different and depends on age, gender, personal preferences, etc. Second is how to estimate profit on long term invested capital, which is used in all activities on household. For example, tractor is bought for the works on the husbandry (tilling, etc.) and for household consumption (transport of wood for firing, etc.), because of prestige purposes, or to make agricultural activities easier, etc.

Expenditure represents characteristic of family husbandry which closely determinate it according to other producers, which also work with family labor force and/or with its personal labor, with its own production assets – craftsman, shops, etc. Self supply with agricultural products, which is only present at his estate, enables vitality, traditionalism, but also adaptivity to changes. Degree of naturality – self supplyment of family husbandry, tells of its partial integration into market economy and determines its resistency to market changes or government measures. It is necessary to point that non husbandry is fully natural; each one brings to the market at least small part of its production, including also inter farms sale. Vice versa applies, none husbandry produces all necessary products for personal use or nutrition, so in that part of reproduction, and not only in part of industrial inputs, is turned to market.

2. Principle of book-keeping evidence on family husbandry

Book-keeping is the essential part of accounting, because it represents base for all parts of accounting as a unit. Through book-keeping evidence, chronologically and systematically are noted all business changes done by one economy entity. By book-keeping evidence motion is followed and state of entity's assets declared, as by its structure, as by liabilities too. Conditions certain assets' part and liabilities are, is shown in balance sheet. However, it is necessary, by book-keeping, to systematically monitor all changes that occurred in certain period, to record the time they occurred as to show their mutual dependency, beside showing mere state of assets and liabilities. So beside balance sheet an array of other documents is used in book keeping. Content and methodology of book keeping is legislated for the most of economy entities. Book keeping regulations have changed in time and still are, but bottom line remains – consolidation of business results of entities. A specific of agriculture is that business results for entity (husbandry, company, etc.) are not consolidated for whole, but also for parts as for example production lines.

In countries with developed agriculture, tracking and analysis of family husbandries business results is already well known process. For example in Germany principles of systematic book keeping in agriculture are established in late XVIII century, and in middle XIX century book keeping records were mandatory. Costs of book keeping partly were on husbandry's hand, and part was financed by state. Nowadays in Germany is used double entry book keeping. This process was implemented in France and Italy during the thirties of XX century. In France, as in Switzerland, is mostly used Laur's methodological practice of simple book keeping. On agricultural husbandries of Netherlands book keeping was established at

fifties of previous century, and competent help is given by Agricultural economic institute from Hague. According to EU concept, book keeping on husbandries should be adjustable to record all resources and financial effects of husbandry. Though double entry book keeping is more reliable, because of simplicity, most EU countries have legislated conduction of simple book keeping on their husbandries.

Economic condition and situation on family husbandries in our country are still heavily introspected, just because of lack of book keeping evidence. During the period 1961 - 1975., in the project frame, whose carrier was Union of scientifically researching institutions for agricultural economic, systematically are tracked costs and results of 40 agricultural companies in former SFRJ. However, because of financial resources absence, it was given up from this project. Consideration was that this task could be realized through statistical evidence, what was later shown as wrong and insecure. How our husbandries will be more and more faced with competition from highly developed countries, book keeping evidence would be needful. That fact favors not only the improvement of husbandry activities, than upgrade economic power and competitiveness of agriculture, as important economy branch. By registration of husbandries, during the transition period, Ministry of agriculture enabled to producers usage of suitable loans and other financial supports. On that way in specified conditions, some data about number, size and production orientation of husbandries were become available. But, without book keeping evidence legislation and obligation, data about husbandries activities and possibility for their improvement are insufficient. With the support of the Institute for appliance of science in agriculture and regional units of extension service in the field, team of experts was, during 2003., based on created concept of book keeping evidence, allocated instructions to certain number of husbandries and traced their activities. By this experiment was shown that exist huge interest of producers for husbandry business results analysis. According that was gotten some answers on occurred dilemmas and doubts about further procedure of book keeping evidence as obligation.

By comparing of agricultural company and husbandry, it should have in mind that in company exists high rate of work and responsibility distribution, so that book keeper could be addicted only to this job (he leads more complicated, but more reliable system of double entry book keeping). How on husbandry, producer by himself, deals with many activities – from manual production activities, transport activities, material and goods stocking, finance leading, to sale managing, it should be tried to avoid any negative implication of book keeping as additional pressure for him. Because of that, in starting phase is recommended establishment of evidence concept under the principles of simple book keeping. Accounting documents have to provide with their content detailed analysis, their simplicity have to be adjusted to educative level of producer, enabling to him rational usage of time. In developed countries occur strategy of producer's time respect, so generally, most of activities are happened on his farm holding. According that, all necessary reproduction material is delivered to his property by arranged time, delivery dynamic, assortment, quantum, quality, etc. At other side, final products made on husbandry, buyers usually take from farmyard or from place of production, toward agreed conditions of selling – quantum, price, quality, etc. This approach of farmer's obligations respecting, could be first step in establishment of book keeping evidence on husbandry.

On family husbandry some basic elements have to be arranged, how based on them it could be realized connection among technical, technological, personnel, organizational, financial, controlling and other subsystems, as major elements of husbandry. On that way could

be created possibility for appliance of economy evidence for family farm concept, which represents suitable combination of simple book keeping and some other parts of operative evidence. Through this concept fundamental is explanation of form and content of documents (Table 1. and Table 2.).

Table 1 – Example of form and content of data sheet as formulae for book keeping evidence of material on family husbandry

Husbandry owner..... Code.....
 Address.....
 Phone..... Fax..... E-mail.....

LISTING OF PRODUCTS - MATERIALS

Name of product – material..... Code..... Unit of measurement.....

Date	Code	Description	Quantum			Value		
			Input	Output	State	Calculated	Paid	Output
1.	2.	3.	4.	5.	6.	7.	8.	9.

The model is in form of documents (printed forms), which can be binding or unbinding, as a card register. These forms are consisted of certain rows and columns within data are inscribed, i.e. some changes are booked. Content of the document is, in fact, husbandry's *identification card/personal map*. In its upper part are data for identification of husbandry – surname and name of the owner, telephone, fax, e-mail and code of husbandry, under which are registered underlined data in common base of registered husbandries. In second part of the document are tabular registered data of arisen change – date of change creation, description, entry, outcome and status (physical and by value). This content should provide creation of balance sheet, calculation of husbandry's business results and secondary calculations for all production lines from producing program. It is necessary to group data in related groups, in order to ensure their systematization according to the forms. In accordance to proposal and practical data of experts, who tracked evidence experimentally on several husbandries during 2003., there have been suggested 13 basic forms, consisted of: listing of product – material; listing of services; listing of utilization of own agricultural mechanization and equipment; labor list; listing of livestock; listing of business claims and debts; listing of common costs; listing of investment costs; list of incomes and expenditures; registration of facilities, agricultural technique and perennial plantations; registration of livestock; registration of stocks (materials,

products and ongoing production). However, it should be underlined that systematization of those forms is only proposal, which was done for research needs. If this process is going to be realized as an obligation, suggested systematization could be corrected, based on practical facts. Preferable husbandry model in this paper was oriented on livestock breeding production, therefore were given only specific evidence lists for such a type of husbandry.

Table 2 - Example of form and content of data sheet as formulae for book keeping evidence of livestock on family husbandry

Husbandry owner..... Code.....
 Address.....
 Phone..... Fax..... E-mail.....

LISTING OF LIVESTOCK

Date	Code	Description	Change			State		Number of feeding days
			Number of heads	Mass of head (kg)	Value (RSD)	Number of heads	Number of days	
1	2.	3.	4.	5.	6.	7.	8.	9 (7x8)

These forms can fulfill each member of husbandry, after consultations with certain competent person from agricultural extension service. Because of limited space in paper work, calculating procedure of some business changes booking were not presented. Process of book keeping on husbandries could be shortly described through 5 phases. First phase is *registration of assets* (active). In first year of book keeping establishment, on the beginning of business year registration of whole assets could be done, parallel with estimation of their value. Data are entered in suitable registration lists. During the year business changes are written in book keeping forms. At the end of year, registration of assets is done again. Their value is estimated once more and compared with value from the beginning of the year. If process of book keeping is continued from year to year, than registration at the end of year is enough. Registered state of assets on the end of current year, at same time is the state of assets on the beginning of next year.

Second phase is considered on *opening of book keeping documents*. This phase is based partly on data of registered assets, and partly includes appearances which are happened during the business year. Third phase is *data entering into the forms*. Data entering talks a lot, about static and dynamic changes. In static data entry is introspected daily state cut, while

dynamic data entry shows chronology of changes. Fourth phase include *closing of book keeping documents*. Process of some documents closing needs wider clarification by content and quantum of each form. It is important to notice, that during the document closing, basic rule of balanced ratio $entry = outcome + stocks\ at\ the\ end\ of\ year$ has to be obeyed. It should be underlined that entry considers stock at the beginning of the year and all state changes during the observed year, which are accomplished from its own production, than from purchasing, or by some other changes which contribute to its increment.

Table 3 – List of codes for name of products (first symbol of code)

Code	Name	Code	Name
.....
4.	Oat	.....	.....
.....	.....	93	Cow milk
7.	Corn	94	Live weight gain of calf
8.	Corn stalks	95	Live weight gain of calf
.....
.....

Fifth phase is consisting of data coding. Each form has column for code entering. Symbols for code writing are classified in five groups, so every one of them is separately put in given sub column. First code symbol represents products' or inputs' name, which is marked with order number in adequate list (Table 3). Second symbol talks about product or input purpose (Table 4., e.g., directly for the specified production line, or for usage of some machine, or for general costs, etc.).

Table 4 – List of codes of products usage (second symbol of code)

Code	Name	Code	Name
.....
79.	Milk and calves	.....	.....
80.	Springer cow	143.	Soft cheese
.....
87.	Cattle breeding	150.	Services of rural tourism
.....
.....

Third symbol underlines character of the product (for example, for maize, grain – G, seed – S, or fodder – F). Fourth symbol relate to year of investment: current – T, or next – N. Fifth symbol marks place of product, or input, in secondary calculation, or out of it. (Table 5.). Considering that code entering is done by numbers and alphabetic letters, it is important to introspect in which sub column some letter or number is written. Review of code symbols represents procedure in code defining in some above noticed forms. But, for book keeping on the husbandries as obligation, unique system applicable on all entities in the frame of referent service, or competent body, should be created. By book keeping record, besides declaration of state and assets, should be systematically follow all changes arisen in certain period, than to register time when they arisen, as to declare their mutual dependence.

Based on evidence from the forms and arisen changes, at the end of business year annual financial statement of husbandry is created, according which will be determined is the assets value increased or decreased, what is the main question of the owner. Also, towards the

results estimation, owners can clearly have introspection in ratio of cash in-flow and out-flow during the business year. Specificity and complication of analyze procedure in agriculture in compare with other activities is in discordance of production cycles with business year. On family farm additional complication could be demarcation of inputs-outputs related with cohesion household-husbandry.

Table 5 – List of codes about product place (fifth symbol of code)

Code	Name	Code	Name
a) in secondary calculation		b) out calculation	
1.	Main product	16.	Stock at the beginning of year
2.	Secondary product	17.	Purchased
.....		18.	Natural production
7.	Usage of own tractor	.....	.....
.....	.....	29.	Stock at the end of year
.....

Besides this specificities, in our practice are found other problems too, especially in live stock breeding production. For example there are cases that business partner – trader, export representative, slaughter house, etc., is obligated by the contract to ensure to the producer young heads for fattening, concentrate food, veterinary services, etc. In that case, it is necessary to adjust all book keeping documents (forms) to the way of business. Similar problem is appeared during the natural exchange of husbandry products for the reproduction material which is purchased on market (case of exchange between inputs which are offered by the state branch office and redemption of final – raw natural goods). In that case, for the book keeping, natural parities of input – output products should be exchanged on value term.

Conclusion

Introducing of book keeping on family husbandries, before all, it should be in service of improvement of husbandries for themselves. However, many data and information, which would be gotten on the basis of this evidence, would have wider importance during the period of transition of our agriculture and total economy. That will be contributed to the improvement of our agrarian policy, rising the quality of scientific and competent work, inspiring a motivation for better organized extension service, facilitation of rural areas, than stimulate development of other activities and upgrade agriculture competitiveness.

Process of book keeping establishment should be based on principle of owner willingness and gradual dissemination on new husbandries. Accounting system should be simple and acceptable for producers. Parallel with its settlement, education and awareness, that this is not a tax instrument for husbandries should be developed. In all phases of data using, producer has to be assured that the data are confidential, and that all analyses will be announced under code. Objective insight into business results of family farms is good base for creation of social policy for revitalization and development of Serbian villages. Such like this evidence should have ecological dimension too, because by it we will have better picture of expenditure of synthetically-chemical substances in agriculture, so that could initiate some new projects and ideas connected with environmental protection.

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THE IMPROVEMENT OF SCIENTIFIC-TECHNOLOGICAL PROGRESS WITHIN CONDITIONS OF TRANSITION IN SERBIA

Abstract

The position of a country within modern international division of work is determined on the basis of utilisation of the latest achievements of science and technology at its economy. This is the time when scientific-technological development, more than ever, becomes the paradigm of reputation and prestige of some socio-economic community. The essence of technological progress is optimal use of the production factor. Competitiveness of a company and a country, as a whole, can be attained only in this way. In order to obtain a corresponding basis for scientific technological progress, there have been provided adequate measures for improvement of scientific research basis in our country. On the basis of experience at utilisation of programmes for financing of innovation processes at OECD countries, utilisation of the most adequate instruments in Serbia is recommended and this is: grants for early stage of commercialisation and entrepreneurship capital for later stage. The possibilities for adjusting of these instruments are different at conditions characteristic for many countries including the countries of our region.

Key words: *Technological progress, research and development, education, transition*

УНАПРЕЂЕЊЕ НАУЧНО-ТЕХНОЛОШКОГ ПРОГРЕСА У УСЛОВИМА ТРАНЗИЦИЈЕ У СРБИЈИ

Апстракт

Положај једне земље у савременој међународној подели рада одређује се на основу примене најновијих достигнућа науке и технике у њеној привреди. Ово је време када је, више него икад до сада, научни технолошки развој постао парадигма узледа и престајка неке друштвено економске заједнице. Суштина технолошког прогреса је оптимално коришћење фактора производње. Само на тај начин се може обезбедити конкурентности компанија и земље у целини. Како би се обезбедила одговарајућа основа за научно-технолошки прогрес у нашој земљи предвиђене су одговарајуће мере за унапређене научно истраживачке основе. На основу искуства у примени програма за финансирање иновационог процеса у земљама ОЕЦД, препоручује се примена најприкладнијих инструмената у Србији и постојање за рану фазу комерцијализације и предузетнички капитал за

каснију фазу. Различитије су могућности за адаптирање ових инструмената у условима карактеристичним за многе земље, па и за земље нашег региона.

Кључне речи: *технолошки прогрес, истраживање и развој, образовање, транзиција*

1. Introduction

Technological progress is the most dynamic factor of any economic development. Along with improvement of existing and creation of new technologies, it contributes to improvement of existing products and creation of new ones and hence leads to improvement of an organisation as a whole. The level of technological progress of a country influences the level of social and economic development. The choice of ways and methods of carrying out the aims of technological development is the question of a company strategy. In this meaning, the organisation can decide upon independent technological development for purchasing of ready made technological know-how by means of technology transfer or by combination of purchased and own technological know-how. Regardless the organisation's strategical option of its technological development, research and development present the skeleton of their technological development. The speed of development of scientific-technological progress depends on the scale of engagement of science, knowledge and skills of people, that indicates the relation between scientific-technological progress and education system. Besides, there are also corresponding financial instruments intended for stimulating and supporting of development and commercialisation of innovations. In this meaning, basic financial instruments are distinguished and also those intended for ECA region proposed by the World bank. In many countries of the previous USSR (Russia, Ukraine, Kazagstan) and their satelittes as well as in the republics of previous Socialist Federal Republic of Yugoslavia (Serbia, Croatia), the succession of research and human capital provides stimulation for revitalisation of their research capacities and scientific progress.

2. The scientific-research activity in Serbia

The basic tool of a society development for sure belongs to development and utilization of science. Today its influence is obviously unavoidable, then it could be considered to be a scientific-technological progress. The changes in scientific knowledge bring to radical, revolutionary changes in a way of industrial manufacturing. The scientific-technological progress includes improvement of existing and creating the new technologies, finalizing the existing, and creating new products and improvements of organization and leadership.

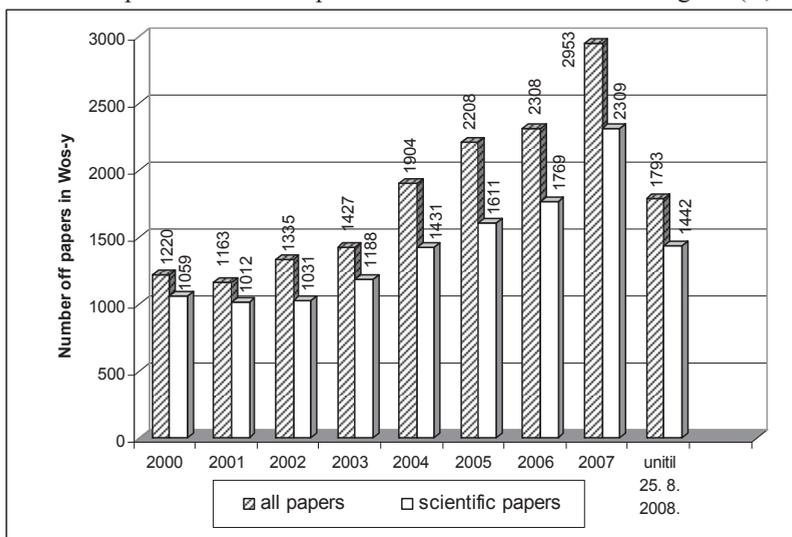
The most important component of science is research. It represents the utilization of human intelligence and experience in organized and systemized scientific way of solving problems. The research usually involves systematical utilization of human common sense on studying the problems whose solution has not been known so far; planned search or critical examination in due of finding the new knowledge so that it could be useful. The scientific research is different from other kinds of research because the problematics of its work is within limits of the law of reasonable logics and common sense. Without self development in areas of technical and bio-technical science, but also in areas of mathematical and medical science, the

country becomes endangered to become completely technically and technologically dependent of the most developed countries.¹

Scientific-research and research-development activity represent very important base of technological and completely social - economical development of one country. By following the movement of indicators of development of this area, the development base of an economy and its economic subjects can be seen.

The position of science in Serbia is still not on a satisfactory level because its still based on individual enthusiasm. The strategy for technological development of the Republic of Serbia must anticipate the ways of opening towards the world and values of the worlds science and technology.

According to the research done by professor Tibor Sabo, the basic quantitative indicators of development of scientific production in Serbia are shown on figures (1,2 i 3).²



Origin: National Council for scientific and technological development

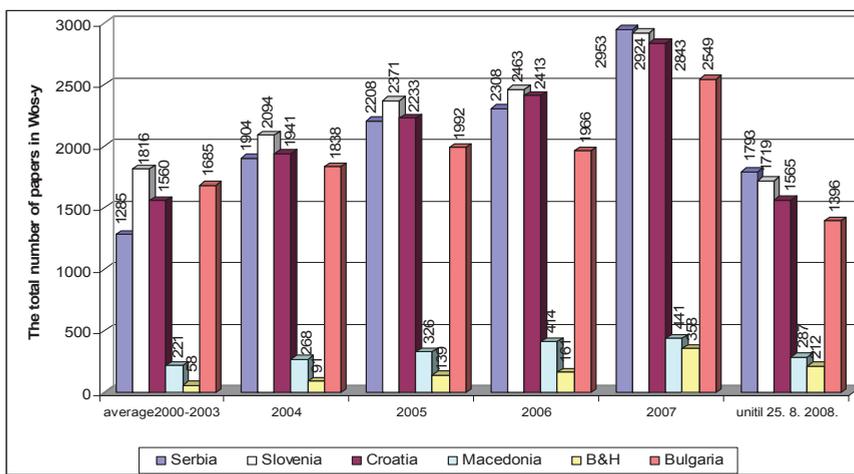
Figure 1. Review of number of published papers in Serbia within the period of time from 2000 to 2008.

By analyzing figure 1 according to the number of published papers in WOS-Y (World Organization Students – Young) in Serbia for the period of time from 2000 till august 2008, increase of number of all published papers can be seen as well as a certain increase of published scientific works. The number of all published papers increased in the year 2007 by 2.4 times comparing to the year 2000, while the number of scientific works increased 2.18 times. If we take a look at the year 2000, the participation of scientific works in all works in Serbia was 84.8%, while in the year 2007 the participation of scientific works related to others was decreasing to 72.11%, which indicates a lack of investments in knowledge production through research and development.

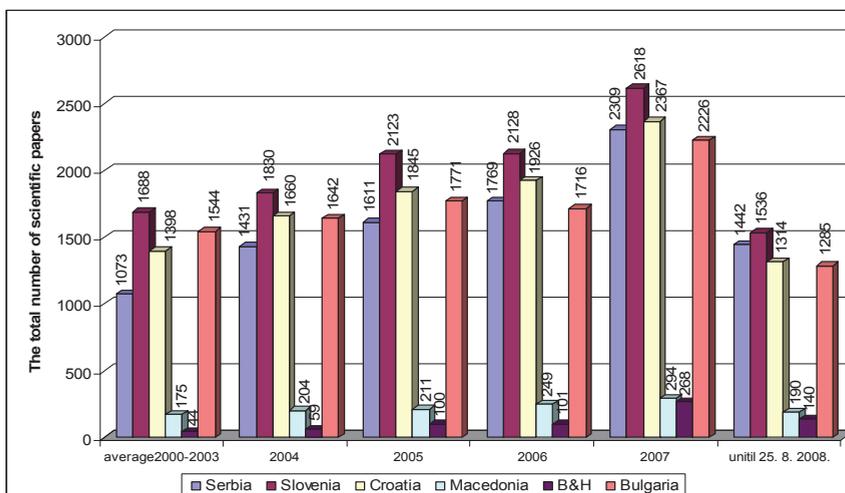
¹ <http://www.scribd.com/doc/8320742/Upravljanje-i-Razvoj#>

² <http://www.nauka.gov.rs/cir/images/stories/vesti/08-12-26/strategija.pdf>

According to the view of the figure 2, it can be concluded that the number of published papers in WOS-Y, Serbia has had growing tendency, comparing the countries from the same region. In the year 2004, Serbia was third, right behind Slovenia and Croatia, in front of Macedonia, Bosnia and Hercegovina, and Bulgaria. In the next year and in 2006 as well kept the same position, so that in the year 2007 overtakes the first position comparing the regional countries. This indicates on stronger activity of Serbia within scientific work publishing area, and this trend was in progress during the first eight months of the year 2008.



Origin: National Council for scientific and technological development
Figure 2. Review of total number of scientific works published in Serbia and surrounding countries



Origin: National Council for scientific and technological development
Figure 3. Review of total number of scientific research works published in Serbia and surrounding countries

By analyzing figure 3, it can be concluded that according to the numbers of published scientific papers, Serbia holds third place in years 2004, 2005 and 2006. From the previous figure it is obvious that Serbia held the first position in the year 2007 by entire number of published papers, that is not the case with scientific works. According to the number of published scientific research works in the year 2007, Serbia is on the third place, that means that the scientific research was not enough encouraged, and that extra effort should be applied in development of scientific research work. If first eight months of the year 2008 are considered, it can be concluded that Serbia is on the second place by the number of published scientific papers, that indicates an improvement of scientific-research activities. Even with this improvement within the first eight months in 2008, Serbia is still behind by number of scientific research works, comparing developed countries of the region.

According to this type of indicators, it can be concluded that the entire situation in Serbia in the last few years has had dramatical impact on developing and researching capacities in the country. In such conditions young people stop to be interested in research activities, and turn themselves to service activities. The most wanted activity of their interest is business management. To improve the situation it is necessary to find out the reasons for such indicators and to take adequate measures so that Serbia gets better results within research-development areas.

3. Knowledge as a factor of Serbian development

Modern trends of development at the countries of market economies indicated that the education and creating human resources, when new technologies are concerned, are on the top of national priorities of the social, economic and technological progress.

Faced with constant changes and unpredictable business environment, a large number of organizations in the world realize that their largest capital is not their facilities or their money in the bank, but the knowledge that their employees possess. When the leading people of companies realize and accept this fact, it is only natural to change the way of looking at the organization, management, resources, business models, being tidy, corporate culture or the leadership. The need for technological knowledge is growing, which, all together with possibilities offered by modern information technology, (so that knowledge is "stored", but available at any time) produce the knowledge management into one of very "hot" topics of the modern business world.³

The educational structure of the population in the Republic of Serbia is very inconvenient, which directly endangers development of Serbia, considering the fact that more of one fifth of the population older than 15, do not have completed elementary education, and almost half of the population do not have the trade qualification. The offer of the present educational system in Serbia is full of disadvantages. A significant part of the population still stays uninvolved in the educational system, which especially refers to high percent of children from socially delicate groups, as well as rural population, where exists a strong urge for adult education. Also, the ratio between general and professional education at secondary schools is very unfavourable for the general one whose part should be increased from present 26% to at least 40%. In the system of academic education in Serbia there is a relative large number of young people that attend university studies, or they have passed through a stage of academic studies. However there is a relatively small number of people who complete academic studies in time that is relatively

³ <http://www.plark.net>

acceptable and useful for the society (8-10% of all enrolled). The result of this situation is low education level within the society, high percentage of children leaving schools at all stages of education, and large number of educated people leaving the country. The Educational politics in Serbia is not clearly enough directed on creating of human resources, and it dose not reflect the goals of Lisabone strategy set up for the year 2010. Setting aside funds for educational needs in Serbia, in the year 2008, amounted only 3.3% of the Gross national product, while in countries of OECD this amount is recommended to be 6-8%. According to this fact, we can conclude that education in the Republic of Serbia is not financially supported enough⁴.

4. Proposal of measures for promoting research-developing activities

According to the given indicators presented in the analysis of research-developing activities situation in Serbia, it can be concluded that the entire situation in last few years has influenced the developing and researching capacity in the country. Relatively small amounts set aside for research and development activities, and the brain drain, made the situation even worse impoverished material and human resources base of scientific research activities in Serbia. The consequences of very hard transition process, especially the privatization process, point out the fact that new management in organizations is oriented to profit increase. This brings closing development-departments and stops cooperation with researching activities. The utilization of measures for development of technological progress should be the priority for the Government of the Republic of Serbia and the Ministry of science and technological development, with the aim to create knowledge through research and development, diffusion of knowledge by education and utilization of knowledge through innovations.

Considering the present situation of research-development activities, it can be concluded that economic and entire development of Serbia is going to be based on organized research and development that should bring to constant technological development in the form of improving the existing technologies and creating new products, processes and services. To provide the competitive and improved modern system of research and development, the Republic of Serbia must do the following tasks: to provide technological revitalization of research units; equalize private and public research development units during the use of public funds; improve their international competitiveness and encourage international links and cooperation with eminent foreign institutes; reduce leaving of the best researchers abroad by special programmes for the most talented young scientists; install unique informational systems for all scientific- research organizations, and to improve possibilities for using the information-communication technologies; to bring the system of e – management. to encourage spreading of the knowledge and sharing science information as public goods (scientific gatherings and international sharing of information); to establish (according to needs of Serbian economy) scientific- technological parks, incubators and development innovation centres; making connections with Serbian academic diaspora for the purpose of returning of our scientists to Serbia as well as to make better mobility of our researchers within the country and abroad. To accomplish something like this, it is necessary to increase allocation of funds for science from the present 0,35% to at least 1% from GNP, which is recommended by EU as a minimal percent that can deliver positive effects on our

⁴ <http://www.cep.edu.rs/?q=node/50>

economic development. This funds should be invested in fundamental, applied and developmental research.⁵

So far the law of scientific-researching activities has had limited funds that are intended for research and development, by determining that users of such funds may only be scientific research organizations as university faculties and licensed institutes and research-developed units in the country's economy. Also on the individual level, the funds for personal payment can be used only by acknowledged researchers in institutes and the teachers and assistants at universities, that is persons with doctoral or master of science degrees, as well as persons who work as trainees at universities, or the students of graduate studies (researcher trainee or assistant trainee). The law establishes that financing of scientific research organizations is strictly through projects.⁶

5. The Proposal for measures for improving the educational system in Serbia

The new economic system and modern structure of economy flows, count on educated people who are fast learners, who are creative and innovative and change their personal abilities according to the technological development and global development trends. In due to accomplish assumptions for a new system of sustainable education, the existing educational system must be improved as soon as possible. By considering the fact that the reforming process lasts very long, it looks like its effects could be improved if some other relatively independent activities were conducted paralelly instead if they were going on one after another. During the process, all these activities should be synchronized and adjusted to a common model of a new forming system of academic education in Serbia. According to this, four main categories of activities have been identified:

1. Education in the process of reforms of academic education should be encouraged and observed by some independent institution that should be in between of existing institutions of academic education and the Ministry of education. Regulations that enable establishing such an institution of the National council for academic education exist in the New law of the university. By this law, members of the Council, will be chancellors and vice chancellors of all recognized universities in Serbia, with ten more members who are named by the Government of the Republic of Serbia.
2. The teaching plans and curriculums of state universities as well as colleges are still based on traditional division of areas and disciplines, thus they are not actually following the needs of the society which is going through changes. It is obvious that there are no reasons for the delay of changes of these curriculums concerning establishing reformed academic education. On the contrary, every university, faculty, and college should be encouraged to investigate the possibilities to reform the existing programmes and to bring the new ones. At some faculties, that are in the stage of establishing collaboration with institutions from abroad, such processes are already on the way. The experiences from this type of collaboration can provide significant impulse to the entire reform process.

⁵ <http://www.odrzivi-razvoj.sr.gov.yu>

⁶ Domazet, D. (2002), *Politika naučno-tehnološkog razvoja Srbije – verzija 2.3.*, Beograd, Ministarstvo za nauku, tehnologiju i razvoj, str. 2 i str. 14

3. Even the best institutional frames, together with perfectly figured plans and curriculums will be completely useless unless there is enough sources provided for their implementation. That way, the reform process is entirely depending on satisfying basic needs, such as; work conditions, equipment and payments for the employees.
4. Beside the mentioned processes for recovering the system of academic education, special attention must be given to teachers' faculties. Considering the fact that they are supposed to do a great part in this reform process for elementary schools, their activities must be observed and synchronized by adequate reform teams.

Further education development in Serbia should be equalized with other goals of educational development in Europe until the year 2010: increasing of educational and training quality along with new social requests, based on knowledge and modernization of teaching process, and studying process; providing easier access to the systems of education and training for everybody, along with the principles of "studying while living", faster employment, career development and active citizens, with equal chances and social cohesion. By opening of education and training towards the wide world, in the light of faster work connection with society, by giving the answer to the challenges which are product of globalization.⁷

Investment in the sector of knowledge should be the top priority of the Republic of Serbia. This way, adequate solid base of education can be provided in conditions of transition.

6. Financial instruments for encouraging technological development of transitional countries

To improve technological process in Serbia, the World bank suggests actions which are aiming to offer solutions for creating politics in due to increase and keep the productivity and its growth, by doing this, they are creating good environment for usage of economy knowledge, maintaining and learning the innovations. The goal of financial instruments recommended in the Study is to encourage IR in companies, and push-up the cooperation between the companies, universities and research institutes in implementation of innovated projects. By using the experience in interventions within OECD countries, the basic models of financial instruments that were used in OECD countries have been considered, including subventions, loans, encourage tax, and subvention purchase, and described recommended instruments for ECA region, including the IR subventions (mini-subventions, adjusted subventions, and the contractors capital) which could be used in our country as well. Basic models of instruments for encouragement of research and development are:

Subventions – one form of subventions are grants (non-returnable help), which demand one part of adequate investments from the grant beneficiary. Grants have two clear advantages over the loans for improvement of innovation. First, supplying the finances through adequate grant reduces the contractors risk, which is the biggest obstacle in securing the encouragement to the innovators to lean towards commercial use. In the case of technological or commercial failure the loss for the contractors is limited to their own adequate investment, and they don't have to return the grant. Second, IR and innovating activities demand high direct investments that may generate positive flow of cash on non-predictable level at some point in the future.

Loans – can be important part in the future stages of innovational process, when the risk for contractor reduces, with greater chances for success and reduces the distance from the market.

⁷ http://Ban.junis.ni.ac.yu/prilozi_reforma/1_Reform_strategy_cond.pdf

Stimulation taxes- are wide spread, especially in Europe, for basic encouragement of IR investments through wide spectrum of companies. Altogether, stimulation taxes encourage investors or companies to invest in IR or new companies through tax credits and lower tax rates. Stimulation taxes can appear in few forms: (1) direct tax loans for investment, (2) reduction of profit taxes or tax rate on investments, and (3) tax loans for neutralization of loss from the investments in small and middle size companies. Stimulation taxes are generally neutral - they are used in all suitable companies and from the same reason they are supporting one of the main principles of designing the instruments. Nevertheless, in USA, the study of Hall and Van Reenen, (1999) indicates that one dollar of tax deduction for IR is stimulating one dollar in extra IR.

Subvention supplies – are variations of direct programme grants which is partly on government's budget for research and it is reserved for the small innovative companies. This type of program is most sufficient in large economies with significant sponsorship from the government, whose budgets are dedicated for commercial pointed research. Based on the experiences of developed countries, and having in mind that financial resorts are needed from the initiative idea to commercialization, as a stimulus for the improvement of technological progress in the ECE region and Serbia regardless that it is in transition, it is essential to use these instruments in practical work: mini grants; adequate donations; and VC support.

Mini grants represent the first stage of financing and turning to commercialization of given innovation. The purpose of a mini grants program is double: (1) to stimulate involving of contractor enterprises, and activities in innovation field by supplying mini grants for help of potential contractors, by taking their existing ideas, and determining if those ideas can be included in commercial investments, (2) to help scientists and entrepreneurs who have limited experience in making successful companies by giving them technical support and consulting services that can help them to make concept in business function that may be needed to take their products to market. Mini grants are small grants designed to give support to identified commercially good ideas and science work.

Matching grants - Program of adequate grants is functioning by encouraging share risks with companies and orienting selection process toward IR programs which are suitable for generating of innovations that could be commercialized. Qualified companies or consortiums of academic institutes, will apply for grants for certain IR projects which are observed by the independent research department. If granted, the candidates get grant of 50%-70% of state IR budget for some projects. Successful projects (the ones that lead to sale) will be obliged to return grant, as a honorary from income, according to the amount of grant in dollars. Sharing the risk with company represents a relief, regardless negative consequences "choosing the winner" by the public sector party.

Support of entrepreneur's capital Entrepreneur's capital is directed to projects which passed the early stage; this project could be supported but do not have to be supported by the grant program to reach the stage where they are good enough to be interesting for entrepreneur's capital. For reaching the high commercial returns, which are expected by the investors they are searching for the companies that successfully developed innovation, proven its technical ability and founded possible commercial use and market. At this point, entrepreneur's capital provides fund for spreading the manufacture, market development, and consumers base, and play main part in support of next stage of commercialization.⁸

⁸ <http://www.worldbank.org/eca>

To be able to conduct suggested measures, it is needed for Serbia to make adequate innovation system. This system should include adequate institutions (universities, research institutes), instruments, (state financial support) and encouraging the rights on intellectual possession, and strong market competition. This is the only way for Serbia to provide secure base for improving the science –technological progress, and to create opportunity for fast way of getting out of the transition process.

7. Conclusion

Science – technological progress demands utilization of new knowledge in business organizing, and technical and technological inovations, new techniques and technologies, inventing and involving new products, new ways of organization and managing the factories. The research-developing activities must be maintained. The entire development of the Republic of Serbia must be based on research and development of innovation activities, this way we must build in the measures that are used in countries of OECD. On this foundation are developed the instruments for ECA region like this: mini grants, matching grants and entrepreneur’s capital.

The previous socialist countries, with Serbia among them, have had long tradition of learning and researching ,but the commercial results were week. Then again this background creates a hope that basic research and commercial innovations could be reconstructed, refined and improved enabling the countries in transition to develop the economy based on knowledge, to create innovations and technologies easier than countries without that kind of foundation.

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ПРЕГЛЕДНИ ЧЛАНЦИ

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ADVANTAGES OF HEALTH TOURISM IN SPAS AND CLIMATIC LOCALITIES OF KOLUBARA DISTRICT AND ISTRIA COUNTY ON ASPECT OF POTENTIAL TOURIST DEMAND'S TRANSITIONAL CHANGES

Abstract

The condition of modern tourist market leads to increased diversification of contents and services demand, but also to creation of groundwork for certain selective forms of tourism development on specific areas within a country. Modern trends in tourism show an aptitude that each individual looks for some specific location, with particular contents and features, subordinated and adjusted to him. Therefore is inevitable to follow the changes in selective forms of tourism, in order to create adequate modern tourist surrounding. The selective forms of tourism have a power to turn particular destination into a centre of tourist supply of some region or country. It is achieved by careful monitoring and determination of development-tourist contents that are offered. Thus, the transitional changes in tourist demand and on tourist market require fast changes and replies to tourists' new requirements. It refers to all forms of tourism and tourist supply of every country, which aspires, even a little bit, to engage seriously in tourism as an economic activity.

Key words: natural potentials, spa tourism, climatic sanatoriums, new aspects of demand, tracking the changes on tourist market.

ПРЕДНОСТИ ЗДРАВСТВЕНОГ ТУРИЗМА У БАЊАМА И КЛИМАТСКИМ МЕСТИМА КОЛУБАРСКОГ ОКРУГА И ИСТАРСКЕ ЖУПАНИЈЕ СА АСПЕКТА ТРАНЗИЦИОНИХ ПРОМЕНА ПОТЕНЦИЈАЛНЕ ТУРИСТИЧКЕ ТРАЖЊЕ

Апстракт

Стање на савременом туристичком тржишту води у смеру све веће диверсификације понуде садржаја и услуга, али и стварања подлоге за развој одређених селективних облика туризма на појединим подручјима унутар једне државе. Савремени трендови у туризму показују склоност да сваки појединац тражи посебно место, са посебним садржајима и особинама који ће бити њему прилагођене и подређене. Због тога је врло битно пратити промене у селективним облицима туризма како би се могло створити адекватно савремено туристичко окружење. Селективни облици туризма имају снагу да претворе одређену

дестинацију у центар туристичке понуде одређене регије или земље. То се постиже пажљивим праћењем и одређивањем развојно туристичких садржаја који се нуде. Дакле, транзиционе промене у туристичкој тражњи и на туристичком тржишту захтевају брзе промене и одговоре на нове захтеве туриста. То се односи на све видове и облике туризма и туристичке понуде сваке земље која и мало тежи озбиљном бављењу туризмом као привредном делатношћу.

Кључне речи: природни потенцијали, бањски туризам, климатска лечилишта, нови видови тражње, праћење промена на туристичком тржишту

Introduction

Serbia and Croatia have great, but unfortunately insufficiently used potential in the field of health-sanatorium tourism. Natural, healing conditions are used modestly, primarily for therapeutical and rehabilitational purposes, while those promotionally-preventive, essential for health tourism, stay unused.

The combination of medicine and tourism is relatively new tourism type, which records high rates of growth. This growing trend is going to continue, while on its slowdown can only influence the lack of capacities. According to UNWTO data (UN's world tourist organization), 2,5% of all international travels refer to health tourism, and there is anticipated that this number will amount more than 40 million travels annually, until 2010. According to McKinsey & Company Ltd., the assessments of market growth is around 15% annually, and expected income from health tourism in next two years has been evaluated on more than 100 milliard dollars.

In this segment of tourist supply, Serbia offers around 12000 rooms and over 27000 beds in 13 spa centres, while Croatia offers 6000 beds in 18 sanatoriums. In accordance to disposable statistical data of RSO, there has been perceptible that on Mionica municipality area, as well as in Vrujci Spa, the number of tourist keeps increasing. In period 2000-2007, total number of tourists has been increased even for 58%, where domestic tourists had realized more visits for 55,2% and foreign visitors for 11,2%. The overnights stay number did not follow this dynamic, so we had here decrement in total number of tourists for approximately 13% (domestic tourists for 15%). Only foreign tourists increase number of overnights stay for almost 76%. Such movement dynamic of tourist turnover has influenced also on average number of overnights stays, like as on average number of stays in this region.

In Croatia, number of tourists and overnight stays keeps growing. In 2007, according to RSO, the sanatoriums visit 38.904 tourists or 41% more than last year, which means realization of 278.397 overnight stays, or 32% more than in previous year. From total number of tourists in 2007, 18.680 (or 48% out of total number of tourists) were foreign tourists, and realized 120.296 overnight stays or 38% more than in same period last years. In the same time, number of domestic tourists was 20.224 or 42% more than in last year (158.101 overnight stays or 28% more than in same period last year).

There is an obvious difference in turnover structure in Vrujci Spa and Istrian Toplice and significant participation of foreign tourists in both locations. In previous development, as well as in evaluations of health tourism future development both in Serbia and Croatia, the main potentials and supporters are diversity of natural wealth, ecological space qualities, healing

water, sea, beneficial climate and healthy food, which were comparative advantages in developing new tourist product – wellness tourism.

1. Basic developmental courses of spa tourism in Serbia

World trends on tourist markets indicate further development of health tourism mostly for changes in life style. Serbia disposes with over 50 health-sanatorium destinations, like as undeniable quality of thermal waters their supply is based on, which furthermore points out to great developmental potential of Serbia in the future. Although health tourism product can be split on two market segments, i.e. health and wellness, following the examples, not only in countries with developed spa/wellness product, but also usual categorization of international association for health tourism, Serbian product of health tourism should be divided in next categories: 1. Destination spa, except classical offer, includes all fitness and wellness components, where the visitor has a right to choose a program that suits him the most. Along with classical hotel accomodation, here is present also demand for private accomodation. 2. Medical spa represents a category which has the most potentials for growth and implies all services with health and wellness components in ambience which integrates classical and special treatments and therapies. 3. Mineral spring spa is a segment of health tourism based on offer of natural, mineral and thermal water, i.e. the offer of various hydrotherapeutical treatments. This segment in Serbian supply has relatively good status and potential of quick positioning in world spa supply. 4. Resort /hotel Spa is today one of the most popular form of demand, but also ambition of companies or individuals to increase own profitability. Health tourism in Serbia, until now, has not been oriented to quality and therefore is not able to satisfy high quality standards and requirements of eligible international market. The best development potential of Serbian health tourism product is in its dominant direction toward healing and rehabilitation, considering that international demand for specialized health treatments is increasing. Nevertheless, parallel with this form of demand, increases also the luxury element, which is limitation factor for Serbian spa supply. For this reason should make selection of markets on which the existing supply could place. Serbia can, in a short term, to orient to accelerated development and commercialization of products Medical spa and Mineral spring spa, starting from comparative prices and high quality services.

Health-sanatorium centres in Serbia, as we already mentioned, are abound with springs of thermo-mineral water, and hotels, along with traditional programs, more and more innovate wellness supply and antistress programs, massages, aroma-therapies, fitness trainings and similar. These programs should be significantly refreshed through financial investments, especially in qualitative accomodation and equipment for recreation and rehabilitation.

2. The concept and significance of health tourism in Croatia

Organization of stay and methods of program conducting of health tourism in Croatia are numerous, but two the most common dissociate: stationary form of health tourism, exclusively conducted in health institutions, and poli-clinical form of health tourism, characterized by accomodation in catering-tourist objects, with appliance of medical services in health institutions. Stimulated by supply and demand law, the health tourism has exit the startup frames and now implicates more and more various services, such as massage centres, health

centres and clubs, fitness, sea therapies, diet therapies, psycho-therapies, antistress therapies, beauty treatments, detoxication treatments, sport, recreation, health linked education, relaxation technics etc. So was created a term of wellness tourism, which represents a set of procedures for reaching body and spiritual balance, and conducts in specially designed tourist-catering objects.

The modern way of life is a cause of many diseases and sick conditions of human organism. A man today keeps running away from nature, by living and working in incompatible conditions and spaces. He limits the nature's favourable effect on health and eventual diseases by not staying in it. The vacations are opportunity for staying in nature and adrifting to its beneficial influence.

In health tourism is used favourable effects of climate, sun radiance, thermomineral water, lakes, seas, algae, peloids (sea and fresh-water), sand and naphthalene. The reasons for connecting the health, diseases and tourism we can find in a fact that the tourists are healthy, sick, all ages, various professions, occupations and apprehensions. Unfortunately, except in rare cases, natural healing efficiencies is still used in tourism freely, without any professional supervision and on the user's own responsibility.

3. Incidence of health tourism in Kolubara District and Istria County

The health tourism offers very diverse supply both in spa and sea (wave-therapeutical) sanatoriums. The supply of health tourism is based on natural healing factors, which are the connection of various forms of medical, preventive and wellness programs, adjusted to needs of specific tourists groups.

3.1. Supply of health tourism in Kolubara District and Istria County

In Vrujci Spa, which commencements are related to settlement Popadić (where are thermo-mineral springs and healing mineral mud) have been largely built accomodation facilities in function of new concept of *spa centre*, which would have a rich non-pension contents, along with healing function. In Vrujci exists one camping unit, necessary adapted by following infrastructure, which would improve the quality of tourist service. Among three already opened pools, in the plan is construction of five luxury hotels with 4 and 5 stars and 1.300 beds. The wellness centre has been characterized by clear and thermal water without any smell, and will be designed for diseases of degenerative rheumatism, post-rheumatic conditions, diabetes patients, patients with hyper-tension, digestive system problems and gynaecological problems. Except water, there are disposable also baths and mud based on sulphur and carbon-dioxide, which penetrate directly in skin pores. Natural abilities of water are remarkable and it achieves a temperature of 28 degrees C. The investors expect that these big and various investments in contents of stay and supply of this centre will justify soon. The policy of tourist demand must be a base for construction and adaptation of such objects and, generally, total tourist destination.

Except the most popular spa in this region, Vrujci Spa, there is other springs of healing water, such as e.g. Lepenica Spa in village Mionica. Here are the springs of healing sulphur thermal water. However, there is none significant tourist object on this locality, which would suit to tourism needs. Such spa would surely contribute to opening of new working places, economy revival, strengthening the catering industry and, generally, whole tertiary sector. It would significantly contribute to strengthening of Mionica image, as a tourist destination, with

accentuated health tourism. One of important principles of tourism is that it is as much efficient, as it is invested in it.

Table 1. Supply of health services in Kolubara District and Istria County

Kolubara District	Istria County
<p>Name: Vrujci Spa Healing characteristics: Calcium-magnesium water with temperature of 28°C. Thermal waters carry out from the depth the most refined mud, rich in mineral and radioactive matters and place it down in the spring vicinity and by the river Toplica, which flows through the spa. In this way, for thousand years, the land has been moistured and the layers of healing mud, i.e. humus, have been made. The body or other parts coat with mud. It is used in more or less dissected condition and as a bath. It is rarely used for applying on the skin, with simultaneous tanning, which is the original folk method. Department for Balneoclimatology in the Institute for Physiology of Medical Faculty – University of Belgrade, gave the opinion on 9th May 1994, according to water analysis on main borehole, that it can be used as additional mean in healing all types of joint and extra-joint rheumatism, out of exacerbation phase; rehabilitation condition of post-traumatic and post-surgical conditions of locomotive system rehabilitation of sportsmen, with injuries requiring prolonged rehabilitation period; chronic gynaecological diseases, than various diseases followed by neurasthenia, anxiety or mild forms of psychosomatic, or professional neurosis. After water analysis on tap, the departments gave the opinion that it can be used for drinking, as additional therapeutical mean in healing urinary infections, nephro-lythiasis and urethra-lythiasis, as well as chronic diseases of stomach and duodenum.</p>	<p>Name: Spring of healing water St.Stjepan, Livade Healing characteristics: highly-sulphuric, optimally radioactiv and thermal water, full of minerals (13 types), for which has been scientifically and practically proved that hasten healing of chronic rheumatic diseases, dermatological diseases, diseases of upper respiratory system, gynaecological diseases and post-operational rehabilitation.</p>
<p>Name: Climatic location Divčibare: has mild and pleasant climate, average annual temperature of 18°C, with warmer autumn than spring. For its good geographic position, air mass from Mediterranean space reaches Divčibare and meets the air mass from Carpathians mountains and Panonian depression, what causes creation of iodine in the air. Divčibare has 289 days without wind, 126 days with rainfall, and full 4 months of winter under snow. In 1963, Divčibare had been proclaimed for „Climatic sanatorium“, by Balneoclimatological Institute of Serbia, in Belgrade. There can be healed: bronchial asthma diseases, chronic bronchitis, diseases with neuro-vegetative disorders, convalescents, pneumonia...</p>	<p>Name: Climatic-sea sanatorium Rovinj Healing characteristics: healing the scrofulous and rachitic children, bone-jointed tuberculosis, and helps in orthopaedics and rehabilitations of patients.</p>

Sources: The authors

3.2. Supply of health tourism in Istria County

The tourist tradition of Istrian region is old around 150 years. Along with favourable climate and favourable geographic position, it is pervaded by beautiful coastal area in Istria and mountain regions of north coasts. Istria offers good health capacities, and when summarizes all

those factors, we get excellent combination suitable for healing many categories of diseases. Supply of health tourism (Sanatorium and Toplice) in Istria County consists of:

- Spring of healing water St.Stjepan in Livade near Buzet,
- Climatic-sea sanatorium in Rovinj.

Istrian Toplice is located in north-west part of Istria peninsula, in the valley of river Mirna. They are away 35 km from Poreč, only 40km from Italian border and 10km from Slovenian border. Above Lečilište (sanatorium) there is 85 high rock, widely known, under which lies healing water spring St.Stjepan. Natural healing property of water separates Istria Toplice from other thermal springs and classifies them on third place in Europe, according to water quality and healing property. The spring had been used even in ancient times. In its vicinity had been found inscriptions in rocks, old Roman coins and jewellery. The first written documents originate from 1650.

The first water analysis was realized in 1858 and testing results had been similar to current. Toplice had been known than under the name „Terme Santo Stefano“ and had been recommended, in expert and scientific circles, as one of the best waters in Austro-Hungarian monarchy.

Health tourism of Rovinj started to develop by construction of sea-climatic sanatorium centre Maria Theresia Seehospitz. The centre was located on Muccia peninsula, north-west from town centre, on surface of 20 hectares. Rovinj centre is one of the oldest orthopaedic institutions in Croatia and one of the first climatic-sea sanatoriums in Europe.

4. Supply capacities of health tourism in Kolubara District and Istria County and their exploitation

Basic accomodation facilities of health tourism supply in Kolubara District and Istria County are presented in Table 2.

Table 2. Objects and supply capacities of health services in Kolubara District and Istria County

Kolubara District	Istria County
<p>Name: Settlement Popadić – Vrujci Spa Disposable objects and facilities: In the spa is hotel „Vrujci“ B category, with full comfort. The hotel, in its offer, has 16 one-bed, 63 two-bed, 18 three-bed and 5 two-bed apartments. The rooms are with balconies, equipped with color TVs (satellite program provided in the apartments), cabinets for clothes, night cabinets and lamps, table for work. The bathrooms have shower-cabins. The hotel has also banquet and TV hall, aperitiv bar, closed pool with dimensions 25x12,5m, jacuzzi bathrooms, hair sallon, gym, billiard room, physio-therapeutical shops and similar. There are two football fields, 2 tennis fields, bowling, field for basketball, handball within the hotel. It disposes with three pools, for children, olympic one and semi-olympic, and one closed pool with temperature of 28°C. Parking space with huge capacity.</p>	<p>Name: Istrian Toplice St.Stjepan, Livade Disposable objects and facilities: Sanatorium disposes with object (370 beds). Within the sanatorium is a restaurant, banquet and seminar hall, opened and closed pools, rooms for therapies, chapel „Majke Božje od Zdravlja“, aromatherapy, beauty and hair saloon, modern equipped wellness centre, 25-meters pool, pool for children, 5 various types of sauna, fitness studio, rooms for massage and relaxing. Istrian Toplice disposes with conditions for keeping the seminars and other group meetings in three different halls – for groups of 50,100 and 150 persons. Utilization of facilities: in average annually 182 days, or 50,6%.</p>

<p>Private accomodation: 20 households with 150 rooms and 300 beds. Utilization of facilities: in average annually around 90 days, or 40%</p>	
<p>Name: Climatic sanatorium Divčibare disposes with 4 hotels and 800 beds, 5 resting-places with 620 beds and private accomodation from I to IV category, mostly with 2-bed and 3-bed rooms. Utilization of facilities: in average annually 100 days, or 35,6%.</p>	<p>Name: Climatic sanatorium for orthopaedics and rehabilitation "Primarius dr. Martin Horvat" Rovinj Disposable objects and capacities: 4 pavilions: 1. pavilion with 100 beds, 2. pavilion with 90 beds, 3. pavilion with 45 beds, 4. pavilion comprehends drive of physical therapy, which consists of halls for individual and group exercises, room for realizing the physical therapy by appliance of magnet-ultrasound and similar, room for hydro-therapy and pool with sea water. Utilization of facilities: to 56% annually</p>

Source: The authors

Except accomodation capacities, there are important investments in non-pension contents, like as catering capacities, but also in promotional activities in order to insist on tradition of rich domestic cuisine and its specialities in both cases. Catering facilities give special "stamp" to every destination and represent one of its basic specific tourist characteristics. Besides domestic cuisine and traditional Serbian and Istrian specialities, it is necessary to exist also objects with increasingly popular and required "healthy food". Construction of ethno-restaurant and coffee bars in rural style would definitely make complete offer of the destination. Dominant architecture of these regions should be an example for future investors. This would be also an example for other tourist destinations in both republics, due to wealth and diversity of national architecture and cuisine, before all.

4.1. Additional contents of Vrujci Spa and Istria Toplice

Vrujci Spa and its surrounding belong geographically to the heart of Serbia, and by atmosphere, climate and ambience they provide peace, relaxing and health, ideal for active vacation and recreation, which can not be found in urban areas. Except the possibility for occupation with sport and recreative possibilities of spa complex, its surrounding provides break in health oasis. Opened recreative pools in Vrujci spa are unique in Serbia, considering that they have been on natural thermal springs, and had been filled from deep borehole with big quantity of water and therefore had been counterflowed (opened). The water renews even seven times during a day. In the evening, the pools empty, during a night they are filled again. Depending on wheather, they can be used from the end of April to the beginning of October.

Divčibare has excellent footpaths, marked by climbing marks on the trees. During walk, there should follow these marks in form of red circle with white colored midpoint. At the start of the paths and on crossroads are wood finger-posts, also in red-white color, and guide to several the most important, long 962m, over 1036m and 1050m, 1093m, walking duration from 30 minutes to 6 hours.

Istria Toplice offers many additional contents:

- within Istria Toplice are organized excursions, along with testing of Istria wines, rakias and tartuf products.
- Sport-recreative offer is various: mini golf, football, table tennis, bicycling or walking.
- Within Istria Toplice is chapel of Majke Božje od Zdravlja, interesting for visitors – believers,
- In surroundings, except the healing water, special convenience provides mild climate and untouched nature of this region. Numerous paths for walking and mountaineering are marked, the paths are favourable for long bicycling. On the top of giant-rock are ruins of old small church of St.Stjepan, which provides view on river Mirna valley and on Motovun forest.
- Gastronomy – area around Istria Toplice is especially famous for white tartufs, numerous taverns and agro-tourism, where qualitative domestic Istrian food is offered along with pleasant atmosphere.

Conclusion

According to comparable indexes, there was stated that Istria County has disposed with 2 kinds of sanatoriums. One is based on thermal water, other on climatic-sea elements and healing elements. For both sanatoriums is evidently that they used their capacities around 50% annually, in average. It means that it can receive the tourists from other regions and countries.

At the same time, diversity of natural characteristics of Vrujci Spa and Divčibare in Kolubara region, gives justified reason that here is much to offer to potencial demand from Croatia and other countries in surroundings. Comparing sanatorium elements which complement and utilization of capacities of mentioned destinations on both sides, can be applied, concerning there is a lot of basis for exchange of interested visitors. That means that spa capacities of Kolubara District and Istria County can be complementary used in order to improve tourist movements of these two countries.

As a priority developments of spa tourism should dispart the following: demarcation of objects, which would be used by patients in healing, from the objects used by tourists, in rehabilitation purposes. This would contribute to organizational improvement of all services in spas and suite to modern concept, which promotes wellness and spa centres, than standardization od medical services and equipment for medical treatments, categorization of accommodation facilities and fulfillment of all standards on the tourists accommodation, required by law, building the necessary infrastructure, which would make stay in spas more complete. Non-pension contents and infrastructure of tourist destination are surely the element to which tourists today pay great attention to. Some of these contents would surely imply the construction of aqua-park, for example, in Vrujci. In such object could be controlled which pool is for which tourists group. The aqua-park is good example of destination's image making and attraction of numerous tourists in spa.

Main inducement for further development of health tourism in Serbia and Croatia are:

- quality of disposable thermal water
- long tradition in resources usage
- good geographical position
- vicinity of emitive markets
- ecological preservation of environment

- variety of complementary tourist offer.

Health tourism must be valorized more adequate. However, in order to use that precious potential in the most appropriate way, great changes are necessary, starting from tourism developmental orientation, which is needed to direct more toward continental tourism, and therefore to health tourism. Than, more flexibility in health tourism is necessary to transform to market business. We must mention the problems of managing such institutions, while today mostly doctors, not economists, manage with objects favourable for development of health tourism. Additional effort in developing tourist offer segments of complementary capacities in health tourism is necessary. Furthermore, the adequate law regulatory rules are inevitable to bring (the question of regulating specific services), which lacks now, and finally, the most important of all, to provide favourable sources of investments, necessary in health tourism.

The possibilities offered by natural and human capacities, in both sides, should be used more qualitative, and basic precondition for improving the situation is more active approach of government and authorized ministries. Definitely, there is necessary need for higher valorization of mentioned values and material resources by the republics, because more significant development of medical tourism is not possible without permanent and target-directed support of authorized institutions, such as the Ministry of Health and the Ministry of Tourism (there is no such ministry in Serbia), whose engagement in displacement of numerous normative obstacles is necessary, on one hand, and facilitation of entering in this type investments for entrepreneurs, on the other hand. There is definitely space for that, along with natural, material and human resources, rich history of health-sanatorium tourism of two republics, besides consideration of selective strategy of tourist supply, but along with necessary own power, knowledge and policy, in order to place values in adequate way and contribute to bigger competitiveness of Serbian and Croatian tourism on European and world market.

Faster and more intensive development in the field of health tourism opens finally the space for increasing the usage of tourist receptive capacities, i.e. bigger overall income of tourism on some areas in Serbia and Croatia, as well as further development of national tourism and total economy.

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ПРЕГЛЕДНИ ЧЛАНЦИ

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ECONOMIC POSITION OF THE MUNICIPALITY OF LESKOVAC IN THE TRANSITION PERIOD

Abstract

The paper deals with estimation of the socially-owned capital transition of the Municipality of Leskovac economy in the period from 2000 to 2006. Measurements of results carried out via national income, economic growth and employment.

Keywords: *Transition, ownership, private and socially-owned capital, national income*

ЕКОНОМСКИ ПОЛОЖАЈ ОПШТИНЕ ЛЕСКОВАЦ У ПЕРИОДУ ТРАНЗИЦИЈЕ

Apstrakt

Резиме: *У раду се даје оцена спроведене транзиције друштвеног капитала привреде општине Лесковац у периоду од 2000. до 2006. године. Мерења резултата спроведена су преко народног дохотка, привредног раста и запослености.*

Кључне речи: *Транзиција, власништво, приватни и друштвени капитал, народни доходак.*

1. Introduction

Transition is considered as transformation from one to another condition of socio-economic relations. In the most general meaning of the word, it implies transition from one system, in which the dominant base of the social community was the socially- (state-) owned property, into a system, with the private property taking this role.¹

¹ Prof. Borivoje B. Prokopović; *Moderni ekonomski sistemi (Modern Economic Systems)* (3rd edition), Proikom, Beograd, 2005, str. 143 – 166.

The transition period, referred here, formally started with formation of a new Government of Serbia (in 2001). Anyhow, the initial transition year is considered to be 2002, because in the previous year there were only legal bases constituted for social relations transformation. It can also be understood that the transition period lasted from Serbian Constitution passing (in 1990). However, due to the slow carrying out of transformation process, this period (up to 2000) was still characterized by dominant socially-owned and state-owned property, so it would not be included in the analysis. In some particular way, the data about the basic 2000 will show the degree in which that mixed system has already carried out transformation of the existing socio-economic system and readiness for upcoming social changes.²

The paper would not particularly deal with valuation of changes in the socio-economic system in which the Municipality of Leskovac found itself, both in terms of the goals set and goals achieved, respectively. Our investigation will also include short-term results of first transitional changes in the Municipality and possible long-term effects on its entire socio-economic development. As the criterion of transition results measurement, there will be used structural and developmental effects, in relation to the achieved basic macroeconomic aggregates of the Municipality in unstable transitional environment.

As the subject of the analysis, the Municipality was viewed independently from wider and competitive environments, and because of the analytic precision, from time to time the comparative method was used, first time, in relation to the wider environment of the Republic of Serbia, and the second time, in relation to the competitive municipalities of Serbia. The first direction of view will show if the Municipality transformation goes faster or slower, compared to the environment average, and the second one should indicate if it works better or worse than in other Serbian municipalities located in the same environment and the same set external social constant.

The used statistical data are official ones and they should not be taken with reserve. Due to some inconsistencies in statistic viewing of smaller communities, like municipalities, there will appear some irregularities which will be explained in corresponding points. In other cases, the indicators may be considered absolutely reliable.

2. Basic Macroeconomic Aggregates

The basic macroeconomic aggregate, used for general follow-up of a social community development status, are national income and social (domestic) product (in absolute or relative indicators) referred to the number of inhabitants or the number of employees. These aggregates trend dynamics shows the development status change in time, measured by economic growth rate.

For municipalities, as local communities, national income is used to indicate the development status because it reflects economic potential of the environment in the most realistic way. Anyway, these units are frequently referred to as domestic product category, which differs from the previous aggregate by having depreciation included. For this level of viewing, our statistics does not use the category of gross domestic product (GDP), which also covers the mutual transactions balance of participants in

² Ibid.

economic exchange, which is double- and at the same time recorded with many participants of the exchange. That is the reason why we will most frequently use the macroeconomic category of national income.

3. National income trends in the Municipality

National income of the Municipality in the transition period is constantly growing, with some oscillations. In the basic year (2000) it amounted to cca. 74 million Euro, to reach cca. 150 million in 2006. If the exchange rate factor is eliminated, which in this period was more significant and much more uneven than prices change, the national income, measured by constant prices as of 2006, got increased from 12 to 15 billion RSD (dinars).

The first aggregate indicator of the economic status shows that in the period of observation, the municipality of Leskovac stabilized its developmental base, with some degree of increase. In RSD amounts, it was not very dynamic, but as measured by unstable foreign currency units, it is significant anyway. In other words, the national product, expressed in unstable USD amounts, was cca. \$ 200 million in 2006, which is cca. 30 million less than the level achieved in the most successful year – 1989. However, if we take that the drop of USD purchasing power, as a measurement unit, was experienced meanwhile, it cannot be concluded that the economic development of this environment approached its highest level.

Measured in RSD (dinar) amounts, inflation free, the national income growth indicators of the Municipality are more modest. The growth between the basic year and the last year of observation is estimated to cca. 20%, which gives the average annual growth rate of hardly 3%.

4. Municipality of Leskovac Development Level Indicators

Apart from the mentioned macroeconomic aggregates, there will also be used other statistical accompanying criteria as development level indicators. The indicators of development level for the period 2000 – 2004 are given in the following Table, compared to the Serbian average, that is, in relation to Serbian municipalities (162) development level.

Kind of indicator	2000	2001	2002	2003	2004
National income <i>per capita</i> – RS = 100	64.8	69.4	63.0	61.5	54.6
National income <i>per capita</i> – Rank	118	106	113	107	113
Employees number per 1000 inhabitants – RS=100	86.3	86.0	86.3	85.4	81.9
Employees number per 1000 inhabitants – Rank	71	75	71	68	69
Retail sales turnover – RS=100	51.5	54.7	46.9	49.2	58.5
Retail sales turnover – Rank	95	103	116	103	68
Number of phone subscribers per 1000 inhab. – RS=100	65.6	66.0	66.6	68.2	67.5
Number of phone subscribers per 1000 inhab. – Rank	124	126	134	131	134

The indicator national income *per capita* shows significant drop of the Municipality development level in the transition period. It shows that the achieved stability of the economic base is not verified in the environment. Namely, the transition dynamics in Serbia, as a whole, was much more significant than in the Municipality of Leskovac, because its most important development level indicator for 5 years considered, dropped for 10 index points. Compared to the total number of municipalities in Serbia, the position of the municipality of Leskovac was not worsened, it remained on the level it occupied before the beginning of the transition period. It means that the transition period favourable opportunities were used by the same municipalities, being already more developed than the Municipality of Leskovac, i.e., it is still the case that only 50 municipalities in Serbia (1/3) are less developed. In an indirect way, it shows that in the period observed, there was no good policy of even development of Serbia and that less developed municipalities, in such conditions, could not make up for that lag at the start.

The number of employees per 1000 inhabitants, as well, shows the same trend as the previous development criterion. What differs, is just the Municipality lagging, compared to the Serbian average and to other Serbian municipalities, being somewhat less. We consider that to be the effect of the municipality size, so the lagging is made relative in some way.

The retail sales turnover values reflect the Municipality development level status, and according to it, as well, there is a lag compared to the Serbian average (more than 60%). This activity intensity, the most dynamic in the transition period, shows the purchasing power rate of inhabitants and that the Municipality may not be further developed if it is not oriented to external markets (domestic and foreign).

Eventually, one of the most important development criteria indicators – the number of telephone subscribers – turns attention to endangered economic development and citizens' standard of the Municipality, because only about 30 municipalities in Serbia have the lower level of furnished telephone infrastructure.

Since the information technology is the foundation of a community development, long-term consequences may be significant if the Municipality economic policy resources and instruments would not be oriented to that direction, particularly in terms of indicators, showing bad inherited condition, which got worsened in the transition period.

5. National Income Sectoral Structure

The more important indicator of the transition period is the national income sectoral structure. Namely, it is to do with total national income contributed by all sectors: social, private, cooperative, mixed and state. Since the capital privatization process is dominant in the transition period, the change of sectoral structure shows carrying out of that process, but also the way of development of each of them within it. Absolute indicators of certain sectors contributions to the national income are given in the following tables. In the first table, the data are given in absolute amounts (in millions of RSD) and in the second one – in percentages.

- in RSD -

Sectors	2000	2001	2002	2003	2004
National income - Total	3.773	6.144	7.624	8.504	10.035
Socially-owned property	1.435	1.934	2.231	2.054	1.725
Private property	1.474	2.553	3.326	3.801	5.013
Cooperatives property	32	38	71	102	110
Mixed property	759	1.443	1.861	2.235	2.870
State-owned property	75	176	135	312	319

- in % -

National income - Total	2000	2001	2002	2003	2004
Socially-owned property	38.00	31.05	29.2	24.1	17.2
Private property	39.1	41.6	43.6	44.7	49.9
Cooperatives property	0.8	0.6	0.9	1.2	1.1
Mixed property	20.1	23.5	24.4	26.3	28.6
State-owned property	2.0	2.9	1.8	3.7	3.2

The data from the first Table show that already in the beginning of the transition period, the contribution of the private sector is significant, i.e., it is almost identical to the one in the social sector. Here, one should be careful in conclusions making, particularly because of the fact that it is not to do with the indicator of socially-owned capital privatization degree, for two reasons, at least: 1) private sector, apart from enterprises, includes firms and agricultural farms and 2) mixed property sector is dominantly within the socially-owned property, and it consists of enterprises, which started this procedure according to previous privatization laws, but shareholding participation of employees is expressed in marginal one-number percentages. That is the reason why in the beginning of the transition period the national income was dominantly being generated in the socially-owned sector (with almost 60%).

In the following years of the transition period, there is a significant drop of social sector in producing national income (lower than 20%). It is due to the beginning of privatization, but also because of extremely bad production and market position of non-privatized companies which remained without support of banks. Increased significance of the mixed sector is an indicator that the transition period turbulences, within which there have also been included privatized enterprises with terminated privatization contracts so, in their ownership structure, there is majority share of the state capital now, with the share of employees (of 30%).

By the end of the period under observation, the contribution of the private sector to the national income of the Municipality, reached the majority share borderline, so it may be said that from 2005 the economic structure of the Municipality has been dominantly privatized. To be true, this only applies to privatization results, which is not the case when it is to do with privatized capital of socially-owned enterprises.

The changes of sectoral structure in qualitative terms, may be best observed by their comparison to changes in Serbia, seen from the National Income Table data, given for all sectoral structures in Serbia, i.e., as follows:

Sectors	2000	2001	2002	2003	2004
National income - Total	1.37	1.38	1.33	1.28	1.13
Socially-owned property	2.55	2.03	2.08	1.85	1.49
Private property	1.12	1.18	1.21	1.13	1.06
Cooperatives property	0.76	0.57	0.87	1.22	1.27
Mixed property	1.08	1.21	1.20	1.40	1.43
State-owned property	0.61	1.89	0.49	0.62	0.35

The data about the dynamic lagging of the Municipality of Leskovac, in relation to the development of the Republic of Serbia, are obvious. In the beginning of the transition period, the share of the Municipality of Leskovac in the national income of Serbia is almost 1.4% and it has permanently been reduced with the rate of 1.1% (18%). Such status was mostly impacted by social, but private sectors, as well, although the number of private firms in the same period was increased from 2.700 to 4.300 (57%). However, in that period, the increased share were only achieved by mixed and cooperative sectors.

Data show that the Municipality has not been well adjusted to the transition process and it is most probable that after its completion, the Municipality would be on much lower development level, compared to the average in Serbia. It tells about serious decrease of its competitiveness, which brings uncertainty in terms of further development and signalizes changes in its economic structure, because the inherited one was not capable of producing competitive advantages, but also that transition period does not produce better structure.

6. Enterprises capital privatization

Privatization of socially-owned capital is best measured by analysis of private companies share in total business result of all enterprises. Since the private capital share in the mixed sector is minor, it would not be taken as a common contribution to achieved business results. The years to be used for comparison, will be the basic transition year (2000) and the last (2005), for which annual accounts data have been provided. What follows are the indicators of private enterprises business operations given in the Table:

Business operations indicator	2001	2005
Number of legal persons	80.0	86.3
Total incomes	27.6	66.4
Total expenses	26.0	65.7
Net profit	-	31.9
Net loss	-	26.6
Total loss - cumulative	-	22.4
Number of employees	11.1	32.4
Average wage	70.9	-
Total capital	-	23.7

The conclusion that may be drawn in relation with privatization is that it is still in process and that the share of private capital within the available capital is only 1/4. The economy of the Municipality is in the middle of the transition process and according to the existing dynamics it is not likely that it would be finished successfully. Namely, it is almost certain that the greatest number of enterprises will end in receivership, or with majority share of the state.

Regardless of relatively lesser share of private ownership in the total capital, its contribution to overall business results of the economy is dominant (two-thirds), which tells us that it is necessary to speed up the privatization in order to improve the overall business (operating) results.

How far we have gone in the socially-owned enterprises privatization process and what up-to-date results look like, compared to the environment, may be seen from the Table, which was made, structurally (in%) for the Municipality and the Republic of Serbia (end of 2005).

Serbia	Total income		Capital		Employment	
	Leskovac	Serbia	Leskovac	Serbia	Leskovac	Serbia
Socially-owned	17.0	4.1	44.4	7.3	44.6	13.1
Private	66.4	65.8	23.7	32.4	32.4	54.1
Cooperative	1.2	1.0	0.7	0.8	0.9	1.2
Mixed	12.9	9.5	22.9	11.0	15.1	15.1
State	2.5	19.5	8.3	48.3	7.0	16.5

The given property structure of the Municipality economy clearly indicates that the social sector is relatively highly significant, compared to the Republic average, both in employment and the capital, respectively. It tells about quite slower transition process of Leskovac economy in relation to the Republic trends. Except in terms of employment, the Municipality has not passed the halfway of privatization threshold. The indicator of structural share in the total income tells us that the privatized sector in the Municipality achieves the above average results, compared to Serbia and in that way it significantly contributes to alleviation of the socially-owned capital transition effects.

In the period from 2002 to 2006, there were privatized 39 enterprises in the municipality (apart from previously privatized 4 enterprises).

In relation to the number of employees in economic sector, as an indicator of the privatization completion level, in auction-privatized enterprises (2.033 at the moment of auction-based privatization of 23 enterprises), there were only 10% employees restructured in the period observed. At the same time, in the Republic of Serbia, that indicator is quite higher (25%), confirming once more, that (from the social point of view) 2007, as the last year of privatization, was entered with a big number of workers not covered by privatization, which may be a latent social balloon of discontent. On the other hand, what is positive in up-to-date privatization process, is that in auction-based privatization of enterprises only 393 work positions (jobs) were lost.

The year 2007 privatization process was entered with 32 enterprises of which, according to estimations of NBS (National Bank of Serbia) Registries Sector, 20 did not announce any privatization prospects till the prescribed deadline. It means that by the end of 2007, i.e., in 2008 (privatization completion deadline), the property status of more than 50 enterprises should be resolved, that number being bigger than the privatized enterprises number

from all five previous years (39). The problem is even bigger, because most of these enterprises, after expiration of the set deadline and unsuccessful privatization will go for sales through Share Fund, or they will be liquidated, with negative capital. The issue which concerns us is a number of around 12.300 employees, the work position of whom are endangered due to not undertaken privatization procedure.

7. Transition results

The analysis of the transition effects in socio-economic structure of the Municipality will be made based on several statistical data available, such as: demographic, /un/employed persons number and average monthly net wage of employees. We will use these indicators in our analysis, because they reflect the structural disproportions in the best way, and some of them, the levels of citizens' standard achieved.

According to its size (1.025km²) and inhabitants number (156.252, as of 2002 Census), the Municipality of Leskovac is one of the biggest in Serbia. Most of its area comprises agricultural land (57%) and forest land (32%) and the base of its development should be agriculture and food processing industry. In the transition period, the area covering farm land has been insignificantly reduced (for cca. 200 ha). From the total number of labour-capable (103.000), there are only 72.000 active population, of that number, 53.600 dealing with their own professions. In the agricultural production there are 22.200 inhabitants directly engaged.

In the beginning of the transition period (2000), the number of employees in the economic industrial sector (excluding private firms); unemployed persons, pensioners; and farmers was almost identical (almost 22.000 each). After 7 years of transition it changed and it looks, as follows:

- " the number of farmers remained on the same level
- " pensioners – 23.400
- " employed in enterprises (excluding private firms) – 15000, and
- " unemployed – 23.300.

This population structure of the Municipality demonstrates in the most general way that the bad effects of transition changes are of structural nature and that they have not been stopped yet. In the same way, there will be observed some tendencies within certain categories, in order to probably observe the possible directions of the Municipality development and the need for taking corresponding measures.

8. Municipality demographic structure change

Consensus data, as of 2002, in terms of the Municipality population number, compared to the previous one, as of 1991, show that it has been reduced for almost 4000. However, between the two censuses, the statistic methodology was changed in view of domestic population coverage; the last census registered as domestic population those which resided abroad for less than a year. That criterion did not exist on the occasion of previous Census, so it is not possible to compare these two censuses. Anyway, it is estimated that the latest Census did not cover around 5000 inhabitants of the

Municipality, who resided abroad more than a year. For that reason, it turns out that the total number of the Municipality inhabitants, according to the latest data, has been insignificantly increased, which means that depopulation process has not affected the Municipality. Quite high number of the Municipality inhabitants is from rural areas, and only 44% is of urban character (Leskovac, Grdelica, Predejane and Vucje).

Birth rate is one of the most important characteristics of the population vitality and it is statistically followed up. The Municipality of Leskovac, as a dominant socio-economic gravitational center of Jablanicki District, has always attracted population of immediate environment. The first big saturation of inhabitants inflow happened during 90s of the last century, due to which there was minor increase registered between the two censuses of 90s. It was the first time in these 90s when one more vital event occurred and negative birth rate recorded in 1997. In the transition period, this negative process has not been stopped and there was recorded a negative birth rate of even 18 per mill, although it is positive within the city area (3.6 per mill).

The inherited negative effects have not been stopped even in unstable transition years, either in economic or living terms, which made the basic age structure of the Municipality worse, and which is, according to the latest Census outcomes (average 40 years), more favourable than the Serbian average for three index points, and that, on its part, again, worsens the long-term economic base of the Municipality development. However, the problem may be alleviated for medium term by means of the existing significant portion of spare labour force (dominantly young), which may be potentially activated in case of more favourable economic policy, as compared to the afore-identified, as limiting in terms of development.

9. (Un)employment and Wages in Transition

The number of employees in the Municipality is the indicator which, in the most direct way, reflects the first transition effects in the period 2000 - 2006. Employment in the Municipality for the period 2000 – 2006 is represented in the Table, as follows:

Description	2000	2001	2002	2003	2004	2005	2006
Total number of employees	38.947	28.902	32.909	32.061	31.661	34.256	32.276
Sector of economy	22.307	21.820	19.729	18.037	16.328	17.650	14.357
Private firms			6.645	7.497	8.091	9.019	10.587
Non-industrial sector	6.640	6.472	6.535	6.527	7.242	7.587	7.332
Total number of unemployed	20.319	23.160	24.114	25.084	22.250	20.972	23.294

Uneven registration of total employment in the period under observation, disables more precise follow-up of employment transition effects. If it is realistically presumed that the number of employees in the private firms was around 5.000 (in the basic 2000), we have got that the negative transition balance of total employment is about 1.700 employees, or 5.8% of start employment. According to this, the negative transition effect on total employment was not high.

In the sector of economy, however, the most significant effect occurred, and it is logical, having in mind the direct orientation of privatization activities to it. The negative balance refers to almost 8.000 jobs lost, or more than 1/3 from the number of employees in the Sector of Economy (2000) and it is mostly absorbed by other sectors of employees, as follows:

- " 50% (almost 4.000 employees) was absorbed by newly created dynamic sector of private entrepreneurship (so-called private firms),
- " 8.7% (around 700 employees) was absorbed by non-industrial sector,
- " 37.4% surplus jobs registered at the labour market and
- " 4.3% remained non-absorbed – probably in the zone of “grey” economy.

The additional negative effect in relation to the level found in 2000, is entirely referred to the sector of economy, because it has been most directly hit with transition strokes and the transition changes have not dramatically changed the situation in the employment sector.

Small and medium enterprises (SME) sector with the employment growth rate of cumulative 60% in 4 years, contributed to amortization of transition strokes in the most significant way. It shows the direction of Municipality economic policy movement, with true recognition of the structural fact that this sector cannot reach its optimum functioning alone. However, even 5 years after the beginning of transition, it does not show the signs of consolidation, so further reduction of its share in the total employment and its equalization with entrepreneurial sector may be expected. If more serious privatizations of some big enterprises do not take place, or if new big external investments are not provided, there is a risk for the Municipality to become a service of other economic centers in Serbia. Anyhow, the given structure endangers the economic base of the Municipality of Leskovac further development in the long run.

In terms of unemployment, the Municipality is among the most endangered municipalities in Serbia. Only the cities of Nis and Novi Sad have higher unemployment. In relative indicators, with unemployment of 17.1 % the Leskovac Municipality is in the group of 20 municipalities in Serbia. But it is to do with a group of relatively small municipalities, such as: Indjija, Tutin, Novi Pazar, Priboj, Prijepolje, Sjenica, Bojnik, which have absolutely small number of unemployment. It is only the City of Nis which has relatively higher unemployment rate (17.4%) and these two big regions are considered, in this domain, as the most endangered in Serbia. In case the unemployment rate is measured according to European accepted methodology, also applied by our National Employment Service, the Municipality of Leskovac (with 42%) has the highest unemployment rate, even higher than Nis (36%), that being mostly contributed by the low absolute employment level.

From 2000 to 2004, the unemployment rate in the Municipality, according to the total number of inhabitants, was reduced from 24 to 17%, and in Serbia, it was increased from 9.4 to 30%. It tells us that the unemployment problem was inherited from the previous period and that it has not been worsened meanwhile, because the biggest portion of unemployed people was absorbed by the private, entrepreneurial sector.

It is possible to follow transition changes through the trends of effected average monthly net wage per employee. We will observe the absolute level of wage and its actual rise in the transition period, but also in relation to the effected average wage in Serbia. In the transition period observed, net wages in the Municipality had a continuous actual rise (above the rise of costs of living). Due to low basic 2000, wages were actually increased 2.5 times, even if they

are compared to relatively stable transition years (2003 - 2006), which tells us about the beneficial effect of transition changes in the employment sector.

Speaking in foreign currency terms, that rise is even more visible, in that it should be taken into account that in this period, the rise of the costs of living was higher than the increase of dominant foreign currencies exchange rate at the home market.

Therefore, from 2000 to 2006, the average monthly net wage in the Municipality got increased from 35 to 175 EUR, and in Serbia that ratio was from 47 to 257 EUR. However, the problem with employees wages in the Municipality is visible only when compared to average wages effected in the immediate environment. From the wages foreign currency ratio, it may be seen that they are increased faster in Serbia than in the Municipality and the lag of 2000 in the Municipality compared to Serbia was 25%, and in the last year observed it increased for 7 index points and in 2006 it amounted to 32%. Similar lagging of the Municipality development level in the same period, is also in terms of national income *per capita*.

The structural problems of lagging are more serious because they are located in other segments of national income generation and allocation. The greatest problems are in investment segment, because the investment rate (referred to the national income effected) in the first 4 year of the transition period in Serbia was permanently lower – 2 times and in Serbia, in 2004 it was 17.2% while in the Municipality of Leskovac it was 7.6%. In the beginning of the transition period (2000), it was 14.5 in Serbia and 6.3% in the Municipality. Eventually, structural changes of the most important development indicators will not be possible to realize and the status of the development level of the Municipality, either.

Conclusion

The estimation of the transition presented here, covers the period from 2000 to 2006 and it may read, as follows:

- " In the period observed, the national income of the Municipality of Leskovac had a rising trend in USD currency (from 75 to 200 million), but also in RSD as of 2006 (from 12 to 15 billion RSD. For this period, there was achieved a relatively modest economic growth (of 20%), around 3% a year;
- " In the observed period, there was relative lagging in the Municipality development for about 10 index points, so it reached 54% of the development level of Serbia and it is in the group of 50 least developed Serbian municipalities.
- " The contribution of the private sector in the national income of the Municipality (in the basic 2000) was 40%. The share of the socially-owned sector was also getting reduced with mixed capital, dominantly comprising the capital of socially-owned enterprises, and the privatization threshold of 50% was passed only in 2004.
- " All data undoubtedly show that the change of Municipality economic structure is indispensable, that the inherited structure has not produced any competitive advantages, and that the transition period does not either.
- " In the observed transition period, the privatization procedure has not covered sufficient number of enterprises and huge part of their capital will remain not privatized, which will be a permanently lost resource for the Municipality. Currently, it binds around 12.300 jobs.

- " Total privatization results, as a first segment of the Municipality transition show that the entire 2006 was just the half-way of the road travelled in terms of transitional adjustment to new socio-economic conditions.
- " The number of agricultural, retired and unemployed population got increased, while the number of employees in the economy sector significantly dropped.
- " The good sides of transitional adjustment are that no significant increase in the number of the unemployed occurred and that the actual wages of full-time employees have risen from 35 to 175 EUR.

Finally, it could be said that the transition effects on the entire position of the Municipality were positive and that the inherited structural disproportions were interfering with improvement of the Municipality position in relation to the environment, and that the conditions created in the transition period are less favourable, compared to the start position.

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THE CAUSES, FEATURES AND GOALS OF TRANSITION PROCESS IN SERBIA

Abstract

Socialism as economic and social model turned out to be unsustainable in a long term period, so by the end of 20th century socialism as a system was unable to remain alternative to a market oriented economic model. Many countries for those reasons entered the process of transition, which represents transformation of former socialistic economies into Market economies. In front of us is also an imperative of change of economic model and prevailing property relations. Transition represents transformation of national, economic and psychological structure of society. In the focus is private property which represents the symbol of individualism and efficiency which implies that employees in our companies would have a motivation to work more efficiently and effectively, for it is the system which motivates people who know to work and accept the risk.

Key words: transition, competition, reconstruction, management.

УЗРОЦИ, КАРАКТЕРИСТИКЕ И ЦИЉЕВИ ТРАНЗИЦИЈЕ У СРБИЈИ

Апстракт

Социјализам као привредни и друштвени модел био је неодржив на дуги рок, те је крајем двадесетог века престао да буде алтернатива тржишном привредном моделу. Многе земље су због тога ушле у процес транзиције, који означава превођење бивших социјалистичких привреда у тржишне привреде. И пред нама је императив промене привредног модела и преовлађујућег својинског односа. Транзиција представља промену државне, економске и психолошке структуре друштва. У фокусу транзиције је приватно власништво, које је симбол за индивидуализам и ефикасност. То подразумева да ће запослени у нашим приватизованим предузећима имати мотив да ефикасније и ефективније раде, јер је то систем који мотивише оне људе који знају да раде и који прихватају ризик.

Кључне речи: транзиција, конкуренцијосност, ресируктурирање, менаџмент.

Introduction

At the end of 20th century, socialism as social structure and economic model was unable to remain an alternative to capitalism. The main cause of its fall was inefficiency of system and absence of motivation of employees. Although official statistic reports portrayed growth of economic activities which in some period of time surpassed growth rates of developed market economies, naturally did not express the real growth. It was not the growth of creation, but growth that destroys the value of companies. The same situation was in our country. Direct state administration, hence self-management, determined our economic history after the Second World War.

In such economic system, direct and apparent relation between the results and work valuation did not exist. Consequently, wages alienated apart from generated values and effectuated results. Such condition led to low rate of motivation and therefore low productivity. The realistic situation has not been recognized, so process of "losses socialization" has begun. Such premise and attitude towards companies of poor financial health has domino effect on strong companies. Summary effect of previous process brought up to breakage of socialism and abandonment of so called "socialist paradigm".

In initial period of the 90s of XX century, Serbia has like other socialist countries, entered the transition period. As it is, compiling of ex-socialist countries into market economies represents the transition process, which creates new business ambient and new institutional infrastructure.

1. New transition economic indicators in Serbia

Serbia has improved its rating, climbing up for 24 positions on position number 68 out of 175 countries rated according to business environment worldwide, discursively to World Bank and IFC survey in "Doing business 2007" report.

Serbia overtook all republics of ex-SFRJ, excluding Slovenia. Although Serbia implemented numerous changes, Serbia lost its leading position in reforms which was Serbia qualified by in last year's report.

World Bank cite that regarding fundamental changes Serbia has imported electronic preservation of data in customs affairs, which provided electronic distribution of declarations and reduced the import process from 44 to 12 days and export process from 21 to 11 days. Implemented reforms reduced Serbian credit risk and enabled entrepreneurs to take loans more easier than previous period. As far as investors security is concerned Serbia is at position number 60, Bosnia and Herzegovina at 83, Croatia at 156 and Albania at 162¹.

However Serbian economic system is qualified with structural flaws which could be noticed above all in significant gap between production and aggregate demand. Particularly as it is represented in table 1, the growth of average net income in Serbia in a period between 2004 and 2007. is 3 to 4 times bigger than the growth of GDP.

Such movents, simultaneously provoke demand-push inflation growth due to increasment of financial solvency of population and growth of cost-push inflation, whereas expanded salary costs reflect on growth of prices of final products. In such conditions it is necessary to adjust the salary growth with GDP movements, which means that productivity progress in companies should be basic measure of personal income growth.

According to International monetary fund data, nominal value of GDP in Serbia in 2007 equals 30.969 mlrd USD \$ or 3.699 USD *per capita*. During analized period from 2005 to 2007. the positive growth trend is inherent (Table 1). Although, the problem of sustainable growth still remains.

Table 1: Gross domestic product in Serbia in period of 2005-2007

	2005	2006 ^{/1}	2007 ^{/2}
GDP nominal mlrd. USD	24.058	27.544	30.969
GDP per capita USD ^{/3}	2.880	3.294	3.699
GDP PPP mlrd. internacionalnih dollars	44.665	47.770	51.162
GDP per capita PPP (international dollars) ^{/3}	5.348	5.713	6.112
GDP per capita nominal USD author's estimation ^{/4}	3.229	3.697	4.157
GDP per capita PPP (international dollar) author's estimations ^{/4}	5.995	6.412	6.867

^{/1} Estimation of IMF;

^{/2} Projection of IMF;

^{/3} GDP per capita is evaluated on the basis of population od 8,3 mil.;

^{/4} author's estimations on the basis of population of 7,45 mil.;

Source: www.imf.org; International Monetary Fund, World Economic Outlook Database, September 2006.

According to study of competition of Serbian economy⁴, as per technology index, among transition countries Serbia rated at the last position, and current growth of its GDP is larger than supervened from the level of technical accomplishment of our economy.

Consequently, former growth is not sustainable without substantial growth of investments. Insufficient investments in new production programmes represents limited factor of export growth, due to absence of qualitative factors of competition (design, european labels of quality, standards, etc). Besides that, investment in modern technology is lacking, which brought to oldfashioned production structure and impairment of capacities.

In order to gain more objective perspective, model of countries has been formed of transition countries of the region⁵. In table 2, data of level activity have been presented from the period of year of 2005. compared to pre-transitional year 1989. Serbia (with Montenegro) in year 2005 reached 56% of activity from pre-transitional year of 1989, Croatia has reached nearly level of pretransition (97%), while other countries from model surpassed pre-transitional level of GDP (Slovenia 130%, Hungary 125%, Romania 120%). It is noticable that Serbia compared to countries from

surrounding environment has the lowest level of economic activity and is also far from level from 1989.

Table 2: Level of activity for selected model of countries

	GDP01/ GDP89	GDP02/ GDP89	GDP03/ GDP89	GDP04/ GDP89	GDP05/ BDP89
SERbia (and Montenegro)	0,47	0,50	0,51	0,54	0,56
Hungary	1,09	1,12	1,15	1,20	1,25
Slovenia	1,14	1,19	1,20	1,25	1,30
Croatia	0,85	0,88	0,91	0,93	0,97
Romunia	0,83	0,88	0,91	1,00	1,05

Source: Djuričin, D. (2006): "Tranzicija, stabilizacija, održivi razvoj: perspektiva Srbije", *Kopaonik business forum 2006*, pg. 5.

2. Transition: causes and goals

For successful transition process it is necessary to provide certain macroeconomic preconditions and processes associated with the level of companies. Privatization of companies stipulates development of financial markets, which represents the "brain" of market economies. Our country is one of a few Central and Eastern Europe where movement of basic economic indicators registered negative trends. At the beginning of the 90s we have more favourable infrastructural terms comparing to other ex-socialist countries. Meanwhile, at this moment Serbia records a lag behind similar countries.

Briefly, we are situated in the state of economic chaos. The state of economic chaos is actually the condition in social and economic structure which is the result of disintegration of socialist system.

Occurrences in socialistic countries are one of the rare periods in history which could be served as the confirmation of Chaos theory⁶. The essence of transition is transferring of economy from the zone of ineffectiveness into the zone of market business activity.

Efficiency growth is occurred due to the fact that proprietary management is more efficient than non-proprietary. Also, private entrepreneurship is more effective than mediated entrepreneurship. Transition is necessary to reach compatibility with relevant market economies. Basic process of building integral market economy is privatization.

However it is required but not enough condition. Development of financial markets as well as incremental deregulation is nevertheless essential.

Initiating of transition process is linked with variety of negative effects such as downsizing of employment and production along with price growth (transition stagflation). Experiences shows that transition stagflation has been overcome a long before come competent evaluations predicted⁷. Furthermore post-transitional boom is expected as the consequence of the downfall of tax burden (Czech republic), influx of foreign capital (Hungary) or balance of payment (Poland). It is interesting that in leading transition countries (as Hungary and Poland) did not reached the revision of accomplished results of privatization. In our country besides the

announced privatization revision, there is no general consensus about fundamental questions about regulations of economy and society, which complicates already difficult reformation road.

After ten years of reforms, countries of Central and Eastern Europe, in period from year of 2001 to 2003, reached positive growth rates of real Gross domestic product (average growth rate of BDP is 4,4%) along with price stability⁸. As for Republic of Serbia is concerned we can emphasize that transition started abreast a lot of limiting factors inflicted from the outside. First of all economic sanctions with all its negative effects and culmination in the form of bombing of Serbia during year 1999. Such circumstances effected begging of transition, so those processes has been stopped, and again initiated in several occasions⁹.

Researches of IMF consultatns¹⁰, drew attention to the fact that countries that combined macroeconomic stabilization with comprehensive structural reforms were more succesfull in prevailing of production downfall in initial phases of transition as reaching out significant production growth in following period. Also according to the same source, those two components of strategy are equally important for transition success. Measures of macroeconomic stabilization should be assured before reforms on microeconomic level (companies) and financial sector reforms. Macroeconomic stability in Serbian economy alongside the animation of economic growth is still impregnable goal, and development of market economy as basic transition "product" reduced itself on the narrow market of goods and services. According to statistical data, unemployment rate is about 30%, and external trade deficit is close to half of the real GDP, so it is clear that we are far behind the countries of Central and Eastern Europe.

3. Professional services as a back-up for reconstruction of transition companies

Necessity for full scale transformation demands complex consulting intervention. Domestic companies have to perform important changes due to emerge from economic crisis. There is a large number of individual changes and interventions which could be implemented in each company in order to upgrade its commercial results¹¹. In a situations where performances of companies could not be evaluated as satisfactory, changes are needed in the section of organization, composition of transactions, company assets and their financial structure, etc.

Reconstruction could be defined as activity which is implmented in a company with downturn performances, for company to survive, and reach turning point towards profitable business activities. Reconstruction in our enviroments has to include all the areas of company functioning, implying that it has to be realised as proprietary, market, organizational, business and financial transformation. Each dimension of company reconstruction is specific and requires professional expertise and experience.

Proprietary reconstruction represents privatization od domestic companies wich results with transformation of social and public capital into capital stock. In this dimension of reconstruction, consultants has been engaged on activites before and after privatization. In activities before privatization process focus is on preparation of company for entering in a procedure of privatization in order to sell itself successfully. Activities that accompany period

after privatization, are measures of protection of private companies as well as implementation of appropriate concepts for managing in a shareholders form of organization.

Market reconstruction represents redefining of market where company appears with a goal to improve trade and business activity. For successful market reconstruction it is necessary to have at disposal proper information about changes in environment, first of all Market, in order to reduce the risk and uncertainty. Numerous Serbian companies market research projects treat as big and unnecessary expense, whereas they consider themselves experts of demands of their customers, i.e. their markets. Nevertheless the majority of companies perceive the importance of market research and accede to scientific methods in implementing of this activity or involve specialized institutions (consultant firms, advertising agencies, institutes). Market research enables companies to solve problems about their business more efficiently. The role of consultants is to imply to alternative directions for exceeding existing problems, as well as the possibility for success of each suggested solutions. Although it should be pointed out that marketing managers became carriers of final marketing decisions, not consultants.

Organizational reconstruction represents change of organizational company model and concept of functioning. The role of consulting is to analyse organization of clients, development of intervention strategy, then forming the reports, managing meetings, etc. Special teams of consultants are being engaged to accomplish diagnosis of company situation. Organizational reconstruction is interdisciplinary area. Consequently, agents of changes, leaders of organization and first of all consultants must have knowledge from different fields particularly from the human behavior domain. Interventions which are implemented, imply that consultants should enter into personal interactions in organization. Also it is necessary to implement control straightway after the changes. Afterwards controls are with less intensity and less effective, considering the fact that the process is stabilizing in new conditions and on the new levels¹².

Business reconstruction results as important changes in areas in which company operates. Consultants are focused on giving advises in following domains: abolishing of certain job position and opening of others; merging and affiliation of companies; making of business plans; consulting intervention in production area and technology. The goal of all intervention is increase of economic value of the company and improving its negotiating strength on the market. For successful business reconstruction it is necessary to analyse different ways of combining market and products as basic potentials for company growth. Along with that, market reconstruction is starting presumption for business reconstruction of company.

Financial reconstruction imply changes in a capital structure, which changes the relation between ownership and liability. Domestic companies have unsettled financial balance, unsuitable structure of assets resources and high indebtedness. Non-private companies most commonly practise alignment and debt restructure. As for private-companies, financial reconstruction is referred to stock operations. In nowadays practise, main subjects in this activities are issuing candidates, The Securities Commission, guarantee (or investment bank), authorized audit and different types of consultants.

Reconstruction of our companies is the consequence of late reaction and adjustment to changes. Though in developed market economies, some companies are also facing the process of reconstruction. The difference is in fact that their experience in market terms make them capable to simultaneously adjust themselves and practise modifications in doing business, organization, methods of financing etc. It could be expected that domestic companies, after

reconstruction as the result of economic crisis, will enter the period of effective trading, and at that time will be qualified for readjusting to modern trends.

Conclusion

Former experience shows that the best results have been accomplished by economies that in selection of privatization model lean out to models of takeover on the part of employees as well as models of selling to strategic partners. Implementation of afore-mentioned models leads towards entrepreneurial and liberal capitalism.

At the end, it could be mentioned that transition has to result in following effects: dominant participation of private property in economic structure; developed and active financial markets, which represents "the brain" of market economies; exceeding "transitional shock", which is the inevitable tracker of reforms; growth of savings and investments; restoration of firm budgetary limitations on national level and on the level of banks and companies; price stability and exchange rate stability; explicit and modified tax system;

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THE IMPORTANCE AND CHALLENGES OF THE LISBON STRATEGY FOR ECONOMY REFORMS IN SERBIA

Abstract

The lisbon process refers to the joint movement of member states to follow explicitly defined goals through implementing a number of measures. deviations from the set goals, have led to the audit lisbon strategy and introduction of new instruments of its implementation. the tendency to a greater extent, or more fully achieve the goals lisbon strategy, for countries whose strategic commitment to become a member of the eu, like serbia, means effective of economic reform and faster implementation of the criteria for membership in the eu. implementation of the lisbon strategy goals for serbia is complementary to meet the economic criteria for membership in the eu in copenhagen. lisabonskih reaching goals and fulfilling the economic criteria of copenhagen, the economy becomes more willing to serbia may face competition and market forces and the most competitive economy in the world.

Key words: *the lisbon strategy, the copenhagen criteria, serbia.*

ЗНАЧАЈ И ИЗАЗОВИ ЦИЉЕВА ЛИСАБОНСКЕ СТРАТЕГИЈЕ ЗА ПРИВРЕДНЕ РЕФОРМЕ У СРБИЈИ

Апстракт

Лисабонски процес односи се на заједничко кретање држава чланица према изричито дефинисаним циљевима путем низа мера. Одступања од постављених циљева, довела су до ревизије Лисабонске стратегије и увођења нових инструмената њеног спровођења. Тежња да у што већој мери или у потпуности остваре циљеве Лисабонске стратегије, за земље чије је стратешко опредељење да постану чланице ЕУ, попут Србије, значи ефикасније привредне реформе и брже испуњење критеријума за чланство у ЕУ. Реализација циљева Лисабонске стратегије за Србију комплементарна је са испуњавањем економских критеријума за чланство у ЕУ из Копенхагена. Достицањем Лисабонских циљева и испуњавањем економских критеријума из Копенхагена, привреда Србије постаје спремнија да се може суочити с конкуренцијом и тржишним снагама најконкурентније и најдинамичније привреде на свету.

Кључне речи: Лисабонска стратегија, Критеријуми из Копенхагена, Србија.

Introduction

Lisbon strategy was adopted on European Council in Lisbon in 2000, with the aim that European Union (EU) becomes the most competitive and the most dynamic economy, what can be accomplished only if all the participating countries are joined in the same path. Except for the positive results, the progress in achieving Lisbon goals was slow and insufficient, so the wider spectrum of reforms was engaged between 2000. and 2004th. In order to increase the potential of fulfilling defined goals in Lisbon, EU adopted “Revised Lisbon strategy” or “Renewed strategy for employment and growth” and new instruments in its implementation.

Since 2000th, Serbia from one year to another accomplishes advancement in numerous areas of economic and social development, but it is insufficient. It greatly lagging behind EU, neighborhood countries and belongs to the European countries with the lowest level of development. Such situation demands the advancement of structural and institutional reforms and improvement of macroeconomic performances in the economy. The realization of important social and economic goals coincides with the realization of strategic decision of Serbia to become a member of EU. Lisbon goals are relevant, but not as additional criteria of EU membership, but as goals that had to be included into policies, reform programs and action plans. Inclination of Serbia to fulfill them is especially complementary with achieving economic criteria for membership from Copenhagen. Increasing the consciousness on the importance of Lisbon goals, challenges that they impose and understanding the instruments for performing Lisbon program, is extremely important for successful process of conducting reforms and economic development of Serbia.

1. Lisbon strategy – Revision of Lisbon strategy and instruments for implementation

In Lisbon in 2000, EU defined strategic goal that until 2010. becomes the most competitive and the most dynamic economy in the world, based on knowledge and capable to achieve sustainable economic development, greater employment and social cohesion. In order to achieve such goal it was adopted overall reform agenda titled “Employment, economic reforms and social cohesion – the path towards Europe based on information and knowledge”, better known as “Lisbon strategy” (LS)¹.

Analysis of causes for EU lagging comparing to USA and Japan preceded LS, where it was stated that these countries thanks to new technologies and implementation of science and research works, have the higher level of productivity. The task was imposed on EU economy to achieve high competitiveness, that is, the ability to provide for EU citizens increase of standards of living, with the high employment rates in long term, as the supporting pillow for sustainable development strategy of EU.

In Gothenburg, in 2001, EU added to LS problems of environmental protection. Beyond, LS stressed the importance and the need of better integration of research programs and institutions on EU level. In order to decrease gap between EU and its

¹ Presidency Conclusions, (2000), European Council, Lisbon, <http://ec.europa.eu>, p. 1.

major competitors, regarding the research and innovation, EU adopted in Barcelona in 2002 “Action plan of investments into researches”, and proposed the creation of European research area².

LS covered wide program of goals and reforms. Concretization of the goals of LS means that EU until 2010. must accomplish: (1) increase of the employment rate on 70%; (2) increase of the yearly growth rate of GDP on 3% and (3) growth of investments in R&D on 3% of GDP.

Three key areas for accomplishment of LS goals are identified as: 1. research and innovations, 2. IT and communication technologies and 3. education and training. Basic instruments for achieving LS became opened method of coordination, based on general evaluation (benchmarking) and expansion of the best practice among members.

In order to achieve ambitious goals of LS, EU published in 2002. report on “Industrial policy in an enlarged Europe”, where it opposed the wrong opinion that industry would not play key role in IT society and society of service industries, and that the only template for development is the third sector development³. Also Agenda acknowledged the importance of creation favorable business environment for SMEs, creation of efficient financial markets, development of society of knowledge and concept of flexible education system and life long learning.

Integration of new state members in LS started in Gothenburg in 2001. Regarding Lisbon goals these countries adopted “Strategy of Europe Plus”. They have equally been involved into research programs and active construction of “European research area” since 2002. Yet, although the EU expansion on 27 members is described as welcomed, it made harder accomplishment of the LS goals, that were far from projected already in 2004.

Before 2004, in order that EU becomes the most competitive economy in the world that is based on knowledge, significant lag appeared in the plan of implementation of LS goals. It became obvious that to many general objectives are hard to be accomplished, so the smaller number of goals were proposed as well as expanding the deadline for their realization. These alternatives were rejected.

“Cocua’s report” on implementation of LS was based on 14 indicators, which showed dark picture and different advancement between 2000. and 2004. Therefore, it stresses that it is necessary to conduct concrete and large reforms of LS in order not to become synonym for failure goals and unfulfilled promises⁴.

Disappointing results are the consequence of overburdened plan, economic conditions, low coordination and controversial priorities due to the lack of political will in the member counties, limitations like institutional inertness, international uncertainty and the lack of support of wider public. Namely, LS covers also the areas for which EU is not authorized, that is why voluntary cooperation within “opened method of

² Com (2002) 565 Final, “The European Research Area”, (2002), Commission of the European Communities, Brussels, http://www.bologna-bergen2005.no/docs/02/era_newmomentum_en.pdf, p. 7.

³ Com (2002) 714, Final, “Industrial Policy in an Enlarged Europe”, (2002), Commission of the European Communities, Brussels, http://ec.europa.eu/invest-in-research/pdf/download_en/industrial_policy_enlarged_europe.pdf, p.5

⁴ Cocua’s report, <http://www.entereurope.hr/news.aspx?newsID=141>, p. 1,2.

coordination” gave inadequate results⁵. Therefore it was requested coordinated, focused and fast action on five priority areas: 1. society of knowledge, 2. unique market, 3. improvement of entrepreneurial climate, 4. construction of flexible labor market and strengthening social cohesion and 5. ecologically sustainable future.

Without dropping of the basic goal, EU redefined widely defined goals from Lisbon and focused priorities on growth and employment in 2005. EU adopted “Revised (New) Lisbon strategy” (RLS) or “Reconstructed strategy for growth and employment”, that kept the accent on goals of significant importance for developing and strategic position. Realization of RLS was predicted to be conducted through two three year period of application. The first period is between 2005. and 2008, and second from 2008. until 2011. The responsibilities in conducting were divided between institutions of EU and members. RLS covers new instruments and plans of implementation. The basic instruments in RLS implementation became:

a) “The community Lisbon program” (CLP) is reform program on European level, that demands to: 1) EU makes attractive place for investments and work, 2) increase investments into knowledge and innovations for growth, and 3) create greater number of new and better jobs”⁶.

b) “National reform programs”(NRP) are main instrument of RLS that member countries create each year. Members adapted national programs for the period 2005-2008. according to 24 integrated guidelines (macroeconomic, microeconomic and guidelines for employment)⁷.

c) “Strategic yearly report of the Commission on progress” is created with the simplification of the reports of member countries, that European Commission uses as the instrument for reporting on conducted economic and other measures, during the estimation of progress of countries members in conducting reforms, as well as in order to simplify mechanism of the opened coordination method.

d) Benchmarking method remained in RLS important instrument and method of connecting and conducting Lisbon process that means application of experiences of other countries members and their adaptation to the specific conditions in each member.

The following results were achieved in the realization of LS goals until the end of 2007: 1. Rate of employment of approximately 66%; 2. GDP has the average growth rate of 2,9% and 3. Investments in R&D were 1,9% of GDP.

Since 2008, it has begun the second three years period of the application of “Revised LS”. EU confirmed the importance of integrated guidelines, and as priorities in “Lisbon program of the union 2008-2010” stressed⁸: a) stronger investment in knowledge and innovations, b) release and strengthening of business potential, especially

⁵ SEC (2005) 385, “The economic costs of non-Lisbon – A survey of the literature on the economic impact of Lisbon type reforms”, (2005), European Commission Brussels, http://europa.eu.int/growthandjobs/pdf/SEC2005_385_en.pdf, p. 14.

⁶ COM (2005) 141 final, “Integrated guidelines for growth and jobs 2005-2008”, (2005) European Commission, Brussels, (http://europa.eu/growthandjobs/pdf/COM2005_141_en.pdf, p.1,3)

⁷ Ibid, p. 6.

⁸ COM (2007) 804 final, “Proposals for a Community Lisbon Programme 2008 – 2010”, (2007), European Commission, Brussels, http://ec.europa.eu/growthandjobs/pdf/european-dimension-200712-annual-progress-report/200712-annual-report-community-programme_en.pdf, p. 1.

of those in SMEs, c) higher level of adaptation of labor market, based on the concept of flexibility, and d) significance of energy and changes of climate.

2. Significance of the Lisbon strategy goals for Serbia

Joining EU, as the most important European integration represents strategic priority of Serbia. Serbia signed “Agreement on stabilization and pre-accession “with EU in 2008. The two most important obligations that must be taken with signing the Agreement are gradual liberalization of trade with industrial and agricultural products that is creating of free trade zone in stages, and the obligation of harmonization of the legislative with communitarian law in EU.

EU in Copenhagen in 1993 decided that it will accept in it’s membership joined countries from Central and Eastern Europe that express that wish and fulfill “Criteria from Copenhagen”. The accession process and membership of Serbia in EU will depend upon EU judgment weather and to what extent Serbia fulfills proscribed criteria for full rights membership in EU that is to what extent accepts it’s basic goals.

Without denying political and legal criteria for membership in EU, fulfillment of economic criteria and goals for Serbia is of far more priority, in order to achieve functional market economy, which is capable to sustain the pressure of competition and market strengths within EU. Due to that fact, LS that is more focused on economic and social questions, and less on political aspects, must occupy adequate position in transitional period in the economy in Serbia.

The tendency that in larger extent and totally fulfill the goals of LS would mean the continuance of the economic reform program in order to remove the existing weaknesses and accomplish economic prosperity. Therefore the realization of the LS goals for Serbia becomes complementary with fulfillment of the economic criteria for the EU membership from Copenhagen. With the realization of Lisbon goals and fulfillment of economic criteria from Copenhagen, the economy of Serbia would become more prepared to confront the competition and market strengths in EU.

Additional values of LS are not new goals, but precisely defined indicators and measures, timelines and mechanisms of implementation. Also, goals from Lisbon do not mean additional criteria for membership in EU, but the goals of LS must be reflected in EU policies towards candidate countries. EU induces that these goals are considered and included in reforms that is action plans⁹. That means, Serbia must gradually adopt goals of LS and develop such combination of policies that would enable keeping up step with EU. Such approach would contribute to more efficient use of financial resources from pre-accession funds for support – IPA.

In document EU from 2008, “Western Balkans: Enhancing the European perspective”, among other, is stressed that increasing the competitiveness, decrease of unemployment, improvement of human potential and greater participation on labor market, development of infrastructure and provision of social cohesion (which are the

⁹ COM (2005) 141 final, “Integrated guidelines for growth and jobs 2005-2008”, (2005) European Commission, Brussels, (http://ec.europa.eu/growthandjobs/pdf/com2055_141_en.pdf, p. 3,6.

foundations of LS) are main challenges for the whole Western Balkans region, Serbia as well, and that EU would support the promotion of LS goals¹⁰.

3. Starting point of Serbia regarding Lisbon goals

Advancement of member countries towards Lisbon goals of EU is followed through selected structural and sectoral measures and indicators (130 indicators grouped into six categories: general economic data, employment, innovation and research, economic reforms, social cohesion and environment). Some of those indicators can be expressed also for Serbia, where we should keep in mind the fact that in some of the areas starting point is hard to identify or monitor the progress towards all the goals due to the shortage of statistical data.

In our country monitoring the progress in achieving LS goals can be expressed in the best manner through structural indicators of economic development. They show the extent of fulfillment of economic ‘‘criterion from Copenhagen’’. Except for economic, we could see aspect of social, regional and environmental development. Comparative analysis can be based on indicators of development that are monitored by European Commission in EU and Serbia neighborhood countries (tables 1. and 2.).

Table 1. Position of Serbia towards European Commission structural indicators (2006)

Lisbon structural indicators	Serbia	EU - 27	Level index EU-27=100
General economic conditions			
GDP related to purchasing power – thousand of PPS ¹¹	7,9	23,4	33,8
Productivity per employee GDP PPS	54,3	100	100
Employment			
Employment rate in %	49,9	64,4	77,5
men	59,2	71,6	82,7
women	40,6	57,2	71,0
Employment rate of elderly workers in %	32,6	43,5	74,9
men	47,1	52,7	89,4
women	19,6	34,9	56,2
Innovations and research			
Costs of R&D - % in GDP	0,48	1,84	26,1
Economic reforms			
Comparative level of price index	42,4	-	100
Social cohesion			
Long term unemployment rate in %	16,8	3,6	466,7

¹⁰ COM (2008) 127 final, ‘‘Western Balkans: Enhancing the European perspective’’, European Commission, Brussels, http://ec.europa.eu/enlargement/western_balkans_communication.pdf.

¹¹ PPS euro unit – Purchasing Power Standard – reduced calculating unit that shows the value of one the same basket of goods in all EU countries.

men	13,7	3,3	415,2
women	20,8	4,0	520,0
Environmental protection			
The extent of cargo transportation related to GDP (1995=100) - index	98,9	106,7	92,7

Source: Statistical Yearbook of Serbia 2008, and Eurostat, 2006.

For the period 2001-2007, our economy was characterized by dynamic growth of GDP in average rate of 5,6% per year. This is one of the rare indicators where our economy is better than EU – 27 average as well as the neighboring countries

Results of the comparative analysis, according to the indicators of development monitored by European commission, show that Serbia makes the progress in numerous areas of economic development, but yet it significantly lags behind EU countries, leading countries in transition and surrounding, and belongs to the group of European countries with the lowest level of growth (table 1. and 2.).

Table 2. Position of Serbia according to the structural indicators of European Commission compared to Croatia, Slovenia, Romania and Bulgaria (2006)

Lisbon structural indicators	Serbia	Cro.	Slo.	Rom.	Bul.
General economic conditions					
GDP per purchasing power, 2006, thousand PPS	7,9	11,7	20,4	8,8	8,7
Productivity per employee GDP PPS	54,3	64	84	39	35
Employment					
Employment rate in %	49,9	55,6	66,6	58,8	58,6
men	59,2	62,0	71,1	64,6	62,8
women	40,6	49,4	61,8	53,0	54,6
Employment rate of elderly workers in %	32,6	33,1	32,5	41,1	40,0
men	47,1	50,0	45,3	50,2	49,2
women	19,6	27,3	21,0	33,1	31,1
Innovations and research					
Costs of R&D - % in GDP	0,48	-	1,59	0,46	0,48
Economic reforms					
Comparative level of price index	42,4	71,4	75,8	58,5	44,1
Social cohesion					
Long term unemployment rate (%)	16,8	-	-	-	-
men	13,7	-	-	-	-
women	20,8	-	-	-	-
Environmental protection					
Level of cargo transportation compared to GDP (1995=100) - index	98,9	-	112,8	129,3	137,1

Source: Statistical Yearbook of Serbia 2008, and Eurostat, 2006.

4. Challenges and future steps of Serbia in accomplishment of Lisbon goals

Serbia does not have adopted unique strategy, plan of activities or document for implementation of Lisbon strategic goals that would be comparable to the documents

applied by the countries members or countries candidates in the process of joining EU. Nevertheless, some goals and activities related to LS partially not coordinated and not planned are involved into some of the documents. Since 2000, over 30 strategic documents were adopted, that is strategies and action plans, that are focused on various areas of economy and society.

With entering into negotiation for membership in EU, Serbia would be obliged to accept not only legal heritage of EU, but also all the strategic documents of EU, as well as LS and instruments of its implementation. Due to the fact that Serbia belongs to the group of European countries with the lowest level of development, in order to have faster economic growth, it should not wait to gain the status of candidate. It would be good, without waiting the initiative from EU, to study LS, include goals from Lisbon into wider strategic framework for development of Serbia. It should be worked more on promoting the significance of LS goals for modernization and conducting the reforms in Serbia, as well as for faster joining EU.

It is important to estimate the relevance of each of the 24 integrated guidelines for Serbia, accept and include those that are in this stage of reforms for us more relevant. It is necessary to bring and apply action plans and other instruments for implementation, with clear obligations, authorities, deadlines, define short term and long term priorities and follow the indicators in order to faster come closer to the Lisbon goals.

Main challenges that suite to Lisbon goals, as well as to the priorities and goals of economic development of Serbia are: higher investment into innovations and technologic development, relations between institutions of R&D and business circles, development of ICT and society of knowledge, education, creation of flexible labor market and strengthening social cohesion, improvement of sustainable development etc.

The need to continue with faster structural reforms, accomplish higher economic growth and solve the problem of unemployment to a greater extent, in 2006. caused the need to adopt "National strategy of economic development of Republic of Serbia between 2006-2012" (NSEDS). That is why in NSEDS the greatest importance is given to the society based on knowledge, as the framework for development of efficient economic structure. Beyond, the attention is given also to the goals of increasing the level of competitiveness, together with strengthening of social cohesion and development of human potential as the main source of competitiveness.¹² The goals of this NSEDS show that it to the greater extent follows the key goals from Lisbon, although they do not cover all the areas of RLS.

The area where we should start with the realization of Lisbon strategic goals is creation of "Action plan for increase of reimbursement for R&D" on 3% from GDP. In this plan must be included concrete measures and actions, as well as priorities and mechanisms for monitoring of the realization of this goal. It should consider model of Action plan of EU, where 2/3 of the investments would come from private sector. Special attention should be given to the creation of strong scientific and research basis, cooperation between science and industry, renewing industrial R&D and application and commercialization of the results of research in industry.

Another example of challenge is improvement and higher investments into the area of education and training. Comparative data on the progress in education show that

¹² National strategy of economic development from 2006- 2012, Belgrade, p. 1,5.

Serbia has relatively low average education level among grown up population. Also, compared to EU and surrounding countries, Serbia has the lowest participation of pupils and students in the total population of 15,3% in 2005.¹³ Because of that we must increase the funds for education and continue with initiated reforms of education systems towards increase of the quality and efficiency of education, according to the principles of life long learning and coordination of education systems with the principles of development of education in EU and “Bologna declaration”. Development of the economy based on knowledge is the concept of development of the most developed countries. This development is mainly based on ICT development and its full application in all the economic and society areas. The most significant indicator of growth of IT society is usage of Internet, whose usage and accessibility should be further initiated in our country.

Sustainable development model of LS had to be used as the basis for creation of our sustainable development strategy. Challenges for this strategy are in the improvement of priority areas that are related to the society of knowledge, internal market, business climate, and labor market, fulfillment of social cohesion and sustainability of environment (energy and climate changes). In “National strategy of sustainable development of Serbia” that is brought up such decisions is few.

Opened method of coordination as an instrument of implementation of LS, must be applied in the group of measures, because they provide comparativeness and positioning with the countries members and candidates in various areas and achieved results. Therefore it is necessary to develop statistical system of gathering and monitoring of data in our country. That system should be related to EU system for monitoring of structural and indicators of development and measures, and therefore provide their comparability on the same basis.

With this the list of challenges and future necessary steps that are related to Lisbon goals is not finished. Very important areas and sectors are related also to: increase of the competitiveness, strengthening of business potential, improvement of entrepreneurial climate of SMEs and entrepreneurship, foreign investments attraction, long term solution of energy problems, climate changes, efficient legislative etc.

Conclusion

Lisbon agenda is in the essence confirmed in the past through tendency to be conducted and through the revision and addition to it's content and goals. Revision of LS it is kept the determination of EU to continue with reforms towards achieving competitiveness in global economy and towards main foreign trade partners. Although it is hard to expect that the goals of LS would be accomplished until 2010, especially in the conditions of global economic and financial crisis that is more intense in the end of 2008, they would most probably even after 2010, be the major reform directions in EU, which means that in the longer terms they would be relevant for Serbia.

¹³ The development report for Serbia 2007., (2008), Republic Development Bureau of the Republic of Serbia, Belgrade, p. 114, 115, and Statistical Yearbook of Serbia 2008, (2008), Statistical office of Republic of Serbia, Beograd, p. 345, 350.

LS goals are relevant for Serbia, but not as additional criteria for membership in EU, they are goals that should be incorporated into our policies, reform programs and creation of action plans, because EU incorporated them into policies towards South East Europe. Approaching Lisbon goals is extremely important also in order to achieve the criteria from Copenhagen and conducting of the overall economic reforms in transitional conditions. Raising awareness on the importance of Lisbon goals, challenges that they impose is extremely important due to the success in conducting institutional and structural reforms, improvement of macroeconomic performances of the economy and decrease of economic lagging and disproportions of Serbia compared to EU members.

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STRATEGIC DECISIONS FOR THE DEVELOPMENT OF TOURISM DURING THE TRANSITION PERIOD IN SERBIA¹

Abstract

Tourism represents a very perspective and significant economic activity for the Republic of Serbia, being one of the basic branches of economy, creator of GDP and supporter of the development of different environments. Unfortunately, since the beginning of the 1990s of the twentieth-century conditions for the development of activities in the field of tourism have been very negative, because of many reasons. Reasons that certainly belong among others are: the shortage of capital, reduced turnover scope in tourism, very small investment, but the basic reason is the deep economic crises that have taken hold of our society.

Under the influence of the arisen changes, present level in the development of the domestic tourism is under the actual possibilities that are enabled by natural, as well as social respectable resources. The politics of undifferentiated marketing was immanent during the whole period of the post-war development in tourism after the W.W.II up until today and has not been giving results that were real according to the available resources. During the period of transition it is often heard of tourism being one of the bases for the future economic development of the Republic of Serbia. However, it hasn't been done much to actually take steps in practice.

The aim of this work is to point out the state of tourism in the current economic situation in the country with the special stress on the possible strategic moves in the further development in tourism.

Key words: tourism, transition, politics, economy, marketing

¹ This paper work is a part of research in project given by Ministry of Science and Tehnological Development, Republic of Serbia with title: „Multifunctional agriculture and rural development in function of including Republic of Serbia to European Union - 149007“ and also project TR 20111 “Standardization of technological procedure in traditional producing golija cheese with application original bacteria of milk acid in aim to protect geographical mark of origin.“

СТРАТЕШКА ОПРЕДЕЉЕЊА РАЗВОЈА ТУРИЗМА У ПРОЦЕСУ ТРАНЗИЦИЈЕ У СРБИЈИ²

Абстракт

Као једна од базних грана националне економије, стваралац GDP-а и ослонац развоја различитих средина, туризам представља за Србију веома перспективну и значајну економску активност. Нажалост, од почетка 90-тих година XX века услови за одвијање активности у области туризма показали су се веома неповољним, из великог броја разлога, међу које свакако спадају и недостатак капитала, смањен обим туристичког промета, веома мале инвестиције и основног узрока дубоке економске и политичке кризе у којој се нашло наше друштво.

Под утицајем насталих промена, садашњи ниво развоја домаћег туризма налази се испод реалних могућности које пружају бројни респектабилни ресурси како природни, тако и друштвени. Такође политика недиференцираног маркетинга која је, за читав период развоја туризма након Другог светског рата па до данас, била иманентна, није давала резултате који су на основу присутних ресурса били реални. У годинама транзиције често се чује да је туризам један од ослонаца будућег привредног развоја Србије. Међутим, у пракси се мало урадило и чини да се пређе „са речи на дела“.

Циљ рада је да укаже на место туризма у тренутној економској ситуацији у земљи са посебним акцентом на могуће стратешке правце његовог даљег развоја.

Кључне речи: туризам, транзиција, политика, привреда, маркетинг

Introduction

In spite of the great number of attitudes stated in public about the changes that would appear after 2000. in all spheres of economic and social life, we conclude that new government preserved to a great extent the old model of rule and accumulation of wealth which caused increase of social inequality and rapid decrease of democratic potential in the society. Harmful consequences of the struggle for power within the ruling political elite are felt mostly by citizens, those who actually at the most expected from the promised democratic and economic reforms.

However, the period of transition started in some important economic branches from which results are expected. Appropriate documentation was gathered (legal and sub-legal acts, strategies and plans of action for the future development).

² Рад је део истраживања на пројекту 149007 „Мултифункционална пољопривреда и рурални развој у функцији укључења Републике Србије у Европску унију“, Министарства науке и технолошког развоја Републике Србије и пројекта XXX

1. Position of tourism in the former politics of economic development

During the former economic development, primary and secondary sector had the priority. After the W.W.II through the rapid flow of industrialization, our country was trying to overcome the inherited, evidently big economic regional inequalities. An attitude and determination to pay equal attention to the development of all economic sectors was present, with the special stress on the rapid industrial development whose aim was to enable creation of the material base for economic development of underdeveloped republics and regions within. Former strategy of economic development was the rapid flow of industrialization. Rapid development of tertiary sector began in 1970s of the twentieth-century.

Declarative support has been given to the whole economic development of the Republic of Serbia, but without real and serious action in order to improve it. Events that happened during the last decade of the twentieth-century caused spoiling the image of tourism and lost of interest in all segments of foreign countries' touristic demand for our country. These conditions are pictured in the best way through the reduction of statistical indicator values related to the field of tourism (number of arrivals, number of overnight stays, income in foreign currency of tourism etc.). Because of impoverished economy it hadn't been invested into the development of tourism during the 1990s.

A lot of factors influenced bad inheritance considering the development of tourism in the Republic of Serbia. It is good to mention that during the same period a great progress in the world regarding information technology took place (its modernization), that has opened opportunities for new forms of application in tourism. It could be stated that regarding modernized information technology our country has been outstanding as well, in other words, the gap has become even more deepened.

2. Politics of development in tourism

In order to revitalize and restore the position that tourism had in the past it is necessary to improve the image of the Republic of Serbia and to approach all marketing segments with maximum appreciation of all the factors that determine the demand which would enable a successful placement of our tourism product. Strategic elements for the development of tourism should be based on the selective determination of aiming markets and segments. A condition to achieve more significant effects in tourism is complementary to the development of domestic and foreign tourism. Consequently, to access international markets has become a must!

Certain destinations in the Republic of Serbia would be treated as small destinations on international tourism market. A chance lies in focusing on the specific segments of tourism demand, in other words in the target marketing, in the development of special interest tourism and in rural and transit tourism.

Regarding the tendency of a large number of international companies to manage global affairs, as well as the fact that former development of tourism (domestic and foreign) was elemental, theoretically it is important to present what is meant by managing affairs on the

international tourism market and what the segmentation on this kind of market represents. This is a condition for making the right choice of strategy and its successful implementation.

Starting with an assumption that segmentation is based on the difference of final consumers' - tourists' needs (motives and requests), that are represented within different demand for products and service on the market, it is necessary to adapt given tourist destination and its tourism product to specific tourism requests and motives (its segments), in order to place the product on the market successfully.

Considering necessity to access the international market, phases in the business politics of the firms, as well as of destinations could be:

The first phase-development-Large number of destinations (except Belgrade) have not yet been defined on the domestic market. Therefore, the possibilities for animation and attraction in certain segments of domestic demand are higher. At the starting phase of destination, all economic subjects (their business orientation) must pay attention to the aiming groups within certain segments of domestic demands. At the moment of reaching saturation point, diversification with new elements to enrich tourism offer and differ from eventual competitive destinations could be realized.

The second phase, internationalization – these two phases should be developed complementarily, considering that foreign tourism developing effects are also expected, by which, as I already mentioned, development of tourism and achieving more important effects are conditioned. This phase would include: engagement of intermediaries, opening local departments for offering travel arrangements by which higher level on the international market, in other words, larger economy scope would be achieved and tourist destinations (elements included in the offer) must be based on export.

The third phase would include **activities on the international market**. The activities would be: strategy formulation for acting on any market where tourism product is being placed, afterwards all the forms of marketing and organization, and in the later part research activities related to certain international market and all its segments.

The fourth phase in theory has been related to Global Affairs Management. The world will be seen as a unique market, which, in the case of certain destinations in the Republic of Serbia, considering potential (resources) that are in their possession and aims that could be achieved, because they are small destinations is unreal.

3. Strategic decisions for creating marketing attitude

Regarding marketing of tourist destinations management, especially when discussing about planning of marketing activities and choosing right strategy, tourist destination has three general applications:

1. application of the so-called **undifferentiated marketing** – tourist destination is placed on the market frontally, offering the product, disregarding the existence of numerous differences that appear in tourist demand
2. application of **differentiated marketing** – includes consideration of the fact that a market could be divided into smaller and more homogeneous (compact)

consumer groups and therefore adapting the politics of tourism offer to the circumstances

3. application of **concentrated marketing** – includes the choice of only several target markets, or even only one on which product would be placed. The last one represents the strategy of concentrated marketing or focus marketing.

It could be concluded that, during the former development of tourism in the Republic of Serbia, in spite of the development support voiced in public, the concept of undifferentiated marketing has been unrestrainedly applied, where the existing attractions have been offered frontally, without a clear politics of marketing and demand, in other words without answering the needs of certain marketing segments (target groups).

In literature which deals with the questions of marketing approach to consumers, the priority is given to the focus strategy which enables series of advantages:

1. It enables more precise market definition and better understanding of consumers' needs;
2. Once the consumers' needs are understood, it is easier to determine marketing mix;
3. Continuous program of market segmentation strengthens firm capabilities (destinations) by satisfying the changeable market needs;
4. Enables the management to make better evaluation of the competitors' weak and strong sides;
5. Segmentation leads to a better directing of the marketing effort;
6. Enables more precise definition of market segments.

Pointing out that there are large number of bases for market segmentation, P.Green reminds that in the basis, two analytical approaches have been traditionally used and those are: a) '*a priori*' segmentation which is based on the characteristics of consumers that had been established beforehand and b) '*post hoc*' segmentation which is based on the appreciation of consumers' similarities regarding the defined set of variables. Combination of these two approaches is so-called '*hybrid approach*'.

Considering numerous specific characteristics of tourism demand, world trends according to which the priority should be given to the focus strategy, it is necessary to state 'target markets' precisely and to invest in that regard and expect effects by reason of that kind of investment. It should be complementarily paid attention to the domestic, as well as to the foreign tourism demand, particularly if the effects of tourism development are expected (financially in the first place).

4. Possible directions in market segmentation of tourism

According to the inspection of resources (natural and social) and, on the other side, domestic and international tourism demand, we had been trying to predict demand (actual and potential) and propose market segmentation based on it, on which it would be good to direct appropriate marketing and management activities, so that the effects of tourism would be higher.

Markets could be divided into two basic groups: domestic and international. International could be divided into three segments within which target markets should be stated precisely (focus strategy). The division would be the following:

I) Domestic market - focus strategy could be clearly performed and target groups underlined. Those would be:

- **Excursionists:** pupils' excursions and organized groups for visiting monuments pertaining to the history of culture and cultural institutions, numerous historical sights, various manifestations, gatherings etc.
- **Fair tourists:** fair manifestation program lasts during the whole year. Fair spaces in Belgrade and in Novi Sad are bases for planning and expecting in regard to this.
- **Conference tourism:** Belgrade has the biggest possibilities for this type of tourism development. The existing built infrastructure for conferences (Sava centre, etc.) should be mentioned, being one of the most important facts, as well as the vicinity of an airport. It is good to mention that other centres in the Republic of Serbia do not possess these possibilities, therefore tourism based on workshops and small gatherings should be developed. This attitude is based on the fact that modern businessmen of today do not wish to lose their time travelling to destinations that are more than 100 km away from the airport, because basic motto of businessmen is 'time is money'.
- **Vacation tourism:** organized visits (group or individual) to natural attractions the Republic of Serbia is rich in with clear investment activities in building appropriate infrastructure in localities could bring long-term effects.
- **Sport:** organization of various sport manifestations could attract suitable number of tourists from the country.
- **Special interest tourism:**
 - a) **Hunting and fishing** - Organized visits (group or individual) to various domestic hunting associations and to their members;
 - b) **Rural tourism** - Interest of the people from our bigger city centres (Belgrade first of all) in visiting decorated rural houses has been increasing recently;
 - c) **Visits to monasteries and castles** - It could be closely connected to excursionists and appropriate programs of pupils' stay during excursions, organized groups could be formed, etc.
 - d) **Photo Safari** - It hasn't still been popular and developed sufficiently, the fact that should be changed.

II) International market

International market could be divided into three market groups, within which smaller homogeneous groups could be formed, by which certain programs of stay could be offered. The three market groups would be:

- 1) **International markets where rapid access is possible.** Starting income in foreign currency could be enabled by these markets. East European Markets could be the example. But, those should be the countries whose image hasn't been ruined to a great extent. There is least prejudice in these countries and there are good traditional bonds (economic, cultural, and historical). Those countries are: the Russian Federation, Ukraine, Czechoslovakia, Slovakia, Hungary, Romania, Bulgaria, Greece and Macedonia.

- 2) **Perspective markets** – require bigger investments for regaining their position and for answering the increasing requests of the tourists. By this I primarily speak about the quality of services that many people name as being crucial factor when they rate their stay at a particular destination. Certain tourism products had already been present on these markets before the 1990s (for example: visits of numerous hunting grounds, etc.). The following countries belong to this group: Great Britain, France, Germany, the Netherlands, Sweden, Austria, Italy.
- 3) **Distant markets** – are the markets that need long-term investments. Those markets are: the USA, Canada, Japan and China and they require high marketing activity and long-term investments, in the first place in:
 - a) promotion – so that the certain homogeneous groups within these markets could be animated and potential (resources) could be represented to them in order to attract them for staying on these destinations, and afterwards
 - b) investments in the quality plans and programs for arrivals and stays on destinations.

The more prior aspects of tourism that I already mentioned as being the big chances of a destination will be developing on one side, and division of international tourism market will be performing on the other side, in other words segments will be formed and within them 'target groups' will be focused, and it will be more possible to carry out plans and programs of stays on destinations for every segment, or target group. Creativity in making plans and programs of stays on destinations means guaranteed success. The following table shows an attempt to predict foreign tourism demand according to the prior aspects of tourism basis of development.

Table 1. Perspective aspects of tourism in the Republic of Serbia and potential demand on the international tourism market

Aspect of tourism	Potential demand
City tourism	Tourists from all European countries interested in familiarization with destinations with the human inheritance
Transit tourism	Tourists from Western and Central Europe while travelling towards the Mediterranean, or towards Near or Middle East
Mountain vacation	Kopaonik, Zlatibor, Tara etc. If they are presented in quality and promotional way, they can attract large number of tourists that are in love with nature
Tourism related to the Danube	Construction of ports, of all the necessary port capacities, hotels and restaurants could attract large number of tourists that are travelling towards the Red sea. The tourists are from Europe, as well as from distant markets (the USA, Canada, Japan).
Health tourism	Considering the large number of spas and sanatoriums across Europe, the effects could be expected if continuous investments in quality of service, of accommodation, etc. should be performed. In this way positive long-term results could be expected.

Special interest tourism:	
a) Hunting and fishing	Demand existed during economic sanctions, as well as during the whole period of the 1990s. That demand comes from the following countries: Italy, Germany, Austria, France.
b) Photo Safari	Large number of men in love with nature that come from Europe, Japan, the USA, Canada could bring significant income
c) Rural tourism	Tourists from highly urbanized industrial countries in Europe, the USA, Canada, Japan.
d) Visiting monasteries	Tourists from the so-called 'orthodox countries', afterwards from Japan and the USA, as well as all of those who are interested in our cultural and historical inheritance.
e) Castle visiting	Considering large number of castles across Europe, as well as the offer, visit could be an integral part of certain programs for stays.
f) Wine tourism	Wine lovers from the entire world. This specific aspect of tourism brings significant income to a large number of countries and has the tendency of growth and development, to which the attention should be paid.

5. The role of firms in the tourism economy during the period of transition

Considering the variety of aspects in tourism, it is possible to expect real effects, based on clear determination of all the represent of the tourism offer and the investment in this field, in short-term, as well as in long-term period. Therefore, the development of tourism and its success are based on development and investments in tourism product and in its width and depth with a clear focus on target markets and creativity in making plans and programs of stays. In that sense, privatization with the property owner stated precisely would enable tourism to become effective as a part of the whole economic system.

The changes that were started through the process of privatization have been brought to an end. According to the data of the Privatisation Agency of the Republic of Serbia in the branch tourism and hotel management, by auctions, to the 25th of March, 2009. inclusive, 105. tourism and hotel management firms were privatized, while 38. of them are still under procedure of privatization. Almost the whole tourism economy practically got its titular.

This is, certainly, an encouraging data, however in order to make it effective, it is necessary to give vigour to strategic determination. In that sense an integral part of the access that was mentioned above must play the crucial role, or in contrary, without clear vision of tourism, many times voiced attitude about tourism as being 'Serbian chance for development' would remain a dead letter.

Tourism Organization of the Republic of Serbia and numerous officials as well must contribute so that it really something would be done. Wishes and plans would become real that way, and tourism would have marked its own route by coordinated action. Difficulties that our society has been facing with should not be an excuse, but they should be a motive.

Conclusion

Transition entered deeply into all pores of our economy and society. Being very important economical branch tourism hasn't been immune to all these processes. However, 'process' shouldn't be left to the element development, and it wasn't the case up until today. Politics of clear marketing and management with precise focusing on appropriate target markets with the economic interest of tourism economic objects' owners would give long-term results. Therefore, natural and human resources that are in possession of the Republic of Serbia must serve to the further development of tourism.

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**THE INFLUENCE OF CORRIDOR VII AND CORRIDOR X ON
THE TRANSITIONAL ECONOMY OF SERBIA**

Abstract

The beginning of the 21st Century is posing a challenge to Serbia's transition economy to take a step towards connecting to the world through the Corridor VII and Corridor X. Such a step, irrespective of the high cost it entails and the prevailing global financial crisis, would bring to Serbia manifold benefits by involving its national capital. Serbia's national capital, otherwise imprisoned within the state boundaries, should help Serbia in creating an ambient for brain circulation at a global level. Using the language of diplomacy, brain circulation at a global level implies Serbia's tame behaviour towards great powers, a sense for global dynamism, full respect for an individual without military skills as well as the ever-present proselytism in decision-making. It presupposes that through the use of national capital Serbia should become a country where great-powers influence are bypassing. According to the author, the transition period will be successfully completed if the contemporary Serbian diplomacy turns to the Corridor VII and Corridor X like Latin American countries which adapted their public diplomacy to the needs of mutual integration into individual entities thanks to looking after the Amazon River in a joint manner. The subject of this paper is Serbia with a potential to become a respected country in the world due to brain circulation at a global level and bypassing the great powers' influence through the Corridor VII and Corridor X.

Key words: *world financial crisis, world order, international relations rings, South America, integration, diplomacy, national and international capital, period of Serbian economic transition*

**УТИЦАЈ КОРИДОРА VII И КОРИДОРА X НА ТРАНЗИЦИОНУ
ЕКОНОМИЈУ СРБИЈЕ**

Apstrakt

Почетак XXI столећа је обележен изазовом да Србија, са економијом у транзицији, учини корак у правцу повезивања са светом помоћу Коридора VII и Коридора X. Тај корак, без обзира на скупе издатке његове реализације и светску финансијску кризу, донео би Србији вишеструку корист укључивањем њеног националног капитала. Национални капитал Србије, иначе затворен у државне границе, треба да помогне Србији у циљу стварања амбијента за циркулацију умова на светском нивоу. Говорећи језиком дипломатије, циркулација умова на светском нивоу подразумева кротко понашање Србије према великим силама, смисао за глобални динамизам, пуно уважавање појединца без војничких вештина,

и стално присуство прозелитизма у доношењу одлука. То подразумева способност да се, помоћу националног капитала, Србија учини државом за мимоилажење утицаја великих сила у циљу овладавања прстеновима међународних односа. Успешно окончање периода транзиције у економији Србије ће, по мишљењу аутора, бити остварено ако дипломатија савремене Србије буде окренута према Коридору VII и Коридору X, као што су државе Јужне Америке прилагодиле своју дипломатију потребама међусобне интеграције у посебне ентитете захваљујући заједничком старатељству над реком Амазон. Предмет овог рада је Србија са потенцијалом да буде држава са угледом у свету због циркулације умова на светском нивоу, као и због мимоилажења утицаја великих сила помоћу Коридора VII и Коридора X, важних за период транзиције у економији Србије.

Кључне речи: светска финансијска криза, светски поредак, прстенови у међународним односима, Јужна Америка, интеграција, Коридор VII, Коридор X, дипломатија, национални и светски капитал, период транзиције у економији Србије

Introduction

Winds of the global financial crisis make many states of world fully responsible to protect their economies in the same way as they decide to prevent any form of aggression between them. Precisely, the danger from final results of downturn in global economy presumes a collective action among economic entities in favour of avoiding an episode comparable to that of the Great Depression from 1929 to 1933.

Member states of the former League of Nations, and now the United Nations (UN), in many ways experienced a financial turmoil in the 20th century. As we know, it all started in Wall Street with Stock Market Crash which produced negative effect on many countries of the world. In the context of the Stock Market Crash, the first phase of the new world order has begun at the time when it has not been globalising in the form of numerous associations, international organisations and trade blocs as in the case of the modern era. Also, at the time of the Stock Market Crash there is no institutional interlinking between world actors which should be responsible enough to prevent their economies from suffering loses in the field of company profits and individual salaries.

The interlinking between world actors has an importance for Serbia and its economy due to its ties with Europe and the world. A particular dimension of Serbia's ties with international key players is the project of the Pan-European Corridors VII and X (referred to as: Corridors VII and X) which includes the river canal Rhine-Main-Danube and the river system Danube-Morava-Vardar-Thessalonica's bay.

1." Corridor vii and corridor x as the backbone of serbia's transitional economy and diplomacy

The beginning of this century has been marked by specific integration processes in some regions and subregions of the world. The vast area of Eurasia became divided in three main integrated subregions. The European Union (EU), the Commonwealth of Independent States

(CIS) and the Association of South-East Asian Nations (ASEAN) are the main international poles of Eurasian subregional order. On the other hand, national states in Asia, the Russian Federation (Russia), China and India are strongly tied to Brazil within the BRIC Association.¹

However, Brazil is one of the founder states of the Common Market of South (Mercado Común del Sur – MERCOSUR). Together with Argentina, the Bolivarian Republic of Venezuela, Paraguay and Uruguay, Brazil is a part of the territory which covers an area of 12.78 million square kilometres. It may be noted that MERCOSUR was founded owing to the said countries' common will to unify national resources for the purpose of responsible management of the Amazon River.²

On the other hand, as a one of the member states of the Andean Community of Nations (Comunidad Andina de Naciones – CAN), Peru occupies the source of the Amazon River. In an attempt to free themselves from the Brazilian and Argentinean predominant influence, Bolivia, Columbia, Ecuador and Peru have founded a specific trade bloc - CAN. As a result, member states of CAN have more balanced economies in export and import sector due to developed interregional foreign trade, especially with member states of ASEAN, India and China.³

One need to pay special attention to the fact that Bolivia and Paraguay, as member states of CAN i.e. MERCOSUR, are landlocked countries in South America. They succeeded in making a last step towards establishing a supranational organisation like the EU, the Union of South American Nations (Unión de Naciones Suramericanas – UNASUR).⁴ On 23rd May 2008, twelve South American states signed a multilateral treaty – the Constitutional Agreement of the UNASUR.⁵

A particular advantage of the UNASUR lies in the ability of this supranational organisation to unite Bolivia and Paraguay by letting them share the exploitation of the river course and its tributaries. The Amazon River presents the *Arbor Mundis* of signatory states of the UNASUR.⁶ In the case of Serbia, the Danube River seeks a mutual cooperation among the countries it passes through. Germany, Austria, Slovakia, Hungary, Croatia, Serbia, Romania and Bulgaria are the countries crossed by the Danube River. All of them, together with the Netherlands, have responsibility for common use of the Rhine-Main-Danube canal.⁷

The river system Danube-Morava-Vardar-Thessalonica's bay may have an important role in survival of Serbia, particularly in its economic and diplomatic life. Serbia's economy is one of the transitional economies which includes a specific diplomatic effort in the form of seeking greater tactical and strategic opening-up to the Mediterranean Sea and the Suez Canal thanks to Corridor X. Corridor VII connects Serbia with the North Sea, the Atlantic Ocean, the Caribbean

1 Vladimir Rukavishnikov (Владимир О. Рукавишников), "Russia's power and competitiveness", (ed.), International Problems, Vol.4, Institute of International Politics and Economics, 2007, pp. 487-513

2 Slobodan S. Pajović, "Latin America in XIX and XX century", (ed.), Megatrend University, 2006, pp. 271-356, Ivan Dujić, "Importance of the MERCOSUR in relation to the Americas and the world", (ed.), Institute of International Politics and Economics, 2008, pp. 7-8

3 Ivan Dujić, op.cit, pp. 4-12

4 op.cit, pp. 4-7, Wikipedia, the free encyclopedia, "Union of South American Nations", Internet: <http://en.wikipedia.org/wiki/UNASUR>, of 07/12/2008

5 Ivan Dujić, op.cit, pp. 16-19

6 Slobodan S. Pajović, op.cit, pp. 324-357

7 Ivan Dujić, op.cit, pp. 7-9

Sea and, finally, with the Panama Canal. Actual social and, in particular, political elite in Serbia do not have the necessary skills to manage four rings of international relations. National power in Serbia depends on the political parties which have scattered the domestic power of Serbia.

Instead, in the opinion of the author of this paper, Serbia requires a concerted accumulation of its national power in a solidarity action of overcoming the old prejudice that Serbia needs to be a field for establishing of international economic servitudes.⁸ It will only be possible under one condition: that Serbia becomes a country with the ability to convert its national capital into the European, regional or world capital.⁹

Member states of the CAN and the MERCOSUR have increased their national capital on a regional and global scale thanks to the political awareness of many leaders of South American countries. A result of such capital increase, national power of member states of the CAN and MERCOSUR has become accessible for the bypassing influence of the great powers by openness the national capital of South American countries.

Transforming the national capital in Serbia into the European, regional and world capital presumes a change of Serbia's economic climate in favour of that able to sustain its economic growth due to Serbia's connections with the North Sea through the Corridor VII and the Mediterranean Sea via the Corridor X. A success in transforming the national capital has been best illustrated in Greece. A good evidence of this fact is an interview given by the Greek deputy minister of foreign affairs.

Namely, the deputy of Greece's minister of foreign affairs, Mr Petros Doukas, said "Corridor X is on the top of priorities for Greece", "it is not only a road for Serbia and Central Europe, but, it is a path toward markets of the Middle East, the Persian Gulf, the Arabian Peninsula, the North Africa...", indirectly thinking of the advantages of the Suez Canal.¹⁰ Strategically, the Suez Canal must be incorporated in the economic and diplomatic life of modern Serbia for the sake of facilitating a period of transitional economy in Serbia.

Precisely, the life of modern Serbia has begun since Serbia's declaration of independence. The year of 2006 represents a milestone for the economic strategy of interconnecting Serbia at the global level for the purpose of facilitating the transitional period its economy. To make successful, it needs to think and act in favour of exploiting the global financial crisis for the sake of purchasing state of the art technology for Serbian industries.

The impact of the foreign direct investment (FDI) in Serbia must be fruitfully used for purchasing the most advanced equipment and for participating on an equal footing in the world production chains. Unfortunately, many enterprises and industries suffer from the absence of productive innovations. According to Radovan Kovačević "Serbian enterprises are characterised by a distinct slowness in introducing of new products due to insufficient innovative activities and a relatively low level of FDI".¹¹

Corridor VII and Corridor X presume that there is a sense of how to conduct Serbia's diplomacy in favour of strengthening its position and prestige in the international arena.

8 Ivan Dujić, "Corridor X – the challenge for Serbia's strategy toward the Mediterranean Sea and Suez Canal", Research Work has prepared for the Magazine: "International Problems", Vol.1, (ed.), Institute of International Politics and Economics, 2009, pp. 7-11

9 op.cit, pp. 11-15

10 op.cit, pp. 5-6

11 Radovan Kovačević, "Possibility and Limitations of Export as a Factor of Balance of Payments of Serbia", (ed.), International Problems, Vol.4, Institute of International Politics and Economics, 2006, p. 498

According to the author, the brain circulation at the global level seeks the openness of Serbia's national market toward the world market because it is a request of Corridor VII and Corridor X.¹² Both corridors need to become the backbone of Serbia's modern economic and diplomatic life.

The latest data of the European Investment Bank (EIB), indicate that the investment flows into Serbia amounts to 375 million US dollars (USD).¹³ During 2008, loans from the World Bank Group and International Monetary Fund (IMF) reached the amount of 2.02 billion USD (1.5 billion Euros) for the purpose of implementing infrastructural projects in Serbia, mainly for better quality of the road and rail infrastructure.¹⁴

Discussions on a need to have better road and rail infrastructure in Serbia had begun at the time when the Government of the former Yugoslavia signed the European Agreement on Main Railway Lines - AGC and the European Agreement on Important International Combined Transport Lines and Related Installations – AGTC, as well.¹⁵ The implementation of both agreements in Serbia has for implication possible transformation the national capital of Serbia into small, fragmented and integrated part of the world capital. In 2005, in hope to get the full membership of the EU, Serbia ratified both agreements.¹⁶

The position of Serbia in the aftermath of conflicts on the West Balkans is very favourable thanks to Corridor VII and Corridor X. The value of both corridors will depend on how the social elite of Serbia understand a need to integrate Serbia in the flows and rules of the international trade at the global level. In the opinion the author, Corridor VII and Corridor X require a proper sense for global dynamism because both corridors must be incorporated into the world capital.

The first ring of international relations dictates an obligation of keeping the national capital of Serbia within the state borders for the sake of strengthening competition in the domestic arena. The problem facing a transitional economy lies in the lack of ability to establish economic rules without state intervention and with free setting of prices, taking into account rules of supply and demand as well. Also, the problem of transitional economy is associated with the act of freeing national economy from state monopoly.

The author of this paper has a standing that Corridor VII and Corridor X may help in the final process of overcoming the old definition of national capital which has to be understood as state capital. It would be a regular process if it were not for sharp political and ideological differences in Serbia. Motivation of the social elite in Serbia must be aroused by way of drafting a new social agreement in favour of both corridors and Serbian transitional economy.

The quality of river shipping services needs to be raised to the highest level due to Corridor VII and Corridor X and the highest quality standards should be applied to the river shipping companies in Serbia. This is an important issue that needs to be elaborated in the context of

12 Ivan Dujčić, "Corridor X – the challenge for Serbia's strategy toward the Mediterranean Sea and Suez Canal", p. 3

13 op.cit, p. 14

14 B92 – Vesti, Mrkonjić: This year 60 kilometres of the motorway,

Internet:

<http://www.b92.net/biz/vesti/srbija.php?yyyy=2009&mm=02&dd=...>, of 01/03/2009

15 Ivan Dujčić, op.cit, pp. 2-4

16 op.cit, p. 3

Corridor VII and Corridor X.¹⁷, in view of the world tendencies to make river shipping a successful and profit-making business.

The second ring of international relations has its encouragement in the standpoint that national capital serves the purpose of integration into the regional and the world capital. Establishing of international economic servitudes within a state does not mean that the national capital will be incorporated into the world capital. In fact, by interlinking national capital of two or more states the fusion process is achieved owing to natural and geographic ties. In the case of Serbia, Corridor VII and Corridor X represent natural and geographic ties with Europe and the world. Both corridors constitute links between the fragmented national capital of some of the European states.

Serbia's economic growth that was achieved in 2005 and 2006 may be successfully continued by having an export strategy toward similar subregional markets of the world. Corridor VII and Corridor X offer opportunities for export of many products from Serbia, especially agricultural and food products.¹⁸ We should also bear in mind that the countries of Central America have been integrated into the Central America Common Market (CACM) which presents a market similar to that of Serbia and the West Balkans' countries.¹⁹

Among the Central American countries Panama occupies a central position in the world trade circulation mostly due to a fact that it has been in control of the Panama Canal since the end of 1999. Two ports in Panama – Colón and Ciudad de Panamá may be synonyms for Corridor VII and Corridor X whose sections run through Serbia. It means that global trade circulation could be directed through Serbia's territory. It is possible thanks to the healthy national banking system in Serbia.

Vulnerability of the world banking system to the global financial crisis shows the highest level of the interdependence. Like a giant octopus with his tentacles, many world banks with their affiliates contribute to money flow for the purpose of establishing and securing the world banking system. Not long ago, bankruptcy of some US banks resulted in the disorder of the global financial system.

Namely, the prestige of the US banking system has been seriously shaken by crash of insurance companies on the issue of mortgages in the field of housing. The impact of the collapse of the US insurance companies has been transmitted as a plague through the world banking system. In fact, the US insurance companies such as Funnny Mae, Freddie Mac, Bear Sterns and Leman Brothers have resulted in creating an ambient of global financial insecurity. A domino effect of this ambient is alarming for the world financial organisations, especially the Organisation for Economic Cooperation and Development (OECD).²⁰

The OECD has pointed out that the EU succeeded in going through the first phase of the global financial crisis owing to integrated economic systems of its member states.²¹ Precisely,

17 op.cit, p. 10

18 Ivan Dujić, "Multifunctional Agriculture in Latin America and World Trade in favour of Serbia", Research Work has published in "Multifunctional Agriculture and Rural Development III" (ed.), Institute for Economical Agriculture (IEA) in Belgrade, Belgrade, 2008, pp. 44-50

19 Ivan Dujić, "Importance of the MERCOSUR in relation to the Americas and the world", op.cit, pp. 11-14

20 Organisation for Economic Cooperation and Development (OECD), "Economic Survey of the Euro Area, 2009", (ed.), Organisation for Economic Cooperation and Development (OECD), 2009, pp. 3-4

21 op.cit, pp. 5-8

the EU member states managed to neutralize vibration effects of the global financial crisis owing to their harmonised monetary and fiscal policy. Serbia and the West Balkan countries are embraced by the EU member states and it is no wonder Serbia has a healthy national financial system.

The author's attitude is that Serbia is under predominant influence of the EU and because of that, it has stabilised its national financial system. Unfortunately, thanks to such predominant influence of the EU, Serbia has short legs in the export sector and long arms in the import area. Due to such export-import imbalance Serbia has a big foreign trade deficit which amounts to many dozens of billions of USD.²²

Lessons which Serbia needs to learn are: lamb's behaviour in relation to great powers, a sense for global dynamism, full respect of man without military skills and permanent presence of proselytism in decision making processes. These are imperatives for the social elite in Serbia, Corridor VII and Corridor X, Serbia's transitional economy and future recomposition of the world order. To this end, it is necessary to mention that, thanks to the survival awareness of many Latin American leaders; all South American countries are equal participants in process of reordering the global arena.

The third ring of international relations is based on the national capital as a free playground for the circulation of the holders of experience, knowledge, ideas and individual capital. Instead of the enclosed national capital within the state borders, we have a broader concept of the national capital as an integral part of the circulation of the mentioned holders at the global level. The importance of the national capital lies in raising its value to the level of the bypassing influence of the great powers through Serbia.²³

Corridor VII and Corridor X seek for modernisation of river ports with permanent care for the national ecosystem of Serbia because it may contribute to the future phased economic growth of Serbia. Serbia's scattered domestic power should be united and focused on river ports connected to maritime ports – the port of Amsterdam and the port of Thessalonica. Precisely, the port of Amsterdam links Serbia with the North Sea through the river canal Rhine-Main-Danube and Corridor VII.

Unlike the port of Amsterdam, the river system Danube-Morava-Vardar-Thessalonica's bay gives an opportunity of Serbia to establish its trade and trade relations over the port of Thessalonica with the Mediterranean Sea and the Suez Canal owing to Corridor X.²⁴ It is only possible by mobilising the social elite in Serbia and by engaging Serbia's diplomatic efforts to facilitate the transitional period of Serbia's economy.

When compared with South American countries, Serbia seriously suffers from the lack of an interlinking concept of its survival. Sleepy constructive brains of the Serbia's social elite are missing a strategy on how to stop the fast growing brain drain phenomenon. Think-tanks are considered to be an important part of the constructive energy for gaining the last, the fourth ring of international relations – the ring of all rings.

The survival of a nation depends on the inclusion of three elements – vision, mission and value. In the case of Serbia, the national survival presumes that national capital serves the

22 Ivan Dujčić, "Corridor X – the challenge for Serbia's strategy toward the Mediterranean Sea and Suez Canal", *op.cit.*, pp. 11-12

23 Ivan Dujčić, "Corridor X – the challenge for Serbia's strategy toward the Mediterranean Sea and Suez Canal", *op.cit.*, pp. 6-12

24 *op.cit.*, pp. 10-13

brain gain, the brain circulation and the brain exchanging. The fourth ring of international relations has to be understood as a belief that every nation, including Serbia, may participate in creating the world order only if it is capable to be a field for the bypassing influence of the great powers.

Conclusion

The transitional period in Serbia's economy could be overcome by optimal common use of Corridor VII and Corridor X with a view to strengthening the export sector. It is very important because Serbia needs to gain an internationally recognized prestige throughout the world due to brain circulation at the global level. Problem of "filling" the financial hole which has emerged thanks to the winds of the global financial crisis may be successfully solved by mutual solidarity among all nations in the world.

Corridor VII and Corridor X are two pillars for Serbia's survival. They bring a new *modus vivendi* to the Serbian social elite with the possibility of showing a new image to the world. It means that four rings of international relations help Serbia to become tied to the world owing to brain circulation and transformation of Serbia's national capital into regional i.e. global capital. To have three elements of national survival – mission, vision and values means to have *carte blanche* for overcoming the problems of economic transition in Serbia successfully.

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CONTENT AND THEORETICAL INVESTIGATION / DEFINITION OF TRANSITION AND RESTRUCTURING OF ECONOMY AND ENTERPRISES

Abstract

The Transition of the economic and overall environment and restructuring of the enterprises are recurrent processes. The transition of the environment means establishing the market economy which may exist only if the enterprise's ownership is defined and if it is financially stable and well structured. The restructuring is needed because even the enterprises in difficult situation may be recovered in a way to a certain degree.

Key words: *transition, mechanism of transition, economy, enterprise, structuring, industrial complexes.*

САДРЖИНА И ТЕОРИЈСКО ОДРЕЂЕЊЕ ТРАНЗИЦИЈЕ И ПРЕСТРУКТУРИРАЊА ПРИВРЕДЕ И ПРЕДУЗЕЋА

Апстракт

Транзиција економског и укупног окружења и реструктурирање предузећа повратно су повезани процеси. Транзиција окружења значи изградњу најбољег амбијента привређивања, који постоји само када има власнички дефинисаних, финансијски стабилних и добро структурираних предузећа. Реструктурирање је потребно, јер се чак и предузећа са великим теškoћама могу опоравити на одређени начин и у одређеној мери.

Кључне речи: *транзиција, механизми транзиције, привреда, предузеће, реструктурирање, индустријски комплекси.*

Introduction

In this paper the transition is defined in three ways. Firstly, by a general definition, secondly by description of the key mechanisms distinguishing it and finally by the broad specification of the activities defining it as a phenomenon.

In the transitional countries with systemic crisis, including our own, it is likely to assume that the revival of economy is not probable without the overall action - restructuring of the enterprises. The restructuring and the success in this process require the support of the

authorities and international financial institutions, besides the effort of the enterprise's management.

1. Transitional strategy in the market economy

1.1. General

General definition of *the process of transition* is that it presents the transformation of non-market to market economics and it does not raise any disputes. However at the moment it comes to its practical applications numerous doubts arise, such as: how to transform from one stage to the other, how to distribute the costs induced by the changes and how to synchronize the changes. It is quite reasonable due to the fact that the dilemmas reflect interests of many stakeholders.

It should be pointed out that the term transition does not mean just transformation of the centrally planned economy and/or self-management economies to market economy. It also includes the process of improving the market role in the existing market economies. From a historical point of view, the term transition was used for the first time to describe the two important events: the first one is transition from feudalism to capitalism and the other one is transition from the war economy after the World War II to post-war economy. The common feature of the both is establishing of the market economy.¹

Transition is an economic term denoting the transformation from non-efficient and underdeveloped economies to market-oriented and developed economies. The process of establishing the market economy includes the replacement of the elements of non-market economy with those of the market economy. The process develops in two ways: macroeconomic transition (structural adjustment of economy) and microeconomic transition (restructuration and transformation of enterprises).

1.2. Key transition mechanisms

Transition is distinguished by key economic mechanisms defining it. This definition is noted by O. Blanchard,² who defines two key mechanisms.

Reallocation, as a key process denoting the redirection of resources (labour, capital...) from one sector to the other, that is from the sector where the inferior products were produced (system where such a production was subvented) into sector producing the superior products. The consequence is that some sectors (some industrial branches) lose while the others (trade and services) gain importance.

Restructuring is the other mechanism and is connected to enterprises. In order to survive under new circumstances, the enterprises have to be transformed in the sense of ownership, structure and organization. In other words, due to the stimulus induced by the non-market mechanisms, the enterprises were too large and a few. They also were extremely

¹ See: Cerović B: *Ekonomika tranzicije*, Ekonomski fakultet Beograd, 2003.

² Blanchard O: *The Economics of Post-Communist Transition*, Clarendon Press, Oxford, 1997, p. 63.

vertically integrated (in charge for supplying) unlike the mechanism of horizontal integration encouraged by the market, thus generated the low quality products. The capital intensity was high while the technology embodied in capital inferior.

Under new circumstances those enterprises have to be restructured: redefine the production programme, close down some of the plants and open others, solve redundancy, redefine the management not capable to manage the business under new circumstances, change the capital share, especially equipment and so on.

From macroeconomic view, restructuring has two implications: on one hand it increases productivity and on the other it reduces manpower that is to say increases unemployment.

Accompanying manifestation of both mechanisms is *disorganisation* because the economies entering the process of transition are organised differently from those relying on market. The central planning was the key mechanism of allocation, not the market. The transitional process destroyed this organisation and connections among subjects formed within the plan thus inducing huge system changes that can be described as a specific institutional vacuum. The establishing of the new connections induced the disorganisation as a separate process which explains the extinguishing of multitude of the activities as the most prominent manifestation of transition.³ Disorganisation essentially differs from *reorganisation* which also explains the decrease of productivity. This phenomenon is based on the idea that the systemic change makes a good deal of information and knowledge stock out of date. And until the new stock regenerates (which is time-consuming process), the production has to decrease. This mechanism is not identical to reallocation. Stately-owned enterprises disappear not for the reason they are looking for new knowledge but on contrary – they are being pushed aside for not doing it.

The above explanation of transition understood as the unity of the two simultaneous processes: reallocation of the resources from the state/public sector into more efficient private one as well as a process which assumes the reorganisation of the typical public sector. The common denominator of the both processes is privatisation although between restructuring and privatisation the equal sign cannot be used. In this contest the extent of the privatisation process can be taken as a key issue and reliable measure of the progress of the transitional process.

1.3. Transition activities

Many well-known international economists deal with the transitional economics issues analysing the dilemmas emerging in front of the explorers as well as the results obtained in practice. The issue arising is whether the economics in transition should rely on the advice of experts or to build its own model of transition in the given economic circumstances. In the answer to this question it is pointed out that all the economies in transition use the clear viewpoints of the developed economies (which overcame that period) using at the same time the specific qualities of their own economy. We consider it necessary to organize the revision of the existing viewpoints and knowledge of the transition so far in the economies of the certain countries.

³ See Blanchard O; Ibid, p. 38.

The broader and overall view can be given to the transition through the key elements of the very process. Those include the following: privatisation of the state / public enterprises, restructuring of the big public enterprises, establishing the market of goods/services and production factors, reform of public institutions and reform of social security.⁴ Notwithstanding, each element need additional comment.

Privatization includes turning of the public ownership into private one. In the wider sense of the term, privatization treats the process of external sourcing of some activities that is to say the opportunity to entrust some activities being exclusively performed by public sector, to the private sector. The first category may include the selling of the building fund and selling of all or part of the statelty-owned assets. The second category includes the external outsourcing of some services being performed exclusively by public sector (waste management, public transport and other). The key argument in favour of the privatization is enhanced efficacy.

Restructuring of public services as a new issue in the doctrine of regulation (in the last twenty years) when it has been proved that the public sector being treated as natural monopoly is not monolithic. It consists of several parts most of which can and should be exposed to competition.

Public services exist on two levels: one is national/regional and the other is local. The services of the first level include, among others electric power industry, railway transport, air transport, telecommunications and oil/gas industry. The public monopoly on the local level includes water supply, sewage system, distant heating and others. In this paper the essential difference among them is not made for very simple reason – network as the base of the natural monopoly is their common feature. Restructuring of these monopolies assumes the special status only for those parts presenting the natural monopolies while the competition is assumed for the other activities.

Establishing the market of goods/services and production factors were developed before the transition but the price mechanism did not play the key role in allocation of the resources, while the transitional changes include the essential liberalization of prices and removal of foreign trade barriers. However, liberalisation of market requires the accompanying institutional frame which means stabile legal system to provide the protection of contract and property.

Establishing of market of production factors is more subtle process. It involves, above all, capital and labour market. While the labour market is more delicate because it is the first to reflect the effects of reform (salaries and unemployment), establishing the capital market relies to a degree on existing institutions. It is about the process of re-establishing of banks and constituting new financial institutions since the role of collecting savings and their redirection under new circumstances is taken by the wide network of money and capital market institutions which require regulations and permanent supervision of safety as the key factor for this sector.

Reform of public institutions is most urgent in education and health systems. The aim of reforms of these institutions is not only their rationalisation and enhanced efficacy but also includes their redirection towards actual educational and health necessities of the population.

Reform of social security system is important because it means providing the social safety of the population. Since it includes the invalid, pension, health and unemployment insurance, transition imposes, above all, rationality and institution which means better organisation on the solidarity base.

⁴ P. Gummert, Edvard Elgar: “Globalisation and Public Policy”, Cheltenham, 1997, p. 33.

The process of transition implies comprehensiveness that is to say it requires reform of almost every institution based on interdependence. Its interdependence is evident since one institution always represents the prerequisite to the other or the key term of reference of it. From experience it is evident that the process of transition involves the timely synchronized activities that can be successfully programmed provided that all their implications are recognized. In other words it is about the action which implies initiation, management and control of several processes that need to be developed simultaneously or in specific reciprocally conditioned sequences. However synchronizing of the activities in time does not imply graduality often identified as partial initiation of the process. The consequences of such an interpretation of graduality are black market, parallel currencies, hyperinflation, spontaneous privatization and other so it should be taken into consideration.

The key role in the process of transition should be taken by privatization which is the prerequisite and key feature of constituting the overall market – goods, services and production factors. The solutions so far as a model of the ownership transformation proved not only their inadequacy typical for such a complex process but conceptual weaknesses as well, both accompanied with slowness of privatisation process and disfunction of newly established ownership structures.

Privatization is a condition for establishing the private economy through which all the essential aspects of market-oriented economy are reflected; thus privatization induces the chain reaction of changes through which the institutions and economic mechanisms are crystallized. The range of changes covers the wide variety of opportunities: from management transformation, establishing the strict financial control, new organizational structure and strengthening of management decentralisation, through reorientation of products and market, cost reduction and reprogramming of debts.

2. Restructuring enterprises – the basics of transition

2.1. International restructuring

Completed privatization in the countries with developed market economy has not substantially changed relationship between private and public property and have not disturbed financial markets. It has been done in such a way due to well coordinated functions which are very important characteristics of economic systems in these countries. It is considered that in some areas privatization and the participation of state property have increased competition and economic efficiency. Developed countries are aware of the fact that reducing state control over economic trends includes the risk that the foreign capital could get a large influence or take control over some strategically important enterprises, so they control this risk by means of appropriate legal and other solutions. Furthermore, it is thought that some radical changes have not been made in enterprises in the process of privatization, because their owners stayed outside, with limited impact on the enterprise business policy.

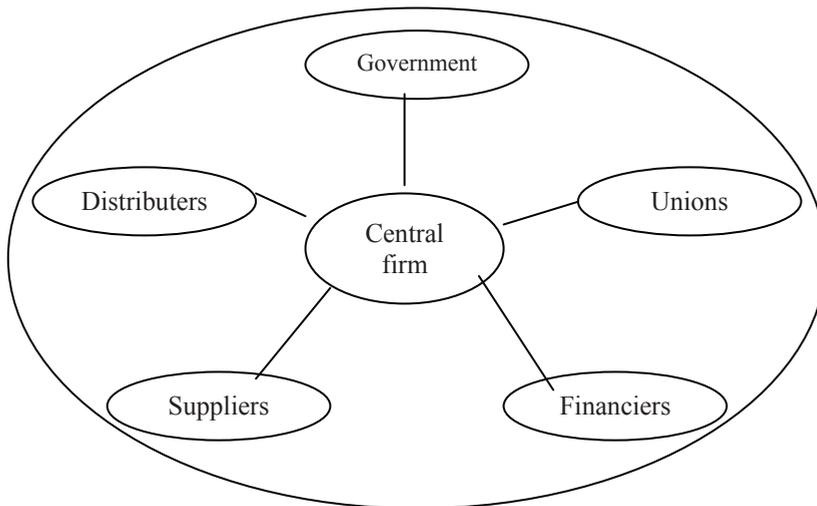
International restructuring is carried out in the conditions of the gradual disintegration of international economic order, collapse of Bretonwood monetary and economic system and growing instability of the produce trademarks and monetary markets. In the middle of international economic restructuring, there are *industrial complexes*, although national states

remain important subjects in international economy. They are the bearers of competitive race and they compete with each other in a battle for leadership. Control becomes the basis for international relationships, which are becoming more complex, from dependence, to the hegemony and reciprocity.

There is not just one general model of international restructuring, because it is the outcome of complex economic, political and social interactions, whose bearers are, as we have already mentioned, industrial complexes, as their gravitational points. They can be, according to the rule⁵: central firms, which like spiders, weave webs of relations of industrial complex control; firms which are suppliers for the central firms; salesmen; workers; financiers and the state.

Instead of short-term competition, industrial complexes create networks characterized by stability of relationships between all participants whose interests are long-term. This is described in Porter's model of five forces of competitiveness⁶: rivalry of current competitors; negotiating power of suppliers; negotiating power of buyers; threat of newcomers' entrance; and possible substitution of product/services.

The spider who weaves the web of industrial complex is a central firm characterized by: size (at least one billion dollars of turnover); high level of interdependent relations with other participants; direct market approach; reliance on financial and/or technological strength; emphasis on valuable components in relationship with workers and surrounding; closing the circle of production-consumption, etc. The central firm of industrial complex establishes five types of relations with: suppliers, workers, salesmen, financiers and the state (see the picture).



Competitiveness today is considered as: a key support for maintaining position in the world economy; stressed emphasis on human capital; and introduction of new technologies, local initiatives and techniques for comparison with the best practice and

⁵ G.Grabher and D.Stark: "Restructuring the Networks in Post-Socialism", Oxford University Press, 1997, p. 63.

⁶ Ibid; p. 65.

the main competitors' procedures. Competitiveness is, as a support for global restructuring, defined as: a degree in which a country under free and fair market conditions can produce goods and services which could be sold on the international market providing, at the same time, growth of the citizens' real income. This concept of competitiveness implies: not classic competitive management – but cooperative macro-management; not relations of harsh competitiveness – but that of an alliance, network and partnership, not short – but long term, not exclusion – but cooperation. There are three important elements of this concept of competitiveness: element of offer, international dimension and social cohesion.

Taking into consideration that western economies are continually developing through adaptation of the existing relations with the market as a central role, they accept restructuring as a challenge in adapting conditions to new developmental tendencies. There are all institutional conditions and motivation of all participants for restructuring, in order to make the most of the real actions. The essence of that restructuring is not changing the system basics, but confirming basic market economy premises (private property and market) as long-term values. In recent years, implementing deregulation has been focused on creating more space for market activity and represents a stimulus for those who can provide more and better, and the threat is to those who believe they can live from the position already taken. Both privatization and deregulation have common goals of expanding the influence of the market, because their influence has effect on the efficiency of doing profitable business.

Many factors provide incentives for restructuring in developed market economies, and it is like that on the real economic scene. Such factors are: changes in the market, competition, uncertainty in the relations of national currencies, interest rates variability, the acceleration of technological development and the like. In that area, there were some serious changes in the capital market and the information revolution happened, which started changing the terms of successfulness. The fact is that today small enterprises can find their way easily in many activities and they have many advantages in relation to large enterprises. As a consequence of the fact that many enterprises do not try to draw maximum from their conditions, the wave of constant restructuring is currently under way, and the reasons for this phenomenon are in the system itself and make its regularity in the developing stage of the company.

This phenomenon is characteristic of the capital market, which is developed in a way that takes harsher control over enterprises. Huge sums of capital which provide support to those who take part in restructuring flow to it. Bankers are interested in restructuring, because they can draw some financial benefits from it. While restructuring is being carried out, at the same time the owner is also transformed, from the role of passive observer to the one of active owner. Significant change is that investors have become institutional investors, who are specialized in having influence on the management team and put strong pressure on them to make the results as good as possible. In the process of restructuring there is weakness of the management to resist these changes. In the USA practice the attempts to resist had no effects, although they had some effects of slowing down. Company managers are obliged to follow the procedure which provides the best conditions of sale.

Restructuring of the developed economies is going in the direction of further intensive directing of actions for raising level of economy in the framework of the existing system.

Completely different options take into consideration post-socialist economies, such as ours. They are about building a new society on the ruins of failed experiments and the problem of restructuring includes the state, institutions of society and all individuals. So, the whole society is transformed within itself to take on a new identity, and a greater number of institutions are directed to the program to help in this process. The meaning of all these efforts is to minimize costs of transformation with as few victims as possible.

2.2. Program for restructuring enterprises

Competitive ability of industries, economies and the state is actually based on competitive ability of enterprises. This ability is not a product of circumstances, but a result of carefully conducted long term policy, which is continuously created in an enterprise, while the state can support or hinder this process by its policy.

All the countries in transition, including ours, used to be, or still are in the system crisis. By system crisis⁷ (in some countries) we consider the situation when a large number of banks or big enterprises are in financial difficulties, which crucially affects the country economy. This situation is not the problem of banks or enterprises individually, but the country as a whole and it requires a comprehensive intervention on restoring it financially, and if it is already late, at least on reducing damages and limit losses.

Market ***restructuring of enterprises*** can be described as determining the target markets, reorganizing offer structure in order to achieve and maintain competitive advantage and market attractiveness, which improves the market position of enterprises. Current state of our economy is such that contains a large number of limitations:⁸

- the domination of politics over the economy and a high percentage of state ownership in the capital structure
- inability of the state itself to live life to the fullest, because of the unfinished reform of jurisdiction
- delay and long duration of some aspects of transition (restitution , privatization),
- lack of functioning of the unique economic space, as the basic prerequisite for entry to the EU internal market,
- economic structure organized to be the raw materials and energy base of former Yugoslavia, which makes the country dependent on import,
- banking system which is not able to monitor large projects (procurement of crude oil, construction of large infrastructure projects), and in particular to support and ensure large export projects

⁷ Mikerević, dr Dragan: „Restrukturiranje u funkciji jačanja konkurentne sposobnosti preduzeća“, („Restructuring in the Function of Strengthening Competitive Ability of Enterprises“), Collection of papers from XXXVI simposium on Zlatibor, SRRS, Belgrade, 2005., p.217.

⁸ Ibid, p. 218.

- lack of foreign investors to invest in the form of direct investments, or through joint ventures, due to high political risk, absence of the rule of law and insignificant market and
- a high level of debt of large enterprises in the country.

Furthermore, the process of restructuring is influenced by restrictions specific for each economy individually. What is characteristic of all economies in transition is the lack of real capital for the enterprise transformation and implementation of the restructuring process. In searching for possible solutions for the implementation of economic reforms, one of them is a credit. Additionally, unfavorable economic structure, with the exhausted enterprises, is a limiting factor in the implementation. Insufficient business environment, without which successful economy could not develop, is also a limiting factor.

Key prerequisite for successful implementation of stabilization programs in our country is the existence of political consensus, as well as securing external financial support. The main economic goals are to: provide internal and external stabilization of macroeconomic flows, complete started privatization and restructuring of the economy and certain key sectors, and large companies. What is needed is a comprehensive restructuring program for the economy and enterprises, which will start from open economy strategy, export-oriented industry, and enable greater integration into European and world economic trends, along with a stronger pace of privatization and restructuring of large enterprises.⁹ Activities in large enterprise restructuring are: adaptation and switching to more demanding and more competitive markets, winning over new markets, and especially in conditions when the south-east Europe seeks to create a wider market without special customs and other barriers, through bilateral agreements on free trade and avoidance of double taxation and protection of investments. Technical and technological restructuring implies improvement of the existing, and introduction of new products that are in line with European standards of quality and product safety. Within the organizational restructuring, changes should affect greater efficiency of certain legal forms of enterprises, keeping in mind changes of the environment, and especially the financial system and introduction of the value added tax. Staff restructuring would enable human resources to apply new technical and technological innovations and also to apply European standards in specific production.

In order to achieve new target function of enterprises – profit in the long term, it is necessary to do the following on the level of enterprises and economy as a whole: to establish adequate market mechanisms; to balance economic structure; to create business and institutional environment; to develop economy based on priorities selectively; to create assumptions that foreign capital will start development processes in the right way; to preserve economical independence. Economical objectives of one country can be achieved only if the state provides development of entrepreneurial function by forcing the development of smaller firms – corporations capable of merging processes and internalization of business. A strong public sector is also needed for: operation of important activities and sectors; development of integral market and establishment of financial institutions, which will be the main investors of equity capital. In the

⁹ Madžar, dr Ljubomir: „Suton socijalističkih privreda“, („Twilight of Socialist Economies“), Economics and the Institute for Economic Sciences, Belgrade, 1990, p. 11.

restructuring process, it is possible to use different methods of enterprise recovery, which are usually combined in practice, such as: changing of management, stronger financial control, organizational changes, switching product- market orientation, reducing costs and the like. It can be concluded with reason that “restructuring is ... a spacious umbrella which covers many things”.¹⁰

2.3. Content and sorts of restructuring

Before starting a process of restructuring, an enterprise should be analyzed in order to consolidate systemic crisis of the current enterprise. They should be classified as:¹¹

- profitable, financially unburdened enterprises
- profitable, financially burdened enterprises
- enterprises that are not profitable

Restructuring is a process that is not carried out from case to case, and the privately owned capital is significantly limited. Implementation process requires appropriate stimulating frame work that would enable and encourage market based, corporate restructuring. Conducting process as well requires from the Government to create appropriate economic environment.

Concerning the character and the depth of systemic crisis as well as the achievement of the optimal effects both for the country economy and microeconomic entity-level, it is possible to apply two types of restructuring.¹²

- Strategic restructuring
- Defensive restructuring

Defensive restructuring takes measures and activities with the aim of reducing costs that implies the need to remove outdated production lines, reducing the number of employees, rejecting unproductive property and etc. In other words, it is a restructuring with the goal of observed enterprise survival. Restructuring doesn't necessarily have to imply strategic presence regarding to changing the activities of the enterprise under newly established economic conditions.

Success of defensive restructuring must not necessarily mean that the company can successfully change business activities. It may in the end lead towards stopping all activities or even to closing down. Many decisions concerning restructuring require overcoming of all sorts of obstacles. These decisions can be made only by qualified management capable to act strategically.

On the other hand, ***strategic restructuring*** is based on business strategy that matches the need for thorough reallocation of resources inside the enterprise. This includes the introduction of new production lines and processes, new technology and investment. This sort of restructuring is much more demanding because it requires large entrepreneurial skills, imagination, judging related to investment possibilities and adequate sources of funding new projects. New investments can be financed from accumulative profits, over financial markets,

¹⁰ Van Horne, C. James: „Finansijsko upravljanje i politika, („Financial Management and Politics“), MATE, Zagreb, 1997, p. 700.

¹¹ Mikerević, dr Dragan; Ibid, p.221.

¹² Irena Grosfeld and Gerard Roland: Defensive and Strategic Restructuring in the Central European Enterprises, *Emergo, Journal of Transforming Economies and Societies*, 3(4), 1996.

loans or issue of shares. This restructuring is determined by a certain development degree of financial sector and by corporate governance changes.

Success of strategic restructuring requires appropriate institutions, investors and capable managers. *Investors* must have certain interest for the project investment. Also they must have confidence in the system. Reliable information are essential. Managers with good investment projects should express their ability in conducting the process itself. They should also have to be inventive, creative, and brave to take on risk in business and motivated as well. (This is provided by signing an agreement concerning their rights and obligations).

Restructuring is a complex process. Realization of the process requires additional work on standard procedures. *Content* of its implementation could have activities that would be performed as:¹³

- *Diagnostic analysis* – dealing with the causes of the current bad situation and creating conditions for the improvement. (market, program, technology, organization, finance and personnel).
- *Bankruptcy and/or liquidation* – dealing with procedures that are conducted over the debtor because of its insolvency and that are in accordance with law.
- *Restructuring* – dealing with changes of current situation towards improvement.
- *Enterprise evaluation* – dealing with determining objective value of an enterprise
- *Privatization* – dealing with determination of the right model of ownership, organizational and managerial transformation, in order to improve performances of an enterprise.

Different models that represent a combination of possible recovery strategies are available to this restructuring content. But one of them always has a dominant role.

Conclusion

Enterprise restructuring as well as economic and total environment transition are interactive processes. Environment transition means building a market that exists only when enterprises are proprietary defined, financially stable and well structured. Restructuring is necessary, because even enterprises with serious problems may recover in a certain way and in a certain extent.

Creation of world-competitive economy requires well prepared strategy related to transition and to restructuring of enterprises and the system of possible solution regarding financial resources and the usage of those resources, market infrastructure in order to fit in the world economic environment, as well.

Missing funds for the creation of macroeconomic policy are limiting factor of the transition processes, especially in situation when economic policy is still unchangeable and when it doesn't make radical moves in all the spheres of economic system.

Our country, small in economic sense should follow world trends. However, to get started it is necessary to carry out a complete reorganization of institutional structures. Since these changes are current, we can expect to be part of this globalization very soon.

¹³ Mikerević, dr Dragan: Ibid, p. 224.

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ИСПРАВКА

- У овом броју 3-4 погрешно је одштампано име аутора чланка

INFLATION TARGETING - THE FINAL GOAL OF THE NEW
FRAMEWORK OF MONETARY POLICY IN SERBIA

ТАРГЕТИРАЊЕ ИНФЛАЦИЈЕ - КОНАЧАН ЦИЉ НОВОГ
ОКВИРА МОНЕТАРНЕ ПОЛИТИКЕ У СРБИЈИ

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