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REGIONAL STRUCTURAL IMBALANCES OF SERBIA AS A CONSEQUENCE OF APPLIED TRANSITIONAL MODEL OF ECONOMIC GROWTH

Regionalne strukturne neravnoteže Srbije kao posledica primenjenih tranzicionih modela privrednog rasta

If a country were ready to apply the doctrine of balanced growth, then it would not be underdeveloped in the first place.

(Albert O. Hirschman, 1969, Strategy of Economic Development: 53–4.)

Abstract

One whole cannot develop unless all its parts develop. Regional development has direct implications for overall economic and social development! Regional transition in Serbia takes its toll on key development dimensions – demographic, spatial, economic, social, security and political. The state was not aware of the regional consequences of the transition. Regional policy was in the second plan, the focus of state instruments was dominantly placed on the process of transferring the planned economy into a market-oriented economy, regional imbalances were developed and intensified spontaneously and uncontrollably, the individual actions of the state were uncoordinated and selective, mainly initiated from particular political interests. State instruments were not in the function of depreciation of transitional consequences.

The key message of the paper is that a more balanced regional development in Serbia cannot be implemented without building an efficient institutional framework, consisting of institutions and instruments, various policies that ensure stability, continuity and harmonization in the development process. In addition, the author points out the importance of affirming the integrative function of strategic regional development planning, the decentralization process and polycentric regional development. In regional theory and practice, it is generally accepted that a higher efficiency of implementation of regional development policy and planning is ensured through hierarchically differentiated decision-making systems.

Keywords: regional structural imbalances, transition models of growth, transition regions - winners and losers.

Sažetak

Celina se ne može razvijati ukoliko se svi njeni delovi ne razvijaju. Regionalni razvoj ima direktne implikacije na ukupan privredni i društveni razvoj! Regionalna tranzicija u Srbiji uzima svoj danak u ključnim razvojnim dimenzijama – demografskoj, prostornoj, privrednoj, socijalnoj, bezbednosnoj i političkoj. Država nije imala sluha za regionalne posledice tranzicije. Regionalna politika bila je u drugom planu, fokus državnih instrumenata je bio dominantno usmeren na proces prevođenja planske privrede ka tržišno orijentisanoj privredi, regionalne neravnoteže su se razvijale i intenzivirale spontano i stihijski, pojedinačne akcije države su bile nekoordinirane i selektivne, uglavnom pokrenute iz partikularnih političkih interesa. Državni instrumenti nisu bili u funkciji amortizacije tranzicionih posledica.

Ključna poruka u radu je da ravnomerniji regionalni razvoj u Srbiji nije moguće sprovesti bez izgradnje efikasnog institucionalnog okvira koji se sastoji od institucija i instrumenata, različitih politika kojima se obezbeđuje stabilnost, kontinuiranost i usklađenost u razvojnom procesu. Pored toga, autor ukazuje na značaj afirmacije integrativne funkcije strateškog regionalnog planiranja razvoja, procesa decentralizacije i policentričnog regionalnog razvoja. U regionalnoj teoriji i praksi opšte je prihvaćeno mišljenje da se veća efikasnost sprovođenja politike regionalnog razvoja i planiranja obezbeđuje kroz hijerarhijski izdiferencirane sisteme odlučivanja.

Ključne reči: regionalne strukturne neravnoteže, tranzicioni modeli rasta, regioni dobitnici i gubitnici tranzicije.

Introduction

Development must be managed! Development implies a harmony of economic growth and social justice. One whole cannot develop unless all its parts develop. Regional development has direct implications for overall economic and social development. Regional development is not a matter of compensation or solidarity! Regional development planning can be an effective method for relaxing social, economic, regional, ecological, cultural and political transformation of Serbia in the period of transition. The subject and essence of the research can be found within these findings.

Research on regional development dimensions is not possible without a complex analysis of overall development. Although the process of property transformation of the economy in Serbia has been formally initiated in the last decade of the last century, the essential transition of the economic and social system began at the beginning of the new millennium. From the point of view of development, the decade of economic distortion and economic collapse has been replaced by almost twice as long a period of economic consolidation and the formation of a new economic system. Nevertheless, the consequences of the lost decade can still be felt in all development dimensions, the economic backlog of the 1990s has not been overcome yet. An additional negative impulse was caused by the devastating recessionary waves of the world economic crisis, which splashed the transitional shores of the countries of Southeast Europe (SEE) with their weight. A number of systemic imbalances and deformations have risen to the surface.

Marginalization of regional development has its roots in the socialist period of the former state; development has been observed through the sector prism for decades, while regional development was in the second plan. In the period of economic distortion (1990-2000), the mutual articulation of parts (regional) within one whole was at a very low level. The transitional period (2001-2017) was characterized by the multidimensionality of regional and structural disproportions. The point of view of the research focuses on the analysis of regional transition, its causes, ranges, tendencies, institutional solutions and their deviations in practice.

Can the divergent movements in the regional map of Serbia and an increasingly sharper division of developed and undeveloped areas be reversed? Optimists would point to the improvement in resource management in the transitional period, but also to the still underdeveloped potentials for the encouragement of the development of new industries in underdeveloped areas. The pessimists would focus their analysis on issues of competitiveness of developed areas, dynamics of export growth, and introduction of new technologies. The rational approach seeks answers within the analysis of the sustainability of regional growth and the necessary changes in the institutional framework in order to achieve the most efficient rapid growth and higher level of convergence [3].

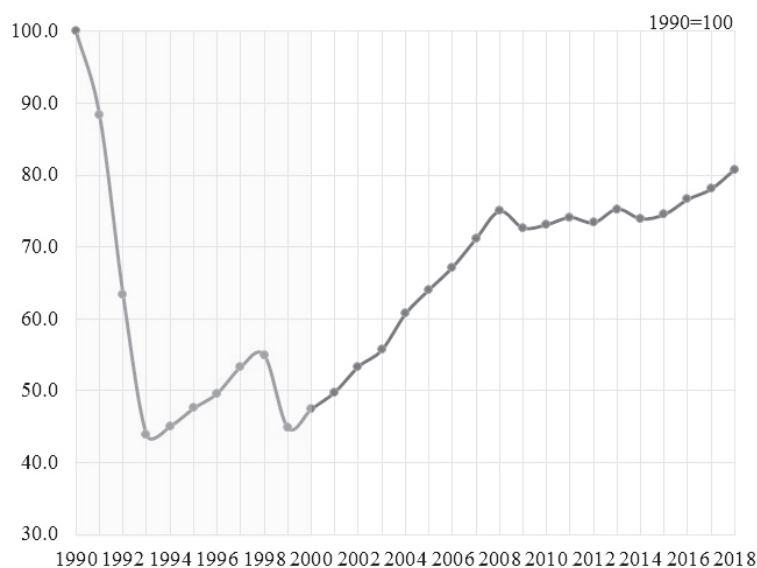
The focus of the paper are the consequences of the applied transition models on the regional development of Serbia. Structural imbalances in the transition period have affected the growth of regional imbalances in all developmental dimensions.

The study of the effects of regional transition in Serbia pointed to the need for re-examining existing institutions, policies, mechanisms and measures. The institutional framework of regional development in Serbia is asymmetric, non-functional and inefficient, not in the function of optimal resource reallocation. The red thread in the work is the necessity of institutional building of regional development of Serbia on new bases.

Development trajectory of Serbia - consequences of economic distortion, transition and recession

Serbia has lost three decades of economic growth and development (due to economic distortions in the last decade of the last century, sanctions and NATO bombing, transition and recession), which confirms the economic legitimacy that it takes twice as much time to return the system to the previous equilibrium from the length of time the system was in recession. Today, Serbia's economic growth is at the level of 1976, amounting to only 78.1% of the average GDP of 1990 (Figure 1). With an average rate of annual growth rate of 4%, it will take another 7 years for Serbia's economic growth to be at the 1990 level. The

Figure 1: Development trajectory of Serbia - GDP 1990-2018



Source: Author's calculations.

Methodological note: Due to the changes in methodology for the period up to 2000, a series of Gross Domestic Product was used (at 1994 prices), and in the 2001-2018 period, a series of GDP growth rate was used [14, p. 36].

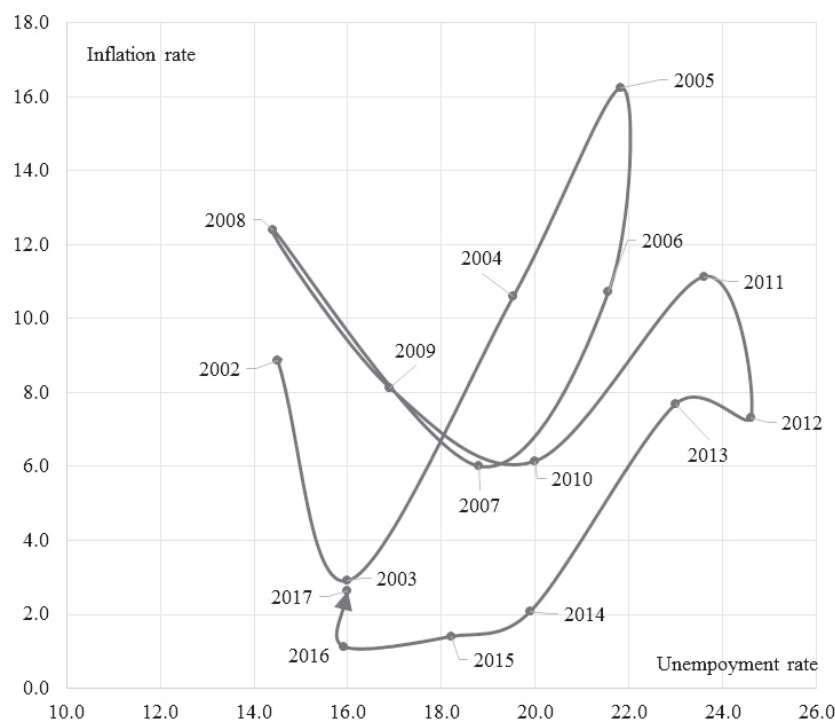
average growth rate of 4% is the minimal growth for Serbia to slowly leave economic periphery of the EU [20, p. 24].

The transition process in Serbia is bounded by five key epistemological elements:

- (1) Slowness and selectivity of reform processes during the entire 17 years of transition [14, p. 40];
- (2) Permanent spending over opportunity. By borrowing, the state closed the macroeconomic equation. In the years of breaking “balloons”, consumption was up to 20% higher than production. In 2016 and 2017, consumption is higher than production by 6%;
- (3) Disinvestment and devastation of the industry. Investments in fixed assets in 2017 amounted to only 38% of investments in 1990. The level of investments from 2008 has not been reached yet, the share of investments is permanently low, and in the 2009-2016 period it was constantly below 18% of GDP. The industry of Serbia has gone through a real transitional tsunami [11, p. 514], more than half a million workers fewer than in 1990 work in Serbian industry today. Compared to 1990, the physical volume index of industrial production at the end of 2017 was two times lower (51%), it was at the same level as it was in 1972;
- (4) High structural unemployment, as a result of unfinished structural changes in the economy, which has a particularly aggravating dimension from the social, development and regional angle. The analysis of the transitional Philips curve of Serbia shows various combinations of unemployment and inflation rates, which were under the influence of transition, recession and economic policy at different times (Figure 2);
- (5) The transition coupling of two deficits, which were the biggest triggers of systemic imbalances: current account deficit and fiscal deficit. The balance of payments deficit has steadily grown since the beginning of the transition; in 2008 it amounted to -21.1% of GDP, in order to stabilize at 4-5% of GDP in the 2015-2017 period. The foreign trade deficit is financed by permanent borrowing on the domestic and international capital markets. The fiscal consolidation period 2015-2017 contributed, for the first time in Serbia's transition, to bring the fiscal outcome from the negative zone into a positive one, i.e. to move from deficit to surplus [8]¹. Structural imbalances in the

¹ “Following centrality of hard budget constraints, architects of the last program for fiscal consolidation 2015-17 revisited fiscal golden rule by separating the current account and the capital account.” [8, p. 30].

Figure 2: Transition Phillips curve of Serbia



Source: Author's calculations.

form of a combination of two deficits depreciated FDI and found workers from abroad. By 2008, the inflow of remittances and FDI was only partially managed to dampen the fiscal deficit, and only since 2012 has exceeded the balance of the current account deficit.

The most difficult consequence of transitional structural imbalances is the continued growth of external and public debt. Total external debt of Serbia increased from 11.8 billion EUR in 2001, to 21 billion EUR in 2008, at the end of 2017, amounting to more than 26 billion EUR. Serbia was above the red line of indebtedness in 2012, it was included, according to the criteria of the World Bank and according to the criterion of debt servicing, in the group of highly indebted countries. Based on the share of the present value of debt in GDP and the value of export-related debt, Serbia belongs to the group of medium-indebted countries. The total indebtedness of Serbia in 2017 was 70% of GDP, but it is more important that the debt service was significantly improved at the end of 2017 (133% is the ratio of debt and exports of goods and services). Also, after a worrying trend of public debt growth (28.3% of GDP in 2008, 56.2% of GDP in 2012 and

71.9% of GDP in 2016), the public debt has decreased to 57.2% (January 2018).

The macroeconomic risks of sustainability of economic growth in the entire SEE region are permanently present, unemployment is the highest in Europe. Economic disparities between the SEE and the EU are constantly at extreme boundaries. According to all economic parameters, the SEE region belongs to the EU periphery [9], [2]. The living standard in SEE in 2016 is almost 3 times lower than the EU average, and the unemployment rate is 3 times higher. Regional and social cohesion in Europe is getting weaker [3], the SEE region has been increasingly confronted with various forms of poverty and backwardness [14, p. 157]. Most SEE countries try to get out of the "vicious circle of poverty"², their economies chronically lacking additional capital for faster economic growth (all countries give significant incentives to attract FDI), underdeveloped markets do not allow the expansion of the production specialization necessary for higher incomes [1].

² "They (the backward nations) cannot get their heads above water because their production is so low that they can spare nothing for capital formation by which their standard of living could be raised." [22, p. 49].

Transition models of growth and structural imbalances

The global recession, created by speculative price growth and the bursting of bubbles in 2007, opened many theoretical and practical dilemmas, beginning with the source of the crisis, the role of the state, market distortions, systemic deformations, resource mobility, alternative solutions and growth models [14, pp. 38-44].

Even before the outbreak of the global recession, all transition economies, especially those with a delayed transition, such as the Serbian economy, have been overheated for years, faced with rising current account deficits, increasing indebtedness and unbalanced exchange rates [18] and unsustainable non-quality growth [16, p. 30]. By causing a crisis, the generator of which is always of a systemic character [10], the problem of financing has become more and more important (the “balloon” has become more and more important), especially in the economies in which restructuring has not been completed. Macroeconomic implications are clear: external debt has grown in all countries. A number of systemic imbalances, primarily, of a structural character, were spilled on the surface [8, pp. 39-40].

A brief theoretical excursion about the causes of the global recession. Causes of the greatest crisis of the Great Depression lie in the combination of three factors: (1) the enormous growth of the greediness of businesses (the famous Keynes “animal spirits”), (2) economic policy failures and (3) the institutional framework (regulatory system).

In recessionary periods, the state is more superior to the market, primarily because it has instruments to mobilize resources. For example, in all variants of the state in order to reduce the “perception of risk” economic policy stimulates the faster development of entrepreneurship. The crisis-trigger generator is always a system, not a state with its policy, because the economic system is inherently unstable [10]. Through its instruments, the state creates structural reforms and changes the system to minimize losses. Some authors believe that neither the reconstruction of the system nor the transformation of economic policy can eliminate the causes of the crisis. In a word, the

key determinant of the recession is systemic instability. In addition to systemic causes, recession weights were intensified by the weaker export sector and the wrong economic policy, which manifested itself primarily through a strong domestic currency. Occasionally, breathing operations gave revenue by privatization, FDI and foreign borrowing [14, p. 42].

Systemic imbalances in Serbia were deepened by the applied transformation model. The model functioned according to the principle of purchasing time with privatization revenues and FDI inflows, as the unstructured export-oriented economy borrowed and increased external debt³. On the other hand, vulnerable internal stability was conditioned by the huge surplus of imports over exports and the overstated dinar that this huge foreign trade deficit has stimulated and sustained. The overdue dinar was carrying the pillar of anti-inflation policy, influenced the commodity flows, but, due to cheap import of raw materials and intermediate goods, it also affected production costs. In such a situation, the global recession only added oil to the fire. But, the recession did not affect all the regions with the same intensity, some were more resilient than others.

The average rate of economic growth in the transition period 2001-2017 was modest, only 3.0%⁴. After a dynamic economic growth in the pre-crisis 2001-2008 period (average growth rate was 5.9%), a fall in the crisis in 2009 (-3.1%) and a long-term recession period (the average fall in the rate of economic growth in the 2010-2014 period was -0.1%), mild signs of recovery of economic growth followed in the 2015-2017 period (average growth was 1.8%).

The transformation period in Serbia in the 2001-2017 period was characterized by different models of growth:

- (1) Growth model based on the growth of personal consumption and services (2001-2008). In the period leading up to the outbreak of the world economic crisis, Serbia’s economic growth grew

3 “Serbia failed to achieve catch-up and convergence due to the burden from the past and wrong experiments that failed to tackle core structural imbalances.” [7, p. 26].

4 “A markedly lower rate of growth of a post-socialist economy could be interpreted as a sign of superior efficiency in comparison with much higher rates achieved in limited time spans during the socialist epoch.” [19, p. 339].

at a high average rate (5.9%), which was not enough, however, to compensate for the backlog of sanctions and economic problems in the state at the end of the last century. The service sector was the main contributor to the growth model, with services in the structure of gross domestic product (GDP) reaching 60% [11, p. 518]. In 2008, the level of GDP of Serbia reached the level from 1975.

- (2) Recession period of 2009-2014, a period without growth, with average annual fall of -0.2%. Under the influence of the global recession, economic growth was interrupted in 2009, forcing economic policy makers to redesign the growth model and face new growth sources, confronted with multi-sector negative effects of the global recession (Figure 2).
- (3) Growth model based on investment and exports (2015-2017), with average annual growth of 1.8%. Only in 2016, the economic growth reached the pre-crisis level of 2008. At the end of 2017, the level of GDP was at the level of 1977, which speaks of the extent of economic distortions in the last decade of the last century.

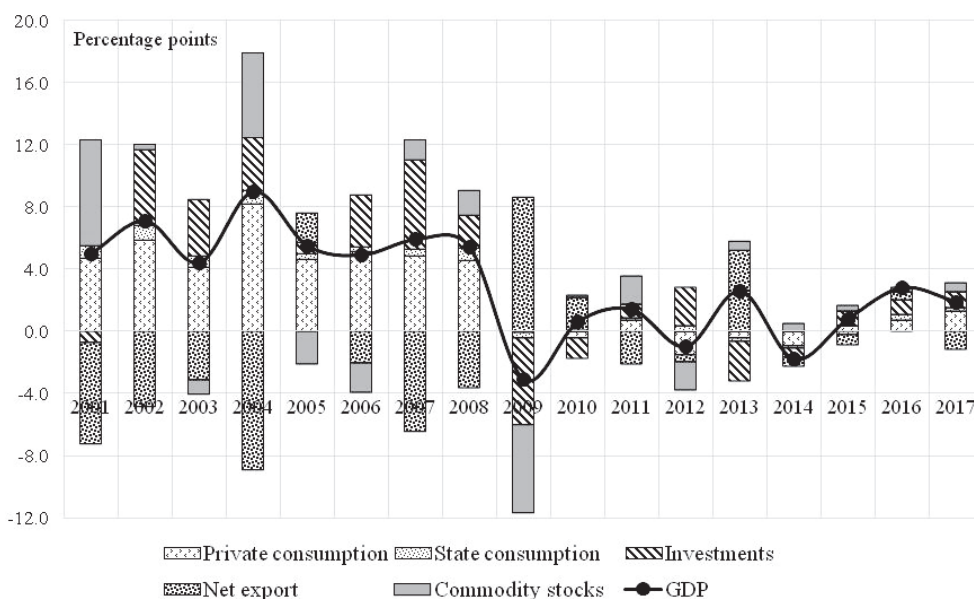
By consistently implementing fiscal consolidation in the 2015-2017 period, internal and external macroeconomic imbalances have been reduced, structural adjustment

has begun, economic and investment environment has improved, as confirmed by renowned international institutions (WB, IMF, EBRD, WEF).

Analysis of the transformation period 2001-2017 shows the degree of unsustainability of the growth model in the 2001-2008 period, the negative effects in the recession period 2009-2014, primarily the rise in unemployment, the fall in living standards and debt growth and the change in growth patterns over the last few years [14, p. 43]. The consequences of the transformation model of “debt economies” have been reflected in all development dimensions, from demographic regression, through industrial devastation, educational gap, regional imbalances to non-construction of institutions [5].

Turning and the implementation of the new model of economic growth are best illustrated by the analysis of the expenditure structure of the contribution to GDP growth (Figure 3). The pre-crisis growth model 2001-2008 was based almost exclusively on the growth of personal consumption, which is somewhat understandable, bearing in mind the effects of economic distortion on the standard of living of the population in the last decade of the last century. The contribution of personal consumption to growth was constantly around 5%, while, for example, in 2008, it was as much as 8%. The foreign trade deficit is permanent, the contribution of

Figure 3: Transition growth models of Serbia - structure of contributions to GDP



Source: Author's calculations.

investments to economic growth was mainly through the privatization process. State consumption also contributed to growth by 2009.

During the period of recession, there was a drastic fall in personal consumption and investment, while a significant contribution to the recession dropped also in the foreign trade deficit. In 2015, for the first time, a positive contribution of investments was registered, which continued in 2016 and 2017. From the growth model based on the growth of consumption, after five recession years, in 2015, it slowly focuses on the growth model based on investment and, after a long time, on personal consumption. The contribution of personal consumption has an upward trend: in 2015, the contribution to growth was 0.4, in 2016 it was 0.7, and in 2017, 1.3 percentage points.

The red thread of Serbia's transition over the past 17 transition years is that structural economic reforms were not in the function of a competitive sectorial reallocation of economic resources. Except for the several early years of dynamic structural reforms, the complete transition period is characterized by reform stagnation: following a rapid reform start in the 2001-2003 period, a period of reform stagnation followed, with mild movements in 2005 and 2008. Such a conclusion is confirmed by relevant international indicators (EBRD transition indicators), and the research of sector reallocation of growth factors using the Structural Changes Index (Indicator of the rate of change in the structure of GVAs) and the Lilien's coefficient.

The transition period is characterized by a deterioration in structural imbalances, a change in the structure of the total added value in favor of the non-exchangeable sector [12]. The global recession has only deepened already formed disproportions. The service sector increased its contribution to GVA growth by 14.2 percentage points,

while agriculture reduced its share of GVA by 12.0 pp, and manufacturing by 2.5 pp (Table 1).

Table 1: Changes in the structure of GVA Serbia 2000-2016

	2000	2004	2008	2009	2014	2015	2016
Agriculture	19.9	13.9	10.3	9.6	9.3	8.2	7.9
Industry	28.4	24.2	22.3	22.8	25.1	25.9	25.9
Construction	5.1	6.0	6.4	5.8	5.1	5.5	5.4
Services	46.6	55.8	61.0	61.7	60.5	60.5	60.8

Source: Author's calculations.

Changes in the production structure, analyzed through the structural change index, took place with the highest intensity in the 2001-2005 period, when the largest decline in agricultural participation was recorded, as well as the highest growth of services in the structure of GVA (Table 2).

Structural changes in the sector Industry and Construction were the most dynamic in the 2001-2005 period (decline in employment, index -5.10). The service sector throughout the transitional period records turbulent changes, both indicators are growing in all sub-periods (2001-2005 GVA growth index was 5.83). Thanks to FDI in the 2013-2016 period, the most dynamic positive changes (employment growth) were recorded by the sector Industry and Construction (1.33). The aggregate indicator of structural changes (average rate of change in the structure of GVA and employment) indicates that the highest rate of change occurred in the service sector (aggregate index 8.5), in the sectors of industry and construction (4.2) and agriculture (4.4), thanks in particular to the reduction of the number of employees in the pre-crisis period.

The previous conclusions on the assessment of the speed of transitional structural reforms, that is, the sector

Table 2: Structural changes index

	GVA				Employment			
	2001-2005	2005-2009	2009-2013	2013-2016	2001-2005	2005-2009	2009-2013	2013-2016
Agriculture	4.01	1.18	0.12	0.74	-0.71	0.36	0.35	0.12
Industry & Construction	1.82	0.32	1.49	0.17	-5.10	2.39	2.19	1.33
Services	5.83	1.50	1.38	0.91	2.70	2.41	1.28	0.65
Total	11.66	2.99	2.99	1.83	5.44	4.95	2.73	1.06

Source: Author's calculations.

Table 3: Lilien's coefficient

	2001	2003	2004	2005	2008	2009	2014	2015	2016
Agriculture	0.094	1.019	0.707	1.865	2.565	0.122	0.190	1.409	1.925
Industry	0.379	5.140	10.394	3.404	3.637	2.349	0.420	0.085	0.990
Construction	0.038	0.027	0.036	0.395	0.428	5.184	0.595	0.519	0.076
Services	0.311	3.719	7.146	2.179	1.762	3.098	0.424	0.839	0.002

Source: Author's calculations.

reallocation of employees, is additionally provided by Lilien's coefficient⁵ [17].

The main findings of the research of the sector reallocation of growth factors using the Lilien's coefficient show (Table 3) the following:

- The most intensive dynamics of structural changes was in the period until 2008,
- In fact, there were no reallocations of employees in the period 2009-2014,
- The most intensive sector changes were in the sectors: Manufacturing (2004: 10.6%), Trade (2004: 8.4%), Administrative and support service activities (16% in 2015), Education (7.3 % in 2015), Accommodation services (9.5% in 2015), Professional and scientific services (4.3% in 2008),
- The smallest changes in the reallocation of employees are in the sectors of Transport, Water supply and waste water management and Electricity supply,
- The average speed of structural reforms was greatest in the Manufacturing industry (2.592), in Trade (2.162) and in the Administrative services (2.775),
- The largest contribution to changes in the structure of employment in the transition period provided in addition to the processing industry (15.3%) and trade (12.7%), administrative services (6.3%), education (6.3%) and accommodation services (5.3%).

The speed of implementation of structural reforms shows the commitment, problems, potentials and capacity

5 Methodologically, Lilien's coefficient represents a deviation from the long-term trend in the movement of employment, in total and by sectors of the economy, and indicates the intensity of the achieved reallocation of employees in the economy and its sectors. If all sectors grow at the same rate, it will be zero. The coefficient is always positive and higher if the employment growth rates of individual economic sectors deviate more than their long-standing average. The present change, increase or decrease, employee participation by sector corresponds with employee reallocations. Lilien's criterion is counter-cyclic, as it points to higher fluctuations in the total number of employees between sectors in periods of recession than in expansion [14, p. 143].

of states to complete the transition process and empower their economies for a competitive match in the world market. Serbia's competitive position in the world was lower in 2017 than in 2003 (when it was first ranked); namely, in 2003, Serbia was ranked 77th in the world and 2017/2018 at the 78th position [23, p. 256], which speaks about the slow ("stop-start") process of structural reforms.

The sluggishness and difficulty of the implementation of the reform agenda are best illustrated by some of the indicators of competitiveness [23, p. 257]: for example, out of 137 ranked countries, Serbia is ranked 122nd on the burden of government regulation, 124th on valuing property rights; what is particularly worrying is that in terms of capacity to attract talents, it is in 132nd place, almost entirely at the bottom of the world rankings, while in capacity to retain talents it is in 134th place in the world!

The effects of applied growth models on deepening regional imbalances in Serbia

The consequences of the applied transitional growth models have been manifested in key regional development dimensions: demographic, spatial, economic, social, security and political. Active regional policy was in the second plan, the focus of state instruments was dominantly placed on the process of translating the planned economy into a market-oriented economy, regional disparities have developed and intensified spontaneously and impulsively, individual state actions were uncoordinated and selective, mainly initiated from particular political interests. State instruments were not in the function of depreciation due to the applied models of transitional growth.

Regional demographic regression of Serbia is one of the most serious consequences of transition, whose negative repercussions on regional development are irreplaceable and immeasurable [14, p. 65]. Regional demographic

regression is manifested in all demographic dimensions, from the level of demographic emptying of the territory, natural depopulation, migration processes, to the extent of the demographic aging process of the working and active population. Regional demographic polarization is becoming more pronounced between urban and rural areas. Regional centers still achieve demographic growth due to the mechanical influx of the population and somewhat more favorable age structure, so they are faced with slightly lower reproductive problems of the population. By contrast, in most rural environments, the critical human development potential has been permanently lost in the underdeveloped and border regions. During the last three decades, negative biological reproduction has affected almost the whole territory of Serbia, while in 1991 every other municipality had a negative natural increase; in 2011 the number of municipalities with positive natural increase is almost negligible. The intensive migration of the population caused huge demographic imbalances, through the concentration of the population in Belgrade and several cities, that is, through the discharge of the whole region of Eastern and Southern Serbia. The

following data shows the extent of regional demographic age imbalances: 93% of the population of Serbia, according to all characteristics, belongs to a group of extremely old populations; in the 2002-2016 period, the average age of the population increased from 40.3 to 42.9 years, in as many as 80 municipalities the population is in the stage of deep age, in 58 municipalities the last stage was recorded - the deepest demographic age.

Regional contribution to economic growth is characterized by the positioning of the region of Belgrade to 40% of the economic growth in Serbia, the region of Vojvodina to 26%, the region of Sumadija and Western Serbia to 20% and the most underdeveloped region of Southern and Eastern Serbia to 14% (Table 4).

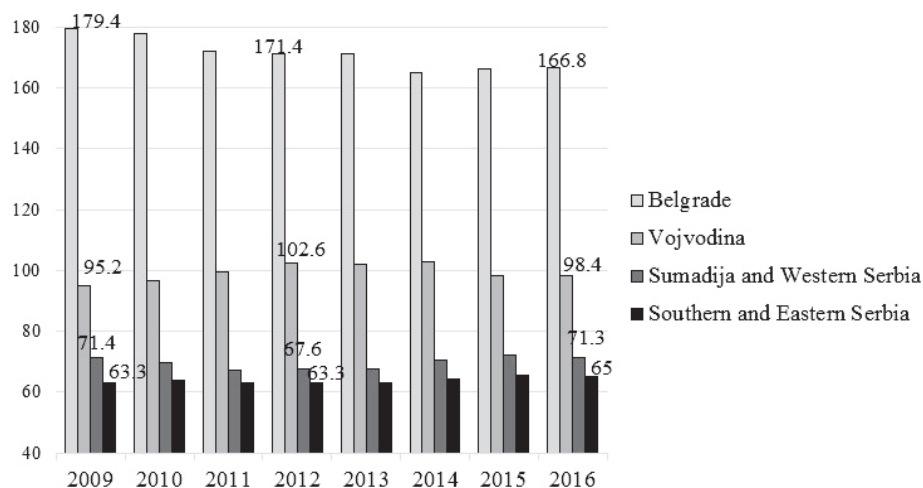
Regional disparities in the standard of living (GDP per capita) at macro level (NUTS-2) in the post-crisis period decreased from 2.83:1 (the region of Belgrade versus the region of Southern and Eastern Serbia) to 2.57:1 in 2016, which confirms the economic legitimacy to reduce regional disproportion in the period of the crisis (Figure 4). The recession affected the decline in economic activity and employment, especially in the 2009-2013 period. The

Table 4: Post-crisis regional contribution to economic growth (GDP of Serbia=100)

Regions NUTS-2	2009	2010	2011	2012	2013	2014	2015	2016
Belgrade	39.8	39.9	39.6	39.7	39.9	38.7	39.3	39.8
Vojvodina	25.6	25.9	26.8	27.2	27.2	27.4	26.2	26.2
Sumadija and Western Serbia	20.0	19.5	19.0	19.0	18.9	19.7	20.0	19.8
Southern and Eastern Serbia	14.4	14.5	14.5	14.0	13.9	14.1	14.3	14.1

Source: SORS

Figure 4: Regional imbalances in living standards, GDP/pc (Serbia = 100)



Source: SORS

average number of workers per enterprise in Serbia has been reduced from an average of 14 to 12 workers. In the three regions, the average number of employees in enterprises in the industry decreased by about 10 workers (only in Belgrade it was less by 5), in the construction sector by 8 workers, in the transport sector by 3 workers per enterprise.

In addition to the inherited factors of regional asymmetries, the primary reasons for the deepening of regional imbalances are the transition effects of privatization and the restructuring process, which have contributed to the one-dimensional concentration of the economy of Serbia in the areas of large centers, which have a distinct appeal in relation to the rural area both for domestic as well as for foreign capital owners.

The regional concentration of economic activities and business results is in the two regions - Belgrade (in the 10 representative indicators of Serbia, it participates with 47.6%) and the region of Vojvodina (26.2%). North of Serbia, on average, participates with almost 70% in the number of enterprises, in employment with 69%, in value of capital and permanent assets with over 82%, in total income and business income with an average of 76%, and similar, with net gain and net loss (69%). On the other hand, the region of Sumadija and Western Serbia and the region of Southern and Eastern Serbia together participate in the Serbian economy with 25%. On average,

Table 5: Concentration of economy in Belgrade and South Backa District (Serbia = 100)

Indicators	2000	2008	2017
Number of enterprises	47	53	54
Employees	39	52	52
Income	53	65	61
Profit	50	66	60
Loss	48	62	54

Source: Author's calculations

Table 6: Regional extreme imbalances - GVA per capita

Serbia=100	2002	2008	2016
Belgrade	200	240	223
Toplica District	27	15	44
Extreme disparities	7:1	16:1	5:1

Source: Author's calculations.

values three times higher are realized in the northern regions of Serbia in relation to the region of the central and southeastern region.

The transition period is especially characterized by the regional concentration of economic activities in the capital and the South Backa District (Table 5). In 2017, the total added value of these two regional districts participated with 63% in Serbia, the share of income was 61%, and of the profit 60%. The largest concentration of economic activities was carried out in the pre-crisis period until 2008. Interestingly, the concentration of losses in these two areas is also significant (54%).

The extreme transitional regional imbalances provide a fairly illustrative analysis of the added value at the district level (NUTS-3) [14, p. 273]. Extreme disparities (Table 6) at the start of the transition were 7:1 (Belgrade vs. Toplica District), in 2008 they jumped to 16:1, so in 2016 they were to be three times smaller (5:1).

Regional imbalances between cities have increased in the transition period. In the area of 28 cities (30% of the territory of Serbia), there are close to 2/3 of the total population and almost 4/5 of the total employed in Serbia. All economic indicators confirm that 4/5 of economic activities are concentrated in cities and that the actual regional transition is over (Table 7).

In contrast to the concentration process in cities, the vastly underdeveloped area in Serbia is, in fact, in addition to demographic devastation, left out of business flows, which speaks of the state's attitude towards regional development. In the underdeveloped area, which includes 44 municipalities (defined by law), during the transition the number of companies has been reduced by 50%, the

Table 7: Regional imbalances between cities in 2017 (Serbia=100)

	Number of enterprises	Employee	Income	Profit	Loss
Belgrade	44.6	44.1	49.6	46.8	48.4
Novi Sad	8.9	7.6	11.0	13.2	6.9
Nis	3.0	2.6	1.6	2.0	1.1
Kragujevac	2.8	2.2	1.8	1.5	1.1
Subotica	1.6	2.1	2.6	1.8	0.8
23 cities	18.8	20.1	17.4	20.4	26.7

Source: Author's calculations.

number of employees and profit was more than 2 times lower, while the income was reduced by almost 2.5 times (Table 8).

Table 8: The share of the economy of the underdeveloped areas in Serbia (%)

	Number of enterprises	Employee	Income	Profit	Loss
2001	6.6	7.3	4.2	3.0	3.9
2008	4.6	3.8	1.6	1.2	1.8
2017	4.3	3.6	1.7	1.3	1.6

Source: Author's calculations.

The impact of the applied transitional models on regional imbalances has its own social dimension.

The reflection of regional economic and social imbalances is most evident in the rise in poverty. Other negative manifestations are reflected in the increase in unemployment in undeveloped areas, social stratification and increased vulnerability to material and general security, especially vulnerable groups (children, frail and elderly people, people with disabilities, etc.).

Serbia has the highest rate of poverty risk compared to the countries of the region, and every fourth inhabitant is at risk of poverty. Greater general inequality in Serbia than in EU Member States is mainly due to the modest volume of social protection and the lack of progressive income taxation.

In the 2008-2016 period, the poverty rate in Serbia increased from 6.1% to 7.3%, or about 25,000 more are poor. Apart from the region of Vojvodina, the poverty rate has increased in all other regions. Almost half a million inhabitants are unable to meet minimum existential needs. Although in absolute terms there is a slight decrease in the number of poor people, the trends are the primary

consequence of reducing the number of Serbian citizens, and the smaller part of reducing the incidence of poverty.

The international position from the point of view of consumption trends places Serbia as a country of relatively even distribution of consumption. The ratio of one-fifth of the richest and the poorest shows that the consumption of 20% of the richest is about four times higher than the consumption of 20% of the poorest. The regional aspect points out that the regions of Sumadija and Western Serbia stand out in a slightly even distribution compared to other regions. The depth and severity of poverty remained unchanged (1.2% and 0.4%).

Social transfers (without pensions) reduced the absolute poverty rate by 26.3% in 2016. If we were to exclude social transfers, 9.9% of the population would be poor (170 thousand people). The effects of social transfers (without pensions) on poverty reduction are the highest in Belgrade and the region of Vojvodina, and the smallest in the region of Southern and Eastern Serbia. The effects of involvement and pensions in social transfer are even more significant. It can be freely said that this is a third of the population whose consumption was not sufficient to cover the existential needs. Without supplementary consumption from own production of goods in 2016, the number of the poor would be almost 100 thousand more (8.7%). The total contribution of pensions and other social transfers to poverty reduction is greatest in the Belgrade region, and the smallest in the region of Southern and Eastern Serbia.

The poverty rate is twice higher outside urban centers. Regional analysis shows that residents in the region of Southern and Eastern Serbia are the poorest (Table 9). The

Table 9: Transition growth of regional poverty

Indicators	Serbia		Belgrade		Vojvodina		Sumadija and Western Serbia		Southern and Eastern Serbia	
	2008	2016	2008	2016	2008	2016	2008	2016	2008	2016
Poverty rate	6.1	7.3	2.9	4.0	6.8	6.3	4.0	6.6	11.0	13.0
The number of the poor (in 000)	467.3	492.3	48.4	62.7	138.9	110.7	86.5	126.5	193.6	192.4
Gini coefficient	26.05	26.13	26.17	27.85	27.16	26.19	23.18	24.58	25.50	25.00
S80/S20	3.80	3.89	3.74	4.20	3.92	3.98	3.53	3.59	3.79	3.75
The impact of social transfer	-20.8	-26.3	-19.4	-36.5	-20.0	-32.3	-28.6	-27.5	-17.7	-16.9
The impact of social transfers and pensions	-81.6	-78.8	-92.0	-89.0	-77.2	-81.0	-86.0	-79.6	-73.3	-64.8

Source: SORS RSO.

lowest poverty rate is in the Belgrade region, a positive trend is the approaching of the region of Vojvodina and Sumadija and Western Serbia. Gini coefficient recorded growth in Belgrade and in the region of Sumadija and Western Serbia, while the biggest trend of population growth was registered in Belgrade (the ratio S80/S20 rose from 3.74 to 4.20).

Transition regions - winners and losers

Regional transition economic balance in the 2001-2016 period is: the net result (difference in profit and loss) is negative, amounting to -3.27 billion EUR. The bright positive points of business of the Serbian economy were in 2006 (1.26 billion EUR), 2007 (688 million EUR), 2011 (855 million EUR), 2015 (589 million EUR) and the most

positive one in 2016 (1.5 billion EUR). The largest losses were registered at the beginning of the transition (2001-2005), in the years of recession struggles (2009-2010, 2012-2013) and in the year of catastrophic floods in 2014 (-1.1 billion EUR).

Regional distribution is extremely uneven, regional extremes range from the positive net results of the South Backa District of 2.39 billion EUR, to negative in South Banat (-1.26 billion EUR), Danube (-1.17 billion EUR), Sumadija (-1.08 billion EUR) and the Bor District (-952 million EUR).

The largest economic losses were made in the pre-crisis transition period until 2008 (-2.47 billion EUR), but their regional structure is more balanced (Table 10), the largest losing districts were Sumadija (-757 million EUR) and the Bor District (-607 million EUR), while the largest winners were South Backa District (1.07 billion EUR) and Belgrade (858 million EUR).

In the post-secession 2009-2016 period, total economic losses were about 800 million EUR. The region's biggest losers were the Danube District (902 million EUR) and the South Banat District (880 million EUR), while the group of winners of the region included Zlatibor (350 million EUR), Pirot (399 million EUR) and the Srem District (243 million EUR). In that period, the Belgrade region registered a loss of 109 million EUR.

Regional transitional analysis by districts shows that the largest loss was made by the South Banat District in 2011, Bor in 2007, the Danube District in 2005, while the Sumadija District distributed the loss evenly by 2014. The biggest transitional winner is the economy of South Backa District, the only loss was made under the effect of a strong recessionary strike in 2009 (-227 million EUR).

Conclusion

Serbia has lost three decades of economic growth and development, which confirms the economic legitimacy that it takes twice as much time to return the system to the previous equilibrium from the length of time the system was in recession. Regional transition in Serbia takes its toll on key development dimensions - demographic, spatial, economic, social, security and political.

Table 10: Transition winners and losers 2001-2016 (in million EUR)

Districts	2001-2008	2009-2016	2001-2016
South Backa	1,067	2,394	3,461
Belgrade	858	-109	749
Zlatibor	-38	350	312
Pirot	-35	299	265
Moravica	-11	156	145
Srem	-119	243	124
West Backa	75	-47	28
Kolubara	-90	79	-12
Toplica	-49	37	-13
Nisava	-111	-10	-121
Jablanica	-176	48	-127
Branicevo	-266	68	-198
Raska	-273	68	-205
Zajecar	-135	-73	-208
Central Banat	-172	-89	-261
North Backa	-137	-143	-280
Rasina	-96	-311	-407
North Banat	-163	-273	-436
Pcinja	-166	-272	-438
Pomoravlje	-263	-225	-488
Macva	-158	-533	-691
Bor	-607	-345	-952
Sumadija	-757	-325	-1,083
Danube	-271	-902	-1,173
South Banat	-380	-880	-1,259

Source: Author's calculations.

The starting points in the research on regional imbalances in Serbia are that it is a systemic multi-decennial problem that culminated in the process of transition and the global economic crisis, and that the state itself is responsible for its own regional development. The basic motives for the state's engagement in this area are enormous regional and interregional disparities that hinder development, initiate migration flows, leaving large and strategically important spaces uncovered by population, and their resources unused, while in the more developed centers there is excessive concentration of population and economy, which produces negative consequences in the economic, social, spatial and ecological sphere.

The regional model of development that was applied not only in Serbia, but also in all socialist countries in the last century was based on the industrialization model, on the policy of redistribution of funds to underdeveloped regions, in order to reduce regional disproportions and achieve the principle of balance. Of course, since there is just a small amount of balance left over in the past six decades in Serbia (as well as in all former republics), there were neither "revolutionary jumps", nor the reduction of regional differences, we can only talk about excessive (even theoretically) optimism.

Marginalization of the regional development of Serbia has continued in the transitional period, regional development is still not considered as an integral part of the overall socio-economic development, and the fact permanently avoided is that development has its own regional dimension, that is, that the creation and implementation of institutional development mechanisms are not regionally neutral.

The state was not aware of the regional consequences of the transition. Regional policy was in the second plan, the focus of state instruments was dominantly placed on the process of transferring of the economy of planning into a market-oriented economy, regional disproportions were developed and intensified spontaneously and very fast, the individual actions of the state were uncoordinated and selective, mainly initiated from particular political interests. State instruments were not in the function of depreciation of transitional consequences.

Systemic and structural regional imbalances in Serbia are deepened by the applied models of transformation of the social economy. The model functioned according to the principle of buying time with privatization revenues and FDI inflows, as unstructured export-oriented economy became indebted and increased the external debt. In such a situation, the global recession only poured oil on the fire. The global recession has shown two things: endogenous regional resources are primary factors which increase regional resilience [13, pp. 101-2], namely infrastructure, educational institutions, intellectual capital (human, structural and relational capital) [15, p. 350], entrepreneurial capacity and financial capacity [4], and the importance of institutionalization of regional specialization [6].

The unfinished process of transformation of the Serbian economy and the great transitional backlog have contributed to the increase of regional and social inequalities in Serbia, the trend of reducing regional cohesion is more pronounced, demographic devastation is becoming more and more rapid, and few development points in the area manage to keep the active population. Transitional cities seek a new identity, the economic transformation of the ownership structure has opened up new economic, social and institutional issues of the transformation of post-socialist cities and their role in regional development. The institutional framework of regional development is unfinished, statistical macro regions are dysfunctional, they are not in the function of systemic management of regional development, rational use of state resources, and optimal economic reallocation of resources.

Investigating regional imbalances in Serbia, a particularly emphasized conclusion is that regional imbalances increase macroeconomic vulnerability, that during the period of faster transitional reforms regional inequalities increase, as well as that recession waves have affected regional inequalities.

Moving the focus down from central to regional level shows a change in the paradigm of regional policy [21, p. 47]. In regional theory and practice, it is generally accepted that a higher efficiency of implementation of regional development policy and planning is ensured through hierarchically differentiated decision-making systems. This enables active involvement of regional, local

authorities, institutions and economic entities in the process of planning, coordination and implementation. Political will is decisive for the beginning of decentralization, and the process itself can decisively influence the transformation of a centralized institutional system. It is necessary to choose a combination of historical models and recent experiences and, above all, planned (development) regions that have never been fully established, which are further stimulated by a narrow local political initiative.

A centralized system gives rise to a lot of deformation. Institutional solutions based on centralized intervention are actually unsustainable in the long run. The natural characteristic of centralized systems is the concentration of both economic resources and the decision-making method for the reallocation of these resources. Centralized systems are reallocating resources at fewer regional points than decentralized systems based on private property. Centralization of decision-making also causes the centralization of knowledge and information, which are primary for making optimal decisions. This is the root of the inefficiency of centralized systems, since societies that want to be efficient locate decision-making processes where the knowledge is located.

Decentralization is not an end in itself, and it does not necessarily automatically lead to a reduction in regional disparities, but it represents a good institutional and governance framework in which, under the mentioned conditions, it is possible to pursue an effective regional development policy. Decentralized control of resources under certain social conditions, such as, for example, underdevelopment, impoverishment, deterioration of natural resources, etc., can also aggravate conflicts. Instruments for overcoming such a situation are related to the financial balance, decentralization of available capacities, horizontal coordination and participation [3, 13-7]. The process of devolution of power is usually taking place along with economic regionalization, but in terms of partnership and subsidiarity. The significance of the polycentric system is in the formation of a network management concept that would, on the one hand, prevent any centralization, and on the other hand, establish possibilities for harmonious regional development. The model of “shallow” and decentralized networks, the so-called satellite cities, within

the functionally and gravitational connected urban regions, which is based on the modern principles of networking of development generators, is more realistic for Serbia and more in line with the contemporary aspirations of socio-economic development.

The answer to the question whether the effects of the decentralization process are positive or not is ambiguous. Practice has shown that both centralized and decentralized systems can be both efficient and inefficient, depending on the historical, cultural and political context of the country, as well as on its ability to make use of its own advantages and minimize potential weaknesses. In a word, there is no “optimal model”, but a common key coordination and capacity issues that relate to the management of mutual relations between the levels of government.

Decentralization is not a one-time policy change, it is a process that seeks to increase the accountability and efficiency of local governments. In addition, in the process of institutional change, inertia and resistance can occur in those who have benefited from a previously centralized system, especially in terms of power, information and decision-making.

The key message of the paper is that a more balanced regional development in Serbia cannot be implemented without building an efficient institutional framework, consisting of institutions and instruments and various policies that ensure stability, continuity and harmonization in the development process. In addition, it is particularly highlighted the importance of affirming the integrative function of strategic regional development planning, the decentralization process and polycentric regional development. The process of alleviating regional differences is difficult, expensive and slow.

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