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A SEQUENCED REFORMS AGENDA FOR SERBIA: TAILORING THE CONCEPTS AND INSTRUMENTS*

Redosled reformi u Srbiji – prilagođavanje koncepcija i instrumenata

Abstract

Impotent, import and debt-dependent Serbia's economy is the legacy of the geopolitical crisis in the 1990s, as well as of the misconceptions of the policy framework after the political changes in 2000. In a rapidly changing environment and without adequate remedies for failures, structural imbalances from socialism accumulated during transition. Namely, when the new normality and megatrends come into play, the existing structural imbalances are deepened. As a consequence, the risk of staying in regression is not mitigated yet, despite one-quarter-of-century intention to escape the middle-income trap through radical reforms toward democratic capitalism. However, in 2017, the chances to escape from the long-term freefall are greater than ever before. After fiscal consolidation, which was the result of a four-year-long implementation of hard macroeconomic policy regime, Serbia has reached a strategic inflection point on the path from crisis to recovery.

Even though the current Government is agile in terms of creating a balanced economy capable of growth (sustainable and inclusive), there is no smooth and painless movement away from import and debt dependence. Breaking away from the structural crisis requires a complex reform agenda with three sets of activities: a. quick annulation of past failures, b. adaptation of the new policy framework to the paradigm change in theory and policy, as well as to the new normality, and c. investment in structural changes in accordance with megatrends.

Our intention is to offer a conceptual paper. The leitmotif is to provide evidence-based answers to key questions by discussing all relevant details from both macro and micro (or business) perspective, particularly regarding their interconnections. However, it is an attempt to create a framework from the ground up, primarily from the microeconomic (or business) viewpoint. There is no intention to offer a diagnosis on lacking policy targets and unsolved challenges, or the repeated arguments "for and against", but rather to consider explanatory details and set up the problem-solving platforms. After all, the devil is in the detail. Proceeding from the new vision, through its macro (monetary and fiscal) articulation, we reach the industrial policy program for tradable sectors. While macroeconomic stability is maintained, the focus will be on the business perspective.

We hope that the arguments offered will zoom out a more profound view to the problem of transitionism in Serbia, with the intention to avoid repetition of misconceptions and overestimations. By doing this, we strive to extract value from past failures. Namely, our attention is to bring some explanations for Serbia's transition pattern of failures with the purpose to release some thoughtful ideas for repairing hidden fractures of the system and propose solutions compatible with the new normality and megatrends. In order to do that, analysis is structured in five sections, besides the introduction (the way backward) and the conclusion (the way forward). To get everything on the radar, in the first section we talk about Serbia's macroeconomic fact sheets. After observing the lessons learnt from previous mistakes in the second section, in the third and fourth section we are discussing the new normality emerging from the global economy and megatrends influencing the economic framework, respectively. Finally, in the fifth section we are dealing with the heterodox policy framework as a valuable alternative to the neo-liberal (or orthodox) policy framework.

Keywords: *middle-income trap, transition, multipronged reforms, heterodox economic policy platform, new normality, megatrends, strong macroeconomic policy regime, hybrid capitalism, industrial policy doctrine*

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Sažetak

Nemoćna, od uvoza i duga zavisna privreda Srbije predstavlja legat geopolitičke krize tokom 1990-tih godina kao i pogrešnih koncepcija iz okvira ekonomskih politika posle političkih promena 2000. godine. U brzomenjajućem okruženju i bez odgovarajućih rešenja za napravljene greške, strukturne neravnoteže iz socijalizma su se u tranziciji nagomilale. Sa pojavom novih normalnosti i mega trendova, postojeće strukturne neravnoteže su se produbile. Posledično, rizik ostanka u regresiji još nije otklonjen, uprkos više od četvrt veka nastojanja da se reši problem zamke srednjeg nivoa ekonomske razvijenosti kroz radikalne reforme, a u pravcu demokratskog kapitalizma. Ipak, u 2017. godini šansa da se izađe iz dugoročnog slobodnog pada je veća nego bilo kada do sada. Posle fiskalne konsolidacije, koja je bila rezultat četiri godine duge primene režima čvrste ekonomske politike, Srbija je došla u prevojnu tačku na putanji od krize prema oporavku.

Iako je sadašnja vlada agilna u smislu stvaranja izbalansirane ekonomije sposobne da ostvari rast (održiv i inkluzivan), ne postoji laka i bezbolna trasa prelaska sa privrede koja je zavisna od uvoza i duga. Izlazak is strukturne krize zahteva složen program reformi koji uključuje tri grupe aktivnoasti: a. brzo anuliranje grešaka iz prošlosti, b. primenu nove koncepcijske platforme u skladu sa promenom paradigme u teoriji i ekonomskoj politici kao i u skladu sa novim normalnostima i c. investicije u strukturne promene u skladu sa mega trendovima.

Naše nastojanje je da ponudimo koncepcijski članak. Laitmotiv je traženje odgovora koji su zasnovani na činjenicama u vezi sa ključnim problemima, kroz diskusiju svih relevantnih detalja iz makro i mikro (ili poslovne) perspektive, posebno u vezi njihovih međuuticaja. Ipak, u pitanju je nastojanje da se stvori okvir iz osnova, pre svega iz mikroekonomskog (ili poslovnog) ugla. Ne postoji intencija da se ponude samo dijaznoze o neostarivanju ciljeva politika i nerešivim problemima, ili da se ponavljaju argumenti "za" i "protiv", već da se daju detalji koji objašnjavaju problem i omogućavaju uspostavljanje platforme za rešenja. Polazeći od nove vizije, preko njene provere kroz makro (monetarnu i fiskalnu) perspektivu doći ćemo do programa industrijskih politika za sektore razmenljivih proizvoda i usluga. Dok se održava fiskalna ravnoteža, fokus može biti na industrijskim politikama.

Nadamo se da će ponuđeni argumenti omogućiti bolje zumiranje problema tranzicionizma u Srbiji sa namerom da se izbegnu povaljanja pogrešnih koncepcija i loših procena. Na taj način, bićemo u stanju da izvučemo koristi iz prošlih neuspeha. Naime, naša namera je da ponudimo objašnjenja za model neuspeha tranzicije u Srbiji sa ciljem da se daju korisne ideje za popunjavanje skrivenih pukotina sistema i predlože rešenja koja su u skladu sa novim normalnostima i mega trendovima. Da bi se to postiglo, analiza je strukturirana u pet delova, pored uvoda (pogled unazad) i zaključka (pogled unapred). Da bi se sve relevantno stavilo u radar, u prvom delu govori se o makro-ekonomskim činjenicama. Pošto se prouče lekcije dobijene iz prethodnih grešaka u drugom delu, u trećem delu i četvrtom delu biće analizirane nove normalnosti koje dolaze iz globalne ekonomije i mega trendovi koji utiču na okvir za vođenje ekonomskih politika, respektivno. Konačno, u petom delu bavićemo se heterodoksnim pristupom za vođenje ekonomskih politika kao korisnom alternativom za neo-liberalnu (ili ortodoksnu) koncepcijsku platformu.

Ključne reči: *zamka srednjeg nivoa razvijenosti, tranzicija, višekolosečne reforme, heterodoksna platforma za vođenje ekonomske politike, nove normalnosti, mega trendovi, čvrst režim makro-ekonomske politike, hibridne forme kapitalizma, doktrina industrijske politike*

The way backward

In today's global interactive transformative discontinuity, a clock speed of changes is moving much faster than ever before. To respond to changes, adhering to stereotypes, particularly if they are not fully applicable and with inherent misconceptions, is not a fertile approach for economic policy. One of the key questions in contemporary economics is the role of the government. In the new context, the government should be agile. The neo-liberal economics orthodoxy should not serve as an alibi for inert politicians any more.

The extent of government involvement in the economy stands as the critical difference between developed and developing economies. In a quest for a growth model and economic policy platform, a great majority of developing economies have relied on a substantial government portfolio made of industrial and financial organizations. R. Rajan [17, p. 47] refers to the model of capitalism based on the said relationship as "managed capitalism". This model is an alternative to the neo-liberal capitalism based on market fundamentalism and other versions of capitalism such as state capitalism, "two-trucks" capitalism (one country, two systems), people's capitalism, oligarch's capitalism, etc.

Under managed capitalism, the emerging state-owned organizations conducting business in the real economy and the financial sector do not operate in a vacuum. They require other organizations, mostly privately held, to provide inputs and to buy their outputs. Of course, market forces are another institutional choice which enables, through trial and error, an increase in the density of relevant business organizations. Last but not least, industrial and financial organizations, both state-owned and private, need the infrastructure and regulatory institutions to facilitate business transactions in a transparent manner, as well as the rule of law to provide safety of private property (the so-called "arm's length system") and life.

In the managed capitalism, domestic consumption is not a strong driver of growth. To win market share in the global market, national champions have to offer competitive products with attractive cost structure. They managed to do this in the tradable sectors, sectors that export or compete with the imports. Of course, the global market offers economies of scale, even though they service niche market segments owing to the effects of agglomeration. Moreover, since the size of the domestic market is no longer a constraint for profitable operations, they can choose a product portfolio based on the greatest comparative advantage. Sometimes the central bank provides a general subsidy by maintaining an undervalued FX rate. Another frequent safety measure is cash rebate for export and/or for import of equipment with the aim to create export.

Despite the enormous success in its primary objective of liberating the country from poverty, managed capitalism assumed a certain level of producer bias that was not easy to sustain. Moreover, starting from the export-oriented growth model, a developing economy faced fiercer competition in the domestic market compared to the developed countries, in part because the cost of transportation had fallen tremendously. The most serious threat is competitiveness decrease in the export markets because of the use of second industrial generation technologies. Under the pressure of global competition, both in export and domestic market, the favored industrial organizations, the "national champions", had to move up across the value chain. It means shifting focus to the cutting-edge technologies and more high-end products simultaneously. By doing so, the national economy is running the so-called "double macro deficits" (in current account balance and in capital account balance). Industrialization based on import technologies for tradable sectors does not lead to a sustainable balance of payments. Current account deficit is predominantly a consequence of the purchase of cutting-edge technology from abroad. Deficit in capital balance is a result of financing the said purchase. Two macro deficits reduce the speed of growth, and the developing economy enters the so-called "middle-income trap".

To escape the middle-income trap, it is primarily necessary to reduce the dependence on foreign borrowing. However, this is not possible without reducing technology purchase from abroad. Furthermore, *in situ* development of technology to maintain a high level of competitiveness of the domestic industry is a way to eliminate both types of macro deficits. The core challenge is the way a developing economy charts the path of technology development, not only as a beneficiary (leapfrogging), but also as an active participant in its development (*in situ* research and development). This is a complicated journey because it requires growth that is smart, as well as adequate science policy and education system which are adaptable to the requirements of new technologies. However, the results could be outstanding, because development of own technology in sectors reaching technological frontiers produces surpluses in current account and capital balance and their sustainability.

How does a developing country finance smart growth? An inside look into the structure of the current account provides the answer. Namely, the current account is just the difference between a country's savings and its investments. In case of emerging economies, M. Feldstein and Ch. Horioka [8] argue that the correlation between savings and investments is highly positive. Namely, the more a developing country finances its investment through domestic savings, the faster it grows, and vice versa. It is in contradiction with the neo-liberal orthodoxy that, as a financial market becomes global, the Internet simply stops recognizing national borders. Adhering to the previously mentioned economic orthodoxy in the real world leads to the paradox that a developing economy whose foreign debt to finance investments is on the rise, actually suffers from resource misallocation.

Where is Serbia's place in this story? After WWII, Serbia started implementing a model of growth based on industrialization, with the intention to climb the same ladder the developed economies had done, step-by-step, moving from the production or assembly segment of the value chain in low-end products, from labor and/or resource and/or energy-intensive industries to the high-end capital-intensive industries. To support industrialization, the government created state-owned enterprises and intervened in the functioning of the market to create space for picking winners so as to grow relatively unhindered by international competition. To strengthen motivation inside the companies, the government transformed this type of ownership, moving from state-owned to socially owned, and introduced a participative management system, i.e. workers' self-management. Government subsidies and protection, combined with decentralization, have in some cases brought about rapid and profitable growth of favored companies and their transformation into "national champions". In the meantime, some companies which were best positioned in the global market distanced themselves from government interference and declared themselves as private in all aspects apart from ownership. These companies were pioneers in the "privatization from the inside" model [3] which was applied in Serbia's transition during the 1990s. After 2000, the privatization model was changed and the takeover from the inside was replaced by the sale option. Nevertheless, save for a few exceptions, companies which were privatized in the first wave of privatization are now viable private companies. Unfortunately, due to continuous government support, a great majority of grand projects remained unaffected by the positive effects of international competition. They ignored privatization by continuously looking toward the government. A great majority of state-owned companies in the commercial sector are now in the group of controversial businesses that operate at a loss (the list of "500+" companies in restructuring), posing a great financial burden to the state budget.

In the aftermath of the fall of the Berlin Wall in 1989, with the unfinished industrialization and the middle-income trap in the background, Serbia started its transition toward capitalism and full-fledged market economy. Although a typical manifestation of transition was marketization of the economy, the essence of this process in Central and Eastern Europe (CEE) was ideological, i.e. the escape from socialism to capitalism, as well as political integration with similar countries from the Western hemisphere. Contrary to the previous geopolitical inflection points, when Serbia was on the right side of history, in the 1990s Serbia's political leadership opted for a stuck-in-the-middle ideological position between the empowering capitalism and collapsing socialism. If you exchange something for nothing, you have disorder in geopolitics, finance and economy. This was exactly what Serbia did.

Misunderstanding the leading trends in geopolitics is a primary reason why Serbia still has not completed its economic transition, even though it started more than a quarter of a century ago. No doubt, dreams from the early days of transition have evaporated in the meantime.

In the previous articles [4], [5], [6], and [7] we have pointed out that the trajectory of Serbia's economic transition has been uneven. Its speed has varied. Due to an experimental and inconsistent policy framework, it has had its ups and downs, its zigs and zags. More than a quarter of a century of transition has been characterized by numerous fault lines influenced by misconceptions, overestimations and wrongdoings. Such a transition, contrary to intention to escape the middle-income trap, actually pushed Serbia into a transitional trap, a structural crisis called "transitionism" (the never-ending transition).

Causes of transitionism are not only more widespread, but also more hidden. The existence of the output gap in the 1990-2000 period and ignorance of the output gap as a priority tenet of transition strategy and economic policy after 2000, are some of the most important misconceptions. At present, the transitional output gap is about 1/4 of pretransitional output from 1989 in constant prices. The output gap is connected with unemployment. Virtually during the entire period after 2000, which is usually erroneously labelled as "real transition", with the exception of the last two years, the rebound in employment has typically lagged compared to the rebound in GDP. Jobless recovery made the poor macroeconomic performance caused by the output gap even worse.

The second fault line is connected with the so-called "non-arm's-length" system, the absence of transparency and enforceability of the contracts through the legal system. The contact between the arm's length system and the non-arm's length system creates fragility in the domestic system. When banks from the arm's length system enter the non-arm's length setting to finance investments, they hedge the risks by doing three things at once. Firstly, by releasing mainly short-term loans so that they can pull their money out on short notice. Secondly, by denominating payments in hard currency so that their claims cannot be reduced by inflation and/or a currency depreciation. Thirdly, they predominantly lend through the local banks so that if these are not able to repay their debt, the government will be forced to support its banks to avoid a financial meltdown. By doing this, foreign investors secure themselves by getting an implicit government guarantee. With such a risk hedging, foreign banks in Serbia have little incentive to adequately screen the quality of projects financed. On the other hand, domestic banks which are managed by the government that vouches for them, have little ability to exercise adequate evaluation, especially when borrowers are climbing the ladder of cutting-edge technologies and/or investing in capital-intensive projects.

However, when projects start underperforming, foreign banks are quick to pull their money out. When it happens, the government has to go hat in hand to the multilateral financial organizations to ask for loans for structural adjustments. Instead of growth, debt leads to the destruction of growth, indebtedness and geopolitical dependency. Moreover, debt servicing, sooner or later, is connected with austerity, which is a major threat to the political stability of the system.

The third major hidden fracture of the system is connected with the dominance of politocratic mindset over the technocratic mindset in the governance of state-owned companies. The partocracy sector (state-owned companies in the network technologies business and natural monopolies, commercial state-owned companies in restructuring, public utilities and privatized companies with the government as a minority shareholder) is oversized. It dominates in assets and net equity. It is a true burden for the economy. Financial losses and profits lost due to mismanagement are triggering budget deficits and are passed on to public debt.

Buying time and gradualism in politics, as well as misconceptions in the reform framework are the true roots of transitionism. As a consequence, an out-of-tune economy runs the transitional output gap. Income level in Serbia is significantly lower than in the CEE economies. Furthermore, it is not converging with those in the EU, and there is still a long way to go before one can talk of parity. To achieve income convergence with the EU, Serbia needs to attain a compound average growth rate of 6% before 2030. Regardless of the agility of Serbia's government and its pushing forward with optimistic tenets, this achievement in the new context is almost unfeasible. Growth which is below the rate required for income convergence could be a cause of delay in integration with the EU and, perhaps, the trigger of strong political polarization and the crisis of political legitimacy.

After political changes in 2000, Serbia intensified its escape from a standstill in the geopolitical situation and clearly committed itself to the EU path. Every government, regardless of its political coloration, consistently declared to be doing everything in its power to help speed this journey up.

Accession process is a demanding roadmap, particularly from the economic perspective. Over the last period, the dominance of geopolitical tenets in Serbia's accession to the EU is quite visible (regional cooperation and relationship with the Russian Federation). Primarily, the accession process is being placed in the context of the Western Balkan cooperation. Serbia's commitment to the economic integration and regional cooperation does not rest on any dogma. It is a pragmatic expression of constructive realism to secure its rightful place in the EU as a country with a significant delay in economic transition. The neighboring countries are going to be the most decisive factor in this stage of Serbia's accession to the EU, particularly in a time when threats of terrorism and violent non-state actors are changing the global security landscape. Moreover, this is the way for promoting many initiatives with the aim to avoid encapsulation of the Kosovo issue.

The EU is a moving target for Serbia. In addition to the crisis of political legitimacy inspired by non-economic events such as the refugee influx and terrorism, growing popularity of anti-establishment politicians and concepts and confusion about soft Brexit, the list of economic challenges the EU is facing today is a long one. Fiscal deficits, growing indebtedness, rising income inequality, high unemployment rate, divergent approaches to rethinking the financial deepening, investment shortfall, particularly in real economy and technology development, growing regulatory costs inspired by climate changes and green economy are top challenges.

The EU is at a tipping point because the neo-liberal conceptual platform fundaments favoring open and globally integrated market economy are being strongly challenged by the reality. Globalization produces two major effects in the EU. Firstly, the current account problem due to movement of goods (imports) and capital (outflows) triggers cheaper import and reduced domestic production due to outsourcing and/or downsizing. Secondly, economic immigration as the consequence of free movement of people triggers wage decrease of the native population, and exerts a growing fiscal pressure on the welfare state. In the global economy, the EU participates with 50% in social spending, while its participation is under-proportional in the share of population (7%) and GDP (25%).

There are two manifestations in the EU the trade-off between globalization and democracy: populism (or nativism) and plutocracy. Populism tries to preserve core democratic values while reducing exposure to economic consequences of globalization. Plutocracy tries to preserve globalization, particularly in case of financial markets, while sacrificing core elements of democratic capitalism by ignoring interests of the middle class regarding employment and income distribution. In the latter case, it undermines political democracy because rich people dictate the political agenda, finance politicians who protect their interests and lobby to make sure that the laws are passed in their favor. Such a political system remains democratic in its form (freedom of speech, the right of association and free election). However, with about 30,000 lobby groups in Brussels, it is plutocratic in essence.

The EU and the US reactions to the Great Recession addressed in different ways the problem of the trade-off between globalization and democracy. In the EU, nationalism dominates over plutocracy. In the US, the situation is a somewhat the opposite, although there is great uncertainty over the Trump effect in the post-election period.

Skepticism about globalization is growing dramatically after the intensification of terrorism, Brexit and the Trump effect. The EU is not broken, but it is in serious problems because certain social groups and countries in general feel like they are not benefiting from the integration any more.

Under such circumstances, it is not surprising that there are standpoints inside the EU suggesting that globalization, particularly political, is not a part of the solution but a part of the problem, which makes the said challenges even worse, and even that globalization is the primary cause of all economic problems or, at least, some serious ones, particularly when observed through the lens of the claim that modern EU is a "museum of imaginations". Those voices advocate a pause in the momentum for the EU enlargement, or even rolling it back. This is not an ideological battle between Left and Right in Europe, but between the deeply rooted intellectual platform favoring open society and integration (continuation of globalization) and the short-term pragmatism favoring a closed society and nativism (deglobalization).

If the era when globalization eventually becomes replaced by deglobalization, serious questions arise for Serbia. Given the echo effect of global economic turbulence since 2008, which is identified by the still sluggish growth in the EU and sharp slowdown in many large emerging economies in Asia, questions have arisen as to whether the convergence achieved by the majority of emerging market economies was an aberration and, consequently, whether a small and open late developer such as Serbia is destined to be a permanent hostage of the middle-income trap? And, most importantly, because this time the slowdown is primarily inspired by external reasons: Can Serbia's economy once again escape the stop-and-go conundrum?

We hope that the EU will survive. In that case, Serbia would have a chance to join the EU, because a more harmonious EU will require greater balance not only between North and East, but also between the quickly emerging CEE economies and slow-growing and even stagnant economies in the Western Balkans. Regardless of how long Serbia is to wait for political integration, compatibility of infrastructure (both physical and conceptual) and institutional setting with the EU, as well as rebooting the economy through structural reforms are the most important targets.

If succession is to end with success, a fine balance in the relationship between the EU and Serbia must be struck regarding three issues: growth in Serbia (the growth rate and character of growth), migration from Serbia to the EU and environmental sustainability in the EU. From the perspective of income inequality annulation, development of a poor country such as Serbia and migration of young educated people to other countries are the same thing. Poor people become richer, either in their own country or somewhere else. From Serbia's perspective, there is no equivalency. In addition to this, in the era of global warning, the abovementioned tenet to increase people's income in their home country needs to be balanced by making sure that reindustrialization is ecologically sustainable.

Where is Serbia now?

Geopolitical crisis in the 1990s and misconceptions and overestimations in strategy of transition and economic policy platform after 2000 impacted the deindustrialization [4, p.293]. In the 1990-2010 period, industrial production dropped by 60% and the share of industrial production in GDP decreased from 30% to 15%. An economy which is actually in the preindustrial stage spends more than it produces. The general effect of the existing fractures in the system is a continuous insolvency threat. The latest near-death experience Serbia's economy underwent was in 2014, when the Ministry of Finance calculated that there were only 87 days before the country would default its debt. To escape the default, the usual action is to increase the debt. Raising the debt as a consequence of political pragmatism is not economically sustainable. Furthermore, it is neither ethical to sacrifice the future of new generations and to constantly monetize the erroneous doings of the present one.

However, the reforms' achievements in the last four years have shifted Serbia toward a strategic inflection point, from recession to recovery. As D. Vujović [21] pointed out, the policy of the so-called "expansionary austerity", as a conceptual platform for macro-management reforms in Serbia with the purpose to impose hard budget constraints without penalizing investments, delivered results. Hard budget constraint is a basic proposition in the hard macroeconomic policy regime.

Macroeconomic fact sheet for the period 2013-3Q 2016 is presented in Table 1. Trend analysis shows, first and foremost, that fiscal consolidation is nearly completed. In 3Q 2016 Serbia achieved fiscal balance. Fiscal deficit at the end of the year was 2.0%, which was twice less than in 2015. Fiscal deficit was decreased due to austerity measures, enhanced tax collection (tax revenue growth y/y was 7%), and costs reduction in utilities and other companies from the state-owned portfolio. For example, in the City of Belgrade, after implementation of crisis management measures during the last two years, public utilities are now operating without subsidies. Also, liquidity improvement is significant in state-owned companies operating in strategic sectors (energetics, telecommunication, gas, military). Fiscal discipline is the most important achievement of such policy, because fiscal imbalance always jeopardizes growth prospects.

Growth in the positive territory (2.6%), after three successive recessions after the 2008-global economic crisis is also a respectable macro-management achievement indicating a turnaround. The main drivers of growth, on the demand side, ware investment and export, while there were also smaller contributions of private and public consumption. On the supply side, growth was generated

Table 1: Macroeconomic indicators, 2013-3Q 2016

Indicator/Year	2013	2014	2015	3Q 2016
Budget deficit (%GDP)	-5.2	-6.3	-2.8	0
Real GDP growth (in %)	2.6	-1.8	0.8	2.6
CPI (in %)	2.2	1.7	1.5	0.6
Unemployment (in %)	22.1	19.2	17.7	13.8*
Current account (%GDP)	-6.1	-6.0	-4.7	-3.4
Public debt (%GDP)	59.6	70.4	74.6	70.8
External debt (%GDP)	74.8	77.1	78.3	76.0
FDI net, (mill. €)	1,298	1,236	1,800	1,532
FX rate	113.14	117.31	120.73	123.29

* Since the official unemployment rate of the Statistical Office of the Republic of Serbia have provoked an ongoing debate on its reliability and accurateness, the National bank of Serbia kept the figure from 2Q, while the Ministry of Finance gave the average figure for all three quarters (16%).
Source: National Bank of Serbia, Ministry of Finance of the Republic of Serbia, Statistical Office of the Republic of Serbia.

predominantly by manufacturing, infrastructure and infrastructure-related businesses, construction, agriculture and food processing.

Price stability is maintained in both components, core inflation and consumer price inflation (CPI). For example, the CPI y/y was 0.6%.

The FX rate is stable, and after years of appreciation it is gradually depreciating, which is expected to produce a further positive impact on the current account.

Public debt is shrinking, and in the 3Q 2016 it was on the level of 70.8% of GDP. Debt reduction is symbolic, but it is a step in the right direction.

Last year's improvements in macroeconomic fundamentals are followed by related performance improvements.

Unemployment is still high (13.8% of the ILO rate), but in the positive trend, particularly in the segment of youth unemployment, which is significantly reduced and is now at the level of 28.5%. Investment ratio is 4.0%. Share of export in GDP is increasing and it now amounts to 42.2%. In the first three quarters of 2016, export grew by 10%, while import was raised by 3%. External trade is almost entirely levelled with Europe (93%). Business climate is in the process of improvement, too. The World Bank has announced some improvements in the business climate (a nine-positions advancement in rank in the Ease of Doing Business list) and the World Economic Forum declared a certain improvement in the global competitiveness index (by 4 positions).

Another factor of a country's credibility is its credit rating. The City of Belgrade recently received Moody's credit rating B1/tendency positive. It is very important, because capital's contribution to the country's GDP is almost 40%. The same rating agency awarded Serbia with the exact same credit rating, which confirms the reasonable level of safety for global investors. Standard and Poor's and Fitch rating agencies changed their outlook from BB-tendency "negative" to BB- tendency "stable".

Recent successes of expansionary austerity policy could mask the deeply rooted fractures in the system.

Paradoxically, people's aspirations and expectations, particularly from groups not fully relevant for economic

Table 2: Vulnerability indicators, 3Q 2016

Indicators	Value	Reference value	Type of vulnerability
Transitional output gap	25.0%	0%	OPERATIONAL
Okun index (inflation + unemployment)	14.4%	<12%	
Gini coefficient	38.2%	<30%	
Macro deficits			
• Current account	3.4%	<5%	
• Consolidated budget deficit	2.9%	<3%	
Dependency ratio	1.1	>2	
Youth unemployment	28.5%	<20%	
Indebtedness			FINANCIAL
• Public debt/GDP	70.8%	<45%	
• External debt/GDP	76.0%	<90%	
• External debt/Export	153.4%	<220%	
Non-performing loans	19.5%	<10%	
Credit rating			
• S&P's	BB-/stable	ranking > BB+	
• Fitch	BB-/stable	ranking > BB+	
• Moody's	B1/positive	ranking > Ba1	
Export (goods)/GDP	42.2%	>50%	COMPETITIVE
Currency fluctuation (2015/2014)*			
• Nominal depreciation	2.53%	<5%	
• Real depreciation	2.54%	<0%	
Global Competitiveness Index	90 out of 138	65- CEE average	
Ease of Doing Business	47 out of 190	60- CEE average	

* September 2016
Source: National Bank of Serbia, Ministry of Finance of the Republic of Serbia, Statistical Office of the Republic of Serbia.

recovery such as pensioners and employees in the public sector, have in the meantime been rising faster than the real growth.

Vulnerability indicators for 3Q 2016 presented in Table 2 show a dual nature of Serbia's economic reality, the shining upside and the dangerous inside. Despite positive trends in macroeconomic performances, there are still many weak points and many reasons for concern.

Transitional output gap is still wide (25%). The Okun index (14.4%) is not in line with standards (<12%). Dependency ratio, on a very low level (1.1), still threatens the stability of the pension fund and, hence, the entire fiscal system. Despite notable official decline and some controversy about the level of unemployment, [15] and [16] vs. [2], the unemployment is still high.

Income inequality is maybe the most important indicator of the vulnerability of the system. According to [10], the Gini coefficient of disposable income (income after taxes and transfers) is 38.2%. This is the highest value in the Europe. For example, in the EU, the average value of Gini coefficient is 31%. The situation can only go from bad to worse since the natural demographic increase has not seen positive figures for many years and currently stands at – 5.3‰. With these figures, it would be overly unrealistic to assume that the inflection point could appear even in the longer term. In such an "old" country (average 42.2 years), youth unemployment (28.5%) is particular reason for concern if we know that the movement barriers are being lowered and the risk of brain drain threatens to become a major obstacle for future growth. When "citizenship rent" in terms of B. Milanovic [12] does not exists, departure of young well-educated people will increase the demographic risk and jeopardize the recovery prospects.

Despite the income gap *vis-à-vis* the developed countries, inequality between the rich and poor in Serbia which originated during transition is on the rise. Punitive taxation of the rich to achieve a more equitable distribution of income could be an alternative. However, effects of such a policy are not powerful enough because Serbia has a thin crust of the rich. Also, a smaller emphasis on redistribution would satisfy those who believe that high taxes have negative effects on growth. Moreover, implementation of such policy could be even counterproductive in a way that it could demoralize poor people with entrepreneurial agility in their intention to become rich. The situation concerning the income gap has been improving over the last four years, but wages generally do not increase *pari-passu* with growth due to austerity measures.

Although growth has been in the positive territory during last two years, it is actually the crawling growth that indicates that the economy is too sluggish for sustainability of employment. To cut it short, the economy is impotent. In 2016, after two successive years of positive growth, Serbia only recovered its GDP level from 2008. Public and external debt are decreasing, but they are still at a high level in comparison with the relatively low level of economic activity. The level of the FDI is volatile and not at a level that is high enough to foster a more dynamic economic growth. Also, stability of the financial system is still in danger because the level of non-performing loans (19.5%) did not drop fast enough compared to the previous year (21%). Progress in the share of export in GDP (42.2%) is evident but it is below the sustainability threshold of 50%.

Small improvement in investment ranking announced by the big international credit rating agencies means that the economy needs to pay lower interest rates for its debt. It is the lead indicator of the credibility of the government and attractiveness of the economy from global investors' perspective. Nevertheless, we must be realistic and know that the current investment ranking is only one step away from the speculative grade.

The FX rate is stable and slightly depressed, but this is orchestrated by open-market operations of the central bank. Such behavior is very expensive and leads to another paradox such as "the hard currency in a weak economy", as well as to crowding out the corporate sector from debt financing.

Inadequate level of financialization is another factor of vulnerability. The share of debt in GDP (56.5%) in Serbia is below the safety level (80-100%), which indicates the counterproductive character of capital markets. Also, the level of financialization is significantly below the comparative level in the global economy and Europe. Yet, from Table 3 we can draw other valuable conclusions. It is expected for the capital markets to be less worth than the debt market, much less when compared to total bank assets. However, in Serbia, market capitalization accounts for 10% of GDP, compared to 83% and 75% of GDP in the world and Europe, respectively. Too thin for the country that hopes to achieve above-average rates of growth. The dangerous outcome is that, in an economy with barely breathing capital markets, the financial system becomes bank-centric and the economy can only pray that the cost of capital which is elevated for investment financing would be fair and economically acceptable. Something that was so far hardly seen in Serbia. To put words in numbers, when comparing crude ratios, the disproportion becomes obvious at first glance. It is virtually four times larger in Serbia than in the global economy, and more than twice larger in comparison to Europe. In a country with a significant level of household savings (21% of GDP), it is yet another contradiction of the system.

No doubt, the trends are good, but the macroeconomic performance improvement is not good enough. In Serbia's economic body there are many bleeding points, primarily subsidy releases to the "500+ list" companies, budget support to the pension fund as a consequence of the pay-as-you-go system, etc. At the same time, the economy desperately needs new investments because it is still impotent and without adequate earning power, as well as without density of relevant players to provide necessary funds not only for sustainable development, but also for a normal functioning of the state.

Development is more than growth. Development is a prerequisite for sustainability and it is synonymous with improvements in people's well-being. Right now, policymakers are looking for the answers to two key questions. Firstly, will fiscal consolidation in 2016 be sustainable? Secondly, will this year's growth be sufficient for sustainable employment?

Overcoming the structural crisis requires a multipronged reform agenda with three groups of activities: a. quick annulation of the past failures, b. implementation of the new policy framework in accordance with the paradigm change in theory and policy, as well as with the new normality, and c. investment in structural changes in accordance with the megatrends.

If Serbia intends to accelerate its growth, it must be capable to define adequate solutions for all the mentioned activities. A relatively easy way to do it is the emancipation of state-owned companies operating in the strategic sectors (natural monopolies, network technologies, military etc.). However, this requires two things at once: smart investment and full implementation of corporate governance. For the loss-makers in the commercial sector of the state-owned portfolio, many renowned economists are advocating bankruptcy as a solution. A soft budget constraint on microeconomic level jeopardizes the hard budget constraint on the macroeconomic level.

Concerning the annulation of certain failures from the past, particularly in the segment of restructuring the state-owned companies, we have observed some causes for optimism. This is an extremely sensitive political problem because rightsizing is connected with job cuts and the rising pressure on budget (voluntary leave program). The fact that after successful privatization of *JAT* (airline) and *Železara Smederevo* (steel plant), the state-owned giants in the commercial sector such as *Galenika* (pharmacy), *Petrohemija* (petrochemical industry), *Resavica* (mining) and *RTB Bor* (mining and smelting combine) are in the preparation stage for restructuring is encouraging. But there is a plenty of work to be done on restructuring (including termination) the loss-making state-owned

Table 3: Financialization benchmark: Serbia vs world (and Europe)

Y: 2013	GDP (USD Bln)	Stock market capitalization (USD Bln) (1)	Debt market (USD Bln) (2)	Bank Assets (USD Bln) (3)	Debt as a % of GDP	Debt + Bank Assets (% of GDP) (2+3)/GDP	Financial sector (% of GDP) (1+2+3)/GDP	Crude Ratio %(2+3)/1
World	75.500	62.600	97.300	126.700	128.87%	296.69%	379.60%	357.83%
Europe	16.700	12.600	30.000	48.700	179.64%	471.26%	546.71%	624.60%
Serbia	46	5	26	46	56.52%	156.52%	167.39%	1440.00%

Source: National Bank of Serbia and Belex.

commercial enterprises from the "500+ list". Successful restructuring of these companies will relieve the state budget by the amounts of subsidies and increase room for larger investments in infrastructure.

What can Serbia learn from previous failures?

The outcomes of the reforms will be dramatically worse if the fractures from the past are not bridged. By doing this, it is first important to specify the list of the main fault lines. And, most importantly, to identify what we can learn from them.

There are four obvious failures we can identify from the previous discussion on Serbia's macroeconomic fact sheet which need to be resolved.

1. Abandoning the geopolitical stuck-in-the-middle position
2. Definite withdrawal from the populist economic policy regime
3. Adequate list of economic policy tenets
4. Restructuring the companies from the state-owned portfolio

1. Abandoning the geopolitical stuck-in-the-middle position. After the fall of the Berlin Wall, political leadership in Serbia did not realize that the driving idea behind globalization is free-market capitalism (political democracy + market economy). An additional idea in the former socialist states from the CEE, the Trans-Atlantic integration, was geopolitical in nature. Misunderstanding these realities was the trigger of the breakup of Yugoslavia as the umbrella state of Serbia, and of its side effects such as the geopolitical crisis, destruction of the economy, demographic risk increase and significant delay in economic transition. It was the most dangerous period Serbia has ever experienced. In the meantime, other CEE countries, including two former Yugoslav republics, have enjoyed benefits of proper positioning *vis-à-vis the* new reality. Now they are recording better performances and they are more capable to struggle with the new normality and megatrends.

The American exceptionalism or the global economy domination by one superpower did not last long. Now it is obvious that the emerging global arena will be multipolar. Today, the US remains a leading economic power, but this time as a leader in decrease not only due to some inside regression tendencies, but also because of the rise of other powers. The basic values agreed upon for the world economy to flourish can no longer be based on the Western value system and concepts alone. The future world will not only be multipolar in terms of politics, but also multi-conceptual in terms of growth model and economic policy platform. Last but not least, all these changes lead to ideological and conceptual discourse. Instead of a neo-liberal blueprint, the new normality is the existence of many hybrid capitalist systems.

In the emerging world of multipolar geopolitical and conceptual regime and interconnected national economies, the ultimate goal is again growth, but this time growth which is sustainable and inclusive toward the people, as well as toward nature. Despite the omnipresent crisis in the EU inspired by financial meltdown, Brexit, policy on the refugees and the results of the last US election, there is a legitimate reason for hope that integration inside the EU and cooperation with the rest of the world will ultimately prevail.

A microscopic economy such as Serbia must understand the new geopolitical reality and position itself toward it. In today's world, complementarity between economic systems is critical. However, connectivity is crucial. Namely, it is more important to whom you are connected than who you are. Europe should be a priority for Serbia, at least because Serbia is geographically a part of it. Also, the EU is its largest trade partner. Nevertheless, inclusiveness toward the rising economic powers also makes sense.

2. Definite withdrawal from the populist economic policy regime. Absence of discipline to spend and borrow prudently when running large trade and budget deficits is a major indicator of populist economic policy (or soft budget constraint). It is a risky behavior to expand domestic spending rapidly through foreign debt financing, whether the expansion is through consumption or investment. In Serbia's recent history, including the period after political changes in 2000, there were three major drivers of soft budget constraint policy. Firstly, the Government spending through pension increase and wage increase in state-owned companies empowered by proceeds from privatization. Secondly, credit expansion (primarily, cash loans and mortgages) which allowed people the possibilities for consumption and investment that their small income would otherwise not support. Use of loan as a populist palliative confirms that populism and loan are familiar bedfellows. Thirdly, loan guarantee offerings and subsidies release to loss-making state-owned enterprises, as well as favored local governments with the argument "too politically important to fail" is a manifestation of populistic economic policy, too.

Instead of controlling its spending, a populist government that has exhausted its ability to borrow domestically turns to foreign creditors to finance its growing debt. Trade deficit is the reason why demand for hard currency exceeds supply. Inspired by inflation control, the National Bank of Serbia (NBS) comes into play to defend the national currency in circumstances of high current account deficit by offering hard currencies from foreign exchange reserves. This policy is a primary reason why foreign exchange reserves are constantly being depleted.

3. Adequate list of ultimate economic policy tenets. Inadequate list of policy tenets is a serious fault line. After the year 2000, architects of transition in Serbia were explicitly guided by the neo-liberal doctrine. Privatization, deregulation and liberalization were the main pillars of such policy framework. Inflation targeting was the key policy tool in that wisdom.

Until 2013, primary goals of the economic policy and structural reforms were inflation (low and stable) and capital market development. In both cases, policymakers regularly missed the proclaimed targets. With the exception of the last two years, in the entire period, neither the target levels of inflation were reached, nor was the inflation corridor respected. As far as development of capital market is concerned, it was a total disaster. Namely, after privatization of the commercial part of real economy and almost the entire financial sector, capital market is not only thin, but also in retardation.

It is easy to be cynical about political motives, but hard to establish intentions, especially when the intent to increase inflationary pressure is something that the policymakers wish to deny. As we argued repeatedly in the previous articles [6] and [7], using the income from privatization was a Machiavellian plan to assuage anxious voters with salary and pension increase, as well the greedy bankers with the high yield.

The NBS bears certain responsibility for some experimental policies which are not neutral for different sectors of the economy. Some sectors were impacted in a positive, others in a negative way. In the middle run, the financial sector benefited, corporate sector suffered. Also, the NBS is responsible for some misconceptions. Typical example is the treatment of proceeds from privatization as a form of export, rather than divestment. It triggers an increase in money supply, artificially creates inflation pressure and leaves room for restrictive monetary policy measures, an outcome that unequivocally acts against the corporate sector. As a consequence, monetary policy concentrated on inflation actually influenced inflation through its own mistakes. Moreover, it led to an increase of the cost of capital and to a real appreciation of the domestic currency.

Paradoxically, maintaining the FX rate stable by selling currency reserves precisely to the buyers of securities that the NBS had issued to sterilize the liquidity surplus, proceeds from privatization ended up, via foreign banks, outside of the domestic monetary system. Costs of protecting the FX rate to keep the inflation under control approached the level of the FDI. Paradoxical as it is, such policy strengthened another contradiction, "strong currency in a weak economy". High cost of capital due to monetary policy exclusively guided by inflation (low and stable), as well as crowding out the corporate sector due to debt financing were the main causes of their low or even negative profitability.

Last but not least, strong departure of prices of different factors of production, including energy, from fundamentals is another indicator that deep structural imbalances still exist despite liberalization.

4. Restructuring the companies from the state-owned portfolio. If Serbia intends to continue its growth, it must be capable to catch up quickly with new investment opportunities. A relatively straightforward way to do this is the emancipation of state-owned companies in strategic sectors (natural monopolies, network technologies, military etc.).

This requires two things at once: smart investment and full implementation of corporate governance. However, intensification of investments without restructuring (rightsizing the assets, capital and number of employees) is a policy of "saddling a dead horse". The problem, of course, is not with the implementation of modern tools, but with professionalization of business management and corporate governance instead of appointment of political party nomenclature. For loss-makers in the commercial sector in the state-owned portfolio, many renowned economists are advocating bankruptcy as a solution. Soft budget constraint on microeconomic level jeopardizes hard budget constraint on a macroeconomic level.

Without state sector restructuring, public debt is becoming the tail wagging the dog.

The neo-liberal conceptual framework has been discredited by its inability to produce balanced and inclusive growth, even in high-income economies with developed capital markets and well-organized institutions. Replacing the old paradigm of value maximization economic agent with perfect information requires an important economic event to reveal the discrepancy between what the paradigm teaches us and how the real world works. This is precisely what global financial meltdown in 2008 did. The new paradigm that is being created from the new structural economics [18] and [20] will take some time to impose itself. However, once we start seeing economics through a new lens, we will not be able to go back to the old ways of thinking.

In the new policy framework, instead of inflation (low and stable), a more relevant tenet is going to be the output gap (low and stable). In the economic policy (and structural reforms), development of tradable sectors is a more relevant tenet than capital market development. In addition to this, to boost investment, the development of the arm's length financial system must be on the radar of the reformers.

The new growth model, with the focus on tradable sectors, must respect the microeconomic (or business) perspective, while not ignoring the macroeconomic one. Industrial policies must support expansion of tradable sectors. Cost leadership in sectors with comparative advantage and high-end products in sectors with competitive advantage are the ways to substitute import and expand export and, by doing that, to eliminate the solvency problem due to double macro deficits. In the new context, the government could not escape the responsibility in selecting tradable sectors and setting up adequate policy measures. An agile government may need to generate new core capabilities and invest in them to support important, forward-looking strategic sectors considering the dynamic feedback loops between them.

Development of qualified and credible labor force through retraining the workforce and creating skills a modern economy needs, including technological entrepreneurship, must be in the focus of the reforms, too. This also requires reforms in the education system aimed at lifelong learning. There is also space for improvement in research and development. The government invests about EUR 100 million per year in research and development projects which are not fully in line with economic needs. In a country with such a level of debt, the PPP could be one of the feasible solutions. Accession to the EU technological platforms also makes sense [11]. Redefinition of the project proposals selection is an issue that matters. Last but not least, health care has one more important component, basic human capital.

How to harmonize the previous requirements? A systemic approach is needed if the economy intends to escape a long and deep structural crisis. A model of growth based on tradable sectors' expansion and heterodox policy framework constitutes an adequate conceptual platform for meeting the abovementioned requirements. It brings in a new approach and tools for addressing and effectively solving failures from the past and for quickly responding to the challenges from the future.

New normality in the global economy

Today's economy and the world we live in are evolving at a faster pace than ever before. Also, changes are getting deeper, but not always in a good direction. In such an ambiguous time of hypercompetition for everything relevant, there are at least three certainties. Firstly, strategy for repositioning *vis-à-vis* the changing environment needs to be adapted constantly. Secondly, the players of the competitive game at some point of time have to be agile if they plan not only to prosper but also to survive. Thirdly, in the process of repositioning toward leading trends, failures continuously happen.

The purpose of the strategy is recognizing the impeding change and capitalizing on it. The trick is to be sensitive enough, particularly toward the "weak signals" concerning the "big things", and to reconsider the ongoing strategy. The future is not a far-off point. It has to be considered that it arrives day-by-day. Attention to weak signals gives rise to nonlinear thinking which helps an organization, from company to national economy, to predict and execute various plausible futures. For a national economy, early evidence of emerging trends in (geo)politics, technology, demography, economic policy platform, environment, culture, etc. are weak signals. In the case of Serbia, picking up the weak signals enables proper geopolitical repositioning, speeding up the transition, catching up with emerging trends and acceleration of future growth through intelligent investments.

Because the clock speed of changes is becoming much faster than ever before, companies must be more agile. Agility is a prerequisite for responsiveness which begins with a clear understanding of the circumstances that favor or threaten an organization, or both. The future is mostly unpredictable because it is shaped by nonlinear changes and unlimited number of chance events which are sometimes called "strategic inflection points".

A quest for solutions demands creativity. However, the high risk-high return approach is connected with intensive failures. Creativity means the right to fail. Nevertheless, democratization of fear could be one of the purposes of the new mindset. People must be suitably prepared for changes, because when we live in an exponential time we must think exponentially.

Two normalities are observable in today's world:

1. Deglobalization
2. Industrial revolution 4.0.

1. Deglobalization. Recession and particularly anti-recession measures (primarily quantitative easing and negative interest rate policy) actually discredited the idea of universality of the growth model, economic policy platform and global integration.

The model that does not provide global growth exhibits certain deviations from the fundamentals. One of the most important deviations is deglobalization. The key reason for the shift toward deglobalization derives from the balance of economic power change. From 1960 to 2015, the growth rate in the developing countries averaged 4.7%, while in the developed economies the growth rate during the same period was 3.3%. As a consequence, the share of developing economies in global GDP rose from 34% in 1980 to 55% in 2015 [9, p. 279]. Search for new sources of values in the post-crisis period in the developed world that requires impact on other countries is a new phenomenon triggering dramatic changes in geopolitics.

Paradoxical as it is, the new trend toward deglobalization is initiated by the main promoter of globalization, the political elite from the West. A policy based on a plausible, but flawed theory which in practice favors the financial elite is a classic example of the distorted thinking caused by the imbalance of power.

Recession in developed countries, followed by a slowdown of emerging economies, provoked by the financial meltdown starting from the developed world, is a direct consequence of misconceptions of the neo-liberal growth model and the related economic policy regime. A growth model based on financialization and economic policy regime which relies on inflation targeting led to misallocation of resources, speculative bubbles (not only in the financial sector), slowdown and recession. Combination of deregulation, particularly in capital markets, privatization, liberalization and inflation targeting did not work well, particularly when it comes to the issue of balanced growth. Growth in the financial sector which is not aligned with growth in the real economy leads to financialization of the economy, perhaps a great pathology of the system. According to [13, p. 74], financialization is the increase in the influence of financial markets, institutions and elites over both the economy and other institutions of society, including the government.

Each economic crisis imposes costs on the government in the form of lost tax revenues and fiscal imbalance due to increased spending. Paradoxically, the largest financial intermediaries who were labelled as culprits for the crisis grew rapidly before the crisis, and got even bigger in the post-crisis period. The fact that after the crisis the share in GDP and profit of the financial sector had grown despite the aftereffects of the crisis confirms that the players in the financial markets are both causes and beneficiaries of the financialization.

The fact that total financial assets are ten times the value of the global output confirms that the global economy is awash with capital. The leap in size and profits has also increased the financial sector's influence on governments, particularly on the ministries of finance and the central bank. A typical example of experimental policy push in the monetary sphere is the negative interest rate policy. Owing to such policy, the cost of capital is going to be insignificant. A dangerous analogy would be a combination of abundant and cheap fast food, which leads to the creation of two pathologies in human society, an epidemic in obesity and diabetes.

There are three major ways in which financialization undermines national economy. Firstly, misallocation of resources. National economy is pumping key resources, including human capital, into the financial sector, distancing them from real economy and the public sector. Secondly, a larger and more complex financial sector may be more exposed to volatilities, including crashes. Thirdly, as financialization increases, investments in financial assets tend to crowd out investment in real assets, because capital markets prefer short-term and liquid assets.

A growth model based almost exclusively on services, and predominantly on financial services, is not sustainable, because activities in services are distributive by nature. Rent-seeking is a typical behavior of a distributive mentality which involves trying to make profit by manipulating regulatory policies. Also, a significant share of transactions is zero-sum, instead of positive-sum. When national economy's most productive people transfer from entrepreneurial and public to rent-seeking sectors and from win-win to zero-sum activities, the victim is growth. Namely, in a financialized economy, the financial tail is wagging the economic dog. Dominance of rent-seeking inhibits investments in real assets, as well. Despite the historically low interest rate, corporations in developed economies are sitting on massive amounts of cash and failing to invest in capital expenditure and innovations that might foster growth, advocating yet another serious fracture of the system, high risk aversion. This brings us to the question of how this pattern of behavior is linked to overall economic sluggishness. Most theories of growth are developed at the macroeconomic level. This perspective is good for spotting correlations between capital expenditures and innovation and growth, because the outcome is their impact on growth. Nevertheless, to understand what causes growth, you have to crawl inside the industrial organizations and to form a framework from the ground up to adjust risk appetite to the market opportunities.

Wealth concentration is one of the weakest points of the neo-liberal model of capitalism. Despite global growth, relative income inequality has been on the rise. According to B. Milanovic [12, p. 22], not only have the income gaps between the top and the bottom widened in developed economies, but globalization has also favored those who were already better off. Namely, absolute income gain also exists. Between 1988 and 2008, the period coinciding almost exactly with the years from the beginning of transition in the CEE to the global economic crisis, the global top 1% (which includes about 70 million people) increased its share in global and in local income (in 24 out of 26 countries for which data are available). In this period of the so-called "high globalization", which also coincides with monopolar world order, one half of global plutocrats were American. According to Oxfam [14, p. xiii], almost half of the world's wealth is owned by the global top 1% of the population, and the bottom half owns as much as the richest 85 individuals.

Contrary to expectations, anti-crisis measures which are fully inconsistent with the neo-liberal orthodoxy lead only to the irreversibility of the crisis. Maintaining the status quo in the developed world with an inherited inefficiency of experimental policies was followed by a slowdown of the developing world, and even by deglobalization. The most important cause of deglobalization is the proliferation of economic sanctions as a foreign policy tool. Strengthening ties between trade and geopolitics changes the paradigm in terms of increase of trade and capital flows between emerging super economic blocks, both West-West and East-East, as well as the growing power of state wealth funds and state-sponsored projects, particularly in infrastructure and strategic sectors.

All these changes lead to an ideological discourse. Instead of the neo-liberal blueprint of capitalism during the 1990s, when there was no power to balance them, the new normality is the existence of many versions of a hybrid capitalist system. Now the question is: What are the inevitable components of these systems?

2. Industrial revolution 4.0. The situation with the new industrial revolution is ambivalent, not encouraging, but also challenging. In every development stage of humankind, technology is an enabler, the factor influencing opportunities (inclusive innovation) and threats (disruptive innovation), or both (structural changes). In the Industrial revolution 4.0, information and communication technologies bring about a profound and systemic change. They have the potential to revolutionize everything, including other technological fields. Breakthrough innovations are, actually, the amalgams from digital, physical and biological worlds. Also, today's competition is a struggle between amalgams of products and services. This will require that we master and lead in what might be termed as inclusive innovation (instead of disruptive innovations). Such approach creates double amalgams which are usable, available, affordable and accessible to the entire population.

In the context of the Industrial revolution 4.0, a great many of innovations might be the drivers of disruption, but it is up to us to address them and introduce the changes that are necessary. A number of disruptive innovations are leading to a technology-driven destruction of jobs. Some new technologies will affect jobs in any single category in exactly opposite directions, one creating jobs and other destroying them. We must shape the potential of disruptive innovations by transforming threats into opportunities. To do that, we need a new type of intelligence as combination of contextual, emotional, inspired and physical components [19, pp. 106-114].

There is general recognition that the ICT has the capacity to unleash a new era of industrialization. Without close integration of virtual innovations from the ICT and industrialization (implementation of physical innovations) through investment and the spillover of emerging amalgams across different industries, no national economy in the world has been able to close the development gap between itself and those at the frontier. Innovations in the ICT such as cloud computing and big data have the capacity to become an integral part of the product itself and formation of smart connected products. The phrase "internet of things" (IoT) has risen to reflect the growing power of smart connected products in modern economy.

As a consequence, one of the most important horizontal industrial policies must be aimed at the ICT sector. Spectacular digital transformation of our lives, the way we live, work, think and act due to the advent of mobile internet, automation of knowledge work and cloud technology is already there for us to see. Emergence of a smart physical world due to advances of the IoT, intelligent distribution, nanomaterials and additive manufacturing should be on the radar of policymakers. Also, life science and related industries matter. Last but not least, every national economy must consider the future energy technologies, particularly renewable energy, as well as energy storage.

No national economy escaped the influence of deglobalization and the latest industrial revolution. Living tactically while strategic changes take place is not an adequate response. To position itself and to navigate through the modern world complexities is a fundamental skill for a small, open economy and, what is more, an economy with significant delay in development. In today's world, the key question is not who you are, but to whom you are connected and how.

Megatrends affecting long-term economic prospects

In any stage of humankind development, there was a coexistence of social context and technology. Also, they are the main determinants of the management approach, both macro and micro and, consequently, of the economic development. This is applicable to all national economies, developed and developing, large and small, introvert and extrovert. The impact of social context on economic development is more diversified than the impact of technological change.

According to the partially modified source [9, pp. xxxvi- xxxviii], eight global trends can be isolated in the segment of social determinants of economic development until 2050. The trends are as follows.

1. Globalization of trade and investment. Certain instances of rethinking in the post-crisis period aside, globalization is too strong a force affecting everything ranging from our knowledge, impact of information asymmetries (information arbitrage), division of work, diffusion of innovations, factor income and employment prospects to availability of certain goods and costs of their production. Also, globalization introduces new rules pertaining to inclusivity toward nature, such as limitations on carbon emission or sustainability of growth, e.g. crackdowns in international tax evasion.

There is little doubt that, on the whole, globalization has proven beneficial even if losers in the process were inevitable. Despite certain expressions of deglobalization and slowdown factors, stability of globalization is evident. Continuation of the globalization process would permit a steady growth both for the developed and developing world, and contribute to geopolitical stability. However, global trade is growing slowly due to transition between the old trade world, based on national production and obstacles to trade protecting the producers, and the new trade based on transnational production and obstacles to trade protecting the consumers. For developing economies, integration of the domestic value chain and the global value chain through industrial policy measures is a great challenge.

2. Globalization of finance. Continuation of this trend could act as a positive factor for developed and developing economies, and will create more opportunities, particularly if the arm's length financial system functions well. It also creates many risk stressors, primarily regarding risky debt instruments. Prevention of reoccurrences of the financial crisis requires the reform of global macro-management in terms of monetary, financial and tax systems, as well as of the institutions.

3. Middle class expansion. It is a consequence of sustainable and inclusive economic growth. Economic history teaches us that the emergence of a large middle class is a powerful moving force for economic and social development. Moreover, the existence of a strong middle class adds pressure on politicians to keep their promises, deliver tangible results and be held accountable

4. Demographics. By 2050, the world will have 9.7 billion people, compared to 7.3 billion in 2015. More than one half of the net increase will happen in Africa. Population ageing and workforce shrinking will be observable in all geographies, except in Africa and the Middle East. Divergence in demographic trends and capacity for job creation will pose a challenge for the developed part of the world, far beyond the current level of emigration in the EU. Strictly from the economics perspective, demographic dividend is a strong driver of economic growth. Demographic dividend loss has a negative effect on growth prospects and on social services financing.

5. Urbanization. In Europe, North America and South America of today, 2/3 of the population live in urban areas. Between now and 2050, the pace of urbanization will accelerate in Asia and Africa. It is a powerful driving force for productivity enhancement, economic growth and improvements in standard of living. But this change also requires significant investments in low carbon emission, green economy, transportation, waste management and urban planning, not only because of the crawling growth derived from the last global recession, but also because of the structural change in the relationship between trade and GDP in the recent years toward growing power of domestic markets and import substitution.

6. Competition for finite natural resources. Reserves of natural resources are being depleted because economic growth is connected to the growing consumption thereof. According to one scenario concerning the reference [9], by 2050 people in as many as 84 countries could enjoy living standards equal or better than those in the CEE today. The key question is whether the world could sustain the demand of the resulting four billion, or more, new upper and middle-class members if they choose to replicate the current pattern of consumption of Western consumers, or would people throughout the world agree to move to different lifestyles that would demand far less from Mother Nature.

7. Rise of emerging economies. Two major shifts in economic power are under way, from West to East and from North to South. In the 1980s, the center of gravity of the global output was located between Europe and North America. By 2050, it will lie between India and China. By 2050, three quarters of the global output will be in the emerging economies and over one half of them will be generated in Asia alone. As a consequence, the prospects for convergence, or economic catch-up of Asia with the Western economies, seem strong.

8. Emergence of violent non-state actors. Violent non-state actors are a relatively new phenomenon in the geopolitical landscape. They pose a serious threat to global security and economic development. This may interrupt the process of globalization, economic development and growth. Combating this serious threat requires actions to promote more inclusive growth models in order to raise people's faith in the rule of law and peaceful solutions of conflicting interests.

In the segment of technological change, according to the same source [9, pp. xxxvi-xxxviii], two megatrends can be expected to affect economic development. These are as follows.

9. Technological breakthrough intensification. As usual, the future is primarily driven by paradigm shifts in social context and technology. The origin of paradigm shift in technology fundamentally lies in scientific breakthroughs that took place in the recent or distant past. Advances in science will define the technologies of the future. Many attempts have been made to predict the future of technology, as well as the technology in our future. There is a general conclusion that technology has the potential to reshape humankind both in a positive and negative way.

Today's large scale innovations are changing the economic landscape. In the evolving technologies, new trends and possibilities emerge so quickly that it is sometimes difficult for businesses to keep up. The speed of changes is so high that "you go to bed as an industrial (or analog) company and wake up as a digital company". Technological breakthroughs have the potential to accelerate the pace of movement of the very global productivity frontier. Technological breakthroughs offer prospects for solving many human and societal problems, including quality of life, climate change, energy and food security, leapfrogging by the developing economies to catch up with the best global practices, etc. For this promising progress to occur in reality and to be sustained and inclusive over the longer term, higher priority must be given to education and science. Economic impact of certain crucial innovations from the last industrial revolution is potentially massive, and its effects could be highly disruptive across a wide range of sectors. For example, very low natural gas prices caused by rapid development of shale gas technology have fundamentally transformed the energy sector.

10. Climate change. Rapid progress often comes with greater instability. Global warming is a consequence of rapid industrialization. The average global temperature was steadily on the increase in the 1965-2015 period, rising from 13.85 °C to 14.65 °C. A substantially hotter world brings about significant changes in the global water cycle. It could be a trigger of extreme events such as heat waves, heavy precipitation, crop failure, water shortage, disease increase and geopolitical conflicts. It is the greatest global common threat inspired by uncontrolled implementation of technologies and unsustainable growth models. Its neutralization requires cooperative global efforts because it is in the best interest of all national economies.

Commitments of economists to implementation of green growth and circular economy have a great sense of urgency. Moreover, it is a moral debt that our generation owes to the future ones. Without greater progress and financing to contain global warming, all national economies will remain exposed to the systemic risks deriving from increasing incidence of extreme weather events.

The abovementioned trends are not standalone but interrelated. Sometimes they reinforce, and sometimes offset each other. The net effect of these trends on an individual national economy will vary on a case-to-case basis, it may change overtime and strongly depends on the starting position. All of them require specific attention. A great majority of megatrends, with the exception of climate change and threats from non-state actors, work to the benefit of agile national economies with strong macroeconomic policy regimes and intelligent industrial policies for tradable sectors. However, if not well-managed in the case of poor macroeconomic policy regime and ignorance of demands from tradable sectors, they could also prove to be major headwinds.

Today's geopolitical suit and conceptual framework are rather too tight for growing a body of global economy. However, the abovementioned megatrends will bring about a return to globalization and related issues. In the 20th century, the dominant divide between political systems and the economic policy framework was along the lines of the invisible hand of the market and the visible hand of the state. In the 21st century, the dominant divide is between those economies that have open political systems and economic models and those that are closed. Hypercompetition and leading trends in geopolitics have created a series of hybrid models of capitalism around the world.

This argument could be a strong point for the emergence of a new leitmotif of surviving for a small and open economy with a delay in transition, a paradigm of the multipronged reforms. Such a new leitmotif would be a benefit on both macro and micro level. After annulation of failures from the past, implementation of the heterodox economic policy framework should be regarded as a stretch goal. The key component of this approach is the industrial policy. Industrial policy is a roadmap of how to reboot an impotent economy and prepare it for growth in line with the new normality in the global economy, as well as with megatrends.

New growth model and heterodox policy framework

There are two critical questions for an economy whose transition is inspired by democratic capitalism as a final destination of that journey. Do the fault lines of the neo-liberal growth model and the related economic policy platform which erupted in the 2008 global economic crisis threaten the credibility of that idea? And, more importantly: Is there another way?

The answer to both questions seems to be negative. Hegemony of capitalism as a worldwide socioeconomic system has no realistic alternatives to propose. Economic content of a capitalist system consisting of privately held capital, legally free labor, value creation motive and coordinating role of the state, particularly toward the externalities, nature and technological progress, will be dominant in the global economy for a foreseeable future. Also, the continuation of certain major deviations from fundamentals of capitalism as a reaction to the failures of their neo-liberal version is almost impossible. Precisely, it is not reasonable to assume that deglobalization, in terms of change from integration to localization and from free trade to protectionism will continue in the middle run because it would do away with much stronger motives that globalization is providing.

In the economics theory, since the global financial meltdown in 2008, there have been instances of major rethinking in the orthodox wisdom based on market fundamentalism. The new consensus is that resolving a crisis requires a proactive government, instead of one opting for passive behavior against what the market forces dictate. Moreover, anti-crisis measures confirmed that government interventions of providing lifelines to the economy were the only way to avoid collapse, even in the developed economies with high income and well-functioning capital markets. An additional factor toward the shift to the visible hand of the state is the unquestionable success of national economies that did not follow the neo-liberal doctrine based on the invisible hand of the market dictum. As a consequence, the convergence emerged between the neo-liberal doctrine and structural economics. Instead of the neo-liberal blueprint comprised of a set of rules such as the Washington Consensus, democratic capitalism needs to reinvent a new set of rules.

In the quest for a solution, the pendulum should not be shifted from the extreme institutional proposition that the market is the best regulator to the other, which assumes that the state is the only master. Hegemony of capitalism over alternative models does not mean that only one model exists, the neo-liberal one. Actually, there are many hybrid forms of capitalism. Managed capitalism based on tradable sectors is perhaps the most effective model of capitalism today. It is a feasible solution, particularly for developing countries. As far as economic policy platform is concerned, the reasonable alternative is a heterodox approach which realigns the development model and economic policy platform based on conceptually more complex economic policy approach of new structural economics. Cornerstones of this new wisdom are industrial policies for tradable sectors and automatic stabilizers for core macroeconomic policies (monetary and fiscal).

Is there a way out of the previous way? Serbia simply cannot remain on the same trajectory that it has followed in the past. Continuity would mean divergence from history in the wrong direction, failing to learn lessons from failures and stagnating at its current level, or even falling below its own recent achievements in fiscal balance by getting mired in the middle-income trap. The Government must definitely step out of its comfort zone of soft budget constraint and financing consequences of previous and ongoing failures by increasing the debt. In making a breakthrough, imposing the hard macroeconomic policy regime (fiscal discipline, austerity, rightsizing of the public sector) seems like a first step in the right direction. After significant improvement in 2016, including alignment of revenues and costs, as well as improvement in tax collection, in its future fiscal policy Serbia must implement a revenue-neutral pro-growth tax policy. Also, monetary policy must be pro-growth. The regulatory body must offer new measures for settling the NPLs. Rejecting a fixed and guaranteed annuity allows the financial intermediaries to be much more flexible and not to get stuck in a situation, as it happened in the past.

It is not controversial that annulation of past failures is the first step in the right direction. But what are the next frontiers? Looking forward, there are many other challenges in the future. Firstly, adjustment in the institutional setting by imposing an arm's length financial system as a level playing field compatible with the growth model encouraging new industrialization. Secondly, continuation of investments in infrastructure and infrastructure-related businesses, both physical and conceptual. Serbia is situated between the Middle East and Western Europe, as well as between southern and western parts of the EU. Transportation corridors are a prerequisite for economic corridors. Moreover, investment in infrastructure is the cost of accession to the EU. It adheres to the connectivity agenda and ensures compliance with the EU regulation. Infrastructure financing, including energy, requires new models. State bonds are an attractive type of financing when construction work is a greater cost component of investment, particularly in a country with a solid level of savings. Also, conceptual infrastructure (primarily broadband and e-governance) in the digital age is a significant priority due to its great potential for performance improvement. For example, a 10% growth in broadband infrastructure influences approximately 1% of growth in GDP. Last but not least, industrial policies for tradable sectors are an absolute must. Great priorities are the ICT, organic food production and health tourism. Instead of static macro-management concentrated on inflation control mostly through monetary measures, the new policy framework requires dynamic micro-management concentrated on investment, both in public and private sectors, and well-coordinated with macro-management measures. Output expansion in tradable sectors through industrial policies is a way to do that. The essence of a heterodox economic policy platform is the harmonization of industrial policies and macroeconomic (or core) policies. But this time, industrial policies lead, and macroeconomic policies follow. Namely, the core economic policies lubricate the industrial policies. In the new circumstances, the core policies, primarily monetary policy and tax policy, need to reinvent themselves. Core economic policies must follow the imposed hard policy regime. Automatic stabilizers in the monetary and fiscal spheres should enable the functioning of core policies formulated primarily as a support to tradable sectors. In monetary policy, a stable and real (possibly, a slowly depreciated) FX rate could play the role of automatic stabilizer. As for the fiscal policy, hard budget constraint (both macro and micro) is the key automatic stabilizer. Treating investment income as ordinary income could also be an automatic stabilizer.

In addition to this, horizontal industrial policies matter, particularly in conceptual infrastructure such as digitalization. In the ICT, Serbia has a relatively good set-up. In today's information society, asymmetries of information might lead to asymmetries of power. Cutting-edge technologies in the field of ICT increase inequality between people who understand and control these technologies and the less knowledgeable individuals who are actually passive users that do not understand technologies they are using. Serbia must close the gap in the ICT development if it intends to stay in the race for technological progress in other fields.

According to K. Aiginger [1], there have been attempts to integrate both approaches (vertical and horizontal) that have merited critics and rejections in the past when implemented separately. The suggested approach is marked as a "matrix" approach, where one dimension represents individual sector policy lines, while framework policies define the other dimension. The intersections of the matrix show whether certain policy is important in specific sector and how it should be implemented.

Transitionism in Serbia will be over when aggregate demand and supply achieve balance and when prices of factors of production are in correlation with factor returns. After that, a rise of investment expectations could be anticipated. Harmonization of reform activities also requires alignment with the new normality and megatrends. A credibility test for the heterodox model is its ability to maintain these changes.

Instead of a conclusion: The way forward

In the concluding part of this article, we would like to go over some of the key subjects and messages already addressed. The following is partly a reminder of the main conclusions of the previous analysis, as well as a prediction of the future trends, and partly an agenda for change. The said elements are as follows.

1. Sequenced reforms agenda. Serbia is in a long and deep structural crisis. This crisis has no pause. It must be stopped. Evidence-based strategic audit of Serbia's position reveals a dangerous mix of the stuck-in-the-middle echo effect in geopolitics and structural imbalances in economics. Serbia is a landlocked country with no sincere friends in its immediate surroundings, without significant natural resources endowment and it is deeply stricken with demography risk. After a long period of deindustrialization, economy is almost at a preindustrial stage and out of tune in many aspects of its functioning. Serbia is a late developer with a delay in transition on a path to higher development. Deindustrialization, along with relatively high financialization, is the main contradiction of the system.

Due to transitionism that lasts for more than one quarter of a century, Serbia has lost a significant part of its possible output, demographic dividend, capacity for real-time technological catching up and political influence.

In an inefficient economy, state budget is squeezed due to insufficient contributions from the private sector and public sector on the earnings side, and due to populist economic policy on the expenditures side. The key problems are low economic base due to the output gap and weak economic policy regime. As a consequence, low performance economy burdened with debt is constantly experiencing an insolvency threat.

What lies behind such fault lines? The answer is: inertia from the past. Serbia must reform itself because it needs to survive. No more cash outflows should go wasted. No more brain drains of young educated people in the field of the ICT and other propulsive sectors. The latest improvement of macroeconomic fundamentals is encouraging, but it is also fragile, because many structural imbalances remain unsolved.

Is there a way out of the previous way? Yes, there is. Sequenced reforms agenda should start with transition completion. It requires, at first, transformation of strategic state-owned companies in the field of network technologies and natural monopolies, as well as the initiation of bankruptcy procedures for state-owned loss-makers in the commercial sector (the list "500 + "). Rightsizing the strategic state-owned companies in terms of ownership, capital, assets and employees has been a constant challenge. Emancipation of companies from the state-owned portfolio must be completed without increasing fiscal pressure. After fiscal consolidation, the future fiscal policy must be income-neutral. Monetary policy must be pro-growth. Also, transition completion means institutional setting adjustment in order to provide for the arm's length financial system.

The following step includes continuation of investments in infrastructure and implementation of industrial policies for tradable sectors. In that segment, a priority list of tradable sectors with coherent measures is critical. An absolute must is the ICT. These activities cover different companies, small and large, brownfield and high-tech, environmentally friendly and infrastructure, etc. This step also includes complementary horizontal industrial policies, particularly in education, science and health care, as well as the implementation of automatic stabilizers from the core macroeconomic policies.

2. Tailoring reform concepts and instruments. This paper has the intention to spell out a vision of a growth model and economic policy platform for a more prosperous and harmonious Serbia. However, to achieve such vision, Serbia's economy needs to be much efficient and more resilient than it is today. There are too many non-governmental agencies and think-tanks in Serbia. What is missing are the think-tools. The new rationale for industries based on science excellence and social innovations such as technological entrepreneurship in the form of Belgrade science parks, silicon Novi Sad, life science Niš, health tourism Belgrade, etc. must come from the Government.

To build up the necessary momentum for further changes, Serbia must address the main failures from the past and solve, instead of repeating them. Clear geopolitical positioning is an absolute must. The year 2017 will be a consequential year for Serbia concerning the said issue, because acceleration of accession to the EU is expected. However, 2021, the year forecasted as the end of the so-called "soft Brexit", will not only be a political milestone for the EU as a whole, but also for Serbia.

As far as the vision of the economic system is concerned, Serbia wants a policy framework that would enable efficient, sustainable and inclusive economy which is integrated in the global value chain, with a financial system without excessive risk and outrageous behavior. Today's world is full of hybrid models of capitalism. Serbia's version of managed capitalism, for example, could be based on tradable sectors (both anti-import and export), and infrastructure (both physical and conceptual) fully compatible with the EU could be a reasonable set of tenets to reach. In such a system, without close integration of virtual innovations from the ICT and new industrialization (implementation of innovations from physical technologies and biotechnologies) through investment, as well as through spillover of emerging amalgams across tradable sectors, no national economy has been able to close the development gap between itself and those at the frontiers. Somebody must take the lead. A proactive government is a reasonable choice.

This will be hard to achieve, but it will really be worthwhile. It requires that politicians understand the seeds of failures, the current economic context, the new normality and megatrends. Long-term economic growth is clearly essential for development. However, economic growth which is sustainable and inclusive is not an end in itself, but rather the means to achieve development. True development means improvements in the standard of living, not simply an improvement in the level of output, and includes education, health care and science as fields governed by the horizontal industrial policies.

3. Opportunities that could be capitalized on. The situation in today's environment is not only challenging, but also encouraging. There are two powerful reasons for hope. Firstly, the Industrial revolution 4.0 is continuously offering amalgams of innovative digital technologies and emerging physical and biotechnologies. Technological change is always a potential solution to the evolving challenges. It offers opportunity where accelerating growth and rising the average income has to be accompanied by a decrease in income inequality. Secondly, successful implementation of a heterodox economic policy platform based on a combination of new industrial policies for tradable sectors and strong macroeconomic policy regime while considering automatic stabilizers in core policies in a significant number of developing economies could encourage policymakers to opt for such a platform.

It is not controversial that annulation of past failures is the first step in the proper direction. But, what are the next frontiers? Looking forward, the future holds many other challenges inspired by the new normality and megatrends. The new conceptual framework must be able to take all of this into consideration. We do hope very much that the heterodox framework is a powerful and feasible idea on how to solve quickly the past failures and how to respond to future challenges.

A great majority of megatrends, with the exception of climate change and threats from the non-state actors, work to the benefit of agile national economies with strong economic policy regimes and intelligent industrial policies in tradable sectors. However, if not well-managed in the case of poor macroeconomic policy regime and ignorance of demands from tradable sectors, they could also prove to be major headwinds. Scientification of the economic policy and dissemination of technological entrepreneurship particularly in ICT really matter.

But even if such a policy regime was theoretically possible, and even if we had examples of countries that implemented it, that does not mean it would be implemented easily in an economy approaching to the EU. We must consider that the EU has for years been managed based on entirely different premises, and changing these in Serbia as a country in the process of accession to the EU will be extremely challenging.

Of course, there are no silver bullets. Reforms will require agility in terms of continuous analysis of the context, and sometimes tedious attention to details. We previously discussed a possible economic reform agenda framework. The main concern of the Government should be how to accelerate growth rate which would enable economic catching up with the EU. We firmly believe that in the near term, primary drivers of growth will be those extracted from industrial policies for tradable sectors, even if they progressively converge with the EU in the longer run.

Proper repositioning of Serbia influences not only the tradable sectors, but also infrastructure development and related industries as another priority for investment. Moreover, it is the cost of accession to the EU. Return on investment in this field is not impressive, but it does have an important investment multiplier. The fact that Serbia is a land-rich country produces an impact on investment in agriculture, food processing and waste management. Apart from that, these industries are not particularly profitable and require a certain amount of state subsidies. But they could easily reach anti-import goals.

A major investment challenge is the Industrial revolution 4.0. Serbia has the capacity to use new technologies in many tradable sectors (for example in the ICT, organic food and health tourism). In these industries, the Government must define pragmatic answers under the umbrella of vertical industrial policies for tradable sectors, as well as horizontal industrial policies in education, science and health care. In the future, somebody must take the lead. In the near future, an intelligent government has a key role to play.

Long-term prospects of Serbia's economy are difficult to predict and certainly cannot be taken for granted. But the author of this paper is cautiously optimistic that the vision of a more prosperous Serbia's economy offered here based on the new conceptual framework is both plausible and well-worth striving for. If the heterodox approach is implemented, it will fundamentally transform Serbia's economy and move it away from the path of regression. The related reforms will require a fundamental change in society – the way it lives, the way it grows and the way it makes choices.

In all components of the reforms, we advocate that the Government must not sabotage itself if it intends to make the other side in this interaction play fair. In the implementation of the reforms, the Government needs expert coaching. Reforms are always difficult to "sell" to the public and hence have little appeal to politicians. But without them, the existing fault lines will only deepen. As always, good economics cannot be divorced from good politics. This is why this field is sometimes called "political economy". Also, we have to recognize that institutions in such economy have influence only as long as politics is reasonably well-balanced. Deep imbalances can create a political groundswell that can overcome any constraining institutions. No matter how well-developed the institutions are, the economy will suffer of structural imbalances if politics becomes imbalanced.

The job of a good economist in the new context is to modernize the practice of economic policy by bringing in fresh approaches and tools compatible with the new normalities and megatrends. A good economist must be familiar with the forces and industries that will shape the future of the economy. Geopolitical, cultural and generational context which will give rise to key industries of the future such as robotics, life science, big data, cybersecurity, codification of money and capital markets, weaponization of code and the like, also must be on their radar.

Serbia needs to have a vision of change that is logical and based on evidence, not on theoretical predilections and political emotions. A vision brings light to a country in such a long and deep regression. Without this light, there is no space (or country). In such an illuminated space, politicians have a critical role to play. The role of technocrats is inescapable because promising change is not the same as delivering change. Technocrats can no longer be statistical record keepers who blindly follow the misconceptions and overestimations of politicians. They need to be policy-setters. The essence is the manner in which political leadership effectively distributes power between social groups relevant to the process of change.

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