Contemporary Trends in the Development of Industry in the World and Serbia

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Abstract: The authors offer a view on the current state of industry and contemporary tendencies in its development in Serbia and the world. Particularly, this academic paper analyzes the state of Serbian industry, which collapsed at the beginning of the last decade of the 20th century, after having gone through three waves of industrialization. Serbian economy and industry have not recovered from deindustrialization even after two decades of unsteady development in the current century. Lastly, it presents some possibilities to revitalize the industry and achieve its harmonious development.

Key words: manufacturing, Serbia, transition, crisis, re-industrialization

1. Introduction

After the Fall of the Berlin Wall in 1989 and the end of the Cold War, which were some of the most significant events at the end of the XX century, the countries of Eastern and South-Eastern Europe faced a fundamental problem: how to make a transition from planned economy to a market-based one. They created an ambient in which it would be possible to discuss, without prejudice and ideological burden, the role of the State in economic development. Unfortunately, the mainstream economic thought hampered proper consideration of two fundamentally different economic outlooks: the production-centered and activist-idealistic (Renaissance) tradition and the barter-centered, passivist-materialistic tradition of Smith, Ricardo and neo-classical economics [1, p. 270].

Without pre-made recipes for the development of market institutions and market economy, or in the case of Yugoslavia, its experience since the beginning of the 1950s until the transition seemingly forgotten, the creators of the changes in these countries accepted the guidelines of foreign experts and international financial institutions with the IMF in front. They were based on neo-classical postulates, namely ideas of natural harmony, which have recently made up the core of the mainstream economic thought. Their recipes were at first geographically and historically specific, and were meant to solve the problems present in Latin America. Former socialist countries have also accepted them, as well as the countries of Sub-Saharan Africa, and over the time they have become “the general wisdom for growth and development policy” [2, p. 197]. These postulates are known as the Washington Consensus, a term coined by J. Williamson in 1989 [3]. Originally, the Consensus consisted of ten famous policies, among which the most important ones are liberalization, privatization and stabilization. Reformers in these countries and their advisors emphasized that transition would bring temporary crisis followed by a prompt revitalization of the economies. In this context, their new ownership structure would ensure a quick compensation for the temporary decrease, leading to steep growth and finally catching up with developed countries. Unfortunately and unexpectedly, in most transition countries, the economic crisis was not short. The economies were not the only ones affected, as the crisis had other negative consequences, such as deep demographic crises – population decline, spread of the diseases, a drop in fertility, increase in mortality.
Transition had a significant social cost – increase in poverty and unemployment, high inequality, aggravation of public services and their polarization, as well as crime, an increase in corruption and social unrest. Finally, we should point out high external debt, which happened despite of great privatization revenues and great inflow of foreign remittances into Serbia. The estimations of the total inflow (privatization, foreign direct investments, foreign remittances) vary from 30 to as high as 70 billions euro for the period since 2000. This huge inflow has not been redirected into production, into rebuilding the tragically underdeveloped infrastructure, but instead into consumption of imported goods. See more details in: [4]

It is important to emphasize that in the economic and other domains, problems arose not only in underdeveloped countries or those in transition. Weisbrot et al. [5] examine with specific methodology the data on economic growth (and various social indicators), comparing the period of 25 years (1980–2005) to the prior two decades (1960–1980). Their paper finds that the 25-year period in low- and middle-income countries saw a sharp slowdown in the economic growth rate, as well as a decline in the rate of progress in major social indicators including life expectancy and infant and child mortality. The comparison between these two periods by growth of income for the five groups of countries is shown in Figure 1.

Fig. 1. Average Annual Growth by Income Quintile and Period
Source: [5, p. 2]

The events that have been taking place mostly in countries in transition and underdeveloped ones, are usually interpreted as a result of neoliberalism. The economic policies based on the neoliberal doctrine prevailed initially in the USA (in the Reagan Era), followed by Great Britain (Thatcher reign), bringing the age of free market as well as its consequences all around the world. Lj. Savic, for instance, points to the use of the wrong macroeconomic neoliberal model in Serbia after 2000, where the pillars of economy became the overpriced dinar, incentives boosting imports, relying on foreign investment, especially in the services sector, with an emphasis on the stability of currency and prices [6].

Even though it is simplified, this interpretation is to a large extent true. The missing idea can be summarized as follows. Firstly, the influence of the economic ideas on the real economic and social tendencies is never so simple and one-sided. The ideas of The Mont Pèlerin Society, as the predecessors of today's neoliberals (see: [7]), had actually won far before that, but not because they had proven to be better and more effective than the alternatives, but because their project had taken up big investments and therefore had to win. Once they won, these ideas have continued being present even when they have been proven as wrong and ineffective (see: [8]). Quoting Quiggin – even when they are dead. On the other hand, these same ideas can be recommended or even imposed, and ignored or even forbidden by the same authorities, which has often been and continues to be the case. The real economic history, which is usually either elided or read tendentiously, is full of cases like that. For instance, the prohibition of Smith's and Ricardo's books, which is a fact unknown to most of the
general public. As pointed out by Reinert [9, p. 10] from a slightly different angle, “wealthy countries have a tendency to impose theories on the poor ones which they themselves never use, nor have ever used”. This way, the USA have since the Reagan Era been preaching the free trade for all, which is one of the axioms to be imposed on the developing countries and those in transition, adopted by the international financial organizations, above all by the IMF. However, the USA actually subsidize and protect their farmers and high-tech companies. The USA, as well as other developed countries, have in fact been applying these protectionist policies for decades or even longer. These theories are supported, among others, by Ricardo's theory of comparative advantages, which is based on the labor exchange but without taking into consideration the technical aspect of the labor and also on the assumption of neoclassical economy that all the economic activities are equivalent. It is accidentally or intentionally forgotten that not all economic activities are equal, since industry has a strong synergic effect and increases the sustainability of the economy and the country as a whole. The strongest economies of the world naturally have strong industries. But on the other hand, they practically make it harder or impossible to develop small and poor countries' industries. Therefore, it is not surprising that one of the key effects of the transition process in the former socialist countries and underdeveloped countries, has been deindustrialization, carried out by abiding by the guidelines of the Washington Consensus embedded in the economic policies promoted by the IMF. One of the processes which have partly mitigated the effects of deindustrialization in countries in transition and underdeveloped ones and led to the slowing down of the industry growth in developed countries, has been the relocation of the industrial plants from developed to developing countries, including the former socialist ones. The motives are above all economic, since the semi-periphery and periphery countries (former socialist countries in transition and Third World countries) have considerably cheaper labor force, as well as loose environmental standards both on paper and in effect. Besides that, a number of Third World countries and those in transition offer subsidies for the relocation of industrial plants from developed countries or are prone to applying pressure and corruption in order to achieve the goal. Essentially, the low-qualified jobs industry and the direct foreign investment ideology are unable to reverse the negative effects in industries and societies of the Third World and countries in transition. Instead, it is vital to design a strategy of industrial development with the aim to empower large enterprises, achieve permanent economic growth and as high an employment rate as possible, all of which will stop and reverse the negative demographic indicators.

2. Manufacturing in Serbia

In the territory of today's Serbia, there have been three large waves of industrialization [10, p. 180–182]. Serbia was not late to start developing its industry in comparison with other European countries, so the first industrialization wave began after the Berlin Congress in 1878, when the country was recognized as fully independent and spread to include its Southern regions. The legislation of the Kingdom of Serbia encouraged the development of industry, with the solutions proposed in 1898 being especially important. Although the beginning of industry development in Serbia took place in the decades preceding 1878, the first wave of industrialization can be considered to have taken place between 1880 and 1912. The period starting with the Custom War was especially successful in that sense [10; 11]. The devastation brought by the Great War was a setback in industry development, but the second wave of industrialization, which occurred between the two World Wars, brought about great progress, despite the lack of capital being a major problem. This period saw the appearance of a large number of factories, many of which continue to exist today: four airplane factories (Serbia used to export airplane engines to France), truck factories (the first truck was produced in Rakovica in 1938), car factories (the first car was produced in Kragujevac in 1939), and steel plants (Sartid steel plant in Smederevo was the biggest one in the Balkans at the beginning of World War Two, with 900 workers and 19,000 tones of steel produced annually). The third wave of industrialization started in 1945 and lasted until 1989, and it turned the mainly agrarian Serbia (Yugoslavia) into a middle-income economy. The key event took place in 1960, when Yugoslavia crossed the line between an agrarian and an industrial economy, transitioning into an industrial society. That year, the share of industry in GDP was larger than the share agriculture held. The following year, the farming population dropped below 50%. The end of this wave of industrialization meant the beginning of a downward
trend in the industry of Serbia, which lasts until our days and can be considered as an unprecedented retrogression process in the history of industrial development, as well as in recent economic history and Serbian modernist era as a whole.

In this context, it is especially important to consider the industrial production tendencies after 1989 (see Figure 2). If we mark that year's industrial production level with a 100, we will notice a dramatic decline in the 1990's, mainly due to the breakup of Yugoslavia, wars in the surrounding areas, and sanctions imposed on Serbia. In 1993, the production rate fell to as low as about 35% of the 1989's rate. This was followed by consolidation and an increase to about 45% in 1998. However, as a result of the NATO aggression, there was a new steep decline to less than 35% in 1999 and about 38% in 2000. After 2000, when the political situation started to stabilize, the sanctions were abolished, and the country went back to the international trade tendencies, the industrial production rate has remained very low in the next decade and a half. Besides that, only after the increase in the last two analyzed years (by 8.4% in 2015 and by 4.7% in 2016) has Serbia achieved the approximately same level it had in 1998. The employment rate in industry sector is also catastrophic, having dropped from 700,000 to 400,000 after 2000.

Fig. 2. Industrial output in Serbia (1989=100)
Source: Author’s calculation based on Statistical Yearbook of Serbia 2010; 2012; 2017.

S Jelisavac Trosic points out the industry of Serbia as the only one among the countries in transition that has still not reached the level of 1990. In fact, the industrial production in 2008 only equaled to 50% of that in 1990, and the situation has not improved to this day [12]. All the administrations in place until now have adopted plans and other documents about recovery, development, and restructuration of industry. The Strategy of Industry Development 2011–2020 envisions the revitalization and restructuration of industry, the introduction of modern technologies, technological changes, changes in the industry profile, the development of different economic activities, shifts in the activities focus and the technology boom [12, p. 9].

Savic [6, p. 299] emphasizes that former socialist countries and today's EU member countries solved the problem of rigid and inefficient socialist industrialization by developing modern industry, based on the influx of foreign capital and fast-growing exports. That orientation led to industry holding a larger share in the GDP structure. In 2011, it was 41% in Romania, 36% in Czech Republic, 35% in Slovakia, 32% in Slovenia, and 31% in Hungary. The same year, the share of industry in GDP structure was 40% in Norway, 39% in South Korea, 37% in Russia, 28% in Germany, and 26% in Japan. In the past few decades, even during the economic crisis, China has had a double-digit growth rate in industry production, which had increased the share of industry in GDP, reaching 47% in 2011. At the same time, Serbian industry currently creates only an 18% of GDP. The share of manufacturing in Serbian Gross Value Added in last few years is shown in Figure 3. It was about 16% in 2011, and in the following years it increased to 18%.

Not only former socialist countries have recognized the importance of building and maintaining a strong industry. According to the quoted work [6, pp. 299–300], the European Union also turned to reindustrialization on the Lisbon European Council in March of 2000, when it presented the ambitious plan to become the most competitive industrial area of the world by 2010. The new industrialization of EU is based on knowledge, innovation and entrepreneurship. The EU recognizes
that it is necessary to abandon the “widespread but wrong assumption that in societies based on information technology, services, and knowledge-based economy, the manufacturing industry no longer plays an important role”. This attitude in regards to industry is also kept in the document named Europe 2020. Taking into account the importance of industry in the economic development of many countries in the world, it is according to Savic unexplainable why Serbia in the second transition phase decided to adopt economic policies that led to industry breakdown. He explains it as a result of believing in the neoliberal doctrine dogma, which states that the market forces (“the invisible hand”) will produce the desired effects and that the free competition will create a modern efficient economy, which will easily be incorporated into the international trade. The biggest victim of this approach has been industry, which turned from the development motor in the largest period after the World War Two into a chronic patient waiting for an urgent and radical therapy [6, pp. 299–300]. Savic's conclusion is correct, but the explanation based on “believing” could have definitely been better supported, which had already been mentioned when considering the influence of economic ideas on economic and social reality. In that sense, we will mention a fact not usually talked about although quite revealing, namely, the letter of Willy Wimmer to the German chancellor Schroeder, sent in 2000 [13].

Fig. 3. Gross Value Added by Agriculture and Manufacturing in Serbia, 2011-2015 (% constant prices 2010)
Source: Author’s calculation based on Statistical Yearbook of Serbia 2016; 2017.

Professor P. Petrovic also points out that the Serbian ruling elite has not encouraged enough the recovery and strengthening of industry. Looking up to Europe, Serbia has declared itself as a knowledge-based society. But, as opposed to Europe, which has prioritized the development of industry, Serbia is just now starting to discover the role and significance of industry in the development of modern society. Since industrial development has always been tightly connected to the technological development, falling behind in development and in focusing on industry increases the technological gap between Serbia and developed countries. After more than 25 years of crisis, Serbia has lost the ability to develop and produce the high technology it used to produce in the 80’s and even the 70’s of the 20th century [10, p. 183].

2. Possible Development Strategy

In the adverse situation of low and slowly-increasing GDP, especially in industry as its most propulsive branch, Serbia is facing the essential issue: how to design the future development and in which direction. We will try to offer some hints on this matter.

In the economic sphere, special emphasis lies on development and employment rate. Instead of applying the neomonetarist and neoliberal concept, it is necessary to use a modified and adjusted form of neo-keynesianism, since a big and possibly the biggest problem of the post-Milosevic era industry is its industrial activity being below optimal level (output gap mostly because of a high unemployment rate and the employment of only a part of the possible workforce). This should replace today's strategy focused mainly on the stability of prices and currency. However, in order to start the
achieve development, some sacrifices need to be made. This would mean: encouraging the expansive monetary and credit policies which would be focused on development as well as controlled; a fiscal policy characterized by an efficient collection of public inflow and controlled expenditures, which would differentiate tax-payers by income, assuring the tax rates get higher along with the tax-payers' income thus introducing a social aspect to the project; and lastly, the control of money flow by introducing a substitute for the State Institute for Accounting and Payments.

These measures would also have a positive effect on the alarming issue of high unemployment rate and labor force emigration, mainly by industry revival and the creation of new workplaces. An important element of this process should be engaging Serbian diaspora, who would have real investment opportunities and the possibility to maintain relations and collaborate with their home country.

It is also very important to introduce a development bank, which could partly make up for the incapability of banking system to contribute to the recovery of industry in a more creative manner. The largest part (about 80%) of Serbian banking sector is made up of foreign banks. In the context of the current crisis, they are motivated to retain their liquidity. The majority of the banks working in Serbia keep short-term deposits of population, while investing a large part of their assets long-term. This leads to the paradox of economy needing money and credits without the banking system being ready to invest short-term while trying to keep its liquidity and stability [14].

It would also be recommendable to open a national scientific institute for development, with high-quality faculty working in various fields, especially economics.

In the context of economy revival, the most important element is reindustrialization and the use of comparative advantages of agriculture and energy sector, which do not require large investments at the beginning, especially taking into account the advantages of agriculture conditioned by nature. As far as reindustrialization, certain branches should be prioritized, since it is not possible to develop the whole sector uniformly and at the same pace. Therefore, information technology should be given priority because of its importance in contemporary societies. Textile industry should also be developed, as it offers the possibilities of mass employment. Construction, water management, small family enterprises and health care system in Serbia are economic activities that have traditionally been able to achieve certain progress without large investments. The introduction of modern technologies is an important factor of industry development. They can be introduced according to the principles of sustainability, which P. Petrovic considers to be one of the forms of the forth wave of industrialization in Serbia [10, pp. 195–197]. Dirty and outdated technologies could damage both the reindustrialization of Serbia and the environment. The low-skilled labor force industry focused on assembling imported parts, i.e. the opening of multinational companies' plants under adverse environmental and financial conditions and outdated technologies can damage Serbian economy, if employment is its main or even its only advantage. Industrial sustainability should encompass environmental sustainability, achieved by cutting down on resource consumption and waste creation, as well as respectful treatment of employees, and lastly the economic sustainability.

According to S. Pokrajac, priority should be given to revitalization of metal, textile, food, wood, chemical, rubber, electrical, military and other industries. “In addition to capital, they all miss innovations and knowhow, new visions and attractive production programs, while financial support can come from different sources. Relying on foreign sources carries multiple risks, therefore it is better to engage all domestic sources and additionally foreign ones.” [15]

In modern economies, the services sector is dominant in the number of employees as well as in revenues. Transport is an economic branch where the results of investments are only assessed in the upcoming period. Even though there are weaknesses in various transport branches, it seems that the priorities are the highway through Western Serbia, direction North-South (to Pozega and farther south to Montenegro) and the modernization of railways. Tourism alone would not have the capacity to pull economy forward, but could play a significant role in some regions. Some of the tourism branches that could have bright future are spa, congress, hunting and fishing, sport tourism etc. When it comes to trade, an alarming issue has been large investments and loans taken for imports, and considerably less investment into exports incentives. Investment into education and especially science, scientific development and innovations should be increased, as it is vital for the country and its economy. However, these sectors only make up about 0.5% of GDP, while Western European countries'
expenditure within their GDPs is several times higher, taking into account that their GDPs are significantly higher, as well.

In the financial sphere, neo-monetary concept is currently being followed, which implies targeted inflation. The most important and often the only instrument used to define the benchmark interest rate of the National Bank, while other instruments are not used enough, and the benchmark interest rate is too high, along with other failures. The biggest problem is the National Bank, which makes three cardinal mistakes that need to be corrected with an adequate policy:

1. High benchmark interest rates of the National Bank.
2. Considerably smaller money supply (M1, M2, M3) than adequate with reference to GDP.
3. Reserves in dinar and especially in foreign currencies, which are kept passively and often verging on interest-free, instead of being invested in an adequate and useful manner.

In summary, it is necessary to start a development bank and to abolish the quantitative monetary policy, introducing a selective one instead. Speaking of relevant institutions, it is necessary to come up with a substitute for State Institute for Accounting and Payments, together with other measures mentioned above. It is also essential to break from the adherence to IMF policies.

Finally, social sphere deserves a mention due to its current state. The Labor Law, which was adopted a few years ago, deprived workers of some of their rights, especially in terms of years of service, which is a category no longer taken into account once employees change companies. The legislature and accounting treat employees and their income as expenditures, not only by the current Labor Law, but by all the laws that have been in place since the political changes that took place in 2000. The Labor Law brought changes such as fixed-term contracts (part-time, temporary and contract employment), low level of job security, the category of employment for incomplete working time. All these changes been introduced under the guise of helping the unemployed secure jobs, while they actually only benefit employers and capitalists. These are all parts of the so-called flexible employment terms, which is one of the common empty phrases of the neoliberal doctrine used for the benefit of large businesses, just like the neoliberal doctrine itself.

3. Conclusion

This paper has offered a view on the current state and importance of industry in modern world and in Serbia. In the international context, after a few decades of slow economic growth, partly caused by the relocation of industry into the Third World and former socialist countries, we can notice an ongoing process of the reestablishment of industry as a crucial development factor. In Serbia, however, industry is an extremely neglected form of economic activity, participating in GDP creation only with about 18% in the last few years, although with a slight increase in recent years. That percentage is considerably lower than in developed countries, as well as in other countries in transition. After the three industrialization waves Serbia went through in the last quarter of the 19th and during the 20th century, which turned the country into a middle-income one, the development of industry was stopped in the last decade of last century. The breakup of SFR Yugoslavia, as well as the wars in surrounding areas and the sanctions imposed by the international community, and finally the NATO aggression on FR Yugoslavia in 1999, caused a downfall of industrial production to only about 35% of the production in 1989. In the next 20 years, thanks to the lifted sanctions, a much better political climate and the development of international relations, the industrial production rate has remained very low although with some fluctuations, and only the growth in the recent years (8.4% in 2015 and 4.7% in 2016) has managed to bring it close to its 1998 level. Taking into account the important synergic effects of industry within a national economy, future development of Serbian economy should be based on the development of industry. That premise is stated in certain documents and academic papers, at least declaratively. However, no action towards the fulfillment of this objective has been taken yet. Finally, some recommendations beyond the industry area issue have been given which could bring about a desired turnover in the development of Serbian economy.

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