

# PROCESS OF REINDUSTRIALIZATION IN THE CONTEXT OF EUROPEAN INTEGRATION

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## **Abstract**

*The paper analyzes the problem of introducing a new model of public regulation of industry in Serbia within the frames that determines the development of new global production system and the European response to this problem. The starting thesis of this paper is that it is not possible within the existing structure and functioning of the elements of national political, production-organizational, business, educational, innovational and administrative system to operationalize (scientifically and professionally) valid strategy of reindustrialization of Serbia in accordance with the European concept of endogenous, and auto-propulsive and self-sustainable development based on scientific knowledge. The second thesis is that the institutional arrangement within which is organized the existing system of public regulation of industry in Serbia substantially limiting its participation in the creation of future conditions for its implementation. The third thesis is that the reindustrialization of Serbia according to this concept is not essentially determined as unrealizable. The basic condition is to work continuously, persistently and parallel, to create each of necessary conditions for development based on scientific knowledge on one hand, and on the other hand, to eliminate alternatives for right and sustainable national development. In this context, the public regulation would get a chance to open the process of reindustrialization of Serbia in accordance with the model chosen by the European Union. In an effort to elaborate the mentioned issues, author's view of the problem of determining the benchmark for defining a new concept of industrial policy in Serbia is exposed. The problem of development of general socio-economic framework for the coordination of individual and group initia-*

*tives and resources in the function of re-industrialization of Serbia towards the European concept of endogenous, autopropulsive and sustainable development was also acknowledged.*

**Keywords:** *Reindustrialization, European concept of endogenous, auto-propulsive and self-sustainable development, Investment policy*

JEL Classification: J5, K23, L00

## 1. INTRODUCTION

The Republic of Serbia failed to constitute an adequate macro-economic and institutional framework for the implementation of effective industrial policy in terms of globalization. The main hypothesis of this paper is that the increase of efficiency of the (national) industrial and investment policy depends more on internal factors rather than the external environment. This commitment stems from the fact that the creators and actors of national development, economic and investment policy were not adequately used the (empirical) experience of other European economies. Operationalizing industrial policy on the structure and performances of productive capital, requires that its main task in the next twenty to thirty years is to create conditions to overcome the developmental entropy, primarily by increasing exports and productive employment in accordance with the exogenous standards which impose: (1) process of political and economic preparations for European integration and (2) adaptation to (new) structure of global production system.

In this methodological framework, the problem to determine a new model of industrial development of Serbia is considered in terms of three contexts:

The first is based on the analysis of phenomena which follows the dynamics of new global production system development. The process began around 1970, with the de-industrialization of the developed (modern) market economies. The process of de-industrialization has been marked by: (1) the withdrawal of old industries, in particular, for the production and processing of textiles and leather and raw-material intensive productions of basic metals and chemical products, which in many ways were dislocated or left to so-called newly industrialized countries (NIC), (2) strengthening the role of propulsive activities for the production of sophisticated products of high technologies, especially in electro-metal complex (semiconductors, electronic computers, communications equipment and devices), or production of chemical and pharmaceutical products (new

materials, new drugs), and (3) emergence of the so-called innovative (creative) industries and a variety of service industries in the service of other industries.

The second context is based on the view that the development of industry in Serbia must be based on scientifically and empirically verified troubleshooting of development of socio-economic framework for re-industrialization, or search for specific national solutions for the key challenges of global reconfiguration of the current civilization on the principles of industrial organization.

The third context is a choice of theoretical basis for the formulation and implementation of industrial policy. The liberalization and privatization of development at the global level have had as a result also the destruction of the classical model of formulating the content of objectives and operations of industrial policy, based on the concept of defining the priority activities and productions and supporting their development through various forms of direct and indirect subsidies to labour and capital.

## 2. THE STRATEGIC FRAMEWORK FOR NEW MODEL OF INDUSTRIAL POLICY

The key reasons for the low development performance of industry in Serbia should be sought in the fact that the initial restructuring of the national economy, after the restoration of capitalism, in the first stage of transition (from 1990 until the end of 2000) was carried out in the framework of “gray” economy and “brotherly” privatization. After the radical political change in late 2000, their key protagonists legalized their business or property which resulted in closing the markets for other participants of competition. Therefore, the spillover of the global financial and economic crisis effects, among other things, show that amnestied protagonists of “gray” economy, “brotherly” privatization and small economic freedom cultures cannot meet the basic mission of the entrepreneurial class - moving the horizons of personal progress also move it to society. The key implications are the low level of institutional capacities and investment myopia. The result is a very slow and uneven: (1) improvement of real economy efficiency (profitability), (2) increase of infrastructure comfort for private investment in the export business, and (3) human capital performance degradation.

In the wider socio-economic level, the essence of this problem lies in the fact that, although Serbia is undoubtedly a democratic country where more and

more dominate the private sector, cannot expect progress in structural reforms in order to create conditions for an endogenous, self-propulsive and sustainable development – if does not introduce the substantial control of executive power in terms of providing greater public interest in the implementation of reforms of economic institutions and micro, mezzo and macro-economic policies. The basis is, of course, finding a rational and effective political solutions for the practical implementation of this key economic theory achievement from the last decade of the last century - endogenization of technological development in the institutional structure as the main factor in creating conditions for an endogenous, auto-propulsive and sustainable development of Serbia.

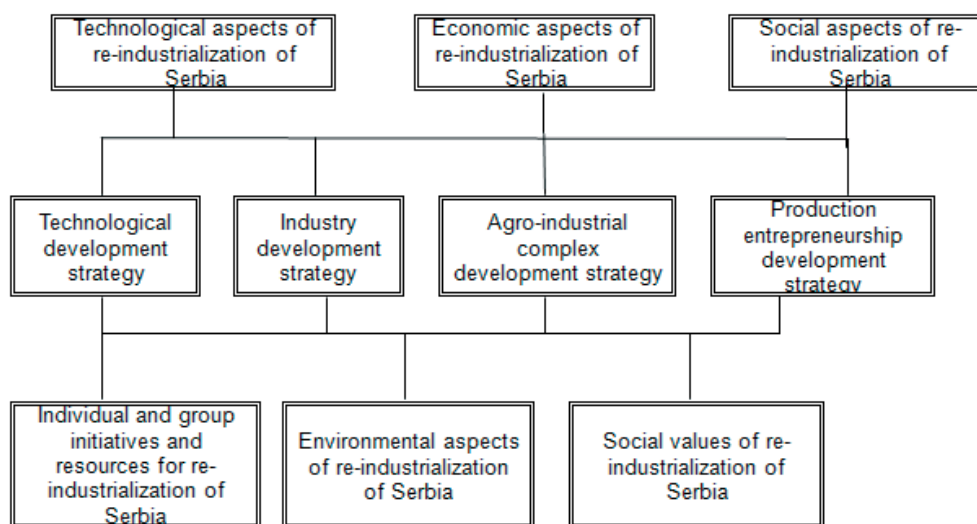
There is no doubt that defining the general socio-economic framework for the coordination of individual and group initiatives and resources in the function of re-industrialization of Serbia according to the European concept of endogenous, auto-propulsive and sustainable development – is a complex and complicated problem. It is absolutely certain, without further elaboration that the revitalization and improvement of the competitiveness of processes, products and companies in the industry ultimately comes down to the process of global commercialization based on dynamic creation and development of: (1) economically sustainable production companies and commercial agricultural holdings (as the basis of industrial development for the food and drinks production - note by author) according to the exogenous standards of the global economy, (2) adequate market infrastructure and specialized circles of commercial and financial capital interested to provide their profits by business activities in the export of goods, (3) adequate non-productive infrastructures and (4) infrastructures for public regulation of business and development which will, through education, research-development, production, transport and financial activities provide a relatively stable and favourable conditions for smooth running of their reproduction process.

According to this thesis, the main role of industrial policy in initiating and implementing the re-industrialization strategy of Serbia is to connect and direct the various economic, technological and social (primarily political, social and cultural) phenomena (Scheme 1).

In this context, the industrial policy in function of re-industrialization (of Serbia) should represents a socially organized and institutionally regulated process of cooperative coordination of decisions at the macro level, on the one hand, and at the mezzo and micro level, on the other hand, in order to, by devel-

opment and implementation of business and technological innovation and new forms of social and economic organization and division of labour, provide an internationally competent level of quality and prices of material-goods.

So, the basic condition for the re-industrialization of Serbia is that the production-organizational structure of the industry is constituted by businesses and commercial agricultural holdings, which have: (1) macro, mezzo and micro organizational structure and management system capable of much efficient production and distribution of high quality material goods in sharp and unequal international competition, (2) respond for the physical assets and personnel, (3) healthy financial structure and (4) flexibility, which enables quick and efficient response to changes in natural, internal and external socio-economic environment.



**Scheme 1.** The new model of industrial policy in Serbia

Since the main intention of this work is to define the basic settings of Industrial policy in accordance with the European concept of endogenous, auto-propulsive and sustainable development, the presentation will be concentrated on my view of the answers to two questions. The first is - What forms (and how) to use the basic production-organizational models in the implementation of re-industrialization strategy of Serbia? and second - What combination of basic development alternatives to use in the dynamic context of the implementation of the re-industrialization strategy of Serbia?

In the context of my view on the answer to the first question, it can be concluded that the main task of industrial policy is to create a macroeconomic framework for the integration of each industrial enterprises and commercial



agricultural holding into one complex and hierarchically organized system with four levels (layers) (Adzic 2007).

The first level should include the industrial enterprises and commercial agricultural holdings integrated into macro-clusters organized by main lines of production (e.g. sugar, oil, bio-diesel, milk, pork, poultry, beef, berry fruit, early vegetables, flowers, herbs, wholesome food, machines for metal processing machines, construction machinery, agricultural machinery, electrical rotating machines, parts for automotive industry, furniture, clothes, shoes, etc.) in a way that provides economically and technologically efficient operations in conditions of global competition and other rigidities imposed by protectionist oriented economic policy (especially in agro-industrial complex) of developed market economies.

The second level should include the production companies and agricultural farms integrated in macro reproduction wholes whose core is located within Serbia, and which ensure an optimal national social division of labour and the supply of physical inputs (in particular: energy, basic reproduction materials, intermediate products, machines and equipment) and services (business services, transport, storage and cross-border transfer services) under the most favourable economic and technical conditions. In a broader sense of this macro reproduction whole should be included a large trading companies, on the side of inputs supply, and even more on the side of marketing, storage, transportation, cross-border transfers and placements to target segments of the global market.

The third level should include the individual production companies and commercial agricultural holdings in institutionally regulated framework of the national socio-economic environment. Its main task is a supply of human and financial capital, public goods and public administration services, in a way which will stimulate their behaviour in terms of meeting the broader socio-economic objectives - based on the criteria of increasing the competitiveness of products, processes, business entities, business and macro reproduction wholes. The content of institutional arrangement should provide to every business entity of the real sector: (1) developmentally supportive environment, (2) business enabling environment, (3) management improvement, (4) participation and decentralization and (5) consistent, transparent and accurate vision of the economic, social and technological development.

The fourth level should include the industrial enterprises or large export trading companies within the selected segments of the global market. Its mission is

to provide to every industrial enterprise or commercial agricultural holding the economies of scale and encourage the development of production that can on the basis of available factors of production, as well as those that will develop in the future, to achieve a level of efficiency and competitiveness in terms of price and quality in the conditions of harsh and unfair international competition.

In the case of Serbia, three possible alternatives for the implementation of the re-industrialization strategy can be identified (Matejic 2002, Matejic 2008). These are: (1) completion of the fordistic industrialization process, (2) radical modernization of large production systems and development of new export businesses and industries – engaging foreign factors, primarily international macro-clusters, multinational enterprises (MNE) and transnational corporations (TNC) and (3) development of creative society and innovative economy based on national, regional, sub-regional and local initiatives, cooperation and interactive collaboration.

The first alternative is deeply embedded in existing national production, business and institutional system and in the ongoing economic and development policy. Its implementation is based on a policy of small wage and low prices of basic (national) inputs (this aim to achieve some kinds of internal and external competitiveness) and obtaining a capital and technologies from external sources, primarily by borrowing economic entities abroad. Since its implementation does not require a larger national effort (in terms of greater sacrifice of consumption in favour of greater investment), this alternative is in line with the key parameters of the current political and business culture and economic interests built into existing production systems. The biggest limitations to continue its implementation are two factors.

The first and long-term is the current human capital and the new one that creates a relatively developed system of higher education - which are already surplus in the existing production system. The surplus of well-educated (the growth dynamics indicates that Serbia will in the near future deal with unemployment of about 100.000 people with higher education) and creative resort to two options - external emigration or search for places within some interest (political) group. The second, no less serious problem are the reflexes of internal and external (global) financial and economic crisis and post-crisis stagflation, which are reflected in the radical reduction of freedom of access to external financial sources and target segments of the global labour market - for now,

with unforeseen development, economic and social consequences for Serbia. In any case, it can be expected that the third option will also appear on the scene by which the well-educated and creative will try to direct their frustrations towards an active participation in the direction of leaving the first alternative and transition to the implementation of the second and third alternatives.

The second alternative is realized by greenfield investments in to export business and industry and by entry of major national production systems in the international macro clusters, multinational enterprises (MNE) and transnational corporations (TNC) and - with the aim to provide competitive access to global market and rapid technological and business modernization. This alternative allows the activation of what was left of the inherited resources (in short-term) and the available human resources (in the medium term), and also that a larger (national) production systems and affiliates of international companies and transnational corporations (in the medium term) become the local points of development and modernization of micro, small and medium-sized industrial enterprises. On the other hand, their appearance in a greater extent will work integrating on, today really separated and introverted sectors of production, education, research, public administration, etc. This would create (new) development structures in the industry of Serbia and provide a faster transfer of new technologies and (partial) externalization of developmental risks. Otherwise, in terms of increasing the efficiency of the national re-industrialization strategy, the implementation of this alternative is (despite some risk) preferred, primarily as a mechanism of transition from the current state to the third alternative.

As noted, for the implementation of the third (scientifically desirable) re-industrialization alternative, are necessary radical social and political innovations in terms of constitution of a democratic, but primarily responsible society towards future generations and natural environment, non-parasitic system of institutions, freedom of choice of any kind with preservation of basic ethnic and spiritual values. In this context, the development (in terms of implementation of re-industrialization strategy - note by author) is based on a national, regional, sub-regional and local specifics, supported by STIEOT infrastructure, induced by entrepreneurial or strategic cooperative initiative and formed by competition and cooperation which excludes the protection of monopolistic interests of any kind. The main inputs in this development alternative are quality human resources and innovative society, especially political institutions. This alternative is furthest from the current situation. But this does not mean that in Serbia



there are no pilot projects for the development of high technology industries induced by the national research system. In the past twenty years in Serbia (primarily in Belgrade, and to a lesser extent in Novi Sad) is, on the basis of private initiative, formed a certain (for now sub critical) mass of micro and small enterprises in the field of high technologies. My forecast is that in the coming period, due to the effects of internal and external economic crisis, in the implementation of the re-industrialization strategy will be included this alternatives on a wider scale, and the re-industrialization strategy will be implemented on the basis of a combination of all three alternatives where at one time one will be dominant, but over the time their order will change.

The industrial and commercial policy results measuring must contain also a component that would aggregate the implementation results of: (1) empirical models of functioning of the enterprises in the modern market economies, and (2) common (legal) legacy of the European Union (*Acquis communautaire*) in the domain of industry. On the one hand, these factors are the exact basis to create a system of standards to determine the success of industrial and commercial policy, in particular, measuring the quality of constructed facilities and capacities and building institutions for public regulation of industry, as well as creating an enabling environment for innovative behaviour of companies and representatives of local, sub regional, regional and central public administration in terms of public, precise and transparent determination of individual and group responsibility for taken business, development and investment activities. On the other hand, their implementation is related to the high economic and social costs, which directly affect the increase in public expenditures and operating expenses of micro-economic subjects, which directly reduces the space for the realization of others, at this point, the prioritized tasks of economic, industrial and commercial policy in the domain of revitalization, modernization and new construction of physical, business and STIEOT infrastructure for the industry, as well as the development and restructuring of companies, processes and products in the industry.

### 3. FINDINGS

The current political and economic moment suggests several conclusions.

First, the reforms launched and implemented in the period from 2001 to 2013, failed to create a framework for implementation of effective re-industrial-

ization, primarily because of the failure to determine the role of the state in the spheres of economic, social and cultural development.

Second, practically nothing has been done to promote phenomena, which are the cultural basis of effective investment policy in modern market economies, such as: public, transparency, accuracy, professionalism, responsibility and trust.

Third, the inefficient investment policy is just a statement of vague and manipulative transition. Its essence is the periodic occurrence of various structures of change, which are partly performed, changed or abandoned, in a way that without a deeper understanding of things does not allow the recognition of real goals, directions and contents of the changes which are implemented. The reforms created a mixture of various quasi-market institutions and mechanisms, pseudo-manipulative planning and administrative management in order to maintain the specific distributional-oriented coalitions in power, as the main source of their power in the (re)distribution of national income, social wealth and foreign aid.

Fourth, the main goal of national investment policy should be putting the available productive capital in production and economic function on the basis of increasing export with a greater share of newly added value and productive employment.

Fifth, the main causes of poor and inefficient investment activities are located in the domain of so-called "x-inefficiency", i.e. they are a result of poor development, economic and technological performance of companies. To increase the efficiency of business development and investment policies necessary are the fundamental changes in strategy and redesign of business processes in order to create conditions for maximum satisfaction to customers in the internal market of the European Union or some other segments of the global market (CIS countries, China and the United States). Only the need to ensure the existence in the conditions of global competition and dynamic changes in the socio-economic systems, will force companies on contrived development and investment policy. At the same time everyone must find only for themselves the appropriate solutions depending on the developmental vision, available internal and external resources, specific situation and the nature of the adjustment process.

Sixth, creating conditions for higher and more efficient investment is a complex, expensive and time-consuming process, which requires a faster and efficiently completion of construction of integrated market system and restruc-

turing of infrastructure for public regulation of economy and development. However, investing in improving the performances of (production) companies cannot wait for completion of market institutions and structural adjustment of infrastructure for public regulation of economy and development according to the European Union standards. Development of market and public institutions and improvement of investment conditions for improving the performances of (production) companies need to be established in parallel, on the fly.

Seventh, the main task of the investment policy in the next twenty to thirty years should be to create conditions for higher and more efficient investments in order to improve the competitiveness of enterprises. To replace the macro-economic and institutional disorder, the solutions for successful investment policy, should be sought in determining the appropriate stimulating contents in the complex, consisting of: (1) Fiscal policy, (2) Strategies for revitalization, modernization and new building of physical and social infrastructure (3) Educational policy, (4) Technological policy, (5) Strategy for agro-industrial complex development, (6) Industrial policy, (7) Entrepreneurship development policy, "small" businesses, small and medium-sized enterprises (8) Environmental policy (9) Regional policy, (10) Rural policy and (11) Local politics. Since the Republic of Serbia is located in the neo-liberal environment of solid monetary restrictions, the basis for successful investment policy are the good fiscal system and a good fiscal policy and an effective strategy for revitalization, modernization and new building of physical and social infrastructure, supplemented with goals and different, mainly non-economic, policy mechanisms under (3), (4), (5), (6), (7), (8), (9), (10) and (11).

Eight, in order that the public intervention replace the macroeconomic and institutional disorder in providing an enabling environment for the privatization development, in the operation is necessary to implement the concept of "reinventing government" based on the research of concrete solutions: How with a similar or lower fiscal burden, i.e., lower prices of natural resources or administrative monopoly and public administration services to provide a better education, a better health care and quality social, physical and administrative infrastructure which will enable the national economy to effectively face the challenges of globalization and European integration?

Ninth, the last thirteen years indicate that the foreign direct investments were, at best, irrelevant to the sustainable restoration of development propul-

sion in the Republic of Serbia. But that does not mean that they are undesirable. On the contrary, we should be aware that foreign capital cannot solve the problems of national development, nor to increase the investment in export industries, companies and business and increasing of productive employment to the extent that would allow the troubleshooting of national development entropy. Due to institutional disorder, problematic macroeconomic and political stability and generally low socio-economic development performances of the Republic of Serbia, its current goal is profit in short-term, which does not have to coincide with the growth of production, employment and the establishment of balance in the foreign economic relations. The foreign capital can increase the profits also by destructing the internal competition, reducing the production, employment and substitution of domestic production and importing savings.

Finding good solutions for re-industrialization of Serbia is more a matter of understand the problem than physical investment. In this sense, the listed taxonomy is an attempt of author to determine the key principles on which should be based the formulation and implementation of a new model of industrial policy in the function of re-industrialization of Serbia in accordance with the European concept of endogenous, auto-propulsive and sustainable development.

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