

# STRATEGIC FRAMEWORK FOR SUSTAINABLE DEVELOPMENT IN THE PERIOD OF TRANSITION TOWARDS MARKET ECONOMY: CRITICAL OVERVIEW OF THE STRATEGY OF LONG-TERM DEVELOPMENT OF SERBIA

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*This paper offers a critical analysis of the strategic framework for long-term economic development of Serbia, of the role of strategic development in the success of the transition process, and the consequences of the lack of a development strategy. The strategy of long-term economic development of Serbia, as a programme intended to designate the economic and development policy of the state, is analysed with the aim of finding an acceptable formulation of development strategy. The authors consider various approaches and propose a strategy for Serbia in the period of transition towards market economy. They also point out that, in the period of transition from a government-planned towards a market economy, strategy should be given greater importance than in periods that do not represent turning points, because of the greater possibility of incorrect policy making, potential conflicts of interest groups, reaching sustainable development, and maximizing prosperity. The authors take into account the advantages and disadvantages of the radical and of the gradualist approach to transition and propose formulating a development strategy that would contain combined elements of plan and market mechanisms. They believe that the process of transition lacks a clear development strategy, and that the quality of the existing development strategy of Serbia until 2010 is such that it cannot be understood as a serious approach to the transition issue. The authors stress the consequences of undergoing transition without a development strategy, that include inappropriate dynamic and sequence of reforms; a lack of coordination between development policy, macroeconomic policy, market reforms, and spatial planning policy; higher costs of transition, insufficient rate of economic growth, etc. They offer proposals for a comprehensive development framework (CDF) and for strategic planning of territorial industrial development.*

**Key words:** *development strategy, transition, strategic planning, sustainable development*

## INTRODUCTION

Strategic approach to development provides economic subjects with indicators of the economic and development policy of the state in the period of several years. It also provides those who immediately prepare and carry out measures of macroeconomic and development policy with a framework for achieving desired goals. In the process of transition from planned to market economy, strategy gains in importance in comparison with less crucial periods, because the possibility of erroneous

polycymaking is more prominent, and the conflicts between interest groups more frequent. Strategy allows for a multi-variant approach to development and for a dynamic elaboration of the sequence of moves. Its goal is neutralizing basic conflicts, achieving sustainable development and maximizing prosperity.

The process of transition in Serbian economy is marked by a lack of a clear strategy of development. This is perhaps the most serious limitation of the present phase of the transition

process. The consequences of this approach are loss of precious time and energy, huge intensification of existing conflicts, insufficient growth rate, and the danger of dubious end results in respect to transitioning towards a market economy.

The Ministry of Science, Technology and Development of the Republic of Serbia started to create the "Strategy of Economic Development of Serbia until 2010". However, there are two basic reasons why the aforementioned document does not represent

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an adequate response to the question: "How is transition to be undertaken?" One of them is that its quality does not allow it to be considered a serious enough approach to this question. The second one is that even the Government, which initiated the drafting of a development strategy, did not find it appropriate to adopt this document as an official bill.

What could be done under such circumstances? The seriousness of negative consequences mentioned earlier is a reason to start making an official strategy, even at the price of being late, since this would at least partially neutralise the negative consequences of up to date activity. One cannot attempt to provide a comprehensive picture of a desirable development strategy in a paper of this length. However, on the basis of a critical analysis of the existing document, it is possible to point out to traps that should be avoided, and, indeed, sketch the basic contents of a development strategy.

### **THE IMPORTANCE OF A DEVELOPMENT STRATEGY FOR SUCCESSFUL TRANSITION**

In the period of transition from a planned towards a market economy, it is important to combine adequately the elements of plan and market mechanisms in shaping economic flows. At present, a large number of highly developed market economies resort to the plan mechanism of directing the economy on various levels of government and to different extent, depending on tradition, the nature of the governing political system, historical experience and other factors (Madzar Lj. and others, 2002). The most important reasons for worse than optimal effects of market mechanisms, and thus, for combining market and plan mechanisms in managing development are considered to be (Filipovic M. and others, 2002):

- Natural monopolies, a case in which the market mechanism and the relation between supply and demand do not give optimal solutions, especially regarding production and efficiency of territorial distribution;
- Activities with great external effects, such as infrastructure systems, telecommunications, public transport;
- Environmental protection, as a field in which

giving way to market mechanisms does not lead to optimal results, especially due to the increased lack of natural resources, above all water, power and air

In the European Union coordination and matching general and particular interests and politics have recently become important, and member countries, as well as candidates or future candidates for membership in the EU, strive to follow up. In the united market of the European Union, where there are no obstacles to the flows of people, goods and capital, and where the measures of deregulation and anti-monopoly legislation are in effect, macroeconomic and development policies gain a supranational character. This entails a great level of coordination between strategies and ordinances of member countries. According to Vujosevic M., 2002, The Union still represents an 'incomplete entity' of its kind, despite the fact that the recent processes of harmonisation and integration have caused an irreversible trend from a 'confederation of states' towards a 'federation' with a unified legal system. Since our country has the ambition to gain membership in the EU in the near future, the strategy of economic development, together with macroeconomic and development policies, should be envisioned in such a way that its content is coordinated with the requirements that membership in the EU entails.

During the past decade, countries in transition have witnessed a trend of minimizing the plan mechanism that was overly used in the previous period. This was an especially marked tendency during the first years of transition, when the approach of "shock therapy" dominated, and its greatest proponents were the representatives of international financial organisations, primarily the IMF and the World Bank, and among economic theorists Sax G., Lipton D., and Kornai J. At that time, at the beginning of the 90s, they insisted on radical and quick reform. This did not include elaborating particular measures and their sequence, and the general framework for transition was sketched out only roughly: first stabilisation, then privatisation and restructuring. This radical transitional strategy turned, however to be inadequate, especially in the domain of social services. The instructions of international financial organisations gave the

most questionable results in Russia and the countries of the former Soviet Union. Key issues of controversy among economic experts (Nellis J., 1999, Stiglitz J. E., 1999) are: the speed and sequence of moves in transition, privatisation and the basic model of privatisation, and the kind and sequence of steps in privatising and restructuring large companies.

The approach known as "market fundamentalism" has recently become outdated, and, according to Vujošević M., 2002, "in countries where the so-called liberalist discourse dominates among the elites, general anti-plan attitude reaches fascinating dimensions, and even the use of the word 'planning' is avoided because of its ideological connotations and the relation to the GOSPLAN (Russian abbr. for State Plan) model". Economists who advocate a more balanced approach to transition have recently prevailed over those who insist on the exclusive use of market mechanisms (Stiglic J., Gupta, Nelis A.). Regarding the speed and sequence of steps, these economists advocate a step-by-step approach and the importance of establishing market institutions and legislation. As for the basic model of privatisation, they advocate minimising social cost, overcoming conflicts between the most important interest groups, and distributing social cost more evenly with the aim of preserving social consensus (Hadzic M., 2001). Insisting on "shock therapy", radical and quick changes, without a clearly defined strategy of transition and economic development seen from a larger perspective (the basic characteristics of the official approach to transition in Serbia) would thus, at the beginning of the new millennium, best be described as a belated fashion craze, and in terms of content as "market fundamentalism", an approach that is, on the whole, outdated.

Managing complex systems in the economy and the society as a whole is enhanced by an appropriate development strategy, which serves as a basic plan that makes it easier to take adequate steps, define goals and compare achieved results with initial objectives. Measures can be corrected and the sequence of steps can be changed for greater efficiency. Minimising planning (and the formulation of a development strategy immanent to it), or of negating its role and relying exclusively on

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market mechanisms of economic management can have grave consequences. They include lower than optimal growth rates and resistance to the 'project' of transition in major social groups. It is unclear when, how, and how much compensation will be received by those social groups that suffered losses at the outset of the transition process. The worst consequence of looking down on planning, in terms of managing economic development, is a possible political downfall of those pioneering the transition process and historical regression.

Formulating a development strategy and using both plan and market elements in managing the economy and its development in the process of transition is important for the following reasons:

- It is a way to overcome conflicts inherent in economic development in the phase of transition, the most prominent ones being those caused by a desire for rapid economic restructuring. This tendency opens up the problems of labour surplus and desire for quick gain shared by all social groups. In this respect a development strategy provides a choice of options that minimise the mentioned conflicts.
- A strategy of transition and economic/social development, if it satisfies the demands of most important social groups and their representatives, helps create and preserve social consensus. Consensus allows for temporarily sacrificing interests of particular interest groups for the sake of achieving development goals. It also helps neutralize union pressure to rapidly increase real wages (in comparison to the growth of the GDP), at the expense of stability and the speed of economic development.
- Official development strategy allows for a multi-variant approach to development. If there is no strategy of transition and development (as it is the case in our country today), then particular ordinances and measures of macroeconomic and development policy are treated as exclusive. This makes room for conflicts between social groups, violating the consensus and political demise of those advocating transition. Strategy formulates alternative directions for achieving goals, on the basis of several development scenarios.

This facilitates negotiation on development tracks and particular measures between three parties (the state – employers – unions), and also facilitates correcting development and economic policy "on the go" in case the measures are not giving planned results.

- The implementation of transition steps is easier and of better quality when there is a development strategy. If a plan and a sequence of steps are prepared, it is easier to implement measures of development and economic policy, because they are coordinated. Measures and steps frequently have adverse consequences or they cause effects that appear with a time lag.
- It is easier to assess results and modify policies. It is increasingly important to compare planned with realised effects of policymaking, in order to correct the measures and devices of development and economic policy for achieving better results. (World Bank, 1999)

#### **THE CONSEQUENCES OF NOT HAVING A DEVELOPMENT MODEL**

In the last decade our country did not undergo serious transformation regarding a transition towards a market economy. Transition steps started in the early 90s were inconsistent, due to external circumstances and the ill-defined relationship of the government to transition. Thus our economy, which was among the pioneers of transition in the beginning of the 90s, ended up being in the third group of transition economies according to the scope of market reform. It is well known that power balance between the political advocates and adversaries of market reform is key to the success of transition. Due to the consequences of reform measures, which are never neutral, there always are both "winners" and "losers" in every phase of the transition process. The winners are usually newly established small and medium companies, private entrepreneurship, companies formed with direct foreign investments, some social classes. There are two kinds of losers – influential ones and those who are not (according to "Reform Strategy", 2003). The former have at their disposal powerful means to stop reform and turn it into a quasi-reform of inconsistent nature, one that is not sustainable and is far away from a full market economy. Some economists (Gali• J.,

Radovanovic M., Fabris N., 1998) even doubt that anything of some significance was achieved during the past decade.

The political changes of October 2002 opened up room for accelerating economic transformation. After years of political crisis, real chances for intensifying development appeared. A condition for that was the return of the country into the international community, particularly into international financial institutions. According to Begovic B. (2003), formulating and realising the macroeconomic policy in our country is under the supervision of the IMF, as part of the EFF arrangement, and its conclusions are that "the risks of future macroeconomic policy are relatively small, having in mind that the local financial authorities have demonstrated loyalty to full collaboration with the IMF". According to Begovic B. (2003), true reform started with democratic changes in 2000, and it was based on the transition experiences of Eastern European countries. The first phase of this reform involved a reform of economic policies. Because of the political crossroads in 2003, marked by a consolidation of the adversaries of the reform, further transition has been brought into question. A much more difficult phase of the reform is ahead – a comprehensive reform of institutions (according to "Reform Strategy", 2003). In the previous period serious steps towards a market transformation of the economy have been taken. They include a liberalisation of export and import, a liberalisation of the domestic market, the Privatisation Act, the Act on Foreign Investments, and changes in tax laws. However, these transition steps are generally sporadic, inadequate, and lack a strategic framework. It is the very lack of a clear development and transition strategy that represents the most important characteristic and the most serious shortcoming of the current economic situation. The Federal Government and the Government of Serbia have not prepared a general, comprehensive strategy of development, with a transition strategy as its most prominent element. Thus the state is involved with reform in a piecemeal manner, without a clear vision of the steps to come. The effects of changes undertaken are unclear, as well.

The roots of this lack of development strategy and coordination in macroeconomic and

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development policy lie in the neo-liberal approach, lately outdated, but prevalent in transition economies in the beginning of the 1990s. This approach was imposed as dominant, and any mention of a strategy or a model of development (transition) was seen as unacceptable "blasphemy" against the market, because the market and its laws were simplified and reduced to an anarchic atomised economy, and strategy or a model of development were wrongly identified with planning and planned economy (see Hadzic M., 2001).

The consequences of managing transition without a (clear) strategy of development and a clear sequence of steps are potentially numerous and extremely serious:

- *The reforms may be erratic, because those who are designing and carrying out the implementation of reforms may overlook or be unaware of all moves that should be undertaken.* They may also overlook important, but seemingly less crucial steps that need to be taken, and they may not be aware of the adequate sequence of steps, important for their success. In our country, the reform in the domain of market liberalization and the import and export regime has gone very far, privatisation less so, and the process of reforming the financial system and establishing financial institutions is lagging behind.
- *There can be a lack of coordination between development policy, macroeconomic policy and market reform.* The lack of a development strategy and an elaborated sequence of steps in the process of adaptation to market conditions can easily lead to a lack of coordination and contradiction between individual measures. For example, the radical liberalization of the regime of foreign trade was carried out in this way after the political changes of 2000.
- *Much time can be lost explaining and discussing every significant measure or change of policy.* It takes many people, much time, and great economic resources to prepare and design a comprehensive strategy of economic and social development, but after its contents are coordinated, and the sequence of steps known, there is no further loss of time on discussing reform steps without a general insight into all steps in the reform.

- *When measures are undertaken without a comprehensive and clear strategy, without mutual correspondence and according to a time schedule that is not necessarily clear to the majority of interested parties, consensus of the most prominent social groups can be violated.* At the time when the Privatization Act was passed (2001), there was no official development strategy. Several months of unnecessary discussion showed that a model of privatisation aimed primarily at potential foreign strategic partners can violate the consensus created after the political changes in October 2000.

- *The costs of transition are higher.* A reform that is not accompanied by a clear strategy of development can run into serious social costs that endanger the reform itself. For example, the four largest local banks shouldn't have all been closed at the same time. Although this was justified by a lack of funds to rehabilitate them, it was imprudent because it was simultaneous. A dynamic sequence of moves would have alleviated tensions caused by labour surplus.
- *The end result of transition without a strategy is a lower than optimal rate of the GDP growth.* Without elaborating a comprehensive development concept and the sequence of steps the optimal rates of growth cannot be expected. During the tax reform in 2001, the lack of a global overview of reform moves prevented taking into account the extreme growth of budget income. Consequently, tax rates were not corrected, and the burden imposed on the economy and the population (expressed as the ratio of tax income and public expenditure to the GDP) stayed the same. The end result was not additional growth, but a stifling of the economy under the burden of undiminished duties and greater tax discipline.
- *So-called "transitional recession" can appear in the initial stages of transition, as a consequence of reorganising companies, decreased production and the GDP.* According to the experiences of Eastern European countries, this recession is caused by negative rates of economic growth, that is, by a process in which "healthy" parts and resources from inefficient companies are used in newly founded enterprises. This is the method to

provide sustainable economic growth and to achieve increased levels of the GDP in the beginning of transition. New private enterprises become the "generators" of sustainable economic growth. According to Begovic B. (2003), transitional recession cannot be avoided, and in Serbia it occurred without transition and before transition, as a consequence of political events during the 1990s, wars, international sanctions, etc. In 2000, after political changes, when reform was continued, the level of the overall GDP and the GDP per capita was 40% of its value in 1990. Begovic B. (2003) asks whether in the years to follow Serbia is about to experience a true drastic transitional recession and predicts that negative growth rates will not be recorded in Serbia. An answer to this question could be a comprehensive strategy of development and transition.

- *If the errors in macroeconomic and development policy and in implementing reform steps pile up, the end result of reform can be endangered.* If there is a forced, tardy or uncoordinated policy instead of a coherent one, the negative consequences on economic growth can cause social tensions to grow. It may happen that the advocates of reform exit the political scene even before they finish key transition tasks. (This happened in the beginning of 2004.)

#### **A CRITICAL REVIEW OF THE STRATEGY OF LONG-TERM ECONOMIC DEVELOPMENT OF SERBIA**

Although the Government of the Republic of Serbia gave the initiative for making the "Strategy of Economic Development of Serbia until 2010", the document prepared by the expert team formed by the Ministry for Science, Technology and Development has never been adopted by the Government as a proposal and it has not been passed on to another institution, such as the Parliament, and it cannot be considered an official development strategy. Therefore, Serbia does not have an official strategy of development or a strategy of transition.

Since the beginning of the 1990s, there has been no legal requirement for producing development (plan) documents. The consequences of the insufficient involvement of experts in creating these development policy documents are apparent in the Strategy Proposal. They boil

down to an inadequate professional level in respect to the technique and technology of document making. In the introduction, the authors describe the methodology used and their typical approach, which economists often call the "engineering approach". This approach is distinguished by an inadequate content, reduced to a list of development requirements in terms of labour and technology, and the investment amounts necessary, which are established in the section on measures and policy. Requirements in terms of labour and investments are formulated for each branch of economy analysed. The document in question is actually author's wish list. These wishes are the desired development goals set by the authors, but they do not reflect a serious approach to development that starts with the constraints and development potentials, that uses measures and policies to achieve development goals, such as particular growth rates and a particular level of development. The overall goal encompassing all development objectives is to quickly catch up with the transition economies in the environment after a decade lost in terms of development. The dynamic of development and other relevant parameters are subordinated to this goal, which is, all in all, far from reality.

The vision and objectives of economic development of Serbia formulated in the "Strategy of Economic Development of Serbia until 2010" give preference to sustainable development of Serbian economy, in the sense of achieving a constantly sustainable growth. This approach to studying complex social, economic and ecological/spatial issues in the period of transition towards a market economy does not have an all-inclusive character. The positions on the role of the market, private property, and foreign investments are not very clear. Thus it remains unclear which development option is the foundation of "The Strategy..." It seems that it was necessary to render market, plan, and mixed versions of the development strategy for the following period. In the potential option of mixed economic strategy there would be a parallel and responsible role for both the state and the companies, especially the newly established small and medium enterprises. There would be a combination between the role of the market and an adequate state protection for the key

players in the process of restructuring and privatisation. Yet, such an option is not even sketched out in the "Strategy".

In terms of transition, the model offered corresponds neither to the earlier, nor to the newer model of transition towards market economy. This means that the propositions of the "Strategy of Economic Development of Serbia until 2010" are not based on a neo-liberal approach, typical and dominant at the beginning of the nineties. In the document offered, there is not a single word about a transition towards a market economy "in one step", about a "transitional shock", or a "radical approach" to transition. There is no stress on the speed and the drastic character of reforms, without taking into account the fact that the transition steps and their sequence have not yet been elaborated. There is no stress on the use of the achieved consensus about the need for the transition towards a market economy, and no mention of the wave of enthusiasm for change existing in the major social classes. Having in mind that the approach in the "Strategy" is one sided, exclusively economic, it could be said that it has the indirect features of a neo-liberal strategic attitude. The model of development it offers is not based on the, lately prevailing, gradualist approach to transition. There are three key points characteristic for the gradualist approach to transition. They are: the gradual transition towards a market economy, depending on the speed of establishing appropriate legislation and market institutions; a dominant insider model of privatisation, preferred because it imposes lower social costs and does not jeopardise so severely the consensus of the most important interest groups in the population; and the sequence of steps in privatising large companies, where privatisation is preferred over restructuring the enterprises. The strategy of long-term development offered does not answer to the key questions regarding transition – it does not commit either to the radical or to the gradual approach.

The problems and limitations of the transition period are particularly neglected in the document. It is apparent that the designers of the strategy played down the costs and the resistances that inevitable appear during transition towards a market economy, espe-

cially those of social character. This is a reason that such a document cannot answer the challenges that those who create and realise the development and economic policy face. It puts them in an inferior position, with the added danger of a negative end result, brought about by not taking measures to neutralise problems and resistances.

When it comes to industrial development, the so-called "neuralgic points" in the economy have their spatial form:

- The process of privatisation has direct effects on the element of spatial structure, structure of cities and other settlements, the changes in the structure of economic activities, employment, unemployment, social problems, the use of public property and resources, overdevelopment of particular areas, the changes in real-estate prices, etc;
- There is a lack of coordination between economic policies and the policies of urban and spatial development, regional policies, policies of innovation, policies of using construction land, etc. It is well known that the mechanisms and levers of spatial development are beyond the domain of spatial planning.
- The development of small and medium enterprises is left to chance in terms of economic branches and spatial allocation. There are usually no equipped and prepared sites, there are no exact rules of construction, and the road to getting building (construction) permits, approvals, etc. is full of barriers. It is necessary to remove all the barriers and create the institutional conditions for efficient functioning and directing industrial development and allocation. There is no adequate policy of changing the industrial/economic structure (as the vehicle of all reforms in the economy and the society), as well as no policy of spatial development of industry (and small and medium enterprises) on the strategic and local level.

It has not been noted that the basic assumptions and the strategic framework of the future development of Serbia until 2010, in a period of social and economic transition towards a market economy, have consequences in:

- Strategic planning of spatial development of industry (approach, methods, criteria, location factors, location forms and spatial organisation, implementation, etc.)

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- The interactive relationship between the process of privatisation, space, and solving property issues (privatisation and its effect upon the transformation key spatial elements – regional and local economic structure, kind and type of activities, employment, the emergence of labour surplus, the change in urban matrix, the importance of construction land and sites, the value of real-estate, etc.)

- The domain of environmental protection – the adherence to principles of sustainable development on the level of an industrial branch and the level of a particular enterprise (eco-efficiency and the use of resources/material inputs, the protection of public property, eliminating/alleviating the negative effects environmental quality etc.)

The “Strategy...” does not assign any importance to spatial elements affecting development, not even on the level of distinguishing between developed and underdeveloped areas, establishing “corridors” and “key points” of development, environmental protection, etc.

What possibly worries most, at a time when a feasibility study for future membership in the European Union is being made, is the fact that the document, despite declarations of support for this project, does not correspond (or corresponds vaguely and sporadically) to the extremely lengthy and detailed requirements that the present and future members of the Union are expected to satisfy. This primarily concerns obligations in the domain of regional economic cooperation as a way for the countries in South-Eastern Europe to become ready for membership. In terms of contents, the issues in question concern the framework for development policy in the domains of energy, environmental protection, infrastructure, spatial development, agriculture, etc. In brief, it is a matter of content appropriate for sustainable development. It is also a matter of the set of macroeconomic policies, which have to adhere to postulates accepted in market economies and in the countries aspiring to join the European Union or are already its members. In this case it is a matter of a large number of standards and norms in policy making. The macroeconomic policies of these countries are characterised by a uniformity of objectives and modalities and a supra-national character they aspire to (Vujosevic M., 2002).

One could argue that, in the current stage of transition and development, it would be too early to compare the development and economic policy to the requirements for membership in the European Union. However, on the basis of domestic experience, and primarily on the basis of sluggishness and superficiality characteristic for everything undertaken in the sign of pro-European tendencies, the aforementioned requirements need to be faced now, in order to assure normal functioning in the European environment as soon as possible.

The dominant approach in the Strategy is sector oriented, and there is not attempt to designate or integrate other important segments of development (social, spatial, ecological, etc.) At that, no general method or model of development was used to ground development requirements to support or help argue for particular strategic choices. There are no projections of macro variables, gravitation models, input/output models, methods of cost benefit analysis, scenarios of development, etc. Quantitative requirements are often idealised (for example the ratio of export in the GDP of 45%), sometimes they are unrealistic, even insufficiently researched, or simply without proof. Thus the adequacy of the proposed strategic choice of the sector for achieving development goals can be questioned. The lack of analytic and prognostic approach to transition problems and an analytic and prognostic method to overcome existing structural disorder in the economy is evident. There is an impression that the authors believe in an invisible hand that will lead Serbia into the EU. The lack of ground and arguments for the assumptions, evaluations, and projections lend the entire approach to the strategy a magical quality. It is so speculative that it is highly doubtful that the general and particular goals of economic development it sets forth can be achieved.

The model of developing individual economic sectors is very well elaborated in the Strategy, to the level of particular industrial branches (27 of them) and particular products within a branch. However, there was no room in the model for elaborating on tertiary activities, which should develop extremely quickly in the period of adjusting the local economy and which should become the main pillar of the economic structure and its future development.

The model offered would be welcome if it facilitated the mobilisation of competent institutions and social classes relevant for implementing the strategy. Still, a macroeconomic document has to offer a clear and precise general model that particular institutional authorities fit into. The strategy offered here is overly fragmented and lacks a clearly described global macroeconomic model of transition and accelerated development.

Strategy represents guidelines and a framework for those who create and implement macroeconomic and development policies, and who use it based on a correspondence between the projected and the realised. For managers on the micro-level it is an indicator of future policies and the future economic environment.

The authors of the document chose a total of 23 sectors of the economy, and then they elaborated development models for each individual sector. These sectors contribute 70% of the GDP. This reflects a static approach to the development and the establishment of comparative advantages of the national economy, since focus is on sectors contributing 70% of the GDP today instead on those that will contribute that share in 2010. Although the potential development of the global economy in the period covered by the strategy was analysed first, as a frame for the development of the national economy, existing tendencies in the local economy were not taken into consideration. One of the key problems of the local economy is its ‘heavy’ economic structure, characterised by an overly large industrial segment (40%), and, as part of industry, the production of energy and raw materials. This typical structure of the GDP was formed in the 1970s, and it has persisted from year to year without any greater change. At the same time, developed and rapidly developing economies carried out national readjustments of economic structure in the 1980s and 1990s, and found the pillars of development in tertiary activities (retail, handicrafts, public services, financial services). These activities are will have higher than average growth and will, together with other tertiary activities, have a principal share in future economic structure. An extremely important component of transition – structural modification of the economy and company restructuring – is not mentioned in the text of

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the Strategy, and “the necessity of deep and comprehensive reconstruction of the Serbian economy” is stressed instead. This is an additional symptom of the engineering approach that prevails in the Strategy.

The document does not propose founding development on tertiary activities, but instead on high technology and specific services. It promotes “the agricultural complex, fine chemistry, pharmaceuticals, information and communication technology, a part of the electronics industry and the service sector (transportation, trade, tourism, special services)” as pillars of future economic development of Serbia. The problem with this approach is the partial (in) acceptability of the proposals and arguments. The emphasis put on the role of the aforementioned sectors is justified by their multiplication, the existence of human resources and the existence of companies that are national leaders in these segments. It is certain that the whole of the agricultural complex cannot be the competitive advantage of the local economy, although some of its segments can. It should be noted that the share of the primary sector in the GDP is high (20%). The whole of the sector of information and communication technology cannot be the competitive advantage, either, but only some of its segments. To emphasize tertiary activities as a possible competitive advantage is contradictory, since in spite of that position some of the most important services are not elaborated in the Strategy. In addition to that, the static approach to developing competitive advantages is repeated – the strategy is based on the current existence of companies that are national leaders in particular activities (i.e. on the already existing capacities), instead of possible courses of future development.

A separate issue described in the “Strategy” is the grey economy and its role in economic development. The authors start from the ungrounded belief in the importance of the grey economy. They claim that “the grey economy contributed around 40% of the real national product of Serbia in 2000”. There are studies, including those compiled by the Economic Institute (1996 and 1998), which estimate that the grey economy makes around one third of the GDP. It is only in the years of hyperinflation (1992 and 1993) that the grey economy is

estimated to be more than 40% of the GDP. Due to overestimating the grey economy, this scenario differs from what could be called a realistic and optimistic scenario of development. The extent to which grey zone activities have been redirected into legal channels is miscalculated. Simply put, the effects that redirecting the economy from grey into legal channels can have on GDP dynamic have been overestimated. In addition to that, the expectations that the grey economy can be reduced to 20-30% of its present scope are overly ambitious, since the neighbouring countries also have a high share of grey economy in the overall economic activity, even the developed ones, like Italy. These expectations are even less founded if there is no drastic change in the approach to formulating fiscal policy, and public expenditure stays at 50% of the GDP, instead of appropriate 30-40% – the estimated true fiscal capacity of the economy and the population. Instead of taking this route, which would obviously be in contrary to the existing approach of competent authorities, the authors of the Strategy emphasises “low budget deficit” as an objective of fiscal policy. This is the contemporary successful approach of competitive strategies in formulating macroeconomic policies. It could be the right move in some other economy in which the fiscal burden has already been reduced to a level that allows for development, that is, a level that matches the abilities of tax payers to bear the burden. At this level of development it is crucial to decrease public expenditure for at least 5-10% of the GDP. This is demonstrated by the fact that the GDP growth lagged behind the attainable in the years after the political changes in the country and the start of transition processes. The option of seriously reducing tax rates was not used, although the state would have possibly had the approximately same level of public income, due to faster GDP growth and more fiscal rigour. This shows that tax reform has not been undertaken. Best evidence that there was ample room for alleviating the tax burden in 2001 is that, instead of the planned public expenditure deficit of 5-6% of the GDP, the deficit in this year was only 1%.

The paucity of measures that the Strategy proposes, especially those for stimulating the acceleration of development, is astonishing.

The authors typically keep the habits from the period of planned economic management, when there were widely accessible financial resources. They write of “allowing wide access to resources with low interest rates for financing industrial and commercial activities”. It is as if they advocated opening the old Pandora’s box of so-called ‘budget financing’, typical for all planned economies, including ours, where commercial banks were institutions for distributing money. The banks would supply the economy with necessary funding, which would be devaluated through inflation or some other known way, or would simply be written off.

The tendency towards simplification is especially evident in the chapter with the process, i.e. strategy of transition, structural adjustment and corporate restructuring. The authors claim that the essence of corporate restructuring is privatisation. In this manner, a wide-ranging and multifaceted process is reduced to privatisation, an important, but not its only aspect.

The vision of the future Serbian economy can be summed up as: high standard of living, an attractive environment for investors, employment. The vision of future Serbia is elaborated in eight points that confuse objectives with the economic environment. One of the objectives is exporting around 45% of the GDP, which is nothing new, but it is necessary and can be realised mid-term. The Strategy advocates “purging junk dealership and producing what one can and knows how to do well” and an environment that “provides good opportunities for investment, employment, and development”; it points to the necessity to build an economy that is “attractive to investors and young educated work force”. The Strategy promotes an economy that has found its place between technologically highly developed economies and economies that have cheap labour as their competitive advantage.

The goals of the development strategy are determined in a manner similar to the aforementioned vision. Primary goals set in the Strategy are: 1) achieving a highly satisfying international competitiveness, 2) the development of economic structure that could be integrated with the economy of the EU with

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least cost and effort, and 3) economic development with an increased role of knowledge. The secondary goals are: 1) employment increase and the increase in using capacities and 2) GDP growth. Our key objection is that, although they are not entirely unacceptable in terms of content, goals formulated in this manner cannot be a factor that would forcefully mobilise the participants in economic development. Instead of all that is mentioned above, the vision could entail: 1) establishing a social welfare and market state, 2) structural adjustment based on above average development of tertiary activities, 3) achieving the level of export of 40-50% of the GDP and 4) reaching a certain level of the standard of living as measured by GDP per capita (for example, 7000 USD).

#### **WHAT CAN BE DONE, OR WHAT TYPE OF A DEVELOPMENT STRATEGY?**

The most important result of the discussion led in international financial organisation on the basis of ten years of mixed experience in undergoing transition, and in opposition to the transition strategies of the IMF and the World Bank, is the formulation of a new development paradigm – the comprehensive development framework (CDF). This approach is based on four interconnected principles (World Bank, 1999, and Woferson J.D., 1999):

- Integrated and long-term holistic development strategy or agenda
- Independently developed strategy
- Implementation of strategy through partnership, and
- Focus on development results

It is primarily the representatives of the World Bank who advocate the holistic development strategy, as an alternative to the typical recommendations of the IMF from the beginning of the 1990s, which were extremely neo-liberal and in many characteristics one-dimensional – strictly economic, without any consideration of other important aspects of development. A holistic, comprehensive approach does not entail creating only the strategy of economic development, although this is the skeleton of any development strategy, but also the elaboration of social, cultural, demographic, environmental, spatial, and other objectives and politics. Otherwise, the strategy is reduced to a one-

dimensional, or in the best case, multidimensional approach, which is outdated at present, because it intensifies, instead of weakening structural, regional, and other imbalances and conflicts. A comprehensive development strategy entails defining well-balanced and mutually integrated strategies: macroeconomic, structural, social, and infrastructural policies of development. Such a strategy should be based on adequately paced analytic work and should set development goals that are coordinated with global goals of development.

A long-term development strategy relies on a comprehensive and in-depth diagnosis. It determines the key areas of development and its participants, including internal and external players. Although it should be prepared and realised in collaboration with international players, a comprehensive development strategy should be defined and implemented independently. It means teaming up and collaborating with international organisations, but not the dictatorship of these organisations, including international financial institutions. The case of Slovenia shows that this is possible. This country implemented its policy of transition without financial or advisory help, and especially without IMF restrictions. In our case, the level of debt did not allow for entirely independent action, but the dictatorship of international organisations was unnecessary, as well as the obedient attentiveness of local authorities. For example, the propositions of the current Privatisation Act from 2001 were needlessly and unrealistically gauged exclusively for potential international strategic investors, and the measures of liberalising foreign trade were radical and lacked a gradual programme.

The strategy should be built and implemented on the basis of a consensus of the most important social interest groups – the government, employers, unions, etc. The strategy of transition, development, economic, and other policies should be formulated in a partnership between the most important interest groups and should be acceptable to them. It is necessary, especially in respect to the social costs of transition, that the dynamic and the sequence of steps are known in advance. This way particular social groups would know when they will lose, and when they

will gain. Otherwise, conflicts can emerge that can jeopardise the very process of transitioning towards a market economy.

The strategy should also identify clashes, bottlenecks, connections, present and potential competitive advantages and synergies. In order to be successful, it must be translated into a mid-term framework of budget management and expenditure, and into a development and economic policy. When implementing the development strategy, the makers of development and economic policy should be focused on the results of development. A multi-variant approach is needed, so that the existing policy could be corrected on the level of the general strategy and particular policies

In a desirable development strategy for the domestic economy, the most important development objective is achieving sustainable development. The starting points for achieving this objective are the existing structural imbalances, the incomplete reform of the economic system and insufficiently developed market institutions, as well as the need to enter the regional and the global markets. The initial steps in recovering the domestic economy can be based on an increased use of existing capacities, but a successful return to the global market requires a structurally transformed economy. This means that privatisation (as well as other elements of corporate restructuring) is very important as a necessary step, but the development of new small and medium enterprises is more crucial, since it is essential for significant increase in production, the development of new competitive advantages, the successful appearance in the global market, and taking care of surplus labour. Finishing the reform is of essential importance.

According to Hadzic M. (1998), the objective of sustainable development could be made operational through:

- Economic transition toward market economy
- Structural adjustment, restructuring companies and banks
- Strategy of opening up to the global market

One of the basic conditions for achieving sustainable development is undergoing the process of transition, i.e. transitioning from an inefficient economy towards a market oriented one. The process of transition entails



complementing the market economic system with market institutions and legislation. This requires changing the existing and creating new legal stipulations that would correspond with legislation in other market economies, especially the legislation in the EU. Apart from passing a series of new laws and changing the existing laws to match international market standards, there is ample room in legal execution, especially in the domain of property law and contract law.

Privatisation entails synchronous activity in several domains, and various models gain different importance in time. Creating the conditions for smooth functioning of the markets – the market of goods (commodities and services), the market of production factors (labour and capital) and the property and other exchange values market of – entails establishing the absent and building the existing institutions, an increased level of competitiveness, the beginning of politics of competitiveness, the beginnings of anti-monopoly legislation, obeying legal regulations, and opening the market to foreign economies.

The aim of undertaking structural adjustments and restructuring companies and banks is to create a critical mass of economic actors capable of operating under strict budget constraints. If economic actors are unhealthy, the reaction of the economy to the economic policy is inappropriate, and the effects of measures undertaken inadequate. The policy of structural change should be aimed at overcoming the existing structural disproportions, increasing the share of tertiary activities in the GDP, increasing the importance of small and medium companies and the private sector in the economy. Macroeconomic restructuring entails changing the structure of supply so as to increase the standard of goods and services, specialisation, standardisation, and product quality. On the microeconomic level, the course of action is two-directional: *offensive* in terms of creating new enterprises, primarily in tertiary branches, in terms of creating small and medium private enterprises oriented towards foreign markets, and *defensive* in terms of a comprehensive corporate restructuring, especially of those companies that have problems, that includes changes in organisation, property, finances, program, technology, and labour.

The process of restructuring includes the banking (financial) sector. This process involves financial consolidation and rehabilitation of banks, which is to a great extent on its way. An important element of restructuring the financial system is its opening towards the global market. Initial steps have been taken by giving licences to foreign banks and initiating mergers with foreign banks. In the process of developing the financial market, the necessary legal regulations are still unfinished.

The strategy of opening up to the global market stresses the importance of joining international economic flows and intensifying foreign trade exchange. This orientation can be achieved by giving priority to the entire export sector, which is very important for overcoming the limits of the domestic market. A more intense participation of local enterprises in the global economy increases the competitiveness of local enterprises because it motivates them through the process of liberalisation. The aims of implementing a development strategy oriented towards the global market are the greater competitiveness of the domestic economy, increase in economic efficiency and specialisation in manufacturing and services. The policy of opening up should be based on a real and stable exchange rate of the dinar, the liberalisation of import and export, opening up to foreign investments and encouraging them.

#### **THE FRAMEWORK FOR STRATEGIC PLANNING OF THE TERRITORIAL DEVELOPMENT OF INDUSTRY**

One of the paradigms in planning the development and spatial distribution of industry is optimisation and efficiency of functions and activities, superstructure and infrastructure, blocks of buildings, particular buildings and industrial plants. Strategic development planning entails determining the mode of spatial organisation for achieving (allocating) development programs and is, also the means for introducing and scrutinising planning ideas (see Zekovic S., 1997). Strategic planning for developing a particular area on all levels entails orchestrating available/key resources to create competitive advantages, along with choosing planning frameworks, objectives and determinants. *Strategic planning of territorial development entails managing and creating*

*change*, i.e. ways of restructuring the development process in its socio-economic, spatial and ecological context, new spatial organisation, creating a role for new development and location factors, the change in the role of space and “ecological factors”, the change (decrease) in the number of levels of management, better management in the domain of particular parts/entities, etc.

#### **Approach and Principles in Creating the Spatial Development of Industry**

Strategic development planning entails different methodological approaches and development planning activities. Based on the experiences of countries in transition, and in accordance with the EU principles of spatial planning and principles of sustainable development, new trends in spatial planning are directed towards changing the methodology and the content of planning. In the period of transition towards market economy and changes in the socio-economic system, the basic principles of strategic development have been significantly changed in comparison to recent practice due to new turbulent changes in all economic, social and spatial systems.

One of the key issues in creating a new approach to strategic planning of the spatial development of industry are the attitude to new, turbulent changes, and environmental conditions, expected changes (in the professional methodological portfolio), and the acceptance of external, real and rapidly growing changes in the socio-economic, political and other domains. The acceleration of strategic changes is apparent in the socio-economic environment. These changes can be classified into three types:

- evolutionary changes (in small increments)
- disruption of balance (for example, the decrease in the number of management or decision making levels)
- revolutionary changes.

The character of these changes can be (1) incremental – (a) fine-tuning changes and (b) adjustment, adaptation, or (2) truly transformational/transitional, through (a) planned transformation or (b) forced transformation. The role of strategic planning in the case of incremental change of the adjustment/adap-

tation type and the transformational change of the forced type is reactive. The role of strategic planning is proactive in the case of incremental change of the assessment type and in the case of planned/created transformation (Table 1).

Table 1: Types of Strategic Change – Nature of Change (According to Masic B., 2003)

The Role of Strategic Planning	TYPE OF CHANGE	
	PROACTIVE	1. Incremental Change
a) Fine-tuning		a) Planned Transformation
REACTIVE	b) Adaptation	b) Forced Transformation

### The change in the Role of Space and Location Factors in Planning Industrial Development

Earlier theory and practice of strategic planning of industrial development and planning particular industrial investments gave relatively little importance to space and the environment. However, due to greater awareness of the increased role of space and the environment as limiting factors in planning industrial development, "conflicting" approaches to managing location and ecological aspects of future investment moves have appeared. According to traditional economic theories, it is investment of capital and employment that determine industrial development, whereas technical progress and the location are not taken into account. However, the neoclassical theory of proportional factors, which does take into account technical progress, points to the special importance of location economies, as an effect of the spatial distribution of industry. It also points out to the importance of agglomeration (urban) economies in planning industrial development. Nevertheless, from the standpoint of spatial planning of industry, contemporary experiences in developed countries indicate a radical change in the role of location factors.

According to the contemporary approach, leading industrial location factors are highly educated labour, scientific research and development institutions, the university, the market, large regional infrastructure, urban innovation infrastructure (urban and location economies,

production funds, urban services, infrastructure, quality of life, the aesthetic qualities of the city, etc.) There is extensive research on location factors and criteria for high-tech industry, and the theorists differ in their viewpoints (Markusen A., Hall P., 1986; Scott and Storper, 1987). Some theorists (Scott and Storper, 1987) reject Markusen's theory on unique location factors of high-tech industries, emphasising highly educated labour and agglomeration (grouping) economies. Saxenian (1993) supports the thesis that the agglomeration of high technology (in developed centres and less developed areas) aids synergy factors and has many spatial and infrastructural attributes.

The methodology and procedure of making relevant analyses in the process of planning industrial investments should be modified and coordinated, taking into consideration the key importance of industrial activity, not only in the socio-economic sphere, but also in spatial use and organisation, the influence of industry on the quality of the environment and changes in spatial structure, as well as the gap between theoretical knowledge and our practice. In order to reach a "sustainable" harmony between industrial development and spatial factors, the emphasis in structural and spatial planning should be on providing ways to integrate space and the environment into socio-economic development. In this manner, ecological "health" of the country, the region, and the local community would be preserved. The function of planning and public responsibility is the optimisation of industrial development, energy production, transport, human settlements, tourism and recreation, services and infrastructure, in accordance with the capacities of the environment. Thus the connected planning of all these segments is an especially important aspect of socio-economic, spatial and ecological cohesion of the urban/regional environment.

### CONCLUSION

The transition of the economic system towards market economy leaves deep traces on the development and spatial planning policy as well as on industrial planning in Serbia. The complexity of planning economic investments in our country means that a large number of investment projects will be realised in accor-

dance with the legal framework on privatisation (as part of existing plants/sites), that a number of investments will be realised as new investments of the private entrepreneurial sector, or as a partnership between the public and the private sector, whereas a number of investments will be realised through direct foreign investment in establishing new companies. On the macroeconomic level, establishing new companies is key to the success of transition towards market economy because it creates more workplaces and new employment for surplus labour, i.e. jobless workers. Thus the strategy of development and transition toward market economy should be based on policies and measures that stimulate sustainable economic growth.

Strategic planning of the territorial development of industry means managing change and creating change, i.e. ways to restructure the process of development as part of its socio-economic, spatial and ecological context. It also means creating and managing new spatial organisation, the role of new development and location factors, changing the role of space and "ecological factors", changing the location performance of industry and creating new "aggregate" forms of industrial location. The priorities of spatial development are usually determined in the strategic frameworks and provisions of development and plan documents, economic and sectoral policies on the level of the republic and the local level.

The strategy of economic development of Serbia should be shaped by general socio-economic conditions and a belief in: (a) continuing the process of restructuring the economic system and the economic environment, as well as the process of transition towards market economy, and the process of changing property, market, macroeconomic, production, program and other policies; (b) opening the country and the economy to all kinds and models of direct foreign investment; (c) establishing an adequate market and plan mechanism in providing construction lots for locating economic content/investments; (d) introducing transparent approaches and regional models of spatial development, use, organisation and protection, based on the principles and criteria of sustainable development, the application of ecological management and

quality standards; (e) taking into account changes and "new" requirements in the regional policy of spatial development; (f) the need to coordinate regional plans/projects with European strategic and structural initiatives, plan statements, propositions, standards – for example, establishing companies, economic restructuring, building infrastructure, environmental protection, humane development, etc.

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