

# RETHINKING DEINDUSTRIALIZATION, AND THE REINDUSTRIALIZATION POLICY IN SERBIA

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**The paper explores deindustrialization as the main development problem in Serbia and examines the possibilities for a new industrial policy and its implementation. The aim of the paper is to re-examine the process of deindustrialization in Serbia (its causes and consequences), and to give useful suggestions related to Serbia's existing strategy of long-term industrial development until 2020 and to new industrial policies. Addressing the deindustrialization process is an issue of developmental and economic policy. A reindustrialization strategy or a new industrial policy could be one answer, and this has to be addressed if the share of industry in the GDP is to increase. Both qualitative and data-given approaches have been applied to the analysis of deindustrialization and to the question of how to improve the conceptual framework for reindustrialization in Serbia. Also, some recommendations to the on-going national reindustrialization strategy, or the "smart specialization strategies" are made.**

**Key words:** deindustrialization, reindustrialization, new industrial policy, Serbia.

## INTRODUCTION

Serbia is faced with the process of deindustrialization, which is one of its the most challenging development problems. It is manifested in a decreasing number of manufacturing employees as a share of the total number of employees and a decreasing value of the industrial gross domestic product (GDP) as a share of the total GDP. As a consequence, the formation of Serbia's GDP is unlike other less developed countries and more similar to a developed country. A more problematic outcome is the lack of tradable goods for international trade, which has negative consequences for the balance of payments. In answer to the question of why the process of deindustrialization appeared, the answer is twofold: firstly, it was due to the breakup of the common market of the former Socialist Federative Republic of Yugoslavia (SFRY) and international sanctions introduced during the 1990s, and secondly, because of the neo-liberal approach to transition. With the deindustrialization process, Serbia experienced a development path similar to other transitory economies. However, it is important to address whether deindustrialization is simply a myth or an important process with negative consequences. It is also important to examine deindustrialization at the national level and at the macro-regional level, in order to see whether the situation is similar or different from a regional point of view.

To address the process of deindustrialization one has to ask the question of whether there are adequate development and economic policies. Having a reindustrialization strategy and industrial policy could be an answer, with the aim of increasing the share of manufacturing in the GDP to or even beyond 20%. Existing companies have to be restructured, and more importantly a lot of new companies need to be established. These manufacturing companies should be green, with a high involvement of Research & Development/ R&D, training and education and oriented to the international market. The role of foreign direct investments (FDI) is important, but it is also important to support those investors who want to export only.

The aim of the paper is twofold: firstly, to re-examine the process of deindustrialization in Serbia, its causes and consequences, and secondly, to make useful recommendations regarding both the national reindustrialization strategy and related industrial policy.

## DEINDUSTRIALIZATION/REINDUSTRIALIZATION – LITERATURE REVIEW

Deindustrialization can be understood as a decreasing contribution of industry to the formation of the GDP, and manufacturing employment having a decreasing share in the total employment (Hadžić and Zeković, 2013), as well as a reduction in or relocation of industrial activity due to economic or social change. The negative consequences of this trend are mainly related to a worsening foreign trade

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balance and total balance of payments, as there are not enough tradable products for export (Bošković, 2011). Kovačević (2016) points to the growing importance of foreign trade for the economic growth in liberalization and the globalization process.

Williamson (1990), as a proponent of the “Washington Consensus” (a set of free-market economic policies supported by financial institutions such as the International Monetary Fund / IMF, the World Bank, etc.) and its modification by a new set of policies (the New Agenda of “After the Washington Consensus”), suggests rethinking towards a new global governance (Williamson, 2003, 2008). Marangos (2014) indicates that the Washington Consensus, as a neoliberal manifest, received a lot of criticism, and suggests a new context to uncover US, IMF and World Bank policies that affect developing countries. He also offers an alternative to the Washington Consensus and the “After the Washington Consensus” based on Keynesian proposals (Marangos, 2009). From the perspective of industrial development, the most frequently recommended policies relate to the Keynesian concept as an alternative, including: the national interventionist policy used by industrialized countries; returning the savings to the national economy, harmonization with its industrial policy; supporting a low level of interest rates and movement of capital; strengthening competitiveness, especially in globalization and the Fourth industrial revolution (4IR).

There is a distinction between the two forms of deindustrialization: one form takes into account changes in sectoral structure and changes between those activities that produce added value, and the other form does not. This enables a better analysis of deindustrialization than the sectoral approach. Recent analyses have been led by heterodox economics, based on a concept of sectoral specificity and the role of manufacturing in growth (Tregenna, 2014). The concepts have existed as sustainable alternatives to the neo-classical postulates (Reinert *et al.*, 2016) and to mainstream economics. Chang (2002) indicated the role of endogenous factors and institutions in development, emphasizing the internal process of their shaping. Chang and Grabel (2004) highlighted a change of focus from the institutional form toward the institutional function, as opposed to the mainstream neoliberal approach.

According to Rowthorn and Ramaswamy (1997) deindustrialization is not a negative phenomenon, but a consequence of further growth in advanced economies. The pattern of trade specialization among advanced economies explains why some countries deindustrialize faster than others. On the global level, North-South trade has played only a very small role in deindustrialization (Rowthorn and Ramaswamy, 1997). Usually, deindustrialization is seen in a negative context, as it makes less room for employment, although some authors have given careful consideration to the causal relationship. Deindustrialization is related to tendencies which have occurred in developed countries, like the USA, whereby manufacturing has experienced a downward trend in its share of employment in comparison to other industries, predominantly the service sector (restructuring). It is important to envisage those tendencies

together with other causal relations, like wages, relative wages, productivity and output (Lošonc and Ivanišević, 2014). The national level of development achieved is relevant, as different tendencies regarding manufacturing output, employment and productivity have appeared in developed, less developed and under-developed countries (Developed Income Countries/DICs, Middle Income Countries/MICs and Low Income Countries/LICs) (Feinstein, 1999).

During recent decades, the global industrial concept has been strongly reshaped by deep structural and technical changes. Global and regional industrial networks have moved their economic structures, territorial patterns of production and international trade as a result of outsourcing and changing industrial development resulting from multi-supply chains. This has resulted in the industrial dislocation of some developing countries.

In analysis the evidence of deindustrialization in developing countries Kaldor’s savings model has usually been used as the main source of economic growth (Kaldor, 1965). Evidence of premature deindustrialization in these countries includes a lower level of income, lower GDP growth, jobless growth, and a high share of informal economies. Di Meglio *et al.* (2018) support the Kaldorian framework of manufacturing contributing to a growth in productivity. They suggest repositioning the debate on (premature) deindustrialization within broader opportunities for development related to structural change by restructuring.

#### Deindustrialization of developed and developing countries

During the period of restructuring after the oil crises, between 1980 and 1998, DICs succeeded in finding the right path for their development through the deregulation process and restructuring. In this period the share of manufacturing in the formation of the GDP dropped from 37 to 30% (Figure 1). They introduced a neoliberal approach, making more space for entrepreneurs and private initiatives and diminished the role of the state in the economy. A similar tendency could be recognized among MICs as their manufacturing share in the GDP dropped from 42 to 33%. However, in LICs the share of manufacturing as part of the GDP for the same period was stagnant (38-39%).

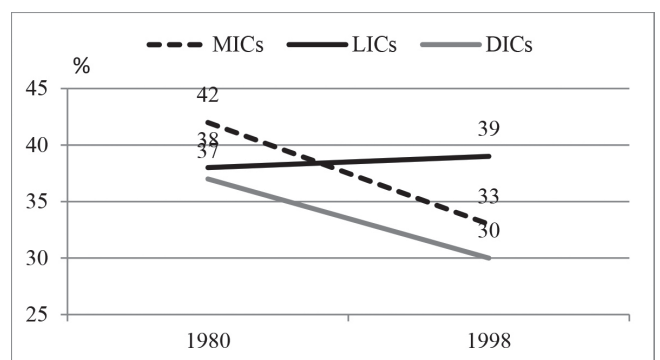


Figure 1: Manufacturing output as a share of the GDP (%)  
(Source: World Bank, <https://databank.worldbank.org/data/source/world-development-indicators>)

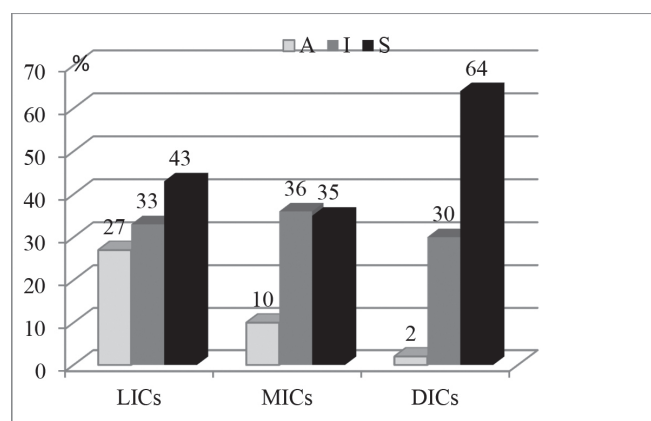


Figure 2: GDP formation in 1999 (A-agriculture, I-industry, S-services) (Source: World Bank, 2019)

After restructuring the economic structure of DICs, they had a dominant share of services in their GDP (64%), while manufacturing became less important ( $\leq 30\%$ ) (Figure 2). MICs had a more balanced GDP structure, with a similar share of services and manufacturing (35-36%).

### Deindustrialization of CCEE – transition

After political changes in the early 1990s, the deindustrialization process in the Countries of Central and Eastern Europe (CCEE) and Serbia had different causalities.

In CCEE, a so-called “planned economic model” and an industrial-led development strategy were introduced and as a result the rate of manufacturing growth was higher than the world average (Table 1). After political changes in the early 1990s CCEE entered a period of transition. In the first part of the decade the transition was based on liberalization, privatization and stabilization, the path prescribed by international financial institutions, the so-called Washington consensus (Bukvić, 2010). This resulted in CCEE facing a transitional shock in the form of a drop in output and manufacturing (Božić, 2009). Later this shock therapy was transformed into a more harmonized, gradualist approach (Stiglitz, 1999; Nellis, 1999; Fisher and Sahay, 2000). During the following decade, recovery in CCEE began, but more advanced transitory economies (Hungary, Poland, the Czech Republic, Slovakia, Slovenia) managed to adjust better to world market requirements, whereas the other economies did not.

Period	World	Socialist countries/ CCEE	DICs	LICs
1961-1985	5.1	6.9	3.9	4.6
1971-1985	4.2	6.6	2.7	3.1
1981-1985	3.2	5.5	1.8	-0.5

Table 1: Industrial output increase (% per year) (Source: Vukmirica (1988))

### DEINDUSTRIALIZATION OF SERBIA - NON-ECONOMIC FACTORS AND TRANSITION

For several decades Serbia has experienced a somewhat specific economic model, a mix between a market and a planned economy. Although it followed an industrial-led development strategy, investments from the late 1950s have been reoriented from the production of machinery more towards the food, textile, leather and furniture industries (consumption products) (Hadžić and Zeković, 2013). From the 1960s to the 1990s manufacturing had the highest share in the formation of the GDP, above 40%.

The causes of deindustrialization in Serbia were different to other CCEE. The main causes of deindustrialization in Serbia were non-economic: the split of the single market of the former SFRY, international sanctions and damage resulting from the bombing in 1999. During the 1990s, together with a drop in the GDP of 50%, traditional manufacturing exporters were most hampered, for example the textile, leather and shoe industries, and the manufacture of furniture and metal products. At the same time food production and the energy sector experienced a minimal slowdown (Figure 3).

Serbia started its market reform in 2000. During the period 2001-2008 it achieved a high rate of GDP growth of average 5.4% per year, without a transitional shock. The explanation is simple: the statistical base was too low, due to a sharp drop in GDP during the 1990s, as it entered the transition period with a national income of only 1000€ per capita (Hadžić and Zeković; 2013, Božić, 2009).

The deindustrialization process started in the 1990s and continued during the transition. The manufacturing growth rate was less than average (2% in the period 2001-2008), while services grew faster than average. The GDP in Serbia in 2017 was made up of: manufacturing 15.1%, mining 2.1%, agriculture 6%, and the electricity and gas supply 3.6%, while services were  $\geq 70\%$  (Statistical Yearbook, 2018). This continuation of deindustrialization can be explained by a neo-liberal approach to development and the lack of any development strategy. In other words, there were no (long-term) development policies introduced that would transform the national economy, but rather (short-term) economic policies only, for day to day survival (Vujošević *et al.*, 2010).

Another dimension of deindustrialization can be recognized by looking at the structure and growth of employment. During the 1990s, in spite of the economic crisis, Serbian companies could not adjust to the new less favorable circumstances by lowering the number of employees, due to the fact that layoffs were abandoned. So, Serbian companies went into transition (from 2000) with huge surpluses of employees. The share of industrial workers in the total employment structure in Serbia decreased from 2000-2008 (Figure 4) and continued to decrease until 2018 (Figure 5). Many workers lost their jobs during the restructuring of their companies and were unable to find new ones because the development of entrepreneurial sector, made up of small and medium scale companies, was too slow to absorb the surpluses of employees. The main negative consequence of this was that a sharp increase in unemployment affected almost 1/5 of the workforce.

During the economic crisis 2009-2014, the rate of Serbian GDP growth was almost zero (0.6%). From 2015 to 2018 the recovery started (the GDP increased by 1.8%, 3.3%, 2% and 4.4%). For the 2017 GDP, the industrial gross value added (GVA) was 15.1% and for agriculture it was 6%, while services had a share of more than 70%. The average GVA of industry in the total GDP in the EU-28 was 25% in 2017.

**DEINDUSTRIALIZATION ON THE NATIONAL AND MACRO-REGIONAL LEVEL**

Kuttor and Hegyi-Keri (2014) stated that deindustrialization has especially negative effects when the decline in employment in the industrial sector is not compensated for by the tertiary sector, and consequently there is an increase in unemployment. During the transition from a planned to a market economy all industries were transformed, but in particular the manufacturing industry. During this period, industrial policy was affected by several factors: a lack of previous experience, the time factor (transition may be a never-ending process) and inertia (path dependency hindering development) (Botos, 2010; Lux, 2009). Kuttor and Hegyi-Keri (2014) noted that deindustrialization has primarily positive reasons, secondarily external reasons, and lastly, causes related to negative internal processes.

An investigation into the process of deindustrialization in the Visegrad group of countries of Central Europe (Hungary, Czech Republic, Poland and Slovakia), led to interesting results at the national and macro-regional levels. Differentiation of the types of deindustrialization: absolute, relative, virtual and reindustrialization (Table 2) was based on the use of three categories: the number of manufacturing workers, the total number of workers and the ratio of manufacturing workers as a share of the total employment. Absolute deindustrialization is the case when all three categories are decreasing. Reindustrialization is opposite to this, when the number of manufacturing workers, the total employment and the share of manufacturing workers in the total employment are all increasing. Relative deindustrialization and virtual deindustrialization are seen as interim stages with mixed tendencies.

On the national level Hungary and the Czech Republic experienced deindustrialization from 1999 to 2012, while in Poland and Slovakia quasi (virtual) industrialization took place. The global economic crisis resulted in some regions being affected more than others. Kuttor and Hegyi-Keri

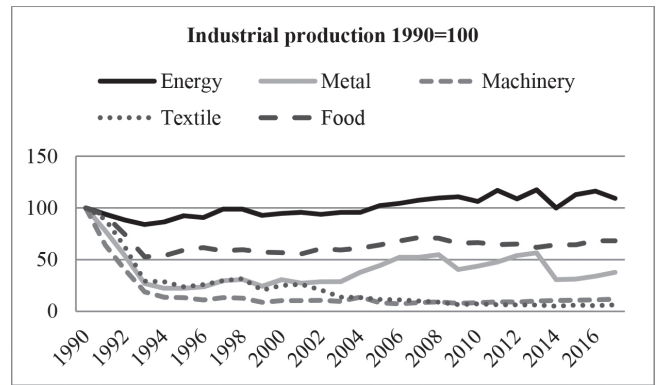


Figure 3: Serbia\*, Industrial production, 1990=100 (Source: Statistical Yearbook of Serbia, 1991-2018) \*Serbia, without data for Kosovo and Metohija

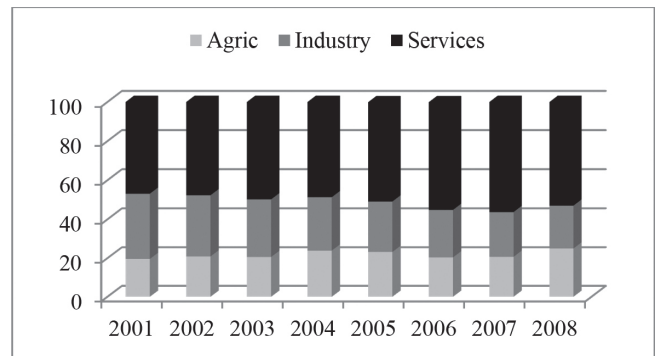


Figure 4: Serbia\*, Employment structure (Source: Statistical Yearbook of Serbia, 2001-2008) \*Serbia, without data for Kosovo and Metohija

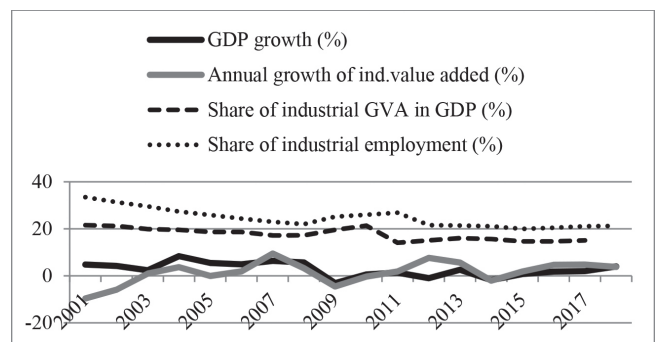


Figure 5: Indicators of Serbian industry\* (p.a. in %) (Source: Statistical Yearbook of Serbia (2002-2018); Statistical Office of the Republic of Serbia; National Bank of Serbia (2019); WB (2019)) \*Serbia, without data for Kosovo and Metohija

	Manufacturing employment	Ratio industrial/total employment	Total employment
<b>Absolute deindustrialization</b>	Decrease	Decrease	Decrease
	Decrease	Decrease	Increase
<b>Relative deindustrialization</b>	Increase	Decrease	Decrease
	Decrease	Increase	Decrease
<b>Virtual Industrialization</b>	Increase	Decrease	Increase
	Increase	Increase	Decrease
<b>Reindustrialization</b>	Increase	Increase	Increase

Table 2: Deindustrialization type Source: Kuttor and Hegyi-Keri (2014)



(2014) concluded that 26 out of 35 regions experienced deindustrialization, including all regions in Hungary and the Czech Republic, while 9 regions in Poland and 3 in Slovakia were affected.

We conducted an analysis of deindustrialization in Serbia from 2001 to 2018 including employment trends at the national and macro-regional levels. For the regional level we included the following macro-regions: Vojvodina, Belgrade, Šumadija and West Serbia, and South-East Serbia. It is worth noting that AP Kosovo and Metohija is not included because of missing data.

At the national level (Serbia) (Figures 5 and 6) in the period under consideration (2001-2018) one can differentiate two sub-periods (2000-2014 and 2015-2018), with completely different results of the analysis. Namely, one can see a declining trend in the total employment, manufacturing employment and manufacturing employment as a share of the total employment in the period 2000-2014 and an increase during the second sub-period. In other words, an absolute process of deindustrialization in Serbia was under way in the first sub-period, while in the second, Serbia experienced (initial) reindustrialization.

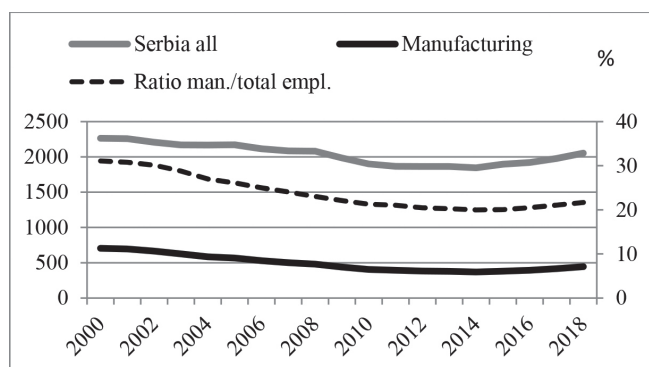


Figure 6: Serbia\*, Total employment, manufacturing employment (000, left scale); Ratio: Manufacturing/Total employment (% , right scale) (Source: Statistical Office of the Republic of Serbia, Statistical Release, Registered Employment 2000-2018) \*Serbia, without data for Kosovo and Metohija

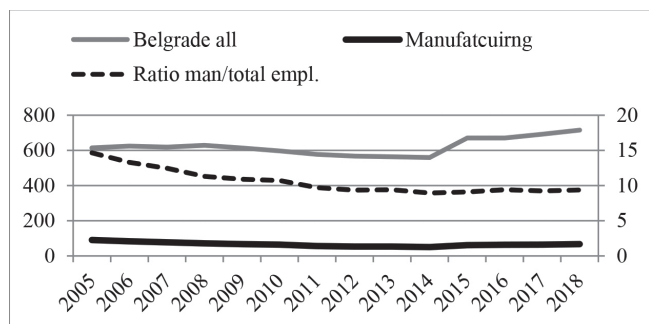


Figure 7: Belgrade, Total employment, manufacturing employment (000, left scale); Ratio: Manufacturing /Total employment (% , right scale) (Source: Statistical Office of the Republic of Serbia, , Statistical Release, Registered Employment 2000-2018)

We obtained similar results for the macro-regional level. Belgrade experienced the same path as Serbia (Figure 7), namely, in the period until 2014 there was a decreasing number of total workers and manufacturing workers, while the ratio of manufacturing employment as a share of the total employment also decreased (absolute deindustrialization), but during the second sub-period all three categories increased (reindustrialization).

Vojvodina was faced with the same trends, absolute deindustrialization until 2014, and from 2015 until the present, there has been reindustrialization. The rate of manufacturing workers is much higher in Vojvodina than in Belgrade (from 15% to less than 10% in Belgrade and 23% and 27% in Vojvodina). As for the Šumadija Region including West Serbia, we can recognize the same path as for the whole of Serbia, absolute deindustrialization until 2014 and reindustrialization from 2015 to the present. The rate of manufacturing employment as a share of the total employment in Šumadija is even higher than in Vojvodina (30%). The South-East Serbia Region also experienced the same path of deindustrialization until 2014 and reindustrialization from 2015 onwards.

We can conclude that at both the national and regional levels the trends were the same (until 2014) with a decrease in the total employment, manufacturing employment and the rate of manufacturing employment, which characterized the process of absolute deindustrialization. From 2015 until the present, Serbia and all of its macro-regions have experienced an increase in total employment, manufacturing employment and the rate of manufacturing employment, so we can talk about reindustrialization.

### REINDUSTRIALIZATION AS A POLICY

The main challenges to Serbian industry are weak growth, competitiveness, socio-economic inequalities, new technology, and creation of new values (e.g. GVA, new chains, etc.) as the base for innovative, sustainable and more balanced territorial growth. A new industrial strategy for Serbia, based on the European framework of “research/regional and innovation systems” (RIS), the 4IR and globalization, could be used for improving structural weaknesses, increasing competitiveness, and increasing innovative, sustainable and inclusive growth. A new industrial policy should be considered as the main vehicle for reducing the gap in competitiveness and improving economic growth and well-being (Warwick and Board, 2013; Bailey et al, 2015).

A reindustrialization strategy or “Strategy of Smart Specialization” (S3) in accordance with the new European industrial policy (based on the 4IR and RISs) is now under preparation. Also, Serbia and SEE countries have adopted a common SEE 2020 Strategy with a focus on mainstream economics and hi-tech development in their service sectors without industrial development (Zeković and Vujošević, 2015). It remains a conundrum to see how SEE countries can achieve fast growth in the global industrial race.

In order to overcome the situation, a reindustrialization policy is seen as a key by economists and decision-makers, almost without disagreement. It is seen as part of a new

export-oriented development model of Serbia (Đuričin and Vuksanović, 2013). It is important to note that it is in line with the European contemporary development strategy (Adžić, 2010). Two lines of activity are essentially important: on a macroeconomic level, a Development Industrial Policy (DIP) (Pitelis, 2014), and on a microeconomic level the restructuring of existing companies, in order to make them efficient and competitive abroad, as well as the establishment of new companies with high value added. However, when it comes to defining a DIP and recommending the necessary policy measures and instruments, disagreements are more evident.

The European Union is facing long-term deterioration of its competitiveness on the world market, sovereign debt, centripetal forces (BREXIT) and a low growth rate. The debate concerning the future development path has overemphasized macroeconomics, macroeconomic policy on the back of micro-economics and DIP (Pitelis, 2014).

Zeković (2019) indicates that after the Lisbon strategy (2000), the industrial strategy in Europe applied the "horizontal" approach to policies until 2010, e.g. the creation of supra-national and national competitive conditions for growth and innovation by regulating different rules, competition policy, human capital, etc. Savić and Zeković (2004) have shown that the focus of the Lisbon strategy included the improvement of industrial competitiveness, regional innovation, regulation, an institutional framework and conditions for better industrial functioning, knowledge transfers, etc. Bailey et al. (2018) argue that the policies of some EU countries specializing in innovative value creation activities, with the manufacturing of commodities from low-cost emerging economies, resulted in unaffected and non-captured "created value" within the EU. Zeković (2019) indicates that new technology can transform existing industrial structures, open competition issues, education, skills, regulation and global governance. Pitelis et al. (2012) indicate that the industrial strategy should contain different measures to enhance the outcome towards desired aims. According to Cimoli et al. (2009) the measures should support the "start-up" industry, policies (science, technology, innovation, regional, anti-trust policy, FDI, industrial clusters), regulation, state procurement, access to finance, etc.

According to the Europe 2020 strategy, the EU industrial strategy has changed its approach towards more "vertical" coordination. The EU Innovation program and Cohesion policy 2020 have included S3 as their main component, with mandatory adoption at the national level in all member states until 2020 (EU, 2017).

The development success of BRICS countries (Brasil, Russia, India, China and South Africa) was mainly based on developing the supply side of industrial policy. The role of the state in perpetuating growth abilities and DIPs has become important again. It is also interesting to be aware of Krugman's criticism toward the content of national competitiveness, since he states that there is no national competitiveness, but rather it only exists at the level of the firm (Krugman, 1994). In globalization and 4IR there are

several approaches towards international competitiveness and development industrial policy: the Washington consensus (and the "After the Washington Consensus"), the Japanese/Chinese approach, and the system of innovation known as Porter's competitive advantages (Pitelis, 2014).

First, the Washington consensus is based essentially on Ricardo's explanation that free trade gives the opportunity to all nations to benefit from their comparative advantages.

Second, the Japanese, later Asian and the latest contemporary Chinese industrial policy is based on important role of the state, hand in hand with business, in creating comparative advantage.

Third, systems of innovation, together with clusters and agglomerations are oriented through evolution, resources, capabilities and systemic support to improve and create comparative advantages (Freeman, 2004; Lundvall, 2007). Fourth, Porter's approach puts together the factors and conditions of demand, as well as the firm and industry structure and development strategy (Porter, 1990).

It is difficult to define development industrial policy (DIP) (Warwick, 2013). Originally, industrial policy referred to manufacturing, but later on it became a broad approach to stimulate the development not only of manufacturing, but also of services, even agriculture, considering their interdependences, with the content of long-term development policy. It is essentially state intervention, mainly because of market imperfections, by measures and instruments aiming to stimulate the performance of firms, sectors, industries, clusters and regions, including resources used to achieve given objectives and organizational and contingency arrangements (Pitelis, 2014). From this perspective one can see that European DIP has changed over time. The broader frame of European DIP is a neoclassical one, which is easily understandable, as the original idea of a common and later on united market is in line with benefit for all in free trade without any monopoly. However, during the 1960s and 1970s a number of European countries introduced IP "national champions" and "picking winners" policies. It included identifying potential successful sectors and firms and introducing supportive measures like subsidies and tax breaks (Pitelis, 2014). Considering the strong battle on the global market with companies from the USA and BRICS, during the last decade the EU has again introduced more explicit DIP measures and instruments and has overcome so-called "horizontal measures" only. In an EC document, for instance, it was argued that measures need to be introduced in line with specific sectoral needs in order to strengthen competitive forces and abilities (EC, 2002). Also, a later document talked about the need to overcome the deindustrialization trend by the introduction of a "regulative framework", a "sectoral approach" and the "synergy of policies" (EC, 2004; Pitelis 2014). During the first decade of the 21st century the EU explicitly talked about DIP within the framework of a "new growth strategy", which emphasized sustainability and competitiveness, as well as coordination between central and local levels and smart, inclusive and sustainable growth by the Europa 2020 Strategy (EC, 2010; EC, 2011).

In order to define an adequate DIP for a region or a country, several steps are necessary: making a diagnosis, defining the national position, analyzing cost differentiations, strengthening innovation and introducing DIP measures and instruments, all based on the framework of the 4IR. Firstly, it is necessary for a country to answer the question of whether there are competitive and/or potential comparative advantages, which seems give a more lucrative outcome in the future; secondly, there is national positioning, with the aim of defining a low relative cost while maintaining a high relative image to other countries; thirdly, it is necessary to find a way to improve competitiveness by reducing unit costs, improving differentiation and strengthening innovation capabilities due to shifts in the 4IR; and finally, DIP measures and instruments should be defined, like encouraging FDI, supporting clusters, improving business ecosystems and forming special economic zones (Pitelis, 2014).

*"A new model of economic growth in Serbia"*, an export oriented development strategy, can be useful as a basic framework for defining an appropriate DIP for Serbia (USAID, FREN, Economics institute, 2010.) Its main objective is reindustrialization. The Strategy and policy for the Industrial Development of Serbia for the period 2011-2020 have already been defined, but they have to be reconsidered in line with relevant European documents (MERR, RZR, 2011) and new principles and requirements of the 4IR.

First, it is important to discuss Serbian competitive and/or comparative forces, as well as contemporary and potential/future ones. Usually, those sectors and sub-sectors identified are seen as development priorities and would be supported by DIP measures and instruments. Some economists have argued that agriculture can be seen as Serbia's comparative advantage, focusing on "organic food" and "green technology" (Đuričin and Vuksanović, 2013). However, there are more arguments that it is false and could jeopardize potential future growth (Mičić and Zeremski, 2011). Instead, Serbian agriculture could be the basis for development in the food industry and the promotion of exports. In order to define the priorities for DIP support, it is important to note that whole sectors can only be used exclusively, groups of product rarely and products mainly as priorities. Such priorities could be: the automotive industry and the production of components, machinery and equipment, the production of ICT equipment and food production (Mičić and Zeremski, 2011), but not the energy sector or metallurgy (Đuričin and Vuksanović, 2013). Zeković (2019) indicates the need for changes in the DIP as a consequence of the 4IR.

Second, national positioning is relevant. It means that the country itself tends to be low cost in comparison to other countries and also well-branded. If it is not successful then relative costs would be high, because of pure infrastructure, high taxation, low innovative abilities, and the low skills of employees. Also, it would be low differentiated, which means that its products would be of low quality, inferior in technology and other qualitative aspects. An example of high relative cost and low image position is the Serbian export structure, with a high share of agricultural products, raw materials and semi-final products.

Thirdly, the DIP needs to be defined in a way that mobilizes the relevant subjects at a national, local and company level, with the aim of improving the competitive image on the world market reducing unit costs and strengthening innovative capabilities, the transfer of knowledge, and the education of workers. An example of the changing image of Serbia and its reorientation towards export is the success of the software export of SMEs, mainly start-ups (1.1 billion euros in 2018). In this regard it would be important to change the SME supportive policy, from general support to more specific support for "gazelles" and fast growing and high-tech companies (Hadžić and Pavlović, 2017).

Fourth, DIP policy measures and instruments have to be as detailed as possible and introduced at a different level. Encouraging FDI is necessary because of their importance in overcoming the relatively low level of domestic investment. It is important to note that existing FDI policy (if any) has overemphasized subsidization, which is wrong, but necessary in order to overcome unfavorable business conditions, and more importantly it includes stimulations to foreign investors to place their products on the domestic and not on the global market. Thus the overall result of such foreign investments is negative for the trade balance and the balance of payments (Boljanović and Hadžić, 2017). The formation of supportive clusters is seen as an important vehicle for DIP which has already begun, but there is a lot of room for improvement in the sectors of former traditional exporters, and more importantly in high tech ITC.

## CONCLUSION AND RECOMMENDATION

Deindustrialization and its outcomes can be seen as one of Serbia's main development problems. The contemporary structure of its GDP formation and employment is unlike less developed countries and similar to developed countries. The consequence of this is that there are not enough tradable products for foreign trade, which hampers exports, the trade balance and the balance of payments. By looking at the causes of Serbian deindustrialization and comparing them with CCEE, it can be concluded that deindustrialization started in the 1990s as a result of specific, non-economic and economic factors. Later on, during transition Serbia did not face a drop in production like other countries and continued with deindustrialization, due to inertia and a neoliberal approach to development.

This investigation of the path of deindustrialization measured by employment indicators over the last two decades at the national and macro-regional levels points out that at both levels absolute deindustrialization was taking place until 2014, when reindustrialization began at the national and regional levels.

Development industrial policy is in accord with the EU reindustrialization strategy. A new model of economic growth, which is another name for an export-oriented development strategy, could be a good broad framework for DIP.

To make a diagnosis, one can say that Serbia has no single competitive force, but has only potential. No whole sector can be a priority, but rather only some subsectors, groups of products or products. Priorities could be the automotive



industry, machinery, equipment, ITC and food production, as well as the renewable energy sector, and some innovative products of the 4IR.

To create an average Serbian product to be low cost and well-branded is a very difficult and complex task. It is affected by education in innovative technology, training existing workers, the transfer of knowledge and technology, improving the infrastructure, the formation of clusters, lowering taxation, improving innovation, and supporting R&D and branding.

DIP has to be well coordinated at the national, regional, local and company levels. It is essential to avoid development mistakes like subsidizing FDI.

The global framework and progress of technology (in the 4IR) deeply change the essence, skills, cooperation, and allocation of future development. This requires a new perspective (green, low-carbon, sustainable, innovative) for a new Serbian industrial strategy-S3. Successful industrial policy requires respect towards the key contextual factors such as the institutional framework, a more even distribution of revenue, equity, etc. Developmental and industrial policies have to match key social objectives, with priorities in the improvement of institutions, a new governance, and the distribution of socio-economic and territorial outcomes.

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