

Highlights

capital market and reduction of efficiency¹⁴. We believe that the model of granting direct subsidies to foreign investors that Serbia is applying should be gradually abandoned, but making sure that business environment is improved at the same time, which primarily means reduction of costs and risks of doing business in Serbia.

That is why Serbia should find alternative ways of attracting FDI, i.e. replace current costly incentives by a more attractive business environment for foreign investments. If only subsidies are abolished, without implementing the reforms, FDI will decline. Reforms include improving business conditions, improving the efficiency of administration and judiciary, managing public finances, and reducing the fiscal deficit and the public debt, upgrading infrastructure, reducing corruption.

Whether or not a foreign investor decides to invest in a country depends on whether it is macroeconomically and politically stable, institutionally developed, market oriented, and open to foreign trade. Therefore, in order to make Serbia an attractive location for foreign investments, a credible monetary and fiscal policy, a favourable business environment, which includes competitive domestic market, anti-monopoly regulations, transparency of the legal system, implementation of the laws, protection of property rights, reduction of corruption, improvement of infrastructure, progress in European integrations, should be emphasised as priorities in the future development of Serbia, that would be based on healthy foundations.

¹⁴ Balasubramanyam (2001), p. 2 & 5.

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Highlight 3. Is Privatization First to Blame for Job Losses in Serbia?

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One criticism that is increasingly appearing in public refers to privatization as responsible for the loss of hundreds of thousands of jobs. According to some estimates privatization is responsible for loss of even 800 thousand jobs, which is approximately equal to total decrease in the number of jobs in the period between 1989 and 2013. Previously said implies, almost unbelievable claim, that bad privatization is solely responsible for the loss of jobs in Serbia, and that other factors such as the transitional recession, the collapse of the Yugoslavian market, the international sanctions, the bombing of

Serbia, the current world economic crisis, bad economic environment, mistakes in economic policy, etc, did not affect the loss of jobs. Furthermore, from this claim follows that the reduction in the number of employees in companies that have not yet been privatized, as is the case of public companies or companies in restructuring, is caused by bad privatization!?! Moreover, according to this logic a decrease in employment in the original private companies, which started with the beginning of the crisis, is attributed to the bad privatization!?!

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To what extent is this claim absurd can best be noticed through a comparison of trends of the number of employees, GDP and productivity. This method indicates when, and how many, jobs became uncompetitive i.e. when were jobs economically lost. This analysis is important in the case of Serbia as legal restrictions and characteristics of state enterprises² prevented real job losses turn into formal employment decrease. Below we will present chronological sequence of events and processes which have influenced a significant reduction in real employment.

In the period between 1990 and 1991, as a result of transitional recession and a collapse of the integrated Yugoslavian market, Serbia's GDP fell for about 18% and employment by only 4%. As a consequence productivity fell for about 13% which means that at the level of productivity from 1989, which was not very high, Serbia's GDP in 1991 could have been achieved with 300 thousand workers less. This means that except 150 thousand people which lost their jobs in the period between 1990 and 1991 further 300 thousand workers lost productive jobs but remained formally employed – which means that extremely large imbalance between formal and real employment emerged.

In the period between 1992 and 1993, primarily as a consequence of the imposition of sanctions and partly due to the hyperinflation, Serbia's GDP fell by as much as 50% while the number of employees decreased by only 6%. Modest decline in employment despite the drastic drop in GDP was mainly a consequence of the adoption of decree which stated that dismissal of workers in the period of sanctions is forbidden. As a consequence of the discrepancy between the GDP trend and employment, productivity in the period between 1992 and 1993 declined by as much as 47%, which means that at the level of productivity from 1989 GDP in 1993 could have been achieved with about 1.3 million employees, while the actual employment stood at 2.25 million. Thus in 1993 the number of unproductive, fictive, jobs reached almost 1.1 million.

In the period between 1994 and 2001 GDP stagnated³ while the number of employees gradually decreased, mainly through retirement⁴. As a result of these processes number of redundant employees in 2001 amounted to nearly 900,000, provided that productivity was at the level of 1989. It is relevant that the level of productivity in Serbia in 1989 was low and that in the period between

1989 and 2001 productivity in the world grew since at that time the world was going through one of the most enduring expansions.

Since the beginning of transition GDP in Serbia grows - cumulative growth in the period between 2000 and 2008 accumulated to 47% i.e. around 5% average per year. In the period of crises GDP in Serbia fell and so in 2012 it stood for about 2.5% below the level of 2008. Average growth rate in the whole period between 2000 and 2012 amounted to about 3% per year, which is slightly below the level of CEE countries (3.4%). If Serbia grew at an average rate as other CEE countries its current level of development would be by about 5% higher.

Since 2000 until now number of formal⁵ employees was reduced by 18%, or nearly 400.000. The largest decrease in employment happened in a period of economic crisis when the number of formally employed decreased by over 13%, or 270.000.⁶ The large decline in employment in the period of economic crisis is partly a consequence of the crisis while the other part is a consequence of the release of surplus workers in privatized companies. In the period between 2008 and 2012 unemployment rate in the EU increased by 3.4 percentage points, while in CEE countries the unemployment rate increased by 5.5 p.p. According to the Labour Force Survey the unemployment rate in Serbia in the period of crisis increased by 11 percentage points, but this decline contains highly un-credible evaluation of a fall in employment of individual farmers of about 100.000. Therefore, the corrected increase in the unemployment rate in the period between 2008 and 2012, which excludes the enormous decline in the number of the employed individual farmers, would be between 8 and 9 p.p. Estimated increase in the unemployment rate of 8-9 p.p. in Serbia in the period of crisis is significantly higher than the average of the CEE countries and similar unemployment rate increase occurred only in Lithuania and Latvia.

⁵ While from the standpoint of the labor market and economic activities total employment is relevant, which besides formal includes agricultural producers as well as employed in the gray economy, from the point of privatization formal employment is relevant

⁶ According to the Labour Force Survey, the number of formal and informal employment since the beginning of the crisis has been reduced by more than 400.000, but these results are suspicious because they contain the decline in employment in agriculture during the 2009 of nearly 100.000. It is obvious that the aforementioned decline in agricultural employment has not occurred, but that this is a consequence of certain methodological change as well as the changes in incentives for farmers to express their status. It is interesting that the increase in the number of formally unemployed and the number of unemployed by the survey is nearly identical and amounts to 270 and 275 thousand respectively - which further reinforces the suspicion that the number of employees, since the beginning of the crisis, fell by over 400.000.

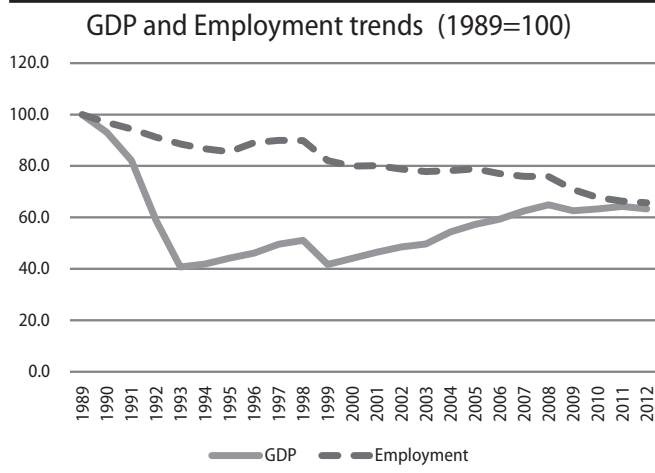
² A tendency of state enterprises to employ more workers than necessary exists for a long time, as well as a tendency to retain the accumulated surplus of workers in the company.

³ Almost entire growth achieved between 1994 and 1998 was annulled with the GDP drop in 1999, which was a consequence of NATO bombarding.

⁴ Early retirement was at the time very common practice

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Graph 1



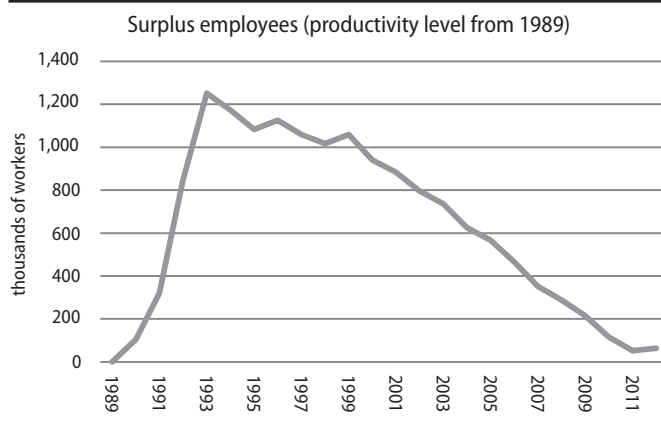
Above average increase of the unemployment rate in Serbia is most likely a consequence of the elapsed time period in which the buyers of privatized companies were forbidden to release excess employees. Given that the pace of privatization was the fastest in the period between 2003 and 2005, start of the economic crisis overlapped with the expiration of the specified time limit for owners of privatized companies and therefore layoffs accelerated. However, from an economic point of view layoffs in that period were mainly the formalization of the actual situation - that these jobs have become unproductive over the last two decades.

Of the approximately 900 thousand non-productive jobs that existed in 2001 about 400.000 workers have lost their jobs or went into retirement, while about 400.000 workers were productively employed in privatized companies or in the original private sector, while around 100.000 jobs still remain unproductive. If we take into

account productivity growth in the world during the period 1989-2012 the number of non-productive jobs in 2000 would amount to about 1.2 million, and using the same calculations even now there are hundreds of thousands of unproductive jobs in Serbia. Between 2000 and 2012 productivity in Serbia increased by 75%, of which about 70% is a consequence of the production growth and about 30% a consequence of the layoffs.

Potential "responsibility" of the privatization could come down to the fact that new owners of the privatized companies have not made all unproductive jobs in their companies productive. However, it is almost impossible to expect to make 900 thousand non-productive jobs productive over a period of several years. If we would take into account that in 1989 there were some unproductive jobs in Serbia, and that in the meantime there was a strong growth of productivity in the world, we could conclude that the majority of jobs in Serbia in 2000 were unproductive. Almost all jobs in the sectors of exchangeable goods⁷ (industry, agriculture, etc.) have become unproductive, and that also means not competitive on the world market. In order to make existing jobs competitive investments of tens or perhaps hundreds of billions of Euros were needed, and to increase employment even additional investments were necessary. It is certain that it was not possible to provide such investments in the period 2001-2008, even without internal and external constraints. The beginning of the global economic crisis in 2008 further reduced the possibilities of Serbia to realize high investments, which were necessary in order to create new jobs and to preserve existing ones.

Graph 2.



⁷ Productivity was preserved only in the services industry, such as education, health, etc, but the quality of services declined and so new investments in their modernization were necessary.

A compelling majority of empirical research which examine the results of privatization in Central and Eastern Europe suggest that privatization had positive or neutral influence on employment.⁸ Therefore, the question arises whether it is possible that only in Serbia privatization is main cause of the significant increase in unemployment? It should be also kept in mind that Serbia applied similar methods of privatization as other countries in Central and Eastern Europe. Given that Serbia last entered the process of mass privatization she had at disposal the experience of other countries and has applied methods which, in practice, proved to be most effective. Therefore, it would be difficult to defend the view that the methods of privatization in Serbia were weaker than in other CEE countries. Another possibility is that commonly good methods of privatization were badly implemented in Serbia because of incompetence, corruption, etc. However, this explanation is not convincing because it is difficult to believe that the competence of state administration was significantly lower and

the corruption higher in Serbia than in similar countries, such as Romania, Bulgaria and Croatia.

Summarizing the above mentioned we estimate that the attribution of the majority of the lost jobs in Serbia in the period between 1990 and 2013 to privatization is deeply wrong, and that it is the consequences of deliberate or unintended omission of influence of other factors, ranging from the breakup of the former Yugoslavia, through sanctions, to current economic crisis and mistakes in economic policy and reforms.

Literature

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⁸ A comprehensive review of the analysis which examines the effects of privatization on employment can be found in Estrin, S. at. all (2007)

Highlight 4. Is Turkey Gaining in Economic Importance in the Southeastern Europe Region?

Borko Handžiski, Lazar Šestović i Jovana Šljivančanin¹

Summary

Turkey is increasingly becoming an important market for SEE's exporting firms. Exports from SEE to Turkey have been rising faster than exports from the rest of the world, though their structure remained broadly the same. Intermediate goods continue to dominate SEE exports to Turkey with iron and steel products being the most important export precuts for these countries. The main driver of exports expansion to Turkey was increase in trade in products that were exported already. Between 2008 and 2012, additional USD 300 million of exports were generated from existing trade relationships, and about USD 170 million came from relationships that did not exist before. Imports from Turkey have maintained a 3 percent share in total imports of SEE countries over the previous ten years.

Turkey invests abroad about USD 2.5 billion annually over the previous five years, of which only marginal share goes to the SEE region (around 3 percent). This represented about one percent of total inflow of FDI in the SEE. Preliminary data for 2012 show that capital inflows from Turkey fell even further to estimated USD 31 million. Even though Turkish investments in the SEE are relatively small, these are higher than Turkish investments in the EU New Member States and are increasing much faster than investments in other parts of Europe. In addition, recent Turkish investments in the banking sector, transport infrastructure and in metals industry could facilitate faster growth of trade over the medium-term.

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