



REGIONAL ECONOMIC DEVELOPMENT IN REPUBLIC OF SERBIA: IMPLICATIONS FOR THE FUTURE

Dejan Riznić, Full Professor *

Danijela Durkalić, Teaching Assistant •

Tijana Riznić, MSc student •

Abstract: *Modern economic processes have marked the era of globalization and regionalization. The idea of regional development relates to the tendency towards a balanced development in all economic, social, cultural, legal and political issues. It is easier to overcome sensitivity of the country to disruptions when the regions are stable and their development is uniform. As the term convergence signifies achieving a similar level of development, it is necessary to observe the level of convergence in measuring the equality of regional development of a certain area. In order to realize the prosperity of all regions in one country, it is necessary to create such an economic climate that will enable economic progress and new jobs. This implies the construction of such an institutional structure that will support regional development based on the active role of the state in the economy. Based on the identified problems of the regions, it is necessary to highlight the right ways to overcome them. This paper analyzes the level of development of the regions in the Republic of Serbia by analyzing the productivity and labor market. The results of this paper will point to the necessity and the need to strengthen the regional development in the Republic of Serbia in the future period. Based on the analysis of the phenomenon of regional development and the situation on the market of the Republic of Serbia, recommendations and guidelines for*

* University of Belgrade – Technical Faculty in Bor, Serbia, driznic@tfbor.bg.ac.rs

• University of Kragujevac, Faculty of Hotel Management and Tourism, Serbia, danijela.durkalic@kg.ac.rs

• Mendel University in Brno – Faculty of Business and Economics, Czech Republic, tijanariznic94@gmail.com

improvement of the regional economic environment in the Republic of Serbia will be given.

Keywords: *regional development, Republic of Serbia, employment, gross domestic product*

1. Introduction

Economic growth and development take place in some areas of the country. In this way, the space represents an inseparable component of the economic development. The geographical characteristics of certain parts of the country are largely determined by the development of this geographical area, but also the development of a whole wider area. Precisely because of these characteristics, regional development as a component of economic development is important. Regional policy and regionalization are the subject of increasing interest of the states. Extensive interest in the field of regional policy is particularly popular due to the strengthening of regional organizational units, such as economic unions. The most representative is the European Union, which with the rest of the unions represents the highest form of regional integration, where countries adopt a single currency and adopt common laws that adhere to all parts (regions) of an integral whole. All economic integrations see regional development as an equilibrium development between regions within a single whole. In terms of regional development, "region" can be defined as the management policy to support economic development (Cooke & Leydesdorff, 2006). In fact, in economic analysis, the region is viewed as a subsystem of a single system.

Regionalism is a form of economic integration that takes into account the geographical proximity of regions (countries) in order to create the conditions for greater competitiveness in the market. According to author Marjan (Marján, 2008), regional policy is one of the most comprehensive policies. Regional policy serves to encourage the equal development of all parts of the entirety. However, the problem of regional development can be viewed from different aspects. The most important for this paper, the economic problem of regional development exists if a region (within one country or within one integration) drastically deviates in (Čavrak, 2002): (1) the unemployment rate, (2) GDP growth per capita, (3) dependence on the narrowly industrialized base, (4) the decline in production, (5) inadequate infrastructure equipment, and (6) large migration outside the region.

Bearing in mind these indicators of regional development and basic macroeconomic indicators, the subject of research in this paper is related to the analysis of the regional development in the Republic of Serbia.

The Republic of Serbia is divided into four regions: (1) Belgrade region, (2) region of Vojvodina, (3) region of Sumadija and Western Serbia, and (4) region of South and East Serbia. The timing of the research subject relates to the period from 2014 to 2016. The reason for the selection of this three-year period lies in the fact that since the beginning of 2014, the Republic of Serbia began with the official publication of Regional Statistics in the selected research areas.

2. Regional economic development through literature review

The topic of regional economic development was analyzed by many authors. Especially popular is the importance of the region in terms of the competitiveness of a country. Thus author Cooke (1997) emphasized the great role of the region as a source of competitive advantage in the global economy. When it comes to regionalism, it is significant research by Amin (1999), who pointed out in his paper the importance of the institutional perspective of regional economic development. It is particularly important to mention the new regionalism that is based on the mobilization of local resources in one region. This approach to new regionalism positively influences the new industrial policy, the strengthening of local companies, the improvement of the quality of institutional factors, and the knowledge-based economy. As the author pointed out, the policy of institutionalism and regionalism significantly expanded the definition of economic success factors.

The concept of convergence is very important for regional policy and regional development policy. Convergence represents a continuous process of equalization in regional development. The relationship between state capital, regional social product and productivity is important for regional economic development. Economic convergence, as a measure of researching (in)equality of the region, is the topic for research of an increasing number of authors nowadays. Thus, for example, the authors of Lall & Yilmaz (2001) concluded that the convergence speed is affected by the specific characteristics of the region and the level of training of workers in neighboring regions. The growing enlargement of the EU members has significantly raised the issue of economic differences at the regional level. The convergence process was observed by the end of the 1970s, after which significant divergences in the EU were observed, which pointed out authors López-Bazo et al (1999). In their work authors have investigated factors that cause regional disparities. In particular, they emphasized that the evolution of the overall regional distribution is important. Linking the analysis of convergence and spatial differences, they emphasize that the geographical space plays an important role in the economic sense.

Authors Fratesi & Percoco (2014) highlight the importance of migration for regional development and convergence. These authors analyzed the link between regional disparities and migration flows. Not accidentally, the disparities between regions leading to migration, which should be reduced. Apart from the fact that some regions are weak, migration has already begun to strengthen already rich regions. On the example of Italy, as a country with a migration problem, the authors came to the conclusion that there was a slight convergence process among the regions, but the loss of human capital in the south of Italy adversely affected regional economic growth.

Bearing in mind the significance and influence of regional development for the equal distribution of population, income, and generally living standards, the importance of regional development policy is recognized. What should be kept in mind in the concept of regionalization and the importance of the convergence and economic development of the region relates to the way of observing and analyzing the development of the region.

The degree of convergence or divergence can be observed within one country or within a group of countries. In other words, the uniform development of the region can be

viewed by regions in one country or countries within a group of countries. In the case of this paper, regional differences will be observed within a country, the Republic of Serbia and its regions.

3. Regional disparities in the Republic of Serbia

The most famous classification of the region relates to the NUTS classification (Nomenclature of territorial units for statistics) defined by the European Union. According to the NUTS classification, the regions are divided into three geographical areas: NUTS1, NUTS2 and NUTS3. The largest territorial unit is NUTS 1, which consists of 3 to 7 million inhabitants. NUTS2 covers 800,000 to 3 million inhabitants and NUTS3 from 150 to 800,000 inhabitants (Eurostat, 2003). The NUTS classification of territorial units is an attempt to present standardized statistics of geographical areas throughout the European Union (EU).

Table 1. NUTS Classification of the Republic of Serbia

NUTS 1	NUTS 2	NUTS 3
Serbia – North	Region of Vojvodina	7 administrative districts
	Region of Belgrade	District of Belgrade
Serbia - South	Region of Šumadija and Western Serbia	8 administrative districts
	Region of Southern and Eastern Serbia	9 administrative districts
	Region of Kosovo and Metohija	5 administrative districts

Source: The Law on Regional Development of the Republic of Serbia (2015)

Regional development indicators of the Republic of Serbia for the period 2014-2016 indicate the unevenness of economic development in the Republic of Serbia, which in the following work shows next indicators: Regional GDP per capita (in thousands of RSD), Number of employees in the Republic of Serbia, by region (in thousands of RSD), Number of unemployed in the Republic of Serbia by region (in thousands of RSD) and Average wages in the Republic of Serbia, by region.

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Table 2. Regional BDP per capita, 000 RSD

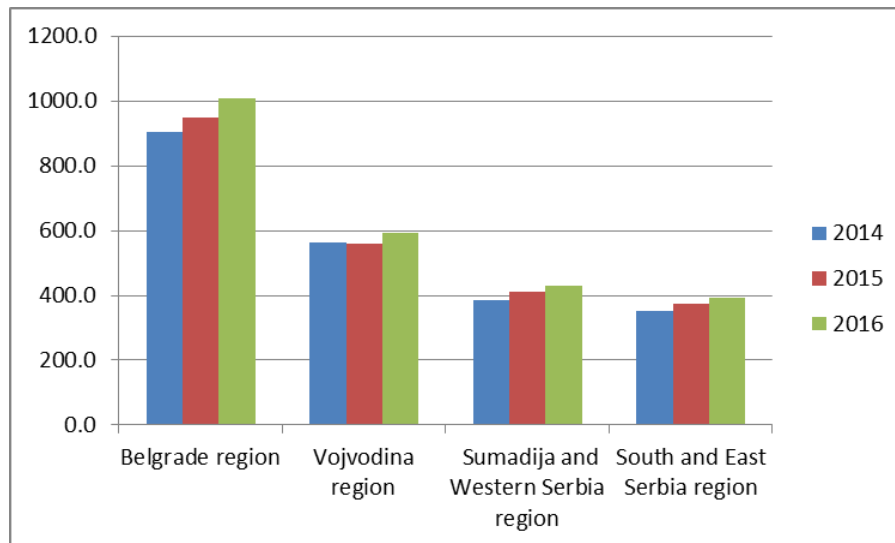
	2014	2015	2016
Region of Belgrade	904.0	947.0	1007.0
Region of Vojvodina	563.0	561.0	594.0
Region of Šumadija and Western Serbia	387.0	411.0	431.0
Region of Southern and Eastern Serbia	352.0	374.0	392.0

Source: Database of the Republic Statistical Office

Table 1 and Figure 1 shows a big difference in the regional GDP per capita of Belgrade and other three regions, while the smallest difference is between the Region of Sumadija and Western Serbia and the Region of South and Eastern Serbia, which obviously points to the uneven economic development in the Republic and the necessity of determining the way to achieve a more balanced regional development.

The reason for this disparity among regions can be the result of the number of inhabitants (for example, in 2016, there are 1 683 962 inhabitants in Belgrade, while in South and East Serbia there are 1 536 217 inhabitants) or result of lower productivity of the poorer regions.

Figure 1. Regional BDP per capita, 000 RSD



Issues related to the problem of employment and unemployment in one area are very important for one country, since the level of employment and unemployment depends on the GDP per capita, as a measure of the productivity of an economy. The most popular issue in the field of labor policy is the active employment policy, the reduction of

unemployment, the increase in employment and the increase in the wages of the population.

Table 3. Number of employees in the Republic of Serbia, by region (in thousands)

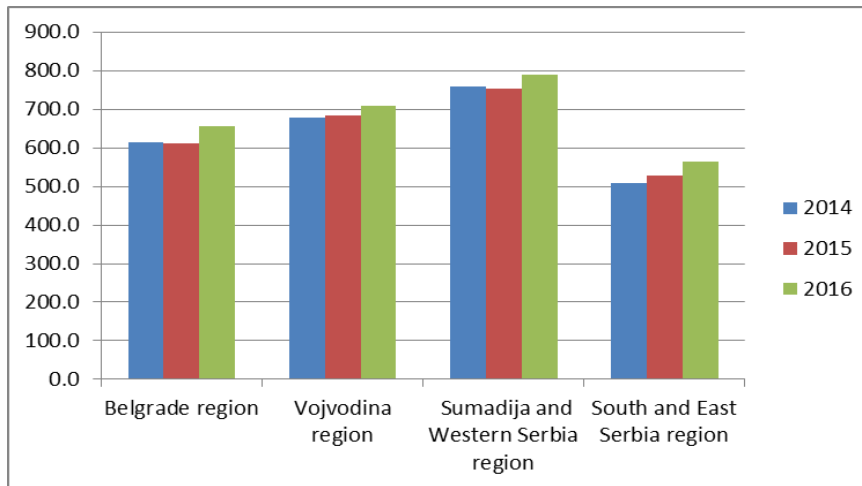
	2014	2015	2016
Region of Belgrade	614.3	611.4	656.6
Region of Vojvodina	678.6	682.3	709.9
Region of Šumadija and Western Serbia	758.0	752.0	789.5
Region of Southern and Eastern Serbia	508.5	528.5	563.4

Source: Database of the Republic Statistical Office

Table 3 and Figure 2 show a big difference in the number of employees, which obviously points to the unevenness of economic development in the Republic of Serbia and according to this criterion. Regional variations are less pronounced in this case.

Based on their research, author concluded that enterprises would not behave differently about the expected changes in the number of employees, regardless of which region they are pursuing their business activities. Only in the Šumadija and Western Serbia region would be expected some outflows of workers (Ognjenović, 2013).

Figure 2. Number of employees in the Republic of Serbia, by region (in thousands)



Unemployment is a burning problem in the Republic of Serbia. A particularly unfavorable feature of unemployment is its longevity: in Serbia, two fifths of the unemployed do not work for more than five years, and only a quarter are shorter than a year.

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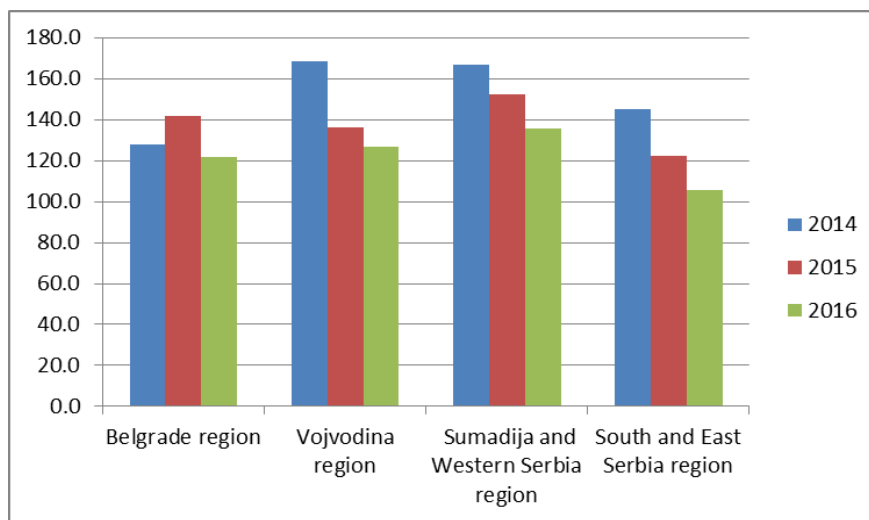
Table 4. Number of unemployed in the Republic of Serbia, by region (in thousands)

	2014	2015	2016
Region of Belgrade	127.7	141.5	121.9
Region of Vojvodina	168.5	136.2	126.5
Region of Šumadija and Western Serbia	166.9	152.2	135.6
Region of Southern and Eastern Serbia	145.2	122.0	105.5

Source: Database of the Republic Statistical Office

This problem of unemployment has been relatively reduced over the past three years at the state level with 603,000 unemployed in 2014. This can also be seen from data by regions (Table 4 and Figure 3). However, taking into account that the estimated number of inhabitants in Serbia in 2016 is 7058322, this is a large number of unemployed persons. When this is added to the fact that there are also people who are unemployed and who are not on the National Employment Service, the development of strategies for increasing employment must be a necessary step and a driver of development.

Figure 3. Number of unemployed in the Republic of Serbia, by region (in thousands)



From Table 5 and Figure 4, a large difference can be seen in the average wages, which obviously points to the unevenness of economic development in the Republic of Serbia and according to this criterion. Differences by region are most pronounced in the Belgrade region for almost a third of the average wage.

Table 5. Average wages in the Republic of Serbia, by region (RSD)

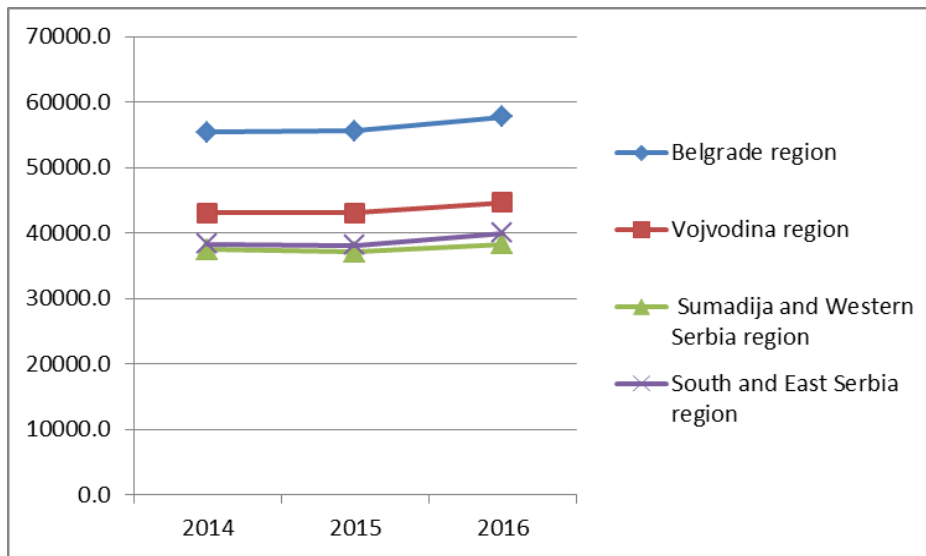
	2014	2015	2016
Region of Belgrade	55429.0	55551.0	57717.0
Region of Vojvodina	43092.0	43050.0	44646.0
Region of Šumadija and Western Serbia	37504.0	37066.0	38315.0
Region of Southern and Eastern Serbia	38270.0	38088.0	39959.0

Source: Database of the Republic Statistical Office

The labor market in Serbia is characterized by sharp differences on almost all territorial levels. These differences are more pronounced in rural than in urban areas, as well as in the southern and south-eastern countries. In this regard, a significant concentration of working resources in some parts of the country can be expressed. (Radovanović, Maksimović, 2010)

Labor market in Serbia is poorly functioning, especially in terms of regional development. Developed regions have higher wages and higher employment rates, while underdeveloped regions have a problem of lower wages and high migration to richer regions.

Figure 4. Average wages in the Republic of Serbia



4. Recommendations for economic policy in the future

American economist Stiglitz (1989) pointed out that the imperfections of the market and the necessity of appropriate state regulation and intervention do not lead to economic efficiency. Stiglitz believes that the market is at the heart of the economy, but that governments have to play an important role. What is necessary to exist is the balance between the state and the market. The authors of Smallbone and Welter (2001) point out that the process of market reform requires a fundamental change in the role of the state in the economy, how to plan allocation of resources and determine prices, subsidies and transfers, as well as the roles of the regulator of the activities of private enterprises. Apart from the revitalization and modernization of economic activities, the insistence on the development of small and medium enterprises, as well as the sustainable use of natural resources, will be imposed as the basic directions of regional development in the following period. The situation with regard to the regional development indicators indicates that successful regional development implies active participation of the government and local administrative units.

In order to increase the well-being of all regions, it is important to promote and create such an economic climate that creates a perspective for overall economic progress and new jobs. This further implies the reform and building of an institutional structure that will support regional development based on the country's active role in economic flows. The active environment of state and regional institutions implies the effects of a whole range of factors, which must act as a stimulative effect for investors. The most important goals that all state and regional institutions need to focus on are political, economic and monetary stability, a developed strategy for the improvement, enterprise management, maintenance of liquidity and macroeconomic stability, technology, with the aim of increasing the competitiveness and innovation of the community.

Given the outdated capacity, the unsuccessful privatization policy and the necessity of structural reforms, conditions are needed for establishing an institutional framework for the revitalization of the development functions of industry and regional industrial centers. In this sense, the regions have at their disposal the formation of self-sustainable development based on scientific knowledge, which is in the backwardness. Therefore, a comprehensive modernization is needed, which especially refers to economic modernization, which is the basic strategic development task. The processes of globalization and modernization of the world economy lead to the necessity of adapting the development of the Republic of Serbia and its competitiveness to international relations (Miljković, 2012). Such a strategic path also includes the modernization of local and regional areas, especially in the fields of production, organization of the economy and the labor market.

The role of the state as an important generator of innovative activities at the regional level is important for all business entities, especially small and medium enterprises (SME), which influence regional development. When it comes to innovation, the regions have the ability to generate more innovation and create a higher and fast-growing income.

When defining SME development strategies, it is necessary to emphasize that each sector and region is equally important for economic development as a whole. It is not

desirable to favor certain sites for the development of this or that sector, with the rest of the region being omitted.

Taking into account the equality of the region, it is necessary to emphasize those sectors and branches that will have the largest share in the overall economic development of the country by regions. In this way, the key strategic goals and the desired results of economic policy will be achieved.

5. Conclusion

After determining the degree of development, it is necessary to define a development policy in the function of encouraging the regional development of the Republic of Serbia. Particular attention should be paid to raising regional competitiveness, reducing regional imbalances and building institutional regional infrastructure. The globalization of the world economy is putting a lot of pressure on businesses, so they need to be helped through local communities that do not need to become independent and integrate and link to the principle of advocacy primarily of their own interests, and then of general interest.

Based on the identified problems are pointed out ways to overcome them, such as: the necessity to include local governments in the overall economic trends and support local economic development at different levels; development of entrepreneurship and small business through clusters and business incubators; supporting the recruitment of young people through various selection processes for the necessary staff; the development of a recycling center and care of the environment; completion of the privatization process; attracting foreign direct investment and supporting public private partnership. If regional economic development is in function of these goals, this will ensure a reduction in unemployment, a successful outcome of the privatization process and an improvement in the overall living standard.

Therefore, if adequate strategic measures are used to manage the causes of the problem, this will improve and enhance regional development of the Republic of Serbia.

Future research can be upgraded to this research on a scientific basis as a basis for the regional development of a particular geographical area. Recommendations for future research are aimed at calculating exact inequalities in the form of entropy calculation as divergence measures. Also, a comparative analysis of the Republic of Serbia and other countries is desirable.

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REGIONALNI EKONOMSKI RAZVOJ REPUBLIKE SRBIJE: IMPLIKACIJE ZA BUDUĆNOST

Abstract: *Savremeni ekonomski procesi označili su eru globalizacije i regionalizacije. Ideja regionalnog razvoja odnosi se na težnju ka ujednačenom razvoju po svim ekonomskim, socijalnim, kulturnim, pravnim i političkim pitanjima. Osetljivost zemlje na poremećaje lakše je prevazići kada su regioni stabilni, a njihov razvoj ujednačen. Kako se terminom konvergencije označava dostizanje sličnog nivoa razvijenosti, potrebno je sagledati nivo konvergencije pri merenju jednakosti regionalnog razvoja neke oblasti. U cilju ostvarenja blagostanja svih regiona u jednoj zemlji, neophodno je stvoriti takvu ekonomsku klimu koja će omogućiti ekonomski napredak i nova radna mesta. To podrazumeva izgradnju takve institucionalne strukture koja će podržati regionalni razvoj zasnovan na aktivnoj ulozi države u privredi. Na osnovu identifikovanih problema regiona neophodno je istaknuti prave načine za njihovo prevazilaženje. U ovom radu analizira se ujednačenost regiona Republike Srbije analizom produktivnosti i tržišta rada. Rezultati rada ukazaće na nužnost i potrebu jačanja regionalnog razvoja u Republici Srbiji u budućem periodu. Na osnovu analize fenomena regionalnog razvoja i stanja na tržištu Republike Srbije, biće date preporuke i smernice za unapređenje regionalnog ekonomskog ambijenta u Republici Srbiji.*

Keywords: *regionalni razvoj, Republika Srbija, zaposlenost, bruto domaći proizvod*