

RIA

THE REVIEW OF INTERNATIONAL AFFAIRS

BELGRADE, VOL. LXVIII, No. 1166-67, APRIL–SEPTEMBER 2017



INTERNATIONAL ECONOMICS

Miloš SRZENTIĆ

WORLD ECONOMIC CRISIS INFLUENCE ON EU
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WITH AUSTRIA (1960–2013)

*Cariša BEŠIĆ,
Dejan ĐORĐEVIĆ,
Snežana BEŠIĆ*

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THE INSTITUTE OF INTERNATIONAL POLITICS AND ECONOMICS

The Review of International Affairs

ISSN 0486-6096

VOL. LXVIII, No. 1166-67, APRIL–SEPTEMBER 2017

UDK 327

Publisher

Institute of International Politics and Economics,
Belgrade, Makedonska 25

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Layout

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For information on annual subscription please contact

BiFS doo, Books and Periodicals, Supilova 10

11000 Belgrade, Serbia,

Tel/fax: +381 11 20 84 229

E-mail: bfsbooks@sezampro.rs

Printed by

Donat graf doo, Belgrade

Distribution 300 copies

The Review of International Affairs

Vol. LXVIII, No. 1166-67, April–September 2017

UDK 327 ISSN 0486-6096

Contents

INTERNATIONAL ECONOMICS

Miloš SRZENTIĆ

WORLD ECONOMIC CRISIS INFLUENCE ON EU AND USA
MANUFACTURING PRODUCTION EXPORT 5

György SIMON, Jr.

SERBIA'S ECONOMIC GROWTH AND CATCHING-UP
WITH AUSTRIA (1960–2013) 21

Carša BEŠIĆ, Dejan ĐORĐEVIĆ, Snežana BEŠIĆ

GLOBAL MARKET AND NEW COMPETITIVE RELATIONS 49

CHEN Xin, YANG Chengyu

AN QUANTITATIVE ANALYSIS ON CHINA-CEEC ECONOMIC
AND TRADE COOPERATION 65

INTERNATIONAL RELATIONS

Simiša DOSTIĆ, Darko M. MARKOVIĆ

COMBINED MODEL OF STATE BORDER SECURITY SYSTEM
IN COMBATING ILLEGAL MIGRATIONS 88

INTERNATIONAL LAW

ZHANG Lei

INTER-PARLIAMENTARY COOPERATION
IN THE POLITICAL SYSTEM OF THE EUROPEAN UNION:
DEVELOPMENTS AND IMPACTS 102

Duško PEULIĆ

JUSTICE AND ITS AIMS IN INTERNATIONAL AFFAIRS 118

Avraham WEBER

HEIRLESS PROPERTY RESTITUTION – THE SERBIAN MODEL 133

AMBASSADORS FORUM

THE CURRENT STATE OF THE DIALOGUE

BETWEEN BELGRADE AND PRISTINA, *Marko Đurić* 143

BOOK REVIEWS

DAMBISA MAYO DEAD AID: WHY AID IS NOT WORKING

AND HOW THERE IS A BETTER WAY FOR AFRICA, *Danilo Babić* 155

UDC 338.124.4:338.45(4-672EU)(73)

Biblid 0543-3657, 68 (2017)

Vol. LXVIII, No. 1166-67, pp. 5–20

Original Scientific Paper

WORLD ECONOMIC CRISIS INFLUENCE ON THE EU AND THE USA MANUFACTURING PRODUCTION EXPORT

Miloš SRZENTIĆ¹

Abstract: Merchandise export from the EU and the USA in the last ten years was showing significant changes, which were particularly expressed during the World economic crisis. After its ending, yearly fluctuations of this economic magnitude are gradually returning to the precrisis levels. These reductions of merchandise export contributed to the fall of the total production in all observed countries. Measures of macroeconomic policy which were implemented in order to stop that fall of production and employment did give certain positive results in the observed period. However, long-term consequences of the World economic crisis are still present, particularly in the structure of merchandise export. Markedly negative influence is achieved in the sector of manufacturing production in the USA, whose part in merchandise export is significantly decreased.

Employment in this sector of the economy was during a period of the World economic crisis also marked with bigger changes in the USA than in the EU. An additional indicator of the influence of this economic crisis is a fact that until the end of 2016 the levels of employment in the sector of manufacturing production have not still achieved the precrisis levels, neither in the EU nor in the USA.

Such tendencies in movements of export and employment in this sector of the economy can negatively influence on the stability of economic system and export competitiveness of each of the observed economies.

Key words: manufacturing production, structure of export, EU and USA labour markets.

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INTRODUCTION

A reduction of the total export demand in the EU member states and the USA caused by the World economic crisis is at the same time transferred to a reduction of export demand for the total industrial production in these states. The basic problem represents significant changes of export, especially in the sector of manufacturing production during the observed period. That brought to big trade imbalances in observed countries which in a certain degree is still present.

These external disorders in export demand on the world market also brought to changes in movements of export in the sector of manufacturing production from the EU and the USA.

However, at the same time, it came also to internal changes in the structure of export.

The aim of this paper is to examine an influence of these changes on the movement of employment in the sector of manufacturing production in observed states.

Sustainment of employment in the economy, not only on the total national level, but also on a narrow sectoral level represents one of the priorities in preserving of macroeconomic stability of every country.

The object of the paper is the analysis of movements of the stated indicators in the EU as a whole and in Germany as its member country from the one side and in the USA from the other side, during the period from the beginning of the World economic crisis until the end of 2016. Size and importance of the economies of these countries in international trade represent the additional reason for monitoring of their changes.

In the second part of the paper are shown movements of export in the sector of manufacturing production from these countries. In the third part is analyzed the change in the structure of merchandise export, with particularly extracted the share of manufacturing products. In the fourth part of the paper is analyzed the movement of employment in the sectors of manufacturing production in the EU and the USA. Here was particularly tracked the influence of export of manufacturing production on labour markets in them.

Basic methods of research used in this paper were methods of quantitative and qualitative analysis. The method of comparative analysis was used in a comparison of movements of observed economic indicators in the EU and the USA.

According to previously said, a basic hypothesis is formed which represents the starting base of the research gathered in this paper. It has the following premise: the bigger is the fall of export in the sector of manufacturing production from the EU and the USA, even bigger is the fall of employment in this sector of the economy in these countries during the observed period.

1. DEFINING OF BASIC THEORETICAL ITEMS

The basic sector of industry analyzed in this paper is the sector of manufacturing production. In its composition enter products of iron and steel, products of chemical industry and other semi-manufactures. The most numbered part of the sector of manufacturing production comprises machinery and transport equipment. Machines can be intended for the electrical industry, but also for other sectors of non-electrical manufacturing production. Among segments of transport equipment, a special place takes telecommunication equipment and products of the automotive industry.

Total merchandise sector, besides the sector of manufacturing production, also comprises: agricultural production, fuel and mining products, as well as commodities and transactions which are not classified elsewhere.² By that itself, the merchandise sector is a wider item than the sector of manufacturing production and their mutual relation during the observed period is in this paper represented through a share of export of manufacturing production in merchandise export from the EU and the USA.

Export of manufacturing production is most often tracked in a relative amount, through percentage annual change of its value.

The mutual relation of export and import is presented through trade balances, and their movements show a size of trade imbalances in the observed period. As foreign trade partners of the EU and the USA are included all countries of the world with which they have realized trade exchange during the same period, unless it is not otherwise pointed out.

Changes on labour markets in the EU and the USA are here tracked primarily through the movement of employment in the sectors of manufacturing production.

The base for analysis of this economic indicator were constituting seasonally adjusted data of employment expressed in thousands of employed people on the level of the sector of manufacturing production. Employment in this sector of the economy is also often presented through percentage annual change of its value.

2. TRADE IMBALANCES IN THE SECTOR OF MANUFACTURING PRODUCTION

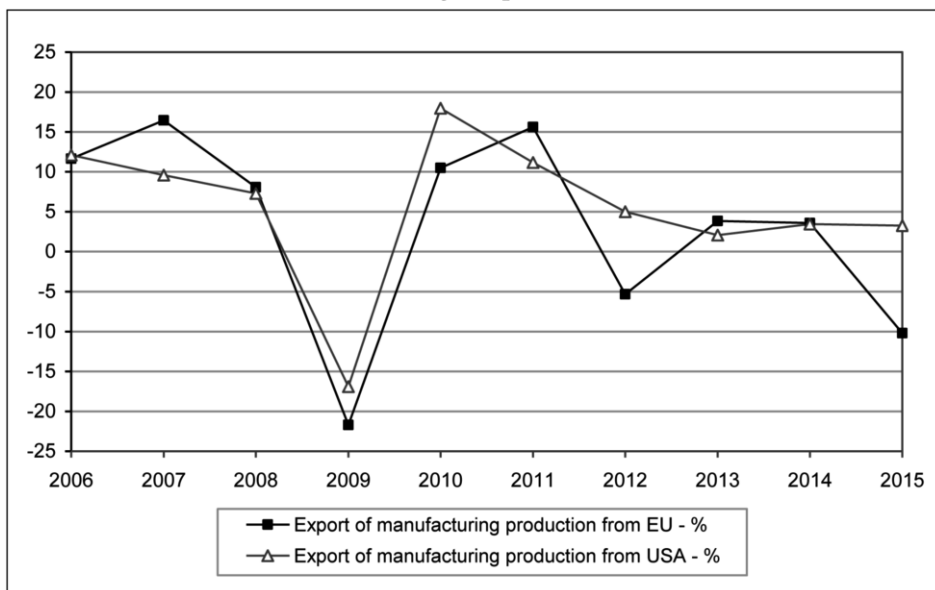
The export in the sector of manufacturing production from the EU under the influence of the World economic crisis fell in 2009 for almost 22% in relation to the year of 2008. During the same period in Germany, the fall of export in the sector of manufacturing production amounted to 21.9%.

² For defining the composition of a merchandise sector and a sector of manufacturing production it is used a methodology of the World Trade Organization. Accessed December 07, 2016, from: http://stat.wto.org/StatisticalProgram/WSDBStatProgramTechNotes.aspx?Language=E#Product_Def

A recovery of export in these states came already during the year of 2010. In 2011, an increase of export of manufacturing production from the EU was more than 15% in relation to 2010. However, as a consequence of the sovereign debt crisis in the Eurozone, during 2012 again came to the fall of export in this sector to 5.32%, at the level of the whole EU. During the next two years it came to a gradual growth of export of manufacturing products from the EU, but in 2015 it was marked a reduction of export in this sector of the economy for more than 10% in relation to 2014.

In the USA the export of manufacturing production in 2009 also significantly fell in relation to the year of 2008. That fall in relative amount was smaller than in the EU and amounted to 16.9%. During 2010, in the USA came to a sudden growth in the export of manufacturing production of almost 18%, while in 2011 that growth amounted to 11.2%. After that period, the export of manufacturing production from the USA had more stable movement than that from the EU and in 2015 it was observed a growth of export in this sector of the economy by 3.26%. Comparing changes of the export of manufacturing production from the EU and the USA during the entire observed period, it can be noticed that the export from the EU had on average the bigger annual fluctuations than from the USA, as it is also presented in Figure 1.

Figure 1. Percentage annual changes of export of manufacturing production from EU and USA during the period from 2006 to 2015.



Source: <http://stat.wto.org/Home/WSDBHome.aspx?Language=E> (23.12.2016).

The basic factor which brought on these changes in the export of manufacturing production, particularly during the World economic crisis, is a reduction of aggregate export demand. Besides that, a reduction of export potentials of domestic economies, as well as increased costs of crediting of export had also a great influence on the movement of export during the observed period (Pelević, 2011, p. 124).

Based on empirical data in absolute amount, it can be noticed that trade balance in the sector of manufacturing production in the year of 2009 in the EU amounted to 215.33 billion of dollars. By that itself, the EU had a surplus in the trade of products from this sector of the economy with the rest of the world. An increase of surplus in the sector of manufacturing production in the EU lasted until the year of 2013 when it reached the amount of almost 523 billion of dollars. However, since then it has begun to fall again and in 2015, it has amounted to around 340 billion of dollars.

Besides that, in 2013 the trade balance in exchange of manufacturing production from the EU only with the USA was also positive and its value amounted to 119 billion of dollars. In 2014, the value of surplus in the trade of products from this sector of the economy, which the EU had with the USA was even bigger and amounted to 137 billions of dollars (WTO, 2015, p. 89).

On the other side, the trade balance in the sector of manufacturing production in the USA in the year of 2008 had a negative value of -453.9 billion of dollars. A deficit in this sector of the economy of the USA, which this country realized in the trade with the rest of the world, was during 2009 decreased for more than 130 billion of dollars in relation to a previous year and then amounted to -321.4 billion of dollars. Such reduction of the deficit in the sector of manufacturing production was caused by a significantly bigger fall in the value of import in compare with a fall in the value of export in this period. In this sector of the economy, this had mostly influenced the reductions of import and export demand for products of manufacturing industry in the USA during the period of the World economic crisis. After its ending, the deficit in this sector of production in the USA had continued gradually to grow and in 2015 it reached a level of -682 billion of dollars (WTO, 2016, p. 105).

Therefore, it can be stated that in the USA exists the deficit in the sector of manufacturing production, despite that the economy of this country is on a very high technological level and degree of production possibilities.

3. STRUCTURE OF THE EXPORT OF MANUFACTURING PRODUCTION FROM THE EU AND THE USA

Based on up to now analyzed movement of the export of manufacturing production from the EU and the USA, it can be noticed that it was directly influenced by a reduction of export demand caused by the World economic crisis.

Another cause of observed trade imbalances in the sector of manufacturing industry is the excessive migration of production in this sector of the economy to abroad. It is a phenomenon which is created in a period significantly before the beginning of the World economic crisis and whose effects on the functioning of the world economy are still present. A desire for a breakthrough into new markets by companies from the EU and the USA brought to a displacement of almost entire production to foreign countries in which exist significantly more favourable business conditions.

Primarily, for this reason, it came to a continuous decrease in a share of the export of manufacturing production in merchandise export from the EU member countries and the USA since the end of 90-ies of the XX century.

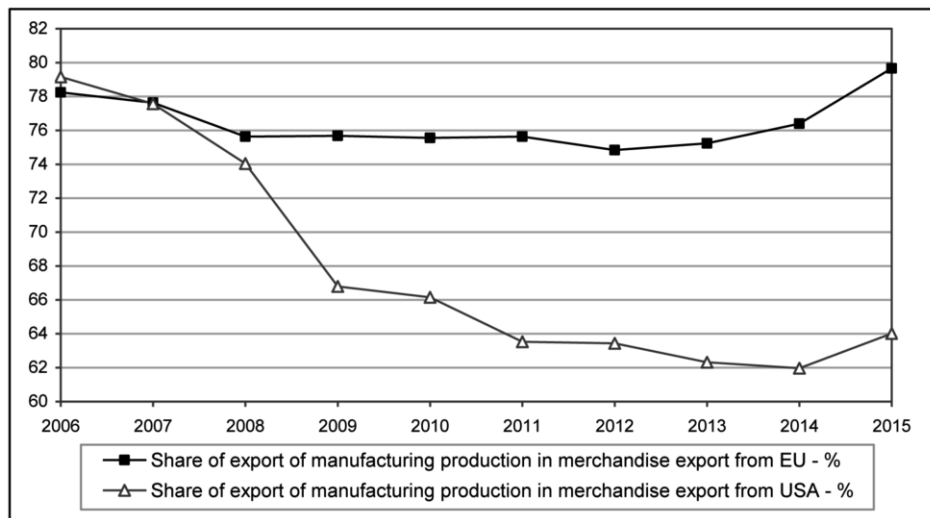
With the beginning of the World economic crisis in Germany, the fall in the share of the export of manufacturing production in merchandise export continued, from 85% in 2006 to 81.54% in 2009. However, since then it was again constantly growing and in 2015 it reached a value of 84.13%.

Besides that, analyzed factors have not led to long-term changes in a structure of export in the sector of manufacturing production from the EU as a whole during the observed period. According to the World Bank data, in the EU was a relatively small fall in the share of export of manufacturing production in merchandise export, which is also presented in Figure 2. In a period from 2008 to 2011, this share on average amounted to 76.625%, with average annual fluctuations of only 0.1 percentage points. Only in the recent period, it came to a significant increase of this ratio from 76.4% in 2015 to 79.67% in 2014.

As opposed to that, the fall of export of manufacturing products from the USA caused by these factors had a long-term impact on reducing the share of export of this product group in merchandise export from this country. Already at the beginning of the World economic crisis in the USA came to a big decrease of this share from 77.58% in 2007 to 74.04 in 2008. The biggest fall was marked already in 2009 when the share of export of manufacturing products in merchandise export from the USA fell by almost 10 percentage points in relation to the previous year and amounted to 66.79%.

In contrast to Germany and the EU as a whole, the share of export of manufacturing products in merchandise export from the USA has since then until the end of 2015 stayed significantly below its precrisis values. During 2011 and 2012, this share amounted to around 63.5% per year, that in 2014 its value was below 62%. An increase of around 64% is marked only during the year of 2015.

Figure 2. Percentage share of export of manufacturing production in merchandise export from EU and USA during the period from 2006 to 2015.



Source: <http://data.worldbank.org/indicator/TX.VAL.MANFZS.UN> (17.12.2016).

Based on this it can be concluded that in the observed period came to a long-term change in the structure of export in the USA. Besides these negative influences of the World economic crisis, continuous relocation of capacities of manufacturing industry from the USA abroad also brought to a permanent shutdown of many of domestic factories from this sector of the USA industry which production was directed to the export.

Such deindustrialization of the USA also brought to an increase in the deficit of the trade balance in this country (Kovač, 2011, p. 16-18). This is also characteristic of the sector of manufacturing production in the USA in the analyzed period.

As a consequence of this deindustrialization it can also be extracted and acceleration of changes in the structure of the total export of goods and services from the USA. During the observed period in the economy of this country came to a speedup of reorientation of economic activities from the sector of manufacturing production to the sector of services. By that, the share of export of services in the total export of goods and services from the USA increased from 28.59% in 2006 to 33.21% in 2015. On the other side in Germany, the share of export of services in the total export of goods and services amounted to 14.62% in 2006 and to 16.84% in 2015. Based on this it can be stated that in Germany, which relatively more stable succeeded in maintaining the structure of its economy, in the same period came to a twice smaller increase of this share in relation to the USA. A reason for that can be found in the strength of the export sector of the manufacturing industry in Germany (UNIDO, 2013, p. 43).

At the same time, it came also to a change in the structure of export within the sector of manufacturing production in the observed countries. Although the USA is on a markedly high level of technological development, in this country came to a significantly bigger decrease in the share of export of high-tech products in the export of manufacturing products, than in the EU. During the observed period in the USA, this share decreased from 30% in 2006 to only 19% in 2015. In the EU during the same time came to a fall in the share of export of high-tech products in export of manufacturing products from 18.6% to 15.9%, which represents four times smaller fall of this share in relation to the USA.

Parallel with that, in the USA, came to a reduction of the value of export in the high-tech sector from 219 billion in 2006 to 154.4 billion of dollars in 2015. That influenced also on the fall of domestic production in this sector of the economy. The importance of the high-tech sector, as a part of the sector of manufacturing production, can be observed also through its influence on a creation of new working places in other sectors of the domestic economy. It is considered that one newly opened working place in the high-tech sector in the USA indirectly leads to a creation between three and five new working places, especially in the local economy (World Bank, 2016, p. 106).

This additionally confirms the size of the negative consequences which the fall in export of high-tech products, as well as in export of manufacturing products, had on the entire USA economy. For its long-term recovery, it will need a significant period of time, as well as new investments which should be again redirected to export-oriented branches of manufacturing industry.

4. MOVEMENTS OF EMPLOYMENT IN THE SECTOR OF MANUFACTURING PRODUCTION

A reduction of export in the sector of manufacturing production from the EU and the USA also affected a reduction of the utilization of existing production capacities in this sector of the economy. A sudden decrease is particularly marked in the USA when from 78.8% of utilization of production capacities in the sector of manufacturing production in 2007 it fell to only 65.6% in 2009. Until the end of 2016, the utilization of production capacities in this sector of the USA economy did not succeed to reach the level from a period before the beginning of the World economic crisis and during the same year, it amounted on average to 75% (Federal Reserve, 2017, p. 14).

It caused reorientation and closing of production capacities of many companies in the sector of manufacturing industry. As a consequence of that came the fall of production in those companies, which brought to massive layoffs of workers in this sector of the economy.

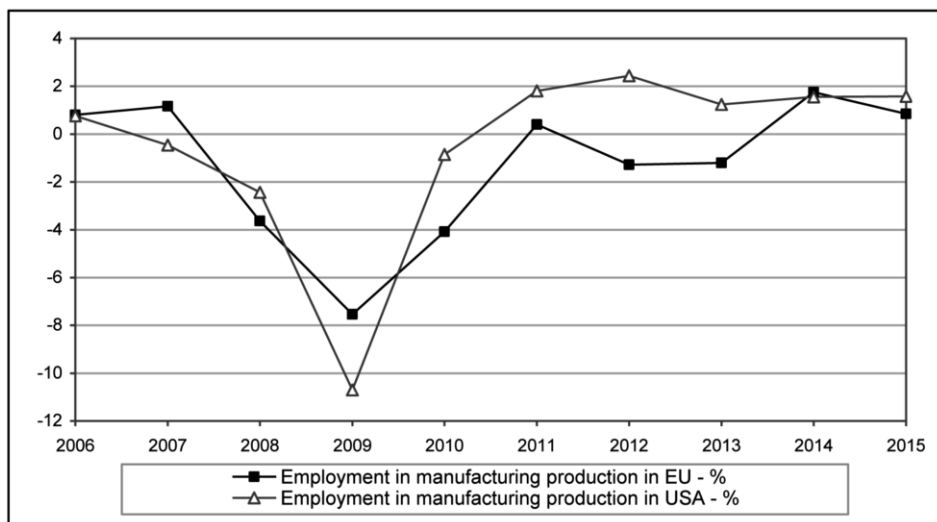
Subsequent empirical data confirm that. In 2008, during the World economic crisis, it came to a sudden fall of employment in the sector of manufacturing

production in the EU and the USA. During that year, in the EU is marked a fall of employment of 3.63% in relation to 2007, when was recorded a decrease of the number of employed in this sector of the economy from 39.54 million to 38.1 million. Employment in the sector of manufacturing production in the EU in 2009 amounted to 35.23 million, which represented a reduction of almost three million people or 7.54% in relation to 2008. During 2012 and 2013 in the EU, as a consequence of the sovereign debt crisis in the Eurozone, also came to a decrease of employment in relation to previous years. Since then employment again started to grow. However, in the third quarter of 2016, the number of employed in the sector of manufacturing production in the EU still amounted to only 34.74 million people.

In Germany came to a fall of employment in the sector of manufacturing production from 8.39 million in 2007 to 7.58 million in 2010. During 2015, employment in this sector in Germany amounted to around 7.76 million, while the level of above 8 million employed was not reached again until the third quarter of 2016.

In the USA during 2008 is marked a decrease of employment in the sector of manufacturing production by 2.44% in relation to 2007, while the fall during 2009 was even 10.7% bigger in relation to 2008, which can also be seen in Figure 3. During 2010, the fall of employment in this sector of the economy in the USA was significantly smaller and its value was below one percent. Since then until the end of 2015 employment in the sector of manufacturing production in the USA was in a continuous increase.

Figure 3. Percentage annual changes of employment in manufacturing production in EU and USA during a period from 2006 to 2015.



Source: <http://stats.oecd.org/viewhtml.aspx?datasetcode=STLABOUR&lang=en#> (14.01.2017).

Comparing annual data of movement of observed economic magnitudes, it can be concluded that reductions of export in the sector of manufacturing production were on average influencing a reduction in employment in this sector of the economy in the EU and the USA. During the period when the export of manufacturing products was recording a gradual increase in all observed states was also recorded a gradual increase in the number of employed people.

From that, it can be concluded that there exists a direct positive conditionality of changes in the sector of export of manufacturing production with the changes in employment in that sector in the EU and the USA, which is examined in a form of the basic hypothesis from which started the research contained in this paper.

Besides that, it can be also noticed that in 2009 it came to a significantly bigger fall of employment in this sector of production in the USA than in the EU.

Thus, based on until now analyzed data, it can also be concluded that the fall of export in the sector of manufacturing production from the USA during 2009 was smaller than from the EU, and employment in this sector of production during the same year fell more in the USA than in the EU.

Indirectly observed, that additionally shows a significantly higher degree of dependence on export which had many companies in the sector of manufacturing industry from the USA in relation to the EU, as a whole.

Because it came to a sudden fall of export in this sector of production, these companies in the USA were during 2009 and 2010 particularly forced to lay off a large number of workers. Employment in the sector of manufacturing production in the USA was reduced from 16.3 million in 2007 to 14.08 million in 2010, which in absolute amount represents a reduction of more than 2.2 million people.

Since then, employment in this sector of the USA economy has been in a continual increase, but in 2016 the number of employed amounted to around 15.4 million, which is still around 900.000 less than before the beginning of the World economic crisis.

Influences of deindustrialization in the USA can be measured also through a decrease of the share of employment in the sector of manufacturing production in the total employment. In the USA this share fell from 11.2% in 2007 to a level of 9.8% in 2013, continuing the trend of reduction in a value of this share from a period significantly before the beginning of the World economic crisis (UNIDO, 2015, p. 191).

With the aim of stopping the fall of the total as well as of sectoral employment during the observed period, in the EU and the USA were applied different measures of the economic policy.

One of the most used measures was a reduction of unit labour costs, which basically represents a form of internal (real) devaluation. It is directed to an increase

of competitiveness of a country in relation to its foreign trade partners. On the one side, a possibility of its successful export on the world market is increased, while on the other it positively influenced on attracting foreign direct investments (Grbić and Todić, 2014, p. 16).

Internal devaluation in the USA is monitored through movements in the value of the index of the real effective exchange rate based on unit labour costs in 37 countries of mutual foreign trade partners, including also the USA (European Commission, 2016, pp. 89-90). Observed in relation to 2005 as the base year, the value of this index for the sector of manufacturing production in the USA decreased from 100.9 in 2006 to 81.5 in 2011. During the next three years, this index of the real effective exchange rate had values below the base level from the year of 2005.

Such internal devaluation, together with other applied measures of monetary and fiscal policy, had also a positive effect on a recovery of export in the sector of manufacturing production from the USA. However, it was not enough to fully remove the negative consequences of the World economic crisis in this sector of industry, thus the employment in it still did not return to the precrisis level.

During 2015, the value of the index of the real effective exchange rate in this sector of the USA economy amounted to 108.2 points and in the second quarter of 2016 it amounted to 110.5 points, based on what can be noticed, it came to the internal revaluation and interruption of the implementation of a perennial policy of reduction of unit labour costs.

In Germany, the value of the real effective exchange rate, measured also by the used index, decreased from 113 in 2009 to 96.7 points in 2011, while in the second quarter of 2016 its value amounted to 101.3 points.

As it is previously mentioned, in Germany employment in the sector of manufacturing production at the end of 2016 was still approaching to its precrisis level, as opposed to the USA.

A conducted internal devaluation in Germany did significantly contribute to an increase of employment in this sector of the economy, but in that country parallel came also to an implementation of short-time working programmes. These programmes also influenced on preventing massive layoffs from the sector of manufacturing production.

Besides that, also as opposed to the USA, in Germany exist agglomerations of production, as particular forms of the spatial grouping of more companies from one sector of the industry. For this country is characteristic the existence of strong agglomerations of production in the sector of manufacturing industry. They are integrated into the economic system of Germany and had an important role in the alleviation of the negative consequences of the World economic crisis in this very export-dependent EU economy. With such organized economic activity was

stopped a massive displacement in abroad as well as the closing of domestic capacities of manufacturing industry in Germany.

For those reasons, bigger success in preserving of high levels of employment in the sector of manufacturing production in Germany in relation to the USA during the observed period, can be also explained with the simultaneous influence of this factor, besides an application of the internal devaluation and programmes of short-time working.

In the EU as a whole, the value of the real effective exchange rate in the sector of manufacturing production in a period from 2007 to 2009 is on average, amounted to around 111.3 points. Contrary to that, in 2010 came to the internal devaluation in the EU, observed in relation to the base year of 2005, and the value of used index then amounted to around 100.6 points. In 2012, its value in the EU was at the lowest level during the entire observed period and amounted to 93.8 points, as an attempt to increase a competitiveness of European economies which were under the influence of the sovereign debt crisis in the Eurozone. In the next two years, followed a period of internal revaluations, then in 2015 the value of this index fell again and amounted to around 95.7 points. In the second quarter of 2016, its value in the EU amounted to 95.1 index points.

However, neither in the USA nor in the EU as a whole such usage of the internal devaluation was not enough to increase employment in the sector of manufacturing production until the middle of 2016 when it returned to its level before the beginning of the World economic crisis.

Observing the periods before and after the World economic crisis we also noticed the following. By moving out the production in the sector of manufacturing industry from the USA abroad were created the conditions for import of products from this sector of the economy, which also induced a growth in the size of the international trade. This was particularly characteristic for the precrisis period from 2000 to 2008. As a consequence of that, during this period it came to a continuous reduction of employment in this sector of production in the USA. Contrary to that, under the influence of the World economic crisis in the next period from 2008 to 2015, it came to a decrease in both export and import in the sector of manufacturing production, particularly in 2009 and 2010. During this period, the size of foreign trade exchange in this sector of production in the USA was smaller than in the precrisis period. For those reasons, it came to a decrease of production in this sector of the manufacturing industry, which directly influenced a decrease of employment in this sector of the economy in the USA.

However, observed from the other side, precisely this reduction in the import of products of manufacturing industry from abroad indirectly influenced on the slowing down of the fall in employment in this sector of the USA economy in relation to the precrisis period from 2000 to 2008 (OECD, 2016, p. 39). Contrary to that, in the EU

in a period from 2008 to 2015 came to an acceleration of the fall of employment in the sector of manufacturing production in relation to the precrisis period.

By the reduction of import of products from this sector of the economy made a space on the USA market for saturation of the domestic demand for products of the manufacturing industry from the domestic production capacities and not from import. That brought to smaller layoffs of workers than it could have been expected from an influence of reduction of export in this sector of the USA economy caused by the World economic crisis.

This additionally confirms that production in the sector of manufacturing industry in the USA has not only quantitative but also structural problems.

With the increase of the world trade and without removing the structural problems in the sector of manufacturing production in the USA, this country can expect a repeated acceleration of the fall of employment in this sector of the economy in a future period.

CONCLUSION

During the World economic crisis, it came to a significant fall of export in the sector of manufacturing production from the EU and the USA. Directly after its ending, it came to an immediate recovery of production in this area. However, since then it is present continuous slowdown of annual growth of export in this group of products, which also affects the reduction of their production in observed countries.

The results of the analysis done in this paper show that it came to a sudden fall of employment in the sector of manufacturing production in the EU and the USA during the World economic crisis. In a period from its finishing until the end of 2016, annual changes of employment in the EU and the USA were gradually returning to the precrisis level, following movements of the export of manufacturing production from them.

Based on the facts mentioned above, it can be concluded that there exists a positive linear dependence between movements of these two economic magnitudes, which altogether represent also a confirmation of the basic hypothesis of this paper.

In parallel with that, in the observed period it came also to a big fall in the share of export of manufacturing production in merchandise export and particularly from the USA. That represents an additional factor which has significantly influenced the relation of export and employment in the sector of manufacturing production. This condition in the structure of merchandise export from the USA is retained until the end of the observed period.

Despite it is not anymore a direct carrier of technological progress, manufacturing production represents an integral part of each economic system. It

also positively affects other sectors of the economy of one country, providing the real basis for their successful development.

By that itself, the export of manufacturing production in other countries has potentially a bigger significance than it can be noticed from empirical data which are related exclusively to its quantity and value.

Observing from the opposite direction, a long-term weakening of manufacturing production and its excessive displacement abroad can jeopardize the sustainability of each domestic economic system.

Every working place in the sector of manufacturing production brings to a direct involvement of the working force in the modern production and technological trends, which in another way is not possible to provide in the long run.

Employment in the sector of manufacturing production needs constantly to be maintained on the optimal level, which corresponds to the requirements of the economic development of each country, with particular respect to its export possibilities and preferences.

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UTICAJ SVETSKE EKONOMSKE KRIZE NA IZVOZ PRERAĐIVAČKE PROIZVODNJE IZ EU I SAD

Apstrakt: Izvoz roba iz EU i SAD u poslednjih desetak godina pokazivao je značajne promene koje su bile posebno izražene tokom Svetske ekonomske krize. Posle njenog završetka godišnje fluktuacije ove ekonomske veličine se postepeno vraćaju na predkrizne nivoe. Ova smanjenja izvoza roba doprinela su padu ukupne proizvodnje u svim posmatranim zemljama. Mere makroekonomske politike koje su bile primenjene u cilju zaustavljanja tog pada proizvodnje i zaposlenosti jesu dale određene pozitivne rezultate u posmatranom periodu. Međutim, dugoročne posledice Svetske ekonomske krize i dalje su prisutne, posebno u strukturi izvoza roba. Izrazito negativan uticaj ostvaren je na sektor prerađivačke proizvodnje u SAD čiji je udeo u izvozu roba značajno smanjen.

Zaposlenost u ovom sektoru privrede je tokom perioda Svetske ekonomske krize takođe zabeležila veće promene u SAD nego u EU. Ono što se izdvaja kao dodatni pokazatelj takvog uticaja ove ekonomske krize jeste činjenica da do kraja 2016. nivoi zaposlenosti u sektoru prerađivačke proizvodnje, niti u EU niti u SAD, još uvek nisu dostigli predkrizne nivoe.

Takve tendencije u kretanju izvoza i zaposlenosti u ovom sektoru privrede mogu kontinuirano negativno uticati na stabilnost privrednog sistema i izvoznu konkurentnost svake od posmatranih privreda.

Ključne reči: prerađivačka proizvodnja, struktura izvoza, tržišta rada EU i SAD.

Received: 16.03.2017.

Revised: 19.06.2017

Accepted: 26.06.2017.

UDC 330.34(497.11)(436)
Biblid 0543-3657, 68 (2017)
Vol. LXVIII, No. 1166-67, pp. 21–48
Original Scientific Paper

SERBIA'S ECONOMIC GROWTH AND CATCHING-UP WITH AUSTRIA (1960–2013)

György SIMON, JR¹

Abstract: The author investigates the role of growth factors in the Serbian economy and the latter's catch-up possibilities with the European Union by the example of Austria. On the basis of a general endogenous model, he first analyzes the main regularities of economic growth in Serbia over more than a half century (1960–2013). Then, he turns his attention to changes in the catch-up factors of Serbian economy before and after the (formal) start of the transition in 1989, revealing the fundamental causes of lagging behind the advanced world level. The author's calculations show that, because of a protracted transition exacerbated by crises and wars, Serbia's economic catch-up with Austria will require a long time, even if it continues at the most favourable rate. At the same time, a more efficient economic policy, in addition to the attraction of foreign assets, may result in a more rapid catch-up. The main conclusion is that the catch-up process can be accelerated by increasingly investing in human capital, namely education and R&D.

Key words: economic growth and catch-up, production functions, international comparisons, Serbia, Austria.

In Central and Eastern European countries with transitional economies, economic growth and catch-up are actually two sides of the same coin. In the course of history up to the present, their development has always been of catch-up character. In this context, the process of modernization implies above all westernization and, in the case of the Western Balkans, even Europeanization (Sigér, 2006).

For the former socialist countries, economic catch-up, concretely the achievement of the average development level of the European Union (EU), can be viewed as a special case of convergence. According to the absolute convergence hypothesis, it is the catching-up of economically less developed countries with the advanced world level. Today, the latter is represented by the U.S. economy. However,

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this interpretation in the specialist literature has been replaced by the so-called conditional convergence hypothesis, according to which economic catch-up in various groups of countries takes place with different levels of development. It is essentially this idea that matches the objective of catching-up with the EU average.

Problems relating to the questions of economic growth and catch-up or convergence have already been tackled by numerous theoretical studies (see e.g. Solow, 1956, 1957; Romer, 1986; Lucas, 1988; Jones, 1995; Fine, 2000; Barro and Sala-i-Martin, 2004; Romer, 2012). However, there are relatively few investigations concerning the catch-up development of the post-Yugoslav area, the Western Balkans and particularly Serbia (see e.g. Uvalić, 2010; Veselinović and Janković, 2012; Simić, 2014; Stanišić, 2016; Sanfey, Milatović and Krešić, 2016; Bićanić, Deskar-Škrbić and Zrnc, 2016). The present research analyzes the role of growth factors in the Serbian economy and the latter's catch-up possibilities with the EU by the example of Austria. The investigated period covers more than a half century (1960–2013). The initial data refer to the present territory of Serbia that excludes Kosovo and their sources are cited in the Appendix.

In the paper, the following main issues will be discussed: (1) the endogenous model used for the analysis of economic growth and catch-up; (2) growth characteristics of the Serbian economy in a long run; (3) Serbia's economic catch-up with Austria since the early 1960s, before and after the (formal) start of transition in 1989, factors and possibilities of catching-up.

THE ENDOGENOUS GROWTH MODEL

The process of catching-up cannot be understood without the knowledge of the economic growth mechanism, which is essentially an interaction of the fundamental factors of production and the operation of economic force fields generated by these factors. As a result, output emerges, characterized by the gross domestic product (GDP) at a macro level and by (gross) value added in individual sectors. *Growth mechanism determines not only the volume of an economy's output, but also price formation, income distribution and accumulation* (see Simon, 2005). As is well-known, economics has been dealing with these issues since the 18th century. However, mathematical modeling and model assumptions were confronted with factual data only in the 20th century, with the construction of the *Cobb-Douglas production function* (Douglas, 1957). The latter became a starting point of the *neoclassical growth theory* marked by Solow's name, having acquired a dominant position in contemporary economic thought (Solow 1956, 1957; Samuelson and Nordhaus, 1998). The later *endogenous growth models*, though in some important respects, different from the orthodox approach, have been elaborated within the framework of neoclassical theory and therefore leave the fundamental questions of economics essentially unsolved (see, e.g. Romer, 1986; Lucas, 1988; Jones, 1995; Barro and Sala-i-Martin,

2004; Romer, 2012). This situation points to a need for a cardinal *new approach* to the problems of economic growth.

Here we will use a *production function*, or the endogenous growth model, whose latest version (Simon, 2008) is more compact and, in many respects, simpler than the earlier ones (Simon, 2002, 2005). At the same time, it explicitly considers the effect of learning by doing, too. The *variables* are cited below.

Y – volume of output: GDP or (gross) value added in billions of 2000 U.S. dollars;

K – average annual (gross) stock of fixed capital, including dwellings in the case of national economy, in billions of 2000 U.S. dollars;

L – average annual number of persons employed (in millions);

M – number of working years (at an annual level, $M = L$);

H – number of schooling years per capita (for population aged 15 and over);

R_{t-2} – full-time equivalent (FTE) number of scientists and engineers engaged in research and development (R&D) considering a two-year lag (in thousands);

Z – arable land area (in million hectares);

N – mid-year population (in millions, an exogenous variable).

$\Delta t = t - t_0$, where t is time in years and t_0 is the base year, 1950.

All variables are a function of time. Value data (Y, K) of Serbia and Austria are at *purchasing power parities* (PPPs, see the Appendix). The time index is put out in the case of retarded effects. In the formulas, a capital letter denotes a function, a small letter a parameter (except the variable t).

The basic components of this general model are the *intensity* (equipment) *indicators and functions*. An *intensity function* is a logarithm of an expression containing the basic component of human capital (L) and some other type of capital multiplied by a *normalizing coefficient*. The latter, considering its economic effect, makes commensurable the given factor with the basic component of human capital. An intensity function is, in essence, a specific value of the basic component of human capital increased by some other factor, or *economic catalyst*, considering the latter's relative efficiency in a logarithmic form. A logarithmic transformation makes it possible to write down the exponential interaction among economic catalysts in a multiplicative form.

Intensity functions:

$F_K = \ln (1 + n_K K/L)$ (capital intensity);

$F_H = \ln (1 + n_H H/L)$ (education);

$F_R = \ln (1 + n_R R_{t-2}/L)$ (research intensity);

$F_Z = \ln (1 + n_Z Z/L)$ (arable land intensity).

The *normalizing coefficients* are $n_K = 1/385$, $n_H = 1$, $n_R = 1$ and $n_Z = 1$, where parameter n_K refers to the 2000 dollar prices. These are rounded values which do not differ significantly from the estimated ones. The estimation was made together with the parameters, starting from certain initial values.

The *general form* of the production function, i.e. the *basic model* without the oil factor, can be written down as follows:

$$Y = gM \exp[F_K(G_I + G_M + G_{KR})]. \quad (1)$$

Here the parameter g is the output produced *without fixed capital* during a working year that approximately corresponds to an economy's productivity level in an initial state. Its estimation was made similarly to the other parameters. Among the components of the relation (1) in parentheses, G_I is a function concerning the immobile, G_M the mobile and G_{KR} the creative technical progress. In formulas:

$$G_I = 1 - \exp\{-g_I F_K - g_Z F_Z\};$$

$$G_M = g_M F_K \exp(-g_{KM} F_K - g_{ZM} F_Z);$$

$$G_{KR} = G_H G_R G_T,$$

$$\text{where } G_H = g_H F_H \exp(-g_{KM} F_K),$$

$$G_R = 1 + g_R F_R^2 \text{ and}$$

$$G_T = \exp(g_T \Delta t).$$

The sum of model components of the relation (1) in parentheses is approximately the elasticity function of output by physical (fixed) capital. Thus, in our case, differently from the Solow model, there is not a production elasticity coefficient (a), but a *production elasticity function* (G_a), where $G_a = G_I + G_M + G_{KR}$ (cf. Simon, 2003, p. 42).

What is the *economic interpretation* of this growth model? If fixed capital (K) is zero, i.e. there are no tools, the economy is in an initial state, in which the output is gM . If capital is greater than zero, then in relation to the initial state, output and productivity grow depending on the magnitude of all intensities, including the economy's endowment with natural resources, as well as the amount of time available for creative economic activity.

The *immobile technical progress* ($F_K G_I$) depends positively on capital and land intensity. The value of G_I has a magnitude between zero and one, which at a very high level of capital intensity asymptotically tends to unity. A common feature of the other two components of technical progress ($F_K G_M$ and $F_K G_{KR}$) is that their

magnitude is enlarged by capital intensity only to a certain limit. Afterwards it will decrease, and if capital intensity grows beyond all limits, their values will tend asymptotically to zero. The *mobile technical progress* ($F_K G_M$) is also negatively affected by land intensity, since land is a relatively inert factor from the viewpoint of technological development and work organization.

The *creative technical progress* ($F_K G_{KR}$) depends positively on education, research intensity and time available for creative economic activity. The role of education is double: reproductive and creative. In the case of reproductive role, it is substantially complementary to physical capital; its effect does not appear independently. The situation is, however, different regarding the creative effect of education, the most obvious form of which is R&D, a very important growth factor of the modern economy. All creative activities mean, in a certain sense, learning how better results can be achieved. In that sense, R&D can also be called learning by doing. But if learning was the only issue, then most results could be achieved by the least educated who have most to learn. Empirical results show the opposite, which points to the fact that a primarily creative activity is at issue, of which the more educated are much more capable.

In the model, a *quadratic form of research intensity function* (F_R^2) figures essentially for two reasons. On the one hand, a higher volume of concentrated research is, as a rule, more efficient. On the other hand, the effect of such research may more markedly overreach the given production unit. Thus, an additional economic result, a “spill-over”, comes gradually into being. The model also considers R&D as multiplying the explicit economic effect of education, which is true vice versa, too, since the research results are more utilizable in an economy where workers have higher qualifications.

For the *verification* of the growth model, *two databases* were used. The parameters of the basic model were estimated relying on manufacturing and non-manufacturing time series for the United States, Japan, Federal Republic of Germany, United Kingdom and France (1950–2003), with productivity (Y/M) as a dependent variable. Ultimately, the investigation based on data by Heston, Summers and Aten (2006) was extended over 131 countries by singling out three years (1970, 1988 and 2003).² It covered both developed and developing countries together with the oil exporters.³ Value data (Y, K) were everywhere taken into account at 2000 dollar prices. It has been assumed that the parameters of the basic model are valid for all countries, including those not considered in estimating the parameters.

² See the list of investigated countries, including Austria and the former Yugoslavia, in Simon (2000).

³ In other world economic investigations (Mankiw, Romer and Weil, 1992; Nonneman and Vanhoudt, 1996; Hall and Jones, 1999) the *oil exporting countries* were not included and thus the effect mechanism of that extremely important contemporary growth factor remained unexplored.

Table 1: Parameters of the endogenous growth model

No.	Symbol	Estimated value	<i>t</i> statistics
1	g	522	22.46
2	g_I	0.0781	22.45
3	g_M	0.319	22.42
4	g_H	0.273	22.29
5	g_R	278	17.44
6	g_T	0.0065	20.28
7	g_Z	0.082	20.95
8	g_{KM}	0.34	-22.52
9	g_{ZM}	0.30	-19.14

Source: Simon (2008), p. 20.

The *estimation results* for the model *parameters* are summarized in Table 1 and suggest the following *conclusions*.

1. The parameters are significant as seen from *t* statistics. Their standard error in the vast majority of cases is around 1/20 of their estimated value.

2. The sign of parameters meets theoretical expectations. Among the nine parameters of the basic model, seven are connected with accelerating effects and positive feedbacks, two (g_{KM} and g_{ZM}) with decelerating effects and negative feedbacks.

3. The results obtained for the magnitude of parameters seem realistic. The most verifiable result may be the estimated value of parameter g . The productivity of least developed countries in 2003 was approximately two-three times higher than that (see Heston, Summers and Aten, 2006).

The model in point, with a determination exceeding 90%, fits the actual productivity values in terms of both the leading capitalist countries and the world economy (131 countries). Table 2 contains the corrected coefficients of determination (R^2) where the number of degrees of freedom is decreased by the joint number of parameters, normalizing coefficients and parameter-like model components. The estimation errors decrease in time, primarily because factors operating outside the mechanism of technical progress, e.g. business cycles, affect growth mostly in the short run. Presumably, a role is also played by the fact that an essentially *economic development model* is at issue. For the world economy, the estimation errors are greater than for the leading capitalist countries. However, the standard error exceeding 20% emerged by relating to a thousand or several thousand percent productivity and income differences. Therefore, this result cannot be regarded as bad either, proved by a coefficient of determination above 90%.

Table 2: Fit of the endogenous growth model
(dependent variable: Y/M)

Sphere	Number of countries	Number of observations	R ²		Standard error (%)	
			Annual	Cumulative	Annual	Cumulative
Manufacturing and non-manufacturing	5	530	0.974	0.994	7.8	6.3
Manufacturing	5	265	0.965	0.986	10.2	9.6
Non-manufacturing	5	265	0.970	0.997	6.4	4.5
National economy: aggregated	5	265	0.972	0.996	6,8	5,1
disaggregated	5	265	0.976	0.998	6,3	3,7
World economy	131	380	0.928	0.957	29.9	25.9

Source: Simon (2008), p. 21.

Overall, it is evident that the *effect mechanism of growth factors is uniform*, the often very significant cross-sector and cross-country differences are caused by different factor proportions and intensity levels. *It gives an explanation for several basic characteristics of the operation of the modern economy that in many respects differs from the foregoing economic theories.*

SERBIA'S ECONOMIC GROWTH MECHANISM

The Serbian economy had long been developing within the framework of a larger Yugoslav state, which from 1950 experimented with various forms of the self-management system and in 1989 was set on the road to capitalism. On 27 April 1992 Serbia and Montenegro established the Federal Republic of Yugoslavia, transformed on 4 February 2003 into the State Union of Serbia and Montenegro. The Republic of Serbia finally proclaimed its independence on 5 June 2006. On 1 March 2012, the European Council granted Serbia candidate status for EU membership.

It is difficult to investigate the development of Serbian economy with the generally used tools and methods of economic analysis. The main reasons are the specific conditions of Yugoslav socialism and the subsequent economy war under international sanctions (see Đorđević and Lopandić, 2001). In addition, the quality of statistics is relatively low, especially for the 1990s.

Serbia's transition to a market economy has been a contradictory process with repeated setbacks, which gathered a decisive impetus after the regime change of October 2000, and by the end of the decade, the key mechanisms of the market economy had been formed. Yet remnants of the Yugoslav system, protracted transition and incomplete

market institutions still condition the weak competitiveness of Serbian economy (Božić Miljković, pp. 68–69).

Table 3: Key characteristics of Serbia's economic growth, 1960–2013

Year	National economy			Manufacturing		
	Y	Y/M*	K/Y	Y	Y/M*	K/Y
1960	15.0	9.03	1.85	1.12	2.19	2.52
1970	27.0	12.23	2.54	2.44	3.77	2.99
1980	47.7	14.76	2.98	5.48	5.87	2.81
1989	50.4	13.26	3.61	6.84	6.14	2.91
2000	23.2	7.50	4.16	2.61	3.56	4.29
2013	35.1	15.19	3.05	3.70	9.39	4.59
Period	Average annual percentage change					
1961–2013	1.62	0.99	0.95	2.28	2.78	1.14
1961–1989	4.27	1.33	2.33	6.44	3.62	0.50
1990–2013	-1.50	0.57	-0.70	-2.53	1.79	1.92
1961–1970	6.05	3.08	3.22	8.10	5.58	1.72
1971–1980	5.86	1.90	1.61	8.43	4.53	-0.62
1981–1989	0.61	-1.18	2.15	2.49	0.50	0.39
1990–2000	-6.81	-5.05	1.30	-8.39	-4.83	3.59
2001–2013	3.24	5.58	-2.36	2.72	7.75	0.52

* Thousand dollars per working year.

Note. Y and K are in billion dollars at 2000 prices.

Source: own calculations from the Appendix. The same concerns the following tables.

Data in Table 3 allow us to draw some conclusions on Serbia's economic growth.

1. *Macroeconomic growth* rate after the turn of the millennium approximated the average growth performance achieved before the transition. Overall, the growth of Serbian economy was *predominantly intensive*, three-fifths of which contributed by the increase in productivity.

2. The *rise in productivity* during the transition was much slower than in the preceding period.

3. *Productivity in manufacturing is still far from catching up with the macroeconomic average.* In manufacturing, growth is substantially slower than in the economy as a whole.

The recovery was sluggish in that sector as the majority of industrial enterprises had long lost their markets. In addition, the accumulated losses, redundancy and low capacity utilization rates made the business operation even more difficult (cf. Bukvić and Kovačević, 2008, p. 61).

4. The *capital-output ratio* (K/Y) frequently showed an increasing trend. As a consequence of *capital deepening*, capital productivity (Y/K) in 2013 reached only three-fifths of the 1960 level in the total economy and half in manufacturing.

5. The capital-output ratio is 1.5 times higher in manufacturing than in the total economy, i.e. capital productivity is about two-thirds of the latter.

For the analysis of *productivity growth*, regarded as a dependent variable in relation to the initial state, the endogenous model described above takes the following form:

$$\Delta \ln (Y/gM) = \Delta F_K G_I + \Delta F_K G_M + \Delta F_K G_{KR} + \varepsilon, \tag{2}$$

where g is a multiplier of efficiency (a constant), M is the number of working years and ε is a logarithmic residual.

Like the standard neoclassical production function, the general model is *first-degree homogeneous*, meaning that its use does not lead to economically absurd results, e.g. an economic Big Bang (see Solow, 1994).

Table 4: Factors of productivity growth in Serbia

(annual averages, %)*

Period	$\Delta \ln (Y/gM)$					In percentage of $\Delta \ln (Y/gM)$			
	Total	Of which:				$\Delta F_K G_I$	$\Delta F_K G_M$	$\Delta F_K G_{KR}$	ε
		$\Delta F_K G_I$	$\Delta F_K G_M$	$\Delta F_K G_{KR}$	ε				
National economy*									
1961–2013	0.982	0.475	0.325	0.216	-0.034	48.4	33.1	22.0	-3.5
1961–1989	1.327	0.639	0.438	0.259	-0.009	48.2	33.0	19.5	-0.7
1990–2013	0.565	0.275	0.189	0.139	-0.038	48.7	33.5	24.6	-6.8
1961–1970	3.041	1.429	0.995	0.593	0.024	47.0	32.7	19.5	0.8
1971–1980	1.880	0.915	0.621	0.353	-0.009	48.7	33.0	18.8	-0.5
1981–1989	-1.191	–	–	–	0.031	–	–	–	-2.6
1990–2000	-5.184	–	–	–	0.467	–	–	–	-9.0
2001–2013	5.429	2.573	1.732	1.390	-0.266	47.4	31.9	25.6	-4.9

* Calculated from aggregated data.

Period	$\Delta \ln (Y/gM)$					In percentage of $\Delta \ln (Y/gM)$			
	Total	Of which:				$\Delta F_K G_I$	$\Delta F_K G_M$	$\Delta F_K G_{KR}$	ε
		$\Delta F_K G_I$	$\Delta F_K G_M$	$\Delta F_K G_{KR}$	ε				
Manufacturing									
1961–2013	2.749	0.965	1.245	0.769	-0.230	35.1	45.3	28.0	-8.4
1961–1989	3.559	1.171	1.655	0.964	-0.231	32.9	46.5	27.1	-6.5
1990–2013	1.770	0.681	0.791	0.526	-0.228	38.5	44.7	29.7	-12.9
1961–1970	5.441	1.676	2.661	1.496	-0.392	30.8	48.9	27.5	-7.2
1971–1980	4.420	1.485	2.047	1.158	-0.270	33.6	46.3	26.2	-6.1
1981–1989	0.510	0.177	0.227	0.138	-0.032	34.7	44.5	27.1	-6.3
1990–2000	-4.954	–	–	–	0.728	–	–	–	-14.7
2001–2013	7.460	2.939	3.231	2.148	-0.858	39.4	43.3	28.8	-11.5

What was the *role of individual factors in the Serbian's productivity growth?*

This question can be answered by putting Serbia's data from the Appendix in relation (2). What conclusions can be drawn from the obtained results shown in Table 4?

1. Regarding the rate of productivity growth, Serbia's economy managed on the whole to achieve better results before the transition than after its beginning.

2. The largest share in macro-level productivity growth was held by the immobile type of technical progress, related to learning by doing, followed by its mobile and creative types, reflecting the equipment of workers with physical capital and the combined effect of education and R&D, respectively.

3. Manufacturing production was determined primarily by the mobile component of technical progress. Here the immobile component held the second and the creative component the third place.

4. After the turn of the millennium, creative technical progress came nearer to the second place at the macro level, while in manufacturing the share of mobile technical progress declined.

5. The actual performance of Serbian manufacturing was significantly lower than its performance according to the model. However, macroeconomic results were better as the performance of manufacturing deviated much more from model calculations than the performance of the total economy.

RESULTS AND FACTORS OF ECONOMIC CATCH-UP

In our days, Serbia’s economic catch-up is usually analyzed compared to the average development level of the European Union, which is justified by the country’s integration aspirations. However, we can get a subtler picture by focusing attention on an advanced EU country with a similar size, having motivated our choice of Austria.

A question arises what indicator to regard as standard. It is customary to use the gross domestic product (GDP) per inhabitant measured at purchasing power parity (PPP). This indicator approximately characterizes per capita real income usable for consumption and accumulation but not, or at least very roughly, productivity. But economic catch-up is ultimately and fundamentally decided in the field of production. Therefore, we have drawn productivity, namely GDP/value added per person employed, in our investigation, too.

Another important question is to what periods the analysis should be extended. In this respect, we have considered the availability of comparable data on Serbia and Austria for the investigated period. From the Serbian viewpoint, as noted above, the entire study period can be divided into two basic periods: before and after the beginning of the transition in 1989. For a more detailed analysis, both periods are broken down into sub-periods: the pre-transitional years into approximately three decades and the transitional years into the phases before and after the regime change of 2000. All the periods will be examined from the viewpoint of results concerning economic catch-up (see Tables 5 and 6).

Table 5: Serbia’s GDP per inhabitant and per person employed
(in U.S. dollars of 2000, at PPP)*

Year	GDP per inhabitant		GDP per person employed	
	Serbia(USD)	<i>in percentage of:</i>	Serbia(USD)	<i>in percentage of:</i>
		Austria		Austria
1960	2,259	26.8	9,025	52.0
1970	3,768	29.6	12,234	41.8
1980	6,188	34.3	14,763	37.8
1989	6,385	29.9	13,263	28.4
2000	3,087	11.3	7,498	12.7
2013	4,897	15.0	15,188	24.1

* USD 1 = RSD 17.13 and ATS 13.21.

What main *conclusions* can be drawn from data in Table 5?

1. Considering the whole investigated period, Serbia did not come closer to Austria's level of development but moved away from it.

2. In the same period, catching-up when it took place was more successful in living standard than in productivity as the share of employed had ultimately increased.

3. Pre-transitional catch-up in terms of per capita income was decisively the result of the decade between 1970 and 1980.

4. The unfavourable results of the period between 1989 and 2000 can be explained by transformational recession exacerbated by wars and sanctions.

5. Convergence re-emerged under accelerated transition begun after 2000, covering now both mentioned indicators.

The outlined relations may be better conceived if we calculate the annual average of changes for individual periods (see Table 6).

Table 6: Average annual rates of Serbia's economic catch-up with Austria in percent

<i>Period</i>	<i>GDP per inhabitant</i>	<i>GDP per person employed</i>
1961–2013	-1.09	-1.44
1961–1989	0.38	-2.06
1990–2013	-2.83	-0.68
1961–1970	1.00	-2.16
1971–1980	1.48	-1.00
1981–1989	-1.51	-3.13
1990–2000	-8.47	-7.06
2001–2013	2.20	5.05

As seen from Table 6, Serbia in comparison with Austria achieved the relatively most favourable catch-up results in the period after 2000, above all in terms of productivity. *How long would it take for Serbia to catch up economically with Austria if its convergence with the latter's level of development continued at the foregoing pace?* It is not difficult to calculate from the data in the preceding two tables, but the results are not too encouraging. *It would need 29 years for productivity and 88 years for per capita income catch-up, meaning the years 2042 and 2101, respectively.*

Do we get an explanation from the *general model* for the basic causes of the *Serbian economy's* relative lag and catch-up possibilities? Why does this question arise?

The reason essentially is that in shaping the model, as mentioned above, primarily the leading capitalist countries were considered. Serbia before the transition stood away from economic conditions that enabled those countries to achieve their levels of efficiency. Relatively little time has elapsed since the start of transition; and, as already noted, economic growth was also retarded by a transformational recession. Available data (see the Appendix) make possible an econometric investigation of the problem. In this connection, we used the following relation:

$$Y/M = a [g \exp(F_K G_Q)] + \varepsilon. \tag{3}$$

In relation (3), the parameter a is a multiplier whose value around unity shows to what extent productivity in the given economy corresponds to productivity according to the model and ε is an error component. Treating this equation as a linear regression model, parameter a was estimated by the least squares method.

It is important to note that the unity, or around unity, the value of parameter a means not that the given economy has reached the efficiency level of developed countries, but refers to the fact that at similar levels of intensity, mostly much lower than in developed countries, other countries do not attain a substantially better result either.

An econometric investigation has been conducted concerning the Serbian and Austrian economies for both the national economy as a whole and its pulling sector – manufacturing. The main results are contained in Table 7.

Table 7: Serbia and Austria: Estimation of Y/M
(1960–2013, 54 observations)

<i>Sphere</i>	<i>Country</i>	<i>Period</i>	<i>Indicator</i>	<i>Estimated value</i>
National economy	Serbia	Annual results	a	0.739
			t statistic	17.84
			R^2	0.522
			standard error (%)	19.6
		Cumulative results	R^2	0.977
			standard error (%)	7.8
	Austria	Annual results	a	1.063
			t statistic	7.34
			R^2	0.988
			standard error (%)	3.9
Cumulative results		R^2	0.999	
		standard error (%)	0.6	

<i>Sphere</i>	<i>Country</i>	<i>Period</i>	<i>Indicator</i>	<i>Estimated value</i>
Manufacturing	Serbia	Annual results	<i>a</i>	0.455
			<i>t</i> statistic	9.03
			R ²	0.516
			standard error (%)	15.1
		Cumulative results	R ²	0.979
			standard error (%)	6.1
	Austria	Annual results	<i>a</i>	0.950
			<i>t</i> statistic	5.87
			R ²	0.989
			standard error (%)	5.0
Cumulative results		R ²	0.999	
		standard error (%)	2.6	

What *conclusions* can be drawn from Table 7?

1. Regarding the entire investigated period (1960–2013), *both the Serbian and Austrian economies more or less demonstrated a performance approximately corresponding to the relations and parameters of the model, or in essence to the world economic standards.*

2. In manufacturing, the situation is different. Here the above conclusion is valid only for Austria but not Serbia as *productivity in Serbian manufacturing lagged behind international standards.*

3. The parameter *a* is significant, its sign and magnitude meet theoretical expectations.

4. The *fit* of estimated data (*Y/M*) to the actual figures, based on the coefficients of determination (R²), is *less* tight for Serbia than for Austria.

5. The relative *standard error* is everywhere acceptable, though for Serbia it is *substantially higher* than for Austria.

6. Cumulative results in *all* cases are better than annual ones showing that *estimation errors do not accumulate in time.*

From relation (3) it is visible that productivity depends essentially, disregarding constant *g*, on the exponential product of capital intensity function (F_K) and production elasticity function (G_Q) if the value of parameter *a* is approximately unity. In our case, the latter condition is largely fulfilled (as seen above, relatively least in Serbian manufacturing), therefore it is worth examining how the values of F_K and G_Q have changed over the investigated period (see Table 8).

Table 8: Capital intensity (F_K) and production elasticity (G_α)

Country	Sphere	Symbol	1960	1970	1980	1989	2000	2013
Serbia	National economy	FK	3.79	4.40	4.75	4.83	4.41	4.80
		G_α	0.701	0.713	0.728	0.743	0.778	0.779
	Manufacturing	FK	2.73	3.41	3.78	3.86	3.71	4.73
		G_α	0.743	0.763	0.782	0.799	0.834	0.805
Austria	National economy	FK	5.15	5.57	5.95	6.23	6.47	6.62
		G_α	0.688	0.701	0.707	0.710	0.718	0.727
	Manufacturing	FK	4.61	5.11	5.52	5.76	6.05	6.22
		G_α	0.708	0.726	0.728	0.731	0.748	0.781

As seen from Table 8, both capital intensity and production intensity differ by countries and spheres (national economy, manufacturing) and also change over time. The deviations and temporal changes of capital intensity are relatively larger than those of production intensity. A closer glance at the cited data allows us to make some further statements.

1. At a macro level, the average value of production elasticity function is 0.7 for both Serbia and Austria, which is about twice the production elasticity coefficient expected on the basis of neoclassical growth theory (1/3). The main reason is presumably that in the production elasticity function G_α , there appears the effect of not only physical but also human capital.

2. The production elasticity coefficient is not constant and its temporal changes in the modern economy are characterized by an increasing tendency. This is primarily a consequence of the fact that G_α depends on intensity levels, which in the course of economic development, are generally increasing, with the exception of some components related to natural resources. In the same direction acts the effect of learning by doing, which significantly influences the value of function G_α (Simon, 2003, p. 49).

3. The production elasticity coefficients of manufacturing are in general considerably higher than those of the national economy, despite the fact that capital intensity in manufacturing is lower than at the macro level. The reason is a relatively higher weight of human capital, first of all research and development (Ibid.).

4. Against the tendencies and economic development characteristics outlined above acts the mobile component (G_M) of the production elasticity function G_α ,

which at a relatively high level of development, under the impact of intensification contradiction, begins to decrease.⁴ However, this is mostly over-compensated by the increased immobile effect (G_I) and the combined effect of education and research intensity (G_{KR}).

Below we will examine what factors induce the very significant productivity differences between Serbia and Austria, searching for an answer to the question what should be done to reach the advanced world level.

Table 9: Relative level of productivity (Y/M): Austria and Serbia

Year	National economy	Manufacturing
1960	1.92	5.00
1970	2.39	4.84
1980	2.64	4.46
1989	3.52	5.32
2000	7.88	13.66
2013	4.16	7.29

In the study period, relative productivity from Serbia's viewpoint changed more favourably in manufacturing than in the total economy (see Table 9).

The *question* is to what degree we get an explanation from the model for productivity differences. In this connection, we will use at a first approximation the following formula by appropriately transforming relation (1) and rewriting it in a logarithmic form:

$$\Delta \ln (Y/gM) = \Delta F_K G_a + \varepsilon. \quad (4)$$

Here symbol Δ denotes not temporal but cross-country (Austria minus Serbia) difference and ε is a logarithmic residual. An analogous relation can be written down using a standard neoclassical model:

$$\Delta \ln (Y/gM) = 1/3 \Delta \ln (K/L) + \varepsilon. \quad (5)$$

Having made calculations with both relations, the results summarized below were obtained.

Table 10: Estimation of productivity difference $\Delta \ln (Y/gM)/:$
Serbia and Austria

Sphere	Model	Year	Fact		Estimate		ε	
			ln	%	ln	%	ln	%
National economy	Endogenous	1960	2.771	100.0	2.727	98.4	0.044	1.6
		1970	3.483	100.0	3.438	98.7	0.045	1.3
		1980	3.839	100.0	3.843	100.1	-0.004	-0.1
		1989	4.160	100.0	4.276	102.8	-0.116	-2.8
		2000	4.594	100.0	4.929	107.3	-0.335	-7.3
		2013	4.520	100.0	4.687	103.7	-0.167	-3.7
	Neoclassical	1960	2.771	100.0	1.297	46.8	1.474	53.2
		1970	3.483	100.0	1.412	40.5	2.071	59.5
		1980	3.839	100.0	1.546	40.3	2.293	59.7
		1989	4.160	100.0	1.661	39.9	2.499	60.1
		2000	4.594	100.0	1.792	39.0	2.802	61.0
		2013	4.520	100.0	1.827	40.4	2.693	59.6
Manufacturing	Endogenous	1960	2.821	100.0	3.083	109.3	-0.262	-9.3
		1970	3.322	100.0	3.604	108.5	-0.282	-8.5
		1980	3.661	100.0	3.910	106.8	-0.249	-6.8
		1989	3.928	100.0	4.215	107.3	-0.287	-7.3
		2000	4.458	100.0	5.046	113.2	-0.588	-13.2
		2013	4.728	100.0	5.158	109.1	-0.430	-9.1
	Neoclassical	1960	2.821	100.0	1.164	41.3	1.657	58.7
		1970	3.322	100.0	1.315	39.6	2.007	60.4
		1980	3.661	100.0	1.457	39.8	2.204	60.2
		1989	3.928	100.0	1.548	39.4	2.380	60.6
		2000	4.458	100.0	1.662	37.3	2.796	62.7
		2013	4.728	100.0	1.668	35.3	3.060	64.7

From data in Table 10, it is visible that *the neoclassical model does not give an explanation* for about three-fifths of the productivity difference between the Austria and Serbia (in a logarithmic form).

The *reason* for such a bad result of the neoclassical model is presumably that it does not reckon with implicit and explicit, complementary and non-complementary effects of *human capital*, which *considerably and in different proportions increase* the elasticity of output by (physical) capital, as already referred to above in connection with the production elasticity function G_{α} .

The latter contention is backed up by the estimation results obtained with the *endogenous model*, proving that with this model it is possible to *explain the basic developmental differences, in the given case between Serbia and Austria*.

Table 11: Factors of productivity difference: Serbia and Austria

Sphere	Year	$\Delta F_K^{G_a}$		$\Delta F_K^{G_I}$		$\Delta F_K^{G_M}$		$\Delta F_K^{G_{KR}}$	
		ln	%	ln	%	ln	%	ln	%
National economy	1960	2.727	100.0	0.581	21.3	0.418	15.3	1.728	63.4
	1970	3.438	100.0	0.556	16.2	0.276	8.0	2.606	75.8
	1980	3.843	100.0	0.663	17.3	0.194	5.0	2.986	77.7
	1989	4.276	100.0	0.808	18.9	0.159	3.7	3.309	77.4
	2000	4.929	100.0	1.196	24.3	0.241	4.9	3.492	70.8
	2013	4.687	100.0	1.021	21.8	0.266	5.7	3.400	72.5
Manufacturing	1960	3.083	100.0	0.869	28.2	0.478	15.5	1.736	56.3
	1970	3.604	100.0	0.882	24.5	0.302	8.4	2.420	67.1
	1980	3.910	100.0	0.965	24.7	0.228	5.8	2.717	69.5
	1989	4.215	100.0	1.084	25.7	0.212	5.0	2.919	69.3
	2000	5.046	100.0	1.344	26.6	0.250	5.0	3.452	68.4
	2013	5.158	100.0	0.934	18.1	0.065	1.3	4.159	80.6

Let us now turn attention to a more detailed analysis of the *factors of economic catch-up*, using the endogenous growth model.

Table 11 shows by components of the endogenous model the factors of productivity difference between Austria and Serbia. *The most striking feature of the investigated period is the increased predominance of the combined effect of education and R&D ($\Delta F_K^{G_{KR}}$)*. In manufacturing, the pulling sector of the modern economy, *four-fifths* of the normative productivity difference ($\Delta F_K^{G_a}$) is attributable today to that factor.

Table 12: Intensity levels in the economies of Serbia and Austria

Indicator	Unit of measurement	Country	1960	1970	1980	1989	2000	2013
K/L	thousand dollars *per person	Serbia	16.73	31.04	43.95	47.89	31.22	46.30
		Austria	65.95	100.52	147.73	194.56	248.40	287.96
		<i>Austria / Serbia</i>	<i>3.94</i>	<i>3.24</i>	<i>3.36</i>	<i>4.06</i>	<i>7.96</i>	<i>6.22</i>
H/L	schooling years per person	Serbia	4.97	5.80	7.03	7.88	8.84	9.19
		Austria	4.13	6.29	7.28	7.94	8.98	9.66
		<i>Austria / Serbia</i>	<i>0.83</i>	<i>1.08</i>	<i>1.04</i>	<i>1.01</i>	<i>1.02</i>	<i>1.05</i>
R _{t-2} /L	per mille	Serbia	2.88	3.03	2.85	3.12	3.74	5.89
		Austria	0.52	1.07	1.70	2.34	4.98	8.71
		<i>Austria / Serbia</i>	<i>0.18</i>	<i>0.35</i>	<i>0.60</i>	<i>0.75</i>	<i>1.33</i>	<i>1.48</i>
Z/L	hectares per person	Serbia	2.33	1.73	1.16	0.97	1.19	1.55
		Austria	0.51	0.52	0.47	0.44	0.39	0.33
		<i>Austria / Serbia</i>	<i>0.22</i>	<i>0.30</i>	<i>0.41</i>	<i>0.45</i>	<i>0.33</i>	<i>0.21</i>

* In prices of year 2000.

The value of factors of economic catch-up depends *primarily* on the intensity indicators of national economies. Natural resources do not play a significant part in the given relation (Serbia and Austria) despite the greater arable land intensity in Serbia (see Table 12). The *indicators of key importance* are connected with physical (fixed) capital and human capital (education, R&D).

Considering the model relations and the parameters obtained due to a worldwide econometric investigation, it can be contended that the Serbian economy will come closer to Austrian standards as much as its physical and human capital equipment approaches the Austrian level. What has happened so far and how can the existing differences be overcome? Data in Table 12 provide information on the changes in the situation over the investigated period (1960–2013).

It can be ascertained that *catching-up, in spite of all its setbacks, has hitherto been more successful in terms of human than physical (fixed) capital.* Therefore, *the catch-up process can be accelerated by increasing investments in human capital, primarily R&D.* What considerations support that conclusion?

1. Serbia possesses enough well-trained creative specialists, with internationally acknowledged traditions of scientific and technological research, who today have in many cases to seek employment abroad.

2. Increasing R&D requires additional inputs, but by these generally much more physical (fixed) capital investment can be induced.

3. *R&D simultaneously has a favourable impact on output (Y), productivity (Y/M), capital-output ratio (K/Y) and economic competitiveness.*

4. *R&D usually increases the profit share, which facilitates the increase in the rate of investment.* In other words, it can also accelerate economic catch-up in the field of capital intensity.

5. *R&D exponentially increases the explicit economic effect of education.*

Economic catch-up requires the greatest efforts regarding a multiple increase in capital intensity and the necessary investments. In a market economy, the necessary funds can be raised if investments are attractive and profitable enough. Although for Serbia the EU pre-accession subsidies make a certain exception, their role in the given respect is not likely to become of primary importance.

In the case of Serbia, investments from both domestic and foreign sources have hitherto been conditioned by a relatively low wage level. But the situation is changing as was indicated by the latest financial and economic crisis. In the absence of a formidable mineral wealth, human capital investment can raise the *attraction of highly qualified workforce*, with *R&D improving profitability and competitiveness*, to ensure results necessary for a successful economic catch-up.

CONCLUSIONS

One of the key conclusions from the general endogenous growth model is that there are no economies doomed to be eternal laggards. Regarding economic catch-up, or convergence, too, everything depends on circumstances, viz. primarily on the intensity levels. The lag behind the advanced world level is directly caused by relatively low equipment of an economy with physical and human capital and natural resources. Where and when this disadvantage is overcome, an absolute convergence may take place, or in other words, the economic catch-up with the advanced world level.

At the same time, it is clear from the model why many countries have lagged permanently and considerably behind the advanced world level and why there is an impression as if these countries must follow some lower trajectory of economic development (“conditional convergence”). Essentially the reason is that the equipment of these mainly developing countries with physical and human capital is still very weak and R&D is almost absent. They are able to sell their products in the world market only at relatively unfavourable prices and mostly under deteriorating terms of trade. Because of low living standards, saving, or

accumulation from domestic sources is extremely restricted, while the unskilled workforce does not attract foreign investors even despite the low wage level.

In the outlined situation, most developing countries are unable to increase adequately their intensity indicators, above all capital intensity, and create a competitive R&D basis. Therefore, their relative lag does not decrease but mostly increases (cf. Simon, 2003, p. 53).

Serbia, owing to an accomplished industrialization, does not belong in that country group anymore and its catch-up possibilities will certainly be improved by the expected accession to the European Union. But the pace of further economic catch-up will greatly depend on the right choice of economic development strategy.

Appendix 1: Main economic indicators of Serbia, 1960–2013

Year	Y	N	K	L	R _{t-2}	H	Z	Y	K	L	R _{t-2}	
	National economy							Manufacturing				
1960	15.0	6.639	27.8	1.662	4.794	4.97	3.88	1.12	2.82	0.512	2.201	
1961	15.6	6.689	30.3	1.831	4.943	5.03	3.88	1.19	3.14	0.522	2.269	
1962	16.4	6.740	34.3	1.868	5.096	5.09	3.86	1.25	3.59	0.529	2.339	
1963	18.4	6.788	38.5	1.887	5.254	5.15	3.86	1.46	4.04	0.551	2.412	
1964	20.4	6.833	42.0	2.013	5.417	5.21	3.84	1.75	4.48	0.611	2.487	
1965	20.8	6.876	45.7	2.049	5.585	5.27	3.84	1.89	4.89	0.630	2.564	
1966	22.5	6.928	49.7	2.018	5.758	5.37	3.82	1.94	5.29	0.621	2.643	
1967	22.9	6.967	53.7	2.020	5.937	5.48	3.83	1.93	5.75	0.615	2.725	
1968	23.3	7.008	57.5	2.040	6.234	5.58	3.82	2.00	6.19	0.601	2.861	
1969	26.2	7.123	62.6	2.130	6.456	5.69	3.83	2.22	6.69	0.627	2.963	
1970	27.0	7.165	68.5	2.207	6.686	5.80	3.82	2.44	7.29	0.647	3.069	
1971	29.4	7.212	74.8	2.309	6.900	5.93	3.82	2.73	7.99	0.677	3.167	
1972	30.7	7.252	81.3	2.394	6.934	6.07	3.81	2.96	8.63	0.706	3.183	
1973	32.3	7.284	87.5	2.440	7.013	6.20	3.81	3.18	9.21	0.727	3.129	
1974	35.0	7.326	93.9	2.549	7.351	6.34	3.80	3.57	9.87	0.756	3.374	
1975	35.9	7.369	100	2.667	7.341	6.49	3.80	3.77	10.6	0.792	3.370	
1976	37.8	7.419	108	2.758	7.721	6.59	3.79	3.92	11.4	0.812	3.544	
1977	40.8	7.463	115	2.872	7.711	6.70	3.78	4.33	12.1	0.837	3.539	
1978	42.9	7.504	124	3.012	7.433	6.81	3.77	4.75	13.1	0.867	3.412	
1979	46.5	7.542	133	3.148	8.083	6.92	3.76	5.18	14.3	0.904	3.710	
1980	47.7	7.709	142	3.231	9.199	7.03	3.75	5.48	15.4	0.934	4.222	
1981	48.5	7.736	148	3.319	8.514	7.14	3.76	5.78	16.2	0.953	3.908	
1982	49.6	7.764	154	3.383	8.907	7.25	3.75	5.80	16.9	0.985	4.088	
1983	48.4	7.788	160	3.436	9.443	7.37	3.73	5.88	17.4	1.012	4.334	
1984	49.0	7.814	164	3.503	9.489	7.48	3.72	6.27	17.8	1.029	4.355	
1985	49.0	7.835	167	3.588	10.244	7.60	3.72	6.39	18.2	1.064	4.702	
1986	50.8	7.854	170	3.687	10.501	7.67	3.72	6.60	18.6	1.097	4.820	

Year	Y	N	K	L	R _{t-2}	H	Z	Y	K	L	R _{t-2}	
	National economy							Manufacturing				
1987	50.0	7.868	173	3.773	11.227	7.74	3.71	6.66	18.9	1.107	5.153	
1988	49.4	7.884	177	3.803	10.917	7.81	3.71	6.73	19.4	1.105	5.011	
1989	50.4	7.894	182	3.800	11.872	7.88	3.70	6.84	19.9	1.114	5.446	
1990	46.4	7.898	186	3.720	12.716	7.94	3.69	6.01	20.2	1.056	5.197	
1991	41.0	7.824	191	3.674	12.683	8.04	3.69	4.84	20.6	0.994	4.960	
1992	29.6	7.818	194	3.567	11.870	8.15	3.69	3.50	20.9	0.936	4.733	
1993	20.5	7.812	191	3.461	10.721	8.25	3.69	2.38	20.9	0.909	4.245	
1994	21.0	7.805	184	3.399	10.944	8.36	3.70	2.41	20.5	0.912	4.067	
1995	22.3	7.797	174	3.299	11.031	8.47	3.70	2.53	21.6	0.895	4.113	
1996	24.0	7.785	156	3.273	11.481	8.54	3.68	2.77	21.0	0.878	3.751	
1997	26.4	7.769	119	3.137	12.113	8.62	3.67	3.19	16.3	0.840	3.960	
1998	26.9	7.568	100	3.139	11.994	8.70	3.66	3.27	12.4	0.812	4.190	
1999	22.1	7.540	85.8	3.103	12.093	8.77	3.66	2.28	10.3	0.826	4.108	
2000	23.2	7.516	96.6	3.094	11.577	8.84	3.67	2.61	11.2	0.733	3.758	
2001	24.5	7.503	102	3.106	12.163	8.88	3.67	2.72	14.2	0.704	3.949	
2002	25.5	7.515	102	3.000	11.969	8.91	3.67	2.70	13.7	0.645	3.848	
2003	26.1	7.533	102	2.919	10.071	8.95	3.64	2.57	12.5	0.597	3.826	
2004	28.3	7.463	102	2.931	10.855	8.98	3.64	2.82	12.4	0.551	3.804	
2005	29.8	7.441	102	2.733	11.353	9.01	3.63	2.80	13.0	0.497	3.782	
2006	31.4	7.412	103	2.631	11.637	9.03	3.62	2.96	13.6	0.519	3.761	
2007	33.3	7.382	103	2.656	11.551	9.06	3.60	3.24	14.5	0.522	3.739	
2008	35.0	7.350	105	2.822	12.079	9.09	3.60	3.35	16.0	0.484	3.910	
2009	33.9	7.321	106	2.616	10.580	9.11	3.60	3.20	16.1	0.451	3.500	
2010	34.1	7.291	107	2.396	11.534	9.13	3.59	3.19	16.0	0.402	3.141	
2011	34.6	7.237	107	2.258	12.006	9.15	3.60	3.25	16.0	0.387	2.872	
2012	34.3	7.201	107	2.228	12.637	9.17	3.57	3.50	16.0	0.380	2.894	
2013	35.1	7.167	107	2.311	13.609	9.19	3.59	3.70	17.0	0.394	3.016	

PPP conversion rates. USD 1 = RSD 17.13 for GDP, 32.84 for MVA and 49.85 for fixed assets

Appendix 2: Main economic indicators of Austria, 1960–2013

Year	Y	N	K	L	R _{t-2}	H	Z	Y	K	L	R _{t-2}
	National economy							Manufacturing			
1960	59.5	7.047	226	3.427	1.782	4.13	1.76	7.58	26.6	0.692	1.539
1961	62.8	7.086	233	3.446	1.885	4.34	1.75	7.95	28.2	0.721	1.605
1962	64.2	7.130	241	3.430	1.994	4.57	1.75	8.09	30.0	0.708	1.674
1963	66.8	7.176	249	3.406	2.110	4.80	1.72	8.46	31.8	0.716	1.746
1964	71.1	7.224	258	3.401	2.233	5.05	1.72	8.97	33.8	0.714	1.821
1965	73.4	7.271	269	3.378	2.362	5.31	1.73	9.33	35.6	0.719	1.899
1966	77.7	7.322	279	3.350	2.583	5.49	1.69	9.91	37.6	0.718	1.981
1967	79.9	7.377	291	3.295	2.823	5.68	1.67	10.1	39.4	0.697	2.066
1968	83.6	7.415	303	3.252	3.088	5.87	1.67	10.8	41.0	0.679	2.155
1969	88.6	7.441	315	3.246	3.088	6.07	1.68	11.9	42.6	0.691	2.155
1970	95.1	7.467	327	3.253	3.468	6.29	1.68	12.8	44.3	0.702	2.247
1971	100	7.500	344	3.288	3.894	6.40	1.68	13.6	46.5	0.699	2.344
1972	106	7.544	363	3.313	3.894	6.51	1.68	14.7	49.5	0.699	2.344
1973	112	7.586	382	3.359	4.260	6.63	1.61	15.4	52.8	0.723	2.560
1974	116	7.599	401	3.403	4.660	6.74	1.61	15.9	55.3	0.721	2.796
1975	115	7.579	419	3.377	4.853	6.86	1.61	15.0	57.7	0.695	2.922
1976	121	7.566	437	3.389	5.052	6.94	1.62	15.9	59.4	0.691	3.053
1977	127	7.568	458	3.427	5.259	7.03	1.63	16.6	61.3	0.705	3.191
1978	127	7.562	476	3.441	5.475	7.11	1.65	16.9	63.7	0.697	3.334
1979	134	7.549	496	3.458	5.699	7.19	1.62	17.8	65.6	0.696	3.484
1980	136	7.549	515	3.486	5.933	7.28	1.64	18.4	67.4	0.703	3.641
1981	136	7.565	535	3.464	6.176	7.35	1.65	18.4	69.7	0.693	3.805
1982	139	7.575	552	3.425	6.429	7.43	1.63	18.4	72.0	0.667	3.976
1983	143	7.553	569	3.415	6.712	7.50	1.52	19.2	73.8	0.684	4.155
1984	143	7.554	586	3.411	6.999	7.58	1.52	19.3	75.0	0.703	4.342
1985	147	7.560	602	3.418	7.300	7.66	1.53	20.4	76.4	0.697	4.538
1986	150	7.568	621	3.420	7.609	7.73	1.51	21.2	78.2	0.707	4.742
1987	152	7.579	639	3.434	7.609	7.80	1.51	20.9	80.6	0.711	4.742
1988	157	7.600	659	3.446	7.887	7.87	1.53	21.9	83.0	0.699	4.955
1989	163	7.628	679	3.490	8.171	7.94	1.53	22.7	85.0	0.695	5.178
1990	170	7.723	702	3.561	8.465	8.02	1.51	24.1	87.1	0.704	5.411
1991	176	7.818	725	3.605	8.782	8.13	1.52	24.7	89.8	0.713	5.653
1992	180	7.915	750	3.621	9.653	8.24	1.51	24.6	92.5	0.704	5.855
1993	181	7.989	776	3.602	10.609	8.36	1.50	24.1	94.9	0.690	6.066
1994	185	8.028	800	3.601	11.659	8.48	1.50	25.0	96.5	0.672	6.285
1995	190	8.047	827	3.589	12.821	8.58	1.49	26.4	98.1	0.672	6.511

Year	Y	N	K	L	R _{t-2}	H	Z	Y	K	L	R _{t-2}	
	National economy							Manufacturing				
1996	195	8.061	843	3.602	13.829	8.66	1.49	26.7	99.1	0.658	7.609	
1997	199	8.070	861	3.629	14.921	8.74	1.47	27.6	100	0.653	8.892	
1998	207	8.079	884	3.666	16.100	8.82	1.47	28.4	102	0.655	10.395	
1999	214	8.094	908	3.721	17.372	8.89	1.44	29.7	104	0.654	12.152	
2000	222	8.113	933	3.756	18.715	8.98	1.45	31.7	106	0.652	14.194	
2001	224	8.132	957	3.783	19.941	9.04	1.45	32.4	109	0.655	14.670	
2002	228	8.148	977	3.780	21.257	9.09	1.45	32.1	111	0.640	15.168	
2003	230	8.163	996	3.805	22.660	9.15	1.45	32.3	112	0.637	15.684	
2004	236	8.175	1014	3.828	24.124	9.20	1.45	33.2	112	0.631	16.194	
2005	242	8.185	1034	3.874	25.023	9.27	1.45	34.8	112	0.631	17.080	
2006	251	8.193	1054	3.941	25.955	9.32	1.45	37.5	113	0.632	18.015	
2007	260	8.200	1079	4.014	28.470	9.37	1.44	40.6	114	0.645	18.852	
2008	264	8.206	1105	4.090	29.199	9.41	1.44	40.9	113	0.651	19.727	
2009	254	8.210	1127	4.073	31.676	9.46	1.43	35.8	115	0.625	21.291	
2010	259	8.214	1147	4.111	34.508	9.52	1.43	38.6	115	0.612	21.619	
2011	266	8.217	1168	4.180	34.664	9.57	1.43	41.8	116	0.623	21.952	
2012	268	8.220	1191	4.229	36.581	9.62	1.42	42.3	117	0.631	21.954	
2013	269	8.222	1227	4.261	37.114	9.66	1.42	42.9	121	0.627	21.957	

PPP conversion rates. USD 1 = ATS 13.21 for GDP, 16.36 for MVA and 10.72 for fixed assets

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PRIVREDNI RAST SRBIJE I NJENO SUSTIZANJE IZA AUSTRIJE (1960–2013)

Apstrakt: Autor istražuje ulogu činilaca rasta u srpskoj privredi i mogućnosti za njeno sustizanje iza Evropske unije na primeru Austrije. Na osnovu opšteg endogenog modela prvo analizira glavne zakonitosti privrednog rasta u Srbiji tokom proteklog više od pola stoleća (1960–2013). Zatim skreće pažnju na promene u faktorima sustizanja srpske privrede pre i nakon (formalnog) početka tranzicije 1989. godine, otkrivajući fundamentalne uzroke zaostajanja iza naprednog svetskog nivoa. Kalkulacije autora pokazuju da zbog zatezne tranzicije opterećene krizama i ratovima za ekonomsko sustizanje Srbije iza Austrije trebaće mnogo vremena, i u tom slučaju ako se nastavi po najpovoljnijoj stopi. U isto vreme efikasnija ekonomska politika, uz privlačenje stranih sredstava može dovesti do bržeg sustizanja. Glavni zaključak sastoji se u tome da je proces sustizanja moguće ubrzati povećanim investiranjem u humani kapital, naime u obrazovanje i istraživanje i razvoj.

Ključne reči: privredni rast i ekonomsko sustizanje, proizvodne funkcije, međunarodna upoređenja, Srbija i Austrija.

Received: 05.12.2016.

Revised: 24.02.2017.

Accepted: 04.03.2017.

UDC 339.13:316.32
Biblid 0543-3657, 68 (2017)
Vol. LXVIII, No. 1166-67, pp. 49–64
Original Scientific Paper

GLOBAL MARKET AND NEW COMPETITIVE RELATIONS

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Abstract: New competitive conditions require new approaches in the field of organizational management and development of competitiveness. Management standards and best practices are the way to business excellence in the long run. Achieving competitive capabilities in a shorter period of time implies innovation and the improvement of knowledge productivity. Domestic companies have been facing the problems regarding the competitive ability at the international level for many years. Insufficient investment in quality has resulted in the extremely poor competitive position of the domestic economy. To make local companies more competitive at the international level, it is necessary to alter the ways of thinking and adopt modern world achievements in the field of organizational management and business practice.

Key words: competitiveness, management, organization, global market, quality, knowledge.

INTRODUCTION

International economic relations are at the very heart of globalisation and their flows exceed the control of only one country. The world is seen as one, unique market in which only the most competitive and efficient ones will make progress.

The most significant consequence of market globalisation is global competition, which is becoming more and more intensive and noticeable. It is considered that the stronger the competitive forces are, the more difficult it is to make attractive profits (Thompson, Sticland, Gamble, 2008., pp. 67).

In most industries competition has become internationalized, so companies appear on the market through global strategies. More complex competitive relations

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have created the need for the development of new forms of collaboration among business partners and competitors as well, for the sake of better use of resources and common performance at the global market.

Market globalisation, the growth of new industrialized countries and especially the consequences of the world economic crisis have established new competitive relations on the world market. Ohmae, K. (Ohmae, 2007, pp. 19) writes that the global economy is based on the world in which the absence of boundaries is not a dream or one of many possibilities anymore but it has become a reality. The global economy has its own dynamics and logics because it is not just a theory but a practice as well.

Nowadays, the global economy is characterized by a slow but stable growth of the companies coming from the new industrialized countries, such as China, India, Brazil, South Africa, Turkey, etc. These companies are becoming global competitors since their competitive ability is based on lower costs, primarily on lower labour costs, and their willingness to attract foreign investments. However, the companies from these countries are also ready to accept the most modern methods and techniques of management. The main trigger in these economies is the increasing domestic consumption as well as the big young population. Young people are the advantage in terms of education, but also because of other issues – the more money they earn, the more educated they become and change their preferences.

In modern business conditions, it is difficult to achieve competitive advantage, but it is much easier to lose it. The main reason is in the fact that fast technological progress has made easy access to technology all over the world under acceptable conditions. At the same time, the world economic crisis has stressed the need for the creation of new business models.

A competitive level of domestic companies is extremely low. Insufficient knowledge implementation, low technological level of the companies, unproductivity and inefficiency are only a part of the problem that domestic companies have to face and cope with.

BUSINESS GLOBALISATION

The process of globalisation, one of the modern phenomena, represents economic, political, technological, communication and cultural unification of the human society that functions according to standard principles.

According to some opinions (Kotler P, Caslione J, 2009, pp. 18), globalisation and technology are two main forces that have made a new level of intricate fragility in the world economy. For producers, it means a more frequent import of resources and also more frequent export of final products. Technology – computers, the Internet and mobile phones – enables the incredibly fast flow of information. It is

certainly a significant factor regarding a development of the modern economy and the society as a whole. Technology has enabled the progress in all fields, especially in economy.

Although it seems that market globalisation is a relatively new phenomenon, this process is almost sixty years old. In the second part of the 20th century, numerous international organizations were founded whose aim was to unite business behaviour and action at the international level, such as the World Bank, the International Monetary Fund, the UN special development agencies, etc. Economic globalisation started with a foundation of GATT (General Agreement on Tariffs and Trade) and the forums within the UN, UNCTAD (UN Conference on Trade and Development). On the other hand, the foundation of GATT affected the establishment of the WTO – World Trade Organization. All these international organizations (and also some others like the OECD and a number of regional organizations) have the same objective – to harmonize individual activities in the fields they cover and to formulate a common and generally accepted model of behaviour.

According to Kotler, the world has come into a new economic phase and national economies are independent but closely linked. This new phase gives excellent chances for cost reduction and the acceleration of production and delivery of goods and services. But it also has its dark side which gradually rises the level of risk and uncertainty, both for producers and consumers (Kotler, Caslione, 2009, pp. 9).

The world is becoming a single market, there is a tendency towards reducing economic and administrative barriers and globally oriented business organizations are getting attention, so they are more and more significant. There are several factors which have influenced the market globalisation (Subash, 1996, pp. 377). These factors are:

1. Increasing similarity among markets,
2. Reducing customs barriers,
3. Strategic role of technology.

Thanks to the development of infrastructure at the global level, there is an increasing number of products and services available all over the world. The market globalisation process has been considerably affected by the evolution of the international trade in the last 50 years. The reduction and elimination of customs barriers through different bilateral and multilateral agreements have improved the process of world trade. These processes have resulted in making conditions for more powerful interaction and communication between close markets.

However, the most significant factor that enabled the market globalisation was the implementation of new technological achievements which made possible an exceptional increase of business productivity. Technology is a crucial factor which does not only shape the material base of a society but also the way of thinking. Besides technology and globalisation, modern flows are also affected by

deregulation and privatisation. The economy stepped into a new state in the 90s bringing significant changes in business relations. These changes have become faster and they influenced all business entities on the global market.

Globalisation also caused an increase in the number of international competitors. Global competition is getting more intense and noticeable. Market globalisation has had an influence on the changes regarding the understanding and achieving the competitive advantage. Thirty years ago, the main competitors in the international market were the USA, West Germany, Great Britain, Netherlands, France and Japan. All relations in the international market were made among the USA, West Germany and Japan. Following the example of Japan's development, the Far East countries, such as South Korea, Singapore and Taiwan started making competitive products and placing them on the international market. The fall of the Berlin Wall opened the gate of the competitive market in Central and Eastern Europe, which then began the process of economic and democratic transition.

After a dissolution of the Soviet Union, Russia entered the process of transition whose final outcome was the building of a powerful economy oriented towards capital export. India, on the other hand, preferred market economy to state planning, while China opened the gate to the market economy according to the system – one country, two systems. This has enabled the strengthening of private entrepreneurship, powerful import of foreign capital and making international partnerships. According to Deng's opinion, all the people in China would not be able to become rich simultaneously, which was important because he recognized the reality in which inequality was going to make progress. As far back as 1962, Deng noticed that it was not significant if a cat was black or white but that it could catch mice. He was the first to understand the power of the global economy as a means for becoming rich (Ohmae, 2007, pp. 37). Nowadays, China is the second global economy. Everything above-mentioned has resulted in the change of competitive conditions.

According to Kotler (Kotler, Caslione, 2009, pp. 30), the global economy is characterized by the appearance of hyper-competition. Hyper-competition occurs when technology and offer are so new that standards and rules are fluid, which causes competitive advances impossible to be stopped. This state is characterized by intensive and fast competitive improvements in which competitors have to make new progress quickly in order to be better than their rivals.

Market turbulences have become a new business reality. The global economy and mutual connection of all participants in the global economy were best noticeable in the economic crisis from 2008 which has not been finished yet. What had started as a bankrupt of one investment bank, became in short time the global economic crisis, more intense and dangerous than everything that happened in the last forty years.

According to some opinions (Ote, 2009, pp. 23), the unstoppable progress of globalisation nurtured the illusion that big economic crises were only historical issues. The last bigger crisis was in 1979. According to Krugman (Krugman, 2008, pp. 68), a leading contemporary, economic analyst, a kind of a global epidemic of moral hazard broke out in the 80s. Sooner or later the balloons must explode.

It is no doubt that an unhealthy development of the international financial system was a decisive factor for such a state. A financial aspect of the crisis was only one of the many. What made the crisis global was the change of economic relations, i.e. a move of the global economy towards the East, to the Pacific region, and also the rise of the new competitors, China and India, but also some other countries which understood that the future was in industrial production according to the standard principles, and in the international quality standard requirements with a permanent increase of productivity and the sale at the global level, at acceptable prices.

NEW COMPETITIVE RELATIONS

Competitive relations have been changed in the last twenty years. A model of the global economic relations during the 80s and 90s when all important events took place in the United States, Japan and Germany has been changed. Nowadays, instead of a domination of these countries, there is a decrease of economic power, primarily in Japan and the United States. Japan has been experiencing the biggest economic crisis since the World War II and the US economy has had serious problems regarding a financial capability of the system. Germany has overcome the crisis within the framework of the national economy but the country struggles with negative effects in the EU. Some EU countries that were leaders in the field of innovations, such as Ireland and Island, have experienced a financial disaster, the south of Europe was strongly hit by the crisis, especially Spain, Portugal and Greece. On the other hand, some corporations from the developed countries are faced with a strong competition from the companies coming from developing countries and also newly industrialized countries.

Furthermore, China, India, Brazil and some other countries have made significant effects in the development of their national economies and an opportunity to establish competitive advantage in the global market. China has become the world economic super power. The Chinese economy is the second largest national economy and the country is also the second exporter in the world. Its current balance surplus and foreign exchange reserves are by far the biggest of all. Chinese average economic growth in the last 30 years was 10% (although it fell in the last two years to about 8%, which considerably made the growth of the world economy slower). In spite of this decreasing trend these countries will play a significant role in the global economy in the near future. Two Asian cities, Shangai

and Mumbai, the economic centres and megalopolises, will be the most developed cities in the world by 2030.

Moving the economic centre from the west to the east is the reality today, although this trend was first noticed in the 1980s. According to some opinions (Atali, 2010, pp. 144), thirteen out of twenty biggest world harbours are located in Asia (Shanghai, Hong Kong, Singapore, Nagoya, Busan in Korea, Kaohsiung in Taiwan, Danpier in Australiana, etc.). Japanese economists and managers hoped that the leader of the future Pacific civilisation would be Japan because of its technological achievements and banks but the world economic crisis from 2008 changed everything. Nowadays, it is clear that China is a leader. The Report of the American National Science Committee (NSC), shows that the centre of high technology is moving to Asia, precisely to China. The share of China in the world high technological production was increased from 8% in 2003 to 24% in 2012, while the share of the USA is 27%, (Nikolić, 2014, pp. 32).

Taking into account the increasing role of the new industrialized countries such as China, India, Brazil, South Africa, etc., at the international market, Goldman Sachs made a term BRICH in 2001 to attract the attention to the profitable possibilities of the markets of Brazil, Russia, India and China – the so called emerging markets.

China and India are becoming the world economic forces and some Asian countries like South Korea, Indonesia, Taiwan, Singapore, etc. are playing an increasingly important role in the global economy. Russia has become the exporter of capital and the country provided a great number of EU countries with raw materials. According to some opinions (Ote, 2009, pp. 52), if this trend of economic growth continues, China will outrun the USA until 2025. According to Henry Kissinger (Kissinger, 2011, pp. 160), if China manages to keep the internal cohesion, it will become the super power with the capacity to challenge the United States. However, China will not be the only country in this game – India, Brazil and Russia have similar options and they are even in a better position because they face less discouraging obstacles.

The Chinese companies appear in record numbers on the list of Fortune magazine – 43 of them are on the list (34 from China, 6 from Taiwan and 3 from Hong Kong). These corporations are creators of high technology and high technological products. For instance, the Chinese company Huawei employs 140.000 workers, 46% of them are in the development sector (Miličić, 2013, pp. 138).

Brazil and Russia play a significant role on the global scene as well, accompanied by South Africa. Brzezinski (Brzezinski, 2013, pp. 30) said that the days when the exclusive western club consisted of Great Britain, France and the USA that could impose global power at the Vienna Congress, Versailles Conference or Bretton Woods, had irreversibly passed.

The fast growth of the world population with GNP less than 1.000 USD per capita transformed these countries in the countries of opportunities. However, their specific characteristics and complexity asked for different market strategies to realize these opportunities. (Mahajan, Banga, 2007, pp. 1). The markets of these countries represent the future of different industries and even nowadays they help in shaping technological standards, culture and entertainment.

The cause of the increased growth of the Chinese and Indian economy can be found in the structural shift of the world economy. The main stimulus in these economies is in the increased domestic consumption. It is estimated that domestic consumption in China and India will rise for about 10%. The population in India and China is young, 800 million people are under 60 years of age.

The key for the success of these countries is in industrial production. According to Galbraith (Galbraith, 1995) modern industrial production is important not only because of produced goods but because of employment and secured income.

Max Ote states (Ote, 2009, pp. 73) that if China is developing as the world factory, then India is developing as the world centre of services. For example, German software company SAP employed 3000 workers in Bangalore IT sector in 2008.

In India, a group of people on the top base their education on London School of Economy. Although extremely bureaucratic, Indian administration represents the most efficient civil service in all developing countries. India, according to some predictions, will be the most populated country in the world by 2025 and the third economic power just behind China and the USA. Economic growth in India will be bigger than in China but its GNP *per capita* will stay lower than Chinese, due to demographic reasons.

It is well known nowadays that the most important economic events are taking place between the USA and China. According to Ferguson (Ferguson, 2013), one of the most distinguished economic analysts and an expert in the field of economic history, the USA and China have become addicted to ultra loose financial conditions so they need financial rehabilitation in order to keep their economic growth. The future of economic relations will be oriented towards Asia and the main trade centres will be on both sides of the Pacific, Shanghai in China and San Diego in the USA. San Diego has significant advantages since it is near Mexico, another newly industrialized country, and also because in this area are located industries such as military-industrial complex and telecommunications. In addition, there have been considerable investments in higher education in this region lately.

The hope of the global economy is based on enabling the regions to bring the wealth from the rest of the world. The regions, therefore, must be equipped with highly educated and disciplined people led by a visionary leader, able to communicate with the rest of the world (Ohmae, 2007, pp. 256). Some of these regions are Hainan (south China, the Province of Guandong), Vancouver and

British Columbia (Canada), Estonia, Ho Si Min City (Vietnam), Primorska and Salin Island (Russia), Sao Paolo (Brazil), Kyushu (Japan).

Competitive countries are also the countries in which the consciousness of a permanent improvement of the quality of business is being developed constantly. Newly industrialized countries, China, India and Brazil are investing efforts in enhancing the concept of quality management in their business practice in order to make conditions for improving the competitiveness of their economies.

In the near future, China will stay the most dynamic economy that will improve slowly towards the global list of competitiveness. The main reason is in the fact that China is going to be more oriented towards its internal development, although it will not reject export orientation to American markets. By strengthening internal demand, China will encourage consumption within the national economy and also the consumption in the region since some less developed countries from the region see China as the leader of future development.

An analyst from Singapore claims that soft power is in the centre of Chinese strategic vision, (Nye, 2012). Soft power assumes cultural and political values of a country but also the values that are a part of the country's foreign policy. Besides the economic growth and power, China also promotes its foreign policy, national culture and its values, and it is willing to learn from the others while respecting its own social reality.

Table 1: Ranking 10 top world countries according to their competitiveness in 2015

Country	Place 2015-2016.	Place 2014-2015.
Switzerland	1	1
Singapore	2	2
USA	3	3
Germany	4	5
Netherlands	5	8
Japan	6	6
Hong Kong	7	7
Finland	8	4
Sweden	9	10
Great Britain	10	9

Source: The Global Competitiveness Report 2015-2016, (2015.) World Economic Forum, 2015, pp. 7. http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2015-16.pdf

When speaking about the first ten most competitive economies in the world, the list is the same as it was in 2014. Switzerland, Singapore and the United States were in 2015 at the same positions as well. Germany has improved its position and now is the fourth (it was the fifth), the Netherlands did the same and reached the fifth position (it was 8th), Japan and Hong Kong kept the same positions while Finland fell to the eighth place (it was 4th last year). Sweden improved for one place and is currently at the ninth place and Great Britain fell to the tenth from the ninth place. The countries that followed are: Norway (11th place), Denmark (12th), Canada (13th), Katar (14th), Taiwan (15th), New Zealand (16th), UAE (17th), Malaysia (18th), Belgium (19th) and Luxemburg (20th).

According to the Report of World Economic Forum for 2014, China was at the 28th place of competitiveness (the same position like in 2013), Taiwan was the 15th, one place worse than the previous year, India was at the 55th place and it was 71st last year, Russia reached the 45th place from the 54th last year, South Africa was the 49th and it was the 56th, while Brazil fell to the 75th place from the 57th last year. As we can see, China kept the same position, India improved its position by 16 places, Russia also improved the position by 9 places and South Africa by 7. Only Brazil experienced the fall in comparison to 2013, from the 57th to 75th place.

According to some opinions, if the EU as a whole stays at least at this level of competitiveness, the following reforms will have to be implemented:

- Promotion of future technologies,
- Creation of equal society,
- Strengthening market efficiency,
- Favouring welfare industries,
- Creation, attraction and keeping creative class, (Atali, 2010, pp. 258).

THE ANALYSIS OF COMPETITIVENESS OF SERBIAN ECONOMY

Domestic companies have been uncompetitive in the international market for years. Low productivity and insufficient investment in achieving the quality are among the crucial reasons for low competitiveness. This insufficient competitive ability was even more stressed during the world economic crisis. The problems related to productivity were the result of an inadequate way of business performance, which was not based on market principles. Consequently, the prices of certain products were too high and uncompetitive in the world market. Domestic companies, therefore, reduced export prices in order to be competitive and the difference in unproductivity was paid by domestic consumers through high prices of the same products.

According to some indicators (Nikolić, 2014, pp. 144), productivity in Serbia is still 42% of the European average. There are several reasons for poor productivity,

such as inefficient organization, technological backwardness and the lack of knowledge.

In addition, the state owned companies have too many employees because they were not reconstructed due to political reasons. Some privatized companies were also not transformed adequately because the new owners were not brave enough “to cut deeply”. Finally, the investments were low. Serbian industry is based on work intensive branches.

The least competitive is processing industry, then metal production and electronics in which there have not been any renovation for years. According to some opinions, it is necessary to reduce the prices of electrical energy, fuels and gas, to decrease taxes and introduce customs reliefs in order to improve competitiveness. The level of technological equipment should be also increased because the average age of machines in Serbia is about 30 years. Compared to the situation in the region, the delay is 12 years, (Đorđević et al. 2011).

According to the new Report of World Economic Forum which included 140 countries, Serbia was at the 94th place regarding competitiveness, the same position was in 2014, too. In 2015, Serbia was next to Tunisia (92nd place), Albania (93rd), Salvador (95th), Zambia (96th), Seychelles (97th).

Table 2: Ranking the West Balkan countries according to competitiveness 2011-2015.

Country	Place in 2011	Place in 2012	Place in 2013	Place in 2014	Place in 2015
Slovenia	57	56	62	70	59
Montenegro	60	72	67	67	70
Croatia	76	81	75	77	77
Macedonia	79	80	74	63	60
Serbia	95	95	101	94	94
B&H	100	88	87	-	111

Đorđević D, Čockalo D, Bešić C., Ivin D, Tasić J, The analysis of competitiveness indices in Serbian companies, VI International Symposium Engineering management and competitiveness 2016 (EMC 2016), June 17-18 2016, Kotor, Montenegro, TF Mihajlo Pupin, Zrenjanin, pp. 269-274.

It can be seen from the Table that only Serbia and Croatia, out of all Balkan countries, kept their positions from the previous year, while Slovenia and Macedonia improved their positions. Montenegro fell in comparison to the year before as well as Bosnia and Herzegovina (the data were for 2013). When speaking about the neighbouring countries, it can be seen that Austria was at the 23rd place, Hungary

at the 63rd, Bulgaria was the 54th, Romania the 53rd, Greece at the 81st place and Albania was at the 93rd place. Namely, Romania and Albania improved their positions, Bulgaria and Greece kept the old positions while Austria and Hungary experienced the fall.

Table 3: Ranking of West Balkan countries according to competitiveness in 2015

Country	Place in 2015	Place according to basic requirements	Ranking according to efficiency of business	Ranking according to innovations
Slovenia	59	45	56	39
Montenegro	70	58	75	86
Croatia	77	69	68	90
Macedonia	60	60	64	82
Serbia	94	96	83	125
B&H	111	95	112	120

Source: The Global Competitiveness Report 2015-2016, World Economic Forum, 2015, pg. 13-14.

The basic requirements of competitiveness include the following indicators – institutions, infrastructure, macroeconomic environment, health, elementary education, higher education and training, market goods efficiency, labour market efficiency, capital market efficiency, technological ability and market size.

According to the Report of World Economic Forum, the most problematic factors in the Republic of Serbia regarding business performance are the following:

1. Access to financial sources – 14.8%,
2. Inefficient state administration – 11.9%,
3. Political instability – 10.6%,
4. Corruption – 10.0%,
5. Insufficient work ethics – 6.5%,
6. Government instability – 6.1%,
7. Inadequate infrastructure – 5.8%,
8. Tax regulations – 5.7%,
9. Inadequately qualified workers – 5.3%,
10. Complex tax policy – 5.1%.

According to the analysis of the World Economic Forum, all world countries are divided into five groups. The first group includes 35 countries whose economies are based on resources. In the third group, we can find the countries whose economies are based on the development of business efficiency (31 countries) while the fifth group consists of the countries focused on the development and implementation of innovations (35 countries). The second group is made of the countries (16) which are in the process of transition from the first to the third group and finally, the fourth group consists of the countries in transition from the third to the fifth group (there are 20 countries in this group). Serbia is in the third group together with Montenegro, Romania, Bulgaria, Macedonia, B&H, Albania, Indonesia, China, South Africa, etc. Croatia is in the fourth group (transition from efficiency to innovations) with Argentina, Brazil, Hungary, Chile, Latvia, Mexico, Turkey, etc. while Slovenia belongs to the fifth group (economies led by innovations and sophisticated solutions). It is obvious that the most developed countries are in the group five.

New business conditions require a new approach to business performance from domestic companies. Old methods and techniques of management must be abandoned and new modern empirical and practical achievements applied along with permanent education of all top managers and employees. A special attention must be paid to building a new organization. Improving knowledge productivity represents a burning issue of all transitional countries and Serbia as well. However, this problem has a long history that dates back even before the transitional process. Out of date technology, poor quality and high prices are certainly the main reasons for uncompetitiveness of Serbian products in the global market. The consequences of low productivity are: low employment rate, lack of competitiveness, undeveloped economy, consumption decrease, increase of the foreign trade deficit, fewer jobs for unqualified labour force.

According to a famous expert for productivity Masaki Imai (2008), every delay in the application of new technologies can be equally expensive as delay in the application of the most modern management techniques.

Thus, domestic companies must apply the management techniques that support competitiveness, innovations and flexibility as well as urgent knowledge improvement of all employees but, first of all, top managers.

The competitors of domestic companies are not only the companies from developed EU countries but also those from newly industrialized countries, such as China, India, Brazil, Mexico, Turkey, etc. The main factor of their success represents an optimization between a price and a product quality, based on permanent productivity improvement.

Poor productivity always results in poor competitive ability. Competitiveness, in the long run, cannot be increased by subsidies in the industry but by improving business productivity. Furthermore, it is necessary that our companies leave behind

the old way of thinking limited by the domestic market. The global economy assumes uncertainty. At the same time, it offers enormous possibilities to both organizations and individuals that are brave and energetic enough to adjust to new conditions. Globalisation represents the only way to all countries in transition and newly industrialized countries which means that domestic companies as well, have to find their future in the global market.

Industrial production is one of the crucial ways for improving the competitiveness of the domestic economy. The problem lies in the fact that there is a small number of industrial products which Serbia can offer at the international market and the buyers mostly come from the EU countries (Austria, Italy, Germany, Greece, France). In other words, the domestic economy offers only a few products from the car industry (cars, tyres, cables, seats), copper wire, mercantile wheat, refined sugar, frozen fruit, light knitwear... This small segment should be certainly expanded, especially with products intended for mechanical and electro industry and food products for the buyers from EU countries (distribution chains). The problem could arise from the fact that all finalized products require a broad and adequate implementation of various international standards, primarily ISO standard, but also some private standards imposed by different associations, for example, the standards regarding the sale of food products (Global Gap).

CONCLUSION

Competitive advantage cannot be achieved nowadays as it was possible before the crisis of 2008. The world economic crisis has changed the business conditions which are especially related to resource management and market competitiveness. Innovativeness, flexibility and productivity are the guidelines for future development in the field of competitiveness and organizational management in the Republic of Serbia. The essence of competitiveness struggle lies in the acceptance of the changes. For example, Chinese and Indian corporations do not dismiss their employees but they employ more. The level of their productivity is enviable and competitive ability increasingly noticeable. Knowledge represents a significant drive of permanent productivity growth in the companies coming from these countries.

The global economy assumes uncertainty but it also offers enormous opportunities to organizations and individuals that are brave and energetic enough to adjust to the changes. Globalisation represents the only way for the countries in transition, whereas the focus must be on the development of industrial production. Newly industrialized countries have worked on this development as well as on the offer of their industrial products in the global market.

On the other hand, the companies from transitional countries are facing great problems, among which the improvement of knowledge and low productivity seem

to be the hardest. The task of a modern organization is to improve knowledge of its employees because it leads to an improvement of business productivity. The modern organization must accept and create the changes, welcome various information and base its business performance on the permanent advancement of knowledge productivity.

The main problem of domestic companies is lack of competitiveness. They cannot count on any success on the international market without the introduction of new technologies and application of new knowledge. In order to achieve market success, the companies need to achieve competitive advantage in the form of lower costs and product differentiation along with a strategy of long-term provision of high-quality products and services that are innovated continuously.

Economic progress and development of the Republic of Serbia require the existence of competitive economy based on knowledge, new technologies and innovations. According to Jeffrey Sachs, one of the leading world economists (2014), Serbia should work on the development of new industries and the attraction of foreign investments in the fields of agriculture, tourism and renewable energy. The budget deficit and high public debt represent serious problems but the burning issue is a high unemployment rate of the young population, the future of every economy. Small economies should play a game with numerous partners so they must be super flexible. As the global market changes, Serbia must find a way to answer to these changes. Moreover, it is needed to see the world as a giant market and enhance the business activities towards Asia and the Middle East.

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GLOBALNO TRŽIŠTE I NOVI KONKURENTSKI ODNOSI

Apstrakt. Novi konkurentski odnosi zahtevaju nove pristupe u oblasti upravljanja organizacijom i razvoja konkurentnosti. Upravljački standardi i najbolja poslovna praksa su načini za osatvarivanje poslovne izvrsnosti, posmatrano u dužem vremenskom periodu. Da bi se postigla konkurentna sposobnost u kraćem vremenskom periodu neophodne su inovacije i unapređenje produktivnosti znanja. Domaća preduzeća imaju problem sa postizanjem konkurentne sposobnosti u međunarodnim razmerama duži niz godina. Nedovoljna ulaganja u oblast kvaliteta poslovanja su rezultovala veoma lošom konkurentskom pozicijom domaće privrede. Da bi domaća preduzeća postala konkurentnija na međunarodnom nivou, potrebno je da se izmeni način razmišljanja u oblasti poslovanja i da se prihvate savremena svetska dostignuća u oblasti upravljanja organizacijom i poslovne prakse.

Ključne reči: konkurentnost, upravljanje, organizacija, globalno tržište, kvalitet, znanje.

Received: 13.07.2017.

Revised: 02.08.2017

Accepted: 07.08.2017.

Biblid 0543-3657, 68 (2017)
Vol. LXVIII, No. 1166-67, pp. 65–87

WORKING PAPER SERIES ON EUROPEAN STUDIES
INSTITUTE OF EUROPEAN STUDIES
CHINESE ACADEMY OF SOCIAL SCIENCES
Vol. 10, No. 5, 2016

AN QUANTITATIVE ANALYSIS ON CHINA-CEEC ECONOMIC AND TRADE COOPERATION

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Yang Chengyu²

Abstract: The Analysis will use the mathematical models to evaluate the development of the business environment of CEE countries scientifically according to 51 set of index data, and will evaluate the development and level of the cooperation between China and 16 CEE countries based on 18 set of index data. Based on the results of the analysis, the Paper will establish a coordinate graph of the development of China-CEEC Cooperation. The indicator systems of the business environment of CEE countries (x-axis) and the bilateral cooperation of China-CEE countries (y-axis) visualize the development of the cooperation in last 5 years while assessing the dynamic relationship involved therein.

Key words: China-CEEC Cooperation, Business Environment, Bilateral Relationship between China and 16 CEE Countries.

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1. INTRODUCTION

The year 2016 is the fifth year of China-CEEC Cooperation Mechanism. Recently, China-CEEC Cooperation had made plentiful achievements, especially in the development and deepening of trade and economy. The assessment of business environment of the partner and the comprehensive evaluation of bilateral cooperation are the key for measuring the development of the cooperation. The Paper³ will combine the business environment of CEEC with the establishment and index of China-CEEC Cooperation Mechanism in a very visual way to show the development of last 5 years⁴.

Concerning the business environment of CEE countries, the Paper will use the mathematical models to evaluate the development of the business environment of CEE countries scientifically according to the index data, such as the national administration, macro economy, trade, finance, investment and financing, infrastructure, social environment and innovation ability of the CEE countries, to provide a reference for the Cooperation of China and 16 CEE Countries (hereinafter “16+1 Cooperation”). In regard to the bilateral cooperation of China-CEE countries, the Paper will evaluate the development and level of the cooperation based on the index data for cooperation, including politics, trade, finance, investment and people-to-people exchanges. Based on the results of the analysis, the Paper will establish a coordinate graph of the development of China-CEEC Cooperation. The indicator systems of the business environment of CEE countries (x-axis) and the bilateral cooperation of China-CEE countries (y-axis) visualize the development of the cooperation while assessing the dynamic relationship involved therein.

2. COUNTRY ANALYSIS

In regard to the business environment, the Paper will divide the evaluation system into 8 secondary modules, including administrative environment, macro economy, trade environment, financial environment, investment and financing environment, infrastructure, social environment and innovation ability, and 51 indicators at third level. In regard to the bilateral cooperation, the Paper will evaluate the cooperation level from 5 secondary models such as political cooperation, trade

³The Paper is one of the research outputs of the CASS Innovation Program “Industrial Competitiveness in European Countries”. The research had also received fund from China-CEE Relationship Research Fund (project number KT201605), and support from China-CEE Think Tank Network. The authors would like to thank for the comments and help from Prof. HUANG Ping, Pro. KONG Tianping, Dr. LIU Zuokui, Dr. HU Kun, and LI Qize. The Chinese version full report will be published soon.

⁴The data collection had been closed by the end of July 2016.

cooperation, finance cooperation, investment cooperation and people-to-people exchange, with 17 indicators at third level. All data had been collected by the end of July 2016.

The Paper uses econometric models to calculate the indicators in the Business Environment module and Bilateral Relationship module. Based on the results and ranking in the modules from the calculations, country analysis is followed, which objectively presents the advantages and disadvantages of business environment of the CEE countries and their cooperation with China. The purpose of such kind approach is to provide the scientific and theoretical basis for “16+1 Cooperation”. It needs to emphasize that the indicators is based on the numerical value distribution from 0 to 10, “0” is the worst and “10” is the best while the value corresponds closely to 10 is better.

2.1 ALBANIA

The business environment of Albania in 2016 is shown in Figure 1.1. The modest modules of Albania in 2016 are the financial environment (4.88), social environment (4.70) and investment and financing environment (3.43) while the other indicators are all less than 1. This shows that the aspects of administrative environment, macro economy, trade environment, infrastructure and innovation ability of Albania are in need of improvement.

The bilateral cooperation of China-Albania in 2016 is focused on field of finance (9.02), politics (5.47), investment (4.91) and people-to-people exchange (4.91) while there is much room for improvement of trade field (0.46), as shown in the Figure 1.2.

Figure 1.1 Radar Chart of Business Environment of Albania

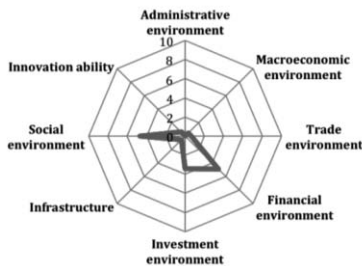
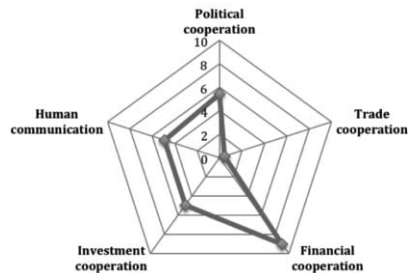


Figure 1.2 Radar Chart of China-Albania Bilateral Cooperation



2.2 BOSNIA AND HERZEGOVINA

The business environment of Bosnia-Herzegovina in 2016 is shown in Figure 2.1. The good modules of Bosnia-Herzegovina in 2016 are the social environment (7.76) and administration environment (4.86). In addition, the value of investment and financing environment (1.91) and financial environment (1.37) is less than 2 while the others are less than 1. This shows that the aspects of investment and financing environment and financial environment of Bosnia-Herzegovina are in need of improvement while the field of macro economy, trade environment, infrastructure and innovation ability are need to be greatly enhanced.

The bilateral cooperation of China- Bosnia-Herzegovina in 2016 is focused on the field of investment (4.53), people-to-people exchange (4.53) while involves some degree of cooperation in the field of politics (2.20) and finance (1.42), but the field of trade (0.49) should be enhanced, as shown in the Figure 2.2.

Figure 2.1 Radar Chart of Business Environment of Bosnia-Herzegovina

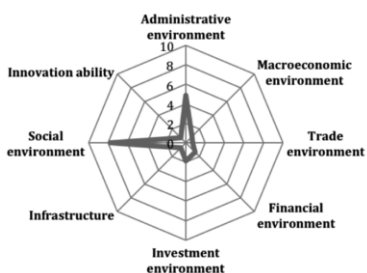
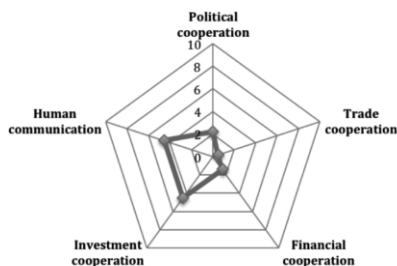


Figure 2.2 Radar Chart of China-Bosnia-Herzegovina Bilateral Cooperation



2.3 BULGARIA

The business environment of Bulgaria in 2016 is shown in Figure 3.1. The social environment (5.37) is the modest one in the business environment modules of Bulgaria in 2016. The value of the other modules is between 1 and 2.

However, as shown in the Figure 3.2, the bilateral cooperation of China-Bulgaria is outstanding in the field of investment (8.11), people-to-people exchange (8.11) while involves some degree of cooperation in the field of politics (3.08) and finance (2.05). In addition, the field of trade should be improved.

Figure 3.1 Radar Chart of Business Environment of Bulgaria

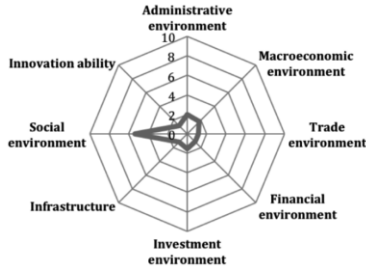
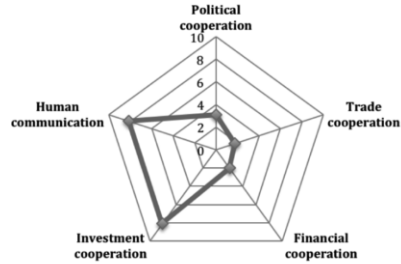


Figure 3.2 Radar Chart of China-Bulgaria Bilateral Cooperation



2.4 CROATIA

The business environment of Croatia is shown in Figure 4.1. The Administrative environment (7.03) is good and social environment (3.64) is modest in business environment modules of Croatia in 2016, macro economy environment (2.17) and financial environment (1.55) needs to be improved. The value of other modules is less than 1. This shows that the aspects of trade environment, investment and financing environment, infrastructure and the innovation ability of Croatia are in need of improvement.

As shown in the Figure 4.2, the bilateral cooperation of China- Croatia is good in the field of politics (5.68), investment (4.82) and people-to-people exchange (4.82) while the field of finance (2.40) and trade should be improved.

Figure 4.1 Radar Chart of Business Environment of Croatia

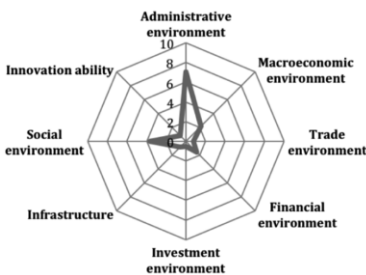
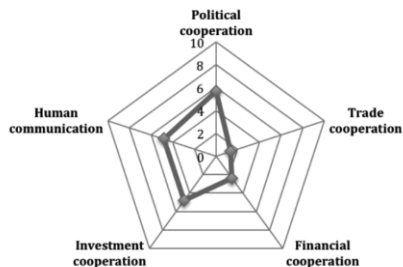


Figure 4.2 Radar Chart of China-Croatia Bilateral Cooperation



2.5 CZECH REPUBLIC

As shown in the Figure 5.1, the business environment of Czech Republic in 2016 is better than most of the CEE countries and it is outstanding in the field of social environment (9.16) and administrative environment (8.64) while the macro economy (5.41), trade environment (4.10) and infrastructure (4.10) are good. However, the field of financial environment (1.46) should be enhanced.

The bilateral cooperation of China- Czech Republic in 2016 is outstanding in the field of trade (10.0) while it is also doing good in the field of investment (5.49), people-to-people exchange (5.49), politics (5.46) and finance (5.06), as shown in the Figure 5.2.

Figure 5.1 Radar Chart of Business Environment of Czech Republic

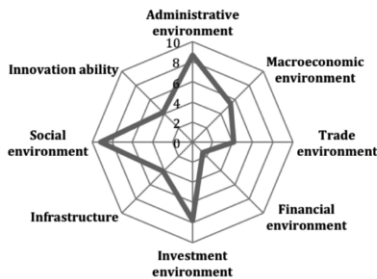
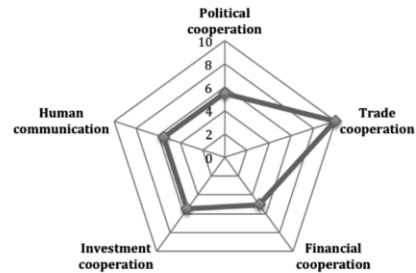


Figure 5.2 Radar Chart of China- Czech Republic Bilateral Cooperation



2.6 ESTONIA

As shown in the Figure 6.1, the administrative environment (8.33) is outstanding and investment and financing environment (6.90) is good in the business environment modules of Estonia in 2016. The value of the macro economy is 3.04 while the others' values are all less than 1 which shows that the aspects of trade environment, financial environment, infrastructure, social environment and innovation ability of Estonia are not ideal.

The bilateral cooperation of China- Estonia in 2016 is focused in the field of investment (5.28) and people-to-people exchange (5.28) while the field of finance (2.26), politics (1.54) and trade (1.01) should be improved, as shown in the Figure 6.2.

Figure 6.1 Radar Chart of Business Environment of Estonia

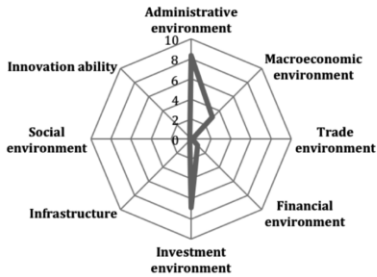
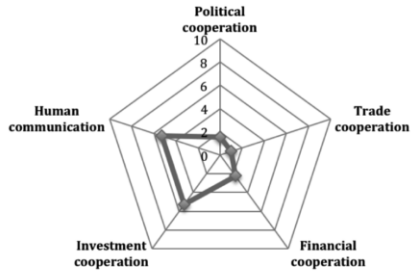


Figure 6.2 Radar Chart of China-Estonia Bilateral Cooperation



2.7 HUNGARY

As shown in the Figure 7.1, the business environment of Hungary in 2016 is better than most of the CEE countries while the best modules are administrative environment (10.00), financial environment (10.0) and social environment (10.00). The field of investment environment (4.97) and macro economy environment (3.46) of Hungary are good while the aspects of innovation ability (2.93), trade environment (2.83) and infrastructure (2.83) should be enhanced.

In 2016, Hungary and China has maintained a very close cooperation relationship, and the cooperation field of finance (10.00), investment (10.00) and people-to-people exchange (10.00) has reached to the top level while it is also outstanding in the field of political (9.83) and trade (7.24) cooperation. Therefore, it is listed as the No. 1 of comprehensive index of China-CEEC Cooperation.

Figure 7.1 Radar Chart of Business Environment of Hungary

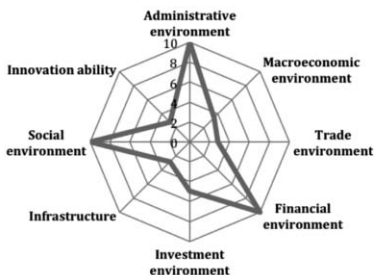
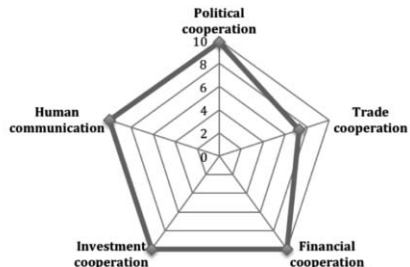


Figure 7.2 Radar Chart of China-Hungary Bilateral Cooperation



2.8 LATVIA

As shown in the Figure 8.1, Latvia is doing good in the field of investment and financing environment (8.10) and social environment (5.39), and has some performance in the field of macro economy (2.45) in 2016. The value of the other modules is less than 1, which indicates that the aspects of administrative environment, trade environment, financial environment, infrastructure and innovation ability are not ideal. The Figure 8.2 shows that the bilateral cooperation of China-Latvia is focused on the field of investment (8.12) and people-to-people exchange (8.12), and performance is modest in financial field (2.40) while the politics (0.00) and trade (0.00) fields should be improved.

Figure 8.1 Radar Chart of Business Environment of Latvia

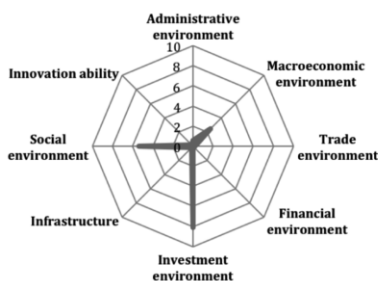
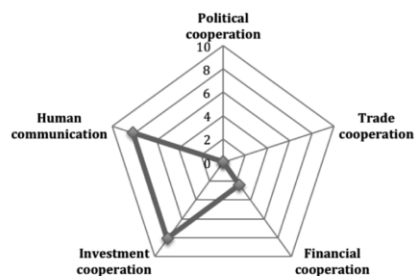


Figure 8.2 Radar Chart of China-Latvia Bilateral Cooperation



2.9 LITHUANIA

As shown in the Figure 9.1, the investment and financing environment (5.14), social environment (5.00) and administrative environment (4.74) of business environment in Republic of Lithuania in 2016 are modest. The value of macro economy is 2.24 and the others are all less 1, which indicates that the environment of trade, finance, infrastructure and innovation ability of Republic of Lithuania should be improved.

The Figure 9.2 shows that there is a wide distribution in bilateral cooperation between China and Republic of Lithuania, such as the field of investment (3.79), people-to-people exchange (3.79), finance (2.76), trade (2.23) and politics (1.58) while other fields should be improved.

Figure 9.1 Radar Chart of Business Environment of Republic of Lithuania

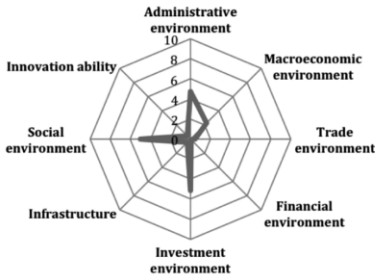
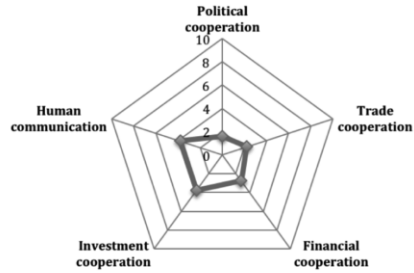


Figure 9.2 Radar Chart of China-Republic of Lithuania Bilateral Cooperation



2.10 MACEDONIA

As shown in the Figure 10.1, the administrative environment (7.81), investment and financing environment (5.96) and social environment (6.66) and administrative environment of business environment in Macedonia in 2016 are good. The values of other modules are all less than 1, which indicates that the environment of macro economy, trade, finance, infrastructure and innovation ability of Macedonia should be improved. The Figure 10.2 shows that there is a wide distribution in bilateral cooperation between China and Macedonia, such as the field of finance (5.49), politics (3.74), investment and financing (3.36) and people-to-people exchange (3.36); however, the field of trade (1.43) should be improved.

Figure 10.1 Radar Chart of Business Environment Macedonia

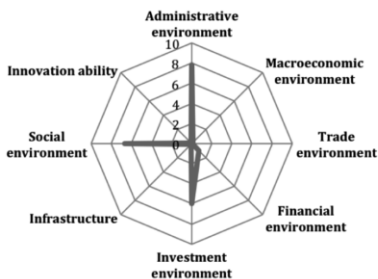
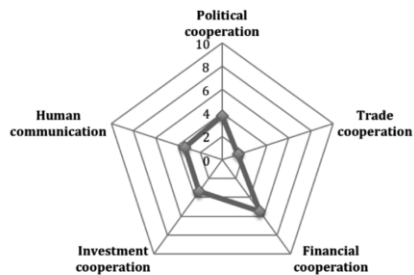


Figure 10.2 Radar Chart of China-Macedonia Bilateral Cooperation



2.11 MONTENEGRO

As shown in the Figure 11.1, Montenegro is doing well in 2016 in the field of administrative environment (6.33) and social environment (6.25). The value of investment and financing and macro economy is 1.52 and 1.47 while the others are all less 1, which indicates that Montenegro should improve the field of trade, finance, infrastructure and innovation ability. As shown in the Figure 11.2, the bilateral cooperation between China and Montenegro is at a low degree, except the financial cooperation (2.35), the value of other fields is all less than 1, which indicates that bilateral cooperation of politics (0.93), trade (0.54), investment (0.00) and people-to-people exchange (0.00) between China and Montenegro is at a low degree.

Figure 11.1 Radar Chart of Business Environment of Montenegro

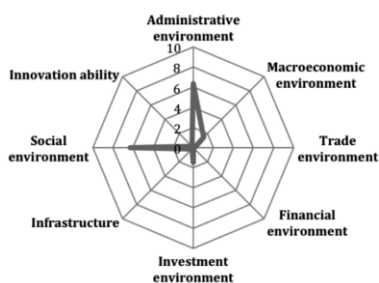
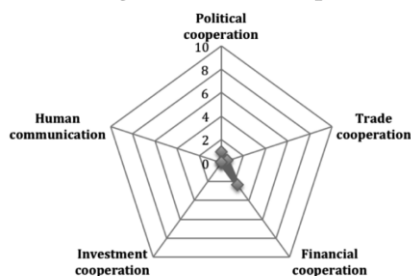


Figure 11.2 Radar Chart of China-Montenegro Bilateral Cooperation



2.12 POLAND

As shown in the Figure 12.1, the business environment of Poland in 2016 is better than most of the CEE countries while the best modules are trade environment (10.00), investment and financing (10.00), infrastructure (10.00) and innovation ability (10.00). And Poland is doing very good in the field of social environment (9.99), macro economy (7.79) and administrative environment (7.34). However, the financial environment (0.79) should be improved. As shown in the Figure 12.2, there is a close cooperation between China and Poland, especially in the field of politics (10.00), trade (9.48), investment (9.39) and people-to-people exchange (9.39) while the cooperation of finance is at a low degree (2.39), as a reason of its lower level of financial environment.

Figure 12.1 Radar Chart of Business Environment of Poland

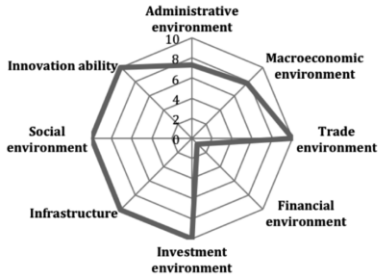
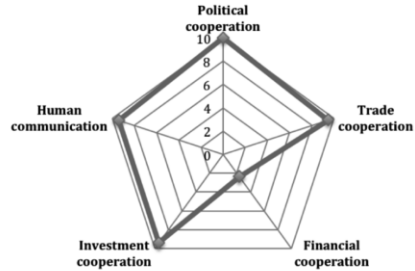


Figure 12.2 Radar Chart of China-Poland Bilateral Cooperation



2.13 ROMANIA

As shown in the Figure 13.1, Romania is doing well in 2016 in the social environment (8.84) while the aspects of investment and financing (3.18), trade (3.09), infrastructure (3.09), innovation ability (3.09) and macro economy (2.71) are modest. The value of others is less than 1, which indicates that Romania should improve the political environment and financial environment.

As shown in the Figure 13.2, there is a wide distribution in bilateral cooperation between China and Romania and it is outstanding in the field of investment and people-to-people exchange (9.81). In addition, Romania is doing good in the field of politics (5.23) and trade (3.31) and the financial cooperation should be enhanced.

Figure 13.1 Radar Chart of Business Environment of Romania

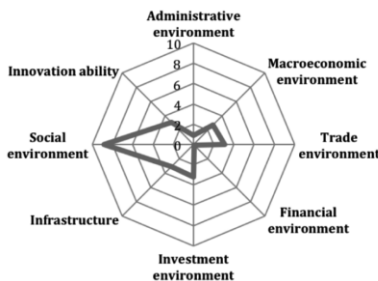
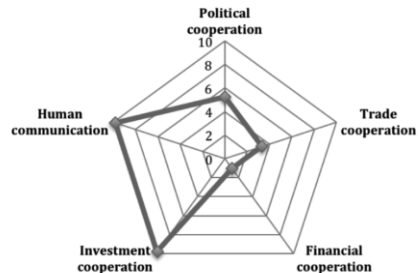


Figure 13.2 Radar Chart of China-Romania Bilateral Cooperation



2.14 SERBIA

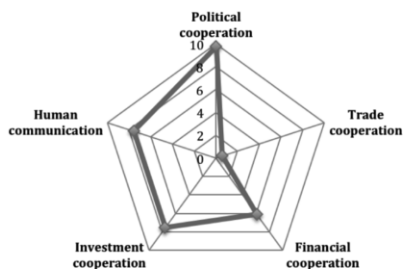
As shown in the Figure 14.1, Serbia is doing modest in 2016 in the financial environment (3.24). The value of other modules is between 1 and 2, which indicates that the level of business environment of Serbia is lower and the risk awareness should be enhanced.

As shown in the Figure 14.2, the bilateral cooperation between China and Serbia is at a higher level. Most of the cooperation fields are doing well, including politics (9.81), investment (7.59), people-to-people exchange (7.59) and finance (6.15), while the trade cooperation should be improved.

Figure 14.1 Radar Chart of Business Environment of Serbia



Figure 14.2 Radar Chart of China-Serbia Bilateral Cooperation



2.15 SLOVAKIA

As shown in the Figure 15.1, the field of social environment (9.84) is outstanding, and investment and financing (6.54) and administrative environment (6.50) of Slovakia in 2016 is good. In addition, the macro economy environment (3.41) is modest while the other fields are at a lower level, especially the financial environment (0.00).

As shown in the Figure 15.2, the bilateral cooperation between China and Slovakia is comparative good, especially the field of trade (6.00), investment and people-to-people exchange (4.96), and the political cooperation (1.90) should be improved. In addition, the financial cooperation (0.00) is at a low level, which is related to the financial environment.

Figure 15.1 Radar Chart of Business Environment of Slovakia

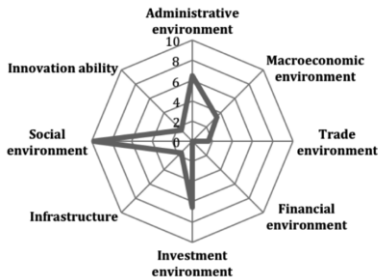
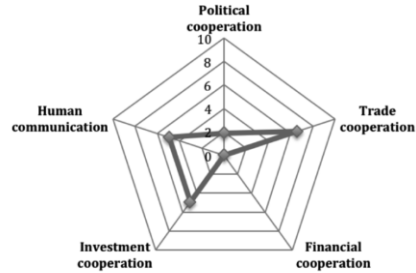


Figure 15.2 Radar Chart of China-Slovakia Bilateral Cooperation



2.16 SLOVENIA

As shown in the Figure 16.1, Slovenian is doing well in 2016 in the field of social environment (7.41). The field of financial environment (4.90) and macro economy environment (3.72) are doing just fine while the values of other modules are at the lowest point, especially the field of trade, investment and financing, infrastructure and innovation ability (0.00).

As shown in the Figure 16.2, Slovenian is doing well in the field of finance (8.34), the field of investment (5.40) and people-to-people exchange (5.40) are good while the politics (0.79) and trade (0.36) cooperation should be enhanced.

Figure 16.1 Radar Chart of Business Environment of Slovenia

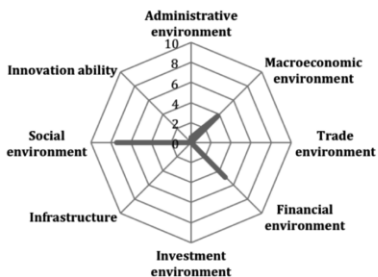
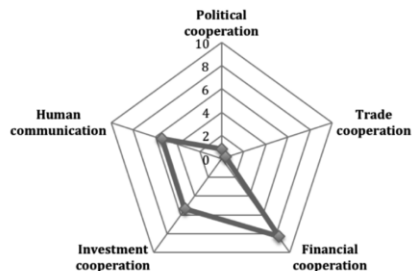


Figure 16.2 Radar Chart of China-Slovenian Bilateral Cooperation



3. HORIZONTAL COMPARISON

3.1 BUSINESS ENVIRONMENT OF CEE COUNTRIES

Comparing with the year of 2011, the general business environment of CEE countries in 2016 do not change too much while there are many differences among the countries.

The CEE countries' ranks of business environment are as follows: Hungary works best in the field of administrative environment, followed by Czech Republic, Estonia, Macedonia and others while Slovenia and Albania are at the bottom; Poland works best in the field of macro economy, followed by Czech Republic, Slovenia, Hungary and others while Albania and Macedonia are at the bottom; Poland works best in the field of trade environment, followed by Czech Republic, Romania, Hungary and others while Macedonia and Slovenia are at the bottom; Hungary works best in the field of financial environment, followed by Slovenia, Albania and others while Latvia and Slovakia are at the bottom; Poland works best in the field of investment and financing, followed by Latvia, Czech Republic and others while Croatia and Slovenia are at the bottom; Poland works best in the field of infrastructure, followed by Czech Republic, Romania, Hungary and others while Macedonia and Slovenia are at the bottom; Hungary works best in the field of social environment, followed by Poland, Slovakia, Czech Republic while Serbia and Estonia are at the bottom; Poland works best in the field of innovation ability, followed by Czech Republic, Romania, Hungary and others while Macedonia and Slovenia are at the bottom.

The top 5 countries in business environment in 2016 are Poland, Czech Republic, Hungary, Slovenia and Slovakia.

3.2 CHINA-CEE COUNTRIES BILATERAL COOPERATION

Along with the “16+1 Cooperation” deepening, the bilateral cooperation level of China – CEEC has been enhanced a lot in comparison with the year of 2011. Concerning to the cooperation level, investment and people-to-people exchange has established a close cooperation, followed by the political and financial cooperation while the trade cooperation should be improved.

In the bilateral cooperation of China – CEEC in 2016: Poland works best in the political cooperation, followed by Hungary, Serbia while Slovenia, Latvia are at the bottom; Czech Republic works best in the trade cooperation, followed by Poland, Hungary and others while Slovenia and Latvia are at the bottom; Hungary works best in the financial cooperation, followed by Albania, Slovenia, Serbia and others while Romania and Slovakia are at the bottom; Hungary works best in the investment cooperation, followed by Romania, Poland, Latvia and others while

Macedonia and Montenegro are the bottom; Hungary works best in the field of people-to-people exchange, followed by Romania, Poland, Latvia and others while Macedonia and Montenegro are at the bottom.

The top 3 countries in bilateral cooperation of China - CEEC in 2016 are Hungary, Poland and Czech Republic.

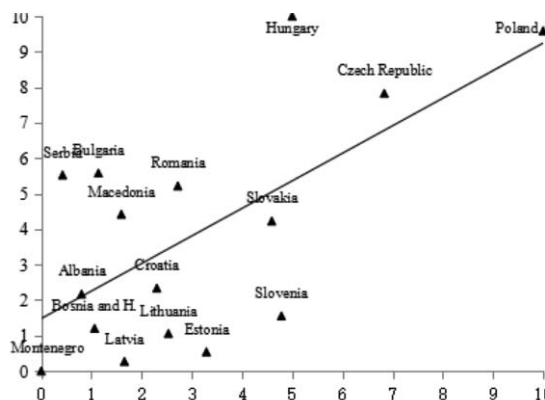
4. COORDINATE CHART ANALYSIS

Based on the evaluation result of the data of business environment of CEE countries and the Bilateral Cooperation of China – CEEC, the Paper establishes a coordinate chart to determine the status of economic and trade cooperation between China and CEE countries. The x-axis is the business environment of CEE countries and the y-axis is the bilateral cooperation of China – CEEC. We can not only monitor the level of bilateral cooperation and the business environment intuitively but also analyze their dynamic relation by the chart. Thus, we can provide advice to those whose business environment is fine and the cooperation should be improved, what’s more, we can provide pre-warning suggestion to those who own fine cooperation with least business environment.

4.1 COORDINATE CHART ANALYSIS BASED ON DISTRIBUTION

According to the evaluation result of business environment of CEE countries and the Bilateral Cooperation of China - CEEC in 2016, the x-axis stands for the business environment and the y-axis stands for the bilateral cooperation, as shown in the Figure 17.1:

Figure 17.1. Coordinate Chart of China-CEEC Cooperation Evaluation System in the Year 2016

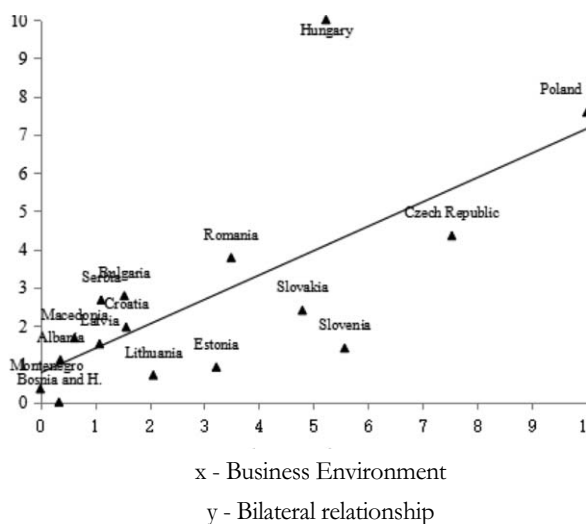


As shown in the Figure 17.1 Coordinate Chart of China-CEEC Cooperation Evaluation System in the Year 2016, Poland, Hungary and Czech Republic are at the top-right area; Slovakia and Slovenia are at the middle area while the other countries are at the bottom-left area of the chart. We should note that the top-right area indicates the business environment of the country and its cooperation with China are better while the bottom-left area indicates otherwise.

4.2 DYNAMIC ANALYSIS BASED ON TIME

According to the evaluation result of business environment of CEE countries and the Bilateral Cooperation of China - CEEC in 2011, the x-axis stands for the business environment and the y-axis stands for the bilateral cooperation, as shown in the Figure 17.2:

Figure 17.2. Coordinate Chart of China-CEEC Cooperation Evaluation System in the Year 2011



The areal distribution of the coordinate chart of 2011 is similar to the chart of 2016, however, the countries of the bottom-left area are more concentrated while the countries of the top-right area are relatively decentralized of 2016. There are two main reasons:

On the one hand, the entire business environment of CEE countries doesn't change much as Table 1 shows that the value of 2011 and 2016 is 48.54 and 48.75 respectively. However, some countries improve their business environment faster, including Macedonia, Croatia and Bosnia and Herzegovina; Latvia, Republic of

Lithuania and Albania have improved its environment modestly while Slovenia, Romania, Czech Republic and Serbia regressed. In comparison with the situation of 2011, Albania, Bosnia and Herzegovina, Croatia, Estonia, Latvia, Republic of Lithuania and Macedonia has improved their business environment while Bulgaria, Czech Republic, Hungary, Romania, Serbia, Slovakia and Slovenia regressed, Bosnia and Herzegovina and Poland stayed the same.

Table 1. Business Environment of 16 CEE Countries

	Total	Albania	Bosnia H.	Bulgaria	Croatia	Czech	Estonia	Hungary	Latvia	Lithuania	Macedonia	Montenegro	Poland	Romania	Serbia	Slovakia	Slovenia
2011	48.54	0.37	0.34	1.54	1.57	7.53	3.22	5.23	1.08	2.07	0.62	0.00	10.0	3.49	1.11	4.80	5.57
2016	48.75	0.81	1.06	1.14	2.30	6.83	3.29	5.00	1.66	2.53	1.60	0.00	10.0	2.72	0.43	4.59	4.79

Source: calculation by the authors.

Note: Regarding on the value, 10 is the best and 0 is the worst.

On the other hand, the bilateral cooperation of China – CEEC has been deepened a lot, as Table 2 shows that the value of 2011 and 2016 is 43.22 and 61.50 respectively. With the deepening of “16+1 Cooperation” during the last 5 years, we obtained many achievements so that the cooperation level had been improved. Czech Republic works best, followed by Serbia, Bulgaria and Macedonia while Poland, Slovakia, Romania, Bosnia and Herzegovina and Albania also do some enhancements. Certainly, some countries obtained relatively few results, such as Estonia, Latvia and Montenegro. In particular, the bilateral cooperation between China and Hungary always maintains the best in recent years.

Table 2. Bilateral Cooperation of China – 16 CEE Countries

	Total	Albania	Bosnia H.	Bulgaria	Croatia	Czech	Estonia	Hungary	Latvia	Lithuania	Macedonia	Montenegro	Poland	Romania	Serbia	Slovakia	Slovenia
2011	43.22	1.11	0.00	2.78	1.96	4.35	0.92	10.0	1.52	0.71	1.68	0.35	7.58	3.78	2.67	2.40	1.41
2016	61.50	2.17	1.20	5.58	2.34	7.83	0.54	10.0	0.27	1.06	4.42	0.00	9.59	5.21	5.52	4.23	1.55

Source: calculation by the authors.

Note: Regarding on the value, 10 is the best and 0 is the worst.

4.3 COORDINATE CHART ANALYSIS BASED ON TREND LINE

The solid line in Figure 17.1 and Figure 17.2 represents the business environment and bilateral cooperation by OLS, we also can treat it as the trend line of the relationship between them and it will show the dynamic changes. We can conclude according to the trend line as follows:

Firstly, the slope changes of the trend line. It shows the corresponding ration of business environment and bilateral cooperation. In comparison with 2011, the trend line slope is higher in 2016, which indicates that the improvement effect of bilateral cooperation of China – CEEC is greater than the improvement effect of business environment of CEE countries from 2011 to 2016. Therefore, it proves that the “16+1 Cooperation” is centered on “cooperation driven” during this period. Meanwhile, it also provides theoretical foundation for the fact that this cooperation improve definitely the bilateral cooperation level.

Secondly, in regard to the trend line, the coordinate changes. When the coordinate of the country is located above the trend line, it indicates that the bilateral cooperation level between China and that country is better than its’ business environment level so that the country can improve the level by the implementation of bilateral cooperation. As of 2016, the coordinate of Albania, Serbia, Bulgaria, Macedonia, Romania, Hungary, Czech Republic and Poland is all above the trend line, so they can maintain their existing foundation and utilize their advantages to improve their business environment; when the coordinate is located below the trend line, it shows otherwise and the bilateral cooperation should be improved. As of 2016, the coordinates of Montenegro, Bosnia and Herzegovina, Latvia, Croatia, Lithuania, Estonia, Slovakia and Slovenia are all below the trend line so that we can focus more on these countries in future cooperation.

In addition, as we have seen, the coordinate of Czech Republic in 2011 is located below the trend line and it is located above the trend line in 2016 by the deepening of “16+1 Cooperation”, which indicates that this cooperation really improves the bilateral cooperation level of China- Czech Republic.

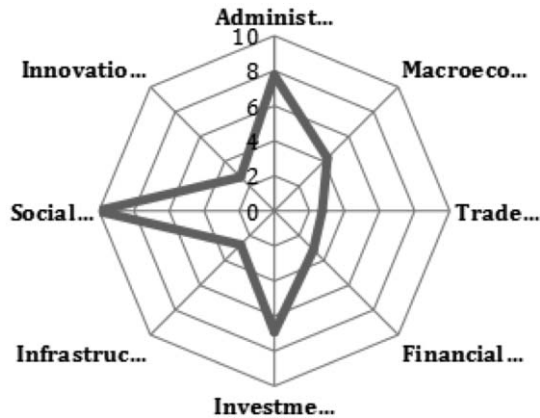
5. CONCLUSION

The Paper takes analysis based on business environment of CEEC and Bilateral Cooperation of China – CEEC and concludes as follows:

(1) Overall, the social dimension of business environment of CEE countries is good, followed by the political environment and investment and financing environment, while the environment of macro economy, finance, trade, infrastructure and innovation ability should be improved. Thus, the “16+1 Cooperation” should be based on political cooperation, take the infrastructure as a breakthrough and the financial cooperation as the leverage to enhance bilateral

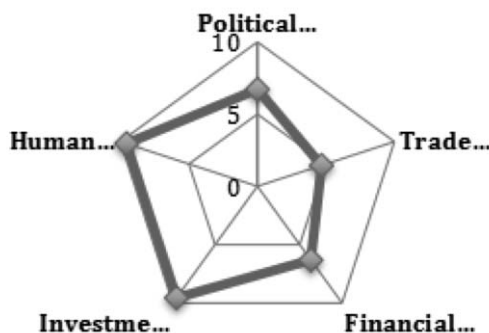
cooperation and improve the level of infrastructure of CEE countries in order to achieve inter-connectivity and promote trade. The existing programs also prove the scientific nature such as the Construction of Industrial Park, Ports Infrastructure Cooperation and the Hungary-Serbia Railway.

Figure 18.1. Radar Chart of Business Environment of 16 CEE Countries



(2) The cooperation of investment and people-to-people exchange between China and CEE countries is outstanding, followed by the cooperation of politics while the financial and trade cooperation should be enhanced. The Paper suggests that trade promotion and financial cooperation should be the breakthrough point for deepening “16+1 Cooperation” on the basis of the cooperation of politics, investment and people-to-people exchange. It is need to develop trade and financial cooperation with the key countries. Giving priority to develop the cooperation with Romania, Serbia, Bosnia and Herzegovina, Albania, Latvia and others while maintain the cooperation level with Poland, Czech Republic and Hungary. Consolidate the bilateral relationship among best partnerships in the aspect of financial cooperation and provide priorities to the countries with advantage in finance and investment, such as Hungary and Poland.

Figure 18.2. Radar Chart of China-CEEC Bilateral Cooperation



Concerning to the cooperation of the CEE countries, Poland, Czech Republic and Hungary have become the leader of bilateral cooperation of China – CEEC Cooperation Mechanism. In the future, we should promote the sheep-flock effect as follows. Firstly, the bilateral cooperation level between China and Serbia, Bulgaria, Macedonia, Romania is high while their business environments are not good enough. In this case, the bilateral cooperation should control the risk, especially in the lower economy level countries, such as Macedonia. Secondly, the bilateral cooperation level between China and Slovakia and Slovenia are lower while their business environments are better so that there is a space for development and they can be treated as a potential for the next period of “16+1 Cooperation”. Thirdly, Latvia, Croatia, Republic of Lithuania and Estonia are weaker at the aspect of business environment and bilateral cooperation; therefore, we should improve the business environment by promoting the bilateral cooperation.

Concerning to the analysis of the CEE countries, the cooperation between China and CEE countries almost matched their business environments. For example, Poland is in the advanced level of business environment while its financial environment and the bilateral cooperation of China-Poland are relatively primitive. The business environment of Serbia is still very backward while its financial environment is modest and there is a close cooperation relationship between China and Serbia. In addition, the individual priorities of the cooperation between China and CEE countries should also take into account the business environment. For example, Czech Republic requested to be the financial center of the cooperation of China- CEEC while its financial module is the least one in the business environment. Although the cooperation between China and Czech Republic has been developing rapidly, therefore, it is necessary to enhance the control of risk. Similar issues are relevant in Macedonia and other countries.

Annex

Annex 1. Indicators of Evaluation System of Business Environment of CEE Countries

Second level index	Third level index	Code
Administrative environment X1	World economic freedom index	X10
	Corruptible index	X11
	Military expenditure	X12
	Political cycle	X13
	Early election	X14
	Cost of starting a business process	X15
	Strength of legal rights	X16
Macroeconomic environment X2	Official reserve assets	X20
	Transformation index of the Bertelsmann	X21
	GDP	X22
	GDP <i>per capita</i>	X23
	GDP growth annual	X24
	Inflation rate	X25
	Gross fixed capital formation	X26
	Industry, value added	X27
	Services, etc., value added	X28
	Doing Business Index of World Bank	X29
Trade environment X3	Export value	X30
	Import value	X31
	Trade competitive advantage index	X32
	Share of World Trade	X33
	Customs duty rate	X34
	Logistics performance index	X35
Financial environment X4	Exchange rate	X40
	Real interest rate	X41
	Bank nonperforming loans to total gross loans	X42
Investment environment X5	Sovereign debt rating	X50
	Domestic credit provided by financial sector	X51
	Net domestic credit	X52
	Investment rate	X53
	Central government debt, total	X54
	Gross savings	X55
	Stock of FDI	X56
	Stock of OFDI	X57

Second level index	Third level index	Code
Infrastructure X6	Internet users	X60
	Rail lines	X61
	Railways, goods transported	X62
	Air transport, freight	X63
	Electric power consumption	X64
	Health expenditure, public	X65
	Port infrastructure quality	X66
	Container port traffic	X67
Social environment X7	Population, total	X70
	minimum wage	X71
	Health expenditure per capita	X72
	Population ages 15-64	X73
	Population density	X74
	Household final consumption expenditure per capita	X75
Innovation ability X8	Patent applications	X80
	Trademark applications	X81
	Research and development expenditure	X82

Annex 2. Indicators of Evaluation System of Chin-CEEC Cooperation

Second level index	Third level index	Code
Political cooperation Y1	Partnership	Y10
	High level relationship	Y11
	Diplomatic visit	Y12
	Joint statement	Y13
Trade cooperation Y2	China's export value to the country	Y20
	China's import value from the country	Y21
	China's exports account for the country's market share of imported products	Y22
	The country's exports account for the market share of China's imports	Y23
Financial cooperation Y3	Monetary and bond cooperation	Y30
	Open a branch bank	Y31
	RMB offshore market construction	Y32
	Exchange rate	Y33
Investment cooperation Y4	China's OFDI to the country, flow	Y40
	China's OFDI to the country, stock	Y41
Human communication Y5	Cultural center	Y50
	Cultural center Confucius College	Y51
	Think Tank	Y52

COMBINED MODEL OF STATE BORDER SECURITY SYSTEM IN COMBATING ILLEGAL MIGRATIONS

Siniša DOSTIĆ¹

Darko M. MARKOVIĆ²

Abstract: The concept of integrated border management is based on the police model of the border security system. The migrant crisis caused by armed conflicts in the Middle East has given this system a great challenge. Because of the increased degree of threats to international, national and human security, a need for including other security entities in the state border security system has come forth. By engaging military units at the borders with Macedonia and Bulgaria, Serbia returned to practice the slightly forgotten model of combined state border security system. In relation to this, the paper points out the results of this system's entities' cooperation in combating illegal migration, with the aim to prove the justifiability of applying the combined border security system to have the successful control over illegal migration's security risks and threats.

Key words: border, integrated management, combined model, security system, migrant crisis, Republic of Serbia, illegal migration, human smuggling, border police.

INTRODUCTION

Being in the center of the Balkans, Serbia is in a position where many geostrategic interests intersect. This has predetermined military aggression as the

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biggest external danger to Serbia throughout its history, so it was military forces that have been usually the main actors in securing its state borders. In the modern circumstances of European integrations, state border security entities of the Republic of Serbia have a completely different role which is permanent combating various types of cross-border organized crime, terrorism and other non-military threats (Banović et al. 2009, p. 89).

In its content, the state border security system is very wide and complex, whereby depending on the way securing the state border is done, as well as depending on the actors, the state border security system can be military (linear), police (linear-in-depth) and combined.

The military system of state border security is based on a linear concept of securing the state border (security along the border line), which is performed by military actors (military border units) and is focused on implementing measures and actions that have the protection of state border from potential aggressor as their goal. The military system has been overcome and is not applied in developed European countries, and neither it is in use in countries surrounding the Republic of Serbia, giving prevalence to the police system (Dostić, 2007, p. 157).

The police system of state border security is based on linear-in-depth concept of securing the state border, and it is focused on implementing measures and actions by police (border police, gendarmerie, et al) and other entities (customs, border inspection services, et al) whose activities are connected to the state border, with the aim to fight against cross-border crime. The basic characteristic of this system is that the duties on the very border line and deep in the territory are not divided, but are functionally and in terms of content a unique corpus of border duties (Marković, 2016a, p. 119). This system of state border protection is defined by national strategies of integrated border management, which involve interconnected operating of these entities on a national, as well as international level.

The combined border security system (military-police) relies upon both concepts and is directed at implementation of measures and taking action by military-police actors with the goal of protecting the state border from a potential aggressor, cross-border crime or other security threats. What is characteristic of this system is that police entities have the task to control the crossing of the state border at designated border crossings, while the military, i.e. combined military-police entities have the task of securing the state border between the official border crossings (Dostić, 2015, p. 153-154). The state border security system of the Republic of Serbia is a police model, and it consists of the legislative framework (strategic documents and laws), measures and activities (preventive and repressive) and actors (border police, customs, border inspection services, et al).

Migrants' movement in large numbers from the Middle East and Northern Africa in the past couple of years has grown into the most serious migrant crisis

since the end of the World War II. A massive crossing of state borders via illegal routes has turned into a severe security threat to the European continent, both from the aspect of cross-border organized crime reflected in illegal migrations (human smuggling) and from the aspect of potential terrorist threats hidden within those very same illegal migrations. Such a development of events has brought about the use of the already slightly forgotten model of the combined state border security system on the state borders of the Republic of Serbia with Macedonia and Bulgaria, but also on the outer borders of the EU.

This paper perceives the circumstances and effects of the returning into the action of the model of combined state border security system at state borders of the EU member countries, especially in the state border protection system of the Republic of Serbia. By looking at the effects of cooperation between military and police forces with the aim of preventing massive illegal crossings of the state border and combating security challenges, risks and threats that these carry, and in accordance with the predictions for the future development of the migrant crisis, we come to a conclusion on the necessity of applying the combined model of state border security system.

COMBINED STATE BORDER SYSTEM IN THE EU PRACTICE AS A REACTION TO INCREASE IN THE MIGRANT CRISIS INTENSITY

The great migration wave from the Middle East and Africa toward Europe began in 2011 and has exceeded the UN estimates from 2013. Generally speaking, the growth rate of migrations on a global level is far higher than expected, marking an increase in the number of migrants in 2015 of more than 50% in comparison to 1990 (Simeunović, 2015, p. 6-7). Bearing this in mind, one may say that the situation in the Western Balkans is at a critical stage, considering that in 2015 Frontex recorded 19 times more irregular crosses of state border (2.044.000) in this region by non-regional migrants than in the past six years (Frontex, 2016, p. 12)! According to the Ministry of Interior of the Republic of Serbia, in 2015, 599.033 irregular migrants were discovered on the territory of the Republic of Serbia, which is about 25 times more than in 2014, when there was a total of 23.373 irregular migrants recorded (Border Police Directorate Work Report, 2016). The stated number represents a sum of the number of expressed intentions for seeking asylum (579.518), the number of persons who received a certificate of entry in the territory of the Republic of Serbia, and who come from countries where their lives are in danger (5.101), as well as the number of misdemeanour charges for illegal crossing of the state border (14.414).

Migrations, especially the illegal ones, represent a great security challenge, carrying a string of serious security risks and threats. Besides the personal

vulnerability of the migrants themselves on their way from their countries of origin towards their final destination, migrations also inevitably increase the possibility of bringing local population in jeopardy of contagious diseases, crime and terrorism. Only in 2015, 10.735 new suspects related to migrant smuggling were added to Europol's database, which currently contains information on more than 38.600 suspects (European Commission, 2016, p. 4-5). Terrorist attacks in several European cities indicate the growing peril of Islamist extremism in Europe. However, its growth will be followed by another type of extremism, and that is the rightist extremism, which would, in turn, be more and more reactive to migrations that would at the same time become its target and impetus (Simeunović, 2015, p. 6-7). Even before these terrorist acts happened, almost every European country developed a media discourse that has been heating up local population's fear for the economic stability of their countries, as well as religious and cultural integrity (Marković, 2016b, p. 207).

The expansion of the migrant wave toward European countries in the last two years has also brought about the change in the European countries' policies relating migrants. Even though the EU officials insist on a humanitarian approach to this issue, several countries' governments have decided upon firmer policies in regard to engaging human resources and technical means on their outer borders (Marković and Marković, 2015, p. 299). With the goal of preventing illegal migrations, certain EU countries have stationed military on their borders, directly implementing the combined state border security system. The Bulgarian parliament has approved the engagement of its military as a way of helping this country's border police. One of the Bulgarian authorities' measures is building a 130 km long barbed-wire fence on their border with Turkey (Cheresheva, 2016). The most radical with its actions has been Hungary, which initially in 2015 built about 175 km of wired fence on its border with Serbia, with both military and police patrolling the border, while they have also been preparing to build a new protective fence that would be 4 meters high, right behind the already existing one. This fence would be equipped with lighting, thermo-visual cameras and motion detectors, while trenches would be dug in front of it (Tanjug, 2017).

With the enforcement of the new Hungarian Border Law from 5th July 2016, all persons caught at 8 km within the Hungarian territory shall be returned to small gates along its state border with the Republic of Serbia, from where they shall be directed to transit zones on the border crossings Kelebija and Horgoš. From 5th July to 31st December 2016, in spite of all international procedures and protocols, the Hungarian border authorities returned 5.791 illegal migrants to Serbia.

The Hungarian Minister of Defence István Simicskó has announced the continuation of the militarization of securing the border with Serbia during the opening of a small military base on the same border. The base will accommodate 150 soldiers who will have the task to prevent migrants from entering Hungary.

The military base consists of 90 containers in the village of Hercegszántó, and it is situated at 220 km from Budapest. According to Simicskó, the soldiers are working on defending the borders so “hundreds of thousands of people would not march through the country, as in 2015”. This is the first of four Hungarian military bases, built with the purpose of a faster response of military patrols to illegal crossing of the border (Al Jazeera, 2017). The Hungarian military is also stationed along this country’s border with the Republic of Croatia.

MEASURES AND ACTIVITIES IN COMBATING ILLEGAL MIGRATION IN THE REPUBLIC OF SERBIA

After the construction of wire fences on the Hungarian side of the border with Serbia (Frontex, 2014, p. 5), in September 2015, there was a change in the irregular migrants’ route - towards the Republic of Croatia and on to the Schengen area. Individual entries have also been registered, as well as entries in small groups from the direction of Kosovo and Metohija³, Montenegro and Bosnia and Herzegovina, while there are indicators that the route through Romania has been activated, too.

Migrants come to the territory of Serbia from the direction of Greece, Macedonia and Bulgaria, using a variety of modalities of illegal crossing of state borders (on foot, between two border crossings, hiding in road and railway vehicles, avoiding border control, using counterfeit and using someone else’s personal documents - imposter, etc.), and then try to illegally get out of Serbia, most often in the direction of Hungary (Strategija, 2017). With the closing of the so-called “Western Balkan route”,⁴ the number of migrants detected in the territory of the Republic of Serbia in April 2016 stagnated, but began to grow in May. However, in 2016 a total of 111,143 migrants were found on the territory of the Republic of Serbia, which is about 81.5% less compared to 2015, when a total of 599,033 irregular migrants were registered (Border Police Directorate, 2016). Of the total number of detected irregular migrants at the state border of the Republic of Serbia in 2016, a total of 6,050 persons were found in an attempt to illegally cross the state border, mostly at the state border with the Republic of Bulgaria (3,125), then at the borders with Hungary (1,394) and the Republic of Macedonia (639), as well as with the Republic of Croatia (594). (Border Police Directorate, 2016). Like in the year

³ It is necessary to mention that at the end of 2014, the so-called “regional irregular migrants” appeared. These are persons coming from the territory of Autonomous Region of Kosovo and Metohija who are trying to enter the EU territory illegally by crossing the Serbo-Hungarian border. An increase in the number of prevented attempts of illegal crossings of the Republic of Serbia’s state border continued on in January and February 2015, after what, owing to measures taken, this occurrence was brought to a minimum.

⁴ According to the EU Summit decision from 7th March 2016.

of 2015, the basic mode of illegal crossing of state boundaries during 2016 was between crossing points, on the so-called green border, where five times more attempts to illegally cross the state borders were averted than at the border crossing points. The basic modes of illegal crossing of the state border at border crossings are evading the border controls and the use of using someone else's or counterfeit documents. National structure of the prevented irregular migrants has partly changed in comparison to 2015, when the citizens of Syria were the most common. Still, the structure is of Afro-Asian type, consisting mostly of Afghans (44%), Iraqis (30%) and Syrians (12%).

This situation requires the existence of an adequate system of border security that would properly respond to the new threat. The system should receive "the first blow" when it comes to the migrant crisis, but also various forms of transnational organized crime. It is very broad and complex in its content, and apart from the legislative framework, it includes a set of measures and activities for control of crossing borders (control at border crossing points) and securing the state border between border crossings, which are carried out by different entities (police, military, customs, inspection, etc.), in order to prevent unallowed activities (cross-border organized crime, terrorism, etc.) (Dostić, 2015, p. 153-154).

All countries establish specialized professional services (border services) for border security, which are responsible for specific segments. These are mainly the services responsible for control of passengers and vehicles (Border Police), transmission control, i.e. control of import and export goods across state borders and protection of the customs territory of a country (Customs), control of traffic in different flora and fauna species and their products across the state border (inspection bodies), as well as control of traffic on international waterways (port authorities) (Milošević and Dostić, 2011, p. 51).

In practice, not only illegal entries into Serbia occur, but also illegal exits from the country by persons who have legally entered Serbia, but with the intention of continuing their way to one of the EU countries. When it comes to illegal migration in association with organized crime groups, they are carried out using the earlier mentioned modus operandi. For illegal crossing at the so-called green or blue border, smugglers are engaged on both sides of the border, mostly among the local population in the immediate vicinity of the border line. In addition, it has been noted that the very irregular migrants appear as organizers of illegal crossings of the border. These are the irregular migrants who previously received accommodation in one of the reception centres for asylum seekers. National structure of migrants who enter the territory of the Republic of Serbia has partly changed in comparison to previous years, when citizens of Afghanistan and Pakistan predominated. Due to the escalation of armed conflicts in their country, the number of Syrians increased during 2015. However, it should be denoted that nationality and identity of those persons are determined solely on personal statements of

migrants. As most European countries, the Republic of Serbia opted for a humanitarian approach to this problem, allowing free transit through its territory to persons who come from war-torn areas, making it difficult to monitor the issue of illegal migration and police work in combating human smuggling. After being detected on the territory of the Republic of Serbia, irregular migrants are searched and registered, after what asylum seekers are recorded.

In the previous period, it has been observed that a large number of asylum seekers in the Republic of Serbia does not apply with the intention of staying, but to enter the asylum procedure in order to avoid penal responsibility for illegal crossing of the state border, or for illegal stay in the Republic of Serbia. Even if they get the protection, they intend to continue their journey towards one of the European Union Member States. The conclusion follows from the fact that most of them leave the territory of the Republic of Serbia before a final decision on their request for asylum can be made. The number of asylum seekers is significantly reduced between the first and the second stage of the procedure, and this trend continues until the end of the process. In addition, it happens that persons who have received international protection in Serbia leave and go to the EU countries.

In this regard, the Republic of Serbia has been forced to take a series of measures and activities with the purpose of preventing illegal immigration caused by the migration crisis, such as:

- Procedures for the adoption of new Law on Foreigners, Law on Asylum, Law on Border Control and amendments to the Criminal Code have been launched, as well as relevant bylaws and instruction acts for equal treatment of all organizational units. The Border Police Directorate initiated the adoption of the National Strategy for countering illegal migration in the Republic of Serbia for the period 2017-2020.
- Memorandum on Cooperation between the Ministry of Interior and the Public Prosecutor's Office in the field of human smuggling stipulating the establishment of a Permanent Task Force ("SUD" - "PTF") has been signed, and its task will be to coordinate the suppression of human trafficking and human smuggling with elements of organized crime.
- Project group for prevention of illegal migration flows has been formed with a mandate to monitor, analyze, consider and undertake all activities associated with illegal migration flows in the Republic of Serbia.
- EU is funding and implementing a "Special measure 2" to support the Republic of Serbia in improving border management towards the Republic of Bulgaria in the context of European migration crisis. Border police officers are engaged in securing the border between the Republic of Macedonia and Greece, as well as about 50 foreign police officers on the border between Bulgaria and Serbia.

- On 17 July 2016, at the initiative and proposal of the Bureau for Coordination of Security and with the approval of the President of the Republic of Serbia, the Government of the Republic of Serbia made a decision to form joint police and military forces, based on Article 39 of the Law on Defence, to protect Serbia's borders with the Republic of Macedonia and the Republic of Bulgaria from illegal crossings and illegal activities of smuggling migrants. For this purpose, Command of the joint forces of the Army of Serbia and the Ministry of Interior of the Republic of Serbia was formed to secure the state border with the Republic of Macedonia and the Republic of Bulgaria, and later on with Montenegro, with the aim of protecting the borders from illegal crossings and preventing human trafficking. The headquarters are in Niš, while the seats of local head offices for four sectors are in Vranje, Pirot, Zaječar and Raška. Police officers of the Department of the border have been actively involved in the work of the headquarters from its inception, with updated permanent personnel.

EFFECTS OF JOINT ACTIVITIES OF POLICE AND ARMY IN PREVENTING ILLEGAL MIGRATION WITHIN THE COMBINED SYSTEM OF BORDER SECURITY

Due to the configuration of the terrain, the physical dimension and communication, effective securing of the border is possible only if, in addition to measures along the border line, operational measures are taken inside the country. Control of the state border outside border crossing points, i.e. in the border area, is directed in three directions:

- control of movement along the national border (electronic surveillance, patrolling, ambushes);
- operational-tactical and technical measures along the border and in the border area (in security sectors, work of the patrols on roads, security actions), and
- operationally-tactical acting in the inner of the Republic of Serbia.

The very manner of securing the border is based on a line-in-depth concept which involves the deployment of forces and resources both on the border line and at an optimal distance from it, i.e. inside the country's territory, wherein the degree of engagement of forces depends on the terrain's configuration, traffic infrastructure, security assessment and risk analysis, the degree of security vulnerability and similar. Generally, regardless of the type of security, the state border is secured continuously day and night with the use of the most expedient measures and tactical procedures in the organization and performing of duties. However, due to organized criminal activity or potential terrorist threats, there may be deviations to this principle in some parts of the state border, so in accordance with the risk analysis, border security can be organized only for a certain period of

a day or a week. A more rigorous application of the Law of Foreigners, with a stricter visa regime, and more efficient work of the border police and military, has significantly contributed to reducing the number of foreigners who have used the territory of Serbia in the described manner. However, organized crime groups continue to fully cover the area of illegal migrations using innovative methods and adapting to new circumstances.

To effectively combat illegal migration on the state border, ensuring timely and quality information about the existence of a criminal offense, as well as information on the perpetrators of the offense are of crucial importance. The main sources of such knowledge are: profiling (of drivers, fellow travellers, travel documents, vehicles, transport companies, goods and transport documents) at border crossing points, operational activities of the border security actors in the border area (primarily the border police and the army), use of operational connections and infiltrating criminal organizations, criminal investigations of crimes and perpetrators of organized crimes, citizens' reports, anonymous and pseudonymous reports, public gossip, whereby the media can be a very important source of information.

In order to efficiently counteract organized crimes in the border area, particularly illegal migrations, border security entities must be trained and equipped with technical means (optoelectronic systems, night vision devices, radars, sensors, etc.), while cross-border cooperation with neighbouring border authorities must be intense and at the highest level.

Even besides the additional engagement of police in the migrant crisis, the situation on the field required the involvement of additional forces of the Ministry of Defence, and therefore on the borders with the Republics of Macedonia and Bulgaria, where the highest rate of migrants has been recorded, members of the Army of Serbia are engaged. Forming joint military-police patrols has upgraded the security entities' activities on combating illegal state border crossings because military units have at their disposal technical means for reconnaissance in all weather conditions, not only along the border line, but also in the inner territory. From the forming of joint military and police forces till December 2016, following results were achieved in combating illegal migrations:⁵

- A total of 12.364 persons were prevented from entering the territory of the Republic of Serbia, out of which 924 persons were caught attempting to illegally cross the border, and 11.422 persons gave up after noticing the patrols;
- On the border with the Republic of Macedonia, 6.719 persons were prevented while trying to illegally cross the border, out of which 6.088 gave up, while 631 were caught;

⁵ Presentation „Refugee Crisis Challenges“, Ministry of Interior of the Republic of Serbia, Belgrade, December 2016.

- On the border with the Republic of Bulgaria, 5.645 persons were prevented from illegally crossing the border, out of which 5.334 persons gave up and 311 persons were caught.

CONCLUSION

The migrant crisis has caused a number of problems on the European continent (social, international, economic, demographic, sociological, et al), but most of all security problems. The evident rise in the human smugglers' activities, under the patronage of well-organized criminal groups, has increased the danger of possible smuggling of recruited members of various criminal and terrorist groups within lines of migrants. Risk analysis results under these circumstances have imposed the necessity for certain revising of the existing state border security systems in the EU countries, as well as in other countries on the migrant route, including the Republic of Serbia, which are the most exposed to the migrant wave due to their geographical positions on one side, and to the level of economic development on the other.

Before the migrant crisis, both EU and Western Balkan countries mostly used a developed state border security system based on the Integrated border management concept, i.e. police model of security system, with the aim to prevent unlawful activities (cross-border organized crime, terrorism, et al) because it was believed that military entities are unnecessary on borders and are a thing of the past. However, challenges and the scope of the migrant crisis entailed military assistance in the EU, as well as in the Western Balkans, which has been actively partaking in state border protection together with police, therefore activating the slightly forgotten combined model of state border security (military-police). Out of all EU countries, the one that went farthest, or rather has taken the most drastic measures is Hungary, which has, on the pretence of protecting EU's outer borders, appointed a large number of soldiers on its border with Serbia. Besides this, vast financial funds were invested into building the protective fence and setting up technical devices for surveillance of this part of the state border. Hungary's firm stand to practically hermetically close its state border with the Republic of Serbia has been confirmed by its security forces' treatment of irregular migrants, which has been described in public as inhuman, or rather as serious violations of basic human rights.

Such measures have brought the Republic of Serbia in danger of becoming an "appendix" on the migrants' road to their desired destinations within the EU territory. Such a state of things called for urgent enforcement and implementation of a series of legal, procedural and other measures and activities, including military engagement.

Successful unveiling of crimes in the area of illegal migrations (human smuggling) at the state border means constant monitoring of organized criminal activities by military-police actors while controlling and securing the state border, as well as appropriate analysis of the results achieved. In regard to preventive and repressive measures and activities that have so far been taken by military-police actors to protect the state border, the results have been satisfying, justifying the use of the combined model of state border security system. To further improve their work, these actors ought to be additionally strengthened personnel-wise and logistically. This would entail constant education in areas of illegal migrations, right to asylum, foreigners' issues, state border supervision, recognition of counterfeit and forged documents, identifying stolen and smuggled vehicles, prevention of cross-border drug smuggling, terrorism, et al.

Because of the distinct cross-border element, these measures and activities can be efficient only if they are connected with and complemented by measures taken by other security services in a country. Additionally, the success rate of these activities is directly contingent to the level of coordination with international police organizations (FRONTEX, EUROPOL, EUROJUST, SELEC, etc.) and border services of neighbouring countries. Cross-border cooperation must progress with the respect for the principle of trust and developing of joint activities on the field. In relation to this, it is necessary the information exchange model be improved, which is a prerequisite for objective analysis and estimate of migratory flows and threats that follow in - terrorism, human smuggling, human trafficking and other types of cross-border organized crime.

Applying the combined model on borders with Macedonia and Bulgaria, state border security rose to a higher level than in the previous period, so one may conclude that the migrant crisis has confuted a portion of the EU's dogmatic opinions, but also the opinion in Serbia for the past 20 years that the military is unnecessary at the border, and that the combined model, in particular, has long been overcome. In accordance with the integrated border management concept that developed in the EU, the Integrated Border Management Strategy 2017-2020 of the Republic of Serbia does list the Ministry of Defence as one of this task's actors. Engaging experts on defence is left as a possibility if needed, by engaging work subgroups (Strategija, p. 18). Having in mind the scope and intensity of the migrant crisis, as well as the fact that solution is nowhere to be glimpsed on an international level, we believe that the Republic of Serbia's combined state border security system will not lose significance in the upcoming period. What is more, this model of securing the state border will be completely justifiably applied more than it can be presumed from the actual Integrated Border Management Strategy of the Republic of Serbia.

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KOMBINOVANI MODEL SISTEMA BEZBEDNOSTI DRŽAVNE GRANICE U SUPROTSTAVLJANJU ILEGALNIM MIGRACIJAMA

Apstrakt: Koncept integrisanog upravljanja granicom zasnovan je na policijskom modelu sistema bezbednosti granica. Migrantska kriza izazvana oružanim sukobima na Bliskom istoku izložila je ovaj sistem velikom izazovu. Zbog povećanog obima pretnji po međunarodnu, nacionalnu i ljudsku bezbednost, nametnula se potreba uključivanja i drugih bezbednosnih subjekata u sisteme obezbeđenja državnih granica. Angažovanjem vojnih jedinica na državnoj granici prema Makedoniji i Bugarskoj, Srbija je vratila u praksu pomalo zaboravljeni model kombinovanog sistema bezbednosti granica. S tim u vezi, u radu se ukazuje na rezultate saradnje subjekata tog sistema u suprotstavljanju ilegalnim migracijama, s ciljem dokazivanja opravdanosti primene kombinovanog metoda sistema bezbednosti granica za uspešnu kontrolu bezbednosnih rizika i pretnji ilegalnih migracija.

Ključne reči: granica, integrisano upravljanje, kombinovani model, sistem bezbednosti, migrantska kriza, Republika Srbija, ilegalne migracije, krijumčarenje ljudi, granična policija.

Received: 07.04.2017.

Revised: 30.06.2017.

Accepted: 04.07.2017.

INTER-PARLIAMENTARY COOPERATION IN THE EUROPEAN UNION: DEVELOPMENTS AND IMPACTS

Lei ZHANG¹

Abstract: Although parliaments in the European Union gain more and more power, the role played by them is still limited. Inter-parliamentary cooperation becomes the hot issue under the background of the discussion on the EU's democratic deficit. Especially following the debt crisis, the demand for enhancing the inter-parliamentary cooperation is rising. The inter-parliamentary cooperation has made great progress and presents some development trends and characteristics. In terms of the impacts, the inter-parliamentary cooperation in the European Union mainly fulfills the functions of information exchange, best practice learning and position coordinating among participants. It is also useful for the candidate countries to learn and understand EU affairs. The inter-parliamentary cooperation in the European Union is beneficial to address the democratic deficit problem, but its development still faces some limitations. In order to reinforce the democratic legitimacy of the European Union, strengthening the inter-parliamentary cooperation and the role of parliaments in the European Union is not only a long-term task but also the future development trend. At present, the role played by inter-parliamentary cooperation is mainly within the internal policy domains of the European Union, but in the future inter-parliamentary cooperation may exert its impacts on EU's external relations, including EU-China relations.

Key words: Inter-parliamentary Cooperation, National Parliaments, European Parliament, Democratic Deficit, European Union.

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The democratic deficit of the European Union has been a problem for a long time. Although the European Parliament has expanded its powers gradually since its establishment, it has not remedied the loss of national parliaments. The decision-making of the European Union is distant from the citizens due to the fact that the growing competencies of the European Union result in the expansion of the executive powers, and the information about the meetings of the Council of the European Union is not open to the public, and also the European institutions are increasingly bureaucratic. The prevalence of debt crisis has multi-effects, which not only leads to the economic crisis, but also causes the political crisis, thus further intensifying the democratic and legitimacy crisis of the European Union. In this context, it becomes a hot debate how to increase the democratic legitimacy of the European Union, and how to enhance the role of parliaments in the system of EU decision-making, among which, to play the role of the parliaments through the enhancement of the inter-parliamentary cooperation is an important aspect.

1. THE LEGAL AND PRAGMATIC BASIS OF INTER-PARLIAMENTARY COOPERATION IN THE EUROPEAN UNION

At the early stage of the European integration, members of the European Parliament (MEPs) were appointed by national parliaments before the first direct election in 1979. Although there was cooperation between the European Parliament and national parliaments, such cooperation was neither frequent nor institutionalised. As the European integration developed, the treaties laid a foundation for the enhancement of the powers of parliaments and inter-parliamentary cooperation. On the one hand, the competences of the European Parliament and national parliaments have gradually reinforced, which created the conditions for the further cooperation between parliaments. On the other hand, because parliaments are still facing many limitations in terms of participating in the EU's decision-making process, the idea that the democratic deficit could be reduced by the enhancement of the inter-parliamentary cooperation draws lots of attention. To increase the inter-parliamentary cooperation becomes a natural choice, and the inter-parliamentary cooperation under the guideline of mutual benefits is on the rise.

The Treaties Pave The Way To Strengthen The Powers of Parliaments And Inter-parliamentary Cooperation In the European Union

In a few short decades, the European Parliament has transformed from a body with limited consultative and advisory power into a formal decision-making legislative institution, a central and mainstream institution in the governance system of the European Union (Scully, 2007, p.166-177). The core objectives of the so-called 'the Treaty of Parliaments'- the Treaty of Lisbon are to enhance the role

played by the representative democracy in the European political system, and to reform the decision-making and institutional setting of the European Union in order to make the European Union run more efficiently after the enlargement. The European Parliament is considered one of the biggest winners of the new treaty, which substantially extends the budgetary, legislative and supervisory powers of the European Parliament. The European Parliament elects the Commission President by a majority of its members on a proposal from the European Council, which is obliged to select a candidate by qualified majority, taking into account the outcome of the European elections. The European Parliament continues to approve the Commission as a college. To some extent, compared to national parliaments, the European Parliament is far beyond in the road of power expansion.

At the 1990s, the role of national parliaments raised concerns for the first time in connection with debates on the democratic deficit of the European Union at that time (Raunio, 2009). After the Treaty of Maastricht, national parliaments, the so-called losers, latecomers (Maurer and Wessels, 2001) or sleeping beauties (Kaczyński, 2011) in the political system of the European Union, began to wake up, and they expected to be able to play a role in the European Union. All national parliaments established the European Affairs Committees (EACs) to coordinate European issues. Specialised committees have started to play a bigger role, and in general the members of national parliaments (MPs) paid more and more attention to European affairs (Raunio, 2009). The idea that the democratic deficit could be reduced by the enhancement of inter-parliamentary cooperation (Neunreither, 1994) received lots of attention. The European Parliament began to try to convince the national parliaments that cooperation between both sides could achieve win-win results and mutual benefits. The participation in the inter-parliamentary cooperation of national parliaments ranged from hesitation to more and more active involvement (Neunreither, 2005). From then on, the inter-parliamentary cooperation in the European Union started to be increasingly institutionalised.

The Treaty of Lisbon for the first time gave an important role to national parliaments in EU's decision-making process. National parliaments not only expanded their rights to obtain information, but also obtained new powers in subsidiarity control. Under yellow card procedure of the *Early Warning Mechanism*, if the proposal was opposed by one-third of national parliaments, the European Commission needs to reconsider it. But in reality, only two yellow cards procedure were triggered after the Treaty of Lisbon coming into force.² *Protocol on the Role*

²Two yellow cards procedure are as follows, the first one was in 2012 related to the Draft Regulation on the Exercise of the Right to take collective action within the Context of the Freedom of Establishment and the Freedom to Provide Services (Monti II Regulation); And the second one was triggered in 2013 relating to the proposal for establishment of the European Public Prosecutor's Office (EPPO).

of *National Parliaments in the European Union of the Treaty of Lisbon (Protocol No. 1)* states clearly on inter-parliamentary cooperation, ‘The European Parliament and national parliaments shall together determine the organisation and promotion of effective and regular inter-parliamentary cooperation within the Union’ (Article 9, p. 205). In practice, when national parliaments participate in the EU’s legislative and scrutiny work, many conditions such as enough knowledge, information, and time are indispensable. Some scholars pointed out that the *Early Warning Mechanism* may have little influence since it neglects the combination of the executive institution and legislative institution under the framework of parliamentary democracy (Raunio, 2009, p. 325). While others argued that national parliaments will remain ‘paper tigers’ in the EU’s decision-making process until the ‘collective’ voice is organised effectively (Kaczyński, 2011). The difficulties mentioned above all highlight the need to strengthen the inter-parliamentary cooperation between the European Parliament and national parliaments.

The Debates On The Democratic Deficit In The Context of Debt Crisis Further Reinforce The Development of Inter-parliamentary Cooperation In The European Union

Recently, in the context of the debt crisis and financial crisis, all kinds of policies in the economic coordination and governance have important influences. The distinction between national policies and the EU or the Eurozone competence is gradually becoming to blur. In terms of the policy coordination, the member states have their own budgetary procedure, but a unified budgetary coordination at the EU level is required, which further increases the complexity of economic governance of the European Union. Many rescue plans are decided by finance ministers of the Eurozone and the member state governments, and it is difficult for national parliaments and the European Parliament to exert influence. The democratic deficit of the European Union has further intensified, which has led to a new debate on the competences of parliaments. At the end of 2011, in the negotiation process of *the Treaty on Stability, Coordination and Governance in the European Monetary Union (TSCG)*, the view that it should strengthen the cooperation between the European Parliament and national parliaments in economic and financial governance field gradually appears. Many European think tanks organised seminars and workshops to discuss the role of parliaments and the inter-parliamentary cooperation in the area of budgetary and economic co-ordination. The debate is part of a more global discussion on the democratic dimension of the Economic and Monetary Union, and even more widely, on the European political union, which to some extent reinforces the development of inter-parliamentary cooperation.

Generally speaking, there are two levels of the inter-parliamentary cooperation in European political system. The first level is the horizontal cooperation among national parliaments, which are considered as *Virtual Third Chambers* by Ian Cooper since they fulfill the functions of parliaments, but do not meet frequently in a geographical space (Cooper, 2004). The second level is the vertical cooperation between the European Parliament and national parliaments, which was called *Multilevel Parliamentary Field* by Ben Crum (Crum and Fossum, 2009). Parliaments in the European Union, including the European Parliament and national Parliaments, are closely linked together from the horizontal and vertical dimensions, which in total build a parliamentary network within the European Union. *Guidelines for Inter-parliamentary Cooperation in the European Union* established three main objectives for the inter-parliamentary cooperation: a) to promote the exchange of information and best practices between the national parliaments and the European Parliament with a view to reinforcing parliamentary control, influence and scrutiny at all levels; b) to ensure effective exercise of parliamentary competencies in EU matters in particular in the area of monitoring the principles of subsidiarity and proportionality; c) to promote cooperation with parliaments from third countries. (Conference of Speakers of the European Union Parliaments, 2008)

2. THE TRENDS AND CHARACTERISTICS OF INTER-PARLIAMENTARY COOPERATION IN THE POLITICAL SYSTEM OF THE EUROPEAN UNION

After more than 20 years of development, the main forms of inter-parliamentary cooperation are as follows: First, the *Conference of Speakers of the European Union Parliaments* is the steering body and is responsible for coordinating all the inter-parliamentary activities; Second, *the Conference of Community and European Affairs Committees of Parliaments of the European Union (COSAC)* enables a regular exchange of information, best practices and views on European Union matters between European Affairs Committees of national parliaments and the European Parliament; Third, joint meetings on certain issues or sectors between national parliaments and the European Parliament are more focused exchanges between experts, including Joint Committee Meetings, Joint Parliamentary Meetings and Inter-parliamentary Committee Meetings etc.; Fourth, National parliaments' representatives contribute to reinforce the inter-parliamentary cooperation by facilitating a regular exchange of information between parliaments in the member states, and between national parliaments and the European institutions. Fifth, party channel is an important tool, which is beneficial to both sides. The main instruments of the inter-parliamentary cooperation are *Inter-parliamentary EU Information Exchange (IPEX)* database and *European Centre for*

Parliamentary Research and Documentation (ECPRD). There are many trends and characteristics of the EU's inter-parliamentary cooperation.

Inter-parliamentary Cooperation In The European Union Has Become Increasingly Diverse, Involving A Wider Range Of Areas

Since the entry into force of the Treaty of Lisbon, the inter-parliamentary cooperation in the European Union is more and more diverse and relating to comprehensive areas. The first attempt was the *Inter-parliamentary conference for Common Foreign and Security Policy (CFSP) and Common Security and Defence Policy (CSDP)*, which was organised from 9-11 September 2012 in Pafos under the Cypriot Presidency, focusing on the Arab Spring and the future cooperation in CFSP (European Parliament, 2012, p. 4). Then, the *Inter-parliamentary Conference for Economic and Financial Governance* was convened in Vilnius, on 16-17 October 2013, the main topics of which were post-crisis economic governance, budgetary consolidation and structural reforms in the European Union. The European Parliament even set up a *European Parliamentary Week* to discuss the issues related to economic governance of the EU. For instance, from 30 January to 1 February 2017, the European Semester Cycle, Stability, Economic Coordination and Governance in the European Union were on the agenda of this year's *European Parliamentary Week* (European Parliament Press Release, 2017). Besides, many national parliaments established the liaison office in Brussels to help better communication between national parties and political groups in the European Parliament (Interview in Brussels, December 2013). With the update of technology, videoconferencing is becoming increasingly popular in the inter-parliamentary cooperation. In October 2015, the European Parliament's *Committee on Civil Liberties, Justice and Home Affairs* organised a debate with the EU affairs committee of the French National Assembly to discuss the migration crisis (European parliament, 2015, p .20-21).

There Are Differences In The Practice Of National Parliaments In The Area Of Inter-parliamentary Cooperation

The practice of national parliaments in the area of inter-parliamentary varies. On the one hand, some national parliament was better at establishing good relations than others. For instance, the German Bundestag relatively has more close contact with the European Parliament and other national parliaments (Interview in Brussels, November 2013). On the other hand, different actors within national parliaments may have different behaviours in the area of the inter-parliamentary cooperation. First of all, opposition parties could relatively gain more benefits from the inter-parliamentary cooperation. Based on the results of

a study on the Austrian parliament, Eric Miklin argued that the inter-parliamentary cooperation is more important for opposition parties than for governing parties. Secondly, from the perspective of ideology, parties which can integrate into a European party network and/or political groups in the European Parliament are more active. So, the Social Democratic Party of Austria (SPÖ), the Austrian People's Party (ÖVP) and the Austrian Green Party engage in the inter-parliamentary cooperation more intensively than the Freedom Party of Austria (FPÖ) and the Alliance for the Future of Austria (BZÖ), which are not members of the European party (Miklin, 2013, p. 22-41).

National Parliaments Are Increasingly Interested In European Union Affairs

The entry into force of the Treaty of Lisbon has greatly contributed to the enthusiasm of national parliaments to participate in EU affairs. According to Protocol No. 2 of the Treaty, national parliaments may review within eight weeks of transmission such proposed legislation and issue a '*reasoned opinion*' if they consider that a draft EU legislative act does not comply with the principle of subsidiarity (Article 6, p. 207). While in the majority of cases, submissions from national parliaments go beyond the issue of subsidiarity, which are called '*contributions*'. From the entry into force of the Lisbon Treaty to 9 December 2014, a total of 496 draft legislative acts have been sent to national parliaments for examination. In response, the European Parliament has received a total of 1887 submissions from national parliaments. Of these, 297 are reasoned opinions, while the remaining 1590 are contributions (European Parliament the Directorate for Relations with National Parliaments, 2014). The relatively high number of '*contributions*' from national parliaments shows an increasing interest in EU affairs, not confined to subsidiarity concerns. National parliaments use the Protocol No. 2 not only for participating in the EU's decision-making, but also for an instrument to evaluate the political and legislative choice at the EU level (European Parliament, 2014).

Inter-parliamentary Cooperation Presents The Interactions Between Institutionalised Cooperation And Informal Contacts

In addition to some formal and institutionalised forms of cooperation, there are a number of informal contacts and interactions in the field of the inter-parliamentary cooperation. And bilateral visits offer the opportunity for a more informal and focused dialogue and are usually organised at the initiative of the visiting national parliament or parliamentary chamber. In 2015, the number of such visits organised with the support of the Directorate was 91. The participants

were from the Speakers of national Parliaments to working visits of committees and committee chairs covering a wide range of policy areas - from home affairs to environment or development and many more - to a large number of visiting officials from national parliaments coming from many different areas of parliamentary work (European Parliament, 2015, p.20). Besides, some informal contacts such as making phone calls and sending emails also often occur. And the information and documentary exchange between secretariats of the parliaments is happening with increasing frequency. In practice, the informal relations between national parliaments and the European Parliament are more flexible and efficient, which become a beneficial supplement to the formal inter-parliamentary cooperation mechanism.

3. IMPACTS AND LIMITATIONS OF THE EU'S INTER-PARLIAMENTARY COOPERATION

The inter-parliamentary cooperation mechanism in the European Union is not a decision-making body, and the results are not legally binding. The main influences of the inter-parliamentary cooperation are to provide an information exchange and best practice learning platform, to set up a network to coordinate the positions of actors in parliaments. It also offers a good forum for the candidate countries to learn and understand EU affairs. The development of inter-parliamentary cooperation is beneficial to strengthen the democratic legitimacy. However, the EU's inter-parliamentary cooperation is still facing many limitations in practice.

The Platform For Information Exchange and Best Practice Learning

The EU's inter-parliamentary cooperation provides a platform for information exchange, resource sharing and mutual learning. Firstly, information is of great importance to parliaments. The inter-parliamentary cooperation could contribute to overcome the problem of information asymmetry, in that it could help national parliament to obtain information related to EU affairs, including the information related to ongoing EU policy-making, and understand the positions taken by the other actors involved in the negotiations, thus further making the better assessment of the position of their own government. For example, MPs from some member states said that they had learned Austria's position in the Council of ministers from the COSAC meeting (Interview in Brussels, November 2013). As the rapporteur of the report *on the European Semester for economic policy coordination*, Portugal MEP Maria João Rodrigues was not invited to give a speech by Portugal parliament, but was invited to exchanges views with national parliaments in Germany, France, Finland and Slovenia

(Interview in Brussels, May 2016). Secondly, national parliaments could understand and learn experiences from other countries, and evaluate the advantages of different models of supervision from other parliaments. Early evidence indicates that parliaments in new member states have on average implemented more comprehensive scrutiny mechanisms than the parliaments of the older EU countries (Raunio, 2009). Most eastern European countries adopted the powerful scrutiny model similar to Northern Europe or Austria, which could be regarded as the advantage of backwardness for new member states.

A Good Forum For The Candidate Countries To Learn and Understand EU Affairs

For the countries which have the expectation to join the European Union, the inter-parliamentary cooperation provides a good forum for learning and understanding EU matters, which will lay a foundation for the successful accession to the European Union and the adaptation process after joining the European Union. It is an opportunity for the members of parliaments in the candidate countries involved to make contacts, learn the European Union's working methods and get to know the EU politician's way of thinking. The meetings and hearings organised by the European Parliament on the main aspects of enlargement also offered good training for the members of parliaments in the candidate countries. For instance, the National Assembly of Hungary established its Committee on European Community Affairs (between 1994 and 2004 the committee on European Integration Affairs) as early as 1992. It is worth noting that the international activities of the Committee on European Integration Affairs played an important role in the 'Europeanisation' of the legislature. A Joint Parliamentary Committee (JPC) was established to provide a forum discussion between Hungarian Parliament and the European Parliament, considering all aspects of relations between the European Union and Hungary. From 1997, representatives of Hungarian Committee on European Integration Affairs also regularly attended the meeting of the COSAC (Gyori, 2007, p. 220-240). The European Integrations Committee was established by the National Assembly of the Republic of Serbia on May 30, 2003. Cooperation with institutions of the European Union is most intense with the European Parliament. Meanwhile, the Committee also established cooperation with a great number of parliaments in the member states of the EU, particularly with their European affairs committees.³ The members of this committee have been taking part in the EU's COSAC since Serbia gained candidate

³ See the website of National Assembly of the Republic of Serbia. Accessed April, 10, 2016, from <http://www.parlament.rs/activities/european-integration/european-integrations-committee.608.html>.

status of the European Union. For instance, Mr. Laszlo Varga, Deputy Chairman of European Integration Committee participated in the 48th COSAC on 15 and 16 October 2012, in Nicosia, Cyprus. All the participants of the Conference discussed energy supply safety, Europe 2020 Strategy, economic crisis and single market governance.⁴

The Network To Co-ordinate The Positions of Actors In Parliaments

The EU's policy-making process includes interest articulation and aggregation, while the inter-parliamentary cooperation could contribute to set up a network to co-ordinate the positions of actors in parliaments. Firstly, the co-ordination function is more important to opposition parties in that parties could get more information related to EU decision-making, then co-ordinate the position with other parties, with the desire to make their voice heard at the European level as much as possible (Miklin, 2013). Secondly, for the European Parliament, the submissions from national parliaments especially *'reasoned opinions'* could provide comprehensive information. The position of the certain national parliament to some extent reflects the position of this country's minister in the council, so it offers an effective source of information for the legislative work of the European Parliament's committees. The European Parliament benefits a great deal from the *Early Warning Mechanism* (European Parliament, 2012). Thirdly, in the negotiation process, the inter-parliamentary cooperation can often help to build a bridge between different parliaments, thus paving the way for further forming a unified position. For instance, in November of 2016, a 12-strong delegation of MEPs took part in the UN climate talks in Marrakesh. MEPs not only met key negotiators, but also discussed issues with counterparts from other parliaments. The European Parliament expected to work on the implementation of the Paris agreement and to consolidate the trust between developed and developing countries (European Parliament Press Release, 2016). Overall, the EU's inter-parliamentary cooperation will help to accommodate a large number of interests into the decision-making process, to a certain extent, to overcome the differences between different parliaments and actors.

⁴ See the website of National Assembly of the Republic of Serbia. MP Laszlo Varga at 48th Conference of Parliamentary Committees for Union Affairs of EU Parliaments in Nicosia. Accessed April, 20, 2016, from http://www.parlament.rs/MP_Laszlo_Varga_at_48th_Conference_of_Parliamentary_Committees_for_Union_Affairs_of_EU_Parliaments_in_Nicosia.16270.537.html; See also the website of the COSAC. Accessed April, 20, 2016, from <http://www.cosac.eu/48-cyprus-2012/plenary-meeting-of-the-48th-cosac-14-16-october-2012-nicosia/>.

Reducing The Democratic Deficit

The reinforcement of inter-parliamentary cooperation is beneficial to reduce the democratic deficit of the European Union. Firstly, from the perspective of representative democracy, the politics of the EU mainly rely on two channels of representative democracy. One is that the member States are represented in the European Council by their Heads of State or Government and in the Council by their governments, themselves democratically accountable either to their national parliaments, or to their citizens. The other is that citizens are directly represented at EU level in the European Parliament. In the complex political system of the European Union, the two channels are intertwined, and the European representative democracy could be strengthened through the inter-parliamentary cooperation. Secondly, from the perspective of parties, the multi-connections between different national parliament, and connections between national parliaments and the European Parliament have the potential to enhance the policy co-ordination function of parliamentary groups especially the political groups in the European Parliament, and to reinforce the relations between political groups in the European Parliament and in national parliaments, also the relations between European parties and national parties, thus establishing close ties between EU politics and national politics. Thirdly, from the perspective of political functions, the inter-parliamentary cooperation could help the European Parliament and national parliaments better exercise their powers, and enhance the engagement with parliaments in the legislative process, and reinforce parliamentary scrutiny function towards the government and EU affairs. The inter-parliamentary cooperation could also help member states for better implementation of the EU legislation and strengthen the transparency of the decision-making process. Last but not the least, from the perspective of relations between the European Union and citizens, the inter-parliamentary cooperation is conducive to improve the development of the EU's public space based on policy discussion, and to narrow the distance between ordinary citizens and the European Union by introducing EU affairs into a domestic political debate.

The Limitations of Inter-parliamentary Cooperation

Although the inter-parliamentary cooperation has made a great progress, its development still faces some limitations. First, the inter-parliamentary cooperation is still lacking the coordination and substantial interaction, so there is still room for improvement. For instance, the new form of inter-parliamentary cooperation *Inter-parliamentary Conference for Economic and Financial Governance* is barely satisfactory. The conference did not play the role of mutual understanding since the participants all spoke their own words. And some other inter-parliamentary

cooperation is considered too loose, and lack of leadership (Interview in Brussels, November 2013). Second, institutional, technical and cost constraints also exist in the development of inter-parliamentary cooperation. National parliaments of 28 member states have a different institutional framework, political culture and behavioral style, which restrict the development of inter-parliamentary cooperation. For instance, some national parliaments put insufficient attention on the inter-parliamentary cooperation, and they did not send any representatives or send fewer representatives to attend the inter-parliamentary meetings. The standing organisations of some inter-parliamentary cooperation are gradually becoming bureaucratic in that they pursue the interests of their own. Besides, in the context of the debt crisis, MPs have much pressure within the country to prove the reasonability of their spending for participating in the inter-parliamentary activities (Wagner, 2013, p. 195-211). Thirdly, the competition between the European Parliament and national parliaments also sets restrictions on the development of inter-parliamentary cooperation. On the one hand, the European Parliament prefers to regard the role of national parliaments as the supervision of their own government; On the other hand, in the process of the European integration, the idea ‘whether to create a new inter-parliamentary decision-making body’ is constantly being proposed. According to some MPs, the inter-parliamentary cooperation is a zero-sum game in that the benefit of one side must be at the expense of the other (Interview in Brussels, January 2014).

The Influence Of Inter-parliamentary Cooperation On EU-China Relations

At present, the role of inter-parliamentary cooperation of the European Union is mainly within the internal fields of the EU, and it is hard to exert influence in the EU’s external relations. Since the first inter-parliamentary conference for CFSP and CSDP in 2012, the issues related to China are never on the agenda, but some of the topics, including the enhancement of co-ordination mechanism in the EU’s external relations, supervision on EU’s strategic partners through the inter-parliamentary cooperation, may have an indirect impact on EU-China Relations. Besides, the Treaty of Lisbon greatly changed the decision-making mechanism in EU’s external relations. The European Parliament can affect EU-China relations in many ways. With the development of European integration, the competences of the European Parliament and national parliaments will be strengthened in the future. In March 2015, Mr. Martin Schulz, the incumbent president of the European Parliament mentioned in his speech at CASS in Beijing that parliaments were the core of European democracy and parliaments would play a part in sustainable development, and mutually beneficial and fair global trade (The Speech by Martin

Schulz, 2015). So, inter-parliamentary cooperation will have a say in the EU's external relations. The issues related to China and EU-China relations such as 'the Belt and Road Initiative' and 16+1 cooperation may become the hot debate in the inter-parliamentary cooperation meetings in the future.

4. CONCLUSION AND THE FUTURE DEVELOPMENT

To sum up, the inter-parliamentary cooperation has made great progress, which sets up an effective connection between the EU level and national level. But in terms of the role played by parliaments and inter-parliamentary cooperation in the political system of the European Union, there is still room for further improvement. The issues including the development of European integration, the Lisbon treaty and challenges brought about by the debt crisis and financial crisis, and the proposals in the field of foreign, security and defense policy, all require the participation of the parliaments and the improvement of inter-parliamentary cooperation. The democratic legitimacy in the EU level needs the collective actions of national parliaments and the European Parliament. Parliaments should realise that all of them undertake the crucial responsibility of scrutiny; meanwhile they should also have impacts on EU's decision-making through the co-ordination with each other. Parliaments should better participate in the running of the political system of the European Union and establish much closer and more efficient inter-parliamentary cooperation mechanism, which is not only a long term task, but also the future development trend.

For national parliaments and the European Parliament, to raise awareness of inter-parliament cooperation is the precondition for the advanced development of the inter-parliament cooperation. National parliaments and the European Parliament should make their multi-connections closer and break through the limitations and challenges faced by the inter-parliamentary cooperation in order to better participate in the EU's legislative process, and supervise the decision-making of national governments and the European Union through better picking up the information, learning best practices from each other and coordinating different positions. At present, along with the operation of the new economic instruments such as the *European semester*, the role of the European Central Bank and other financial institutions is gradually increasing. How to strengthen the legitimacy of the economic governance in the European Economic and Monetary Union is still a very important problem that has to be solved. Although the debate on the role of parliaments is still continuing, there is no denying that it is crucial to enhance the functions of parliaments and the inter-parliamentary cooperation, and to strengthen the supervision on these economic and financial institutions by parliaments in this field. With the continuous development of the

EU's political system, there will be more diverse and efficient inter-parliamentary cooperation covering more policy areas in the near future.

For China, it should strengthen parliamentary exchanges and cooperation in terms of communication with the European Union in the future. Firstly, China should pay attention to the role of the European Parliament and national parliaments in EU's decision-making system. After 2014, European election and the change of the leadership of the EU, the negotiation on the EU-China Investment Agreement becomes a key issue in EU-China relations. The European Parliament and national parliaments will play a role in the negotiation and ratification process. Secondly, China should make full use of current channels, such as the regular exchange mechanism between the National People's Congress (NPC) and the European Parliament, the mechanism between NPC and national parliaments in the EU, and the communication channels between political parties, while broadening the new channels of contacts. Last but not the least, the EU-China Investment Agreement will inevitably involve two issues: human rights and market access. China could discuss the key issues with the European Parliament and national parliaments to promote consensus. From the discussion, China cannot only understand the concerns of the European Parliament and national parliaments, but also express its own priorities and show the development of China to the MEPs and MPs in order to keep the negotiation well-balanced.

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INTERPARLAMENTARNA SARADNJA U EVROPSKOJ UNIJI – RAZVOJ I UTICAJI

Apstrakt: Iako parlamenti u Evropskoj uniji dobijaju sve više i više ovlašćenja, njihova uloga je i dalje ograničena. Interparlamentarna saradnja postaje jedno od najvažnijih pitanja u pozadini rasprave o demokratskom deficitu EU. Nakon dužničke krize povećava se broj zahteva za unapređenje interparlamentarne saradnje. Interparlamentarna saradnja je ostvarila veliki napredak i predstavila neke razvojne trendove i karakteristike. U pogledu uticaja, interparlamentarna saradnja u Evropskoj uniji uglavnom ima funkcije razmene informacija, najbolje prakse i koordinacije, a korisna je i za države kandidate u pogledu razumevanja poslova EU. Interparlamentarna saradnja u Evropskoj uniji je korisna za rešavanje problema demokratskog deficita, ali se njen razvoj i dalje suočava sa izvesnim ograničenjima. U cilju jačanja demokratskog legitimiteta Evropske unije, jačanje interparlamentarne saradnje i uloga parlamenata u Evropskoj uniji nije samo dugoročni zadatak, već i budući razvojni trend. Trenutno je uloga koju ostvaruje interparlamentarna saradnja uglavnom unutar domena unutrašnje politike Evropske unije. U budućnosti interparlamentarna saradnja može uticati na spoljne odnose EU, uključujući i odnose između EU i Kine.

Ključne reči: interparlamentarna saradnja, nacionalni parlamenti, Evropski parlament, demokratski deficit, Evropska unija.

Received: 07.03.2017.

Revised: 11.04.2017.

Accepted: 18.04.2017.

UDC 340.114+327
Biblid 0543-3657, 68 (2017)
Vol. LXVIII, No. 1166-67, pp. 118–132
Original Scientific Paper

JUSTICE AND ITS AIMS IN INTERNATIONAL AFFAIRS

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Abstract: Justice is one of the core humanistic values and behavioral model in societal life. In the mythology of the ancient Roman civilization, *Veritas* refers to an ultimate moral ideal, whereas in Greek tradition fairness and equity essentially define *Aequitas*. Hence, political theory determining the inner interpretation of *Veritas et Aequitas* finds justice in truth as truth is just. While people are naturally inclined to justness, different cultures differently understand its internal norm of correctness and power of apprehending justice appears as either human-created or what came into being itself. However, what is potentially ambiguous is whether it belongs to all or only to some. The often conflicting interpretations of justice made the study unfold the notion through the basic features of its transitional, retributive and distributive inner, show what the *Original Position* evolved into, reveal (in)conformity between fundamentals of liberty, individual and general, and point to exaggerating complexity in defining the core of the notion.

Key words: Justice, aims, distributive, affairs, transitional, criminal, retributive.

INTRODUCTORY NOTE

Justice is a general notion that pertains solely to alternate-oriented human actions. The issue between the concept and its counterpart emerges only in a setting that embraces individuals and pragmatic reflections referring to how they interact with one another. On the one side, justice is the unequivocal, unbiased and notable criterion that in its core recognizes adherence to moral or ethical rule securing in that way the ground for a free community. It is, in other words, the wider meta-normative context defining justice as what values and guards free choice; only being free is understood as a precondition for being just. Plato believed that genuinely interpreted justice is indivisible projecting the perfect

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equality as what materializes when all who make up a society are unconditionally convinced that what they experience is just and that makes them comply with a socially established direction not to endanger position in life. Deficient would be the meaning of the notion without pointing to consistency with ethics or logic being of paramount note in the definition of both intention and purpose justice efforts are directed towards. In other words, justice refers to comprehension or judgment of the system of thought that critically enables administering those efforts in different spheres of human reasoning. The former essentially frames determining aims of justice formulated through the administration of the rational judgments or fairness as the quality of forming an opinion. These goals, in the context of international affairs, emerge as what significantly features:

The Transitional Form of the Notion

In the contemporary time, for the most part, transitional justice pertains to a series of methods through which societies oppose inheritance of extensive or punctilious violation of human rights while moving from when violence or torture came into being towards the time of venerating human values. The ground of human rights defense of transitional justice imposes within the pressure of law on the fundamental units of the international order going through a transition. It generates social striving for circumstances perceiving human rights as the essence of accountability. In the context of attaining these conditions, aims that permeate transitional justice refer to discontinuance of human rights violations, inquiring into abuses and crimes that have already been committed and naming and punishing the perpetrators. The objectives further point to anticipating and stopping future abuses, providing victims with the support and satisfaction and security policy reformulation as well as supporting the overall reconciliation. On the other hand, having in mind these methods Clara Sandoval writes that

‘...The establishment of transitional justice mechanisms such as truth commissions, commissions of enquiry, civil and criminal tribunals as well as reparation programmes could be seen as structural changes. While often they have such a nature, this is not the case in all situations, given that some of these mechanisms are established not to achieve the aims they seek—truth, justice and reparation or prevention—but to give the illusion that things are changing, when in reality, the objective of those in power is to maintain the *status quo*’ (Sandoval, 2014, p. 184).

Criminal Justice

Several aims emerge as what the criminal justice system attempts to reach. Of course, the goals have distinct characteristics of societies differing from one

another and forming their views of the criminal justice pattern. Some of the goals appear as:

- Fairness through due proceedings egalitarianism features assuming that *Ei incumbit probatio qui dicit, non qui negat*.²
- Punishment framing, through a model of crime control, disregard of statutory limitations, and implicit postulation of culpability.
- Rehabilitation as the aim of medical model determining separate (individual) sentencing, treatment and discretion.

Conflicting views on distributing social sanctions for long have permeated philosophical discourses. Defining the intensity, as well as against whom the punishment is directed in the circumstances, inevitably generates misunderstanding, if not an open conflict, between the aims of materializing justice and objectives of societal standing up against crime. According to utilitarian proponents of crime control and their retributivist counterparts, the conventional crime-limitation standards of dissuasion and paralyzing the sources of crime would to an extent undermine rectitude of distributing penalty and penal offense although their attitudes³ are unappeasable. In a sense what has been known in theoretical sources as how community defined justice (empirical desert) or ‘moral credibility’ and ‘moral authority’⁴ has suggested that having been reformulated these two fundamental objectives⁵ of criminal justice might not clash with one another. In malefaction or an evil deed, one loses benefits although worthy of them while others who are not entitled to some form of compensation reach the satisfaction in either material or moral form. Imposition of a penalty eliminates unjustifiable or unfairly attained contentment generating so annihilation of influence the offense produced. In other words, a society compels the perpetrator to give up what they owe community.

Retributive Justice

The setting illustrates the aim of retributive justice to re-establish the original setting both the victim and the offender subsequently emerged from. What might adversely affect the offender is not the focus of retribution as this form of justice looks primarily at the appropriate punishment for violating social norms. Essentially,

² The burden of evidence rests with who declares, not who denies.

³ Attitudes of utilitarian and retributivist advocates of crime limitation.

⁴ Standing of the criminal law to impose the penalty against the wrongdoer, prevent its imposition against the innocent and determine the penalty intensity in cases where such societal response is defensible.

⁵ Aims of materializing justice and objectives of societal standing up against crime.

distributive justice points to benefits and burdens as the inherent parts of societal being and their fair and reasonable distribution. These integral elements emerge in the form of returns or revenue, the value of assets and liabilities, erudition, political influence and taxation and employment policy. The aim of being fair refers to finding the equilibrium of allotting both burden and benefits. Unfolding the inner of the aims of distribution, Robert Nozick points to instituting governing power of regulation that individuals should comply with while coming into possession of and transferring the resources and gains ownership.

Distributive Tenet

The objectives of distributive form do not principally refer to the precisely determined consequences of allotting but rather creating favorable conditions for reciprocity being materialized in consistency with ethics, rules or logic. On the other hand, not rare are opinions that distributive justice inevitably loses its adjective if either process or outcome is not a part of the definition as the fairness itself, in the end, the proponents argue, cannot be reached without fairness of the distributive process. The significance of distribution imposes inquiry into finding the objective inner of distributive justice theory. In the paper *Equality of What* Amarta Sen looked first at the hypothesis that the definition of this form is not defensible without referring to equity. In unfolding the issue, he pointed to the philosophical principles of distributive justice aiming at constituting the balance of:

- Individual utility
- Resources and
- Potential

Defending the concept of justice, Miller points to the darker side of a human soul that, while ignoring the established social norms, assumes barbarian features and falls into viciousness (Miller, 1997, p. 67) being unable to justify the existence. Similarly, in his interpretation of the *privatio boni* theory, Admirand writes on this inhumanity and morally wrong achievements ruining the personality (Admirand, 2009, p. 41). Examining the wider foundation opens questions of what makes up justice, what theoretical value some of its structural parts generate and where, among other perceptions, the concept of justice could be positioned. Methodology, through these questions, points to the complexity of the search for information. It further structured the contemplation leaning against grounded theory as a qualitative mode of inquiry endeavoring to formulate new knowledge (theory) rooted in coherently compiled and dissected fundamentals (Glaser and Strauss, 1967, p. 114; Martin and Turner, 1986, p. 141-157). This methodology, being widely used in philosophical research, stands out for its uninterrupted reciprocal influence between data compilation and analysis stressing the core

significance of information materializing the move towards developing the new contextualized knowledge. Currently, grounded theory is 'the most comprehensive qualitative research methodology available' (Haig, 1995). It refers to advancing the recognition and fusion of categories of meaning from fundamentals and represents the apprehension of a phenomenon or phenomena the research dissects. Worth noting is that the methodological essence of this research looked primarily at the analysis rather than the narration that potentially could generate what does not fit. It is these circumstances, once identified, that enable a closer determination of producing the new knowledge.

The overall complexity of iteration is a fundamental mark of grounded theory, and the inquiry starts initiating procreative questions whose aim is stabilization of the research although they are not confining in nature. The researcher, simultaneously with compiling the fundamentals, identifies the core theoretical perceptions and develops the tentative linkages between them. Methodological challenges appear in the form of scarce data, questioned accessibility, whether data are comparable and whether all this affects the inquiry. The primary concern of the research was thorough apprehending of incoming information, diagnostic examining, and overall analysis; it is certainly one of the crucial points being required from the methodological *modus operandi*. Balancing the effect of who conducts the inquiry as well as the organizational flow and the equilibrium between the analysis findings and the researcher interpretation are all aspects influencing the validity of the result. The complex and expanse of what the data present identify which conviction can be derived from what. It is not only the research and study perspective that does matter, but both the objective and intent of the inquiry should be producing information that, as applicable, transcends the research scene. If data accessibility is not disputable, then the researcher easier generates modes compatible with their epistemological anticipation. A more general comparative examining preserving the quality of information is certainly feasible and enhanced in collaborative research. More information is possible to collect thereby conducting a wider parallel investigation and, more importantly, use more methodological approaches. An individual conducting the research cannot lean against the assistance of collaborators who invest less to reach more through their mutual methodological intelligence.

TRANSITIONAL JUSTICE

Interpretation of the term involves praxis and a series of approaches endeavoring to reconcile community with a complex heritage of repression. Different practical forms of implementing transitional justice only as the whole adhere to *sui generis* reality of society losing the coercive power of governance in

the transformation into the world of social values. Its effecting⁶ primarily points to the importance of helping victims survive trauma but forgiveness, on their part, may also play a significant role. However, Saunders writes that ‘...transitional justice should not consider forgiveness an a priori good or as commensurate with either reconciliation or peacebuilding’ (Saunders, 2011, p. 119). On the other hand, remodeling the roots of past injustices (which characterize different ethnic conflicts, military government authority, or autocratic regimes in which ruler has unlimited power) embraces some essential principles of reconciliation and key components of transitional justice emerge in the form of:

Criminal Justice and Reparations

Having in mind that transitional justice is a more inclusive approach to different consequences denying the fundamental rights and freedoms, criminal justice as one of its core mechanisms refers primarily to prosecutions of the most severe offenses against humanity. Given that very often complexion of a crime calls for more than what in normal circumstances judicial system can offer, prosecution planning concentrates not only on immediate executioners but rather on who the organizers are. Such problematic conditions appear particularly in a post-conflict setting in which remaining political influence is still influential but not determined to cope with the social weakness.

Legal proceedings hardly reach a fair and an efficient outcome if separated from well-organized and well thought-out approach. That certainly requires coordination of all elements of the whole: ‘the police, the courts, and the correction agencies’ that ‘make up the criminal justice system’ (Purpura, 1997, p. 4). However, this system is occasionally affected by wrongful convictions, and that (in the form of capital punishment for instance) gravely undermines the power of primarily the state. Gould, while stressing the seriousness of the problem, writes that even in the early 1930s science was concerned with ‘imperfections’ of this sort impairing criminal justice methodology. Among different measures, Borchard’s was that defendant’s confession in court should not be acceptable if given in the absence of a magistrate and witness. Another recommendation of his was establishing external bodies that would review disputable decisions (Gould, 2008, p. 2). Nevertheless, bitter sense remains after execution of capital punishment. Who could then bring the innocent back to life? Another mechanism focuses particularly on the identification of and attending to the causes of human suffering. Reparative Justice (also known as Restorative, Communitarian or Relational Justice) does not primarily stress complying with those stipulations of law which give *exaggerated* importance to

⁶ Effecting transitional justice.

the imposition of a penalty upon a criminal. It, in the first place, attempts to influence conscience of one who transgressed the norms of moral or ethical conduct. Coming into being of such an awareness of responsibility would then make the sinner ask for forgiveness, return what is not theirs or voluntarily help the needy and so at least partially alleviate or perhaps eliminate the transgression (Webber, 2009). Besides these hallmarks several more features could emerge as a prerequisite to dialogue reparative justice focuses on:

- Creating favorable surrounding in which the parties would not feel imposition of pressure forcing them to participate. Responsibility, to a significant degree, rests with the community that should create an atmosphere without fear of blame, intimidation or concern.
- Will of the involved to overcome internal resistance to the healing course. Some emotional or physical suffering could certainly be beyond healing, but the mutual effort does narrow down the likely source of another offense.
- Unambiguously defined purpose sets the stable social opportunity for both the victim and offender who are to return to the community facilitating the healing.

Remodeling Institutions and Truth as Determinant of Justice

Institutional reform of repressive societies and universal civilization values featuring democratic governance in practice mean the transformation of oppressive elements of the state apparatus such as the service, law enforcement agencies, and the judicial authority. Indeed, constitutional structure of the institutions then becomes less likely to manipulate people in favor of governing elite and more inclined to give up the practice of breaching different freedoms gradually. Remodeling the institutions assumes forms of distinguishable measures one of which is undoubtedly *vetting* or as Fionnuala Ní Aoláin puts it *lustration, screening, and administrative justice*. In her interpretation, pointed to in this justice mechanism, is removing remaining elements of the abusive regime from public life and preventing all those who in any way violated inherent rights to influence human destiny further. When mentioning vetting as administrative justice, she refers to Duthie's qualification pointing out interconnection between this (administrative) justice and institutional reform that further influences processes of societal transformation.

Aoláin suggests the role, *vetting* as a part of the institutional change plays, was deeply incorporated into how international organizations, assisting societies in transition, formed their thought and conduct which to an extent empowered influence of these organizations. She further argues that regardless of indisputable significance vetting has not yet fully materialized or reached social

recognition as, for instance, criminal accountability or truth commissions. The potential elucidation is opinions that vetting does not generate sufficient interest for those who financially can support its practices (Aoláin, 2008, p. 215). *Reintegration* of ex-combatants into post-conflict society emerges as another, but certainly not a less important factor of restructuring institutions. It, however, requires first disarmament and demilitarization that should create preconditions for the inclusion of these people in an atmosphere of personal safety and confidence in the social ability to protect its values. These values would mean that ‘ex-combatants should receive support sufficient to help them attain the standard of living of the communities into which they are being reintegrated’ (Colletta *et al.*, 2004, p. 176). Many see *truth and reconciliation* as one of the core elements of transitional justice policy that through establishing constitutional bodies attempts to apprehend interior genesis of infringement of civil liberties. Unfolding what happened is the unalienable right of all and many societies with due respect treat grief or sorrow in the course of healing soul pain. On the other hand, autocratic governance portrays contorting image of *yesterday* nullifying thus its (yesterday’s) truth and their accountability. The importance of truth-seeking bodies cannot be disputable, and these commissions remarkably help victims come to terms with what they experienced or understand the background of the occurrence. These missions call for the effort and resourcefulness of people looking for information at hardly accessible places or protecting data they have already reached. It is only an indication of complexity accompanying inquiry into human rights abuses. Howard Ball, in several words, stresses all the weight of the issue when writing that

‘Truth and Reconciliation Commissions (TRC) are a dramatic alternative to national and international tribunals. These hear testimony from both victims and perpetrators in order to provide the nation with an accounting of the events that occurred during the genocide. They are not courts of law, and the commissioners do not have the power to imprison anyone. The final report presents recommendations to the new government that, hopefully, will repair the social fabric of the community and promote national reconciliation – without retribution against the perpetrators’ (Ball, 2011, p. 44).

The concept of truth as such is to an extent hardly explicable in whole having more interpretations crucially standing between fairness and belief in, if not camaraderie, then certainly in tolerance.

RETRIBUTIVE JUSTICE

Fairness, embracing merit, essentially defines retributive justice as both hard work and breaking the rules should have consequences in the form of recognition or punishment. What features war is emotional suffering, abuse of rights and

infringement of morality as a norm of societal behavior. In the circumstances, violation of liberty and the right to life transform themselves into mass murder, sexually related crime, the Holocaust or ethnocide. Unforgivable is a transgression of armed conflict rules and *ius in bello* principle, for instance, stresses the need to protect civilians or use force proportionally. Retributive justice in war doctrine prohibits, particularly, *malum in se* conduct in a battle that is in nature inhuman, such as poisoning people, rape or other evils. The consequences of such conduct are that accepted principles of justice, only, determine what form and degree of punishment the offenders should confront and this is why retributive justice matters. Stover argues that ‘the retributive approach views justice as largely a means of *taming* vengeance (but not necessarily *excising* it) by transferring the responsibility for apportioning blame and punishment from victims to a court that acts according to the rule of law’ (Stover, 2005, p. 119). The theory essentially suggests that legal response, if well-grounded, should be understood as a principled counterweight to committing a criminal offense. The balanced punishment, on the other side, is a societal defense of victim’s emotions torn apart in what they have gone through. That is, to an extent, the reflected light of ‘let the punishment fit the crime’ creed pointing out the importance of equilibrium between sin and rational social verdict. Apart from it *lex talionis*, as well as the Hebrew Scriptures, also refer to ‘an eye for an eye’ principle.

An ancient Israel village was minuscule and given cohesion of such community the principle was not widespread in the homeland of the Jewish people. The *lex talionis* spiritual message, in the beginning, was evident; the maxim does not conceive of unrestrained retaliation as what has anything in common with its core but stresses the need to protect the victim sincerely. Some argue that this is proper understanding, but rabbinic thought seems to be wider, and some Jewish sages would probably have a different interpretation of what the ruling entails. However, Stephen M. Wylen writes that the Rabbinic writings of the ancient times do not recognize capital punishment and the Jewish scriptures hold an individual in high regard. What mainly preoccupies Judaic teaching is liability and remorse for past conduct. Jewish law defines foundations of the principle as what emphasizes the rules of conduct which are the same for everyone irrespective of position in the social hierarchy (Wylen, 2000, p. 24). Even forty years before Titus and Tiberius Julius Alexander besieged Jerusalem and destroyed the Second Temple rabbins, according to the Talmud, have nullified capital punishment.⁷ Many of them saw canon cruelty, even in theory, as a theological-philosophical setback and tried by different interpretations to adapt it to the more human spirit of the new time. Having the preceding in mind, at least a partial clarification of the relationship between utilitarian ethical theory

⁷ The Babylonian Talmud: Tractate Sanhedrin-Folio 27a, note 36.

and retributivism would be worth noting. While the former conception looks primarily at what naturally follows from sanction rather than at the very injurious act, retributivism stresses the source of crime happens first, and the wrongdoer deserves both *poena aeterna* and *poena forensis*.

DISTRIBUTIVE FORM

Different standards influence the distribution of commodities, and those that frequently determine allocation are certainly a balance, impartiality, and demand. Seeing the first principle as what conclusively affects equal shares for all might in some instances bring about ambiguity. Namely, what *equal shares for all* generate if individual needs differ from one another? Principles of distribution, nonetheless, are both opportune and irrelevant; writing on the former Charles R. Beitz argues that they, broadly speaking, produce certain equilibrium which as he says relatively affects who achieves gain from taking part in the cooperative program. He further points to those societies that suffering from lack of *esprit de corps* have no benefits that this cooperation creates. However, it at the same time means that there is “...no problem of compensation for relative disadvantage” neither and “this is why a world of self-sufficient national societies is not subject to something like a global difference principle” (Beitz, 1975, p. 370). Cooperation between states assumes the form of importing or exporting services or goods and borrowing or lending financial and physical assets. Kant in *Metaphysical Elements of Justice* refers to economic *esprit de corps* between fundamental political entities leading to the foothold of international integrity (Kant, 1965, p. 125 ff.) as ‘all nations...originally...’ belong to ‘...a community of the land...’ assuming the form of ‘...a community of possible physical interaction (*commercium*) that is in a thoroughgoing relation of each to all the others of offering to engage in commerce with any other.’ Justice imposes a right of ‘... each...to make this attempt without the other being authorized to behave toward it as an enemy...’ (Kant, 1996, p. 489). Having it in mind, it is worth noting that the principal hallmarks of the present-day interconnection between states and societies pertinent to what makes up the core of justice emerge in a form that follows ongoing expunction of the constraints of the world exchange of goods and services. Investment of wealth does not necessarily happen in where it came into being but depends on circumstances promising the most favorable returns of capital. Large businesses, for instance, have been transferred from affluent to less developed or underdeveloped areas offering more promising conditions. However, the real cooperation is not the only feature of international economic relations; what also characterizes this form of correlation is an unjust deepening of the division as the capital does not stay in areas where cheap workforce produces new value making at the end affluent more affluent. Apart from that,

‘Oxfam – which published its own report. says that corporate tax avoidance in the form of trade mispricing. cost Africa \$6bn in 2010 alone. According to the NGO, the sum is more than three times the amount needed to improve the healthcare systems in the Ebola-affected countries of Sierra Leone, Liberia, Guinea and at-risk Guinea-Bissau’ (Jones, 2015). Just?

Justice as fairness

As Rawls puts it ‘the principle of equal basic liberties’ essentially means that freedom in the widest sense of the term should be what every individual is unconditionally entitled to. When mentioning these liberties, Freeman bears in mind for the most part free moral and ethical sense, the right to free opinion and speech and supremacy of law. The principle also includes political freedom whose significance, however, would be questionable if the conception of fairness would not be a part of that whole. In other words, an opportunity to wield political authority should not in any way be conditioned by societal or material status.

On the contrary, people’s creativity, inspiration, and competence are prerequisites of holding an office. Samuel Richard Freeman further writes that Rawls through human morality explains why freedoms of his first principle are ‘fundamental’ or why their value is heavier than that of non-basic liberties such as reaching all sorts of settlements, owning firearms or managing what generates goods and services (Freeman, 2003, p. 4,5). As was already referred to the difference principle in conditions of communal or material unevenness could be a defensible conception only if that leads to higher living standards of the most vulnerable layers of society. The link between the *Original Position* and this principle becomes distinguishable through equal opportunity as the core of apprehension. In *the Original Position*, it is assumed that no party, in the beginning, has an advantage over the other and in the conditions they will be able to understand better and agree with fair allocation of resources. The parties involved are likely to accept that society, due to different causes, might have to generate tenets benefitting more those who produce more, but these principles also benefit the worst-off members more than principles of sheer equality. This form of distribution is what difference principle is inclined to and where all are better-off, one more and one less. Rawls’ *magnum opus* the Theory of Justice, as well as Sen’s Entitlement approach, deeply permeate prone-to-justice academic fields of study in the Western theoretical inheritance that, indeed, intertwine with affairs amongst basic political entities in the same way that this legacy influenced building up institutions in the Western democracies. However, the prevailing current of erudition thought within international affairs has barely determined the worth of the field. Similarly, in the Orient contemplation concern for the principle of moral rightness and liberation has prevailed against the view of knowledge

coming into being only through experience. In the main, it reflects the essential features of Confucius philosophy, social relationship and justice as well as the message of ancient Indian epic poems universal ideals of society and decency profoundly influence. It is worth noting that the purpose of these ideals, thinking of the actuality politics, is the closer account modifying political reality strives towards. Rawls' philosophy ascribes authentic responsibility to the legitimate role of justice that calls for submission to '...just institutions that exist...' and fostering '...just arrangements not yet established...' (Rawls, 1971, p. 99).

Libertarian thinking

Importance, in political terminology, belongs to a single human and not political entity. Hence the conviction that affairs of states are what individuals are responsible for and this is where the *minimal state* theory of Robert Nozick appears. In his work *Anarchy, State and Utopia* the attributes that justify the existence of the state refer to only several obligations: physical defense of subjects, protection against the deliberate misrepresentation of truth and forcible implementation of, as he says, contracts. On the other hand, it becomes more apprehensible that reinforcement of the statehood in any form indeed refers to the desecration of fundamental human liberties (Nozick, 1974, p. ix). Buchanan similarly argues that libertarian teaching could emerge from different sides, but an interactive feature of all these approaches is that compelling is applicable only as a deterrent to a physical threat. He suggests that in libertarian school of thought, Nozick's elementary theory of justice belongs to, private property is not questionable but fundamental; the entitlement to this property ascertains both the proper state conduct as well as tenets of individual orientation (Buchanan, 1989, p. 170). What perhaps is worth noting is that libertarian thinking, in general, is against attitudes that only fully equal allocation of goods is fair; it particularly opposes the difference principle defending unequal distribution if the worst-off benefit from it and this is where Nozick and Rawls disagree.

INSTEAD OF THE CONCLUSION

The critical direction of justice in international affairs, Hobbes believed, freedom from danger as the collective security of individuals comes effectively into being through separate basic political units. He points to the absence of any instance in the past in which peculiar men were in a state of, as he writes, the war against each other. However, due to self-sufficiency sovereign rulers are permanently in close vigilance, prepared for mortal combat and the use of their weapons in nothing flat looking watchfully at one another's strongholds and secretly observing the neighbors. That is the state of open hostility '...but because

they uphold thereby, the Industry of their Subjects; there does not follow from it, that misery, which accompanies the Liberty of particular men.’ (Hobbes, 1904, p. 85) In other words, non-existence of supremacy of authority all around the world does not represent a worrying barrier to justice within communications between subjects of a sovereign entity and that is of paramount importance. A variety of conceptions and interpretations of the term is to an extent complex to elaborate, but those that deserve mentioning are transitional justice referring to an attempt to reach fairness in a post-conflict society. Its distinguishing elements are seen in the form of criminal prosecutions, truth and reconciliation commissions, removing institutional deficiencies and reparations. Retributivism appears as another significant feature of justice in international relations with its ‘an eye for an eye’ principle establishing equity between sin, and *the price* society imposes on the wrongdoer. The *lex talionis* is not a desire for revenge but rather a need to protect the innocent. Fairness is a term that essentially defines the core of distributive justice, bearing in mind allocation of material resources. Its opposing principles of equality and difference argue for and defend what they respectively understand to be a just distribution of material values. In Rawls’s Justice as Fairness, for instance, importance is given to *the Original Position* and subsequent circumstances that potentially bring about *acceptable* societal inequality.

Furthermore, Nozick’s theory of the minimal state looks at only the defensible essential functions of a political entity. He suggests that the state authority beyond physical protection of its subjects, preventing fraud and compelling observance of Nozick’s contract would be everything but respecting human liberties. Nozick argues that the crucial moment happens in how the allocation arose while in Justice as Fairness model of distribution is of fundamental importance. His reasoning is where libertarian theory differs from Rawls’s acceptable principle of inequality in distribution. These are only some views of justice in international relations, but the very term is of much broader note. Indeed, determining what justice is or seems to be is pretty demanding and is frequently a focus of discourses in not only the philosophical world.

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PRAVDA I NJENI CILJEVI U MEĐUNARODNIM ODNOSIMA

Apstrakt: Pravda se, kao obrazac ponašanja, svrstava u suštinske humanističke vrijednosti. U mitologiji starorimske civilizacije, *Veritas* ukazuje na krajnji ideal morala dok u grčkoj mitologiji ispravnost i jednakost materijalno definišu *Aequitas*. Otuda, politička teorija, određujući unutrašnje tumačenje *Veritas et Aequitas*, pronalazi pravdu u istini jer je istina pravedna. Dok su ljudi prirodno naklonjeni pravednosti različite kulture različito razumiju načela etičke ispravnosti a moć poimanja pravde se pojavljuje kao nešto što su ljudi stvorili ili je samo nastalo. Međutim, eventualna dvosmislenost počiva na tome da li ona [pravda] pripada svima ili samo nekima. Često suprotstavljena tumačenja pravde učinila su da studija objelodani pojam kroz njegovu tranzicionu, djeljivu i retributivnu unutrašnjost, ukaže na preobražaj Originalne Pozicije, (ne)saglasnost osnova pojedinačne i opšte slobode i na preuveličanu složenost u definisanju suštine pojma.

Ključne riječi: pravda, ciljevi, djeljiv, odnosi, tranziciona, krivična, retributivna.

Received: 06.11.2016

Revised: 09.01.2017

Accepted: 21.02.2017.

UDC 347.232(497.11)
Biblid 0543-3657, 68 (2017)
Vol. LXVIII, No. 1166-67, pp. 133–142
Original Scientific Paper

HEIRLESS PROPERTY RESTITUTION – THE SERBIAN MODEL

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Abstract: Since the end of the second world war, different legal arrangements have been made in the field of restitution of Jewish property in Europe. Whereas western Europe under the leadership of US, French and English occupying forces created many important legal arrangements for the restitution, the central and eastern European Block has remained isolated also in this legal field, mainly due to the leading legal communist doctrine of lack of private property regime and constitutional protection of this right. This article deals both with the history of restitution legislation, and moves on to current legal legislation in this field, focusing on the latest legislation in Serbia in regard to restitution of Jewish Property. It relates, under all to the holistic approach, meaning a solution both to Jewish restitution property claims under the general Serbian legislation, Jewish communal but mainly and answer to the issue of Heirless Jewish property in Serbia. This specific part of the legislation, might also have in the future important effect on the re building of the bridges of friendship and partnership between the Republic of Serbia, the Jewish people and the state of Israel. The article closes with some international relations comments as to the potential effects of this specific legislation.

Key words: restitution, legislation, property, Jewish people, Serbia, Israel.

INTRODUCTION

The Holocaust, being a unique historical event, did not only concentrate on the physical extermination of all individual Jews, but also the infringement and the looting of Jewish property and the full destruction of Jewish life and culture.

The Aftermath of the Holocaust, left most Jewish communities in Europe devastated, unorganized and with little chance to survive, all this due to the lack of any infrastructure and the loss of its members.

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First steps to the re-establishment of communities, sometimes not that organized, were taken by Jewish organizations, such as the joining, assisting to round up and supporting the very few survivors that were able to return from the camps back home. Belgrade, a city completely clean from Jews (Jude rein) as of 8th June 1942, experienced in the post war era the rebuilt of its community with such help (Locker, 1988, pp. 81).

The case of Belgrade was not the only one across Europe, and many communities, both in Yugoslavia, but also elsewhere were faced with the same situation.

POST WAR AGREEMENTS

The post war legal agreements between the allied forces and the Republic of Germany paved the way as of the London Accord to the establishment of legal structure and arrangements allocating fund for the reviving of the Jewish communities and means to rehabilitate the survivors (Jelinek, 1989, pp. 128). These steps would be further developed in Germany following ongoing negotiations between the Federal Government, State of Israel and Jewish Organizations (de la Croix, 1985, pp. 4).

Slowly but surely other similar restitution agreements have been presented in countries such as Austria and Greece.

The Austrian model dealt first with the annulment of the unlawful expropriation of properties. Such a decision led at a later stage to the negotiations between the JCC under Dr. Nahum Goldman for the compensation for heirless property restitution for the Jewish community. Such an agreement was later in 1961 signed between the JCC and the Austrian government, allowing the so-called heirless property to be allocated for the benefit of the respected Jewish organization, benefits for survivors and rehabilitation of the Jewish Community (Oberhammer, Reinisch, 2000, pp. 752). Later on in the scope of the latest restitution legislation in Austria, the Austrian government once again followed this model, supporting the Jewish community based upon the allocation of heirless properties.

In the case of Greece, the government has revoked its right of inheritance of heirless property in the case of Jewish ownership, allowing the direct usage of Jewish heirless property for relief aid and support of Jewish activities in Greece. With respect to this legislation of 1946, Greece was one of the first countries to create a clear and coherent structure for the rehabilitation of its community and its members via the restitution of Jewish Heirless property (Constantopoulou, 2014, pp. 71).

POST COMMUNISM RESTITUTION ARRANGEMENTS

Following the instatement of the Iron curtain and the splitting of Europe between Western parts and Eastern parts, most of the Central Eastern European

Communities fell under the Soviet Regime. Under this Regime, issues relating to basic Human rights, such as property rights, were of course not discussed both in public, but also not between Communities and the Local Communist Regimes as both individual property ownership was non existing under the law, and the exercising of religious affairs, such as the maintaining of the life of Jewish community again was not relevant under these legal systems (Timm, 1997, pp. 86).

Following the collapse of the Soviet Union, Central and Eastern European countries began to address issues relating both needs of survivors, Jewish communities, and the installment of national laws dealing with the unlawful confiscation of properties under the Communist Regime, allowing both the State of Israel and prominent Jewish Organization, under which the WJRO to campaign for the enactment of legislation for restitution of Jewish Property.

HEIRLESS RESTITUTION LEGISLATIONS POST COMMUNISM ERA

Recognizing the experience gathered over the years in this respect, different countries applied different models. The Former Macedonian Republic of Yugoslavia, passed a special Heirless restitution law, allocating a sum of 17 million euros to the Jewish Community in order to establish a Holocaust Museum in the center of Skopje. One of the thoughts probably behind this move was the enormous devastation of Jewish Life in Macedonia and Trakja leading almost for the full destruction of the Jewish people there.

On June 2009, 46 counties endorsed the Terezin Declaration, a declaration trying for the first time under existing international law to create a soft law basis for the promotion of restitution legal orders. The declaration refers to all fields of restitution, and all relevant issues varying from the welfare of survivors, the memory of the Holocaust, restitution of property, art and the preservation of Jewish cultural artifacts and places of religious relevance. The document was co-endorsed by 46 states (later on Serbia joined as a signatory country).

The declaration sets forth, not only the moral basis for the restitution of the property, but tries also to bypass internal European law limitations, such as Art. 345 of the European Treaty excluding property issues from the capacity of the European Commission. The declaration was also accompanied by an agreement between the Czech Republic as at that time the temporary President of the European Union and the European Commission. This long dispute regarding the competences of the Union is still of great interest and was discussed during the first global forum for restitution of Jewish property held on 9th June 2016 at the Ministry of Foreign affairs in Jerusalem in coordination with the Ministry of Social

Equality, special Envoys of various European Union countries and prominent Jewish organizations such as WJRO.

Therefore, one could proclaim that the endorsement of the Terezin declaration is an understating on a national level on behalf of the countries that they should follow and promote legislation for restitution of property, including for the first time in history, a document agreed upon by so many countries, calling for the restitution of Heirless property as a means to reach goals of survivors welfare, community rebuilding and education.

A year later, the signatory countries met once again in Prague in order to announce the guidelines and best practices for restitution and compensation of immovable (Real) property confiscated or otherwise wrongfully seized by Nazis Fascists and their collaborators during the Holocaust (Shoah) Era between 1933-1945. Once again, these roles acknowledge the need for the allocation of funds that could be based on Heirless property for the good of Holocaust survivor's needs, and their communities.

SERBIAN RESTITUTION LEGISLATION

Serbia was the first country to take steps and measures to incorporate these notions and ideas in the scope of its internal legislation. Serbia first enacted a legislation tackling issues relating to religious property owned by the Orthodox Church and religious communities in 2006 (Law on restitution of property to churches and religious communities – Official Gazette of the Republic of Serbia, No. 46/2006). This important step allowed the Serbian government to commence with the return of the unlawful confiscation of the property seized by the Communist Regime, and assist in a way to the restoring of religious communal life in the modern Republic of Serbia.

Article 6 to the legislation, defines the Church or religious community as such that is defined so under Serbian Churches and Religious community acts. The article also refers to the legal heirs of that entity as a legal person allowed claiming under this legislation.

Under Article 9 of the law, restitution was not limited only to the scope of the actual ritual cities (churches for example) but was referring to all types of property held by the respected religious body, such as agriculture land, construction land, forest land, residential and commercial buildings, apartments and other business premises. In addition, the article also refers to cultural, historical and artistic movables.

The law drew a deadline for the submission of the claims, creating a time span of about two years (30th September 2008).

Following the legislation, the Republic of Serbia moved towards tackling also individual rights of property owners that were taken unlawfully. At this stage, it is

important to note that this legislation was dealing mainly with the properties expropriated as of the 9/3/1945 by then the Communist Yugoslav state (Law on restitution and compensation – Official Gazette of the Republic of Serbia, No. 72/2011).

Following the legislation of the law, in January 2012, the Restitution Agency assumed the role of conducting the individual restitution claims. The Agency could however only act vis-à-vis individual claims submitted as of March 2012 until March 2014. Art. 1(2) of this legislation also opened the door not only for confiscations after the war, but recognized that there might be confiscation that was a direct result of the Holocaust without referring to the specific dates of confiscation or limitations.

Interesting enough, the legislation calls under Art. 5(4) for the Republic of Serbia to create an additional law, external to the legal regime envisioned in the general restitution law, dealing with the issue of Heirless property of Holocaust victims and other victims of Nazi fascism in the territory of the Republic of Serbia.

SERBIAN HEIRLESS PROPERTY LEGISLATION

On 27th February 2016, the law named Law on elimination consequences of seizure of property of Holocaust victims who have no living legal successors was enacted (Law on elimination consequences of seizure of property of Holocaust victims who have no living legal successors, Official Gazette of the Republic of Serbia, No. 13/2016), bringing in principle a holistic approach to the remaining restitution challenges that the Republic of Serbia holds with not only its Jewish community, but represents its moral affirmation stated before for the creation of a platform allowing the state to deal with various issues of restitution.

The law is set forth to regulate the restitution and compensation of properties that belong to members of the Jewish community which do not have legal heirs. This includes also the restitution and compensation of properties belonging also to associations relating to the Jewish community. The law applies the general provisions set under Art. 2 to the General restitution bill, and by doing so, assure same measures of Justice and maintaining of legal rights as the Republic of Serbia rendered to individual claimants under the general law.

Furthermore, this law envisions not only the technicalities of restituting such properties, but also allocates a yearly sum for the financial support of the Jewish community, needs of Holocaust survivors both in Serbia and abroad, and educational programs. The legislation defines all these lines of activities under Art. 22 to the legislation, setting at the legislation level the legal norm for the proper allocation of the respected funds.

Looking into the financial support to the Communities, the Government of the Republic of Serbia has committed itself to allocate from the state budget a fixed yearly sum, independent from the amount of property to be restituted under this law. Art. 9 to this legislation, allocates a sum of 950,000 euros for this described purpose for the coming 25 years starting with 1.1.2017. Once again, this sets a unique example for the ongoing and long range support of the Serbian government to the community, and clearly demonstrates how the Serbian government is convinced in the need for a vital and strong Jewish community.

Understanding the complexity of gathering information, and substantiating a restitution or compensation claim under the general regime of the Serbian law, the legislator extended the deadline for submission of the claims to the scope of three years since the law came into force. Furthermore, the request submitted to the Agency can be completed with the proper documentation even after the deadline has passed.

Whereas this legislation wishes to demonstrate the good will and interest of the Republic of Serbia, not only with the local Jewish community but also with the Serbs of Jewish origin living abroad, under Art. 23 a monitoring board is to be set up, including two representatives of the Serbian Jewish communities, and two representatives of the World Jewish Restitution Organization. This would allow the integration of non-resident Serbian Jews to be a vital and lively part of the decision-making process regarding the allocation of the respected funds.

Under Art. 9 and 13 of the legislation, the Jewish Communities recognized elsewhere under the general Serbian law may submit claims for Heirless properties, or also for properties of Jewish ownership that have failed to comply with the deadline stipulated under the General restitution bill. In this case, should the Restitution Agency decide to give the property back or to compensate for it, the property shall be allocated under this law to the Jewish community (in this respect the share legal outcome for a successful Heirless property claim), and then under other arrangement not stipulated either by government or parliament the Jewish community and the right owner should come to terms between themselves as for the allocation of funds or property. In this regard, the above-described model resembles the good will fund set up by the Jewish Claims Conference.

The board would be reviewing on a yearly basis the monetary program for the following calendar year, thus allowing also the individuals that might be affected by the respected allocation to be aware of their possibilities. Both the appointment of the reviewing board as this described step are presented in order to promote transparency and support the wishes and will of the Serbian government to make this legislation a success story.

In order to conclude, I believe that the Serbian model holds interesting elements to it, incorporating in a way the accumulated experience in the different models of

treating of Heirless property. At first, it does not exclude claims, whether they are made by the community or by individuals via the community. It holds before its eyes the goal of maximum restitution. Besides the mass of properties, the Government of Serbia allocates a fixed forcible allocation for the sustainability of Jewish life in Serbia. Both minded the decision to create a professional procedure under the Agency for Restitution, setting forth a timely deadline of three years, and constantly engaging in meetings with the Jewish community and Representatives of WJRO in order to explore the way to submit as many claims as possible. Most probably due to this approach representatives of the European Commission to Belgrade have noted this law in the annual progress report, and commended the Serbian Government for their steps.

CONSEQUENCES OF THE SERBIAN RESTITUTION MODEL

It is therefore with no doubt, that the newest Serbian Restitution law dealing with elimination consequences of seizure of property of Holocaust victims who have no living legal successors, presents a very worthy positive signal on behalf of the Serbian government and parliament towards its Jewish minority, however, due to the fact that many former Serbian Jews are living both in Israel and the US, also an important signal to its strategic partners there.

In many ways, the negotiations, and the preparation of the legislation went back to back with diplomatic engagement between the representative of the restitution authority, Justice Ministry, and diplomats both from Israel, the US and others.

At the height of the negotiations, even the European Shoah Institute (ESLI) established by the Terezin Declaration, coordinated the diplomatic efforts not only made by the US Administration and the Israeli government but also other friendly governments such as Germany, the Czech Republic, and Great Britain.

Thus, the Serbian Government enjoyed the ability to present this important legislation piece in different international forums, including the European Parliament, and in this respect enjoy the political recognition of these unique steps undertaken by the Republic of Serbia.

However, the law was not only aimed towards politicians and for political purposes only. It serves a great measure as a bridge building process between the people of the Republic of Serbia and the Jewish nation, including the state of Israel. The legislation provides a significant financial life line for the proud Jewish minority living in Serbia, and would create both cultural and intellectual platforms to exchange views and ideas by both Serbs and Israelis.

Out of special respect to the victims, the legislation would also allow to support Needy Survivors and thus allows to bridge between the people of the Republic of Serbia, and its former citizens suffering great atrocities under the Nazi occupation.

This again, serves as a special individual recognition of the Republic of Serbia of its Jewish former citizens persecuted during the war.

In this respect, the legislation allows the Serbian government to receive its political recognition of its step vis-à-vis its political partners, the creation of a further dialog with its former Jewish citizens suffering under the Nazis and also creating a future prospect for a cultural dialog between the people, ensuring and supporting the flourishing relations between Serbia and the Jewish People.

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RESTITUCIJA IMOVINE BEZ NASLEDNIKA – SRPSKI MODEL

Apstrakt: Od kraja Drugog svetskog rata sačinjeni su različiti pravni aranžmani u oblasti restitucije jevrejske imovine u Evropi. Dok je Zapadna Evropa pod vođstvom američkih, francuskih i engleskih okupacionih snaga stvorila mnoge važne pravne aranžmane za restituciju, blok Centralne i Istočne Evrope ostao je izolovan i u ovom pravnom polju, uglavnom zbog vodeće komunističke doktrine o nedostatku privatnih imovinskih režima i ustavne zaštite ovog prava. Članak se bavi istorijom zakonodavstva o restituciji i važećim zakonskim okvirima u ovoj oblasti, fokusirajući se na najnovije zakone u Srbiji u pogledu restitucije imovine Jevreja. To podrazumeva rešenje imovinskih zahteva za restituciju Jevreja prema opštem zakonodavstvu Srbije i podrazumeva i slučajeve jevrejske imovine bez naslednika. Ovaj deo zakonodavstva može u budućnosti imati značajan uticaj na izgradnju mostova prijateljstva i partnerstva između Republike Srbije, jevrejskog naroda i države Izrael. Članak se završava nekim komentarima međunarodnih odnosa o mogućim efektima ovog specifičnog zakonodavstva.

Ključne reči: restitucija, zakonodavstvo, imovina, Jevreji, Srbija, Izrael.

Received: 24.05.2017.

Revised: 12.06.2017

Accepted: 14.07.2017.

AMBASSADORS FORUM

THE CURRENT STATE OF THE DIALOGUE BETWEEN BELGRADE AND PRIŠTINA

Lecture by Mr. Marko Đurić, Director of the Office for Kosovo and Metohija of the Government of the Republic of Serbia, held on 20th April 2017 at the Institute of International Politics and Economics

Esteemed Director, Your Excellences, Ladies and Gentlemen,

It was five years ago in springtime that we, as a country, made a decision to engage in dialogue with the Provisional Institutions of Self-Government in Priština, at high political level. The decision to engage in this dialogue was, in a way, predetermined by the fact that, in the years after the illegal unilateral declaration of independence, we did not have direct engagement with those Provisional institutions in Priština. The only active engagement and discussions were the so-called discussions at the technical level. Those discussions were concerning issues of, seemingly, only daily lives and day-to-day activities of ordinary people, but they actually had significant political implications. Those activities included questions such as freedom of movement, university diplomas, customs, customs stamps, many aspects of the functions of both members of the society, the economy, and members of political life. Discussions held and agreements reached until the spring of 2012 were, in our view at the time, highly political; however, they failed to yield results. We have to be frank and take quite a critical approach to the technical discussions of that time because they did not yield concrete results for the Serbian community in Kosovo and Metohija, notably, the increase of the collective political rights of the members of the Serbian community in Kosovo and Metohija. In the spring of 2012 and later on in the fall of 2012, when we started going to Brussels at the prime-ministerial level, we decided to engage in this dialogue, led by our vision. Let me share what our vision was at that time. The vision of Serbia in this dialogue was to achieve lasting stability in our Southern Province of Kosovo and Metohija, to achieve lasting peace for both the Serbian and the Albanian communities living there, while at the same time retaining our position regarding the status - which means retaining sovereignty and territorial integrity of the Republic of Serbia in its entire territory. Further, our vision also included working with the Provisional Institutions in Priština in order to increase the collective level of political rights

of the Serbian community, which is essential for their survival. The reason is that 17 years after the end of the war, more than 200,000 people remain displaced. The rate of return, even in such major cities such as Priština, Peć, Prizren, and Đakovica, which used to be home to tens of thousands of ethnic Serbs, is so small that it practically represents the lowest level of return ever recorded in recent history in any post-conflict zone, even in comparison with the level of return achieved in some post-conflict zones in the African continent, where ethnic conflicts were extremely difficult, extremely cruel and harsh. Since I would like discussion today to be a two-way street, I will now only briefly lay out what we see as the current state of affairs in our relations with Priština, and the current state of affairs when it comes to the dialogue itself.

Next year will mark a decade since the Albanian political oligarchy's decision to unilaterally proclaim the independence of Kosovo and Metohija. Those who decided to take a path of separatism, without consulting the citizens and against the will of the Republic of Serbia, are the ones who still hold the highest political functions in Priština today and, consequently, hold the highest responsibility for everything happening on the ground.

Let me recall that, back in 2008, when our southern Province illegally and unilaterally declared its independence in the Parliament, this independence was declared without consultations of the general electorate in Serbia, which means that there was no national consensus of this secession and no referendum, not even in Kosovo and Metohija, none of a fair referendum that would include those who were internally displaced and forced to leave their homes. In fact, no one was consulted apart from the members of the political class in Kosovo and Metohija at the time, mainly the Kosovo Albanian members of the political class, notably, the same people who led an armed rebellion in 1999, an armed uprising against our country, with the aim to secede from Serbia. Hence, there was no democratic precondition to unilaterally proclaim this independence. Further, let me recall that one of the reasons they listed as the reason for wanting to secede from Serbia back in the 1990s and early 2000s, was the alleged lack of democracy and the unfair treatment towards them. All of you who follow carefully this thematic know that until 1989, for decades, over almost the entire period after the WWII, ethnic Albanians used to manage and run practically all of the institutions in our southern Province. This means they were in charge of, and responsible for everything, from municipal and communal levels upward, even to participation at the Federal level, with their delegates to the Federal Assembly and to the Republic Assembly of Serbia. There was even the President of the Presidency of the former Yugoslavia who was an ethnic Albanian.

When it comes to the level of their ethnic and political rights within Yugoslavia and within Serbia, they had available education in their own language, from the elementary schools to the studies at the doctoral level. The same goes

for the media sphere, and so forth. The 1990s were troublesome, of course, both for Serbs and Albanians, due to reasons that are not subjects of this discussion today. However, in 2000 Serbia witnessed democratic changes, as acknowledged by the entire international community. Therefore, the reason claimed by some of the separatist leaders to be the main reason for independence, namely, the alleged or the real repression of the regime from the 1990s to 2000, was absent in 2008, and absent for at least eight years. And then the real reason for this secession became more clear. But I will elaborate this further on.

The socio-economic situation in Kosovo and Metohija, almost ten years after this unilateral declaration of independence, is very alarming, to put it mildly. Economic underdevelopment, endemic unemployment, inexistent economic activity and utter lack of perspectives for young Albanian population, have created the circumstances conducive for the rise of political and religious extremism. This assessment is also visible in all of the relevant and available researches. The increase of the number of people who participate in extremist religious congregation has significantly increased, in a society that has traditionally, although predominantly been Muslim, but very secular, where, historically, we never had serious crimes of religious extremism; due to this extremely poor socio-economic situation, according to various estimates, now, for the first time, we have between 10%-15% of the population who has turned to extreme religious groups. And this, of course, breeds a very negative social environment.

In retrospect, when taking stock of where the secession of Kosovo and Metohija has brought its Provisional Institutions and its citizens, all we see are distressing indicators. Kosovo and Metohija of today is a black hole of Europe in many ways, with the highest rates of poverty, corruption and crime. According to various estimates, since 1999 up to 60 billion euros in various forms of aid was poured into Kosovo and Metohija from Europe alone. Dozens of billions of dollars and euros poured into Kosovo and Metohija since 1999 did not yield wanted results, as clearly shown by unemployment rate, which again according to various credible information and estimates, ranges between 60% and 65%, making it by far the highest unemployment rate for a territory on the European continent, maybe even in the world.

The segment of citizens living on the edge of poverty is amounting to 45%. We are all witnesses of massive economically-driven migrations of Kosovo Albanians, and lack of economic development and inexistent industry and manufacturing sectors.

I would like to remind all of us that, last year, institutions in charge of the migration recorded more than 100,000 migrants from Kosovo and Metohija to Western Europe, going to the countries that have traditionally high numbers of ethnic Albanian Diaspora. For the sake of comparison, prior to last year, this

number was varying between 40,000 and 60,000 migrants towards the Western Europe annually. Therefore, one of the key reasons for avoiding the creation of an even greater social and economic time-bomb in Kosovo and Metohija was the fact that some wealthier European countries were ready to accept migrants from our Southern Province.

The return of the internally displaced persons, referring to a quarter of a million of expelled Serbs, as I mentioned, is at the lowest level, globally speaking. This tells it all we need to know about actual democratic capacities in that part of the territory of Serbia.

In spite of mere contours of institutions and legal system in Kosovo and Metohija created thanks to the international community, it is a fact that this territory is governed by feudal principles, with the power centers being seated in informal structures instead of in democratic institutions. Holders of some of the highest political functions in Priština are persons under reasonable suspicion of having been perpetrators and masterminds behind some of the most monstrous crimes in recent European history. The legal system in Kosovo and Metohija is often, and justifiably, supported by arguments, exposed to criticism, even mockery, while the Parliament in Priština has evolved into a testing ground in which the former members of the KLA turned lawmakers, practice throwing tear gas and Molotov cocktails.

Over the past ten years of open efforts of Priština authorities to secure international recognition for their unilaterally proclaimed independence, Kosovo and Metohija failed to become a member of the United Nations, or of other major international institution or organization. I must say, this was thanks to the understanding and support for the principles of international law and the position of Serbia by our esteemed colleagues and friend in the international community.

Yet, putting this all aside and being fully aware that any other alternatives are gloomy and may solely result in destabilization of the entire region, our Government opted for an honest approach to the Dialogue, aiming to protect interests and to facilitate day-to-day life of Serbs in the Province, and also to firmly direct this process towards the reaching of the historical reconciliation between the Serbian and the Albanian people. This reconciliation is our major strategic goal as, by their numbers and their distribution in countries in this part of Europe, Serbs and Albanians are nations who have historically most often participated in all important political processes, and did so in a way that dictates the need to work towards the reconciliation.

I must underscore that Belgrade has been encountering not only a persistent internal resistance to the Dialogue, but also a considerable lack of understanding of the dynamics required for the process of the Dialogue, in particular by Priština. I cannot help sharing with you the fact that Belgrade frequently comes under

pressure to comply with the obligations assumed within the Dialogue – but in a manner that is one-sided and outside the agreed framework.

By contrast, the other side often enjoys a surprising degree of sympathy, not only for their prolonged delays in complying with their clearly defined obligations, but also for their gross violations of agreements, and/or for implementing those in a manner that clearly contravenes everything that was agreed. One of the recent examples is almost a silence-like response to the fact that Priština Parliament enacted resolution on suspending the dialogue between Belgrade and Priština until certain demands, political by nature, regarding the Ramush Haradinaj case, are resolved in their favour. Not only that they are trying to influence the legal system of another country, in this case France, but they are also conditioning a political process — which should not have any direct connections to that legal process — by certain political demands. And, of course, there is no condemnation of this fact. Even though, the adopted resolution, formally speaking, is not legally binding for the government in Priština. This additionally underscores the lack of political will on the part of the decision-makers among the ethnic Albanian political elite to continue, or to pursue, both the dialogue and the implementation of what has been achieved so far.

Trying to understand the broader context of these actions, we noticed that the approach assumed by the international community, in part, failed to take into account the historical complexity of the problem of Kosovo and Metohija, and thus proved incapable of vitally contributing to the normalization of relations, as the objective that stands at the core of the Dialogue.

A genuine normalization of relations cannot be ensured by mere undersigning of a piece of paper, especially so if such a document ensures that only one side gets it all. Such an outcome only plants the seeds of a future discord, creating frustrations at the structural level, to the extent that it can even preclude a true reconciliation between the negotiating sides engaged in such complex relations. Definitely, pieces of paper cannot work on their own or help achieve reconciliation. Over the past four years, we had reached agreements in more than 30 separate areas, and concluded 36 different agreements. However, the level of political relations with the Provisional Institutions, as Provincial authorities, unfortunately, has not matched the number of documents — or pieces of paper — agreed between the parties.

This is why our side often has to deal with the lack of understanding by the other side, where the latter uses the Dialogue to obsessively focus on the issues pertaining to the status of the Province, all of which had been explicitly placed *outside* the framework of the Dialogue. Priština often resorts to political conditioning and threats, and such actions affect the Dialogue and cause ripples in its dynamics, limiting the scope of the whole process. It is, therefore, that I

have to note with much regret that we often have stages in the Dialogue where negotiations are less about normalizing relations, and more about preserving peace and averting violence.

In that sense, the impression is that the facilitator will have ever more difficulties in finding ways to bring mutual relations and activities back within the tracks of the Dialogue; this prompts the next questions: what does the facilitator do, and is it enough? Does the facilitator hold sufficient authority vis-à-vis Priština to be able to guarantee the implementation of the very agreements it facilitated? It is particularly regretful that Priština has been refusing to participate in the Dialogue since November 2016, and has been delaying implementation of the very same agreements it had previously insisted on reaching, or only one-sidedly implements what was agreed.

The most drastic example of Priština's hindrance and violation of the agreements represents the Agreement on establishment of the Community of Serbian Municipalities, since it is the central point of the Dialogue process. This Agreement, reached on April 19, 2013, which means four years ago yesterday, and the special Agreement reached on August 25, 2015, clearly determine the manner for the establishment of the Community, and its structure and the powers it would hold. They also set clear deadlines for the specific steps that should have been taken towards its formation, but were never taken, for which Priština held the bulk of responsibility.

Despite all this, from the very beginning, Priština has been refusing to comply with the commitments it assumed regarding the establishment of the CSM. Moreover, ever since the General Principles were harmonized on 25 August 2015, Priština had assumed a stance of active obstruction. Thus, instead of adopting the foreseen decree within the prescribed four-month period, thereby integrating the Community into its legal system, Priština went on to submit the entire agreement to the Constitutional Court, thereby asking for the Provincial Constitutional Court's assessment. This step was never foreseen under any point of the Agreement, and it rendered pointless the relevant provisions of the General Principles of 25 August 2015, whose application Priština had guaranteed when it signed on it. And, I want to remind all of us that these agreements were signed by the highest political authorities on both sides, which means that Prime Ministers of both sides undertook the commitment to create and establish the Community of Serbian Municipalities, and not to dispute it.

The second characteristic example of the obstruction of the Dialogue by the Provisional Institutions in Priština pertains to the issue of Cadaster. This issue has not been often mentioned, but it was discussed in the talks held in Brussels, with a view of creating reliable cadastral records in the Province, as the means of preventing usurpation of the property privately-owned by the Serbs and by

the Serbian Orthodox Church in Kosovo and Metohija, and also for nullifying the effects of legalizing usurpation of property. This widespread practice was most often conducted by means of forged property documents, issued to local Albanians by the Kosovo Provisional institutions. By the way, the private property of Serbs and of the Serbian Orthodox Church in Kosovo and Metohija covers a total of 25% of the territory of the Province. My colleagues may correct me, but I believe that, at the moment, there are more than 40,000 active lawsuits and claims regarding usurpation of property taken away from Kosovo Serb members of community who used to live in Priština, other cities, and also in the countryside, whose homes have, ever since the war, been occupied by illegal tenants. The underlying idea of the Agreement on Cadaster in 2011 was to create a joint agency that would include representatives of both Belgrade and Priština, as prescribed by the Agreement, who would then compare and verify the documents that were preserved and taken to Central Serbia after the conflict in 1999. Instead, what Priština did was to adopt a law, one-sidedly, without any consultations with representatives of the Serbian community in Kosovo and Metohija, without consultations with us. They unilaterally adopted the Law on the Agency for Verification and Comparison of Property, with the aim to introduce a mono-ethnic institution that would, in essence, legalize whatever took place since 1999. This goes completely contrary to the reasons for which the Agreement on Cadaster was reached under the framework of the Brussels dialogue. We have kept insisting that we should return to the negotiating table, we have kept insisting that Priština should not resort to unilateral activities regarding the Agreement on Cadaster. Unfortunately, they chose not to take into account what has been agreed, they chose not to take into account our concerns. And the outcome is that we are not able to hand over copies of the Cadaster dislocated in Central Serbia and preserved by our institutions, to the Provisional Institutions of Self-Government in Priština, because we do not want to give them any kind of direct or indirect validation, or any direct or indirect approval for this malpractice in the implementation of the Agreement. Besides, we are also bound by our laws and, hence, not allowed to put at risk anyone's private property, in any case.

In the area of judiciary, too, we are facing violations of the First Agreement from 2013, and of the Agreement on Judiciary from February 2015 that provided for the establishment of basic court and the prosecutor's office for the Mitrovica region, as well as for the establishment of special panel within the Provincial Court of Appeals. However, on 10 January 2017, which was four days before the agreed integration date, EU facilitator, acting on Priština's request, and without any prior notification or asking for the consent of Belgrade, suggested that the appointment of judges should be postponed until 17 January, allowing the

stalemate to be continued to date, with no explanation provided, and with no new deadlines set.

In spite of this, our side has fully honored all of its assumed commitments, alerting the EU facilitators about the failures of Priština that resulted in the delay of the Agreement, while insisting on arrangement and new dynamics and clear guarantees, since the authority of the EU facilitator in this process has been seriously called into question.

Priština also seriously threaten the future of the Dialogue when it comes to the freedom of movement, which was initiated in order to ensure that the citizens of Kosovo and Metohija, and the rest of the citizens of the Republic of Serbia, be allowed to move and travel freely. In 2011, discussions resulted in reaching an agreement on the freedom of movement, which regulates the use of ID cards, vehicle movements, the entry/exit documents used at the administrative crossings, driving licenses, registration and vehicle insurance.

Generally speaking, the problems mainly arise from Priština's tendencies to insert the issue of status wherever possible when it comes to the implementation of this Agreement. That is why Agreement on finalizing implementation of this Agreement was reached in Brussels on 14 September 2016, harmonizing the sticker regime, the validity and application of the "KS" license plates and the matter of re-registering the vehicles whose license plates had been issued by the relocated police directorates of the Ministry of the Interior of the Republic of Serbia. Our side, by doing so, managed to establish after several years the necessary balance in the realization of the right to freedom of movement. While Belgrade implemented the agreed, Priština requested that the deadlines be pushed back, the very ones that Priština had insisted on in the first plan, without any hints as to when the implementation of the agreed would start, and without providing any reasons for the delay.

On this occasion, I would like to especially refer to the agreement on the main bridge on the Ibar River in Kosovska Mitrovica because it demonstrates best the extent to which Priština is prepared to politicize the Dialogue, which is as usual followed by a threat of violence and incitement of hatred. Let me remind you that this bridge has been closed off for traffic since 1999, and since then has been the setting of persistent assaults on the Serbs perpetrated by the Albanians. As a result, local Serbs erected barricades on the bridge. Discussions on their removal started back in 2014 within the technical level dialogue. After the barricades on the bridge were removed on 17 June 2014, as agreed, on 18 June already a serious security incident took place, a result of an organized incursion by the Albanians from Mitrovica South. Since the situation threatened to escalate into dramatic ethnic violence, the local Serbian self-government decided to install the so-called "Peace Park" on this bridge, on the very same day.

In the discussions that followed, our party argued that a common solution should be found for the bridge area. On 25 August 2015, the Agreement was reached on this matter, providing for the commencement of works on the revitalization of the Bridge and on making a pedestrian zone from Kralja Petra Street in Mitrovica North.

However, Priština has blocked this implementation for an entire year, and the deadline for finalization of works was called into question when Priština politicized the erection of a concrete structure at the beginning of the pedestrian zone in Kralja Petra Street and threatened with violence. Once again, the violence was prevented owing to the sobriety of our party, and on 4 February, a new arrangement was reached, almost identical to the previous one. Therefore, if you reach an agreement identical to the previous one concluded on December 08, 2016, it is clear that intention behind Priština's lack of implementation was to cause the crisis, and, in the case of the bridge on the Ibar River, the crises heated to a boiling point.

I have to stress out that the credibility of the EU facilitation in this issue has been seriously compromised. Thus, EU demonstrated that it either does not have the strength or does not want to bring Priština back to the negotiating table in order to harmonize the date for completing the works on the bridge and the pedestrian street.

Another issue reflecting the problem we face regarding Priština's approach to the negotiations is that of the mutual recognition of university diplomas. It pertains to a fundamental human right to take part in the labor market on the basis of professional qualifications acquired and without discrimination, which Priština has been hindering by refusing to recognize diplomas issued by the University operating in Kosovo and Metohija within the education system of the Republic of Serbia. Although the Agreement on Diplomas was reached in 2011, Priština's persistent obstructions, unfortunately, have turned it into a complete failure. To illustrate this, it's enough to say that Priština hasn't recognized a single diploma to this day. In addition, the regulations it adopted in order to implement the Agreement are both selective and limiting. Even though two more arrangements were reached in 2016, stipulating that the Agreement would be applied to the diplomas and curricula of all the accredited universities of both parties, Priština in practice placed obstacles which prevented this. Belgrade, on the other hand, has processed 74% of recognition requests and has enacted a comprehensive legal framework in order to implement this Agreement.

Lack of sincerity on the part of Priština with respect to the normalization of relations is also noticeable in Priština's approach to the Agreement on Official Visits. The Agreement was reached in order to facilitate communication between the sides, and also to allow the officials to visit the territory and the citizens living

on the other side of the administrative line easily and without hindrance. On that note, no Serbian official has visited Kosovo and Metohija outside the provisions laid down in the Agreement, and Belgrade has provided its Liaison Officer (LO) in Priština with all the necessary administrative support, while also provided Priština's LO in Belgrade with all the security support and access to the Serbian interlocutors.

At the same time, without any explanation, Priština keeps preventing various Belgrade's officials from entering Kosovo and Metohija, and this ban constitutes a violation of the Agreement. Priština has repeatedly banned entrance to Belgrade's Chief Negotiator and prevented his activities aimed at promoting the normalization of relations. Preventing the very person dealing with the normalization of relations from entering, only reaffirms the merely declarative character of Priština's commitment, paying a lip service to the normalization of relations.

Before I wrap up this overview, I wish to underline that Belgrade has been insisting on including in the Dialogue those issues which are of vital importance for the Serbian people in Kosovo and Metohija. They first and foremost pertain to the resolving of the issue of the state- and socially-owned property in Kosovo and Metohija, and the status of the private property which includes the property of the Serbian Orthodox Church. The necessity to discuss these issues is best reflected in the dozens of destroyed and desecrated religious shrines of the Serbian people in the Province, many of which are protected by UNESCO, as well as by the countless unresolved cases of assaults on the Serbs and their property.

Given all of the above, it is clear that the Dialogue is not going in the right direction and that the process is riddled with problems. We, therefore, expect the facilitators to invest additional efforts so that new agreements could be reached and the existing ones implemented consistently and within the envisaged time frames. However, the positive thing is that, for the first time in their modern history, representatives of Serbs and Albanians are actually engaged in talks, even though they disagree on many issues. The very interaction is an important achievement of the Dialogue, because it helps us to better see and understand the other side, as well as allowing us to see ourselves from their point of view. That is precisely why we are aware that the other side needs peace as much as we do, even though their actions often signal the opposite.

When referring to a preferred outcome of this process, the international communication resorts to utilizing this phrase: "a comprehensive normalization of relations". Priština is of the opinion that "a comprehensive normalization" should imply the recognition of the unilaterally proclaimed independence of Kosovo by the Republic of Serbia - which, to say the least, goes beyond any realistic expectations. Belgrade views the process of dialogue through the prism of UN Security Council Resolution 1244, which is without prejudice to the

statehood integrity of the Republic of Serbia. Therefore, we can discuss all aspects of regulating relations between the Serbian and the Albanian peoples in Kosovo and Metohija, consider the creating of conditions that pave the way for democratization of society in our Southern Province, talk about coexistence of institutions of the Republic of Serbia and those of the Provisional Institutions of Self-Government in Priština, all that in a meaningful and productive manner; yet, the status of Kosovo and Metohija is not the topic to be either explicitly or implicitly discussed within the dialogue in Brussels.

Lastly, it has to be underlined that the process of dialogue between Belgrade and Priština is not an irreversible one. By no means would Belgrade deviate from its intention to partake in the process as a constructive factor who contributes to the building up of regional stability; however, this process is only going to be a meaningful one if both sides are committed in good faith to resolve contentious matters through dialogue and peaceful means. Regretfully, over the recent weeks and months, we have witnessed open threats of violence exerted by extremist groups in Kosovo and Metohija, the increasingly frequent organized attacks against people of Serbian nationality, and even the revived ambition to construct the Fascist project of Greater Albania. This certainly makes no conducive atmosphere for a dialogue, but rather a reality check that reminds of the importance of dialogue and warns of what we stand to lose, should the political and other sorts of extremism in Kosovo and Metohija are not curbed before they inflict irreparable damage.

Presently, the dialogue is stuck in crisis because on the Brussels' table is not what Priština had hoped for, namely, recognition of the unilaterally proclaimed independence. One-sided blockade of dialogue by Priština is the ultimate testimony that normalization of relations and democratization of society have never been a true interest of its negotiators.

BOOK REVIEWS

DEAD AID: WHY AID IS NOT WORKING AND HOW THERE IS ANOTHER WAY FOR AFRICA

Dambisa Moyo (2009). *Dead Aid: Why aid is not working and how there is another way for Africa*. London: Penguin Books.

In the very beginning of her book, Dambisa Moyo harshly criticizes the essence of the Western concept of development meant to be used in Africa. Alluding to the famous Live Aid concerts from the mid-80s, in the very title of her book she reveals her basic thesis – Aid for Africa means death, not life.

Dambisa Moyo was born in 1969 in Lusaka, the capital of Zambia. She started her education in Zambia, and in 1997 acquired a Master of Public Administration degree at Harvard University. In 2002, she received a Ph.D. in Economics from Oxford University. In the following years, she worked for the World Bank, Goldman Sachs and was a member of the board of directors of numerous organizations that were involved in humanitarian work in Africa. Dambisa Moyo is not a passionate anti-colonial fighter that criticizes the Western system under emotional charge. She is, both by education and work experience, a person that understands the Western system to the detail. And for that very reason her book was successful.

The book is divided into two parts. The first one, “The World of Aid” presents and explains the existing system of aid simultaneously deconstructing and debunking it. The author points out that the aid is part of the problem, not part of the solution and exactly what is holding Africa back. She deems aid as poison, not cure.

At the beginning, the author defines various types of aid. There are three types of aid: humanitarian or emergency aid, charity-based aid, and systematic aid. The author focuses on systematic aid and defines it as a combination of grants and credits with favorable interest rates.

Furthermore, the author gives a short overview of the history of the concept of aid, and its transformation from the era of the Marshall Plan until today. During the 60s the focus was on infrastructure-based development. In the 70s the focus was shifted on the fight against poverty. In the 80s the aid was considered a concept of development, while during the 90s good governance

was believed to be a prerequisite for getting the aid. The last decade brought glamour to the aid sector – celebrities became the main promoters of aid.

Dambisa Moyo rejects the common geographical, historical, cultural and anthropological stereotypes that explain why the aid is not working in Africa. In contrast to other western scholars that reminisce the Marshall Plan with dogmatic deification, Moyo views it more realistically. She considers the Marshall Plan to be successful for three reasons: It made just a small part of GDP of European countries, it was time limited, and implemented on existing institutional and financial infrastructure. None of these conditions have been fulfilled in the case of Africa. The author deconstructs yet another western stereotype: Democracy is good but not necessary. Contrary to the generally accepted opinion, Mayo claims that democracy does not necessarily lead to economic growth, but the opposite – economic growth is necessary for democracy to thrive. The author alludes that poor African countries may not need multi-party democracy, but benevolent dictators instead. Furthermore, the author points out that the West persistently refuses to accept that African families are in much greater need of drinking water than the right to vote.

Demise Mayo refers to the Aid as the silent killer of economic growth. The constant influx of aid leads to rent seeking principle of governance. Aid is treated as a natural resource, thus producing the Dutch disease effect. The money that came through aid has not been created in the real sector, but is being injected into the economy via aid, therefore creating inflation. The author exposes the hypocrisy of western officials who, despite the constant criticism of African corruption, continue to give money via aid. There are two reasons for such practice: Firstly, aid sector has become a real industry that employs many people. Therefore, there is a certain pressure for such industry to keep running. In addition to that, the author emphasizes that industry of aid is flirting with the entertainment industry, thus collecting cheap publicity by becoming a hobby for celebrities. Secondly, various agencies cannot seem to agree on which countries are corrupt and which ones are not. Because of that, donors enabled the survival of dictators such as Mobutu Sese Seko, Idi Amin Dada, Jean Bédel Bokassa etc. by “providing” for them. The increase of aid creates a dependence that many African countries find very difficult to interrupt. But because of that, aid keeps coming in order to sustain weak African governments, and makes them stable enough to make sure that they keep paying their debt. Sadly, aid is known to have a potential to cause civil wars, for instance in Somalia during the 90s.

The author also illustrates how aid is suppressing small business in Africa: during the malaria epidemics donors always donate large quantities of mosquito nets. However, such practice tends to have a harmful effect on local producers of mosquito nets. By the time the donation programs are stopped, local producers have already suffered an irreparable damage and closed their workshops.

A strong middle class is crucial for the success of any country. Indirectly, aid obstructs the creation of African middle class. When the inflow of aid is high governments are not encouraging entrepreneurship and production. Without strong private sector, middle class lacks enough strength to influence the government.

In the second part of her book “World without aid”, Mayo presents her concept of solving African problems. She sums the problems immanent for African countries and creates an archetype of African state which she calls “Republic of Dongo.” Mayo tries to offer a scheme for successful development of this imaginary, but yet typical African state. The characteristics of the Republic of Dongo are the following: It is an addict that needs to go to “aid rehabilitation”. Besides the corruption, the Republic of Dongo is struggling with low savings and investments, inflation, low capital stocks, poor market infrastructure, customs barriers.

In order to make aid withdrawal bearable, Mayo suggests gradual suspension of aid in a 5 to 10 years time frame. The author suggests the model of recovery in a market-oriented model: foreign direct investments, trade and strong banking sector. Fundraising problems should be solved via microfinance by vast African diaspora through remittances. In order to acquire funds, African governments should avoid borrowing individually. African countries should join together and borrow money as collective entities instead. Mayo encourages the reduction of tariff rates (which are approximately in the interval of 21-34%) between countries in Africa, modernization of banking sector in Africa, improvement of business environment. She believes that an increase in trade volume would lead to the creation of new jobs, economic growth, improvement of the standard of living, etc. The author sees China as the source of FDI emphasizing the positive role it plays in Africa. Chinese investments are well accepted because Chinese partners do business on an equal basis with their African partners. Furthermore, Chinese are not carrying a burden of the colonial past.

After reading Mayo’s book we can conclude that she made an excellent diagnosis of Africa’s poor economic situation. Nevertheless, the solutions that she offers are rather questionable. The biggest weakness of this book actually comes from its greatest strength – Dambisa Mayo is a member of the neo-classical (neoliberal) system that is based on market impeccability. The solutions that she offers are in accordance with the principles of that system. Therefore, the solutions also wear the weakness of the system as well. Since the book is published in 2009, it is strange that one is so uncritical to the neoliberal market model, especially in the time of dealing with consequences of the greatest financial crisis in recent history. Many other countries in transition (such as the Western Balkans countries) have implemented the neoliberal macroeconomic model similar to what Mayo suggests for Africa. It turned out that this model is

inadequate for the Western Balkans countries, but experiences of these countries are not even considered in the book.

Moreover, Moyo entirely neglects one of the most critical problems of African economies – insufficient industrialization, which is a consequence of the colonial past and poorly executed privatization during the early 90s. Strong industrial potentials would enable mass-production of higher value products and diversification of the economy, which is crucial for African countries. The author almost entirely disregards this sector of the economy.

Economic pre-knowledge is not necessary for the understanding of the book. It is written in clear and simple style. This book is useful reading material for everyone who wants to get familiar with the economic situation in Africa. It is also recommended for scholars of neo-liberal orientation because it was written by a colleague who does not criticize this ideology, but instead provides insight into weaknesses of one of the basic instruments of neoliberal development concept.

Danilo BABIĆ

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EC. (2002). Directive 2002/58/EC of the European Parliament and of the Council of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector (Directive on privacy and electronic communications), Official Journal of the European Communities L201 37–47, 31 July (European Commission, Brussels).

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CIP - Каталогизacija y publikaciji
Narodna biblioteka Srbije, Beograd

327

The REVIEW of International Affairs /
editor-in-chief Sanja Jelisavac Trošić. - Vol.
1, no. 1 (1950)- . - Beograd : Institute of
International Politics and Economics, 1950-
(Beograd : Donat graf). - 24 cm

Tromesečno.

ISSN 0486-6096 = Review of International
Affairs

COBISS.SR-ID 3154178

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