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Serbia's transition: towards a better future

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BOOK SYMPOSIUM

Serbia's transition: towards a better future, by Milica Uvalic, Basingstoke, Palgrave Macmillan, 2010, 344 pages, ISBN 978-0-230-21160-5

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Milica Uvalic has written a very impressive book. It is the first comprehensive book in English on Serbia's transition. It deals with an important topic and adopts a suitable approach. It includes an ample amount of good data, which, with sharp analysis, makes its results credible. It draws reasonable conclusions.

The book aims to answer a fundamental question, namely why a country with very good starting conditions has ended up lagging behind. It does a very good job in answering this question.

The book covers a twenty-year period, from the first radical economic reforms within Yugoslavia in 1989 until 2009. After an introductory chapter explaining the objectives, it follows a chronological order, by starting with a discussion of the initial conditions in Serbia in 1989 when the transition to a market economy and multiparty democracy started in Eastern Europe (Chapter 2). At that time, Serbia had certain advantages, as did all the other Yugoslav republics. Serbia inherited from Yugoslavia a long tradition of market-oriented reforms, which had introduced elements of the market mechanism since the early 1950s and therefore in 1989 had a shorter reform agenda. Yugoslavia also had specific international relations: it was not part of the Soviet bloc but a non-aligned country that was given European Community trade preferences since the early 1970s, which facilitated its foreign trade orientation primarily with the West. Within the federation, Serbia was the biggest and most populous Yugoslav republic, which naturally determined its greatest relative weight in the most important economic indicators (GDP, employment, investment, even the volume of exports and imports). However, Serbia (similarly to the other republics) also faced certain disadvantages in 1989, primarily the ongoing political crisis, which indeed led to the break-up of the Yugoslav federation in June 1991.

The early 1990s were years of extreme political and economic instability for the newly constituted Federal Republic of Yugoslavia (Serbia and Montenegro) (Chapter 3). The break-up of Yugoslavia in 1991 was accompanied and followed by military conflicts, delays in democratization (Milošević's Socialist Party remained dominant throughout the 1990s), and international sanctions. Political priorities of the government led to expansionary monetary and fiscal policies, which caused record hyperinflation, a steep decline in GDP, shortages, increasing poverty and inequality. Economic reforms were suspended or reversed. The second half of the 1990s did not produce much better results (Chapter 4). After the signing of the Dayton Peace Accords in December 1995, which ended the war in Bosnia and Herzegovina, there was hope for a better future. However, rather than

bringing radical changes and the normalization of the country's status in international organizations, this period brought continuity with previous policies. The pace of economic reforms was very slow, despite the adoption of a new privatization law in 1997. There was practically no FDI, and macroeconomic performance remained sluggish. In the meantime there was increasing social and political unrest, mass demonstrations against the regime in the winter of 1996–1997, and progressive worsening of the political situation in Kosovo. Due to the lack of agreement with Milošević over Kosovo, the NATO bombing started in spring of 1999, which caused destruction of productive capacity and infrastructure and a strong drop in GDP and exports.

The 2000s bring a new perspective, finally promising a better future for Serbia. As described in detail in Chapter 5, a democratic government was in place from October 2000 onwards, but there were many delicate political issues to be resolved in the aftermath of political changes, including the complex relationship between Serbia and Montenegro, regulating the country's membership in international organizations, political conditionality linked to the delivery of Milošević to the Hague Tribunal, and aid dependency. Nevertheless, the political changes enabled a fundamentally different course in economic reforms. During the 2001–2008 period, the new policies brought a number of achievements, including gradual macroeconomic stabilization, relatively fast GDP growth, an increase in living standards, and acceleration of many market-oriented economic reforms (Chapter 6). However, there was also rising unemployment, slow economic recovery (Serbia is still at 70% of its 1989 GDP), and rising trade and current account deficits. What were the main policy flaws of the post-2001 transition strategy (Chapter 7)? In 2001, priorities were set according to the Washington Consensus, while lessons from the 1990s from other transition countries were not sufficiently taken into account. In addition to liberalization, macroeconomic stabilization, and privatization, some of the fundamental microeconomic reforms complementary to privatization were neglected, including competition policy, improving the business environment, general tightening of budget constraints, and new mechanisms of corporate governance. The new privatization law based on sales to strategic investors was based on too-optimistic expectations about FDI, which arrived late and prevalently went into services (banking, telecommunications, trade, real estate). The result is that many industrial firms have not been modernized or restructured. The private sector developed very slowly and still contributes only 60% of Serbia's GDP.

Current challenges the Serbian government presently faces are numerous. In addition to entering the European Union as one of the key priorities (Chapter 8), what growth model should Serbia follow after the global financial and economic crisis (Chapter 9)? Considering the state of the Serbian economy and the radically changed international environment, Milica Uvalic proposes an industrial policy to promote investment in priority sectors and encourage innovation; a more efficient employment policy to promote wage employment in the private sector; and R&D policy to increase investment in human capital (science, education) as the most important factor for achieving long-term growth. However, a better functioning of government institutions remains the most important condition for making economic reforms effective – to facilitate investment, enforce laws, collect taxes, supervise the financial sector, and fight corruption. Without a stronger government, the results of many economic reforms will remain partial.

My overall assessment is that this is a very well-structured and balanced book on an important topic. It is based on a monumental effort to gather all available data and on a careful political economy analysis. The book is a valuable base for understanding Serbia and for policy-oriented discourse in general. In concluding, I would raise two

conceptual issues to the author for future research. What type of industrial policy would be most appropriate for Serbia? Second, what would be the most appropriate policies to encourage wage employment? Experiences around the world have shown that attempts to formalize an entire economy through measures that strive to subject all workers and entrepreneurs to the taxes and regulations of the formal sector can destroy employment, reduce GDP, and hamper small-scale entrepreneurial capacity.

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Like the author, I also consider myself an insider and outsider, having left Yugoslavia in 1991, around the time that Milica Uvalic's book dates the start of transition in Serbia. Since then, I have returned to Serbia and other former Yugoslav republics for both personal and professional reasons. *Serbia's Transition: Towards a Better Future* was an interesting read as it summarizes an incredible amount of information and is interesting from historical, political and economic perspectives – particularly for someone who lived through this period and continues to work on the region. It is unique in its comprehensive scope and coverage of 20 years of transition instead of only the last 10 years. Secondly, as I personally work on the production of a dataset, I believe statistics are an incredibly important addition to literature and this book summarizes an incredible amount of statistics from different sources. I believe this must have been an incredible challenge to compile. I would be interested in hearing the author speak more on the methodology used to compare data across time and the changing statehoods of Serbia.

Milica Uvalic covers 20 years of political and economic history of a country in turmoil. This is an incredible effort given that in this time Serbia changed statehood five times, suffered some of the worst hyperinflation recently recorded, endured economic sanctions, and was part of several of the Balkan wars, including the most recent conflict in Kosovo. The book, however, manages to describe all of these intertwining events in an objective and factual assessment, describing different policies and reforms implemented during that time.

Secondly, the book provides a comprehensive compilation of all types of statistics available on Serbia during this period from sources like the European Bank for Reconstruction and Development, the World Bank, the IMF, and the Serbian National Statistics, among a few. As the author herself comments, many statistics were missing and these gaps in information are quite worrisome. How can one know where to go next if it's not clear where they are coming from?

Milica Uvalic ends on a positive note about the future and the remaining challenges, leaving the door open for policy makers. Some of the suggestions she provides for Serbia to embark on a path "towards a better future" are a sector-focused industrial policy, employment policy through development of the private sector and the enabling of small- and medium-sized enterprises, investment in research and development, better national statistics, and a coordinated development strategy which incorporates complementary reforms. Furthermore, the strengthening of government institutions, such as courts and property registries, will help spur growth in the private sector, which has been lagging in recent years.

I would like to draw attention to Chapter 7 of the book, which talks about transition strategy flaws and where my area of expertise is most relevant. Milica Uvalic describes

Serbia's focus on privatization, liberalization, and stabilization, which overlooked complimentary reforms in institutions and regulatory environment. This view is confirmed by the World Bank and IFC's Doing Business data, which measures the regulatory environment in areas such as firm creation, labor laws, bankruptcy, taxation, and access to credit, among others.

Milica Uvalic describes the poor implementation of regulatory reforms after 2001. For example, privatization focused only on existing firms but not on facilitating new firm entry. The bankruptcy law was adopted too late, leading to dead capital. Instead, reforms should have focused on corporate governance, increasing competition, and improving institutions that facilitate private-sector development.

Doing Business data confirms this view. Serbia was one of the top reforming countries in the Doing Business 2006 report but since then Serbia has not been able to achieve this status again. There has been much effort made in the last few years to improve areas of business regulations, but the implementation has been poor and the full impact is yet to be seen. For example, a one-stop shop unifying several procedures was fully operation in 2009, which reduced the time and complexity of starting a firm. There has been a reorganization of the courts, but we have yet to see an improvement in the speed of court cases. Also in 2009, a new bankruptcy law introduced out-of-court workouts and a unified reorganization procedure, which should mobilize some capital for reinvestment. Finally, there is a new Construction Law, an area of challenge for the entire region and where Serbia has the worst performance among all Doing Business indicators (ranking 176 out of 183 countries surveyed). The implementation of the new law has been poor and most government institutions involved are not consistently applying the new law. The backlog in Belgrade has been huge, with only a few construction permits issued in 2010 and thousands of applications pending.

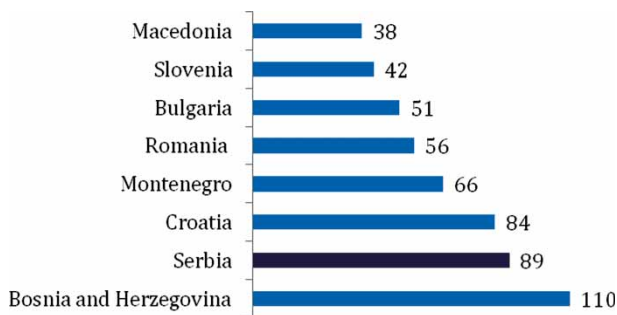


Figure 1. Ranking on ease of Doing Business, 2010. Source: Doing Business

Yet, despite the efforts in reforming, Serbia lags behind all former Yugoslav republics except Bosnia and Herzegovina. We see Slovenia, Bulgaria, and Romania performing much better. The European Union is not the only influence here, however – Macedonia performs the best among this group. Macedonia has been the top reforming country for several years in a row, showing that sustained focus on microeconomic reforms is what leads to results.

The last chapter ends on a positive note, outlining the key steps that Serbia should undertake “towards a better future.” It would be interesting to hear from the author if anything has changed in Serbia since she wrote the book. If the book were to be published today, would the advice offered in the last chapter remain the same and what, if anything, could be added knowing what we know now?

One of the key messages was for Serbia to adopt a pro-Europe agenda and accelerate its progress towards European Union membership. It would be interesting to get an update on the current status of Serbia's accession to the European Union. The accession might take years, and some of the problems need to be resolved right away. Also, as has been seen in the case of Romania, joining the EU does not immediately resolve all the problems.

Milica Uvalic also mentions in the last chapter that one of the ways towards a better future is for Serbia to resolve its issues with Kosovo. What, in the author's opinion, is the solution to its conflict in Kosovo?

Finally, this book seems to be an incredible undertaking, covering many years and many aspects of history and economics. Given the audience of professors and students, it would be of interest to hear Milica Uvalic share with us the biggest challenges she faced in writing the book.

Overall, *Serbia's Transition: Towards a Better Future* is a very current assessment of the transition in Serbia, its main successes and failures, and challenges for the future. The author ends on a hopeful note that the European Union accession will bring about the necessary reforms to catapult Serbia into the next stage of development and spur economic growth. Whether the European Union really is the magic solution remains to be seen, and policy makers in Serbia should prepare themselves for what comes after the accession.

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This is an extraordinary book. First, there is nothing else like it, and partly because no one else could have accomplished this. It is an immense bounty of detailed scholarship, information, nuance, and knowledge based on personal experience that is very rare, close to unique. Milica Uvalic has given us a gift for which we, and especially graduate students and young scholars, must be truly grateful.

I say graduate students and young scholars for two reasons: it is a sterling model of what one should aim to produce with any work of scholarship, in my view, that is, a consistent line of questions and messages throughout combined with empirical evidence for absolutely everything. It reads as if she were a lawyer building a very structured and, in the end, airtight case, but with the professional expertise of an economist who knows precisely what to look for. In other words, it demonstrates why data and evidence are necessary, and how much detail one should strive for. (As an excellent example, Milica Uvalic analyzes the data from the European Bank for Reconstruction and Development [EBRD] on the extent of the private sector in Serbia, questioning whether they were correct, going through the various data sets available and how to assess them – then, basically, in the end, agreeing with the EBRD figure of about 60%, but giving a wonderful object lesson to students about how to identify and work through data.) Studies of Southeast Europe, though certainly not only, have been plagued over the 20 years of transition by too many essay-like and anecdotal books, books with way too little empirical substantiation to be treated seriously, but also to make them worth reading. One tires easily when one is not learning anything new. In addition, people now actively doing research on the region have now an invaluable and definitive resource of knowledge on major aspects, economic especially but also political and international, of these two decades. It will be necessary reading.

I don't mean to exclude us seniors: we will still learn a lot, I certainly did, and it will also, as I will discuss today, provoke new questions for research.

The book is also quite amazing and rare for its honesty. For example, in the discussion of the transition strategy chosen after the anti-Milošević coalition won the elections of October 2000, Milica Uvalic confronts dead on choices of transition strategy with which she clearly disagrees, but instead of being critical, she remains analytical, is impressively fair-minded, and discusses why she believes they had no choice. This is only one example of honesty throughout – always presenting both or all sides of the story. People who do know her views, and are not sensitive to them through the recommendations in the last chapter about where to go now, will not see them here – they are embedded in continuingly careful scholarship and analysis.

My second recommendation, aside from the book itself, is to say, if you really want to understand the conditions facing Serbian politicians after they won against Milošević in the fall of 2000, you could do far worse than reading five pages, 133–37. Some will say, OK, this example is about the federal government, and thus it tells us as much about the true collapse of the former Yugoslavia as about 2000, but I propose that this example is not qualitatively different than at the level of what were still republics, Serbia and Montenegro, nor in its statement about what outsiders recognize of needs in these cases – we cannot help but think of North Africa and the Middle East at this moment – in contrast to what is actually needed.

I would like now to raise four questions for Milica Uvalic and discussion, though many of you will need to read the book first:

(1) One of the messages of the book is that the coalition elected in 2000 chose the wrong transition strategy, but the reason is that they were so in need of international recognition by financial institutions and especially concrete resources that they had no choice. This is an argument dear to my heart because it plays a crucial role in the social, economic, and political crises that unfold during the 1980s and explain, for me, the break-up of Yugoslavia. There is certainly a great deal to support this argument in many other cases. However, we are also now getting empirical studies, particularly in Africa, that show a variation in the extent to which governments submit to the requirements of the international financial institutions. I admit, resistance occurs more in relation to donors than to the IMF and the World Bank, adding the EBRD in the European cases, but the fact of resistance raises a very old political-economic literature in political science of dependency theory, namely, the idea of a comprador bourgeoisie. To put it more neutrally, as Peter Gourevitch's work demonstrates best, economic policy in a country depends on a *coalition* of actors domestically that reflects the balance of power among economic interests locally (this was easier to analyze in the Fordist age, when financial capital or industry and labor were more clearly distinct and organizationally important), and as Gourevitch shows, the neoliberal era and its focus on microeconomic adjustments makes collective action and the formation of political coalitions much more difficult – I won't go on here, though I'm not saying enough. The point I want to make is, was there a political coalition domestically in support of this transition choice imposed by the IMF and World Bank? If so, who were they? How did they make their views known? Who knew they would benefit, and how did they act? It is extremely interesting to me, for example, that one of the arguments Milica Uvalic presents in support of this choice, that "the hyper-liberal model seemed the safest way to radically break with the past" (p. 257), does not fit with her analysis that the "most important reason why Koštunica attracted so many voters is that he seemed to promise the respect of traditional values so dear to many Serbian citizens" (p. 113), a form, I would say, therefore, of continuity that was key.

(2) Related to that, then, why, where they did have policy options (for example, providing income subsidies to the poor when price subsidies for electricity were eliminated, or in the privatization strategy, about which Milica Uvalic was writing and very clear at the time [answer at p. 208]), did they not choose those? Serbia has very fine economists who understand the problems of a strict Washington consensus approach and were writing about it at the time, starting with the G17 Plus program (and, if I remember correctly, donors were even delighted at the December 2000 donors meeting that Serbs had their own program and were taking charge!). Why, also, is there such a repressive labor tax system, and why has it not changed over this period?

(3) I was totally surprised to discover in this book that Serbia fits the category of post-conflict and that we should think of what Milica Uvalic reports and analyzes within that category. I had not thought of it that way until now because war did not occur within Serbia itself, but after all, if you think that the Serbian point of view was still the former Yugoslavia, that the seceding republics felt that even more strongly, so Serbia would not have been able to escape that perception and its effects on reality easily in any case, and that in all civil wars, the actual violence and warring always takes place only in particular areas, then, of course, Serbia was in a civil war situation after spring 1991. Adding the counterinsurgency in Kosovo and then the NATO bombing in Serbia as well as in Kosovo in 1999 puts it definitively in the conflict category, and after 2000, post-conflict (which only means, post-violence).

To reconceptualize Serbian history in the last 20 years accordingly, one can make this suggestion clear with a list of some of the main policies and issues emphasized in the literature on post-conflict interventions:

- DDR (the demilitarization component of demobilization, demilitarization, and reintegration) and SSR (security sector reform), that is, change in the role of the security forces (all)
- physical destruction
- “reconciliation” (an inappropriate objective, but specified, in the case of Serbia, of what matters in all other cases, too: what to do about the mutual distrust resulting from the wars [one can see this even in one’s own experience with staff in 2000–2001, cited on pp. 134–36])
- transitional justice, in both the post-conflict sense and in its original sense, as Ruti Teitel labeled and analyzed, in relation to Argentina and then beyond, of moving from an authoritarian to a democratic regime – what do you do about the crimes and responsibility?
- debt and membership: the priority of all international memberships is finding an agreement with the IMF, and therefore with the World Bank and with bilateral donors, on debt arrears (there may be a parallel with the South African case, with people’s anger at Mandela for choosing a neo-liberal strategy, the macroeconomic policy entitled the Growth, Employment and Redistribution [GEAR] plan, despite the new constitutional commitment to “racial redress,” but his view was that without such a commitment, the masters in finance would depart – capital flight – because they were big entrepreneurs and white, and could leave)
- even the IMF, in its first loan to Serbia while the negotiations proceeded, was within its facility of Emergency Post-Conflict Assistance!
- credit-driven (especially foreign) economic strategy and jobless growth
- an interim government and the need to write a new constitution, which is necessary for the legal bases of economic change as well as other matters (and how much a delay there has been in Serbia!)

(4) What are the political consequences of economic change in 2001–2010? For example, what has been the effect on party constituencies, public opinion, electoral turnout and choice, possible political coalitions in government, and so forth, of developments such as:

- the declining role of labor as an organized political force was already taking place dramatically during the 1990s, but these economic policies make this *much* worse
- increasing regional inequalities within Serbia
- who politically are the new private sector likely to be?

This fourth question is, for me, as a political scientist, the most interesting of the many next questions, but in relation to this book, in particular, the answer will tell us about the hopes for a change in Serbian policy toward the new consensus among economists globally that Milica Uvalic discusses as the way forward for Serbia, too, and the hopeful ending of concrete policy recommendations for industrial policy, employment policy, and research and development. As she makes clear, this will require a change in the role of the state itself. Will that be possible, or is the resistance to change that she documents (at least 30%) likely to grow under anger at the consequences of these policies?

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I was fortunate to have had such a distinguished panel, with some of the top experts in the field discussing my book, and I am very flattered by their inspiring comments. Before responding, I would like to stress why I wanted to write a book about Serbia. Still today, too little is known about this country. People may remember Milošević or even the bombing in 1999, but outside the narrow circle of experts there is very little information about Serbia. Moreover, many issues remain controversial: for example, did Serbia's transition start in 1989, or only after the political changes in October 2000? The assessments of Serbia's progress since 2001 have also been very different, where there is an enormous divergence particularly between the political and the economics literature, the latter being much more optimistic. I wanted to explain why a country that had among the best initial conditions to implement the transition to a market economy has ended up lagging so much behind.

Following the order of presentations, I will first reply to Jan Svejnar's comments. What type of industrial policy does Serbia need today? This is an extremely important issue that needs to be studied carefully by the Serbian government, translated into effective policy measures, and applied consistently. Industrial policy is an outdated term for what today in the European Union is usually referred to as "policies to enhance enterprise competitiveness," which is understood and applied quite differently by its member states. What the Serbian government should not do is support national champions or continue the present practice of subsidizing large loss-making enterprises. Rather, it should implement an industrial policy in support of priority sectors, measures that can encourage more investment, R&D, innovation, and therefore industrial restructuring, primarily in those sectors that are considered important for Serbia's economic development. During the last ten years, Serbia has registered a further decline in the relative importance of industry after the extreme process of deindustrialization in the 1990s, so by 2008 it was still at only

52% of its industrial production in 1989. Over the 2000–2008 period, the contribution of the tradable goods sector, consisting mainly of industrial but also some agricultural products, has declined dramatically. Structural changes have strongly favored the expansion of mainly non-exportable services at the expense of industry, which is one of the main causes of increasing imbalances on Serbia's trade and current account. Despite the fast expansion of trade after 2001, Serbia's exports structure has not changed substantially. In order to improve export performance and increase competitiveness, Serbia must implement measures to strengthen some of its key economic sectors. Serbia does have a comparative advantage in the food industry and some other segments related to agriculture (the only sector where today it has a surplus in trade with the EU), but there are other sectors, possibly the automobile industry or pharmaceuticals.

Jan's second comment referred to the labor market, where the situation in Serbia is extremely unsatisfactory: during 2001–2006, official employment declined while the unemployment rate increased. The slight improvement after 2007 was partly due to methodological changes and has practically been cancelled by the effects of the global economic crisis in 2008–2010, so that by October 2010, 20% of the active working-age population was unemployed. The informal labor market remains much more flexible still today. I do share some of Jan's concerns about the negative consequences of formalization, primarily in hampering entrepreneurial capacity, but in Serbia the long persistence of the informal sector and its huge dimensions have also implied extremely high costs: loss of government revenues (through untaxed income), distortions in market competition (through unfair competition of unregistered activity not subject to payment of contributions and taxes), and total lack of social protection of workers (no formal contracts or very short-term contracts, no payments for social security contributions, lower compensation and delays in paying wages). How to encourage wage employment in Serbia? Although the Serbian government has been offering subsidies to firms for employing young job-seekers, this is clearly not enough. What needs to be radically changed is the tax system, reducing the current labor tax wedges for lower-wage income categories, together with general cuts in social security contributions. But this will not be enough unless the government also implements active labor market programs, which have been used only marginally so far. In order to compensate for reduced government revenues, progressive income taxation must be considered, of the type used in Italy, France and other European countries.

Tea Trumbić raised the question of whether things have changed in Serbia since the conclusion of my book. On the positive side, I believe that after the global economic crisis, there is more awareness among policy makers in Serbia that the post-2000 economic strategy was not so successful after all. There have been some serious reflections on how to change the growth model, how to switch from the credit driven model based on consumption to a model based on investment, as addressed in a comprehensive study on the post-crisis development model for Serbia in 2011–2020, endorsed in late 2010 by the Serbian government. On the negative side, the new concept of growth seems to again rely too heavily, as in 2001, on the arrival of foreign investors, despite the radically changed global climate for FDI. The dinar has depreciated by some 18% in two years (Oct. 2008–Oct. 2010), stimulating exports and cuts in imports, thus facilitating a more balanced trade and current account, but in order to achieve stronger export-led growth Serbia primarily needs to strengthen the real sector of the economy. This is why a carefully designed industrial policy is so important (as stressed earlier). In addition, many important issues on the reform agenda have not moved forward since 2009. A series of laws have not yet been adopted, including the law on the use of urban land, the long-awaited restitution

law, and the law on the financing of political parties. Serbia needs to improve the functioning of its government institutions – to ensure that laws are adopted and are also implemented, that court procedures are shortened, that corruption is fought more efficiently. Recommendations included in my book remain very much valid still today.

The second group of Tea's questions was related to the European Union. The EU is not, of course, the magic wand for Serbia's problems. But if you look at the geographical map of Europe, you will notice that the Balkan region represents the "black hole," being surrounded by EU member states. Croatia will probably become an EU member soon, so it is normal that all the other Balkan countries are aspiring to enter. Only once all the Balkan states join the EU will some of the delicate political questions become much less relevant – question of borders, return of refugees, property issues, and minority rights. This is why my book ends with an appeal that all the Balkan countries join the EU as soon as possible – although in view of the latest multiple crises within the EU, the prospects are even less bright today than a few years ago. Serbia has signed a Stabilization and Association Agreement with the EU (though rather late, in April 2008), and has recently applied for candidate status which it hopes to receive by the end of 2011, since EU membership is its top foreign policy objective. Serbia's stance on Kosovo may seem reasonable, since no country renounces voluntarily to a part of its territory. Kosovo has not been recognized, not only by Serbia but also by the majority of UN members and by five EU member states (Cyprus, Greece, Romania, Slovakia and Spain). Still, Kosovo has been *de facto* independent for over three years, and has also become a member of international financial institutions (IMF, World Bank). Given the circumstances, Serbia should look primarily towards the future and consistently implement its pro-EU agenda.

Tea Trumbić's third question was what were the biggest challenges in writing the book. There were at least four challenges, primarily methodological. The first was my intention to cover a 20-year period (1989–2009), which implied I had to be selective in choosing the most important issues. I regarded it fundamental to include the 1990s, because transition in Serbia also started in 1989, *not* in late 2000 (as is frequently erroneously sustained), with the first multiparty elections in December 1990 and the first radical economic reforms launched by the last Yugoslav government in 1989–1990. Although many pro-market economic reforms were reversed after 1992, certain processes typical of the transition continued in the 1990s – wild privatization, social differentiation, flourishing of informal activity, weakening of the rule of law, increasing corruption – processes that were further amplified by the country's specific conditions (record hyperinflation, military conflicts, international sanctions, and isolation). This has important implications about where Serbia was in late 2000: it did not start economic and political reforms from scratch, but with a *heavy burden from the 1990s*. The second challenge was how to discuss Serbia's economic problems within a broader perspective, taking into account the political and historical context, since many economic problems could not be explained without understanding the political background (hyperinflation in 1992–1993, or problems during the first year of economic reforms in 2001). I wanted to avoid entering the heated and frequently highly biased political debates about the responsibilities for Serbia's situation today, though I have also stressed my own views. The responsibility for the missed opportunities does lie primarily with the Serbian government, but additional factors must also be considered, including hesitant or wrong policies of the European Union (and the wider international community), which frequently not only did not produce the desired effects but were even counterproductive. The third challenge was how to combine rigorous economic analysis with my personal experience, since I have occasionally been involved in Serbian politics, particularly after the political changes in

late 2000 as member of the federal government. Reporting personal experiences is inevitably much more subjective than the analysis of economic indicators or official economic policies. In order to draw a clear line between the two, I have kept them separate: whatever was based on my personal experience was placed outside the main text, in boxes or appendices. The last challenge was statistics: the inconsistency of numbers, methodologies, and lack of data made me postpone the delivery of the manuscript several times. Although statistics on Serbia since 2001 have mushroomed, both in the country and within international organizations, there is still a lot to be desired. I have used national statistics whenever available (and credible), but have combined them and compared them carefully with international sources.

The questions posed by Susan Woodward are the most challenging, as they touch upon some of the most delicate issues. On Serbia's transition strategy in 2001, at that time there was a coalition, or rather a sub-coalition, domestically in support of the transition options suggested by the IMF and World Bank. Although the Democratic Opposition of Serbia was politically a rather heterogeneous group, the economic strategy was mainly in the hands of ministers in charge of economic policies, where a few people from the G17 Plus had major say. The neoliberal strategy was therefore supported by at least part of the Serbian/Yugoslav government, if not by the country's President (at that time he had more important issues to think of, like "welcoming" Carla Del Ponte when she first visited Belgrade).

But things are not as simple as that. Responding to Susan Woodward's second question, why were alternatives to the adopted solutions not considered? This was due to a combination of various factors: ideological blindness (glorification of liberalism), lack of courage to go against the mainstream recipes (fear of not getting the badly needed finance), ignorance (not all economic ministers were well educated), but also vested interests. In the case of privatization, at a conference in Belgrade in April 2001 at the Faculty of Economics, the designers of the new program, including the new privatization minister, presented the new approach. I stressed that the method based exclusively on sales was dangerous, since foreign capital will not immediately come pouring into the country, so enterprises will end up being bought by those individuals who had enriched themselves by illegal, sometimes war-related, activities in the 1990s, or relying heavily on political privileges and close connections with the governing elite. Janez Prašnikar was also there, reporting on the Slovenian experience of the insider model of privatization that had provided continuity with the previous system and therefore was socially more acceptable. Our views were ignored. Was everybody really convinced that FDI would arrive in large amounts? Or were there also vested interests of a privileged group managing the privatization process, not only within the country? A few years ago I met a World Bank expert who in 2001 was advising the Serbian government on privatization, who proudly asked me: "It was an excellent law, don't you think?" Having already written my chapter 7 on the strategy flaws, which criticizes in the first place the 2001 privatization law, you can imagine what my answer was. Regarding the transition strategy presented at the donors conference in Brussels in June 2001, it had been prepared by World Bank experts, although its draft was presented and discussed in Belgrade in April 2001 with all the relevant ministries. What donors at the Brussels conference were impressed by were the brilliant speeches delivered by Miroslav Labus and Božidar Đelić, not so much the transition strategy prepared by World Bank experts with little knowledge about the country.

The parallel Susan Woodward draws between Serbia and post-conflict countries is indeed striking and is very relevant for today's debate. The main policy recommendation

in late 2000 to Serbia, a country involved in wars and under international sanctions for a whole decade, should not have been economic liberalism and “laissez-faire” policies. There were enormous differences between Central Eastern Europe in the early 1990s and Serbia in late 2000, not least regarding the disastrous state of government institutions. The issues mentioned for post-conflict interventions were extremely important also in Serbia in 2001, yet some of the most delicate problems were not addressed immediately, including security sector reform, “reconciliation,” or transitional justice. This explains why the overall results of the last decade of reforms have not been more impressive. An important lesson from the Serbian case is that an initial strong political consensus is fundamental for pushing forward the most urgent reforms, even the most difficult ones, otherwise the momentum may be lost. While prime minister Djindjić initially seemed very able in balancing the different political interests, his assassination in 2003, unfortunately, confirmed the contrary.

Coming to the last question raised by Susan Woodward, the political consequences of economic changes in Serbia during the past decade have been far from positive. This can be illustrated by various negative outcomes: the insignificant role of trade unions and absence of social dialogue, which was launched by Djindjić in 2002 but was abandoned soon after; the increasing number of strikes, frequently related to privatization failures; rising regional inequalities, due to delays in effective decentralization and redistribution policies; loss of credibility of many politicians, due to false promises, corruption, or other types of scandals; citizens’ mistrust of state institutions, including the judiciary and the central bank, as confirmed by the flight from the national currency (Serbia today is the most Euroized economy in the region). The dissatisfaction among Serbian citizens also derives from the feeling of deep social injustice, since the post-2001 economic strategy, especially privatization, has produced few winners and many losers. What I anticipated in 2001 has in fact happened. In addition to a handful of foreign investors, the new private owners have become those individuals who had acquired fortunes before the 2000 changes, most frequently thanks to privileged relations with the governing elite. The privatization strategy has thus been highly unfair, since it has benefited the “new rich” oligarchs that today are the dominant players in the Serbian economy. This is probably the most worrisome aspect of recent economic, social, and political changes in Serbia, also because the influence of the new economic elite goes way beyond the strictly economic sphere. Although the government has recently tried to address some of the social problems through the re-launch of social dialogue, regulations setting a minimum wage, and introduction of progressive taxation on individual property, these measures will probably not be sufficient for a reshuffling of present power structures and reaching a “new consensus.” Yet let me conclude with a positive note: the political situation in Serbia is not dissimilar from the one in other young democracies in the region, certainly not worse than in neighboring Bosnia and Herzegovina or Kosovo. Whatever the immediate future may bring, it cannot cancel some of the positive political and economic changes of the last decade.