

WORKING PAPER

Serbian Interest within One Belt One Road

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Abstract

The Serbian economy was considerably damaged in the nineties due to embargo, isolation and regional conflicts. The global economy was growing while Serbia was counting the costs of destruction in just about all aspects of its society: economy, infrastructure, education, healthcare, pension system, culture, agriculture, media etc. The generations born in the fifties and sixties (baby boomers) lived in prosperity during a largely peaceful era from the end of the Second World War until the breakup of Yugoslavia. However, the nineties' bloody disintegration of the former Yugoslavia meant that baby boomers went through the hardship of an isolated Serbia under sanctions and embargo. In the period that followed, this generation found themselves overrun by the technological advances that have been ongoing in the world. My mother and father's generations were privileged to live in peace and prosperity for much of their lives while the generations that followed were raised in times of increased regional instability. The new generations are also now having to compete with the whole world as technological advances and internet has made it smaller than ever. On the flip side, the internet and technological advances also brought opportunities to the cash strapped Serbian economy. The single most important necessity for the Serbian economy is to "reindustrialize" itself thereby improving exports and the balance of trade. In that regard, Serbia's main interest within One Belt One Road (OBOR) is to improve connections (economic, political, infrastructural, trade, and technological) with regional countries and beyond in order to attract foreign direct investments as the sole engine for re-launching the economy and exports. Deeper regional connections, (locally made) value added goods and services and technology for exports to third countries' markets is the only way for Serbia to improve living standards for its citizens. Finally, Serbian interest within OBOR is to stabilize the sometimes complicated internal relations i.e. between the majority and minorities

Key Words: infrastructure, exports, culture, governance, technology, development

Yugoslavia

I have recently read an amusing summary for the historical fiction book written by Mr. Marko Vidojkovic named "Well, Thank You Very Much". He writes about how Yugoslavia would look in present time if it stayed intact and continued (evolved into) an economic development model similar to that of China. His thesis is that we continue to live the Tito

socialist style era but with tablets, GPS, high speed trains etc. The fiction book speaks about all the nationalists' leaders dying in a plane crash and/or never reaching power. The communist style economic development catches up with the technological advances. The big Yugoslavian manufacturing systems continue operating and are now producing laptops, electric vehicles, tablet devices, smartphones etc. The article concludes that in reality, the former Yugoslavian republics now look more like poor and technologically lagging colonies. Yugoslavia did not survive the period after the fall of the Berlin Wall. The reality is that nationalists did take over the power and the "nation" theme was used more often than "working class" as former Yugoslavian republics divided along ethnic lines. Following the fall of the Berlin Wall, the free market economy came on top which also marked the end of the Cold War. Countries in the west and east embraced the "winner" economic model. Recent years show, however, that the world is slowly drifting into some kind of multipolar economic development model. Whether that means we are also entering increased global instability, only time will tell.

Josip Broz Tito was de facto Yugoslavian leader from 1943 until 1980, when he passed away. The international affairs looked much differently at the time when the post-World War II world was largely divided into two major blocks, one led by the U.S. and other led by the Soviet Union. There was also the Non-Aligned Movement as a third block of countries, but with many of the members aligning closer to one or the other of the two major blocks. The united Yugoslavia was bigger and geostrategically connecting Asia and Europe. It was an important part of the two sides' international affairs world. During the Cold War, Tito managed to avoid implementing a Soviet style economic model that also led to numerous accounts of Stalin attempting to assassinate him. On the other hand, he kept cordial and many would argue warm relations with the U.S. Coupled with the fact that Yugoslavia was one of the founding members of the Non-Aligned Movement, this meant it was able to freely trade with East and West. Yugoslavian passport holders were welcomed visa free throughout the world. Yugoslavian wages and living standards were comparable to those of an average European Union (EU) citizen at the time. Fast forward thirty years and Serbia, a former Yugoslavian republic, as an EU candidate member has access to Western Europe countries' markets where Serbians can travel freely without visas. However, Serbian circumstances are different now. Not being part of the bigger country that was Yugoslavia, it has limited manufacturing and exports' capacity. The little that remained after the breakup of former Yugoslavia was destroyed during the nineties' regional conflicts and embargo. Serbian infrastructure does not come anywhere close to the average EU member of today. It seems as if Serbia, and most other former Yugoslavian republics, have wasted almost three decades only to find themselves at their economic development levels of the eighties. Tito was considered by many a strongman who was not shy to deal swiftly with political opponents. However, he was able to keep the six republics and different ethnicities together as part of one country - Yugoslavia.

New Serbian Reality

In the bipolar world of the Cold War era, when there was no clear economic model forerunner, it was common for countries to have heavy state influenced economic models. This was the case with Yugoslavia where most people worked at publically owned enterprises. These enterprises were owned by the people and managed by the workers. They operated well, posting high exports, employing a highly skilled and educated workforce. Yugoslavian international relations facilitated open trading routes with most of the world. When the Cold War was over and the free market-based economy came on top it was time for Yugoslavia to reform. In 1990, the reformist prime minister Mr. Ante Markovic was appointed. He launched sweeping economic reforms required for Yugoslavia to align to the new global reality of the post-Cold War world. However, the nationalists in the former Yugoslavian republics of Serbia, Croatia and Slovenia had it their way and the country fell into bitter armed ethnic conflict. As the regional conflict was raging throughout most of the nineties, Serbia was becoming increasingly isolated i.e. it was cut off from the regional and global trading. This meant that large parts of the Serbian economy remained under state control. The publicly owned enterprises or public administration in general continued to be the backbone of the Serbian economy. By inertia even at present, many in the Serbian workforce continue to live in the Yugoslavian socialist era. Coming to terms with the new reality has been particularly hard for Serbian baby boomers. Many of them are still working at state controlled entities that were once the giant exporters' of Yugoslavia. After so many years of isolation, wars, little or no reforms these entities resemble walking zombies that are dead but not quite. On the other hand, the public sector employees are rightly expecting to receive salary at the end of every month but not realizing that the world of 2017 is a fierce competitive place i.e. when a company cannot deliver what consumers are willing to buy it must close down or reform. Many Serbian state controlled companies have been surviving on state subsidies which diverge limited resources, slows down the economic growth and burdens the already strained budget. Alternatively, politicians are not incentivized to reform the public sector i.e. introduce professional management or privatise the companies. Namely, if politicians take the path of reforming the public sector they are essentially losing valuable votes in the next round of elections. If they do not control the state owned enterprises they are also not able to employ their own political party members at these companies. Serbia has a multiparty democratic system that at times seems to have come rather too early to this country. The transition to free market economy on the other hand is never ending.

Globalization

The world is increasingly getting smaller due to Internet connectivity. At the same time the competition between countries in the *global village* is more brutal than ever as the artificial borders are avoided by the technological advances. This means that every country is part of the global economic value chain but some are closer to end-consumer while others are further away as to providing the raw material. Serbian challenge has been how to position itself closer to the end-consumer at the global economic value chain (where the margins are

higher). A country's exports can improve if its value added products are in demand by global markets. The increased exports facilitate lower unemployment levels and rise of the living standards. Serbia has been running trade deficit for decades as it is essentially importing value added products while to a large extent exporting the non-value added products such as the raw material.

Globalization means that Serbia is now competing also on education, judicial system, healthcare management etc. If we do not provide the relevant education to younger generations they will not be able to innovate and compete globally. When the judicial system is slow and inefficient, the domestic and foreign investors take on the increased risk. Further, Serbians will be more productive with more efficient healthcare and shorter waiting lists. However, improving these systems takes time and careful balancing (trade-off) between priorities due to limited administrative and financial capacities. Developed countries have gone beyond the manufacturing and into knowledge, services and technology based economies. We are well into the new millennial but the European based Serbia needs to reindustrialize itself in order to have an economy with a higher level of value added product exports. Much of the Serbian population is represented by the baby boomers or older and many of them work in the public sector. One of the main economic challenges for all governments since 2000 has been to reform a large and inefficient public sector. It has been very difficult to employ baby boomers in the private sector as in many cases the skills in demand and supply are misaligned. The gap between the old ways' working environment and the new reality remains large for many in the Serbian workforce. In order to close the gap there must be focus on few industries in the coming decades. The strategically (visionary) selected industries will make Serbia more competitive. All the stakeholders must be actively involved in the vision: trade unions, government, private sector, public sector, political parties etc. There is an urgent need of reforming (closing) public sector companies and improving private sector exports that will re-lunch Serbian economy.

Exports

A potential shortcut for Serbia to move higher up the global economic value chain is technology development. As the world gets smaller due to the technological advances, younger Serbian generations have been learning how to engineer software. So far, the majority of the local developers have been working for foreign companies that are mainly based in North America or Western Europe. The increased presence of foreign and domestic owned software development companies led to the increase of locally educated software developers. The global competition for their skills is slowly flattening out as they can essentially work remotely for any company in the world. Due to the increase in global demand, Serbian developers have been enjoying the highest average salaries out of all sectors.

When Serbia opened up after the fall of the Slobodan Milosevic regime in 2000 the country went through a banking reform with many foreign banks entering the market. Companies and the population took on loans and the financial industry had been posting significant financial gains which meant it was able to offer the highest average salaries.

However, as the industry was disrupted by technology, the traditional banking sector has been struggling with lower demand for their services. Further, Serbian private and public sector have taken on high levels of debt. Subsequently the financial sector has been consolidating and not anymore offering the highest paid jobs. Different industries' landscapes are fast evolving and can have significant impact on whole economy. Every government should have the resources and knowledge to recognize these trends. An example of foreign direct investment lauded by virtually all the political parties in Serbia was the Italian car maker Fiat acquiring local car manufacturing plant Zastava. The politicians praised it as an economic success that has improved exports. Indeed, the exports of Fiat cars that come out of the production lines based in Serbia have improved the trade balance. However, the government subsidizes foreign companies to manufacture in Serbia. If this is the chosen strategy, the government should be able to envision the future landscapes of different industries and subsidize the industries (parts of it) that will survive in the future. Namely, the problem arises when the global auto industry landscape is going through changes such is the overcapacity and/or the switch to all electric (self-driving - autonomous) vehicles. When the global auto industry landscape is evolving the parent company cuts down on local capacity manufacturing of traditional vehicles. This means less work and exports from Serbian-based plant.

If on the other hand Serbia has attracted (subsidized) investments in alignment to the future car industry landscape then it would be positioned for longer term stable exports. If we are not ready to host a plant for all electric and self-driving (autonomous) vehicles we had better subsidize alternative long term projects then the disputable future products. Fiat entering Serbia is only one example of strategic failure of the subsidizing policy that has been repeating by most Serbian governments since 2000.

Culture

In my article *Serbia as China Hub to Europe* (to be published in December 2017) as part of a conference on OBOR I write about the importance of cultural exchange to the overall OBOR success. My thesis of Chinese companies setting up headquarters in Serbia to enter European market is based on close historical ties, similarity between today's China economic development model and that of former Yugoslavia. I also write about the common top-down governance style of both countries. As previously mentioned, Yugoslavian socialist era economic model was based on the publicly owned enterprises. Although China is currently at an economic crossroad, that will most likely lead to further reform of the state owned enterprises, the economic model is similar to that of former Yugoslavia. Further, Yugoslavia (now Serbia) also has a top down governance style, which is particularly present in public sector and governing institutions. On the other hand, Serbia has a multiparty political system which in our case has mostly caused the prolongation of the public sector reforms. Namely, different political parties seek control of state owned companies in return of supporting the majority government formation.

Socialism with Chinese Characteristics' economic model has been constantly evolving. The model continues to lift historical number of people out of poverty. The Communist Party

of China has shown to be resilient, able to evolve and adept to new challenges. China is increasingly becoming one of the most important pillars to global state of economy. In particular, the economic relation between the U.S. and China is the single most important to the global economic stability. The U.S. demand for Chinese goods and Chinese demand for U.S. debt have “merged” the two countries’ economies into one. Regardless of how China evolves as it potentially takes center stage in global affairs, the country’s traditions go back thousands of years. The Confucius philosophy has large influence on the Chinese culture. This has not changed under different dynasties or under Peoples’ Republic of China Mao Zedong, Deng Xiaoping and Xi Jinping (3 most prominent communist party figures). The paradox of reforming while still influenced by the tradition prove that it is possible to evolve with the new reality.

The issues

In order to attract more foreign investment for locally manufactured value added products, Serbia must improve relations with other former Yugoslavian republics. This will provide for bigger market, resources and important signal to the foreign investors to look at the region as a whole. The artificial barriers to more robust regional trade among former Yugoslavian republics hinder common production of goods and services that can be exported to third countries.

If we go by a joke we could say that every few years another country pops up in Western Balkans. The disaggregation of former Yugoslavia seems never ending. The problem of Western Balkans is that the divisions among ethnic lines remain very much alive. That is why the minorities in different regional countries do not feel part of the hosting countries. In Serbian case we have continuous Kosovo (open) issue that is very emotional for Serbians. The world’s big powers are looking at the issue through their own interests that in many instances are not aligned.

However, the people of Kosovo and Serbia have been living and will continue to live together. That is why the improved infrastructure and trade connecting the two sides will benefit everyone. Furthermore, there are frictions between different groups in southern region of Sandzak where predominantly Muslim population lives. Another recurring issue has been the regional autonomy of Vojvodina, located north of Belgrade. Often there is a talk of two-speed economic development, with Vojvodina and Belgrade growing faster than southern Serbia. There are also cultural differences between north and south of Serbia. For many years the former was under Austro-Hungarian Empire while the latter was under Ottoman Empire.

Serbian economic development has been largely centralized with Belgrade making up for most of it. The urbanisation has led to unequal access to opportunities and economic development between villages and cities. Every year a village of dozens thousands’ population “dies” as young people move to cities (mainly Belgrade) to seek better living conditions. China has been experiencing similar problem on a much larger scale with frictions between the migrants without *hukou* and the residents in the first tier cities. It is hard to predict what the future holds for Western Balkans and whether there will more countries

popping up. The success of OBOR in Serbia will also depend upon the internal stability and the country's relation towards the minorities. The forming of yet more states in Western Balkan region is always a possibility.

Conclusions - How can Serbia benefit?

Serbian interest within OBOR is seen through the potential economic growth and improvement of exports' levels. This will in turn bring more internal and external stability to the country and the wider region.

Infrastructure - If Serbia is able within OBOR to rebuild the traffic infrastructure, connect more efficiently with regional countries and wider world this will improve its access to third countries' markets. Infrastructure projects will in turn bring in more foreign direct investments for local value added manufactured products and services, improved exports and thereafter higher living standards.

Financing - Compared to the EU members, Serbia as EU member candidate has more flexibility in financing arrangements for large infrastructure projects. Nonetheless, most of the countries bordering Serbia are now part of the EU and as such must comply with the EU commission's directives on infrastructure financing.

Technology - China is the pioneer in disrupting different industries' value chains through the increasing mobile data usage. The so called "Internet plus" has become one of the main pillars of Chinese economic development. If Serbia is able to cooperate as part of OBOR with China-based technology companies i.e. Tencent, Baidu, Alibaba and Jingdong this will improve the local know-how, employ Serbian developers, increase exports and the living standards.

Regional approach - Serbia would benefit from an OBOR approach to the whole region of Western Balkans. If there is a "manual" that comes with OBOR and explains the vision for the region and wider world it would be helpful for Serbian politicians to implement it. Serbia must be incentivized by OBOR to look at it as regional and only then as the global project.

Cultural exchange – OBOR success will largely depend upon the cultural exchange with China. If there is a way to facilitate the cultural exchange and visits between Serbian and Chinese youth this will be an important basis for Serbia to indeed become China Hub to Europe.

About the author

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