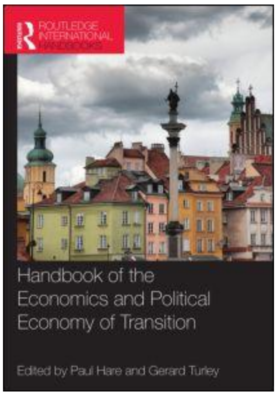

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Why has Serbia Not Been a Frontrunner?

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WHY HAS SERBIA NOT BEEN A FRONTRUNNER?

Milica Uvalic

Introduction

This case study is dedicated to Serbia, one of the countries born from the dissolution of the Socialist Federal Republic (SFR) of Yugoslavia, that over the last 20 years has changed its statehood five times. From being one of the six republics of SFR Yugoslavia, after its break-up in 1991 Serbia with Montenegro created the Federal Republic (FR) of Yugoslavia in April 1992, which became the State Union of Serbia and Montenegro in 2003. After the referendum in Montenegro in May 2006 when its citizens voted in favour of independence, in June Serbia and Montenegro became two independent states. Finally, Serbia's southern province of Kosovo unilaterally declared independence in February 2008, though by June 2011 Kosovo had not been recognized by 60 per cent of UN members. The focus of the chapter is primarily on Serbia, the preponderant part of the country in terms of territory, population and economic weight, though occasionally we will also need to refer to the country as defined at the time.

The paper discusses Serbia's economic history during 1989–2009, explaining why a country that had among the best starting conditions in 1989 to implement the transition to a market economy ended up lagging behind so much. Serbia is an interesting case for various reasons. Its 20-year transition has been more complex than in most other countries in Eastern Europe and in many ways unique. Still today, relatively little is known about the Serbian economy outside the narrow circle of experts and there are a number of controversial issues. There is no agreement among scholars when the transition in Serbia started, whether in 1989 or in late 2000 after the end of the Milosevic regime. There are also different assessments of the overall results achieved during the last decade.

We will recall the initial conditions in Serbia in 1989, while it was still part of socialist Yugoslavia, in the following section. The difficult 1990s in Serbia/FR Yugoslavia are analysed next. The new phase of Serbia's transition after the political changes in autumn 2000 is discussed in some detail, pointing to the main achievements and failures, and conclusions are drawn at the end.

Where was Serbia in 1989?

When the transition to a market economy and multiparty democracy was starting in 1989 in Eastern Europe, Serbia was still a constituent part of the SFR Yugoslavia, a federation composed of six republics (Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia with its two autonomous provinces Kosovo and Vojvodina, and Slovenia). After Yugoslavia's break-up in June 1991, five independent states were created on its territory, mainly according to the geographical borders of the republics that existed in Yugoslavia; the only exception was the FR Yugoslavia that was created from two of its republics, Serbia and Montenegro.

The initial conditions in SFR Yugoslavia were somewhat different than in the other countries in Eastern Europe. The successor states of Yugoslavia inherited from their former country a number of advantages which had benefitted all its republics (including Serbia), but also some disadvantages.

SFR Yugoslavia had a long tradition of market-oriented reforms. In the 1950s the system of workers' self-management was first introduced, when enterprise ownership was also transformed from traditional state property into social property, intended as property of the whole society. Further economic reforms aimed at economic decentralization and greater reliance on the market mechanism through gradual price liberalization, a multi-tier banking system, foreign trade liberalization (Yugoslavia became a member of GATT in 1966), and legislation on joint ventures. SFR Yugoslavia also benefited from specific international relations: it was not a member of the Council for Mutual Economic Assistance (CMEA) or of the Warsaw Pact, but a non-aligned country, with privileged relations with the European Economic Community (EEC). Yugoslavia concluded several trade agreements with the EEC in the 1970s and a broad-based trade and economic cooperation agreement in 1980, which greatly facilitated its trade orientation towards primarily the West.

The beneficial effects of market-oriented reforms in SFR Yugoslavia were, however, limited by the unchanged nature of the political system. This is why the Yugoslav economy was also characterized by some features typical of the socialist economic system as described by Kornai (1980): the dominance of non-private property, 'soft' budget constraints, and state paternalism through state intervention in enterprise affairs (Uvalic, 1992). Nevertheless, extensive economic reforms in Yugoslavia brought many advantages with respect to the traditional socialist economic system. Yugoslavia's unique economic system of 'market socialism' stimulated considerable academic interest, as an example of a potential 'third way' between capitalism and socialism (Estrin and Uvalic, 2008).

Within the Yugoslav federation, Serbia was the largest republic in terms of the most important economic indicators (output, investment, employment). Although Serbia was less export-oriented than Slovenia or Croatia, in 1990 it accounted for the highest share of Yugoslavia's exports and imports. In 1990 Serbia already traded mostly with the OECD countries, that accounted for 57 per cent of its exports and 60 per cent of its imports. Foreign capital invested in Serbia through joint ventures was 21 per cent of the total invested in Yugoslavia (Uvalic, 2010, p. 33). Serbia was not among the most developed republics, since in 1989 it had a Gross Social Product (GSP) per capita at 88 per cent of the Yugoslav average. However, the central part of Serbia (without autonomous provinces) had a GSP per capita at the very same level, Vojvodina was at 118 per cent, while Kosovo stood at only 24 per cent of the Yugoslav average. In 1989 the joint GDP per capita (at Purchasing Power Parity) of Serbia and Montenegro was US $4,731 or around half of the GDP per capita of Slovenia, the most developed Yugoslav republic (Kekic, 1996, p. 15).

On the eve of transition, Serbia also inherited some disadvantages. The most serious was the ongoing political crisis. After unsuccessful attempts to find a compromise solution on how to reform the Yugoslav federation, the country effectively disintegrated in mid-1991 when Slovenia and Croatia declared independence. Another disadvantage were ambiguous property rights: given that enterprises were in social property defined as property of the whole society, privatization was more complicated – it was unclear who was to initiate the process of privatization and to whom the proceeds would go. There was also greater resistance to radical systemic changes in Yugoslavia/Serbia, owing to a higher degree of popular support of the regime.

Political and economic instability in the 1990s

Serbia started its transition within Yugoslavia with relatively good initial conditions. It also benefited from the first radical economic reforms implemented by the last Yugoslav government in 1988–90, aimed at liberalization, macroeconomic stabilization and privatization. The first multi-party elections in Serbia (December 1990) brought the victory of Slobodan Milosevic and his Socialist Party of Serbia (SPS), born from a marginally reformed League of Communists of Serbia. Since Milosevic's SPS remained the dominant party throughout the decade, there was ideological continuity with the previous regime.

The transition was interrupted by three groups of political shocks. The first shock was the disintegration of SFR Yugoslavia in mid-1991, which brought extreme political and economic instability to the whole Balkan region. The second shock was the military conflicts of the 1990s, in which the FR Yugoslavia was directly or indirectly involved – in Slovenia (1991), Croatia (1991), Bosnia and Herzegovina (1992–95) and Kosovo (1998–99). The third political shock was international sanctions: several UN resolutions introduced very severe and widely based international sanctions against FR Yugoslavia from 1992 onwards, and again in 1998–99. Throughout the 1990s, FR Yugoslavia had an unregulated status in the UN, its agencies and most international organizations, since the government insisted on the recognition of the 'continuity' between FR Yugoslavia and SFR Yugoslavia, which was never approved (in contrast to the Soviet Union, where Russia was immediately acknowledged as the legal 'successor state').

These political shocks have had profound economic consequences (Uvalic, 2010). With the break-up of the Yugoslav economic union, Serbia lost a wide, protected internal market. The military conflicts of the early 1990s heavily burdened the Serbian/Yugoslav government budget through war-related expenditure, contributing to extreme macroeconomic instability in 1992–93. The highly expansionary monetary and fiscal policies necessary to finance the wars led to one of the record hyperinflations in world history, an annual inflation rate in 1993 of 116.5 trillion per cent. The Yugoslav was the second highest recorded inflation after the Hungarian hyperinflation of 1945–46 (today third, after Zimbabwe's hyperinflation in 2008 became second). The Yugoslav hyperinflation lasted 24 months, making it the second longest in world history (after the Russian hyperinflation in the 1920s). Extreme monetary instability was additionally fuelled by inappropriate exchange rate policies, as the official fixed exchange rate of the dinar was only sporadically adjusted to the black market rate. FR Yugoslavia also went through a very deep recession: over 1990–93 it registered a cumulative decline in GDP of around 80 percentage points. Industrial production declined even more, contributing to a very marked process of deindustrialization. There were frequent shortages of basic products, the flourishing of the informal economy, rapid currency depreciation, and a high degree of 'marketization' – replacement of the dinar with the German mark.

Under such exceptional conditions, the economic reforms that started in 1989–90 were effectively suspended or reversed. After 1992 the government introduced emergency packages based on administrative measures – general or selective price freezes, wage limits or controls, and rationing of the most essential products. The international trade embargo reversed the trade liberalization measures implemented earlier. A government decree prohibited the lay-off of workers during the duration of international sanctions. Key Serbian firms considered of strategic importance for the economy were nationalized.

Following this period of extreme instability, a stabilization programme was implemented in January 1994 by the newly-appointed governor of the Yugoslav National Bank, Dragoslav Avramovic, based on a currency board. Although the programme was initially very successful – hyperinflation was eliminated virtually overnight – the results were short-lived. Tight monetary policy was relaxed by June 1994 and the currency board was abandoned. There was no willingness to implement fundamental changes of the economic system. Although a new privatization law was adopted in 1992, amendments to the law in 1994 introduced an inappropriate revaluation of enterprise assets, practically cancelling most of the privatizations.

The Dayton Peace Accords in December 1995 officially ended the war in Bosnia and Herzegovina, opening new perspectives. International sanctions against FR Yugoslavia were officially lifted, but owing to marginal changes in the political regime the so-called 'outer wall' of sanctions remained, preventing the re-entry of the country into international organizations and access to international financial markets. Economic performance of the Serbian economy after 1996 remained unsatisfactory. Although inflation never reached the dramatic levels recorded in the early 1990s, it remained high. There was economic recovery – GDP growth reached even 10 per cent in 1997 – but only limited revival of foreign trade. The lack of normalization of FR Yugoslavia's relations with international financial organizations impeded the inflow of badly needed foreign capital. There was only one important foreign direct investment in June 1997, when 49 per cent of Serbia Telekom was sold to the Italian STET and Greek OTE for DM 1.57 billion. The economy continued to be protected through high tariffs and a number of non-tariff barriers. The dinar remained non-convertible and inadequate exchange rate policy contributed to the continuous discrepancy between the official and the black market rate. A new privatization law was adopted in 1997, but since it did not render privatization obligatory its implementation was slow. Many new laws contained provisions which indicated the lack of willingness by the government to abandon pre-1989 institutions and practices.

These negative developments had profound social consequences. The UN economic embargo triggered smuggling, war-related illegal activities, and corruption. There was increasing poverty and social differentiation. Income redistribution often took place in favour of the economic and political elite, through various channels – the inflation tax, freezing of citizens' foreign currency bank deposits, and various pyramid schemes which involved para-state banks, where citizens lost their life savings after they had declared bankruptcy. A close relationship was established between the political and economic elite: the directors of the 30 most important enterprises were also the key politicians, members of the Serbian parliament, ministers in the Yugoslav government, and the closest political collaborators of president Milosevic.

The country was also facing rising political and social unrest. Mass demonstrations became the main method of open protest against the regime, as those organized in the winter of 1996–97 owing to the non-recognition of the victory of opposition parties at the local elections. In addition, after the 1990 Serbian constitution centralized Serbia's power over Kosovo, the political situation in this province progressively deteriorated. After 1996 the confrontation between the Serb and the Albanian community became more extreme, attempts to find a peaceful solution through the Serb–Albanian dialogue were unsuccessful, and the first violent clashes took place between the Yugoslav National Army and the Kosovo Liberation Army. Once the international negotiations with representatives of the Milosevic regime in Rambouillet failed, NATO's 78-day bombing of FR Yugoslavia started, despite lack of formal authorization by the UN Security Council. The military intervention destroyed Serbia's basic infrastructure, a number of bridges and the most important factories. In 1999 there was a 19 per cent drop in GDP and a 50 per cent decline in exports. Depending on estimates, the costs of the war range from US $30 – 100 billion (Uvalic, 2010).

Serbia's 'second' transition

Radical political changes finally took place in FR Yugoslavia in October 2000. The September 2000 elections brought the victory of Vojislav Kostunica, the candidate for president of FR Yugoslavia of the Democratic Opposition of Serbia (DOS). Political changes effectively took place only after 5 October 2000 when, following the non-recognition of the electoral results, there was a general uprising of the Serbian population. Milosevic had to give in and recognize the electoral results. Political changes in the Serbian government took place some months later, after the December elections.

In late 2000, the government had many difficult issues on its agenda. After 10 years of isolation, FR Yugoslavia had to regulate its membership in the UN, the IMF, the World Bank and other international organizations, but this required the prior settlement of its accumulated debt obligations. Another set of specific problems derived from the complex relationship between Serbia and Montenegro, among other reasons because Montenegro was represented in the Federal government by its main opposition party SNP (Socialist Peoples' Party), a party that for years had been a loyal collaborator of Milosevic. In late 2000 FR Yugoslavia was highly dependent on international aid, but was also subject to strict political conditionality related to war crimes. Within the government, however, there was no consensus on the delivery of Slobodan Milosevic to the International Criminal Tribunal for the former Yugoslavia (ICTY). Milosevic was imprisoned only in late March 2001 and was delivered to the ICTY much later, on 27 June 2001, the evening before the donors' conference for FR Yugoslavia – had he not been transferred to The Hague, the promised aid would not have been received. Regarding relations with the EU, FR Yugoslavia was included in 2001 in the new approach for the Western Balkan states – the Stabilization and Association Process – which offered preferential trade access, financial assistance, and the possibility of signing a Stabilization and Association Agreement (SAA) with the EU. However, mainly due to strict political conditionality – the alleged insufficient cooperation with the ICTY – Serbia was able to sign a SAA only in April 2008.

Despite all these political problems, the end of the Milosevic regime facilitated more radical economic reforms and gradual macroeconomic stabilization. Prices increased very fast after their initial liberalization, but the trend has been positive: average inflation declined from over 90 per cent in 2001 to around 10 per cent in 2008. This was sustained by prudent monetary and exchange rate policy. Restrictive monetary policy was accompanied by the unification of the exchange rate, the devaluation of the Serbian dinar, and the introduction of a managed float regime. During the 2001–08 period, the Serbian economy registered strong GDP growth, on average around 5 per cent (Figure 29.1). There was a fourfold rise in net monthly wages – from €90 in 2001 to €400 in 2008. By 2009 Serbia's GDP per capita reached US $6,000 (US $11,530 in PPP), corresponding to 37 per cent of the EU-27 average. Serbia finally started attracting FDI, particularly after 2003. Until the end of 2008 the cumulative net FDI amounted to US $15 billion, or US $2,005 on a per capita basis. Increasing capital inflows have also been secured through emigrants' remittances which have been even higher than FDI, and donors' financial assistance of various international organizations, the European Union (EU) and other western countries.

After 2001 Serbia experienced a strong acceleration of economic reforms, as suggested by the transition indicators of the European Bank for Reconstruction and Development (EBRD). The liberalization of prices and of the foreign trade system was implemented fast, while privatization was carried further through a new law adopted in mid-2001. Major reforms of the financial sector included the closing down of the four largest banks in 2001–2 and the privatization of most banks to multinational European banks after 2003, so today 80 per cent of banking assets

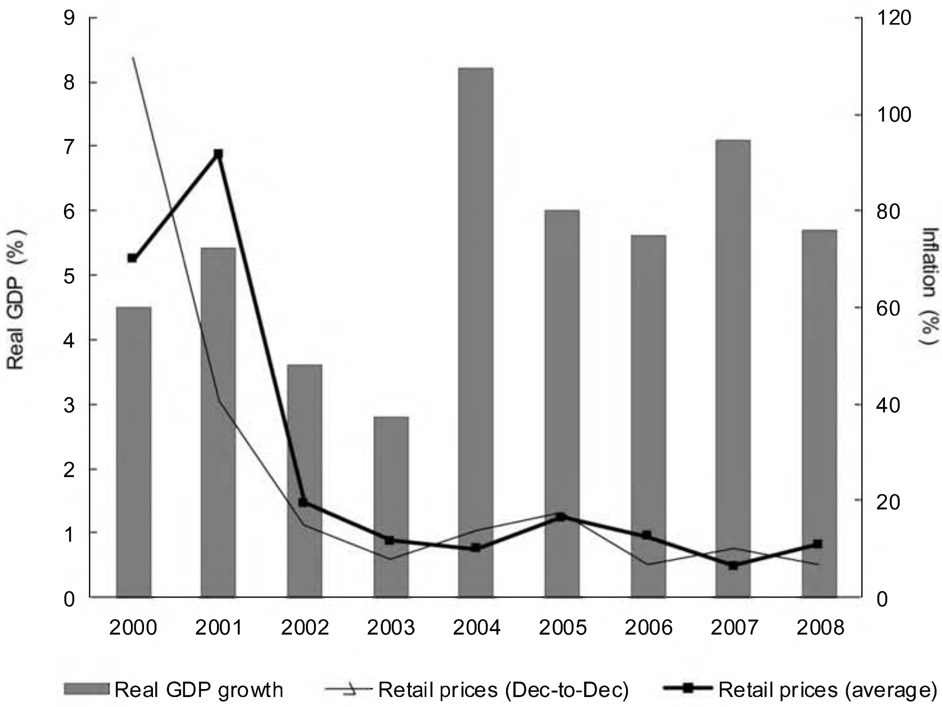

Figure 29.1 Real GDP growth and inflation in Serbia, 2000–08
Source: Uvalic, M. (2010), *Serbia's Transition. Towards a Better Future*, Palgrave Macmillan, p. 145, reproduced with permission of Palgrave Macmillan.

are foreign-owned. The setbacks regard primarily large-scale privatization, enterprise restructuring and corporate governance, competition policy, and securities markets and non-financial institutions, where Serbia still has a below-average EBRD score (2 or 2+).

There have been additional policy failures, however, not captured by the EBRD transition indicators. One of the most serious is the problem of 'jobless' growth. Despite relatively strong GDP growth during 2001–08, until 2006 employment declined while unemployment, whether measured by the official or the labour force survey rate, has continuously increased. There was a slight improvement after 2007, partly owing to methodological changes, which was practically cancelled by the effects of the global economic crisis in 2008–10. In October 2010 20 per cent of the active working-age Serbian population was unemployed.

Serbia has also been facing increasing external imbalances. Although foreign trade has recovered remarkably from 2001 onwards, the value of Serbia's imports has regularly been double that of its exports, determining a rising trade deficit. Exchange rate policy has kept the dinar overvalued, particularly during 2001–02 and in 2006–08, contributing to insufficient export growth. The rising trade deficit has led to an increasing current account deficit, which by late 2008 was close to 18 per cent of Serbia's GDP (Figure 29.2).

Moreover, the process of economic recovery in Serbia has been very slow. The recession of the early 1990s was more profound in Serbia than in most transition countries, while the NATO bombing caused another very deep recession, with a 19 per cent GDP fall in 1999. The relatively high GDP growth rates after 2001 have not been sufficient to compensate for the extreme loss of output in the 1990s. By 2008 Serbia's real GDP reached only 72 per cent of its

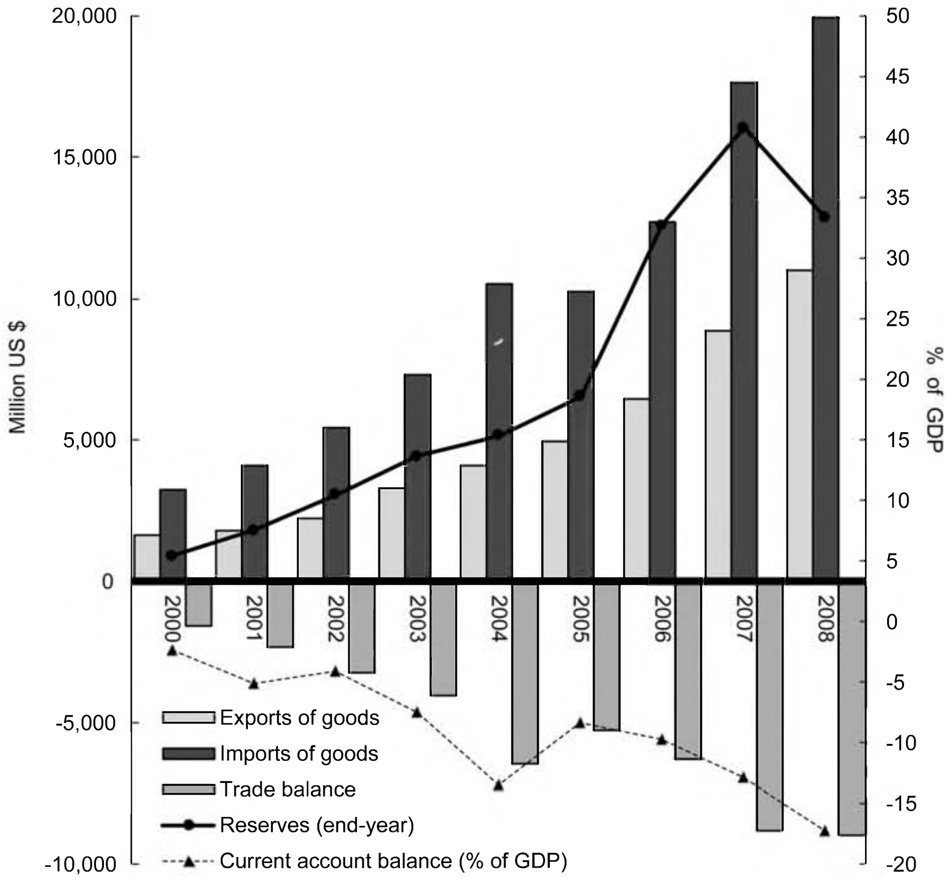

Figure 29.2 Serbia's external sector indicators, 2000–08
Source: Uvalic, M. (2010), *Serbia's Transition. Towards a Better Future.* Palgrave Macmillan, p. 156, reproduced with permission of Palgrave Macmillan.

1989 level, which is the most unfavourable position among all Balkan countries (Figure 29.3). There was a further setback in 2009 when Serbia, strongly affected by the global economic crisis, registered a negative GDP growth of 3.1 per cent. By mid-2010 Serbia was at only 70 per cent of its 1989 GDP level (EBRD, 2010).

At the basis of these failures are structural weaknesses in the real sector of the Serbian economy, which derive essentially from insufficient microeconomic restructuring. Serbia's 2001 transition strategy followed the prescriptions of the 'Washington Consensus' – the emphasis was placed on liberalization, macroeconomic stabilization and privatization, while a number of important microeconomic reforms were neglected. Although delays in microeconomic reforms proved to be fundamental in many Central East European (CEE) countries, causing setbacks even in the most successful countries like the Czech Republic (Svejnar and Uvalic, 2009), this was not taken into account in Serbia in 2001. Enterprise restructuring was expected simply as a by-product of liberalization, stabilization and privatization. In a liberalized and stable macroeconomic environment, it was assumed that enterprises, once privatized, would quickly and efficiently undertake economic restructuring. Such expectations have not been fulfilled owing to policy failures in several inter-related areas. The insufficient microeconomic restructuring of Serbian enterprises

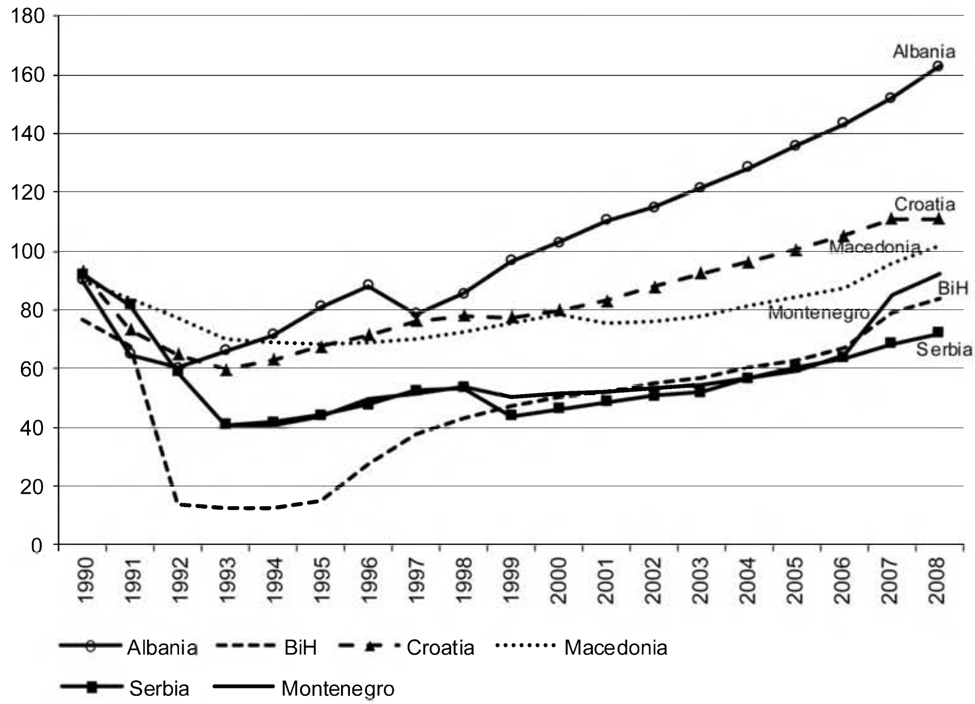

Figure 29.3 Real GDP in Serbia and other Balkan countries, 1990–2008 (1989=100)
Source: Uvalic, M. (2010), *Serbia's Transition. Towards a Better Future*. Palgrave Macmillan, p. 258, reproduced with permission of Palgrave Macmillan.

derives primarily from the inappropriate privatization strategy, but also from accompanying reforms which were substantially delayed.

The new privatization law adopted in 2001 was based on the method of sales to strategic investors of more than 2,000 enterprises through tenders and auctions. The law encountered serious delays in its implementation: although the initial deadline was 2005, by May 2009 there were still some 535 firms (23 per cent) that had not been sold. Moreover, there have been some 420 broken contracts since 2001, mainly due to the non-respect of obligations by the new owner such as illegal sale of assets, non-payment of wages and social security contributions, or simply no production. While firms bought by foreign companies have usually been restructured, this was not the case with those sold to domestic owners. Privatization proceeds, for the most part, have not been used for investment or restructuring.

The new privatization strategy relied heavily on FDI, but the expectations about its arrival were overly optimistic. FDI has been relatively modest, it has mainly been privatization-related, and its structure has not favoured industrial restructuring, since two-thirds has gone into services – banking, telecommunications, real estate, trade. Thus many industrial firms have not been modernized or restructured, although the manufacturing industry contributes around 90 per cent of Serbian exports. The privatization programme also excluded 550 public/state-owned strategic firms that were nationalized in the 1990s. The process of corporatization, restructuring and privatization of these state enterprises was effectively postponed until after 2006, when the new Serbian constitution finally clarified some ambiguities regarding their property status.

In addition to these weaknesses of the privatization strategy, there were also accompanying reforms that were unjustly delayed. Entry barriers were removed too gradually and there are areas, like registering property or obtaining building permits, where still today the conditions remain highly unsatisfactory (see www.doingbusiness.org). Regarding firm exit, a new bankruptcy law was adopted only in 2004, while the procedure for the write-off of enterprise debt was clarified even later, in 2006. As a result, there was a *slowdown* in net firm entry: for every closed enterprise, eight new firms were created in 2006, but only four in 2008 (Uvalic, 2010). A new Law on the Protection of Competition was adopted only in 2005, while the Anti-trust Commission, set up in 2006, has been ineffective. The hardening of enterprise budget constraints was implemented selectively, since government subsidies remain important in many sectors (mining, transport, metallurgy, textiles, chemicals, construction, wood). Serbia has officially adopted the OECD principles of corporate governance, but they are frequently not implemented due to insufficient skills of the new domestic owners to control managers, the lack of awareness of the new legislation or its deliberate non-implementation.

Ineffective employment policy has also contributed to limited microeconomic restructuring in Serbia. Employment policy was basically treated as exogenous to the reform process and reduced to a supporting labour market reform aimed at bringing more labour market flexibility (Arandarenko, 2009). The new system of labour taxation in force during 2001–07 introduced a highly regressive system of wage taxation, contributing to rigidities in the labour market and rendering the informal labour market more flexible.

Limited microeconomic restructuring in Serbia has contributed to two major macroeconomic consequences: (1) the relatively slow growth of the private sector; and (2) inadequate structural changes (Uvalic, 2010).

1 During 2001–10, Serbia's private sector share increased from 40 to 60 per cent of GDP. Among all 29 EBRD client countries, two countries today have the same relatively low share of private sector GDP as Serbia (Bosnia and Herzegovina, and Ukraine), while another four countries have lower shares (Belarus, Tajikistan, Turkmenistan and Uzbekistan). Somewhat paradoxically, Serbia's private sector expanded faster during the 1990s – when it rose from 10 per cent of GDP in 1991 to 40 per cent in 2000 – than after 2001.
2 Structural changes in Serbia have favoured the fast expansion of primarily services, which have had the strongest growth in recent years and by 2008 already contributed 64 per cent of GDP (considerably more than some of the developed CEE countries, like the Czech Republic). Industry has gone through a very strong process of deindustrialization in the 1990s and there was further relative decline after 2001. By 2008 Serbia's industrial sector had reached only 52 per cent of its 1989 production. The share of agriculture in GDP has also declined after 2001. As a result, Serbia's tradeable goods sector declined from 41 per cent of GDP in 2000 to 24.6 per cent in 2007, strongly contributing to the rising trade deficit.

Concluding remarks

In answering the question of why Serbia has not been a frontrunner in the transition process, there are three groups of reasons that ought to be stressed. The first regards the *adverse political conditions in the 1990s.* The re-emergence of nationalism, the break-up of the Yugoslav federation, the non-democratic political regime in Serbia throughout the 1990s and its involvement in several military conflicts, brought a decade of extreme political and economic instability. During the 1990s, political priorities rendered economic objectives secondary, so the transition was substantially delayed. The 1990s have also left a very heavy burden on the new government after the fall of the Milosevic regime. In late 2000, Serbia did not start its transition from scratch, but inherited many complex political problems, some of which – like the definition of the status of Kosovo – have not been resolved even today. After the turn in late 2000, the overall situation in Serbia was far worse than in the CEE countries in the early 1990s, which partly explains why the results have not been more impressive. The Serbian case shows how even particularly favourable initial conditions and institutional advantages can be undermined or definitely lost under unfavourable political conditions.

Second, Serbia *did not learn many lessons* from the more successful transition countries, but repeated some of the same mistakes. The Serbian government neglected many fundamental microeconomic reforms which should have been implemented early on. By the late 1990s the experience of some transition countries confirmed the importance of not only privatization but also of entry of new private firms; of not only the transfer of ownership but also of effective mechanisms of corporate governance; of increasing competition as even more important than privatization; of not only markets but also of active government policies (Kolodko and Nuti, 1997). The rich experience of transition countries from the 1990s was not sufficiently taken into account, although in 2001 Serbia's main advantage was precisely being able to learn from others (Uvalic, 2010).

Third, *external factors* have additionally contributed to delays in Serbia's transition – the very harsh international sanctions against FR Yugoslavia during most of the 1990s, the 1999 NATO bombing, the hesitant or inadequate policies of the EU and of the wider international community. Some of the international measures applied towards Serbia/FR Yugoslavia were frequently ineffective or counterproductive, in this way contributing to even greater delays in carrying forward the transition. During the 1990s, Milosevic was able to reinforce his undemocratic political regime at the expense of the population at large. Moreover, there was a dramatic deterioration in state capacity, spread of criminality and corruption, weakening of the rule of law and flourishing of the shadow economy, phenomena which are quite contrary to the objectives of the transition to democracy and a market economy.

Yet Serbia today is increasingly resembling other transition countries. During the last decade, it has become a more open economy with dominant private ownership, it has liberalized its trade with the EU and with its neighbours, it has reformed many of its institutions and its financial sector is dominated by foreign-owned banks. The more difficult challenges still lie in the political domain: the difficult issue of Kosovo and Serbia's future accession to the EU. Serbia has recently applied for EU membership and was formally granted candidate status in March 2012. At this point, the Serbian government should consistently implement its pro-Europe agenda, reconcile with its difficult past and look primarily towards the future.

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