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SUSTAINABLE REGIONAL DEVELOPMENT AS A FACTOR OF COMPETITIVENESS OF NATIONAL ECONOMY

ОДРЖИВИ РЕГИОНАЛНИ РАЗВОЈ КАО ФАКТОР КОНКУРЕНТНОСТИ НАЦИОНАЛНЕ ЕКОНОМИЈЕ

Summary: *Regional issues are an indispensable subject of interest of experts from different provinces in each country. The presence of pronounced regional disparities in different domains is generally considered to be the source of various problems in the functioning of the national economy and society as a whole. Over the past two decades, several proposals for regionalization have been put forward in Serbia, given its strategic commitment to EU accession. The paper presents the current regionalization of Serbia in accordance with the NUTS classification, taking into account the specific position of the Kosovo and Metohija region. The basic characteristics of the NUTS 2 level regions are analyzed from the point of view of strengthening the competitiveness of the national economy. In a separate part of the paper, the institutional foundations of the country's regional development and the need to align domestic regional policy with European practices and standards (exogenous vs. endogenous approach, urban-rural, etc.) are discussed. Human capital, entrepreneurship and regional development can be seen as determinants of the mechanism of progress through which national economies grow.*

Keywords: *regional development, sustainability, competitiveness, national economy, institutions, Serbia, environment, EU.*

JEL classification: *R11, Q01,*

Резиме: *Регионална проблематика је неизоставни предмет интересовања експерата различите провинцијеније у свакој земљи. Присуство изражених регионалних диспаритета у различитим доменима по правилу се сматра извором различитих проблема у функционисању националне привреде и друштва у целини. Током претходне две деценије у Србији је било изнето неколико предлога регионализације имајући у виду њено стратешко опредељење за приступање ЕУ. У раду се приказује актуелна регионализација Србије у складу са НУТС класификацијом, уважавајући специфичну позицију региона Косова и Метохије. Анализирају се основна обележја региона НУТС 2 нивоа, са становишта јачања конкурентности националне економије. У посебном делу рада разматрају се институционалне основе регионалног развоја земље и неопходност усаглашавања домаће регионалне политике са европском праксом и стандардима (егзоген vs. ендоген приступ, урбано-рурално итд). Људски капитал, предузетништво и регионални развој могу се посматрати као детерминанте механизма напретка кроз који националне економије расту.*

Кључне ријечи: *регионални развој, одрживост, конкурентност, национална привреда, институције, Србија, окружење, ЕУ.*

ЈЕЛ класификација: *R11, Q01,*

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1. INTRODUCTION

The modern development paradigm, especially in the EU, has a basic foothold in the concept of sustainable regional development. In this regard, an integrative approach to regional development is necessary, which implies a synthesis of economic, social and environmental dimensions and development goals. Regional inequalities are a phenomenon present in almost all countries, and in our country they are particularly pronounced. They significantly determine both the competitiveness and

the perspective of sustainable development of the region, which are important factors in the macroeconomic competitiveness of any national economy. Relevant insight into regional competitiveness can be gained starting from several of its significant dimensions, such as the quality of institutions, macroeconomic stability, infrastructure, health, education, labor market efficiency, market size, technological skills, business process sophistication, innovation, etc. The scope of this paper is an analysis of only some important aspects of the competitiveness of the region (NUTS 2 levels) in Serbia.

2. REGIONALIZATION OF SERBIA: APPROACH AND CURRENT SOLUTION

The issue of the territorial organization of Serbia, i.e. the regionalization of the country for a long time (from the end of the 80s of the last century until today) was neglected, and even when it was given a certain importance, it was mostly based on wrong assumptions and goals. For more than fifty years, adequate attention has not been paid to this topic in Serbia, neither in the theoretical nor in the practical sense. Namely, during the first decades of the 21st century, Serbia is facing pronounced and growing regional disparities in almost all segments of social and economic development. The reason for this is, on the one hand, the marginalization of this issue in the country's development policy, and on the other hand, the adoption and application of inadequate and wrong measures to alleviate regional "tensions" in the previous period. Sporadic, inadequate and ineffective measures were often the result of the desire to solve the accumulated problems in the field of regional development in the short term. Such a perception was wrong, since regional development is an area of structural nature and, as such, has a predominantly long-term character. It is important that economic policy makers understand that this is a difficult, expensive and slow process.

In order to make progress, it is necessary, first of all, to institutionalize the regional policy in its three basic segments: (a) implementation of the regionalization process, (b) creation of regional development institutions and (c) provision of funds for financing regional development.

Tables 1 and 2 provide an insight into some of the proposed solutions for the territorial organization of the country that appeared in the previous period and in the existing regionalization of Serbia (see more: Molnar 2016; Vlada Republike Srbije 2007; Devetaković et al. 2005; Devetaković 2011, 183-184; Jakopin and Devetaković 2009, 92-95; Službeni glasnik RS 2009a; Službeni glasnik RS 2009b; Službeni glasnik RS 2010).

Table 1. Some earlier proposals for regionalization of the Republic of Serbia

	NUTS 1	NUTS 2	NUTS 3
Proposal 1	Republic of Serbia	a. City of Belgrade b. Central Serbia (no Belgrade) c. AP Vojvodina d. AP Kosovo and Metohija	Districts (29) + City of Belgrade
Proposal 2	Republic of Serbia	a. City of Belgrade b. Eastern Serbia c. Western Serbia d. AP Vojvodina e. AP Kosovo and Metohija	Districts (29) + City of Belgrade
Proposal 3	Republic of Serbia	a. City of Belgrade b. Eastern Vojvodina (Banat) c. Western Vojvodina (and Srem) d. Eastern region e. Western region f. Central region g. Southern region h. Eastern Kosovo and Metohija i. Western Kosovo and Metohija	Districts (29) + City of Belgrade

Proposal 4	Republic of Serbia	a. City of Belgrade b. AP Vojvodina d. Eastern Serbia e. Western Serbia f. Central Serbia g. Southeastern Serbia h. AP Kosovo and Metohija	Administrative districts / subregions (13): - Banat, - Bačka, - Srem, - Belgrade, - Kolubara and Mačva district, - Podunavlje and Braničevo district, - Morava, Šumadija and Pomoravlje district, - Zlatibor district, - Raška and Rasina district, - Bor and Zaječar district, - Nišava, Toplica and Pirot district, - Jablanica and Pčinja district and - AP Kosovo and Metohija.
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Source: Molnar 2016, 322

Table 2. Current regionalization of the Republic of Serbia according to NUTS methodology

NUTS 1	NUTS 2 (regions)	NUTS 3 (subregions)	LAU (local level/local governments)
Serbia - North	Region of Vojvodina	7 districts (administrative districts): Northern Bačka District, Western Bačka District, Northern Banat District, Central Banat District, Southern Banat District, Southern Bačka District and Srem District	6 cities and 39 municipalities (total of 45 local governments)
		Belgrade District	
Serbia - South	Region of Šumadija and Western Serbia	8 districts (administrative districts): Zlatibor District, Kolubara District, Mačva District, Moravica District, Pomoravlje District, Rasina District, Raška District, Šumadija District	10 cities and 42 municipalities
		9 districts (administrative districts): Bor District, Braničevo District, Zaječar District, Jablanica District, Nišava District, Pirot District, Podunavlje District, Pčinja District, Toplice District	
	Region of Southern and Eastern Serbia	5 districts (administrative districts): Kosovo District, Peć District, Prizren District, Kosovska Mitrovica District, Kosovskop Pomoravlje District	1 city and 28 municipalities

Source: Molnar 2016, 322

3. REGIONS IN SERBIA

The regional polarization of Serbia to the developed area, north of the Sava and the Danube and the southern, underdeveloped area, did not change or mitigate significantly during the transition period. The advantage of the northern areas of Serbia is in the relatively higher income per capita and employment, in the created preconditions of development, built infrastructure, position on international corridors and relatively more developed industry. In contrast, areas in southern Serbia are homogeneously underdeveloped over a wide area. However, during the transition, regional inequalities in Serbia, in some development dimensions, increased and became much more nuanced. The biggest differences relate to demographic characteristics and potential, economic structure and productivity, social exclusion, environmental problems and internal inhomogeneity (participation of municipalities with special problems in relation to the total territory and participation of municipalities in the region with undeveloped or devastated area).

The Belgrade region has an area of 3,227 km² and about 1.7 million inhabitants in mid-2017 (according to estimates). The average age of the population is 42.3 years. According to the Labor

Force Survey for 2017, the employment rate reaches 48.3% and the unemployment rate 13.3%, while the inactivity rate is 44.2%. According to the Census (from 2011), the illiteracy rate (population aged 10 and over) is 0.83%, while the computer literacy rate (population aged 15 and over) is 46.9%. About two-fifths of Serbia's GDP falls on the Belgrade region. Gross domestic product per capita in 2018 will reach around 10,500 euros.

The estimated number of inhabitants in the middle of 2017 in the region of Vojvodina was around 1.9 million, and the area of this region is 21,506 km². The average age of the population is 42.7 years. According to the Labor Force Survey for 2017, in the region of Vojvodina, the employment rate was 46%, and the unemployment rate was 12.2%, while the inactivity rate was 47.6%. According to the Census (from 2011), the illiteracy rate (population aged 10 and over) is 1.59%, while the computer literacy rate (population aged 15 and over) is 34.9%. The share of the region of Vojvodina in the national GDP for 2018 was slightly more than 1/4. Gross domestic product per capita in 2017 reached around 5,970 euros.

The area of the region of Šumadija and Western Serbia is 26,483 km², while the estimated number of inhabitants in the middle of 2017 was over 1.9 million. The average age of the population in this region is 43.4 years. According to the Labor Force Survey for 2017, the employment rate in this region reaches 48%, and the unemployment rate 13.6%, while the inactivity rate is 44.4%. According to the Census (2011) rate of illiteracy (population aged 10 and over) is 2.38%, while the computer literacy rate (population aged 15 and over) is 27.8%. The share of the region of Šumadija and Western Serbia in the national GDP for 2016 was about 1/5. Gross domestic product per capita in 2017 reached around 4,150 euros.

The area of the region of Southern and Eastern Serbia is 26,255 km², while the estimated number of inhabitants in the middle of 2017 was around 1.5 million. The average age of the population in this region is 43.8 years. According to the Labor Force Survey for 2017, in the region of Southern and Eastern Serbia, the employment rate was 43.9%, and the unemployment rate was 15.2%, while the inactivity rate was 48.2%. According to the Census (from 2011), the illiteracy rate (population aged 10 and over) is 3.05%, while the computer literacy rate (population aged 15 and over) is 26.9%. The share of this region in the national GDP for 2016 was less than 15%. Gross domestic product per capita in 2017 reached around 4,050 euros (for more details see: Devetaković et al. 2019).

Comparative analysis of development indicators by regions (NUTS 2) shows development asymmetries, and thus key segments of their limitation, i.e. development potentials. One of the basic characteristics is uneven demographic development, in terms of depopulation and regional concentration. This is important if we keep in mind that demographic development is a dynamic system with many feedbacks and has multiple effects on the development of the region. The comparative analysis confirmed a high correlation between demography and the economy - namely, economically successful regions, that is, regions that achieve high rates of economic growth, have positive demographic characteristics compared to other regions.

According to all characteristics and development capacities (spatial, demographic, economic, financial, educational, health, scientific, cultural, infrastructural and other), the Belgrade region stands out from other regions, so the largest influx of so-called 'economic' migrants, was recorded in the area of the city of Belgrade. From the aspect of simple imbalance of development, the area of the city of Belgrade represents an emphasized point of polarization and is the most developed and most promising area of Serbia according to all key development indicators, and especially according to the volume and structure of human capital. Regional asymmetries in Serbia are directly dependent on economic development. The economy of Serbia is one-dimensionally concentrated in the areas of large centers, which have a distinct attraction in relation to the rural area for both domestic and foreign owners of capital.

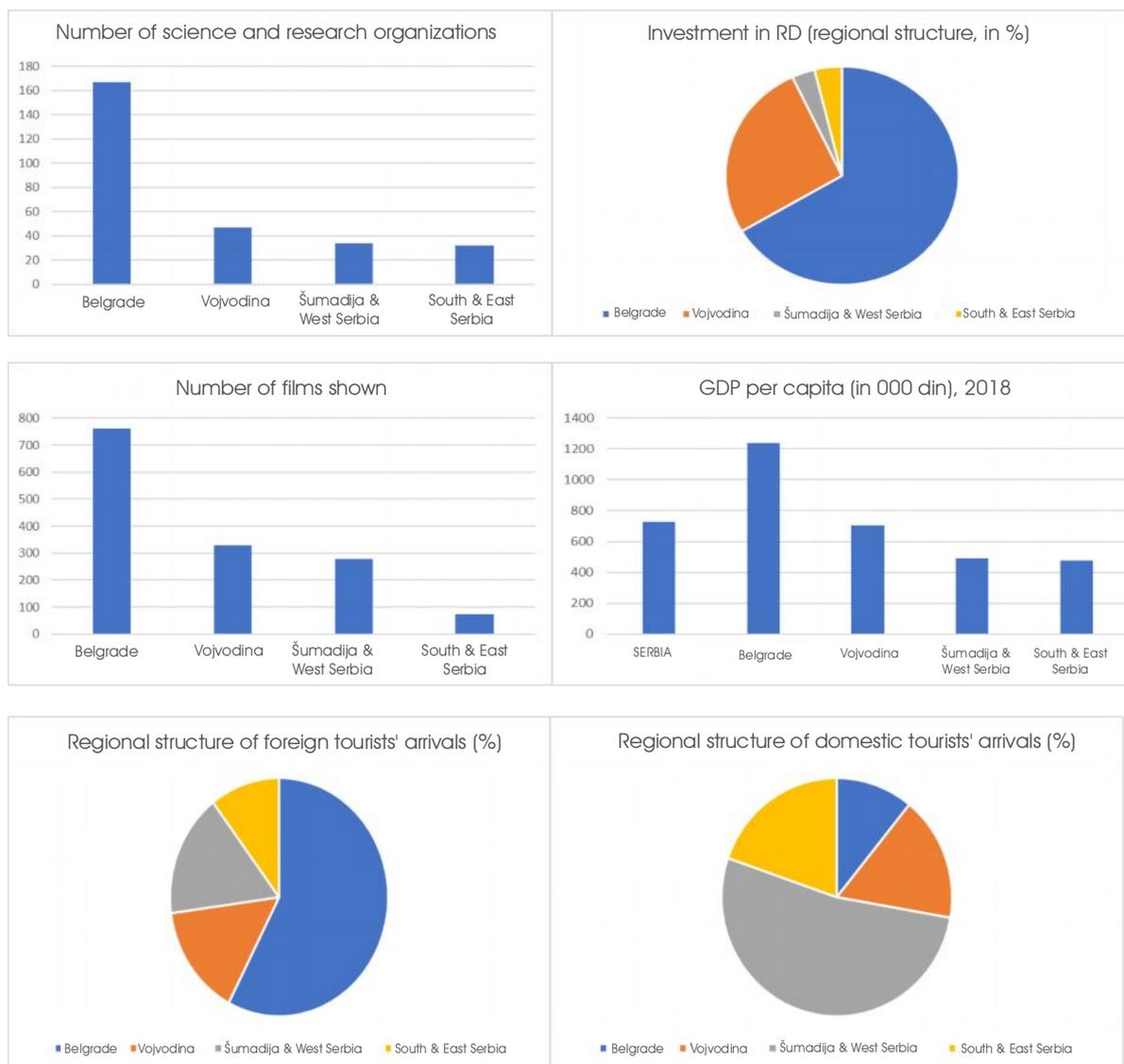
In addition to population, significant determinants of regional development are location and production. Districts, i.e., regional areas (observed as a wider development area) of Serbia differ according to the relief which is crucial for infrastructural equipment (primarily roads) and the degree of modernization and development of various economic and non-economic branches. This means that, depending on the natural predispositions, location characteristics and infrastructural accessibility, a given area will develop the industry, that is, the sectors that will achieve the highest economic effects and provide specialization.

When it comes to the dispersion of regional (NUTS 2) GDP per capita, it is 33% in 2017, and when it comes to areas (districts; NUTS 3), it is 37% in the same year (RZS 2019a, 10).

The share of certain regions in the GDP of the Republic of Serbia is as follows (RZS 2019b, 1): The Belgrade region occupies the leading position with 41.3%; behind it is the region of Vojvodina with 25.9%, followed by the region of Šumadija and Western Serbia with 18.6% and the region of Southern and Eastern Serbia with 14.1%. The Belgrade region has 70.8% higher GDP per capita compared to the national average. The GDP per capita of the region of Vojvodina approximately reaches the national average (97.1%), while the regions of Šumadija and Western Serbia and Southern and Eastern Serbia lag far behind the national average (reaching 67.3% and 65.6% of the national average, respectively).

Graph 1 provides an insight into some other important moments of sustainable regional development that are important for the competitiveness of the national economy:

Graph 1. Selected components of regional competitiveness in Serbia



Source: Authors on the basis of RZS database 2018

4. INVESTMENT AND FOREIGN TRADE OF SERBIA: REGIONAL STRUCTURE

The development characteristics of our regions are largely determined, among other things, by the amount of investment per capita. The total realized investments per capita in new fixed assets during 2018 in Serbia amounted to slightly over 98 thousand dinars. According to that indicator, the Belgrade region was significantly in the lead, followed by the region of Vojvodina, while the other

two regions were significantly below the average. The following table (Table 3) shows the positions of the region in relation to the national average of investments in new fixed assets per capita:

Table 3. Realized investments in new fixed assets per capita, 2018

Serbia	100
Belgrade	164
Vojvodina	109
Šumadija and Western Serbia	58
Southern and Eastern Serbia	69
Kosovo and Metohija	No data

Source: Author's calculation based on the RZS publication 2019c, 18-20 and 208-218

About two-fifths of the total realized investments fall on the Belgrade region, close to 30% comes to the region of Vojvodina, while the region of Šumadija and Western Serbia and the region of Southern and Eastern Serbia are significantly less represented (16.1% and 14.8%, respectively).

Representation of the Belgrade region is clearly visible in the realized investments in fixed assets in the field of information and communication, financial and insurance activities, real estate business, professional, scientific, innovation and technical activities, administrative and auxiliary service activities, arts, entertainment and recreation, etc. The region of Vojvodina is more than half represented in the mentioned structure of investments in agriculture, forestry and fishing, in mining and education, while this region is in the lead in relation to others in investments in the processing industry. In the structure of investments by activities, the region of Šumadija and Western Serbia has the largest share in the sector of accommodation and food services. There is an almost insignificant share of the region of Southern and Eastern Serbia in investments in real estate (0.4%), financial and insurance activities (1.3%), information and communications (4.3%), arts, entertainment and recreation (4.6%), etc. On the other hand, with almost one quarter this region is represented in investments in manufacturing and electricity, gas and steam supply. More information on the regional distribution of realized investments in new fixed assets by activities can be obtained by reviewing the following tabular overview (Table 4):

Table 4. Regional structure of realized investments in new fixed assets, 2018, by activities.

REGION	Belgrade	Vojvodina	Šumadija and Western Serbia	Southern and Eastern Serbia
TOTAL	39,9%	29,1%	16,1%	14,8%
Agriculture, forestry and fishing	9,1%	72,8%	12,5%	5,6%
Mining	18,3%	58,2%	5,4%	18,1%
Manufacturing	10,0%	37,1%	29,2%	23,6%
Electricity, gas and steam supply	38,0%	29,2%	9,2%	23,6%
Water supply and wastewater management	37,8%	23,5%	19,4%	19,3%
Construction	47,0%	18,3%	16,7%	18,0%
Wholesale and retail trade and repair of motor vehicles	43,3%	30,6%	17,1%	8,9%
Transport and storage	64,1%	20,7%	11,1%	4,1%
Accommodation and catering services	18,0%	27,6%	45,2%	9,2%
Information and communication	82,9%	8,9%	3,9%	4,3%
Financial and insurance activities	78,1%	14,2%	6,4%	1,3%
Real estate business	81,5%	5,1%	12,9%	0,4%
Professional, scientific, innovation and technical activities	77,7%	8,3%	5,5%	8,4%
Administrative and support service activities	79,5%	14,8%	3,4%	2,3%
Public administration and compulsory social security	50,9%	27,1%	13,5%	8,6%
Education	21,2%	52,5%	17,4%	9,0%
Health and social care	34,6%	27,6%	15,5%	22,4%
Arts, entertainment and recreation	72,3%	15,7%	7,3%	4,6%
Other service activities	44,0%	39,8%	7,3%	8,9%

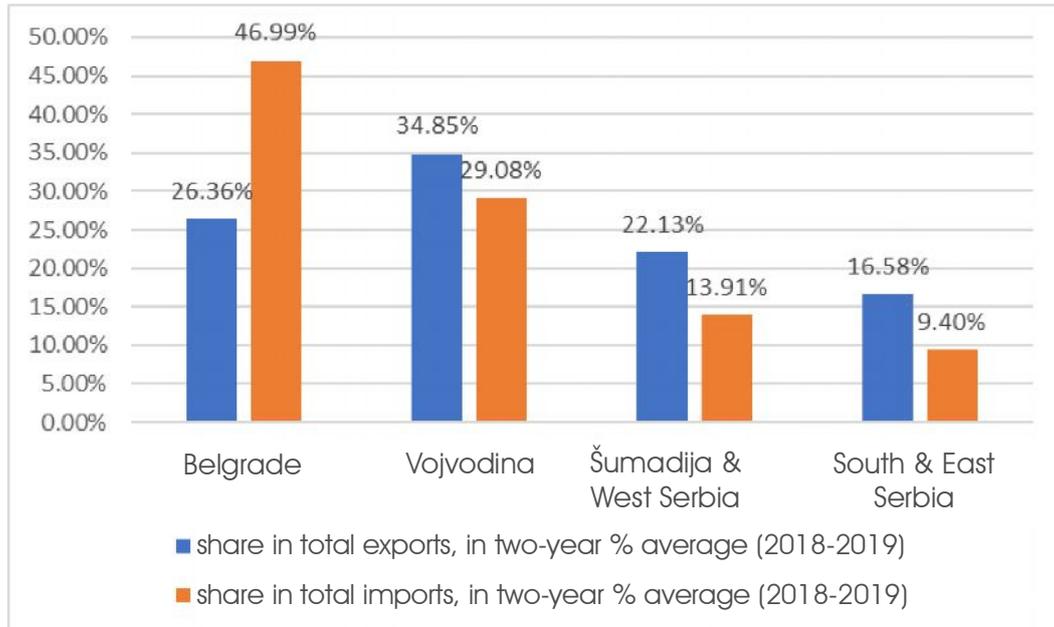
Source: Author's calculation based on the RZS publication 2019c, 208-218

The structure of realized investments in new fixed assets in the Belgrade region is dominated by information and communications, professional, scientific, innovation and technical activities, electricity, gas and steam supply, state administration and compulsory social insurance, transport and storage and wholesale and retail trade, and repair of motor vehicles. The mentioned investments in the

region of Vojvodina are dominated by the processing industry with a share of about 1/3 and mining with more than a tenth. The representation of the processing industry in the realized investments in new fixed assets in the region of Šumadija and Western Serbia is close to half, while in the region of Southern and Eastern Serbia it is slightly more than 2/5.

The sectoral/regional distribution of realized investments significantly determines the participation of the region in foreign trade (in imports and exports). Graph 2 provides an insight into the regional structure of foreign trade.

Graph 2. Percentage share of the region in exports and imports (two-year average, 2018-2019)



Source: Calculation and presentation of authors on the basis of data from: RZS 2020, 2

Namely, comparing the available data on the value of exports and realized investments in new fixed assets, it is concluded that most exports per unit of these investments are realized in the region of Šumadija and Western Serbia (2.1 times more than in the Belgrade region), then in the region of Vojvodina (1.8 times more than in the Belgrade region) and in the region of Southern and Eastern Serbia (close to 1.8 times more than in the Belgrade region), i.e. in the Belgrade region, per unit of exports, investments in new fixed assets were the largest.

The following table (Table 5) makes it possible to arrive at a multitude of relevant findings on some other significant features of the regional aspect of foreign trade:

Table 5: Regional structure of foreign trade by economic purpose, two-year average (2018-2019).

	share in total exports, in % two-year average (2018-2019)	share in total imports, in % two-year average (2018-2019)
Republic of Serbia		
Total	100,00%	100,00%
Energy	2,85%	11,15%
Intermediate products	39,45%	36,15%
Capital goods	23,78%	21,04%
Durable consumer goods	5,39%	2,02%
Non-durable consumer goods	21,45%	15,09%
Not classified by EU purpose	7,09%	14,54%
Belgrade region		
Total	26,36%	46,99%
Energy	0,60%	3,07%
Intermediate products	12,22%	14,36%
Capital goods	5,00%	11,22%
Durable consumer goods	0,53%	1,24%
Non-durable consumer goods	5,97%	9,32%
Not classified by EU purpose	2,04%	7,78%

	Vojvodina Region	
Total	34,85%	29,08%
Energy	2,19%	7,88%
Intermediate products	10,90%	9,90%
Capital goods	8,75%	4,79%
Durable consumer goods	1,92%	0,38%
Non-durable consumer goods	7,40%	3,16%
Not classified by EU purpose	3,71%	2,97%
	Šumadija and Western Serbia	
Total	22,13%	13,91%
Energy	0,03%	0,13%
Intermediate products	7,44%	6,32%
Capital goods	7,70%	4,01%
Durable consumer goods	1,84%	0,16%
Non-durable consumer goods	4,13%	1,46%
Not classified by EU purpose	1,00%	1,84%
	Region of Southern and Eastern Serbia	
Total	16,58%	9,40%
Energy	0,02%	0,08%
Intermediate products	8,89%	5,26%
Capital goods	2,32%	0,93%
Durable consumer goods	1,09%	0,23%
Non-durable consumer goods	3,95%	1,13%
Not classified by EU purpose	0,30%	1,76%

Source: RZS 2020, 2

At this point, it is necessary to point out certain characteristics of the impact of foreign direct investment (FDI) on the regional aspect of our country's foreign trade. Graph 3 presents the regional distribution of FDI (by value and by number of projects) in the period of 2001-2016:

Graph 3 Regional distribution of FDI (by value and by number of realized projects), period of 2001-2016



Source: Authors' calculation based on NUTS level 3 data given in: Miljković 2020, 222

Based on a comparative analysis of previously presented data on the relative shares of the region in the total value of exports and the amount of FDI, relevant conclusions can be drawn about the effects and basic directions of regional FDI in our country. It can be noticed that the positions of the region according to the representation in exports and their participation in FDI differ significantly, except in the case of the region of Vojvodina, where it does not deviate significantly. Namely, the share of the Belgrade region in exports is almost 2/5 lower than its share in FDI, while the region of Southern and Eastern Serbia has about 2.1 times higher share in exports than in FDI. In the case of the region of Šumadija and Western Serbia, the share of exports exceeds its share in FDI by more than 2.2 times. It follows that the export effects of realized FDI during the first twenty years of this century are much more favorable in our underdeveloped regions (Serbia-south area). The mentioned findings coincide with the fact that the biggest "contribution" to the deficit of foreign trade of Serbia in 2018-2019. years gives the region of Belgrade. In addition to the Belgrade region, the region of Vojvodina also appears as a net importer, while the regions of Šumadija and Western Serbia and Southern and Eastern Serbia are net exporters. It turns out that it is necessary to seriously reconsider the effects and basic directions of the impact of FDI on balancing our foreign trade, especially having in mind their regional distribution and consequences on the regional structure of exports.

5. DEVELOPMENT CHARACTERISTICS OF KOSOVO AND METOHIIJA

The area of Kosovo and Metohija is 10.9 thousand km² large. Regarding the availability of natural resources, this area is considered to be characterized by a significant presence of nickel, lead, zinc, magnesium, lignite, kaolin, chromium, bauxite, etc. More than half of the territory falls on agricultural land (i.e. more than a quarter of arable land), slightly more than 2/5 on forest land and about 5% on the rest. The main economic activities are agriculture, forestry and mining.

The population of Kosovo and Metohija (according to available "official" data) is about 1.9 million people, of which the most numerous are Albanians (more than 90%), while the rest are Serbs, Bosniaks, Turks, Ashkali, Egyptians, Gorani, etc. The dominant religion is Muslim (over 95%), and members of the Roman Catholic and Orthodox religion are significantly less represented. The average age of the population is about 29.6 years, while the age structure is very favorable (from 0 to 14 years of age 24.7%, i.e. 15-64 years of age are 67.9% and 7.4% are older than 65). The following Table 6 provides an insight into the ethnic structure in Kosovo and Metohija and its changes during the fifty-year period (1961–2011).

Table 6. Ethnic structure of the population in Kosovo and Metohija according to censuses

Census year	Total population		Ethnicity					
			Albanians		Serbs		Other	
	number	%	number	%	number	%	number	%
1961	963.988	100	646.605	67,1	227.016	23,5	90.367	9,4
1971	1.243.693	100	916.168	73,1	228.264	18,4	99.261	8
1981	1.584.440	100	1.226.736	77,4	209.798	13,2	147.906	9,3
2011	1.739.825	100	1.616.896	92,9	25.532	1,5	97.424	5,6

Source: KAS 2016, 12

On the territory of Kosovo and Metohija, there are 38 municipalities and 1469 settlements organized according to the regulations of the temporary authorities in Kosovo and Metohija.

In the period after the Second World War, until the end of the existence of the Yugoslav state, the area of Kosovo and Metohija lagged behind both from a social and economic point of view. Until the beginning of the 1970s, KIM had the status of an autonomous province of Serbia, and not a constitutive unit of the Federation. With the constitutional changes from 1974, the territory of Kosovo and Metohija gained political and economic autonomy within the Republic of Serbia and a direct representative position in the federal authorities. In fact, with the mentioned institutional change, the province of Kosovo and Metohija received a privileged status, since its position in the Federation was equal to the republican positions, while within the Republic of Serbia it had a privileged position (like AP Vojvodina) in relation to the rest of the Republic.

From the economic aspect, KIM was the most backward and poorest region in the SFRY, despite the fact that there were significant ore and industrial potentials in that area. At the same time, in the long run, the province depended significantly on transfers from the federal budget.

In the concluding part of the Long-Term Program of Economic Stabilization (DPES) in 1983, there was a determination that the province of Kosovo and Metohija will have the largest share in incentives intended for the development of underdeveloped parts of the country. The economic sustainability of the Province was largely based on the Law on Financing Underdeveloped Areas in Kosovo and Metohija and the Federation Fund for Credit for Faster Development of Economically Underdeveloped Republics and Autonomous Provinces.

In the period from 1966-1990 the total distributed funds of the Fund amounted to about 11 billion dollars, of which 4.3 billion dollars refers to the Autonomous Province of Kosovo and Metohija or 39.9% (Čolanović and Šefer 1991, 68). The data from the following two tables (Tables 7 and Tables 8) testify to the most privileged position of Kosovo and Metohija in incentive development funds:

Table 7. Participation of former Yugoslav republics and provinces in total benefits and incomes based on federal regulations, 1981–1988, in %

Republics and provinces	Gives (1)	Receives (2)	(2) / (1)
Bosnia and Herzegovina	11,22%	19,00%	1,69
Montenegro	2,02%	5,76%	2,85
Croatia	25,01%	13,86%	0,55
Macedonia	5,53%	9,14%	1,65
Slovenia	19,48%	10,51%	0,54
Serbia	35,14%	35,87%	1,02
Central Serbia	23,98%	11,95%	0,50
Kosovo and Metohija	1,68%	20,42%	12,15
Vojvodina	9,48%	3,49%	0,37

Source: Dželetović and Dimitrijević 2019, 75-76

Table 8. Participation of underdeveloped areas in the distribution of the Fund's resources

Underdeveloped areas	1966-1970.	1971-1975.	1976-1980.	1981-1985.	1986-1990.
Bosnia and Herzegovina	30,70%	32,40%	30,50%	27,40%	25,20%
Montenegro	13,10%	11,40%	10,80%	9,70%	7,80%
Macedonia	26,20%	22,90%	21,80%	19,40%	18,90%
Kosovo and Metohija	30,00%	33,30%	37,10%	43,50%	48,10%

Source: Dželetović and Dimitrijević 2019, 76

It follows that during the 1980s, KIM received as much as 12 times more funds than it gave, largely from the Federation Fund for crediting faster development of economically underdeveloped republics and autonomous provinces. For three and a half decades, the share of KIM in the Fund's resources has been constantly increasing, from 30% (1966-1970) to 48% (1986-1990).

In the late 1970s and early 1980s, the Yugoslav government offered greater economic assistance to AP KIM, in particular, more extensive investments in the production of lignite and other mineral resources (Pond 1981). However, regardless of those investments, no economic problem in Kosovo and Metohija, nor the tensions between the Province and the Republic, could be resolved during the 1980s. From the point of view of KIM, the absence of significant economic progress, i.e. faster achievement of the Yugoslav average in development, intensified political tensions, while for Serbia a great challenge was the question of how to ensure economic sustainability of the Province with large and continuous fiscal transfers. Meanwhile, pronounced emigration movements of the population from the area of KIM to Germany and Switzerland have contributed to the reduction of social tensions and pressures on the labor market.

At the beginning of 1989, the struggle of Albanians for the political self-determination of Kosovo and Metohija in the direction of creating their independent state intensified. This culminated in the war in the area during 1998-1999 period, as well as the NATO bombing of Serbia (1999).

The first decade of the 21st century in the area of KIM is characterized by post-conflict processes, reconstruction and the presence of international forces and factors. Namely, the formal end of war activities and bombing occurred on June 10, 1999, with the adoption of UN Security Council Resolution 1244, by which KIM fell under the UN administration. The circumstances of the war led to a kind of humanitarian crisis, as about 13 thousand people lost their lives, hundreds of thousands of them left their homes due to bombing and armed conflicts, while a significant part of the physical infrastructure was destroyed.

On February 17, 2008, the Assembly of Kosovo¹* declared independence from Serbia in an illegal and illegitimate manner. Our country, however, does not recognize the so-called Kosovo's independence, and according to the preamble of our constitution, Kosovo and Metohija are an integral part of the Republic of Serbia. Kosovo* is today a potential candidate for EU membership, as negotiations opened in 2013. The Stabilization and Association Agreement (SAA) of Kosovo* with the EU, as the first formal step towards eventual membership, was initiated in July 2014, signed in

*¹ This name is without prejudice to the status and is in line with United Nations Security Council Resolution 1244 and the opinion of the International Court of Justice on the declaration of independence of Kosovo. "(See: <https://www.srbija.gov.rs/kosovo-metohija/index.php?id=168200>, access: April 10, 2019).

October 2015, while its implementation began in April 2016. However, the unresolved issue of Kosovo and Metohija is a key obstacle to achieving the goals of political integration and socio-economic development of our country.

Since the self-proclamation of the so-called independence, Kosovo's economy* performed better than its environment (due to a low baseline). Relatively good performance in terms of growth during the period of 2008-2015 are due, above all, to the support of the international community and the large diaspora, i.e. remittances from abroad, as well as the initial low level of development (low level of GDP per capita). The fact that the consequences of the world economic crisis on the economy of Kosovo* were smaller than in the case of some other countries in the region, due to the fact that its financial and trade ties with the Eurozone are weaker and the remittances are large, also contributed to that. At the same time, the economic growth achieved in the territory of Kosovo* was of an inclusive character since it contributed to the reduction of poverty, i.e. an increase in the income of 40% of the poorest on the scale. In the period from 2006 to 2011, per capita consumption of 40 percent of the population at the bottom of the scale grew at a rate of 3.9 percent per year, compared to the growth of consumption of 2.4 percent per year of those in the upper 60 percent. Consumption growth per capita was highest in the poorest quintile. The poverty rate, measured in relation to the poverty line, ranged from 35 to 45 percent before the proclamation of the so-called independence, while by 2011 it had dropped to about 30 percent. However, the area of Kosovo* is still one of the poorest areas in Europe, as GDP per capita reaches only 11% of the EU average.

Most of the achieved economic growth is based on consumption. At the same time, both private and public spending are stable after 2008. An important role in stimulating economic growth was played by private and public investments, which, however, have a declining trend since 2008. This is especially true for investments from private sources, which after reaching their maximum of about 20 percent of GDP in 2011 recorded a pronounced contraction. What probably contributed to the slower economic dynamics is the decline in foreign direct investment inflows during the period of 2007-2017. After the increase in 2008 and 2010, public investments are stable and neutralize the decrease of private ones. In terms of international trade, the territory of Kosovo* is highly dependent on imports, while export potentials are small. In addition, an important segment of Kosovo's economy is the informal sector - it is estimated that in Kosovo* the size of the informal (gray) economy averages about 25-33% of GDP.

The high population growth rate combined with pronounced emigration pressures creates specific demographic challenges. The relatively young population in this area represents a huge potential and resource for future prosperity. However, it can also be a major risk in the event of growing social and political tensions and instability, if development processes and perceptions of economic prospects deteriorate. Currently, the youth participation rate in the labor force contingent is around 50 percent, and the youth unemployment rate is twice as high as the average (for presented data related to Kosovo*, see World Bank 2017). The inadequate privatization process has largely contributed to this situation.

The fact that natural and built potentials in the area of Kosovo and Metohija are outside our jurisdiction, as well as 100% increased taxes on the import of goods from Serbia and BiH can be (and already are) obstacles to accelerating development in the entire region.

Ore, water, land and the peculiarity of the geographical characteristics of Kosovo and Metohija, historically, have always been the reason for conflicts in this part of the Balkans. The area of Kosovo and Metohija and its development potentials have always been of great importance for our country. Therefore, property disputes and political, ethnic, cultural and religious conflicts arose in that area of Serbia. Constant intolerance and conflicts, fueled by the action of the international factor, have resulted in the introduction of a United Nations-administered protectorate and the current Kosovo crisis.

The following table (Table 9) provides insight into some more data related to the situation and basic trends in areas important for assessing the competitiveness of the region of Kosovo and Metohija.

Table 9. Selected indicators of the basic competitiveness pillars of the region of Kosovo and Metohija

	Average 2003–2017	Average 2003–2008	Average 2009–2017
Foreign trade balance of goods and services (% of GDP)	-31.75	-36.32	-30.23
Imports of goods and services (% of GDP)	52.07	50.91	52.45
Exports of goods and services (% of GDP)	20.31	14.59	22.22
Foreign direct investment, net inflow (% of GDP)	6.11	7.21	5.50
Exports of ICT services (% of total exports of services)	14.07	12.44	14.97
Current account balance (% of GDP)	-8.62	-9.70	-8.02
Trade in services (% of GDP)	22.41	18.08	24.81
Youth unemployment, total (% of total labor force 15-24; national estimate)	56.60		56.60
Employee to population ratio, 15+ (%) (national estimate)	25.75	26.75	24.75
Informal payments to public officials (% of enterprises)	14.95		14.95
Life expectancy, total (in years)	69.85	68.81	70.64
Energy imports, net (% of energy used)	27.77	29.51	26.02
Renewable energy consumption (% of total final energy use)	21.54	22.46	20.75
CO2 emissions from electricity and heating (% of total fuel combustion)	77.17	77.38	76.96

Source: Adapted from Rikalović and Molnar 2019, 31-34

6. INSTITUTIONAL FRAMEWORK AND NECESSITY OF REAFFIRMATION OF REGIONAL POLICY IN SERBIA

In the field of regional development, in our country during 2015, certain institutional changes were made with the adoption of the Law on Investments (Službeni glasnik RS 2015). The provisions of this law provide for the establishment of a new institution - the Development Agency of Serbia (RAS), which became the legal successor of the National Agency for Regional Development (NARR) and the Agency for Foreign Investment and Export Promotion (SIEPA), which means it took over from their former jurisdiction. The new institutional framework of regional development policy, which should be established by adopting a new Law on Regional Development, will also refer to the adoption of a new Strategy and Action Plan in this area (for details see Rikalović and Molnar 2018, 251- 263). Namely, considering that Serbia has not had a strategic document in the field of regional development since 2012, it is a fact that indicates that no new strategic directions of development have been defined from the aspect of the regional dimension, in the context of current economic and social developments. True, at one time there was the Ministry of Economy and Regional Development, which was a good basis for strengthening efforts to achieve more balanced regional development. At that time, active work was done on the development of the National Regional Development Plan for the period 2013-2022 (NPRR) according to the EU methodology. However, today such a department is no longer represented, but this issue is entrusted to the minister without portfolio in charge of regional development and the work of public companies. The marginalization of this area in public policies in Serbia certainly does not contribute to a significant use of EU funds.

Serbia's regional policy in the context of European integration is regulated within Chapter 22 - Regional Policy and Coordination of Structural Instruments - which includes mainly framework regulations related to the planning and implementation of EU cohesion policy. These regulations do not require the "copying" of European regulations into national legislation. These are regulations that define the specific objectives of EU cohesion policy, funds for its implementation (European Regional Development Fund, European Social Fund and Cohesion Fund), rules for the development, approval and implementation of programs, activities that can be financed, principles and rules to provide support and the amount of funds available. It is especially important to note that when selecting and implementing projects financed from the Structural Funds, Member States must comply with EU legislation, i.e. legal norms related to, for example, public procurement, competition and the environment. The quality of the established institutional framework and the built administrative capacities in the long run affect the possibility of absorbing funds from the funds during the pre-accession period. The European Commission's report on Serbia's progress in 2014 generally concludes that progress has been made in the area of cohesion policy and coordination of structural instruments.

However, the legal framework and legal regulations in the field of policy that are important for the implementation of regional policy are still not fully harmonized with the *acquis communautaire*. In the field of programming, it is pointed out that Serbia is ready for a sectoral approach within IPA II, but the European Commission has identified a problem related to the insufficient number of ready projects in some sectors, unwillingness of users to prepare quality project documentation in accordance with IPA requirements. In the previous period, a Master Plan was developed for Chapter 22, which is the basis for the development of the Action Plan. During the negotiation processes between the representatives of Serbia and the European Commission, regarding the drafting of this document and the screening for Chapter 22, it was stated that the main challenges for successful use of EU funds (after EU accession) will be inadequate strategic complex (over 105 strategies) and institutional framework, lack of quality project documentation, lack of retention policy for personnel dealing with project management and IPA, inadequate system of monitoring and evaluation of programs and projects financed from the budget and underdeveloped system of internal financial control in the public sector. In 2015, a Working Group for Chapter 22 was formed, which began activities on the development of the Action Plan for Chapter 22.

Having all the above in mind, it can be stated that Serbia is late with the preparations in the field of regional policy and coordination of the management of structural instruments. Partial progress has been made through the IPA I component, which gives Serbia the appropriate experience in managing EU funds, the so-called indirect management. In the coming years, our country needs to provide adequate capacity for the implementation of indirect program management. The legislative framework is not yet complete in line with the *acquis*, while the capacity of the budget system needs to be tested. Modern policy of balanced regional development requires coordination of all institutions involved in various aspects of spatial development (urban, rural, local, social, infrastructure development, environmental protection, etc.). In Serbia, it is necessary to institutionalize regional development as a concept of joint action of different levels of government (national, regional and local), which essentially means the adoption of an integrative approach to overall, even regional development. In this context, Serbia will in the coming period: (a) complete the construction of a harmonized and comprehensive institutional framework for regional development management, (b) establish incentives for effective regional policy, especially in the field of encouraging faster development of areas with special development problems, (c) efficient use of EU funds and (d) implementation of gradual functional and fiscal decentralization, in order to strengthen the capacity of local self-government to perform activities aimed at local economic development. When it comes to regional policy measures in the coming period, Serbia should apply the so-called place-based concept whose main characteristics are based on adapting interventions to specific territorial circumstances and their spatial connections, and on mobilizing and gathering knowledge and benefits of local actors. The approach suggests a new role for local and regional development policy makers in the sense that they should facilitate and encourage connecting, networking and cooperation between actors, both microeconomic entities and territories.

Starting from previous detailed considerations and analyses of regional reality and policy, from the point of view of sustainable regional development and competitiveness of our economy, it is necessary to take into account the following basic recommendations (Rikalović and Molnar 2018): Adopt our Cohesion Policy; Follow the direction from the "competitive" to the generic concept of regional development; Stimulating endogenous regional growth; Accelerate the opening of Chapter 22; Strengthen the "regional perspective" of sectoral institutions/ministries; Gradual functional and fiscal decentralization in order to strengthen the capacity of local governments; Inter-municipal cooperation (especially through networks and other forms of association) and promotion of local economic development; Specifying the subregional level (NUTS 3) and their role in regional policy. In this context, one of the most important tasks is to harmonize domestic regional statistics in terms of the needs of Cohesion Policy with the standards and requirements of Eurostat.

7. CONCLUSION

The concept of sustainable regional development is the basis of the EU's dominant development pattern. Our country is characterized by very pronounced regional inequalities. They significantly affect the competitiveness of the Serbian economy and the achievement of sustainable regional development. In this context, in the development and regional policy of Serbia, special support must be given to important pillars of sustainable regional development and competitiveness, starting from fundamental factors (quality of institutions, macroeconomic stability, infrastructure, health), through essential efficiency factors (basic and higher education, lifelong learning and training, efficient labor market) all the way to strengthening innovative capacities and processes (market size, technological skills, sophistication of business processes, innovation).

The new policy of regional development of Serbia should be aimed at consistently respecting the specifics of regional development potentials in the function of ensuring the best possible export performance of the economy and maximizing the territorial effects of investments. From that point of view, it is necessary to continuously valorize the regional distribution of investments (especially FDI) in terms of their impact on the development performance of our regions and their competitiveness.

Interdependence of sustainable regional development and competitiveness of the Serbian economy, having in mind the current regionalization of our country, while respecting the specific position of the region of Kosovo and Metohija. The economic sustainability of Kosovo's* independence is also in question due to insufficient economic activity, low industrial production, inadequate privatization process, high import dependence, weak export performance, pronounced dependence on financial assistance and remittances, low FDI inflows, lagging private investment, high corruption, lack of rule of law, presence of organized crime, danger of strengthening emigration processes, poor conditions for youth employment, and unfavorable situation in the field of social infrastructure, etc. Since the public sector is relatively small, while the level of public investment is high, efficiency and adequate determination priorities in the area of public spending are key to Kosovo's* sustainable growth and prosperity. Although Kosovo's* economy has transformed from fragile and weak, post-conflict, with low income into a lower middle income economy with a relatively functioning market system, the unresolved status of this entity, smoldering tensions and violence, poor enforcement of the rule of law, a high level of gray economy and an unstable political situation are major obstacles to political integration and socio-economic development. Also, although the young population is an important resource, it can also be a major drawback. In conditions when there are no adequate opportunities for youth employment, then a stimulating business environment for the development of youth entrepreneurship, when there is leisure and boredom and general dissatisfaction with the perspective, and combined with ethnic division, makes young people the potential danger to stability and growth.

For Serbia (including Kosovo and Metohija), from the point of view of adequate preconditions for establishing sustainable growth, it is crucial to build functional and efficient institutions that encourage companies and entrepreneurs to increase productivity and competitiveness. In this regard, it is important to protect property rights, respect contracts, encourage profitability, equal opportunities for all market players, strengthen anti-corruption mechanisms, etc. From this point of view, our country faces significant efforts to strengthen the necessary institutions.

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