DOING BUSINESS IN SERBIA: CASE OF STRATEGIC PARTNERSHIP BETWEEN FIAT AND ZASTAVA UNDER CIRCUMSTANCES OF GLOBAL TRENDS IN AUTOMOTIVE INDUSTRY*

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Abstract

In this paper we have tried to highlight the main characteristics of doing business in Serbian economy having in mind strategic cooperation between Fiat, the Italian car manufacturer, and Zastava, the only car manufacturer in Serbia. The paper consists of three parts. In the first part the most important transition indicators in Serbia have been analyzed as well as general ambience of doing business. Serbian government have put tremendous efforts in making economic ambience as attractive as possible for prospective foreign investors. Still there are open issues of how successful these efforts have been and what else has to be done. In the second part of this paper, recent global trends in automotive industry have been analyzed and their influence in Serbia and Western Balkans region. Finally, in the third part, the most important aspects of strategic cooperation between Fiat and Zastava have been analyzed, in order to put out the direction into which Serbia government can direct its activities so as to improve general economic ambience for business activities and further attracting of foreign investments.

Key words: *business, strategic management, automotive industry, privatization, restructuring*

1. Analysis of transition indicators and general environment for doing business in Serbia

It is more than eight years since huge political changes took place in Serbia (2000) and processes of transitional changes were intensified (mainly based on principles determined by Washington consensus). During that period Serbian government have put tremendous efforts to improve general economic ambience for business activities. Government officials claim that these efforts were quite successful. In the introduction to this paper we have tried to avoid subjective approach in estimation of the achieved results. Instead, we have decided to use analyses provided by certain renowned international institutions. According to the report by European bank for reconstruction and development the process of reforms in Serbia can be given a passable mark, i.e. 2, 89 on 1 to 4 scale (*EBRD Transition report*, 2009).

Avoiding black and white estimation, total current economic ambience in Serbia, apart from significant improvement, cannot be regarded as successful. Serbian economy faces numerous problems, intensified by negative effects of the world financial crisis. Unfortunately, many of the desired and expected goals of transition have not been achieved yet. Moreover, initial enthusiasm and faith that reforms would provide fast economic advance have been replaced by the lack of energy in implementation of reforms, even disbelief and pessimism regarding success of transitional reforms.

According to certain key areas significant for the process of transition, as estimated by EBRD, achieved results are very different. The best results have been achieved in liberalization of prices, trade and foreign currency exchange rate, privatization of small enterprises, as well as in reform of banking system. On the other hand, the least improvement has been achieved in implementation and adoption

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of the policy of competitiveness, as well as capital market development and non-banking financial institutions.

Table 1. Transition indicators in Serbia according to EBRD

	Privatiza-tion of big enter-prises	Privatiza-tion of small enter-prises	Restructu-ring of enterprises	Liberali-zation of prices	Liberali-zation of trade and foreign currency exchange rate
2001	1,00	3,00	1,00	4,00	2,67
2002	2,00	3,00	2,00	4,00	3,00
2003	2,33	3,00	2,00	4,00	3,00
2004	2,33	3,33	2,00	4,00	3,00
2005	2,67	3,33	2,33	4,00	3,33
2006	2,67	3,67	2,33	4,00	3,33
2007	2,67	3,67	2,33	4,00	3,33
2008	2,67	3,67	2,33	4,00	3,67

	Policy of competi-tiveness	Banks reform and liberaliza-tion of interest rates	Capital market and non-banking finan-cial institutions	Reform of total infra-stru-cture	Average mark
2001	1,00	1,00	1,00	2,00	1,52
2002	1,00	2,33	1,67	2,00	2,33
2003	1,00	2,33	2,00	2,00	2,41
2004	1,00	2,33	2,00	2,00	2,44
2005	1,00	2,67	2,00	2,00	2,59
2006	1,67	2,67	2,00	2,00	2,70
2007	2,00	2,67	2,00	2,00	2,74
2008	2,00	3,00	2,00	2,33	2,89

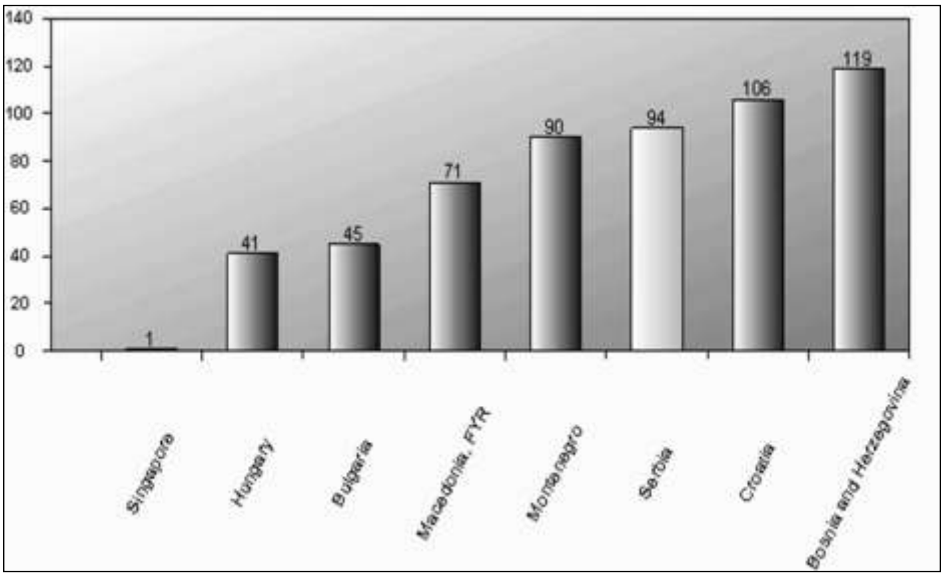
Source: *EBRD Transition report*, 2009

What can be concluded from the table given above is the increase in average mark given to Serbia and that is encouraging for sure. However, the process of transition in Serbia after the year 2000 has developed based on 'neo-liberal' model of reforms, defined under the strong influence of IMF. Economic problems which Serbia encounters today mainly resulted from implementation of this model (huge structural problems, enormous import, modest export in which final products do not dominate, huge deficit of payment balance, etc). Also, they are the consequence of hesitation and slow implementation of necessary economic reforms. Outbreak of global financial and economic crises caused the need to re-question this approach to economic development and seek possible new directions.

In future Serbia has to be more determined so as to complete the process of economic transformation (in order to achieve standards which would provide membership in EU) and create more propulsive economic ambience. In the last few years Serbia lost numerous opportunities, mainly due to political problems (several early elections, recognition of Kosovo independence, cooperation with the Tribunal for war crimes in former Yugoslavia, etc). By the end of 2008 significant consequences of global economic crisis became evident. Searching for new possibilities and resolution of open issues have become one of the main tasks for creation of basis for sustainable economic growth in future.

If simple comparative analysis is made of economic ambience in Serbia and some wider environment, for example Central and East European countries in the process of transition, it can be concluded that current economic and market ambience in Serbia is not so favorable and competitive in comparison to other Central and East European countries. Research by the World Bank, presented in the report called «Doing Business 2009» (*Doing Business, 2009*), in which conditions of doing business were analyzed based on 10 parameters in terms of easiness in doing business (starting from start-up business, provision of licenses for building up, employment, possibilities of loan taking, protection of investors, contracts, and ending with closing up of companies) shows that business ambience in Serbia is ranked 94 out of 181 countries.

Graph 1. Global ranking of Serbia in terms of business conditions



For example, if we compare Serbian economy with the economy of the so-called Visegrad group (Hungary, Slovakia, Czech Republic, Poland), Serbia lags behind in terms of analyzed conditions of doing business and has the worst position (Slovakia – ranked 36, Hungary (41), Czech Republic (75) and Poland (76) – for more details see Table 2.

Current, fairly unfavorable ranking of Serbia in terms of conditions for doing business is conditions by a great number of factors, among which the following can be pointed out:

- Starting up an enterprise and development of business – even though huge success was made, still these processes have been connected with long and complex procedures. Huge improvement was made when Serbian Business Registers Agency was established. Before its foundation, more than 55 days were needed to establish a company in Republic of Serbia. The whole procedure is significantly simplified (it takes 23 days) but still there are 22 different procedures. What is positive in the whole thing is that Serbian authorities are aware of this problem and that further reform of this procedure has been undertaken known as «Guillotine of legislature».

Table 2, Ranking according to conditions for doing business on the list of 181 countries in the world

Economy	Conditions for doing business	Starting up company	License for building	Employment	Registering ownership
Slovakia	36	48	53	83	7
Hungary	41	27	89	84	57
Czech Republic	75	86	86	59	65
Poland	76	145	158	82	84
Serbia	94	106	171	91	97
Economy	**Getting loans**	**Protection of investors**	**Taxes and fees**	**Protection of contract**	**Termination of company**
Slovakia	12	104	126	47	37
Hungary	28	113	111	12	55
Czech Republic	43	88	118	95	113
Poland	28	38	142	68	82
Serbia	28	70	126	96	99

Source: *Doing Business, 2009*

- In order to get various licenses for building, power connection facilities, phone, licenses issued by inspection or other authorities so as to start-up business – companies in Serbia encounter 20 procedures, which fulfillment requires approx. 279 days. In that sense, Serbia considerably lags behind Central and East European countries and this issue, in our opinion, represents on of the biggest problems, mainly for foreign investors. We strongly believe that global economic crisis is the right moment to start reform in this area. However, what worries us most is that not much has been done so far.
- Registering ownership – requires 6 procedures and takes approximately 111 days, which is unacceptably slow.
- When loan granting is concerned, Serbia has solid position and in terms of this indicator has the highest rank among all indicators analyzed by the World Bank experts (28th position). As researchers we have to point out that interest rates for loans granted to economic entities are very high, but that is not the topic of this paper.
- In terms of protection of investors Serbia occupies solid 70th position and is better ranked compared to some neighboring countries such as Macedonia (88), Bosnia and Herzegovina (113) and Croatia (126) but worse than Montenegro (24), Bulgaria and Romania (38)
- For employment of a new employee the company spends 18%, while for termination of employment it spends 25 wages.
- Republic of Serbia belongs to a group of countries with a complex system of taxes and fees – the number of annual fees is 66 times, that is for preparation, calculation and tax payment and other mandatory payments companies spend 279 hours, and the whole system is not transparent enough.
- Liquidation process – termination of enterprise lasts long and costs too much.
- Efficiency of legal system is not at satisfactory level. In order to collect bad debts in Serbia based on commercial contracts it takes 635 days and 36 procedures, and the rate of payment from insolvent companies is 23% average.
- What worries most is that analysts of the World bank in their Report «*Doing Business 2009*» noticed improvement in comparison to their first report in only one area (registering property ownership). For example, during the same period, some neighboring countries such as Former Yugoslav Republic of Macedonia completed reforms in 6 areas, Bosnia and Herzegovina, Bulgaria and Albania in 4, Croatia in 2 areas, etc. In other words, improvements in Serbia are not an issue, but they are slower in comparison to other countries in the neighborhood and in the region.

Given quality indicators of general economic ambience are very indicative if wider economic situation in Serbia is taken into consideration, which greatly depends on foreign direct investments that represent one of the key factors which influence total economic growth. Taking into account these facts, we will point out the importance of arrival of the big Italian car manufacturer – Fiat- in Serbia, which was agreed and carried out in 2008. Understanding of motives and reasons for arrival of Fiat in Serbia may be beneficial to Serbian authorities, economists and analysts to direct their efforts towards those areas where some problems still exist so as to improve economic ambience in Serbia, as well as business performances of all participants and the total economy.

2. Global trends in automotive industry

The field of automotive industry is very important for Serbian economy which in the former Yugoslavia had significant influence on total economic performances. In the second part of 1980s more than 200 000 units went out from Zastava in Kragujevac. They were exported to a huge number of countries, and the most significant job was export of Yugo model to US market. There was vertically integrated production of components, raw materials and spare parts, which made automotive industry one of the most important in former Yugoslavia. However, during 1990s there was a complete destruction of production and equipment, machinery and knowledge became obsolete, which was worsened by NATO bombing of the parts of the factory in 1999. As automotive industry lost its significance, it has to be restored from scratches. Thus, we have to point out the most important global trends in this very important branch of economy.

Although the firs car was invented in France in 1771, modern automobile industry was created by the Americans. «*It started in 1896 when the Duryea brothers from Springfield, Massachusetts produced thirette automobiles*» (*J. Harrison, 200□, pp. C 26□*). By the beginning of the 20th century having applied scientific methods of management Henry Ford introduced elements of standardization, specialization and opened doors to mass production of cars. Competition between *Ford Motor Company* and *General Motors* became a symbol of fight for dominance in automotive industry in the USA during the whole 20th century. In 1970s Japanese manufacturers became stronger, first of all Toyota/Lexus, Honda/Acura, Nissan/Infiniti, Mazda, Mitsubishi, and Subaru. Some years later, at the beginning of 1990s significance was given to cars produced in South Korea – Hyundai, Kia, and Daewoo. Contemporary car industry is the symbol of globalization. New countries are emerging as very significant car producers such as Mexico, Brazil, Malaysia, China, India, Turkey, South Africa (*J. Barnes □ M. Mor□ris, 2008, pp. □2*)

Competition becomes stronger, innovations become pre-requisite for survival, and changes become inevitable part of all organizations in the branch. Apart from technical and technological changes, institutional changes have significant influence which according to some researchers are connected with three types of pressure: regulative, mimetic and normative (*R. Van den Hoed □ Ph. J. Vergragt, 2006, pp. □□)*.

Analysis of any trends in contemporary car industry is not possible without an insight into influence of global financial and economic crisis. Crises in the car industry started in the second half of 2008. The crisis is primarily felt in the United States automobile manufacturing industry and, by extension, Canada, due to *the Automotive Products Trade Agreement*, but other automobile manufacturers, particularly those in Europe and Japan, are also suffering from the crisis.

The world automotive industry started to suffer from negative effects from the environment earlier, in the period 2003-2008, which was connected with extremely high growth in oil prices. This particularly referred to those categories of beneficiaries which were focused on buying large sport utility vehicles (SUVs) and pickup trucks, the main market of the American "Big Three" (*General Motors*, *Ford*, and *Chrysler*). High prices of oil provoked interest for alternative energy sources and innovations in the field of hybrid automobiles. On the other hand, for US automakers the big problem was considerably high wages than their non-unionized counterparts, including salaries, benefits, healthcare, and pensions. In return for labor peace, management granted concessions to its unions that resulted in uncompetitive cost structures and significant legacy costs.

In the second part of 2008 the situation became almost critical at the world market. Due to the influence of negative effects of global financial crisis and related credit crunch placed pressure on the prices of raw materials and caused further fall in demand. In certain countries, particularly the United States, the Big Three have been under heavy criticism since their vehicle offerings were largely fuel inefficient SUVs and light trucks, despite the increase in the price of oil. Accordingly, they suffered both from consumer perception of relatively higher quality models available from abroad - particularly from Japan and to some extent from Europe - and from *transplants*, foreign cars manufactured or assembled in the United States. As of the beginning of 2009, the vehicle companies of the world are being hit hard by the economic slowdown across national boundaries. Car companies from Asia, Europe, North America, and elsewhere have been forced to implement creative marketing strategies to entice reluctant consumers to purchase vehicles, when many firms are experiencing double digit percentage sales declines. Major manufacturers, including the Big Three and Toyota, are offering substantial discounts. Hyundai is even offering to allow customers to return their new cars if they lose.

Conditions of almost the biggest economic crisis ever left deep trace on the world automobile industry. Only in the USA in the field of car and light trucks manufacturing there was a drastic fall from 13.2 million units for the year 2008, down by about 2.9 million from the number of units sold in 2007. In 2009 further fall in sales is expected to more than 11 million of sold cars in USA. Globally, fall in sales in 2008 compared to the year 2007 totaled some 3 million units, from 55 million to 52 million of sold cars and light trucks. To make situation worse, further fall is expected in 2009 for some 4 million, that is total sales of about 48 million units.
(*www.plunkettresearch.com□Industries□AutomobilesTrucks□AutomobileTrends□tabid□89□Default*).

Many big car manufacturers encounter numerous serious problems due to fall in sale:

- Saab, GM and Chrysler – announced bankruptcy (prior to that GM and Chrysler received together \$17.4 billion federal aid)
- Toyota and many European automobile manufacturers got significant amount of financial aid by the government
- Peugeot/Citroen announced huge lay offs of employees, but not on the territory of France, which provoked fierce reactions from the European Commission.
- Problems of automotive industry are not only connected with that branch. It is a vertically integrated production which huge number of suppliers of car components depend on. Fall in demand for final product has significant consequences in decrease of production in all successive stages of production of raw materials, spare parts and other car equipment. This problem is particularly evident in the countries of Central and East Europe. The issue of closing up some production plants attracted significant attention of some researchers (*R. Alaez Aller □ M. Barneto□Carmona, 2008, pp. 62*).

Two countries which are not expected to have problems globally are Korea and Mexico, "where auto making plants are modern, quality is good (actually quality is world class in Korea) and currency values have plummeted to the extent that cars and parts made in those two nations are now extremely competitive on a global basis" *(www.plunkettresearch.com□Industries□AutomobilesTrucks□AutomobileTrends□tabid□89□Default)*. South Korean makers Hyundai and Kia have established themselves as true, high-quality manufacturers with a growing global customer base. One of the particularly important trends in contemporary car industry is connected to strengthening of production capacities and manufacturers from China. Soon, huge exports of quality cars from this country can be expected.

From historical point of view, the years 2008-2009 will be remembered as completely unusual. Did anyone think a year ago that GM or Chrysler were going to bankrupt? For car industry in Serbia these years would be mean new start. Any crisis has losers and winners. Where in all these trends belongs strategic cooperation between Fiat and Zastava?

3. Fiat buys Zastava strategic cooperation as a chance fro both parties

FIAT is an acronym from the Italian «*Fabbrica Italiana Automobili Torino*». Founded in 1899 by the founder *Giovanni Agnelli*, FIAT nowadays represents global company which has companies located in more than 50 countries in the world and business contacts in more than 190 countries. With 1,990 million of units produced in 2007 Fiat is according to the report of International organization of car manufacturers occupied 11 place in the world (*www.oica.net*). FIAT Group employs more than 180 000 people and entails several businesses - Automobiles **(**produces and sells cars world-wide under the Fiat, Alfa Romeo, Lancia, Fiat Professional (light commercial vehicles) and Abarth brands, as well as luxury cars of Maserati and Ferrari**),** Agricultural and Construction Equipment **(**CNH - Case New Holland is a world leader manufacturing tractors and agricultural machinery through the Case IH, New Holland and Steyr brands, and construction equipment through the Case, New Holland and Kobelco brands) and Trucks and Commercial Vehicles **(**Iveco is internationally recognized in the road transportation sector. It designs, produces and sells a complete range of commercial vehicles under the Iveco brand, buses under the Irisbus brand, and fire-fighting and special purpose vehicles under the Iveco, Astra and Magirus brands).

Fiat Automobiles S.p.A

Fiat group has achieved significant results in the past years. The most important financial indicators for Fiat Group for the period 2006-08 can be seen in the Table 3. Even in the most difficult year of 2008 there was a growth in revenue and trading profit. In terms of revenue structure more than 64% comes from Europe (from Italy 24% and the rest of Europe 40%). According to the type of the source even 49.2% of revenue comes from business with automobiles. (*www.fiatgroup.com/en-us/group/default/Pages/default.aspx*). Good business results are due to very good management in the company.

Table 3. The most important financial indicators for FIAT Group 2006-2008 (million Euro)

	2006	**2007**	**2008**
Revenues	51,832	58,529	59,380
Trading Profit	1,951	3.233	3,362

Top management of the company, which consists of Mr. *Sergio Marchionne* (CEO), *Luca di Monte-zemolo* (Chairman) and *John Elkann* (Vice Chairman), succeeded in managing the company avoiding huge dangers and recognizing chances. During 2009 FIAT led very serious negotiations about taking over American Chrysler and German OPEL, Swedish SAAB and British Wauxall, with which it would acquire the status of one of the leading car manufacturers in the world. Having formulated aggressive growth strategy, FIAT has a chance to reduce some of its deficiencies, among which the most prominent are the lack of scale compared to peers, weak performance in Western Europe and weaker margins (DATAMONITOR, 2008, pp. 21).

Success of FIAT has not happened over night. For more than 40 years the prestigious award of the European Car of the Year has been awarded. During that period Fiat Group was awarded twelve times, what is more than any other European car producer. Nine out of 12 of these awards being won by Fiat Automobiles models. Most recently the Fiat Nuova 500 has won the award for European Car of the

Year 2008. Apart from this model the award for the European Car of the Year was given to the following models:

Table 4. Fiat models awarded The European Car of the Year award

- 1967: Fiat 124
- 1970: Fiat 128
- 1972: Fiat 127
- 1984: Fiat Uno
- 1989: Fiat Tipo
- 1995: Fiat Punto
- 1996: Fiat Bravo/Brava
- 2004: Fiat Panda
- 2008: Fiat 500

On the other hand, car manufacturing in Crvena Zastava in Kragujevac started in 1952 when only 5 cars were produced. The next year 25 units of the 750 model were made, known as popular Fi a and 361 units from additional program. Only a couple years later, in 1961 from the Kragujevac car manufacturing plants more than 10 000 cars went out (precisely 10 008 and 9 895 units of model 750 and 113 units of the new model of Zastava 1300/1500, according to Fiat license). The scope of production is bigger than 100 000 units Zastava first had in 1974 when 44 865 cars of Fica were produced, 13 115 famous «tristac» and 53 573 units of new Skala 101 model (redesigned version of FIAT 128). Maximum production Zastava had in the period 1987-89 when more than 200 000 units went out from the assembly line. During these years the «job of the century» was underway. It was the name for the business enterprise of exporting Yugo model to the USA. In USA Zastava exported more than 140 000 units of Yugo. Unfortunately, this job was not successful. Zastava was not given a second chance to learn a lesson out of that failure. Apart from USA, Zastava exported to more than 70 countries. The biggest were Egypt, Poland, UK, Greece, and Hungary.

1990s were the years of civil war in former Yugoslavia, for isolation and sanctions were disastrous for Zastava. From 1992 to 2008 the scope of production went from 4 616 (the least in 1999 when Serbia was bombed by NATO) to 13 355 units in 2004. Apart from the issue of small scope of production, obsolete technology, shortages in finances for research and development, Zastava experienced problems with a huge number of employees, broken relations with raw materials manufacturers and spare parts from the parts of former Yugoslavia, etc.

In 2007 cooperation with Fiat was restored. Namely, in that year assembling of Zastava 10 model started, what is anther name for Kragujevac version of Punto. In 2007 1435 units was assembled, while in 2008 there were twice more – 2 789 units.

As it can be seen, one of the biggest problems Zastava encounters for more than a decade is the low scope of production which opens a wide range of issues. Automotive industry is a very specific one, with huge input barriers and high standards of efficiency. Yet at the beginning of 1980s it was thought that «*minimum efficient scale in the casting of engine blocks is 100,000 units per annum, in the mak□ing and assembly of the power train (engine and transmission) □00,000 units per annum, and in final assembly 200,000 units per annum*» (*M. Casson, 1986, pp. 110*). Only three years in its history Zastava was above the last mentioned standard, at the end of 1980s. Since then, standards at least doubled. All that led a huge wave of restructuring in the sphere of automotive industry, especially through activities of mergers and acquisitions (M&A).

Negotiations about cooperation between Fiat Group and Zastava, that is Government of the Republic of Serbia lasted for a short period time, which was extremely favorable for both sides. Agreement on strategic partnership which was concluded in mid 2008 was signed by Fiat representatives and Serbian government and meant establishment of the new joint company in which Fiat would have 70% and Serbian government 30% of ownership. For Serbian party it was very important that the Italian party was obliged to invest 700 mill euro in production of 200 000 A class cars by the end of the next year. Also, production of B class vehicles would start, increasing the total production of Zastava to 300 000 cars by the end of 2010. In that way, production in Zastava would increase 20 times by the end of 2009, that is 30 times within three years, compared to 12 350 cars produced last year. It is planned that before production of the two new models in Kragujevac, production of Fiat's model of Punto would be continued, that is Zastava 10 which is the trade mark of the car assembled in Zastava.

Model Zastava 10, i.e. Fiat Punto

Motives of the Serbian Government were the following: to increase production of a domestic automobile so as to reduce high imports of cars (especially second-hand ones) and negative influence on the balance of payment, to reduce budget appropriations in the form of subsidies so as to cover astava's debts and „secure" social peace and finally, to launch vertically integrated companies of component producers. As one of the elements of the deal, the Serbian Government is obliged to invest 100 mill euro by the end of 2011 and guarantee incentives to the Italian producer in the next ten years such as tax incentives, support to Kragujevac in improvement of infrastructure and free land for enlargement of the capacities of the factory and proclaiming Kragujevac free tax zone. The above mentioned elements can be taken as a recipe for other towns in Serbia and a chance to improve business climate for doing business.

For the Serbian party, that is Zastava, the biggest advantages of this partnership are as follows:

- Increase in the scope of production – only in the first couple of months in 2009 the scope of production in Kragujevac production plants surpassed the total number of cars produced in 2008. Increase in the scope of production should lead to the increase in production efficiency, reduction of prices and the whole range of other positive effects.
- Enlargement of market, increase of exports – which presents one of the most prominent problems of the Serbian economy. Production of a quality car model creates possibilities for export in CEFTA countries, Russia and other markets.
- Reduction of budget subsidies, which brings about immediate benefits to tax payers in Serbia. As Zastava increases revenues and financial performances so would reduce the need for Serbian government subsidies. This was one of the disadvantages of Zastava's business and its existence, since it was not liquidated during the last 15 years and was «saved» by the Government in order to keep social peace.

Advantages for Fiat Group can be summarized as follows:

- Cheap and relatively professional labor that possesses certain technical qualifications.
- Younger workers who can find job in the company with big potential to learn and prosper
- Certain pool of suppliers, with which cooperation should be developed to increase quality in production of components.
- Relatively good infrastructure – railways and vicinity of Belgrade-Nis highway, that is the European corridor 10.
- Favorable fiscal and customs policy – tax on corporate profit in Serbia is among the lowest in the region (10%).
- State incentives for further investments.
- Some of the mutual dangers that both sides should take into account are the following:

- Unfavorable economic situation in Italy, Europe and in the world, where huge decrease in production and sale of cars can be expected in 2009
- Relatively high costs of production – in Kragujevac cars have still been assembled. Parts come from Italy and transportation costs are relatively high, which significantly reduces profit margin and earning power of the company.
- Small scope of production – there is no company in Europe which produces less than 50 000 units. With projected 15000 cars, production in Kragujevac cannot be too profitable.
- Punto, the model which is to be assembled is obsolete and is not sold any more in many European countries.
- Cultural differences and conflicts between the Italian and Serbian management style.

4. Instead of a conclusion

In the first part of this paper we have had a chance to see that despite tremendous efforts made by the Serbian Government, according to renowned international organizations (World Bank, EBRD) business ambience for doing business in Serbia still lags behind neighboring countries and in a wider environment of Central and East European countries (concretely V4 group). Thus, the arrival of the big Italian car manufacturer of Fiat group in Serbia is a very important business event. It is particularly important in the light of global trends in automotive industry, which suffers from huge economic crisis and the trends of consolidation that preceded. Under such circumstances, many big producers disappeared, power is re-grouped and re-distributed. For Serbia, cooperation with Fiat is a big chance to restore long troubled automotive industry, as well as a whole range of vertically integrated component producers. Also, this cooperation is a chance to make additional efforts towards improvement of business conditions and attractiveness of business ambience for new foreign direct investments (FDI).

Both parties have to be aware of the dangers and weaknesses which can appear in this strategic partnership. However, it also creates additional opportunities and chances in future, when the big economic crisis has ended. Serbian party gets a chance to find itself on the profiteer side in the crisis and occupy significant place in realization of strategic plans of growth of Fiat Group. Thus, a recipe for successful cooperation between Fiat and Government of the Republic of Serbia can be a «seed» for making additional efforts towards improvement of business ambience in Serbia providing a chance for Serbia to occupy somewhat better position in the reports of the international organizations.

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