

## EFFECTS OF PRIVATIZATION AND RESTRUCTURING ON MANUFACTURING INDUSTRY: THE EVIDENCE FROM SERBIA

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**Abstract:** *The privatization and restructuring of state or socially owned enterprises is one of the key requirements for enhancing business performances of the transition economies. However, the effects of these processes have not always led to the desired results. The evidence from privatization and restructuring of Serbian manufacturing industry points out that, besides certain results, the most of anticipated outcomes have not been achieved. The studies conducted in this paper, provide that as a result of the methods used in performing privatization and restructuring processes in Serbia, neither has the new industry structure been established, nor has the significant progress in production and exports been achieved, thereto this was also followed by the increased unemployment rate in the country.*

## 1. INTRODUCTION

The aim of this paper is to present a short evaluation of privatization and restructuring impact on the Serbian manufacturing industry during the period of transition. The paper focuses on searching for the answers: what kind of effects privatization and restructuring had on the volume, structure and performance of Serbian manufacturing industry. Topics discussed include: analysis of characteristic trends in privatization and restructuring, the problems in companies undergoing privatization and restructuring and most of all impact of privatization and restructuring on Serbian manufacturing industry performance.

This paper contributes to the overall perception of the impact of the privatization and restructuring have on economy and particular manufacturing industry. Lessons learned from implementing privatization and restructuring processes in Serbian manufacturing could enable the creation of adequate framework to mitigate possible negative effects of further structural changes as the mistakes of the past would not be repeated.

## 2. MATERIAL AND METHODS

Since the beginning of transition from earlier communist to market economies the privatization has been extensively studied. Many authors were focused on numerous aspects of this process: the theory of privatization, the privatization models, the agency problem, the welfare effects of privatization, the effects of privatization on the company's business performance, the issue of restructuring within the privatization process, the differences between state and private owners and between different types of private owners, the post-privatization outcomes...

There are several outstanding articles that discuss the theory of privatization and review the literature on that topic (e.g. O. Havrylyshyn and D. McGettigan [1], Nellis [2], W. Megginson and J. Netter [3]). Many of authors stress the importance of privatization noting that privatization moved from novelty to global orthodoxy in the period of two decades and often arguing that the success of privatization is indisputable (e.g. W. Megginson and J. Netter [3]).

In the early 1990s privatization was widely considered one of the foundations of the entire transition process. The policy arguments were based on successful experience in developed economies. The so called Washington Consensus emphasized privatization and belief that private ownership together with market forces would ensure efficient economic performance. However, it was also frequently recognized that privatization on its own might not be sufficient and that structural transformations and policy reforms were more important precondition for successful transition changes (e.g. O. Blanchard, R. Dornbusch, P. Krugman, R. Layard, and L. Summers [4]).

The early transition literature hypothesised that institutional changes would be sufficient incentive for enterprises to engage in restructuring (e.g. W. Carlin et al. [5]). However, some case studies from this and later period have challenged this view, suggesting that additional incentives and pressures may be needed to motivate enterprises to restructure (e.g. S. Commander and J. Svejnar [6]).

The studies on restructuring in transition literature were focused on various issues. In some studies, the authors have focused on activities undertaken by enterprises to survive in transition environment and investigated what factors influence these activities or how these activities affect the performance or competitiveness of enterprises in the short and long run. There are also studies that attempt to establish a relationship between forms of enterprise restructuring and its outcomes (e.g. L. Halpern and G. Korosi [7], W. Carlin et al. [8]). In some other studies the authors have investigated the outcomes of restructuring in context of its determinants. S. Djankov and P. Murrell in 2002 [9] applied a meta-analysis to the findings from a large number of diverse early studies of the transition economies. In this study they examined the effects of privatization, the importance of different types of owners, the effects of foreign and domestic competition, the consequences of soft budgets, and the role of managerial incentives and managerial human capital, on enterprise restructuring. Their survey provides new insights into the relative effectiveness of different reform policies, and into how this effectiveness varies across regions. The empirical evidence on the impact of competition on enterprise restructuring has been ambiguous. On the one hand, there is evidence of positive impact of intensified competition on productivity of enterprises and their

motivation to introduce new products [8]. On the other hand, in some studies competition from foreign rivals was found to negatively influence restructuring of enterprises [9].

A certain number of researches and studies have been focused on firm-level impact of privatization. The extant firm-level empirical researches on the change in productivity and employment around the world (e.g. Megginson [10]) show that privatization usually results in increased productivity but also leads to a reduction or no change in employment. There is also strong evidence that privatization to foreign investors' results in higher productivity gains. S. Guriev and W. Megginson [11] suggest that privatization can deliver substantial benefits. The empirical studies show that privatization to foreign owners usually results in a rapid improvement in performance of companies, while performance effects of privatization to domestic owners are less impressive and vary across regions, coinciding with differences in policies and institutional development. Employee or collective ownership generally does not have a negative effect.

There are some papers focused on post-privatization effects. A 2006 survey of 28,000 individuals in 28 post-communist countries (e.g. I. Denisova, M. Eller, T. Frye and E. Zhuravskaya [12]) reveals overwhelming public support for the revision of privatization. A majority of respondents, however, favours a revision of privatization that ultimately leaves companies in private hands. Authors identify which factors influence individuals' support for revising privatization and explore whether respondents' views are driven by a preference for state property or a concern for the fairness of privatization. Authors find that human capital poorly suited for a market economy with private ownership and a lack of privately owned assets increase support for revising privatization with the primary reason being a preference for state over private property.

Some authors studied the impact of privatization on certain industries. A. Badulescu and D. Badulescu [13] reanalysing the literature regarding the role and results of privatization, as they were explained in the 1990s, the expectations on the effects of the privatization programs - which included, in various forms, metallurgy sector, the development of privatized companies or those who remained on state ownership, find that the results of privatization and the establishment of new corporate governance rules have been considerably more complex and nuanced than expected, or enthusiastically proclaimed at the beginning of privatization. Furthermore, J. S. Earle, Á. Telegdy [14] investigated privatization methods and productivity effects in Romanian industrial enterprises and Y. Perevalov, I. Gimady, V. Dobrodey [15] evaluated the impact of privatization on performance of industrial enterprises in Russia.

The various aspects of privatization have been also extensively explored by Serbian authors. Some of them have been focused on theoretical aspects of privatization, arguing that private ownership is superior to the public and stress the importance of prompt and efficient completion of the privatization (e.g. B. Begović et. al. [16]).

A large number of authors are focused on privatization models (e.g. B. Drašković [17]), as well as the effects of privatization on economic growth and society (e.g. P. Djukić [18], B. Cerović [19], M. Kovačević [20]). Most of the authors are very critical on the results of privatization in Serbia. B. Drašković indicates that privatization has been inefficient for being based on wicked access, whereby the state income was preferred, while the economic development and maintenance of rate of employment were sacrificed. M. Kovačević argues that the privatization in Serbia failed in general, creating a number of unfortunate economic and social consequences.

As time goes by the centre of analysis among Serbian authors has been transferred on some effects of privatization. However, unlike to the practice in other transition countries where certain numbers of empirical researches have been performed, these kinds of studies are rare in Serbia. Conversely, there is an evident lack of research on privatization impact on certain economy sectors and industries. Little is known about effects of restructuring on business performances, volume of production, export performance or other competitiveness indicators. Some efforts of that kind have been made by V. Mičić and A. Zeremski [21], as well as N. Dondur, S. Radojević, Z. Veljković [22], and Lj. Savić [23], I. Domazet, I. Stošić, J. Zubović [24], etc. V. Mičić and A. Zeremski stress that the economic structure of Serbia was changed to the benefit of the service sector, partly due to process of privatization. This movement

led to a process of deindustrialization of the Serbian economy. With the outbreak of the global economic crisis, problems of economic growth and development have become more pronounced and more visible.

This paper contributes to the overall perception of the impact of the privatization and restructuring have on Serbian economy and particular manufacturing industry. The methodology applied in this paper is based on a combination of different qualitative research methodologies. Trends in privatization and restructuring, as well as in manufacturing industry in Serbia are reviewed through quantitative data analysis. In addition to this, the method of case study and empirical research, especially when it comes to opposing to the privatization and restructuring as well as privatized firms performances, has been applied (qualitative data analysis and cross-sectional study of micro data analysis).

Last but not least, the paper is based on the observations of authors who have participated in more than 50 cases of enterprise privatization and restructuring in Serbia ("case" studies). Starting from the authors' experiences in different processes of privatization and restructuring, as well as the specific empirical research and experience of authors, this paper seeks to highlight the key effects it had on the Serbian manufacturing industry.

### 3. RESULTS

The privatization in Serbia was conducted by several different laws and basically by two models. Initial model (so-called "insider" privatization or "model of distribution"), which was applied during 1990s, has been based on combined free distribution of shares to employees and sale (to employees by priority) with discount even up to 60%. The model has initiated privatization, but it has not been massive in that period. The reasons for absence of mass privatization lie in the fact that the domination of private property in enterprises did not suit to managers and therefore they postponed the initiation of privatization procedure. Furthermore, former authorities were not propitious about privatization, for that process was mitigating their influence on the economy. Nevertheless, around 800 socially-owned enterprises were privatized by this model, among which some being with the top performance.

The model of so-called "insider" privatization was replaced by new model in 2002, so-called "model of sale". The introduction of "model of sale" of social and state-owned capital was justified by weaknesses of "insider privatization". Namely, it was considered that "insider" model based on free distribution of shares or their sale with the discount (where employees have the priority), lead slowly to superior corporate managing, because majority ownership in enterprises was achieved only upon secondary sale of shares [25]. Furthermore, revenues from sale of socially-owned capital and their productive use were emphasized as a reason for introduction of this privatization model.

By this "model of sale" 70% of socially-owned capital has to be sold, up to 30% (in case of sale via public auction of smaller enterprises) or up to 15% (in case of sale via public tender of larger or more significant enterprises) have to be distributed free to employees, whereas 15% has been reserved for free distribution to all citizens.

This model affected on privatization processes in Serbia to be intensified. Efforts in privatization were initially directed to the most attractive parts of the industry (tobacco, beverages, medicines, rubber, construction materials, then sugar refineries, chemical industry, etc.) and successful enterprises. Concerning the attractiveness of these enterprises (large market and/or significant property), a greater number of investors (a lot of them foreign) were interested in buying them, which influenced that the results in privatization to be initially very favourable.

However, in 2004, a certain slowdown in privatization became evident. To a significant extent this was caused by the fact that the corpus enterprises attractive for privatization were visibly decreased. For majority of remaining so called "business controversial" enterprises, in difficulties and problems, there were no great interest from potential investors. For those reasons, by the middle of 2005, the amendments of the Law on Privatization [26] were introduced, with which a new incentive was given to the process of privatization. By the amendments of the Law on privatization, basically, the

government and public enterprises have written of their debts towards non-privatized enterprises. In that way, indebtedness has been reduced considerably and remaining socially owned enterprises have been made more attractive to potential investors. Besides, the government has taken over to finance the redundancy on its own, resulting in a reduced number of employees, thus making a certain number of enterprises more attractive for potential buyers. These legislative changes resulted in a certain stimulus for privatization processes.

On the basis of "model of sale" privatization of socially-owned capital more than 2,400 enterprises were overall privatized in Serbia - around 100 via public tender, around 1,600 via auctions and more than 700 enterprises via "capital market".

The results of privatization of enterprises in the manufacturing industry by this model are more favourable than for the economy on the whole. In the manufacturing 878 enterprises were privatized – 60 via public tender, 515 via auction method, and 303 via capital market. By privatization of enterprises in the manufacturing industry, the revenue of €1.5 billion (55% of total privatization revenues) and investments in value of €953 million (73% of total investments) were realized.

Table 1. Privatization of the manufacturing industry in period 2002-2010

Sector/number of enterprises	Privatized	Restructured	Contracts cancelled
Manufacturing industry	878	58	258
Food products, beverages and tobacco	202	3	48
Textile and textile products, leather and leather products	91	7	44
Wood industry and paper	144	4	58
Chemical products, rubber and plastics	66	6	17
Products from other minerals	77	4	23
Metals and metal products	116	6	24
Other machines and devices	40	4	10
Electrical and optical devices	68	6	10
Means of transportation	38	17	16

Source: Republic institute for Development (based on data of the Privatization Agency)

Although, according to available data by the end of 2010, around 40 enterprises (or about 4% of initially anticipated total number) from manufacturing industry remained to be privatized, their number is considerably larger. Namely, due to non-meeting their contractual obligations (before all non-payment of instalments for sales price, non-keeping continuity of production and disrespect of social programme, then due to disrespect of investment programme, disposal of assets contrary to provisions of sale contract, etc.) 258 sale contracts were cancelled (44% of total terminations, i.e. 29.4% of all concluded contracts in this activity). Accordingly, by the end of 2010, and after 20 years of conducting privatization, still 34% of business subjects remained non-privatized in Serbian manufacturing industry. Considering that extremely modest results were realized in privatization in 2011 and 2012 (for which there are no data about sector structure), it can be stated that this percentage has not been significantly changed.

By the Privatization Law from 2001, the privatization of socially-owned enterprises in Serbia should have been completed by the end of 2008. It was prescribed by this Law that the procedure of enforced liquidation will be initiated for all enterprises with socially-owned capital for which the sale of capital would not be announced by the end of 2008. Meanwhile, global recession and lack of investors' interests, and problems in conducting of privatization influenced that this process slows down. Even in the beginning of 2013 this has not been completed. At the same time, mostly for social and political reasons, procedures of mass enforced liquidation were not initiated.

The restructuring before the privatization of certain number of enterprises was anticipated by the law in case when the Privatization Agency estimates that the enterprises cannot be sold in a standard procedure via public tender or public auction because its

organizational form is unsuitable, or its immense debts or some other reasons. For such enterprises, the Agency brings a decision on restructuring, by which they get a specific formally legal status – an enterprise "in restructuring".

Basic strategic directions of restructuring before the privatization were: a) financial restructuring (to restore the financial health through debts released, and even write-off, of debts by priority towards the state and public enterprises in state ownership); b) labour force restructuring – downsizing the number of employees (mostly based formerly on so-called passive labour market policies, in which severances and monetary compensations financed by the state, were the main instrument of solving problems of redundant persons and c) organizational restructuring (mostly fragmentation and individual sale of parts of enterprises or property together with employees, and spin-off of "non-core" activities) [27].

For enterprises "in restructuring" by applicable Privatization law investments the substantial restructuring are not anticipated, to create the conditions for viable long-term economic growth. It is left upon a buyer of an enterprise, i.e. investing into enterprise is done within post-privatization restructuring.

Mostly modest results were realized in the field of restructuring. The Government i.e. the Privatization Agency has been trying to prepare a certain number of once large and/or significant enterprises on local level for privatization and more successful business operating. Unfortunately, at around 60 business subjects, which found themselves initially in the restructuring process, this process was completed with successful privatization in a very small number of enterprises, and major part of them has been in this status for many years now.

The processes of privatization especially of large industrial enterprises and those in "in restructuring" status, are burdened by substantial business problems. Although great differences exist from an enterprise to an enterprise, numerous mutual problems are characteristic for all these enterprises, which can be systematized to presented SWOT matrix:

Table 2. SWOT matrix of large non-privatized enterprises in difficulties

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>▪ Long tradition and production experience</li> <li>▪ Experienced and trained labour force</li> <li>▪ "Cheap" labour force</li> <li>▪ Large surface of land and building facilities</li> <li>▪ Significant production capacities</li> <li>▪ Vicinity of EU market</li> </ul>	<ul style="list-style-type: none"> <li>▪ Loss of traditional markets</li> <li>▪ Lack of profitability</li> <li>▪ High indebtedness and chronic lack of own working capital for carrying a normal activity</li> <li>▪ Obsolete technologies and equipment</li> <li>▪ Old-fashioned production programme and lack of marketing concept</li> <li>▪ Low energy efficiency</li> <li>▪ Overstaffing, inadequate qualification and age structure of employees</li> <li>▪ Ineffective and unskilled management</li> <li>▪ Insufficient investments in R&amp;D</li> <li>▪ Numerous court disputes</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>▪ Written off debts or swapping of debt for equity</li> <li>▪ Implementation of redundancy programmes</li> <li>▪ Improvements in the efficiency of production through investment</li> <li>▪ Improvements in the quality of products and changes in product mix</li> <li>▪ Changing organizational and management structures</li> <li>▪ Possibilities for increase of sale on domestic and European market through privatization by strategic partners</li> </ul>	<ul style="list-style-type: none"> <li>▪ Negative effects of global financial crisis</li> <li>▪ Intensification of competition by smaller private domestic and big foreign producers</li> <li>▪ Liberalization of import regulations</li> <li>▪ Misunderstanding of creditors for existing situation</li> <li>▪ Inefficient legal system</li> <li>▪ High share of "grey" economy in production and trade</li> <li>▪ Import dependency</li> <li>▪ Slow process of country's accession to EU</li> <li>▪ Political instability</li> </ul>

According to the EBRD estimates [28] the level of transition indicators for Serbia in the field of privatization, although improving

since 2001, is not quite satisfying. The EBRD in Transition report 2012 estimate the results obtained in small scale privatization with the mark 4- (on the scale from one to 4+, where one represents little or no change from a rigid centrally planned economy and 4+ represent the standards of an industrialized market economy), in large-scale privatization with the mark 3- and in governance and with the mark 2+. These estimates point out that the process of privatization and restructuring in Serbia is still incomplete and a lot additional efforts has to be done "on the road of transition".

#### 4. DISCUSSION

Attempts to determine correlation between privatization process and basic economic trends in Serbian manufacturing with different statistical methods of have failed. Namely, the number and revenue of sold enterprises in the privatization process is not in statistically significant correlation with trend of production or number of employees, or export of manufacturing industry, neither this analysis indicates to statistically significant at confidence level. Therefore, it could be stated that economic trends in manufacturing industry were determined by impact of a greater number factors, among which the privatization is not of statistically significant impact.

However, it does not mean that the privatization process did not have impacts on operating of business subjects in Serbian manufacturing industry. Contrary to some countries of Central Europe that have had relatively efficiently implemented market reforms, as well as the processes of privatization, restructuring and modernization of industry, such tendencies were not recorded in Serbia.

Reasons for absence of satisfactory positive effects of privatization on industry of Serbia on the whole and industrial enterprises are numerous. One of the basic ones lies in models of privatization of enterprises and the fact that the process has been lasting too long. The privatization has been initiated in early 1990s, and hasn't been yet completely by the of 2012. Non-privatized socially-owned enterprises that were operating in that period were not restructured and developed. Numerous enterprises during this long-lasting process lagged behind in development and their business and resources were to large extend devastated. They invested and adapted to the market only to the extent necessary to survive, i.e. to be able to pay wages to employees.

Additionally, neither the implemented privatization has directly produced a pronounced very positive effect on the development of industry in Serbia. The experiences in regard of effects of performed privatizations and restructurings in Serbia are different and in wide range from unfavourable to favourable effects [30]:

- In a significant number of firms privatization has been unsuccessful. A number of "annulated privatizations" in which purchase contracts were cancelled due to the method of business operating of new owners is increasing and by the end of the year 2012 it is more than 30%. The unfavourable circumstance is that enterprises with terminated sale contracts are, by the rule, devastated and in even worse state than before (cancelled) privatization. That reduces their chances for successful privatization to a significant extent, particularly in conditions of global crisis.

- However, a number of enterprises, in which even after implemented privatization there were no visible improvements of performances, are much higher. In a certain number of enterprises, the privatization was mainly motivated by speculative reasons, in the first place by the acquisition of property that those socially owned enterprises possessed. Therefore, new owners and management are not interested in enhancement of the business performances, but to buy (and sell) the property. The new owners frequently create conditions, with different measures (before all low wages and introducing rigorous working discipline), for employees to give notice and leave enterprises (in spite of social programme of adopted plan). In these cases the existing property remains on disposal of new owners, which they offer after the term anticipated by law (related to a ban of alienation of privatized enterprises' property) for sale on the market (probably at considerably higher prices in comparison to those at which they had bought the capital of those enterprises).

- Some new owners, not in rare cases, with any experience in managing in some specific activity, were not capable to provide functioning of bought enterprises. Consequently many of the privatized firms are "closed" or reduced their activity to a minimum without major looks at the revival of business, employees do not receive salaries not paid their contributions... Particularly difficult situation is in some places in central Serbia, where in fact "doing nothing" and where as a result of privatization of "lost" a large number of jobs.

- In some privatized enterprises changes were mainly directed towards rationalization of the number of employees and transformation of obsolete organizational structure. Activities were mainly directed to lay-off of redundant employees, and most often less skilled and administrative workers were left jobless. Thanks to that, overall operating costs were decreased and productivity increased. Nevertheless, that has strong impact on the total number of employed and the raise of unemployment.

- The visible effects of implemented restructuring processes and their "preparation" for privatization were not noticeable. Substantial strategic restructuring of enterprises in Serbia, business-programme and financial, was left to be realized by new owners, upon privatization. However, negative consequences of holding enterprises with status "in restructuring" reflect in kind of conservation of these enterprises and their resources. Financial losses in these enterprises are vast by rule, they are not capable to meet their obligations, and the state has allocated through different stimulations significant funds until recently. Besides, some of these enterprises, which employ a large number of employees, pay relatively low wages and irregularly, which, among other things, creates social tensions.

- Nevertheless, in a certain number of companies, mostly privatised by international owners, the important improvements have occurred, which are reflected in complete change of "anatomy and physiology" of operating analogue to the world standards. Business portfolio was significantly improved and innovated, investments in modernization of production technology were made, operating is more based on marketing concept, and these enterprises are more and more oriented towards export, firstly towards adjacent markets and other markets as well.

By analysing key indicators of basic economic trends in manufacturing industry for the last around ten years, the following can be stated:

- The period 2002-2012 was characterized by high oscillations and basically low growth rate of industrial production. Average growth rate of industry was around 0.5% in this period and was lagging to a great extent behind leading countries in transition. For the sake of truth, until the global financial crisis and especially in period 2004-2008, dynamical growth was realized and in 2008 the production level of manufacturing industry of Serbia was higher for 13% than in 2002. However, in 2009, under the impact of negative effects of global financial crisis, a substantial decline of production volume occurred (-16.1%) and the level of manufacturing industry production volume was still lower in 2012 than before the outburst of crisis.

- Serbia is lagging behind majority of countries in restructuring of enterprises. Reforms and restructuring in industry are slower than it is necessary. This is affecting the manufacturing industry of Serbia to be characterized by: technological-economic lagging of majority of capacities, low level of capacity utilization, non-satisfactory level of quality of products and services by world standards, high import dependency, low level of marketing management and managing, lack of sufficient direct foreign investments, etc. Existing technological structure of manufacturing industry is unfavourable. Observed by technological groups, the major share in the structure of manufacturing industry are the groups with low technological (49.9%) and medium-low (25.6%) technological intensity [25]. The trend of changes in the structure of technological intensity was dissatisfactory in analysed period and besides mild oscillations low technology industry still has dominant share in overall structure of manufacturing industry.

The production of food products, beverages and tobacco, production of chemicals and chemical products and production of

basic metals and metal products have major share (60%) in the structure of manufacturing industry. Nevertheless, certain changes are happening and traditional industrial fields such as textile industry and industry of leather and footwear, similar to tendencies in other transition countries, reduce their share in the structure of manufacturing industry.

- The level of capacity utilization in industry is unsatisfactory - it was reduced from 69% in 1990, to 48.1% in 2005 and 43.4% in 2009. Under the influence of negative effects of global economic crisis after 2009, the fall of industrial production and further reduction of level of capacity utilization in all industrial fields were recorded. Causes of low capacity utilization are: low level of production (as a result of insufficient demand on domestic market and low level of export), lack of resources for investments and financing, outdated equipment and technology, inadequate credit support, problems of supply with raw materials, etc. The installed production capacities (with regard to volume), are not limiting factor in increasing production, but in terms of quality (technological level), structure and organizational compliance, the situation is considerably more unfavourable. It means that outdated capacity structure compared to requirements of modern market, anticipates enormous investments.

- The tendency of downsizing the number of employees has been present for many years in manufacturing industry. Total number of employees was reduced in observed period for around 300 thousand persons (i.e. from around 594 thousand in 2002 to 289 thousand persons in 2012). The fall of employment in the industry was mostly caused by privatization and restructuring of enterprises, as well as global economic crisis.

- In the same period, wages of employees in manufacturing were noticeably increased. Average monthly net wage was increased from around €125 in 2002 to around €320 in 2012. Average annual real growth of wages was considerably faster than growth of GDP and labour productivity. However, despite noticeable increase, Serbia remains as one of the countries with the lowest wages in the region.

- Export competitiveness of Serbia was significantly improved in analysed period. Total export of manufacturing industry (which makes 94% of total commodity export) increased from €2 billion in 2002 to around €8 billion in 2012. At the same time, the structure of export is characterized by high share of sub-sectors: manufacturing of basic metals (24.1%), production of food, beverages and tobacco (17.1%), production of chemicals and chemical products (10.2%), production of products from rubber and plastics (7.5%), production of other machines and devices (7.1%). These sub-sectors make 66.6% (2/3) of export of manufacturing industry in observed period. Main characteristics of Serbian manufacturing industry export are: low level of production concentration, despite relatively small value of total export; high share of products intensive by resources and intensive by labour; export activities of several enterprises determine overall dynamics of export due to small value of export; production and export of food manufacturing industry are to a great extent under the influence of meteorological conditions (crop from farming).

The share of export in GDP continues to be low and it is below world average. Insufficiently efficient structural reforms and privatization processes have not lead to more radical changes commodity structure of export.

## 5. CONCLUSION

The privatization and restructuring of enterprises is not the aim by itself, rather this processes represent the means for improvement of business performance and of entire economy. These processes should result in an increase of production volume, competitiveness, export, inflow of foreign investments and increase of employees' incomes, etc. In fact, thanks to the success of the implementation of these processes in the advanced transition countries after a period of so-called transition crisis, an increase in competitiveness and dynamical growth of industrial sector, which has become the main factor influencing the growth of GDP, was realized. Namely, in these countries, new and competitive industrial structure was created. Thanks to own investments, but also to significant inflow of foreign direct investments (partially through privatization processes and restructurings) and transfer of industrial capacities from developed

EU countries, the significant growth was recorded in industries (in period 2001-2008 even to 40%).

In Serbia, generally observed, effects of companies' privatizations and restructurings performed up to now, besides certain isolated results, are unsatisfying, followed by many undesirable effects, which include, among others, "cutting" the number of employees and closing of numerous non-propulsive sections of an enterprise, etc. Furthermore, numerous controversies related to new owners and their behaviour are apparent. Besides, resources from privatization were not directed adequately and sufficiently into investments, crediting development and export projects in the industry and restructuring and revitalization of bearers of the development.

As a consequence, large-scale deindustrialization has taken place since 2001. The share of industry in GDP was 15.8% in 2010, was 22.3% in 2001, and was 44.4% in 1990 [29], which indicate the range of downturn trend and gravity of problems that challenge the industry. Average share of industry in more advanced transition countries is in range from 24.5% up 38.4% GDP [25].

Too long privatization process, together with unfavourable general economic conditions, especially upon the outbreak of the global economic crisis, have resulted in sub-optimal effects of privatization and restructuring in Serbia. But the privatization and restructuring of the firms in manufacturing of Serbia is inevitable. Without implementation of intensive processes of restructuring and leaving archaic industrial configuration and obsolete method of corporate operating, successful results of business operating cannot be achieved.

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