Pursuant to Article 38, paragraph 1, of the Planning System Law ("Official Gazette of RS", No. 30/18),

The Government hereby passes the

INDUSTRIAL POLICY STRATEGY OF THE REPUBLIC OF SERBIA FROM 2021 TO 2030.

1. INTRODUCTION

In scope of the negotiations for the accession to the European Union, Republic of Serbia endorsed the acquis communitaire of the European Union (hereinafter referred to as: EU) under Chapter 20- Entrepreneurship and Industrial Policy (hereinafter referred to as: Chapter 20) and committed to fully implement it by the time it had become a full-fledged member; Republic of Serbia does not require any specific adjustments in this area. Namely, as a benchmark for closing the said chapter, commitment of the Republic of Serbia entails passing a comprehensive industrial policy based on the EU principles and using the outputs of the so called "smart specialisation" exercise, same as its implementation.

Bearing in mind that the applicable strategic document in this area- Industrial Development Strategy and Policy in the Republic of Serbia from 2011 to 2020 is about to expire, what lies ahead is the need to achieve continuity in the industrial policy implementation. Ministry of Economy had evaluated the objectives of this strategy in May 2018 and published a document Ex Post Analysis of the Serbian Processing Industry 2011- 2017. In line with the competences of the Ministry of Economy, a new strategic framework was developed aimed at achieving improved competitiveness of Serbian industry and enhancing its position in international market, along with creating a focused and better coordinated industrial development policy, and raising the efficiency of instruments for its implementation.

The work on this document in May and June 2019 included 13 public-private dialogues in the entire territory of the Republic of Serbia. These events were attended by 363 participants in total, representing the following organisations- 224 companies, 13 business associations, clusters and science and technology parks, 32 representatives of universities, faculties, colleges and secondary schools, 14 public institutions and city representatives. In September 2019, a closing public- private dialogue was delivered, whereat the findings of public- private dialogues held in May and June 2019 were presented, along with the exchange of experiences among all stakeholders. In addition, Ministry of Economy delivered a public debate on the Draft Industrial Policy Strategy of Republic of Serbia from 2021 to 2030 in the period from 13 December 2019 to 3 January 2020.

This public policy document contains comprehensive reform steps in the area of industrial development and cuts through a large share of industrial activities, focusing on processing industry, therefore during its drafting stage, cooperation was established with all relevant stakeholders including representatives of the Government, economy, science and civil society.

1.1. Fundamentals of the Serbian industrial policy

A key point of agreement between different authors is that industrial policy is a set of objectives and measures defining the intended Government intervention in the industry structure segment so as to promote general economic growth[1]. It should be stressed that dynamic (sufficient volume), smart (based on knowledge and innovation), sustainable (aware of resource availability and efficiency of use) and inclusive (strives to social cohesion) growth is a number one priority of the Serbian industrial policy, and all industrial policy objectives, measures and activities will be evaluated from the perspective of their contribution to raised competitiveness of industry and general economic growth in the Republic of Serbia.

European Commission[2] defines industrial policy as horizontal by its nature in the sense of its fundamental goal to ensure enabling environment for the industrial competitiveness growth. In broader terms, industrial policy inevitably integrates the basis of horizontal policy and implementation of vertical sector policies. This means that industrial policy of the Republic of Serbia, which is horizontal, or sector-neutral, needs to be synchronised with the smart specialisation strategy identifying priority sectors and providing the basis for vertical sector policy making. It is clear that it takes a properly dosed intervention of the state, in the form of heterodox approach integrating key economic policies (monetary and fiscal policies) with industrial policies (horizontal and vertical).

A clear industrial policy is needed, both horizontal and vertical, to achieve growth aspirations, accompanied by a disciplined and supportive macroeconomic policy.

Horizontal industrial policy addresses the issues of education, fostering innovation, digital transformation, investment, infrastructure, internationalisation and circular economy, touching in all these areas upon the topic of building an enabling business environment for facilitated business doing by industrial players.

Vertical industrial policies, aided by smart specialisation, target traditional industrial sectors that can improve comparative advantage (based on the more favourable approach to production factors, like people, natural resources, access to finance and market vicinity), digitally transformed traditional sectors and players that can raise the value added level of products and services and newly established industrial sectors and players, creating sustainable competitive advantage based on disruptive innovation.

It is not necessary to elaborate in detail the necessity of industrial policy harmonisation with other economic policies, such as monetary and fiscal policies, competition policy, policy of public investments in infrastructure, innovation fostering policy, technological development policy, social and labour market policies, micro, small and medium-sized enterprises (hereinafter referred to as: MSME) support policy, education policy and policy of smart specialisation and regional development. This is why it is very important to harmonise the industrial policy instruments of the Republic of Serbia with instruments of other applicable strategic documents.

Having in mind the established macroeconomic stability, a key issue is how the Republic of Serbia can, by sufficiently high growth rates over the sufficiently long period of time, ensure

[1] World Bank (1993): The East Asian Miracle, Washington DC, The World Bank, p. 354.
[2] European Commission (2002): Industrial policy in an enlarged Europe, p. 3.

convergence towards economically most developed countries in Europe. It also requires design and application of a smart, well-balanced industrial policy, which will replace competitiveness based on comparative advantage (lower cost and price for standard product) by competitiveness based on competitive advantage (knowledge- intensive industry competitive in the value added)[3].

The important issues to be addressed by this document are as follows: co-existence of traditional industrial sector and newly established digitally transformed sector, having in mind the need to retain employment and create consistent value; integration of local industrial players into international value chains; importance of establishing a required volume and quality of labour force able to respond to the requirements of future industrial development; the issue of business climate improvement, stimulating operation and investment of industrial companies; ensuring sufficient volume and quality of investments; the issue pertaining to adhering to environmental protection standards by industrial companies and circular economy as a source of new industrial growth.

New industrial revolution offers the Republic of Serbia an opportunity to skip some of the development steps and master latest innovation. The model of catching up with the developed countries needs to be based on the industry-guided development implying advanced production and services with high level of value added, based on the legacy of the 4.0 industrial revolution, which is constantly in new revolution leaps due to the large number of disruptive innovations emerging all the time. Global power balance is nowadays being again re-allocated, at a very high speed. This is a chance for the Republic of Serbia to catch up with the most developed global countries. What is encouraging is the export of the information and communication technology sector (hereinafter referred to as: ICT) which in 2018 amounted to EUR 1.135 billion, thus representing growth of 26% compared to 2017. This piece of data shows that the Republic of Serbia may and has to transform its industry in line with the present and future requirements of the digitally transformed world.

It is important to stress that in this document, industry is defined in accordance with the national classification KD2010, meaning that industry encompasses the following sectors: entire processing industry, mining, power supply, water supply, waste management and construction.

1.2. Guidelines for defining the industrial policy strategy of the Republic of Serbia by 2030

1.2.1. Planning framework for passing the strategy

The Industrial Development Strategy encompasses a wide range of economic activities, with a focus on processing industry, therefore in the course of its drafting all relevant planning documents in the Republic of Serbia were taken into account.

Having in mind the horizontal approach applied in this document in formulating measures to achieve targets, the highest degree of interconnectedness needs to be ensured with the Smart Specialisation Strategy in the Republic of Serbia for the period 2020-2027, the findings of which

[3] Đuričin D. and Vuksanović Herceg I. (2018): Digital Serbia: Economic context adjustments for double GDP, *Ekonomika preduzeća*, januar-februar 2018, Savez ekonomista Srbije.

will be used to support vertical areas in the Action Plan identified in the process of entrepreneurial discovery.

Taking into account the scope of the Industrial Policy Strategy of the Republic of Serbia from 2021 to 2030 (hereinafter referred to as: Strategy), harmonisation was achieved with the 2020 Fiscal Strategy with forecasts for 2021 and 2022 ("Official Gazette of RS", no. 80/19), Strategy for the Support to Small and Medium- sized Enterprises, Entrepreneurship and Competitiveness Development for the period 2015- 2020 ("Official Gazette of RS", No. 35/15), Strategy on Low Carbon Development of the Republic of Serbia, National Youth Strategy for the period 2015- 2025 ("Official Gazette of RS", No. 22/15), National Employment Strategy for the period 2011- 2020 ("Official Gazette of RS", No. 37/11) and Cleaner Production Programme.

1.2.2. Legislative guidelines

Strategy development is undertaken in accordance with the Planning System Law of the Republic of Serbia (hereinafter referred to as: Law), passed in 2018. This law sets forth steps and elements this public policy should contain. Given that the previous strategic document in this area was passed for the period 2011- 2020, action plan for the implementation of the defined Strategy objectives and measures (hereinafter referred to as: Action Plan), needs to be adopted in 2020, so as for the active implementation of the Strategy to be initiated as of 2021, in three-year cycles, for the coming ten-year period.

Pursuant to Article 23 of the Law, this Strategy was harmonised with the Constitution, law, ratified international treaties, same as with obligations assumed in the European integration process, defined in more detail in Article 49 of the Law. This strategy needs to meet the requirements of domestic legislation and is passed for the regular ten-year strategic cycle for industrial area, and in parallel it represents a key condition and document to close Chapter 20 in the pre-accession process of the Republic of Serbia to the EU. Throughout the entire process from drafting to implementation and implementation monitoring, it is required to establish and implement synchronised communication with relevant domestic institutions and EU bodies implementing monitoring on meeting the requirements in the pre-accession process, in order to ensure coordination and harmonisaation between the national objectives and international obligations.

In February 2019, Government had passed the Decree defining in more detail provisions of the Law, and setting forth methodology for the public policy management, public policy impact analysis and content of individual public policy documents, this Strategy has also been aligned with.

Functionally, Ministry of Economy is competent for the implementation of the new industrial policy, with the support of multiple ministries and institutions implementing delivery of set specific objectives and measures in their respective areas or provide support in terms of statistics, monitoring, reporting, coordination with other public policies.

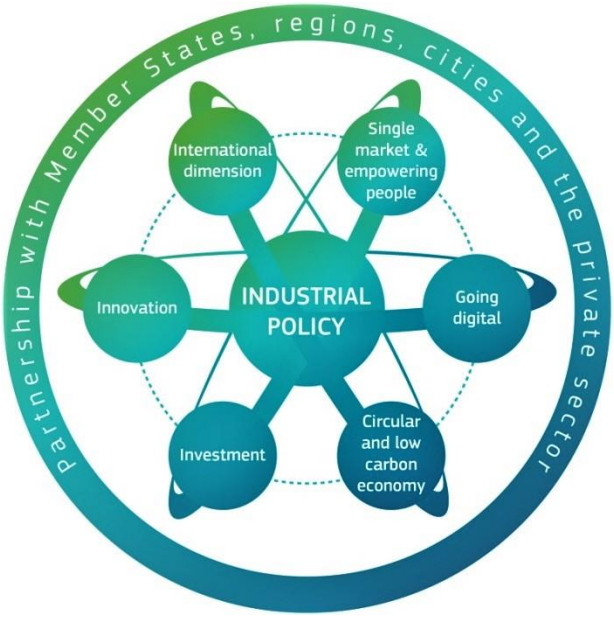
1.2.3. EU guidelines for the industrial policy strategy definition

The strategic document *"A Renewed EU Industrial Policy Strategy"*[4] forwarded by the European Commission to the European Parliament, European Council, European Social and Economic Committee and European Investment Bank at the end of 2017, discusses key aspects of the strategy and recommends guidelines for main industrial development directions in the context of growing global competition, dynamic development of new technologies and challenges brought about by sustainable development.

As the key driver of productivity and innovation, industry has always been a cornerstone of economic prosperity of the European continent. Aiming at maintaining and increasing the competitiveness level of Europe, for 2020 being the baseline year of the new strategic period, an objective was set for the industrial share in gross domestic product (hereinafter referred to as: GDP) of EU-28 to be restored to the former level of 20% (including: processing, utility industry, mining and construction material, excluding the business services and construction industry, closely relying on industry).

Six key areas were identified in the EU industrial development area:

Illustration 1. Intervention areas in the new EU industrial policy strategy



[4] European Commission *(2017) "Investing in a smart, innovative and sustainable Industry - A renewed EU Industrial Policy Strategy*" COM(2017) 479

First intervention area is empowering human resources for the needs of dynamic industrial development.

Second area of intervention is digital transformation of industry.

Third area is innovation. It is directly linked with the previous two areas, since stimulating industrial innovation requires knowledge of staff, and the result of commercial innovation ought to, inter alia, be a successful digital transformation of industry.

The next area of intervention refers to investment. The EU guidelines clearly indicate that industrial growth requires investments in physical, digital and social infrastructure.

When it comes to internationalisation as an EU intervention area, it clearly shows the inability of consistent industrial growth without international competitiveness of the critical mass of industrial companies.

A topic slowly getting primacy in the EU concept of industrial development is circular economy and reduction of environmental pollution.

Naturally, a cross-cutting topic through all areas of intervention is creation of an adequate business environment for industrial growth.

1.2.4. Guidelines in relation to negotiating Chapter 20

Within the accession process of the Republic of Serbia to the EU, the process relating to negotiating Chapter 20 initiated in 2014 through screening process (analytical legislative review), resulted in the European Commission Screening Report MD/3/15 in January 2015. In January 2017, Government passed the document "Negotiation Position of Serbia for inter-governmental conference on the accession of the Republic of Serbia to the European Union for Chapter 20 "Entrepreneurship and Industrial Policy", followed by the "Common EU position on Chapter 20" in February 2017, which formally marked the opening of this chapter in the accession process of the Republic of Serbia.

Guidelines of the European Commission in the sense of this Chapter, taking into consideration the implemented screening and current status of preparations, envisage that the Republic of Serbia is to continue taking steps in terms of harmonisation with the EU acquis, same as that it is necessary to launch the implementation of a comprehensive industrial strategy. Moreover, it has been emphasised that the EU will continue implementing monitoring of adequacy of administrative capacities of the Republic of Serbia to effectively implement entrepreneurial and industrial policies, but also the link between this Chapter and Chapter 8 referring to competition policy (competition and state aid). The final evaluation of harmonisation of legislation of the Republic of Serbia with the EU acquis and its implementation capacities will be undertaken in the later stage of negotiations, and Republic of Serbia is expected to submit regular progress reports and information to the EU Stabilisation and Accession Council.

A general guidance connecting domestic and international context is that new Serbian industrial policy is to set realistic targets, accompanied by clear measures and measurable indicators, financial support and well- structured implementation, monitoring and evaluation mechanism.

1.3. Methodological approach and content of the document

Described below is the methodological approach to drafting of the Strategy in the areas of data collection, data analysis and setting of strategic objectives and initiatives.

For the purpose of data collection the following was used:

- Secondary sources (publicly available documents, strategies, statistics, studies, analyses, industrial strategies of other countries).
- Primary sources (13 public- private dialogue events in 12 industrial centers in the Republic of Serbia held in May and June 2019, same as the final event in Belgrade delivered in September 2019). Primary data represents a critically important source for conducting the analysis of the current industrial and business environment issues, and is used in synergy with the data collected from secondary sources.

The data analysis process implied the following steps:

- Situational analysis including an overview and analysis of the current situation in respect to macroeconomic trends, trends in Serbian industry and indicators in all six areas of intervention (HR, digitization, innovation, internationalisation, investment and circular economy);
- *Bottom-up* diagnosis through the analysis of industry positions via public- private dialogue. All key insights gained during the public- private dialogue events are listed in the Current Situation Overview;
- In the scope of the analysis of secondary sources, consideration of mutual alignment and harmonisation was carried out with the previous strategic document in this area and applicable key strategies with which the Strategy is most mutually interacting with, like the strategic documents in the area of education, employment, smart specialisation, information society development, energy, MSME support, innovation, public administration reform. The lack of quality sources was identified in some areas where strategies have not been updated, like regional development, export, etc. therefore the latest available sources were taken into account. Industrial policies of other relevant countries were also taken into consideration;
- The final diagnostic conclusions represent subliminal and corresponding findings of both data sources (insights from the public- private dialogue events as the primary source and a series of publicly available documents, analyses and statistics, as the secondary source).
- Identification of key challenges for the delivery of Serbian industry competitiveness;
- Based on the diagnosis, key barriers were identified for the successful implementation of the Serbian industrial policy;
- Vision of the Republic of Serbia industrial policy for 2030 was also defined, with the umbrella aspiration being acceleration of economic growth and improved quality of life of Serbian citizens. The vision and the list of objectives were derived based on the government documents, interviews and communication with representatives of the Ministry of Economy and Inter-ministerial Working Group supporting the Strategy drafting process;
- On the basis of a detailed diagnosis and defined vision, overall or umbrella goal of industrial policy was defined, which is raising the competitiveness of Serbian industry;
- To support the general goal, a set of specific objectives of industrial policy was defined, followed by a package of measures serving the achievement of specific objectives;

- The defined strategy represents a foundation for the establishment of implementation mechanism, with an action plan elaborating in detail activities, indicators, financing models, implementers and monitoring and evaluation mechanisms.

This document, as previously indicated, is focused on horizontal measures at the highest level, and as such represents the foundation for elaboration of sector industrial policies under the smart specialisation strategy (*sector deals*). In addition, this strategy may be the starting point for the development of regional industrial policies taking into account specificities of different regional industrial centers in the Republic of Serbia.

1.3.1. Consultations with stakeholders

Along with the expert team, Working Group of the Ministry of Economy took part in drafting of the Strategy, same as the Government Working Group- Working Group on developing the Draft Industrial Policy Strategy of the Republic of Serbia for the period 2021- 2030 and for developing the Draft Research and Innovation Strategy for Smart Specialisation in the Republic of Serbia RIS3. The Working Group included representatives of the Prime Minister's Office, Ministry of Economy, Ministry of Finance, Ministry of Education, Science and Technological Development, Ministry of Labour, Employment, Veteran and Social Affairs, Ministry of Youth and Sports, Ministry of Trade, Tourism and Telecommunication, Ministry of Environmental Protection, Ministry of Agriculture, Forestry and Water Management, Ministry of European Integration, Serbian Chamber of Commerce and Industry, Republic Secretariat for Public Policies, Office of the Minister without a portfolio in charge of demographics and population policy and Office for Information Technology and E-Government.

Given the broad scope of the Strategy, consultation and public-private dialogue processes included a range of stakeholders, like companies and associations, educational and scientific institutions, professional and civil society organisations, but also representatives of public authorities, local governments and regional chambers of commerce.

In May and June 2019, with the significant support of the Serbian Chamber of Commerce and Industry, 13 public - private dialogue fora were delivered with notable attendance of representatives of businesses and social organisations, in the following industrial centres across the Republic of Serbia:

- Užice, 15 May 2019 (Zlatibor administrative district),
- Valjevo, 16 May 2019 (Kolubara and Mačva administrative districts),
- Kragujevac, 17 May2019 (Šumadija and Pomoravlje administrative districts),
- Zrenjanin, 21 May 2019 (North Banat, Central Banat and South Banat administrative districts),
- Subotica, 23 May 2019 (North Bačka and West Bačka administrative districts),
- Novi Sad, 24 May 2019 (South Bačka administrative district),
- Kruševac, 30 May 2019 (Rasina administrative district),
- Kraljevo, 31 May 2019 (Raška and Moravica administrative districts, Autonomous Province of Kosovo and Metohija),
- Leskovac, 4 June 2019 (Jablanica and Pčinja administrative districts),
- Niš, 5 June 2019 (Nišava, Toplica and Pirot administrative districts),

- Zaječar, 6 June 2019 (Zaječar and Bor administrative districts),
- Belgrade, 11 June 2019 (Srem, Braničevo and Danube administrative districts) and
- Belgrade, 12 June 2019 (Belgrade district).

The public-private dialogue events were attended by 363 participants in total, representing the following organisations:

- 224 companies,
- 13 business associations, clusters and science and technology parks,
- 32 representatives of universities, faculties, colleges and high schools, and
- 14 public institutions and city representatives.

Aiming at quality interaction, the public-private dialogue was structured based on the "*world cafe*" concept, whereby the attendees were divided into smaller groups of 5 to 6 members, in order to actively participate in discussions with expert moderators in areas relevant for raising competitiveness of our industry, grouped into four thematic sessions:

- Empowering people,
- Digitization and innovation,
- Investment and international business, and
- Circular economy.

The lists with provisional sub-topics were disseminated to all participants as assistance for discussion in each of the thematic sessions. Expert moderators initiated discussion to enable the participants in each public- private dialogue event to present their views from two aspects:

- Diagnosis of current situation in local environments/ regions, problems and barriers faced by the participants, from the regulatory framework aspect, financing, administration, business environment, HR issues, and other aspects affecting industrial development.
- Proposed solutions, initiatives and recommended measures to improve the situation in all thematic areas.

Through this process of public- private dialogue a whole range of quality inputs and insights was gathered, which were later incorporated into this strategic document, both in the diagnostic domain, and in elaboration of strategic objectives, measures and activities.

General conclusion on the course of the public- private dialogue

The public- private dialogue process was intensively delivered throughout the drafting process of the new industrial development strategy drafting. Using the network and specialised email of Serbian Chamber of Commerce and Industry, interaction was maintained during and after the public- private dialogue events with all participants who wanted to additionally help the process or get engaged in the discussion, and all suggestions were carefully considered by the industrial policy strategy drafting team. At this stage, the process was completed by a big event organised in September 2019 in Belgrade, attended by representatives of the economy, educational institutions, Inter-ministerial Working Group supporting the new industrial policy strategy development, same as by representatives of foreign delegations, EU and Deutsche Gesellschaft für Internationale Zusammenarbeit- GIZ, whereby current results of the public- private dialogue and next steps in the process were presented.

The final phase of the new industrial policy development process (Implementation Mechanism) envisages ongoing interaction and consultations, up until the completion of the process and adoption of the full strategy by the Government.

Key impressions on the public- private dialogue process are as follows:

- unlike the previous experiences in the implementation of public strategies and policies, all stakeholders agree that the process had actually included a broad range of stakeholders;
- format of the dialogue was considerably improved and was different compared to the previous formats most often organised in the form of plenary sessions allowing only a small number of participants to engage in interaction;
- the process was launched at the very beginning, before the authors' team created final positions, so in that way insights from the public- private dialogue events had effectively affected the situational analysis process and recommended measures;
- insights gained at the public- private dialogue events were included in the Strategy.

2. OVERVIEW AND ANALYSIS OF THE INDUSTRY STATUS IN THE REPUBLIC OF SERBIA

2.1. Progress achieved in the implementation of the industrial policy of the Republic of Serbia in the period 2011-2017

Delivery of strategic goals of the Republic of Serbia industrial development 2011-2017

On 30 June 2011, Government adopted the Strategy and Policy of Industrial Development in the Republic of Serbia from 2011 to 2020 ("Official Gazette of RS", No. 55/11). Due to the devastating effect of the 2009 global recession (GDP decline of -3.1%) and external effects on the non-competitive and non-restructured Serbian economy, the focus of the Strategy was placed on the implementation of the new model of economic growth, based on three pillars:

1. Dynamic investment growth,
2. Export- oriented industry, and
3. Industrial employment growth.

The non-restructured industry of the Republic of Serbia, in addition to external effects and legacy problems, in 2011 also faced the imperative of implementing the "second generation of reforms": improving enabling business climate for investors, full protection of property and contracts, efficient judiciary, modern fiscal system, reformed public sector, harmonised fiscal and monetary policies, efficient banking system and financial markets development, developed public and private partnership relations especially in infrastructure, regulated labour market, regulated relations between employers and employees, progress in reducing shadow economy and corruption, political stability, all leading to enhanced credibility of the country and reducing investment risk.

Table 1. Implementation of strategic goals

Target variables	Average growth rate (%)	
	2011-2020 projected	2011-2017 achieved
GDP	5.8	0.9
Investments	9.7	2.4
Internal final demand	4.7	0.5
Spending	3.5	0.1
Export of goods	14.2	10.7
Processing industry	7.3	3.3
Construction industry	9.7	0.0
Employment in processing industry- total growth	18.0	+0.4

Source: Statistical Office of the Republic of Serbia, calculation in the study of the Ministry of Economy

Recession waves have primarily affected the low economic growth rate in the period 2011-2017, with the average growth rate amounting to 0.9%. When it comes to key parameters, the greatest decline was registered in total investments (average rate 2.4%, cumulatively only 18.4%, with constantly low share in GDP, 18.6% in 2010, and 18.%% in 2017). Final demand was low (0.5%) over the entire period, while spending growth was neglectable (average growth +0.1%). Tradeable sectors like processing industry and construction were non-restructured, therefore showed very slow recovery from the effects of the crisis. In the processing industry average employment growth rate amounted to +0.4% annually. Best result achieved in the real sector pertained to the goods export growth rate, although technological structure of commodity exports was still unfavourable. Current account deficit was reduced from 6.8% in 2010 to 5.7% in 2017, fiscal consolidation resulted in positive effects reflected in the reduced budget deficit, inflation was reduced in line with the planned target (in 2011 it was 7.0%, in 2012 12.2%, in 2013 2.2%, in 2014 1.7%, in 2015 1.5%, in 2016 1.6%, in 2017 3%). Foreign debt increased from EUR 23.5 billion in 2010 to EUR 25.7 billion in 2017, but the foreign debt share in GDP was reduced from 79% to 70%. State spending was reduced from 18.5% of GDP in 2010, to 15.9% in 2017 (target for 2020 is 12.4%).

Low economic growth rate affected the slow dynamics of the living standard growth. It has been planned for the Republic of Serbia of to reach EUR 8,000 per capita, to improve employment by 17%, and productivity by 50%. In the period 2011-2017, employment went up by 4.0%, and productivity by 2.7%. In 2017 living standard amounted to EUR 5,200 per capita.

Table 2. GDP, employment and productivity

Target variables	2020	2011-2017
GDP/capita	EUR 8,000	EUR 5,200
Productivity (cumulatively)	50% growth	2.7%
Employment (cumulatively)	440,000 (17% growth)	76,159 (4.0% growth)

Source: Statistical Office of RS, calculation in the study of the Ministry of Economy

Structural changes as a key strategic goal were rather modest. Industrial share in GDP was increased from 18.8% to 21.7%, with the reduced share of agriculture from 8.5% to 6.0%, construction from 4.7% to 4.6%, and services from 51.0% to 50.0%.

The delivery of the planned industrial growth by 2020 depended most on the growth in total investments. Namely, it was planned to increase investments from EUR 4.9 billion in 2010 to EUR 9 billion in 2015, with the investment level in 2020 to reach almost EUR 15 billion. In 2017, investments amounted to EUR 6.8 billion. The share of investments in 2010 amounted to 18.6% of GDP, the target was gradual annual share increase so as for it to reach 28% in 2020. The share of total investments in 2017 was 18.5%, which is the same level as in 2010.

Table 3. Investments

	Total investments	Investment share in GDP
Planned in 2020	EUR 15 billion	28% BDP
Implemented in 2017	EUR 6.8 billion	18.5% BDP
Difference	EUR -8.2 billion	-9,5 p.p.

Source: National Statistical Office (hereinafter referred to as: NSO)

Due to the lack of domestic capital, one of the key strategic goals was to intensify attracting foreign direct investments (hereinafter referred to as: FDI) in the period 2011-2020. The Strategy was based on the net inflow of foreign direct investments amounting to EUR 22.7 billion in the period 2011-2020 (cumulatively), or 5.8% of GDP on average annually.

Table 4. Implementation of FDI attracting 2011- 2017

Indicators	Implementation 2011-2017	Planned 2011-2020
FDI net- total /billion EUR/	12.7	22.7
FDI net- average annual share in GDP	5.3%	5.8%
FDI in processing industry- total /billion EUR/	4.5	9.1
FDI- in processing industry	31.1%	By 2020, more than 40%

Source: National Bank of Serbia (hereinafter referred to as: NBS)

This segment of the Strategy implementation was achieved at satisfactory pace. In the period 2011-2017, EUR 12.7 billion worth of FDI was attracted, or 5.3% of GDP on average annually.

In the period 2011-2017, EUR 4.5 billion was attracted in processing industry, or 31.1% of the total FDI inflow. During this period, this share varied from 18% in 2011 to 52% in 2012, or 25.1% in 2017. The target is to make this share at least 40% in 2020.

Implementation of the strategic goal to increase industrial exports is taking place at satisfactory pace, only in the period 2014- 2017. Total period 2011- 2017 may be evaluated by partial success only.

Table 5. Implementation level of industrial export- oriented growth by 2020:

Indicators	Projected 2011-2020	Implementation 2011-2017
Average annual goods and services export growth rate	13.5%	9.1%
Share of exports of goods and services in GDP	65%	52.5
Increased share of commodity export in GDP (from 24.8%)*	47.1%	40.9%
Reduced foreign trade deficit from 15.0%*	12%	8.8%
Increased share of processing industry export (from 86.6%)*	94.1%	91.5%

Source: NSO; Note: *2010

Relatively fast economic growth in the past period was not accompanied by the employment growth due to transition and restructuring, difficult legacy and institutional and structural constraints. Global recession had cancelled out initial signs of the labour market recovery achieved in 2008, since in 2009 employment recorded a larger drop than economic activity, and that trend continued. Employment rate in the Republic of Serbia in 2010 had dropped to 47.2%, while at the same time, corresponding unemployment rate was 20%. The share of the university degree persons in active population aged 25-54 was under 20%, and was lower than the share of unskilled labour. Additionally, the skills gap continued growing, and this problem would become even more pronounced in the years to come.

Harmonisation with the EU improved, and in 2017 employment rate was increased by 10.1 percentage points, thus reducing the difference compared to the EU. Even besides all this, difference in the key labour market indicators between the Republic of Serbia and EU, primarily in the working population employment rate currently amounting to 11.4%, represents a barrier for the Republic of Serbia to join the EU. For convergence towards the targets set by the EU in 2020 it will be needed to achieve faster annual economic growth than the EU average, with the same or higher labour growth intensity.

Table 6. *Projected employment rates in the Republic of Serbia and EU in 2010 and 2017*

Targets	EU		Republic of Serbia		Difference	
	2010	2016	2010	2017	2010	2017
Employment rate (15- 64)	64.1	67.6	47.2	57.3	-16.9	-10.3

Source: NSO

Total employment in the period 2010-2017 was increased by 16.6% (398.5 thousand). The highest growth was recorded in the service sector, lower in industry, while it had been reduced in agriculture. On the other hand, total unemployment was reduced by 23.5% (133.5 thousand).

The change in the employment structure was being partially realised in the expected and desirable direction. Industrial employment was increased by 83,900 employees, with the share being reduced from 26% in 2010 to 24.4% in 2017 in total employment. The employment share growth in services from 51.7% in 2010 to 57.5% in 2017 in total employment is partially the result of the changed methodology.

Table 7. Employment by business activities (in thousands)

	2010	2017	Increment	Growth rates in %	
			2017-2010	2017/2010	Average annual 2011- 2017
Total employment	2,396.2	2,794.7	398.5	16.6	2.4
Agriculture	533.0	481.1	-51.9	-9.7	-1.4
Industry	623.1	707.0	83.9	13.5	1.9
Services	1,240.1	1,606.6	366.5	29.6	4.2

Source: NSO (Survey), Note: staff monitoring methodology was changed since 2014

Implementation of strategic goals pertaining to industrial development of the Republic of Serbia by 2020 encompassed delivery of numerous measures, with key measures being focused on the institutional framework building, business climate improvement, reduction in administrative and other barriers, formation of the national financial institution for industrial development (development bank, etc.), development of the knowledge-based society and lifelong learning, implementation of innovation, research and development (hereinafter referred to as: R&D) and *ICT* application, aimed at strengthening competitiveness of the economy, accelerated development of entrepreneurship, attracting foreign direct investments, sustainable regional development, faster implementation of restructuring and privatisation processes.

Certain measures have been implemented at satisfactory pace (attracting FDI), effects of specific measures became more visible only in 2014 (stimulating technological renewal of the MSME sector, development of knowledge-based society and lifelong learning, application of innovation, research and development, ICT development and application, business environment upgrade).

In the period 2015-2017, coordination was enhanced between the industrial policy makers at national, regional and local levels, same as inclusion of representatives of industry and their associations in the process of drafting and proposing industrial policy measures.

Moreover, in the period 2016-2017 the implementation level of measures and activities in the delivery and institutional implementation of horizontal industrial policy measures (digitization, stimulating application of innovation) was increased.

Incentive mechanisms for faster entrepreneurship development have been constantly improved since 2015.

The restructuring process and implementation of bankruptcy proceedings have not yet been finalised.

Development bank establishment has not yet been realised.

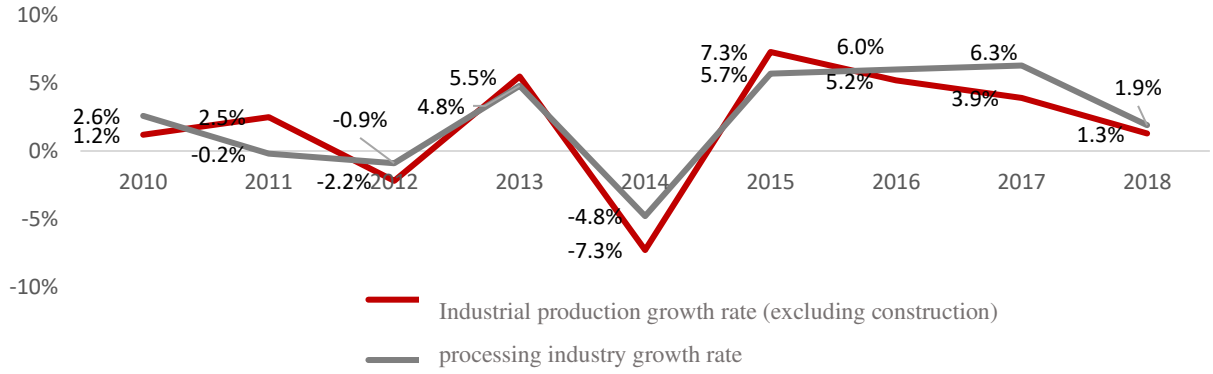
The FDI attracting process contributed to a higher level of sustainability of the regional development of processing industry.

Institutional and implementation framework was aimed at creating optimum implementation structure for the delivery of strategic goals, based on the pillars of political support to the delivery of goals, formation of the Government Coordination team to discuss and take decisions, establishing transparency and accountability assuming mechanism, same as institutional capacity building of the Ministry of Economy, as an entity accountable for the implementation of the industrial policy of the Republic of Serbia. To assist the implementation of the Serbian industrial policy, at the beginning of 2017 Government established the Republic Council on the faster GDP growth, and the Ministry of Economy established an organisational unit to monitor the industrial policy implementation (Strategic Analysis and Industrial Policy Division).

2.2. Overview of key statistical indicators for the Serbian industry

Industrial production has registered a constant growth since 2015, but it slowed down in 2018 when the growth rate of the total industrial production (excluding construction) amounted to 1.3%, while the production growth rate in processing industry amounted to 1.9%.

Illustration 2: Industrial production growth rate (excluding construction) and processing industry by years, 2010- 2018.



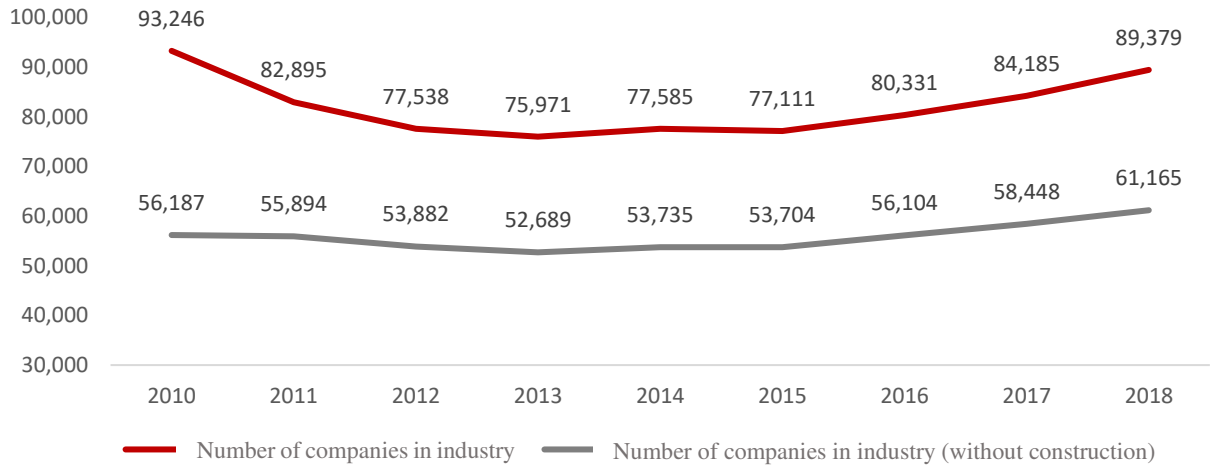
At the same time, the share of industrial production in GDP has not significantly changed- industry accounted for cca. ¼ of GDP.

Illustration 3: Share of industrial production in GDP by years, 2010- 2018

Along with the production level, employment in industry was on the rise. The total number of staff in industry in 2018 reached 626.844, thus accounting for 29.41% of total employment. The driver of the listed positive trends were, inter alia, upward investments in industry, realised in the total amount of RSD 305,533 million in 2017. Industrial export represents a dominant category of total export of the Serbian economy. In 2018, the share of industry in exports amounted to 94.13%. Growth has been achieved in this segment, bearing in mind that in 2015 the share equalled 92.37%. This was achieved owing to the absolute increase in industrial export, by approx. 50% in the period 2014- 2018.

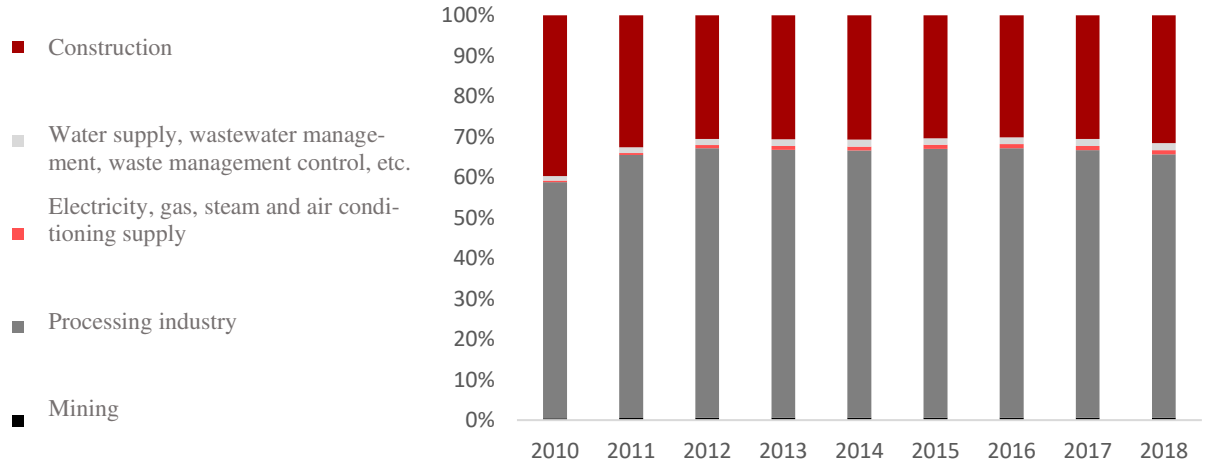
The total number of companies in industry the Republic of Serbia is 89,379, or 61,165 excluding construction. The share of the number of companies in the total number of enterprises in the country did not significantly change during the period concerned, and on average it amounted to 25%.

Illustration 4: Total number of enterprises in the industry of the Republic of Serbia, 2010-2018 .



During the analysed period from 2010 to 2018, there were no significant changes in the total number of companies, nor in the structure within the total number, established based on the business activity of enterprises.

Illustration 5: Share of enterprises with different business activities in the total number of industrial enterprises, 2010 – 2018. F



The overview and detailed analysis of the status of industry in the Republic of Serbia is shown in the Situational diagnosis for the needs of development of the Industrial Policy Strategy in the Republic of Serbia from 2021 to 2030.

2.3. Conclusions and diagnosis of the current industry status and SWOT analysis

Main conclusions of the analysis of the current situation in Serbian industry

Empowering people:

- Significant improvement in relative indicators (rates) of industrial employment.
- Major distortions and underutilisation of human capacities. Large share of informal jobs and vulnerable employment.
- Stagnating wages in the formal sector, strengthening emigration trends.
- Space for larger investments in active labour market programmes, greater focus on vulnerable groups' members.
- Investment incentive policy contributes to employment growth especially in labour- intensive businesses as a corrective measure for the inappropriate labour taxation system, however it does not contribute sufficiently to productivity growth and creation of highly-skilled jobs.
- Legislative and effective employment protection has a de-stimulative effect on inclusion in the domestic labour supply.
- Measures against informal employment yield certain results, however informal employment systemically remains high.

- Increasing the scope and improving the quality of education, its innovativeness and relevance, becomes a central issue to ensure continuous economic growth and development in the conditions of the fast decrease of working population.
- Compared to its level of development and public revenues, Republic of Serbia allocates relatively low amounts of funds for education. The share of outlays for education in GDP has declined over this decade, and is below average of not only the EU, but the region as well, with labour costs dominating the structure of outlays.
- Secondary education is still not mandatory. Quality of vocational secondary education is uneven, and options for enrollment in secondary schools are more often defined by the offered curricula than by the employers' demand. Acquiring of practical skills necessary for a swift entry to the labour market is often missing or is insufficient.
- The higher education coverage is high, but its structure is not optimal in respect to the demand, and quality varies among different universities.
- Employers surveys show that employers have critical view of the knowledge and skills graduates are equipped with when graduating from high schools or universities. Likewise, a relatively large inconsistency has been identified between the needs of employers for particular qualifications and professions, and their availability in the labour market.
- In regard to human resources, research and development sector is faced with huge financial limitations and insufficient inclusion in international trends.
- R&D sector lacks a critical mass of human potential (except in the regions of Belgrade and Novi Sad).
- Negative birth rate in synergy with high emigration will lead to a decline in the working population number, which will become a major constraint for accelerated industrial growth.
- The most dynamic and fastest growing part of the labour force that will most probably best find their way in the accelerated technological changes are the so called telemigrants, or individuals and micro and small enterprises operating in the Republic of Serbia, but whose predominant or exclusive clients are abroad.

Conclusions of the public-private dialogues:

- There is a large number of the unemployed in the labour market without formal education or with primary education only, for whom it is extremely difficult to create jobs.
- New investors are having trouble reaching new staff, namely, the human potential in high unemployment regions has been exhausted.
- Important causes underlying shadow economy lie in high benefits to wages, which do not correspond to the capacities of our industry, overtime is not being paid, service contract based employment and temporary and occasional employment contracts are being abused.
- Lifelong learning of adults is not regulated, which is why businesses face problems in upskilling and reskilling of this group of staff.
- Dual education is nothing new, it had existed before, therefore the main issue pertains to its implementation process; the companies are in general exposed to too high a risk, same as whether they are to bear the entire responsibility, and not the schools; red tape complexity is overall present; individual professions are not covered by this model; dual education where companies are to play a major role represents an additional business cost, which is why they seek specific incentives and tax reliefs.

- Wages, lack of job certainty and quality of life are main reasons underlying brain drain; smaller places cannot keep young people who perceive work in domestic industry as preparation for going abroad; long transition period from school to work.

- "Soft"/ cognitive measures are extremely important for today's business, and education and training needs to be adjusted to these needs.

- Algorithm knowledge is missing, that would provide an employee with a much greater flexibility when changing jobs.

Digitization and innovation:

- According to the Global Innovation Index, in regard to infrastructure Republic of Serbia takes 48th position in the world out of 126 countries in total, therefore in regard to the condition of infrastructure, Serbia is better ranked compared to its general positioning (55th place out of 126 countries).

- Despite relatively good results in the area of implementation of digital technologies, Republic of Serbia takes insufficiently good position (28th out of 29) in relation to the digital economy and society index (DESI index), which is the consequence of the fact that the speed of the available broadband capacities are insufficient, same as that the prices of Internet services are often high. To implement a single digital market, Republic of Serbia needs to ensure conditions for the development of IoT, 5G networks, Cloud computing, large quantity of open data, data protection on the Internet, which is a basis for the development of these smart services. Finally, good results in the application of digital technologies will be achieved by the Republic of Serbia once its economy has been fully digitized.

- Modern solutions of information technology infrastructure (hereinafter referred to as: IT) do exist in the market and are expected to be more broadly used in the future. The use of Cloud technologies is predominantly concentrated in the area of office operation tools and business collaboration. With the more comprehensive application of Cloud technology, most progress has been made by telecommunication operators, also offering these solutions, and as users of cloud services, significant steps forward were made by financial institutions. In industry there is an insufficient use of Cloud technologies due to the lack of funds, shortage of knowledge and overemphasised focus of internal IT on infrastructure rather than on support to business. In regard to API, its use in the Serbian market is poor, primarily due to the undermaturity of the digital market. IoT solutions are available in the Serbian market, however their use will depend on the specific needs of the users and market, maturity of the entire ecosystem and commercial cost- effectiveness.

- By entering into the Stabilisation and Accession Agreement, concluded between the European communities and their member states and the Republic of Serbia, and by adopting the National Programme on adoption of the EU acquis, Republic of Serbia opted for the principle of gradual and selective liberalisation of capital movement depending on the macroeconomic indicators so as to avoid jeopardising macroeconomic and financial stability of the country, with the notion that full harmonisation with the EU acquis communitaire in this area would be achieved by the EU accession at the latest. A significant level of capital movement liberalisation was achieved, whereby all current transactions have been fully liberalised, while capital operations have been almost fully liberalised, thus meeting the obligations in the area of capital movement assumed by the Republic of Serbia by signing the Stabilisation and Accession Agreement with the EU, whereas verification of the progress made to date by the Republic of Serbia in the area of capital movement and support to the listed plans for further harmonisation was issued by the European Commission

by opening the negotiating Chapter 4- Free movement of capital at the intergovernmental conference on the accession of the Republic of Serbia, held on 10 December 2019 in Brussels.[5]

- Implementation of the EU Payment Services Directive 2 (PSD2) in Serbian legislation was defined as a strategic goal and orientation. Work on drafting regulations to transpose the said directive into our legislation will be launched in 2020.

- National competent bodies in the Republic of Serbia for the area of cyber security are currently not at the satisfactory level- what they are missing are human and financial capacities, same as inter-agency cooperation. Private sector is not sufficiently included in the fight against cyber attacks, and domestic industry is not adequately educated on the importance of cyber security in business.

- Republic of Serbia participates in numerous forms of international cooperation in the area of cyber security with the EU, North Atlantic Treaty Organisation- NATO, Organisation for Security and Cooperation in Europe- OSCE and United Nations. However, there are certain forms of joint action which have been underutilised.

- According to the ratings of the World Economic Forum, Republic of Serbia needs to improve technology transfer through foreign direct investments and absorption of new technologies at the company level.

- The link between traditional industry and ICT sector in the Republic of Serbia is not strong, and entails additional space for enhancing this form of cooperation. The research has shown that Serbian companies invest five times less in ICT than the global average.

- The level of business processes automation is also very low. For example, based on the data of the Statistical Office of the Republic of Serbia, less than 10% of companies in the Republic of Serbia used Cloud services in 2017, which are nowadays often a precondition for automation. Likewise, only 18.1% of enterprises, mainly large and medium-sized, use ERP (Enterprise Resource Planning) systems, while the use of CRM (Customer Relationship Management) system is at 12.8%, noting that when introducing technological solutions and striving to automation, companies usually start from these aspects.

- Many MSMEs do not plan projects in the area of digital transformation at all. The reasons they indicate include low cost-efficiency due to insufficient demand in the domestic market and lack of human capacities for the strong entry to international market.

- Serbian ICT sector is strongly export- oriented, but the ICT sector export currently greatly relies on Serbian companies providing inexpensive services to clients from developed countries. The greatest barrier to higher contribution of ICT sector to Serbian industry is the low level of ICT use by domestic companies. Another issue important for the development of domestic ICT sector is the presence of the leading international ICT companies, because their presence enables transfer of knowledge and experience to domestic ICT companies.

- Majority of Serbian start-up companies is concentrated in Belgrade, however efforts have been made in direction of regional balance in this field through activities aimed at innovation infrastructure development already mentioned. An essence to the problem of Serbian start-up ecosystem development is reflected in the absence of early stage funding- inexistent forms of funding, their presence in a small volume or inadequacy of the forms of funding for start-up companies. In addition, there is a greater need for interaction and networking of the start-up ecosystem members and representatives of large systems in the country. Moreover, there is no sufficient number of corporate accelerators in the Republic of Serbia as well.

[5] Source: National Bank of Serbia

- The existing forms of funding are limited and inadequate for financing of a large number of innovative activities. Until 2016, the funds available from the state Innovation Fund were scarce to cover the needs of all interested entrepreneurs. In the period from 2017 to 2020, several positive steps forward were made in this domain through sequential and significant annual increase in the Innovation Fund budget (including the funds from the budget of the Republic of Serbia from the position of the Ministry of Education, Science and Technological Development and EU IPA funds), same as successful design and implementation of new support programmes (Science and Industry Cooperation Programme, Technology Transfer Programme, Innovation Vouchers, Proof of Concept). Having in mind the market need and demand for these funds and positive effect of the Innovation Fund programmes, the efforts to secure additional funds for these purposes were continued. Bank loans generally remain the most important source of funding and have become significantly more accessible to the MSME sector, but they are still hard to get to finance innovation due to too much risk and general unwillingness of industry, and especially of smaller players, to engage in the loan application process.

- Concerning the alternative sources of funding, a positive step forward was made by passing the Law on Alternative Investment Funds, and work on the development of *crowdfunding* form of financing, by drafting the law regulating this subject matter in detail. More specifically, the activities were initiated to start drafting laws to improve conditions for performing the tasks of alternative or group financing- *crowdfunding*, which will contribute to further improvement of business climate, development of the start-up market and facilitate small and medium-sized companies to access the capital required for their investment projects. Furthermore, the conditions will be improved for the coming of start-up capital funds and other alternative sources of funding (e.g. peer-to-peer lending).

- On the technological map of Europe, Republic of Serbia is somewhere in the middle. However, investments into research and development are much lower in the Republic of Serbia than those in the EU countries, and compared to the standard laid down in the Lisbon Convention. The share of private sector in R&D investments is very low in the Republic of Serbia, and in that respect Republic of Serbia is considerably lagging behind the countries in the region, especially Slovenia. One of the main barriers to investments into research and development is the availability of various alternative sources of financing. A new form of a tax relief was introduced for investments into research and development for companies, and this initiative was assessed as a positive one by the corporate sector representatives, but the results of this initiative are yet to be monitored.

- Contribution of the Serbian R&D community to European community is good having in mind the said constraints. The quality of research should be additionally enhanced once the new Law on Science and Research had been passed. But, contribution of the scientific and research community to Serbian industry is minimal.

- Regulatory framework in the area of intellectual property protection is not harmonised with the EU regulatory framework, but an even greater problem is reflected in the absence of culture towards intellectual property.

- Scientific- industrial cooperation in the Republic of Serbia is sporadic and based on personal contacts and initiatives. Infrastructure for this type of cooperation is in place, but what is lacking is greater mobility of R&D workers towards the industry. Similarly, currently the focus of scientific and academic papers in the Republic of Serbia is not on their applicability in industry.

- Large international companies have their own technological solutions, whereas smaller domestic companies are preoccupied by operational problems to consider cooperation with science. Companies outside of Belgrade find it extremely hard to establish cooperation with scientific institutions.

- In the public sector in the Republic of Serbia a major step was taken to digitize relation between the citizens and public administration, with eGovernment portal having the broadest application, facilitating to a large extent doing business with legal entities, however space for improvement is still there. According to the European Commission 2019 Serbia Progress Report, in regard to public administration reform, Republic of Serbia is moderately prepared.

- The impression of businesses is that the majority of technological solutions in the public sector emerge based on the ad hoc principle, and that the principle underlying their introduction is not systemic. The industry assesses there is no full harmonisation between different bodies in the public system, and data is not being systemically backed- up.

Conclusions of the public-private dialogues:

- Best results in introduction of 4G technology were achieved in those countries which, in implementing public competitive bidding processes, took care of maximising the operator investment, and not of maximising the spectrum of prices.

- Faster development of financial technologies could be achieved through more dynamic embracing of e-payments among the market participants.

- It is required to achieve higher levels of standardisation and interoperability of services of different state bodies, so as to ensure greater application of digital solutions, make cost savings and enhance efficiency of such services, given that entrepreneurs need to file same documentation to different bodies due to the absence of networking of their databases.

- The problem of access to finance is also reflected in the absence of information on the funds available for investments in innovation.

- Regulatory framework in the area of intellectual property is ahead of the institutional one, and the core to the problem lies in poor education and lack of awareness on how intellectual property is to be used.

- Traditional sectors lack clusters and their link with ICT sector clusters.

- Many of the planned measures did not go live in practice, and no considerable progress was made in the areas like absorption and administrative capacity of Innovation Fund (aimed at increasing the volume of funding that could be attracted via the Innovation Fund from the EU pre-accession and structural funds), creating joint innovation projects between the private sector and R&D organisations, improved science and technology transfer, stimulating public-private partnerships and establishing R&D clusters and competitive networks. Companies are willing to make their infrastructure, technology and equipment available to R&D workers.

- Placing a greater focus on entrepreneurial education and culture, English language skills are an imperative.

- There is an insufficient number of corporate accelerators, despite the fact that there are domestic companies having surplus liquidity and deficit of investment ideas.

International dimension of Serbian economy:

- Growth in export value, but without the change in qualitative structure of exports in relation to a larger share of products with a higher level of value added.

- Improvement of competitive position of the Republic of Serbia, but still a major gap in terms of competitiveness due to insufficient quality of the business climate, technological gap compared to international competitors, insufficient digitization level, inadequate technical and technological capacities and quantity and quality of labour force.
- Underutilisation of potentials of key sectors ensuring inclusion of the Republic of Serbia in international value chains (production and service chains), with low level of domestic value added in final products/ services.
- The share of products of Serbian companies in European and global value chains is rising, but import of raw material for production of final products for export is more relevant in volume than export of semi-products, which contributes to downsized competitiveness of Serbian exports.

Conclusions of the public-private dialogues:

- There is a reputational barrier for export of Serbian companies' products, as a result of Serbia's image as a cheap- product economy. Many products found in the market are the lower value added products, which reduced the total value of industrial export.
- The factors limiting certain sectors to use maximum export potentials also affect sector share in the total export value. These are often import duties on components, inadequate legislation and access to raw material in the export domain. Insufficient export subsidies.
- Considerable limitations are also reflected in the problems related to the business climate quality, like inadequate legal certainty, numerous non-harmonised administrative requirements of different state authorities (like urban planning sector in local governments or tax authorities), obtaining certificates, establishing standards, etc.
- Another barrier to improved competitiveness is high share of shadow economy in the country, creating unfair competition in the market (consequences predominantly in the area of wages, customs and VAT).
- Still low competitiveness level is the result of technological gap between domestic companies and international competitors and small economy of scale.
- Companies in the country are not sufficiently involved in international value chain due to obsoleteness of the existing technology and necessary large investments for its upgrading and meeting new standards; domestic laboratories are underdeveloped, and access to foreign ones is rather expensive; obtaining *CE* marking is more expensive in the Republic of Serbia than in the region, certification requirements generally limit export of products and services from the Republic of Serbia to EU countries.
- Property and legal relations also need to be regulated, given that companies are often faced with the inability to extend their business by increasing their production capacities and quantity- based limitation for export; disorganised real property cadastre does not recognise companies as owners of the land they are doing their business on.

Investments:

- High values and growth in incoming foreign direct investments were identified, however the volume of domestic private and public investments is not sufficient for the development of the economy.
- Insufficient level of domestic private and public investments against the GDP in comparison to other Central and Eastern European countries.

- There is some space for a more rational channeling of incentive funds, and they are dominantly oriented towards products of low complexity level, small value added and large engagement of manual labour of unskilled workers.
- Republic of Serbia has launched the reforms contributing to enhanced quality of business environment and progress has been made in this field, however there are still elements that prevent development of companies, especially MSME, which required additional reforms and regulation.
- Also important is the increased number of public-private partnerships (hereinafter referred to as: PPP), and the value of these projects, but there are still problems pertaining to unreliable and obsolete infrastructure in the country (water supply, electricity, gas, road infrastructure, railways, utility infrastructure).
- To regulate the PPP domain, legislative and institutional frameworks were established in the country, however their implementation did not ensure maximum use of the PPP benefits, meaning that mainly small- value projects are being implemented.
- The pay band system and public sector employment need to be improved in the Republic of Serbia.
- Transition process is not yet complete in the Republic of Serbia, and in many aspects of this process country is considerably lagging behind the regional and comparable countries.
- There is a large number of underdeveloped and devastated areas in the Republic of Serbia with large developmental differences between different districts.
- Republic of Serbia has an untapped potential to enhance competitiveness that can be ensured by clusters. This potential has not been used due to the lack of trust on part of the companies towards clusters, but also due to the fierce competition overpowering the desire for association.
- Complex procedures, requirements linked to ensuring co-funding and eligible activities for financing decrease the interest to apply for development funds of the Republic of Serbia intended for clusters.
- Market competitiveness improvement policy is rounded up by building institutions-Commission for the Protection of Competition, adoption of the Statute, adoption of the Law on the Protection of Competition ("official Gazette of RS", No. 51/09 and 95/13) and related bylaws. Aiming at further development of this area and harmonisation with the EU acquis, a new Law on the Protection of Competition and related bylaws need to be adopted.
- To improve the efficiency of the Commission for Protection of Competition performance, software capacities need to be strengthened through the application of modern forensic equipment for digital evidence gathering; maintenance and enhancement of cooperation with relevant international institutions, and improve and foster cooperation with other bodies for the protection of competition and strengthen professional capacities through careful approach to selection and training of staff.
- Further space for enhancing this area lies in the implementation of measures aimed at awareness raising on the importance of competition for the economy and population. These mechanisms need to be at the same time supported by capacity building and improved judicial efficiency, with the possibility to establish a separate organisational unit like specialised court panels.
- In the segment of state aid, institutional framework is not fully completed, thus requiring a systematic approach to enhancing this area. It is required to clearly define the competence and accountability between the dual institutional environment comprising the Commission for State Aid Control and Serbian Development Agency.

- Further work is needed on the improvement and harmonisation of legal framework for state aid based on the Law on Investments ("Official Gazette of RS", No. 89/15 and 95/18). Another issue to be improved is monitoring of intergovernmental agreements, bylaws to more precisely define economic criteria for granting aid and to undertake critical harmonisation with the EU legal framework. Additionally, it is necessary to harmonise the rules for granting aid to state-owned enterprises, apply the mechanism of general rules on exemptions, harmonise the law in terms of transparency, guidelines for assistance in restructuring and culture, fiscal reliefs under the law regulating corporate profit tax and law regulating the personal income tax, same as certain provisions of the law regulating free zones. In addition, it is necessary to enhance professional capacity of the Commission for State Aid Control (hereinafter referred to as: CSAC), ensure greater independence of this institution, and especially ensure more funds for the efficient work of the Commission.

Conclusions of the public-private dialogues:

- Micro and small enterprises face the problem of collecting outstanding debts from their customers, with court proceedings in that matter being inefficient; they also face the shortage of necessary labour force, both in number and structure, which negatively affects the volume of investments; barriers are quite often in the area of necessary knowledge, thus calling for additional development of the current cooperation between the MSME with R&D institutions.
- Although there are EU institutions providing incentive funds to the Republic of Serbia, problems emerge when these funds and subsidies are to be accessed.
- Unreliable and outdated infrastructure; industrial zones are often characterised by poor connection with bus line and postal services; voltage instability and poor quality of electricity making companies to independently finance transformer stations; dissatisfactory level of utility infrastructure development.
- Larger dependence of the Serbian companies business performance on the public sector.
- Lacking stability and predictability of regulations affecting companies' business, especially in the taxation area; Companies find it difficult to plan development of their businesses, to design potentials and achievable results, consequently resulting in lower readiness to invest.
- What is needed is greater commitment for supporting start-ups of higher risk level, e.g. through greater representation of start-up development centers; requirements for co-funding when applying for subsidies are set too high, and SMEs often find them unreachable.
- Another limitation for cooperation among companies is reflected in the lack of trust in clusters, due to discontinuity, incomplete processes and information abuse; Fierce competition often overrides desire for association into clusters.

Circular economy and greenhouse gases emission reduction:

- It takes a clear strategic orientation of the state to transform the economic model in direction of circular economy and greenhouse gases emission reduction.
- Undeveloped awareness of industry representatives on the importance of environmental protection and fight against climate change in general. Particularly in regards to waste management issues, and opportunities to use waste as raw material in industrial processes.
- Through a range of regulatory amendments, EU places a special emphasis on conservation of material resources and energy efficiency improvement in industrial capacities, and overall

introduction of the circular economy concept. National legislation needs to be harmonised with EU regulations in the area of circular economy and climate change.

- Lack of necessary institutional infrastructure (bylaws and administrative capacities) for implementation of already adopted legislative solutions to stimulate the process of economic transformation.
- Industrial production in the country is dominantly based on outdated technologies, regarded as major environmental polluters and emitters of greenhouse gases. These technologies are accompanied by increased energy consumption and waste generation per unit of products (with significant losses in material flows). Insufficient level of waste and waste water treatment by individual industrial entities has also been identified in the country.
- Insufficient utilisation of renewable energy sources potential. Energy generation from renewable sources requires additional investments, thus making it more expensive compared to the use of conventional fuels. Insufficient is also the use of energy from renewable sources by industrial entities in the country due to inadequate financial strength or low awareness.
- The country is significantly lagging behind in terms of waste, waste water and waste recycling management level. Lacking necessary waste management (waste collection, selection, storage and treatment) and waste water management infrastructure. Low rates of wood and plastics recycling, otherwise with high potential to be included in circular economy. Considerable loss of potentially valuable raw materials due to large waste quantities (including packaging waste) disposed every year outside the municipal waste management system (illegal dump sites).

Conclusions of the public-private dialogues:

- The awareness of the importance of large planned investments in environmental protection and supporting circular economy activities in the future is present, but it calls for substantial technical assistance of the state to include private sector in this area; increasing subsidies and diversifying subsidised areas, facilitating access to other legal entities apart from those engaged in waste management.
- Non-transparent manner of spending funds raised on the basis of environmental fees, due to inadequate control; inadequate system for financing recycling companies from environmental fee funds (quantity and degree of recycling are not being taken into account, but only the quantity of the waste received).
- Due to the implementation of a linear model of doing business in the Republic of Serbia, considerable losses in raw material, material and products emerge, leading to irrational use of resources; more informing and role of the state in promotion of circular economy.
- Deficiencies of institutional infrastructure for enforcement of regulations, primarily in the form of public administration and inspection surveillance; selective regulatory enforcement by inspection authorities which is stricter towards domestic companies than towards international ones; and towards small compared to the large ones.
- Regulations are complicated, same as the processes underlying gathering necessary documentation for introduction of green technologies in factories (lengthy administrative procedures with a large number of documents required). Energy Performance Certificate (“Energy passport”) is not applied to existing buildings.
- The existing regulations are non-applicable at this stage of development of the economy, costs of harmonisation of business processes are to high for the economy; what is needed is a more adequate system of incentive and repressive measures.

- The existing infrastructure is not sufficiently developed to support economic model transformation, primarily current energy and utility infrastructure (landfill and incineration plant system).
- The sectors identified in the Republic of Serbia as those with the highest potential for application of the circular economy concept are processing industry (especially food industry), construction, wood processing industry, and primary agriculture.
- Enabling business environment fostering investment in "green" technologies, waste management and production systems generating energy from renewable energy sources has not been established.
- Insufficient information on opportunities for introduction of solar panel systems and sale of surplus energy generated (feed- in to energy grid).
- Current administrative procedures and number of necessary permits significantly complicate the process making it more expensive, therefore taking more time for the return on investment.

SWOT analysis

Based on the results of the analysis of information collected from primary and secondary sources, same as on the analysis of statistical data and development trends of Serbian industry, below outlined is an overview of strengths, weaknesses, opportunities and threats identified in the current situation, which represent the basis for further work on development of strategic responses.

Serbian industry SWOT analysis	
Strengths	Weakness
- Favourable geographic and transport position - Relatively skilled labour force - Growing share of Serbian sectors in European and global value chains - Presence of Serbian producers and brands in multiple industrial sectors that are recognisable in Europe and globally - High investment activity and high *FDI* inflow - Stable banking system - Business in line with international quality standards (ISO, HACCP, etc.) - Existence of free trade with Russian Federation, Republic of Belarus, Republic of Turkey, EFTA, CEFTA members, etc.	- Increasingly unfavourable demographic structure of working population - Small number of alternative sources of funding and underdeveloped financial markets - Unfinished public sector transition process - High share of low value added products in exports - Insufficient development of clusters and other forms of association - Major imbalance in the development level of different regions - Insufficient connection between the industry and R&D and educational institutions - Insufficient use of renewable energy sources, underdeveloped waste management system and low recycling rate - Still low level of digitization of the industry in Serbia
Opportunities	Threats
- Approaching the EU membership - Export restructuring in direction of increasing the share of high domestic value added products - Successful international positioning in the high-quality industrial products and services market - Smart co-existence of traditional and 4.0 industry - Broader use of moder digital technologies in industry - Enhanced digital infrastructure and industrial digital transformation	- High population emigration and negative birth rate - Higher education system not meeting industry demand - Lack of domestic private capital for investments and high dependence on foreign direct investments - More unfavourable aspects in the business environment for industry (public sector support, regulatory framework, judicial efficiency, etc.)

- Development of entrepreneurial ecosystem - Improved energy efficiency and level of re-use of resources in industrial production - Stimulating efficient interaction between universities and R&D institutions and companies - Establishment of efficient public- private partnerships - Additional harmonisation of quality standards and other industrial regulations in the Republic of Serbia with EU - Financial market development and enabling access to alternative sources of funding - Competitiveness improvement through formation of clusters	- Low level of cooperation between domestic industrial players and consequently short and closed domestic value chains - Still present infrastructure gaps - High barriers to entry into specific markets as a consequence of abuse of dominant position by large players

3. VISION AND STRATEGIC OBJECTIVES OF THE NEW INDUSTRIAL POLICY

3.1. Key challenges and areas of intervention of the new industrial policy of the Republic of Serbia

Based on the afore presented analysis of the Serbian industry situation, the following strategic challenges of new industrial policy have been identified:

1. New business model in the fourth industrial revolution disrupts the dominant traditional industrial model and forces it to transition in parallel with creation of an entirely new digital industrial segment:

a) Dependency of traditional industry on obsolete technology, export inputs, high share of often unproductive labour and energy intensive equipment and outdated model of corporate management, resulting in products with low export competitiveness/ low value added level;

b) Service component becomes increasingly important in traditional production due to digitization;

c) Growing significance of advanced manufacturing technology (*advance manufacturing*);

d) Pressure to introduce digital industrial platforms and digital technologies by traditional and new industrial players;

e) Economy of data becomes an important factor of competitiveness;

f) Inevitable co-existence of traditional and new/ transformed models;

g) Still vulnerable new digital segment due to the tendency of fast implementation of exit strategies of its owners and fast mobility of human resources;

h) Digitized segment of industry helps us catch up with the most developed global industries, since the new field is open for all "racers".

2. Disparities between labour demand and supply as a consequence of negative demographic trends, slow adjustment of educational system and passivity of employers;

3. Growing pressure towards development of science and R&D excellence to create and commercialise competitive innovative products and services, that rightfully target the entire world as their relevant market;

4. Short, closed and non-interactive value chains of domestic industrial players result in their insufficient inclusion in global value chains;

5. Competitiveness requires investments. Continued growth in foreign direct investments and more intensive growth in domestic private and public investments and healthy balance between these three investment trends in the industrial segment;

6. Infrastructure gaps are intensively reduced particularly in part of physical infrastructure, however it will still take time for them to be fully closed due to the late launch of infrastructure projects cycle;

7. Regional industrial disparities and ensuring level playing field for all industrial players in all regions in the Republic of Serbia;

8. Readiness for the change of mindset towards embracing fair competitive game, instead of comfort of protectionism and desirable shield of natural monopoly

9. Promotion and growth of entrepreneurship in services, in parallel with industrial products;

10. Present challenges to finance, especially for the MSME segment of industry, and the need to ensure larger volume of favourable alternative sources of funding for each industrial player with a technically and financially robust business idea;

11. Emphasised and increasingly more frequent requirement for a sustainable, green and resource-efficient industrial production due to limited natural resources and climate change, and promotion of bio-industrial production and circular economy as a new source of industrial and economic growth;

12. Business environment is still a collage of enabling and disabling trends for industrial development. Work on the business climate improvement and raising contextual easiness of doing business by industrial players.

Having in mind the afore indicated and elaborated strategic challenges, same as the overview of the current situation, below listed are the seven strategic intervention areas in scope of which objectives and measures will be defined in the follow-up:

1. Human capacity (Mission: Sufficient number of people have modern knowledge and skills required in present and in the future by the labour market);

2. Digital transformation (Mission: Industry is successfully technologically modernised and digitally transformed; In-depth transformed manner in which we produce, spend, learn, work and exchange);

3. Innovation (Mission: Knowledge-based economy enables intensive creation of outstanding innovative industrial solutions that can be converted into globally successful and sophisticated commercial products and services);

4. Internationalisation (Mission: Eliminated barriers for active and equal inclusion of domestic industrial players in international value chains);

5. Investments and infrastructure (Mission: All investors wish to invest in Serbian industry, and Republic of Serbia offers modern physical, digital and social infrastructure, and equal opportunities to all to create multiplied value);

6. Circular economy (Mission: Industry is growing taking care of the resource efficiency and potential of new products and technologies in the area of environmental protection);

7. Business and institutional climate (Mission: Context facilitates doing business to industrial players and fosters industrial and economic growth owing to efficient public administration which is a service to industry, quality social infrastructure, stable and disciplined macroeconomic policy, partner relationship of the Government with key stakeholders, soft, diverse and innovative sources of funding, sound rule of law and sincere openness of the Republic of Serbia towards global market).

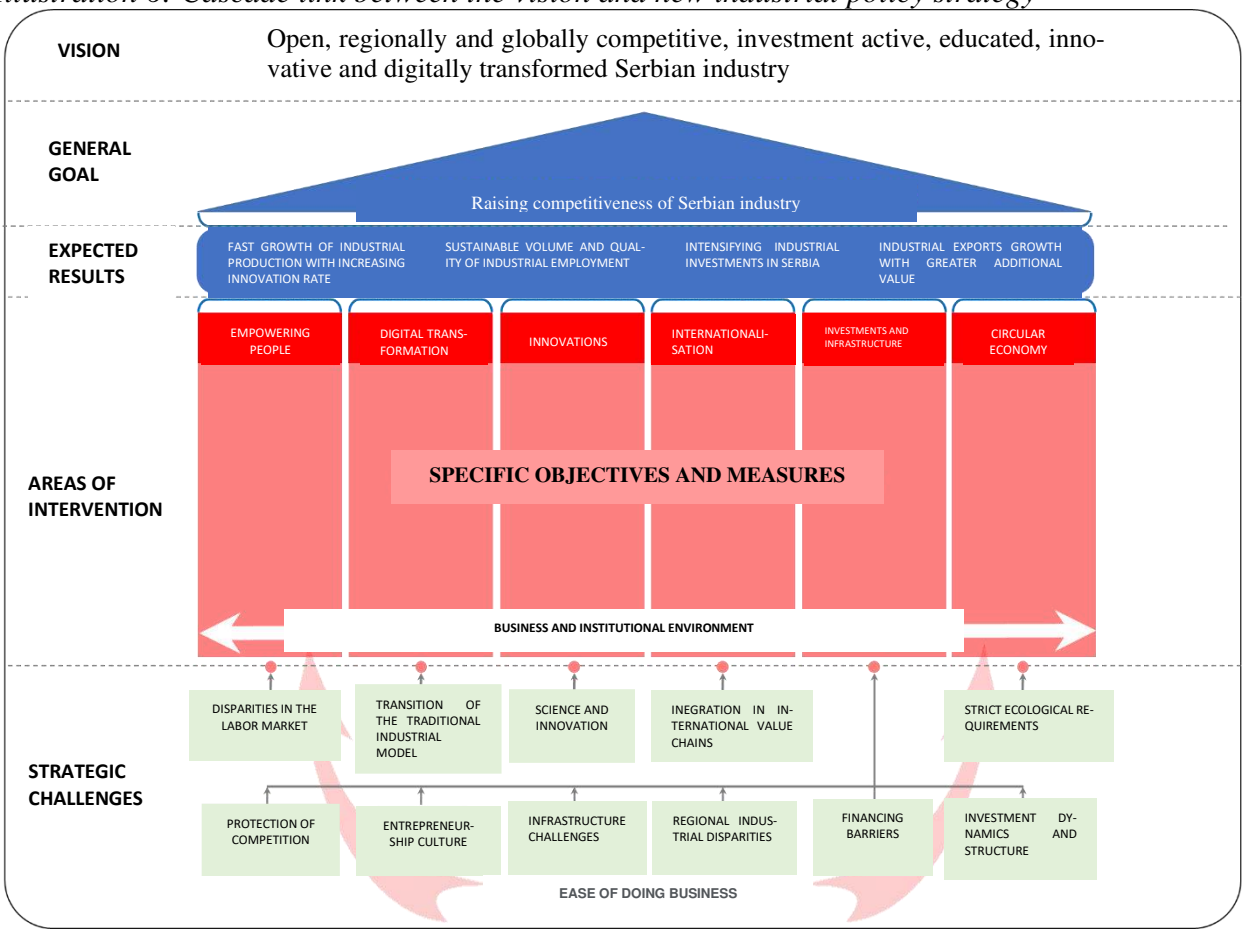
3.2. Vision and overall goal of the new Serbian industrial policy

In the follow-up the following parameters of strategic choice will be specified and elaborated: Vision, overall goal, specific objectives and measures serving achievement of overall goal and specific objectives of the Strategy.

Vision 2030

Open, regionally and globally competitive, investment active, educated, innovative and digitally transformed Serbian industry, strongly supporting economic growth and improved quality of life of its citizens.

Illustration 6: Cascade link between the vision and new industrial policy strategy



Overall goal of industrial policy is raising competitiveness of Serbian industry. This goal directly supports achievement of the previously defined vision. Specifically, competitive Serbian industry significantly contributes to high sustainable economic growth, measured by the national GDP growth rate and better living standard of Serbian citizens, measured by the GDP level per capita.

3.3. Specific objectives and new industrial policy measures

This chapter presents the cascade overview of objectives and measures proposed as strategic responses of new industrial policy, in line with the envisaged methodology for the Action Plan drafting. Activities, indicators, budget demand and specific competences of institutions for

implementation will be defined in the phase of the Strategy implementation mechanism development.

Overall goal:	Indicator (impact level)
Raising competitiveness of industry in the Republic of Serbia	GVA of processing sector in total GVA (source: NSO, EUROSTAT) *Baseline: 17.5% (2018)* *Target: 22% (2030)* GVA per processing sector employee, in thousand Euro (source: NSO, EUROSTAT) *Baseline: 15.2 (2018)* *Target: 40 (2030)*

Specific objective 1:	Indicator (output level)
Improved digitization of industrial manufacturing business models	*Percentage of industrial companies using ERP[6] software has reached the level of 85% (source: EUROSTAT)* *Baseline: 30% (2019)* *Target: 85% (2030)*
Measure 1.1.	**Promotion of industrial digital transformation** Global trends require companies in industrial sector to transform their business and adapt to the new digital age. Companies are not familiar with global trends and importance of digital transformation for their operations, nor with the existing digital solutions that can enhance their production. This measure is aimed at raising the awareness of industrial companies on the need for digital transformation, so as to familiarise them with the existing solutions, and especially with solutions offered by domestic IT companies and start-up community. The measure implies organisation of information events, using the services of the Center for Digital Transformation, and organisation of the exchange of information between industrial companies, IT cluster and start-up community. The expected effect of the measure is improved information level in companies from the industrial sector on the importance and opportunities brought about by digital transformation. Type of measure: informative- educational
Measure 1.2:	**Education programme and advising companies on the implementation of digital solutions in industry** This measure enables industrial sector companies to enjoy advisory services to result in a strategy and road map with a clear vision about how they can enhance their competitiveness through digital transformation. The road map is to recommend short-term and

[6] ERP software is a software for integrated business management in real time, by integrating all aspects of business operation in a single system it enables making optimum business decisions.

	long-term activities and investments to assist companies in the digital transformation process. The measure also envisages establishing contacts with the potential suppliers of digital solutions from the R&D, IT and start-up community. The expected effects of the measure are clear vision of the companies on the possible digital solutions that can improve their competitiveness measured by the number of companies having developed digital strategy and road map. Extremely important for this measure is the exchange with the smart specialisation strategy envisaging measures for the analysis of opportunities and potential of IT community and creative industries in the Republic of Serbia. Type of measure: informative- educational
Measure 1.3:	**Incentive support programme to industrial digital transformation in the Republic of Serbia** The objective of this programme is to create clear infrastructure for the support to industrial sector companies in the implementation of digital solutions. This programme (to be implemented by the Serbian Development Agency), will provide grants amounting to up to 50% of total costs for implementation of specific digital solutions, purchase of equipment or financing of digital advisors. The requirement for the companies is to have developed digital strategy and road map, same as clear vision about how investments in digital transformation will improve their competitiveness. The expected effect of the measure is enhanced competitiveness of companies achieved through implementation of digital solutions and investments in equipment, expressed by the number of companies participating in the process and their satisfaction with the process results. Type of measure: incentive
Measure 1.4:	**Increasing accessibility of financial instruments for industrial digitization and innovation** A precondition for a broader implementation of modern solutions is the existence of financial instruments of adequate characteristics for the planned type of investment. This measure would imply higher level of existing forms of digitization projects and innovative technological solutions financing (increasing the Innovation Fund budget and efficiency of application procedure and monitoring, facilitate loan granting procedure for MSME implementing innovative projects via systemic education for preparation of applications; monitor the effects of enforcement of new tax regulations and consider introducing financing by natural persons so as to ensure higher level of capital of "business angels"; introduce support programme for co-funding implementation of digital solutions in industry) and establish new alternative sources of funding by improving institutional solutions (creating conditions for the venture capital funds coming to the Republic of Serbia by means of fiscal measures and formation of the state matching fund). Type of measure: incentive
Measure 1.5:	**Ensuring adequate level of digital security for industry** Higher level of adoption of technological solutions in industry depends on the existence of an adequate level of digital security. This measure includes the following: enhance capacities of national bodies and industry in the area of digital security; create

	national promotional platform for digital security and communication security aimed at raising importance and emergence of solutions in this area, same as improving understanding about what adequate level of digital security means, stimulate transfer of knowledge and technology in this area among companies from different industries; increase the presence in the global digital community by participating in the programmes Republic of Serbia has not participated in to date, and monitor emergence of new international initiatives, and continuously harmonise regulatory framework with global standards and EU directives. Type of measure: regulatory
Measure 1.6:	**Harmonising digital education with the industry needs** The purpose of this measure is establishing a system dialogue between the industry and educational system in the Republic of Serbia so as to enhance the quality of human resources in line with industry needs. When changing the curricula and modifying teaching methods, information resulting from the dialogue with the industry will be taken into account. The expected effects of this measure entail harmonisation of educational system with the needs of industry measured by the satisfaction of the companies. Type of measure: institutional, managerial- organisational
Measure 1.7:	**Incentive programmes aimed at strengthening of the industry staff digital skills through informal education system** The measure is aimed at supporting the informal education programmes in the domain of digital skills to be organised through cooperation between the industry and IT clusters, start-up community, Chamber of Commerce and Industry and business associations. The expected effect of the measure is strengthening industrial staff digital literacy expressed in the number of trained people and number of certificates awarded. Type of measure: incentive

Specific objective 2:		Indicator (output level)
Industrial development based on innovation and development of higher stages of technological manufacturing		*Indicator of technical efficiency of business operations is improved by 20% (source: calculated indicator based on the NSO data)* *Baseline: 58% (2018)* *Target: 70% (2030)*
Measure 2.1:	**Incentives to industrial companies for development of innovative solutions through cooperation projects with R&D community** The purpose of this measure is to shift industrial manufacturing towards higher stages of technological manufacturing through specific R&D projects. The measure is intended to industrial companies that would in cooperation with public R&D teams, work on introduction of innovative solutions to improve and shift the manufacturing process towards higher stages of technological production. Type of measure: incentive	
Measure 2.2:	**Including industrial companies in international programmes aimed at development of innovative solutions and improvement of industrial competitiveness** The purpose of this measure is to inform and stimulate industrial companies to connect with foreign counterparts so as to be granted projects funded from the EU programmes. Promotion of EU programmes (COSME, EDIF, and HORIZON) contributes to development of innovative solutions, ensures access to access to finance, stimulates internationalisation and creates competitive industry. The measure can be implemented in cooperation with the Serbian Chamber of Commerce and Industry, which will serve as a focal point for provision of information on open calls, same as for provision of administrative support for writing projects. Type of measure: informative- educational	
Measure 2.3:	**Support to development and improvement of production processes via industrial institutional infrastructure projects** The purpose of this measure is to support institutional infrastructure projects (clusters, business incubators, science and technology parks, accredited regional development agencies, associations, etc.) aimed at improving production processes. The measure can support provision of specialised consulting services and educational services for introduction of new production processes, namely, procurement, installation and launch of modern manufacturing processes, same as staff training. Type of measure: incentive	

Measure 2.4:	**Affirmation of Intellectual Property Protection** The purpose of this measure is to, through cooperation with the Intellectual Property Office, promote intellectual property and educate companies on how to protect their own and use intellectual property of others. The number of patent applications of domestic inventors is at the low level and in the past eight years has been on the constant decline. The largest number of patent applications comes from natural persons, while industrial companies and academia jointly account for under 30% of share. Type of measure: informative- educational
Measure 2.5:	**Support programme for industrial companies in procurement of technological equipment of first generation** The purpose of this measure is to support import of modern equipment in line with the principles of circular economy, i.e. to comply with the principles of efficiency and minimum adverse environmental effect. Type of measure: incentive

Specific objective 3:	**Indicator (output level)**
Increased total volume of industrial investments, accompanied by the improved quality of investments	*Share of investments in GDP (source: NSO)* *Baseline: 20.1% (2018)* *Target: 25% (2030)*
Measure 3.1:	**Adjusting the criteria for attracting industrial investments aimed at increasing the share of domestic gross value added** In the existing regulations for attracting investments, through criteria of attracting investments support investments increasing domestic value added, inclusion of domestic companies in international inter-sector value chains, investments using more domestic factors (labour, knowledge, raw material, etc.), investments in the area of high technologies increasing value added in the Republic of Serbia (namely, result in more sophisticated products and services) and are aware of environmental protection. Concluding double taxation evasion agreements with countries investing in the Republic of Serbia. Further work on promotion of the Republic of Serbia as an attractive investment destination. Type of measure: regulatory
Measure 3.2:	**Incentive programme for investments in industrial production** The purpose of this measure it to allocate grants to domestic and foreign companies investing in industrial production with increased domestic value added via the Serbian Development Agency, inclusion of domestic companies in international inter-sector value chains, investments using more domestic factors (labour, knowledge, raw material, etc.), investments in the area of high

	technologies increasing value added in Serbia (namely, result in more sophisticated products and services) and are aware of environmental protection. The expected effect of this measure if improved employment in the country, higher employment rate of skilled labour, creating conditions for better linking of SME sector with industrial companies and significant effects on environmental protection. The effects of this measure will be measured by the investment volume and user satisfaction. Type of measure: incentive
Measure 3.3:	**Promotion of the Republic of Serbia as an investment destination open to new investments of domestic and foreign companies with higher value added** The purpose of this measure is to inform potential domestic and foreign investors about the regulatory framework, support programmes, infrastructure and human potentials for industrial investments in the country. The measure envisages participation in fairs, professional conferences, organsiation of events in the country and abroad, media and expert visits and tours of industrial zones and parks. The expected effect of this measure is the increased number of domestic and foreign industrial investments increasing domestic value added, inclusion of domestic companies in international inter-sector value chains, investments using more domestic factors (labour, knowledge, raw material, etc.), investments in the area of high technologies increasing value added in Serbia (namely, result in more sophisticated products and services) and are aware of environmental protection. Type of measure: informative- educational
Measure 3.4:	**Support programme for development of infrastructure for the needs of industrial zones** The purpose of this measure is improvement of industrial infrastructure by creating better conditions for doing business in industrial zones in the Republic of Serbia. Ensuring better connection of industrial zones. Improving existing and constructing new energy capacities focusing on energy efficiency. Development of digital, broadband infrastructure. Type of measure: incentive
Measure 3.5:	**Balancing regional industrial development** Adjusting criteria for public and private investments to support more balanced allocation of funds to regions, through continued financial support by the Serbian Development Agency and Development Fund of the Republic of Serbia, but in a way so as for the subsidy approval criteria to be harmonised with the smart specialisation strategy and development level of the regions. Type of measure: regulatory

Specific objective 4:		Indicator (output level)
Enhance technological structure of exports		*Full coverage of import by export in the mid/ high technological industrial sector (source: NSO)* *Baseline: 84% (2018)* *Target: 100% (2030)*
Measure 4.1:	**Identifying and stimulating export-oriented industrial sectors entailing higher stages of processing** The purpose of this measure is to stimulate export- intensive industrial sectors, same as those with the high export potential, to increase in their export the share of newly added, primarily domestic value (use of domestic inputs, engaging highly educated labour force, use of domestic patents and innovation with a special focus on increasing technological level). Type of measure: educational- informative	
Measure 4.2:	**Support programme for internationalisation of industrial companies** The measure is aimed at providing financial support to companies for: participation in international fairs, business missions, B2B events, cost coverage for certification of products according to the foreign markets standards, cost coverage for development of promotional material for foreign market (design and production of promotional material, catalogues, brochures, website design, etc.). Type of measure: incentive	
Measure 4.3:	**Support programme for industrial companies to enter supplier chains of multinational companies** The purpose of the measure is to provide financial support to companies from targeted sectors (automotive industry, sector of machinery and equipment for other purposes, metal processing, rubber and plastics, manufacturing of home appliances, electrical and electronic systems) for development of capacities and harmonisation of quality standards so as to be included in international value chains. Type of measure: incentive	

Specific objective 5:		Indicator (output level)
Industry transformation from linear to circular model		*Rate of utilisation of circular resources in industry (source: EUROSTAT)* *Baseline: n/a (2019)* *Target: 10% (2030)*
Measure 5.1:	**Promotion of circular economy and education of companies** The purpose of this measure is to familiarise companies with the importance of more efficient use of material resources and energy efficiency in industrial processes and opportunities for savings in the production process and profit. The measure is to be implemented through organisation of promotional and educational events and utilisation of services of centers active in this sector (Circular Economy Center at the Serbian Chamber of Commerce and Industry; Cleaner Production Center at the Faculty of Technology and Metallurgy, etc.). Type of measure: informative- educational	
Measure 5.2:	**Fostering investments in circular and low-carbon solutions as engines of growth** Adjusting criteria for stimulating investments in manufacturing equipment so as to favour investments into equipment meeting European energy efficiency standards, and which is certified in line with those standards. Type of measure: regulatory	
Measure 5.3:	**Fostering more efficient use of material resources and energy efficiency in industrial processes** Adjusting the criteria for stimulating investments in manufacturing equipment so as to favour investments into equipment calibrated to use recycled resources. Type of measure: regulatory	

4. THE STRATEGY IMPLEMENTATION MECHANISM AND REPORTING ON THE IMPLEMENTATION RESULTS

Competent authority for coordination of the Strategy implementation is the Ministry of Economy. Pursuant to Article 18 of the Law, adoption of the action plan is envisaged within 90 days of the day the Strategy was adopted. A three-year action plan will define specific measures and activities to be undertaken to ensure conditions for the delivery of the Strategy objectives, implementers and partners for the implementation of such measures and activities, their indicators and time frames and resources for their implementation.

Financial effects for the Strategy implementation will be elaborated in detail in the Action Plan to be passed within 90 days of the day the Strategy was adopted, and aligned with the mid-term expenditure framework laid down in the 2020 budget procedure, and in line with the limits set by the Ministry of Finance for the coming years with appropriate allocations.

The funds for the Strategy implementation will be secured both from the budget of the Republic of Serbia and grants.

All authorities, namely institutions recognised as implementing partners shall be responsible to report to the Ministry of Economy annually in writing on the implementation, namely on the potential problems they have been facing. The progress report on the action plan implementation is to be drafted by the Ministry of Economy based on the reports submitted by all competent authorities and institutions tasked with the delivery of measures and activities via the Single Information System for Planning, Implementation Monitoring, Public Policy Coordination and Reporting (in Serbian: JIS).

Sector for Strategic Analyses at the Serbian Chamber of Commerce and Industry will play an important role in monitoring the Strategy effects from the perspective of companies and maintaining ongoing public- private dialogue with all stakeholders.

The report on the results in achieving the set Strategy goals will be compiled based on the ex-post impact analysis, whereas final report is to be submitted to the Government for adoption after the Strategy had expired.

The report drafting and its submission to the government is to be undertaken in line with the time frames set forth in the law.

Evaluation of the Strategy performance is to be undertaken by analysing whether and to what extent performance was achieved in line with the impact indicators at the level of overall goal, outcome indicators at the level of specific objectives and output indicators at the level of individual measures.

4.1. The importance of the implementation mechanism from the aspect of fulfillment of obligations under Chapter 20

The Strategy holds a specific relevance within the accession process of the Republic of Serbia to the EU. The scope of Chapter 20 in the accession process “Industrial Policy and Entrepreneurship” basically in its major part, overlaps with the scope of this respective document and

this is why it is necessary to carefully consider requirements of Chapter 20 in drafting and implementation of the new Strategy.

In the negotiating process and considering meeting of requirements laid down in this Chapter, Republic of Serbia will be expected to present its industrial policy and restructuring strategy, so as to assess whether they have been aligned with the EU principles. One of such requirements is that all state- owned enterprises in the country are to undergo the restructuring process, implying organisational and structural changes in these enterprises and their preparing for an independent market game and raising of competitive capacity. The EU industrial policy is also competent for the oversight of and limiting subsidies and other forms of state aid, both at national and at the EU level, therefore from that aspect particularly important is the close link between Chapter 20 and Chapter 8 "Competition", same as with other relevant chapters.

In that sense, when creating the Strategy implementation mechanism, special attention should be paid to all requirements of Chapter 20 in other for the planned measures and activities, besides being focused on the delivery of set national priorities, to be in line with and include meeting the requirements envisaged under Chapter 20.

From operational aspect, as a precondition for verification of fulfillment of obligations under the Chapter 20, competent EU institutions monitoring the accession process under their mandate are responsible to verify that the Strategy has not only been created, but also harmonised with the EU policy, and also that an adequate implementation mechanism for monitoring and evaluation of its implementation has been established, and that it is being implemented in practice in all planned segments in the set time frame.

5. FINAL PROVISIONS

This strategy is to be published on the Government website, website of the Ministry of Economy and E-Government portal, within seven working days of the day of its adoption.

This strategy is to be published in the "Official Gazette of the Republic of Serbia".

05 No: 30-1900/2020-3
In Belgrade, on 5 March 2020

G O V E R N M E N T

PRIME MINISTER

Ana Brnabić, signed