

Original scientific paper

UDC 71:911.375.64(497.11)  
<https://doi.org/10.2298/GSGD2401343W>

Received: March 18, 2024

Corrected: April 30, 2024

Accepted: May 03, 2024

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## **SPATIAL DIFFERENTIATION AND LOCAL DEVELOPMENT: DIVERGENT TRANSITION PATHS OF THREE SERBIAN MUNICIPALITIES**

**Abstract:** This article analyzes spatial differentiation within post-socialist transition using the examples of the economic developments of three small and medium-sized Serbian towns. The selection of smaller towns as objects of study fulfills a general research desideratum in geographical transition research. This study combines quantitative and qualitative methods and follows a historical-geographical approach. In order to shed light on the various characteristics of the disrupted post-socialist transition in Serbia, the period under investigation is defined as 1988 to 2011, which covers the two main phases of the Serbian transition: a period of disintegration (1991-2000) and a period of reorganization (2000/01-2011). By applying a novel mix of theories, it is possible to make statements beyond an overly simplistic center-periphery paradigm and uncover the underlying path dependencies and economic legacies that lead to specific local transition paths. In addition, this theoretical approach also enables the identification of general patterns and typologies of local development in the transition process: centralization, peripherization and marginalization. The development trajectories of the three municipalities exemplify that the particular post-socialist transition in Serbia also produces particular spatial differentiations, namely strongly delayed centralization tendencies that nonetheless still reflect the specific Yugoslav economic and institutional legacies.

**Key words:** spatial differentiation, regional disparities, local development, path dependency, economic development, post-socialist transition, small and medium-sized towns, Serbia

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Note: This paper is based on the results of the author's doctoral thesis at the University of Bamberg, Institute for Geographical Research on Migration and Transition, published at University of Bamberg Press (Winkler, 2015).

## Introduction

After the European turning point of 1989/1990, consolidation and growth were the primary economic policy goals in many former socialist countries. Liberal economic positions were particularly attractive. In the sense of "shock therapy" and "catch-up development", the countries were to be led towards rapid modernization (Schrader, 2003: 84). In the discussion about the different national transitions, particular reference is made to the respective starting conditions (Beyer, 2001: 199). Serbia, like the other former Yugoslav republics, had in 1989/1990 comparatively good political, economic and social preconditions compared to the other socialist states in Europe. In reality, however, the events of the 1990s threw Serbia far behind other transition states. The collapse of the Yugoslav state, international economic disintegration due to political isolation and economic sanctions, together with the internal degradation of the political and economic culture, led to an institutional, social and economic decline (e.g. Winkler, 2015). This long-lasting crisis of a lost decade, in addition to the special initial conditions of Yugoslav market socialism, are the special transition characteristic of the Republic of Serbia.

From the large number of studies dealing with socio-economic regional inequalities within the post-socialist framework, general spatial development patterns can be identified. Those studies emphasize the widening of already existing inequalities. This goes hand in hand with the peripheralization of rural regions compared to disproportionate growth in the centers, especially the capital cities and their surrounding areas. The latter benefit from financial, political and social capital, from the influx of foreign direct investment, international cooperation, knowledge and human capital as well as from the general forces that favor entrepreneurship and the tertiary and quaternary sectors (Gorzelać, 1994, 1996; Enyedi, 1994; Meusbürger, 1995, 2001; Dunford & Smith, 1998; Förster, 1999; Heller, 1999; Bachtler et al., 2000; Dunford, 2000; Petrakos et al., 2000; Smith, 2000; Smith & Pavlínek, 2000; Dövényi, 2001; Buchhofer, 2003; Monastiriotis, 2008, 2013; Banerjee et al., 2012; Dallago, 2013). Underdeveloped rural regions are characterized by marginal investment activity, a lack of employment opportunities and high emigration rates among the young and better qualified population. Regardless of this, old industrial regions, the former driving forces behind the economic development of socialist planned economies, are at the greatest disadvantage (e.g. Förster, 1999; Dövényi, 2001). They suffer quite explicitly from the restructuring measures and political adjustments to a "Western-style" market economy. The loss of markets, the reduction of state subsidies as well as company bankruptcies, privatizations and rationing lead to enormous social and economic challenges (e.g. Bachtler et al., 2000; Petrakos et al., 2000). Simultaneously, those mono-structural industrial regions and peripheral rural areas are often further decoupled due to a lack of own endogenous development, such as domestic start-up activity.

The contrast in development between the center and the periphery is particularly pronounced in Serbia (Göler et al., 2007; Nikolić, 2009; Komšić, 2009; Miljanović et al., 2010; Todorović & Drobnjaković, 2010; Winkler, 2012, 2013). The development of regions and individual municipalities in Serbia is dependent on the geographical location and already established disparities in such a way that it simply seems obvious to see individual places as externally determined entities. On the other hand, there are endogenous development opportunities. Despite the given local autonomy in Serbia, it was generally not possible for peripheral municipalities to keep pace with the overall economic develop-

ment. In Serbia, there are simply no examples of prosperous municipal developments in the "sea" of the lagging periphery.

This raises the question of why Serbian municipalities close to Belgrade and the country's central transport axes were in some cases (but only some cases) able to make more successful economic use of their autonomy, and why this was not the case for peripheral municipalities. To answer this question specific obstacles or enablers of structural and institutional nature on the local level need to be identified, apart from the sufficiently described general trends of polarisation and centralisation. A more in-depth analysis of the local level reflects global, national and regional development trends, but also enables assumptions to be made about institutional and structural path dependencies and small-scale reorganizations. A shift in perspective towards a small-scale view also allows a look at locally specific development features and what significance these have within the overall spatial development trends. In the sense of a stringent deduction, the results at municipal level reveal a view of the range of different developments in the country as a whole. The overarching question, which is examined here using Serbia as an example, is thus formulated as follows:

What structural and institutional path-dependent explanations can be found at the local level for overarching spatial developments within long-lasting structural crises and economic transition?

## **Theoretical framework**

In this study, three local development paths are examined against the backdrop of overarching spatial differentiations. This requires an approach based on theoretical triangulation, which links the idea of path dependency with theories and concepts of regional development. On the one hand, this makes it possible to explain the local conditions inherent in the system as well as local reactions to national and global changes; on the other hand, it allows the development paths of the local examples to be placed in the context of general spatial development trends.

The basic idea is that exogenous and endogenous economic, social and institutional dynamics come together in specific geographical locations, link up and in their combination generate specific development paths of local development. In terms of a diagnosis, it is of decisive importance to what extent individual economic developments can be attributed to local (endogenous) or macro-structural (exogenous) phenomena. In order to grasp national and global spatial developments, a reference is made to theories of regional development and regional growth, in particular to polarization theory (Myrdal, 1974), the theory of fragmented development (Scholz, 2002, 2003) and to the New Economic Geography (Krugman, 1991; Fujita et al., 2001). For the conceptual analysis of concrete local developments, notions on path dependency in the economic landscape and regional structural lock-ins are used (Stark, 1994; Grabher & Stark, 1997; Altvater, 1998; Schrader, 2003; Martin, 2006; Martin & Sunley, 2006).

A weakness of the path dependency concept is the neglect of exogenous effects. According to Martin (2006: 75), due to its strongly endogenous and descriptive perspective, the concept of path dependency lacks theoretical explanatory power when it comes to the question of why certain paths develop in certain places. Therefore, a theoretical integration of local trajectories into spatial development explanations of fragmentation, polariza-

tion or agglomeration ("geography matters") makes sense in order to identify exogenous triggers for local development and to assess general spatial forces when comparing divergent local transition paths with one another.

However, the conceptual neglect of exogenous development determinants in path dependency can also be advantageous. In this perspective, it can be assumed that the Serbian municipalities were always confronted with the same nationally and globally changing framework conditions during the course of their transition. Since the local actors were exposed to exogenous influences in the same way, deviating development trajectories can be traced back to single events and local responses and adaptations. In this respect, local developments are strongly examined under the specific consideration of historical events ("history matters"). The description of local trajectories focuses on the decisive steps to self-reinforcing dynamics, thus on the emergence of new paths and events within a path-dependent development, which can ultimately even lead to a local structural lock-in that strongly limits the opportunities for future decisions. The notion of path dependency thus emphasizes endogenous causes for development and does not only look for exogenous triggers like representatives of regional growth theories.

Another general restriction with regional growth models – especially polarization theory and New Economic Geography – is that they are based on reductionist assumptions that neglect social, institutional and cultural embedding, which is in fact needed when analysing local processes. Due to the theoretical openness and the ability to include the socio-institutional context ("institutions matter") the concept of path dependency is helpful to avoid an approaches that only includes economic factors in the interpretation of local or regional economic change. At the same time local economic developments go hand in hand with simultaneous co-evolution of socio-economic (Martin, 2006: 74) and institutional adaptation (North, 1990, 1991). According to North (1991) different institutional adaptive capacities are even the fundamental prerequisite for economically unequal path-dependent developments.

In a nutshell, it is a theoretical framework that views local development as a permanent process of adaptation and as a path-dependent process that is determined by spatial development trends as well as by its economic and institutional legacies and adaptive capacities. This approach thus combines theories that are based on the assumptions that "geography matters", "history matters" and "institutions matter".

By selecting the local development of small or smaller medium-sized towns as the objects of study, it is possible to make statements beyond a simplistic center-periphery paradigm. Furthermore, by focusing on the transition of smaller towns, a general research desideratum of geographical transition research is satisfied. Burdack (2010: 8) points out that studies on the development of small towns in the context of European post-socialist transitions are extremely rare, especially those with a theoretical-conceptual approach and not of a purely descriptive nature. In contrast, the empirical and conceptual analysis of the post-socialist transition of large cities and metropolitan areas is much more advanced.

## **Methodological framework**

The cities or municipalities to be analyzed in this study should be as structurally similar as possible in some aspects, but differ in others. This approach is borrowed from the Most

Similar Cases Design, whereby the cases to be compared differ with regard to the dependent variables of interest, but are very similar in other independent variables. This goes back to the method of difference according to John Stuart Mill (1843: 454-455). Applied to the specific context, this means that the selected municipalities differ in terms of their economic development and are very similar in terms of size of population and the functional importance of their administrative centers.

For the pre-selection, possible municipalities for the study were initially limited to municipalities in which the administrative center has between 15,000 and 50,000 inhabitants and municipalities in which more than 50% of the total population live in the administrative center, so that the administrative center has a clear functional primacy. In contrast to the independent variables, the selected municipalities should differ in the dimension of economic development in order to be able to depict the range of development directions. The indicators used as dependent variables are the development of employment (2001-2011), foreign direct investment per employee since (2001-2013) and the average municipal revenue per capita (2010-2012). These indicators and considerations ultimately lead to the selection of the municipalities of Indija, Bečej and Knjaževac. The municipality of Knjaževac is an example of the south-eastern periphery of Serbia with poor accessibility and few economic opportunities. Indija, on the other hand, has very advantageous economic figures and a central position between the economic centers of Belgrade and Novi Sad. Bečej also has good infrastructural accessibility and comes from the traditionally development-privileged north of Serbia; nevertheless, the municipality has weak economic figures.

Within a historical economic geography approach, a period from 1988 to 2011 is defined in the study. This includes the years of the state crisis before the dissolution of Yugoslavia and then two phases of comparable length: the period of disintegration from 1991 to 2000 and a period of reorganization from 2000/01 to 2011. In addition to data at state level, comparable data at municipal level is available for this study period from the municipal yearbooks of the Statistical Office of the Republic of Serbia (SORS, 1989-1991, 1992-2012). However, data sources of Serbian agencies sometimes have serious gaps, especially for the survey period of the 1990s. A general problem of such a data-based study is the informal sector and the shadow economy. Particularly in the context of transition, these unrecorded economic sectors account for large shares. With reference to employment figures, it is however not crucial when examining time series that all employees (formal and informal) are recorded. Rather, it is important that the figures can show general trends over time. The focus here is on the temporal and spatial shifts between the municipalities, not the actual extent of an indicator in an individual municipality. The indexed official numbers of employment in legal entities (Fig. 1), include all registered employment in companies, cooperatives, institutions, and other organizations. It only excludes – besides informal employment – self-employed and their employees, which are also included in the indexed numbers of total employment (Fig. 2). In addition, formal employment is definitely a development indicator that must be conceptually distinguished from informal employment. Informal employment is often characterized by precarious employment, relatively poor working conditions and a lack of social benefits and is therefore not a sign of sustainable, prosperous economic development. However, if estimates and other studies provide evidence of shadow economy activities, these are included in the analyses as far as possible.

Exploratory, semi-standardized interviews were another methodological instrument of this small-scale empirical study. Between November 2011 and September 2012 14 representatives of local, regional and national administrations, agencies, offices or similar organizations were interviewed; at the same time, 17 interviews were conducted with entrepreneurs, managing directors or managers of the local economy. However, a standardized interview often resulted in the possibility of a further and more open discussion, which then provided insights into previously unconsidered local problems or overarching development obstacles.

### **The “lost” decade of the 1990s: decline vs. resilience**

It is interesting to note the phases of the lengthy and bumpy transition process and the factors that led to these divergent developments. Over time, the three municipalities were less or more resilient or adaptable to crises and changes at the national and global level. In general, this study divides Serbia's transition path into two periods that can be clearly distinguished: (1) a decade of recession and disintegration since the collapse of Yugoslavia in 1991; (2) a phase of political and economic reintegration following the democratic upheaval in the autumn of 2000. The latter phase is characterized by an initially prolonged recession and a subsequent recovery or expansion. These national transition processes are reflected in the local development trends of the three municipalities in exemplary but different ways.

During the long recession of the 1990s, employment (Fig. 1) in Serbia and in the three municipalities was in constant decline. However, this decline would have been much more pronounced if employment had not been protected by the state through strict labor laws during this period. From 1989 to 2000, employment fell by almost 40 %, while GDP fell by almost 60 % (SORS database). As this enormous decline in GDP can only be compensated for to a limited extent by layoffs, this led to a sharp drop in productivity in Serbian industry (Winkler, 2015: 98-100).

At the same time, the Serbian system developed into a kleptocracy with a degraded economy, a lack of regulation, criminal and informal activities at all levels of society and other characteristics of a failed state (Winkler, 2015: 271-274). This led to a stratification of society in which an emerging economic-political elite played a key role. Furthermore, these trends of fragmentation and segregation are also reflected in the socio-economic space. Throughout the whole decade of the 1990s, no spatial polarization towards specific growth poles (according to Myrdal, 1957) is recognizable. Due to the enormous socio-economic and institutional decline and, in particular, Serbia's economic disintegration from the world market, a spatial concentration of capital or employment (following Krugman, 1991) was completely hindered.

Serbia's international isolation in the context of a further globalizing world made Serbia as a whole a state of the new global periphery (Scholz, 2004: 228-229). Without the opportunity to participate in the benefits of the global economy, Serbia played no role as a consumer of international goods and, apart from smuggling activities, the goods it produced itself were not traded on the international market. From a global perspective, the Serbian workforce was completely superfluous at the time. As a result, the country's cities and municipalities were highly dependent on their own local resources, structures, adaptability and coping strategies. In particular, the economic and institutional center of

Belgrade, traditionally the only truly globalized place in the country, suffered from international isolation and being cut off from the world market.

The three municipalities studied do not show any divergent employment trends in the 1990s. However, a closer analysis of the different levels of resilience in this decade reveals differences that cannot be explained primarily by their geographical location, but rather by the existing local economic or industrial structure. Heavily industrialized places suffered most from the crises of the 1990s, which was reflected in increasing structural and technological crises of industrial combines, often leading to bankruptcy after 2000. This is only partially reflected in the pure employment data, as the decline in productivity was not compensated by a falling number of jobs – as in functional labor markets – but by lower, delayed and withheld wage payments. The real unemployment that existed - regardless of whether it was forced leave or the actual loss of a job - was shifted to informal work in private agriculture, trade or small family businesses. In the 1990s, this was not only an expression of a lack of alternatives, but also necessary to compensate for the supply bottlenecks in times of economic sanctions.

The municipality of Indija was somewhat more resilient and adaptable to the crises of the 1990s. However, like everywhere else in Serbia, there was also a sharp economic decline here. Yet the local economic structure of Indija was traditionally characterized by small manufacturing family businesses and, in contrast to other municipalities, was not so dependent on a few large industrial enterprises, most of which were strongly integrated into a supra-regional Yugoslavian and international market. The economic structure in Indija therefore offered more opportunities than elsewhere to compensate for the increasing number of inactive workers. On the one hand, due to the long tradition of private businesses, there was local experience in entrepreneurship and thus fewer obstacles to business start-ups (Göler, 2007: 29); on the other hand, there were simply more micro-enterprises in which job seekers could find opportunities (Winkler, 2015: 221-223). Therefore, the overall decline in employment (Fig. 2) in the 1990s in Indija was comparatively low. The decline in employment in legal entities (Fig. 1), which more clearly reflects employment in social and state enterprises, shows the same trends as elsewhere.

During the crisis decade, the decline in employment in Bečej was average compared to the rest of the country. However, this data does not show that the municipality - in a time of industrial and economic turmoil - had at least some degree of resilience due to its agriculture-dominated economy. Despite the enormous supply shortages of fuel, fertilizers, seeds and machinery that plagued the agricultural and food industry, this sector still had better capacity utilization than other industries and was absolutely essential to the state's security of supply.

In the municipality of Knjaževac, the collapse of the once flourishing local industry was already evident in the 1990s. Symptoms of the almost complete deindustrialization in the years after 2000 were the enormous unemployment and forced vacation, the dramatic decline in production to almost zero and the lack of technical maintenance and modernization in the decade of the 1990s. The SFRY's investment planning had built up a consumer and capital goods industry in Knjaževac with large local social and state enterprises and had created a remarkable economic development there since the end of the 1960s. This consumer-oriented industry was particularly dependent on supra-regional sales markets. The loss of the Yugoslav and international markets, combined with mismanagement and fraud, led to an almost complete shutdown of production activities.

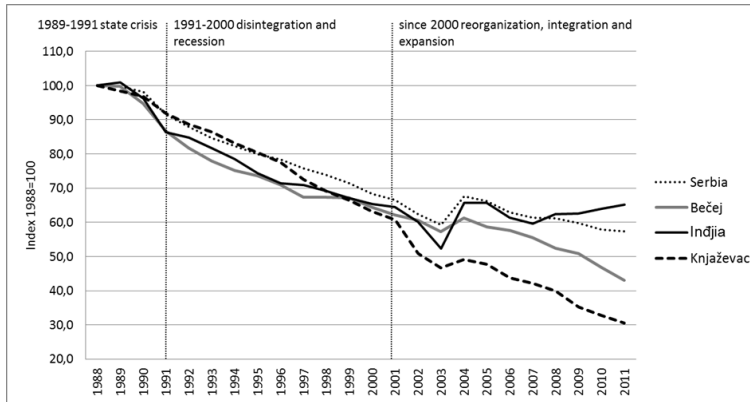


Fig. 1. Transition paths of employment (in legal entities) (Sources: SORS, 1989-2012)

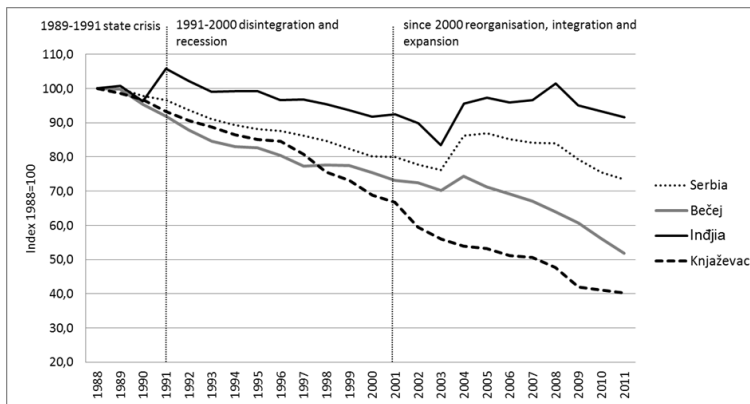


Fig. 2. Transition paths of employment (total) (Sources: SORS, 1989-2012)

### Divergent transition paths after 2000

After the democratic upheaval in the autumn of 2000, Serbia had to cope with another transition shock and a further decline in employment figures (Fig. 1 and 2). Due to the previous and long-lasting decline in the 1990s, this shock in Serbia was much shorter and less pronounced than the initial shocks of transition in other European transition countries as they embarked on their path towards Western capitalism in the early 1990s. The years up to 2005 in Serbia are then characterized by a brief phase of recovery in employment figures and economic growth. The following years then reflect a decline in employment and, at the same time, continued economic growth, which leads to rising productivity overall. In the period under study from 2009 onwards, these figures fell again significantly, mainly triggered by a new economic recession fueled by the global financial crisis.

In any case, the autumn of 2000 was a turning point for Serbia as well as for the three municipalities under study, leading them on divergent and different transformation paths and revealing different local economic resilience. While Inđija was able to recover quickly from this next recessionary shock, in Knjaževac it initiated the almost complete collapse of the local economy and labor market.



### ***Spatial polarisation – geography matters***

The economic reforms and reintegration into the international market community in the years after 2000 were accompanied by a gradual normalization of foreign trade, economic recovery, rising productivity and a return of foreign investors. This led to a spatial allocation of capital and income as well as employment opportunities. In terms of their spatial tendencies, these allocations can be characterized as polarizations towards the economic centers. Following the theoretical framework of geographical economics (Krugman, 1991; Fujita et al., 2001), these centripetal forces can be attributed to economies of scale and falling transportation costs - in the Serbian case, the dismantling of trade embargoes. Initial events after the political and economic transition, such as the further intensified deindustrialization of a location or the first foreign investments in a particular place, can thus lead to intensifying cumulative processes of regional or local polarization.

In the economic centers of the country, particularly in Belgrade and to a lesser extent in Novi Sad, an increasingly self-reinforcing polarization was beginning to unfold, as the centers offer investment opportunities, a skilled workforce and consumer demand. In addition, the strengthening of a politically well-connected business elite (Ehrke, 2010) led to the allocation of power and capital resources in Belgrade (following the considerations of Grabher & Stark, 1997). Later, from the mid-2000s onwards, this polarization showed regional spread effects, as evidenced by a growing number of industrial settlements in the Belgrade catchment area. At the same time, backwash processes led to negative effects in the periphery. In the Serbian case, these were primarily the withdrawal of state subsidies to peripheral industries, the reorientation of local producers towards international suppliers and the loss of human capital through emigration.

This nationwide spatial differentiation through backwash and spread effects is also reflected in the municipalities surveyed. This can be seen very clearly in the spatial selectivity of foreign direct investment. After a period of complete absence of foreign direct investment, these capital flows recovered again after 2000. Foreign direct investment is highly location-dependent. Particularly in a country with major infrastructure deficits, the most important locational advantages are the well-developed central and supra-regional transport links. They are part of the infrastructural legacy from the time of socialist Yugoslavia. In times of scarce resources in the 1990s, only the central connections, especially the pan-European corridors, were maintained and expanded. At the same time, the other transport networks were severely neglected. This concerted allocation of financial resources to a few infrastructure projects was therefore a politically intended reinforcement of the center-periphery pattern. In Serbia, there was a very pronounced spatial concentration of foreign direct investment along the country's central transport axes, the axes of the Pan-European Corridor 10.

Indija, with its direct location on this corridor and its position between Belgrade and Novi Sad, clearly has the best location factors of all the municipalities examined. This simple fact is the prerequisite for the extraordinarily high number of foreign investment inflows into the municipality and thus for better employment development than in Bečej or Knjaževac. Between 2000 and 2013, a total of 26 relevant (over EUR 0.5 million, plus employment effect) foreign direct investments were identified in Indija. In 19 cases, this involved capital for the establishment of new companies or production facilities at new locations (greenfield investments), in two cases the establishment of companies on brownfield sites (brownfield investments) and in four cases reinvestments or recapitaliza-

tions. In contrast, there was only one company takeover as part of a privatization. Based on the available data, a total of EUR 356.5 million was invested in the municipality between 2000 and 2013. Measured by the number of new jobs created and the amount of investment, Germany is the most important country of origin of these cash flows. German investments alone accounted for 94.1 million euros of the foreign direct investments received (Winkler, 2015: 231-238).

### ***Economic legacies – history matters***

The analysis of the causes of the different transitions in the three municipalities also includes an examination of the economic legacies, whereby path-dependent developments are explained by location-specific characteristics (Martin & Sunley, 2006). At the time of the start of the delayed transition in Serbia at the end of 2000, these were still almost entirely characterized by the socialist-Yugoslav industrial structure (sectors, company size, etc.). In the years that follow, these structural legacies were evident in local privatisations, but also determined the endogenous development of the emerging local economic landscape.

Deindustrialization and local industrial lock-ins: During the 1990s, large parts of Yugoslavia's manufacturing industry were already suffering irreversible decline due to the loss of supply and sales markets as well as technological decline. In most cases, however, the actual closure of factories did not take place until after 2000. The new privatization law from 2001, which obliged social and state enterprises to sell, was the driving force behind this all-encompassing deindustrialization. Peripheral regions and old industrial locations in particular were unable to attract financially strong investors for their companies in the privatization process. In addition, the unprofitable and uncompetitive large companies were unable to compensate for their ongoing losses through state subsidies after privatization. In addition to mismanagement, this led to the de facto bankruptcy of many companies directly after privatization. The effects of this deindustrialization on employment were particularly severe due to the neoliberal design of the new privatization law in combination with the lack of growth in the private sector in the peripheral regions.

Failed privatisations and bankruptcies led to disruptions on the local labour markets in all of the municipalities surveyed. This can be observed to a lesser extent in Inđija, which can be attributed to the local economic landscape. An already existing craft and SME sector with a high number of family businesses had not created the need in the planned economy of Yugoslavia since the 1950s to lead the municipality into the industrial age by establishing a large number of new factories. This is why there was no concentration on industrial combines in Inđija and therefore no such serious problems with unemployment due to privatization and bankruptcies in the years after 2000.

In contrast, socialist investment planning in the municipality of Knjaževac created a local economy heavily dependent on large social and state enterprises. In the late 1960s and 1970s, the municipality transformed from a shrinking mining town to consumer-oriented combines such as Leda, IMT or Branka Dinić. After flourishing years in the 1970s and 1980s, the decline of this industry began in the 1990s, which led to a comprehensive deindustrialization of the town after 2000, with corresponding effects on local employment.

This situation is comparable to that of Bečej, where bankruptcies also led to high job losses and the deindustrialization of the municipality. But unlike Knjaževac, more than two decades after the Yugoslav secession and more than a decade after the Milošević era, the municipality was still severely threatened or on its way to losing its economic base.

The local economy was still in a transitional phase. As a legacy of central planning, this traditionally agricultural community was completely dependent on the dominant agro-industrial combine PIK Bečej. Following privatization and ownership restructuring, the company was in ongoing insolvency proceedings at the end of the study period (as of April 2014) and was entirely dependent on external concessions from banks, other creditors and national politicians. Due to the large number of local employees who worked directly or indirectly for this horizontally integrated complex, bankruptcy would be tantamount to social collapse for the community. The high degree of integration of the entire production chain in an agro-industrial combine had a number of advantages in terms of production management and product distribution under planned economy conditions. After privatization, the overarching and rigid structure of the company prevailed. In the context of change and globalization, this was hardly adaptable. The strong local interdependence of the various company divisions with local companies, other suppliers and community representatives leads to (following Grabher, 1993) the current weakness of the location. It leads to a local structural lock-in or (following Simmie & Martin, 2010) to a fragile local crisis resilience. To date (as of March 2024), the radical dissolution of this lock-in does not appear to be an option due to the lack of economic alternatives and the enormous social consequences. If the local economy were to be restructured in the future, a general national restructuring plan would be unavoidable. In any case this would be associated with high social costs for the municipality.

Economic legacies and the reorganisation of the SME sector: Deindustrialization led to a high number of unemployed people in the local labour markets of all the municipalities surveyed. However, depending on the location, these job seekers had different opportunities for new employment in the local SME sectors or through self-employment.

Small businesses were a source of lasting stabilization for the local labor market in Indija. In addition, this economic legacy formed the basis for the establishment of further small and medium-sized enterprises after the year 2000. Based on the SME history in metal and plastics production, a whole series of start-ups in related production sectors can be found there.

In comparison, local entrepreneurs in Knjaževac offered finishing contract work for the shoe, textile and clothing industries as subcontractors or sub-subcontractors, which creates less local added value and income than specialized consumer goods made of metal and plastic. The emergence of an SME sector in Knjaževac, unlike in Indija, can be seen more clearly as an adaptation to transition. The motives for business start-ups were not initially linked to business opportunities and local knowledge, but rather to the recombination of the existing financial and social capital of former employees of the defunct local industry and to the socio-institutional embedding and local networks of the company founders. The concentration of local SMEs on shoe production was directly related to the only case of successful industrial restructuring in the municipality, the privatization and reorganization of the Yugoslav shoe manufacturer Leda by the Italian company Falc - while all other socialist-Yugoslav companies in this municipality went bankrupt. Many local and regional SMEs benefited from Falc in various stages of production, through subcontracting and deliveries, as well as through positive externalities, such as the promotion of the town as a traditional place for the production of high-quality footwear. However, this local SME sector had not enough impact on local employment, despite the fact that shoe production is generally a labor-intensive industry. Nevertheless, the com-

pensatory effect on the local employment situation following the decline of the Yugoslav industry should also not be underestimated. The downward spiral of Knjazavac's economy had at least been weakened by the emergence of an SME sector, which is reflected in a decreasing decline in employment within the last years of the period under study.

In contrast to the other two municipalities, there was no dynamic development of manufacturing small and medium-sized enterprises in Bečej. In this town, the SME sector was traditionally underdeveloped, private activities outside agriculture were marginal, and the local economy was almost entirely dependent on two large industrial companies - the agro-industrial combine PIK Bečej and the automotive supplier FADIP.

### ***Institutional reorganisation – institutions matter***

The comparatively more favorable development of employment figures in Indija was due to the town's story as an investment location. However, given the high number and volume of foreign direct investments since the mid-2000s, the impact on employment was rather moderate. More significant were the effects of the investment inflow on the growth of the municipal budget and the general rise in wages (Winkler, 2015: 224-252). Thus, Indija served for foreign companies foremost as a destination to supply the regional or supra-regional market with specialty products and intermediate products. Only secondarily did investors see Indija as a preferred destination for low-cost and labor-intensive production. Moreover, foreign direct investment in Indija showed no tendency towards sector-specific concentration.

The self-reinforcing process of Indija's FDI development can therefore only be partially explained by its favorable geographical location. Many Serbian municipalities with similar access to central transport connections, especially the pan-European Corridor 10, did not show such a development within the period of study. Indija's relative success was also a direct result of the early institutional and organizational adjustments made by the municipality administration and the promotion of an investor-friendly environment, which had indeed led to the emergence of temporary economic opportunities and a reputation as an investor-friendly location that extended beyond the country's borders (Göler 2007: 34). In addition to the hard location factors (in particular the transport connections and a local industrial zone with good infrastructure), the interviewed investors particularly emphasized the positive impression they had of the administration of Indija, which was even explicitly mentioned that it had been the decisive factor in the final decision to invest.

The election of a new local government in 2000 was a crucial turning point for the reorganization and reorientation of municipal work in Indija. Driven by a young and reform-oriented mayor and financially supported by the Serbian Local Government Reform Program, a USAID-funded development program, the municipality initiated a process in which it attempted to break up gridlocked administrative procedures and encrusted organizational structures. This resulted in layoffs and the replacement of municipal staff, as well as restructuring towards a strong service orientation and towards attracting foreign investment. At the same time, reliable commitments regarding the future development of the local industrial zone and infrastructure as well as accelerated approval procedures have tipped the scales in Indija's favor when investors were deciding between different locations in the region. This was supported by aggressive location marketing and good positioning in the portfolio of the national and regional investment promotion agency, the Serbian Investment and Export Promotion Agency SIEPA and the Vojvodina Investment

Promotion VIP. When it came to proposing locations in Serbia and the province of Vojvodina to interested international investors, these key agencies often referred to the municipality's proactive approach.

Local economic development was generally a new competence of Serbian cities and municipalities. Traditionally, the municipalities of the SFRY (and the successor states of the Milošević regime) had greater competencies than the municipalities in other socialist and centralist states in Europe due to the principle of local self-government. However, investment planning was an essential competence of the Yugoslav state and the republics (Kiefer, 1979: 36-37; Gumpel, 1975). Local authorities traditionally had to rely on central authorities for the planning of industrial complexes and the provision of labor and were not obliged to stimulate investment interest in their location. However, at a time when the new Serbian political system was still in the early stages of reorganization, *Indija* recognized that local governments had a crucial role to play in the local economy and in creating a business-friendly environment through the provision of infrastructure, municipal services and location promotion.

In Knjaževac and Bečej, such reforms and the will for such an institutional local reorganization were not to be found at all during the period under study. The attitude in these municipalities towards initiating their own reform and reorganization processes to promote the local economy fluctuated between passivity, lack of concept and helplessness in the face of the current situation. In Serbia of the 2010s, it was still the norm to transfer responsibility for local development to central authorities. This was reinforced by nepotism, political-economic networks and a lack of management in local administrative structures (see also Šević, 2005; Pešić, 2007).

In addition, *Indija* was benefiting from its economic legacy on its institutional reform path. Due to the aforementioned rich experience in the private sector, the location is characterized by a comparatively deep-rooted business culture. Moreover, the political agenda of the municipality of the early 2000s was not so much characterized by the retention of large Yugoslav companies. This allowed the local authorities to focus their economic policy on new economic opportunities earlier than in other locations. According to Grabher & Stark (1997) new practices and networks in business life at the local level are necessary in order to adapt to new circumstances of transition. After legal, political and economic restructuring, a deep and long-term institutional restructuring is therefore crucial for local development, as the case of *Indija* indicates.

Bečej and Knjaževac are on the other hand characterized by an inherent institutional lock-in and political practices that rely on state intervention to shape the local economy. In contrast to *Indija*, the municipalities of Bečej and Knjaževac show that - especially at the local level - the institutional transition to a new political order was not at all completed more than a decade after the democratic upheaval. Due to the socio-economic crises and the problematic transition process in Serbia, the routines and ties inherited from the Yugoslav era were rather given plenty of room for the further development into new rules and norms (following Chavance, 1995: 28-29).

## **Typology of the development paths**

It has been shown that the local economic development of the three municipalities studied depends on national and global contexts and is influenced by general spatial trends.

The actual development paths within these overarching contexts are co-determined by persistent economic structures and factors of local economic culture that are rooted in economic legacies and collective memories (Herrschel, 2007: 4) and are further shaped by specific local decisions that directly form or hinder the institutional reorganization processes. This combination of local factors and regional tendencies can be used to classify the locations studied. The distinction made here between peripheralization, marginalization and centralization thus refers not only to structural differences between rural and urban areas. These development trends in the three municipalities are instead a combination of the geographical, historical and institutional factors of the location. Linking theories of spatial differentiation with the concept of path dependency helps to distinguish the development paths of the three municipalities and to understand the systemic logic of the respective development paths.

### ***Centralisation – Indija***

Since the mid-2000s, positive spillover effects from the economic centers of Belgrade and Novi Sad have been noticeable in the small town of Indija. The municipality was able to take advantage of cluster effects, such as the supply of labor, human capital and a large surrounding sales market. At the same time, the municipality offers land in an industrial zone at lower prices than in Belgrade and a well-connected and not overburdened local infrastructure. The development of Indija is therefore part of the country's general centralization and metropolization process. The municipality was able to make even better use of this advantageous spatial position than other municipalities in the area through comprehensive reorganization processes. Indija was able to use its limited window of opportunity to present itself to investors as an interesting investment opportunity.

The first financially strong investors brought jobs and tax revenue to the municipality. Thanks to a better equipped municipal budget, Indija was able to improve its own infrastructure and municipal services and further increase the economic attractiveness of the town. Local flagship projects such as the factory outlet center and the Indija IT Park show that the municipality also attracts major investments outside of the manufacturing sector (Winkler, 2015: 224-245).

In general, foreign direct investments are located into attractive and unattractive economic opportunities due to spatial selectivity, much more so than businesses of local entrepreneurs. It is thus another plus for Indija that the development of the municipality is supported by endogenous growth of local businesses and start-ups. Despite the risk of international investors withdrawing their capital in times of global crises, Indija has thus developed a fairly resilient local economic structure thanks to this diversification.

### ***Peripherization – Bečej***

The municipality of Bečej is located in the traditionally well-developed northern part of Serbia, in the autonomous province of Vojvodina. In the days of socialist Yugoslavia, the GDP per capita in this region was always higher than in the southern parts of the Socialist Republic of Serbia. The town is also well connected in terms of infrastructure to the European corridors in the proximity of the European Union. In the course of the strong polarization tendencies towards Belgrade during the period under review, the Vojvodina - especially the rural areas of the region - lost its comparatively better stage of development. Bečej is thus an example of spatial backwash effects from rural areas and of Serbia's new post-transition periphery.

Even more than the spatial differentiation, the local structural lock-in in the agro-industry led to a peripheralization of the place. The municipality is a typical example of the problems resulting from the legacy of socialist planning and a mono-structural orientation. Following the democratic shifts after 2000, the local agro-industrial combine PIK Bečej was unable to adapt to the new realities of an international market economy. As this company is "too-big-to-fail" for the town and the region, it was artificially kept alive by state intervention, which at the same time hindered local endogenous development.

Bečej had a poorly developed SME sector and had received almost no foreign direct investment in the period of study. The structural stagnation, the lack of economic diversification and the lack of incentives for business start-ups highlight the externalization and vulnerability of the local economy. Under these circumstances, the local government always had few restructuring options of its own to counter the local economic paralysis.

### ***Marginalization – Knjaževac***

The municipality of Knjaževac is a typical example of a peripheral place that was developed through a targeted socialist investment policy and integrated into the national production network of the SFRY. Spatial backwash effects then had a drastic impact on peripheral places like Knjaževac, especially after 2000.

But already before, in the crisis decade of the 1990s, the actual destruction of the local consumer and capital goods industry took place. The loss of sales and procurement markets due to international sanctions led to a dramatic decline in production and further led to kleptocratic exploitation and technological decline of the local companies. After 2000 and the liberalization of the Serbian economy, the local industry of Knjaževac had then no possibilities for reorganization and most of the local companies went bankrupt. In the course of its deindustrialization, the municipality also found itself in an institutional lock-in. Local adjustments in municipal work towards an entrepreneurial environment that promotes the local economy had not been necessary under socialist planning conditions, had subsequently been made impossible by nepotism and kleptocracy, and after 2000 had been hindered by this legacy and the continuous reproduction of these inherited patterns of behavior.

This path describes a development from a peripheral industrial location to a renewed peripheralization and finally to a marginalization in which the local economy is only connected to the international market through poorly paid loan work in a marginal industrial sector. This development is accompanied by shrinking processes, in particular the exodus of young and better qualified workers. Due to the poor infrastructure and transport connections, foreign investment only flowed into the local shoe production during the period under review. These facts and the perpetuation of centralization and polarization tendencies in Serbia extremely narrowed the scope for Knjaževac to overcome its marginalization. This downward spiral was only and very slightly mitigated by an endogenous development of the SME sector. Most of these new businesses were also subcontractors in the shoe production and textile sectors.

### **Conclusion**

In the sense of a deduction, the three municipalities studied reflect the actual range of spatial manifestations of the Serbian transition - centralization, peripheralization and

marginalization. Inđija describes a municipality located in the catchment area of the growth poles and agglomeration areas of Belgrade and Novi Sad. Although the municipality of Bečej does not have such a central location, it is well connected in terms of infrastructure and is located in the traditionally more developed north of Serbia. In contrast, the municipality of Knjaževac is an example of a peripheral location with poor connections to the country's economic centers.

However, the assessment of divergent transition paths always requires a deeper qualitative analysis of their economic structure and legacy as well as the capacity for institutional adaptation. Despite structural differences in terms of industrial and commercial orientation, the level of economic development and economic performance of the three municipalities studied were at a similar level before 1990/01. In the course of the disrupted transition in Serbia, these municipalities have taken very different development directions. The municipality of Knjaževac can be seen as a typical example of a "loser of the transition". The decline of the local consumer goods industry and the associated loss of importance for the regional and national (Yugoslav) economy has completely marginalized this municipality. The municipality of Bečej was also unable to adapt to the new conditions. In contrast to the other two municipalities, this place remained much more firmly tied into the economic structures of Yugoslav market socialism due to the dominance of a single large agro-industrial combine and is thus characterized above all by persistence. The municipality of Inđija, on the other hand, is an example of a place that was able to reorient and adapt economically during the difficult transition of the entire state thanks to favorable preconditions and legacies.

The development trajectories of the three municipalities exemplify that typical post-socialist spatial polarization and centralization tendencies in Serbia were delayed due to the disrupted transition. In the 1990s, under the conditions of international sanctions, no clear spatial differentiation patterns or polarization can be identified due to the lack of centripetal forces of a liberal market economy. Rather, this phase is characterized by a fragmentation or social stratification that is not visible in the statistical data, but prepares the ground for the later, extremely pronounced phase of spatial differentiation after 2000/01.

The actual response to these strong spatial-economic trends can then be very different at the local level, depending on the local economic legacy (i.e. experience with entrepreneurship and sectoral diversification). Often, however, this legacy is completely shaped by local deindustrialization and industrial lock-ins, which severely limits the ability of municipalities to make institutional adaptations and provide a better business environment.

Conflicts of Interest: The author declares no conflict of interest.

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