



**MBUIR**  
**MB University**  
**International Review**

**UDK 2956-2406**

**ISSN 2956-2406**  
**e ISSN 2956-249X**

# **MB University International Review - MBUIR**

**Journal of Theory and Practice**

**Vol. I (2023), No 2**

**[www.mbuir.com](http://www.mbuir.com)**

## **Publisher:**

Faculty of Business and Law, University of MB  
Serbia, Belgrade, Dražerova 27

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**Printed by:** Planeta Print d.o.o., Belgrade

**Copies printed:** 100

**Indexed & Abstracted:**

# CONTENTS

## ARTICLES

### MANAGEMENT AND BUSINESS

Dušan B. Regodić, Borivoje Milošević, <i>Management of Business information and Communication technologies</i> .....	6-20
Ljubomir Miljković, Dragana Trnavac, <i>Macroeconomic impact of the Conflict between Russia and Ukraine the Gross domestic product of Serbia</i> .....	21-33
Slobodan Kotlica, Nataša Stanojević, <i>Economic globalization in the historical context and deglobalization</i> .....	34-56
Snežana Maksimović, Violeta Dimić, <i>Multi-criteria analysis of ict implementation in investment projects: Case Study of construction companies in the Republic of Serbia</i> .....	57-67
Snežana R. Stojanović, <i>Multinationals tahation in the Time of globalization</i> .....	68-75
Mirjana Dejanović, <i>Globalisation and economic crisis in 2022</i> .....	76-83

### LAW AND SECURITY STUDIES

Marina Dabetić, Živanka Miladinović Bogavac, <i>Sustainable development Goal 13 in Internaional Law</i> .....	86-93
Mirko Kulić, <i>The Specificities of Tax procedure as a Specific administrative procedure</i> .....	94-104
Marija Kostić, <i>Administrative contract in German and Serbian Law</i> .....	105-113
Zorančo Vasilkov, Slobodan Petrović, <i>Rule of Law: Legal principle(s), EU Rule of Law mechanism and constitutional category in the Republic of Serbia</i> .....	114-126
Aleksandar Dabetić, Martin Matijašević, <i>European police cooperation in the counterterrorism efforts of the 21st century</i> .....	127-133

### PRESENTATION SCIENTIFIC PUBLICATIONS AND CONFERENCES

Emeritus dr. sc. Vlatko Previšić, <i>Presentation of a book in the field of social sciences "Evaluation studies in social sciences"</i> .....	136-138
Prof. Ph. D. Sc. Alexander Halmi, <i>Presentation of a monograph Social Science Methodology (Third Revised Edition 2022)</i> .....	139-143
Milena Maksimović Kovačević, Biljana Grković, <i>Recognition/2023.-regional/international conference</i> .....	144-146
Rajka Bošković, PhD, <i>Presentation of a Symposium The (con)temporaniety of stone</i> .....	147-149
Criteria and Rules for Entering an Author's Work Into the Publishing Plan of the Journal MB University International Review (MBUIR).....	150-152
Instructions for authors.....	153-155
List of Peer Reviewers for the MB University International Review - MBUIR, 2022.....	156-157



# **MENAGEMENT AND BUSINESS**



ORIGINAL SCIENTIFIC PAPER

RECEIVED: 10. 01. 2023.

ACCEPTED: 13. 04. 2023.

UDC: 005.57

COBISS.SR-ID 134006281

doi: <https://doi.org/10.61837/mbuir010223006r>

## MANAGEMENT OF BUSINESS INFORMATION AND COMMUNICATION TECHNOLOGIES

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**Abstract:** *The starting point for the good governance establishment of the business information communication technologies (ICT) is the assessment of the achieved maturity of its processes. The research presented in this article focuses on measuring level of the ICT processes maturity in a public-sector organization, which 'covers' Federation of Bosnia and Herzegovina. This article presents a simple and flexible model for measuring the ICT processes maturity to identify their main advantages and disadvantages. The proposed model, which helped in achieving the research results, is known as COBIT Maturity Model. The presented model estimates the ICT processes maturity and it is applicable to other organizations, regardless of size or form of ownership. The main purpose of this article is to encourage the supervisory boards, management and executive management of organizations, without good governance of business ICTs, for the agility in overcoming this problem.*

**Keywords:** COBIT Maturity Model, ICT, MBICTS

### 1. INTRODUCTION

An answer to these requirements of determining and monitoring the appropriate IT control and performance level is COBIT's definition of:

- Benchmarking of IT process performance and capability, expressed as maturity models, derived from the Software Engineering Institute's Capability Maturity Model (CMM).
- Goals and metrics of the IT processes to define and measure their outcome and performance based on the principles of Robert Kaplan and David Norton's balanced business scorecard.

- Activity goals for getting these processes under control, based on COBIT's control objectives.

The assessment of process capability based on the COBIT maturity models is a key part of IT governance implementation. After identifying critical IT processes and controls, maturity modelling enables gaps in capability to be identified and demonstrated to management. Action plans can then be developed to bring these processes up to the desired capability target level.

Thus, COBIT supports IT governance (figure 2) by providing a framework to ensure that:

- IT is aligned with the business.
- IT enables the business and maximises benefits.
- IT resources are used responsibly.
- IT risks are managed appropriately

#### IT Governance Focus Areas:

- Strategic alignment focuses on ensuring the linkage of business and IT plans; defining, maintaining and validating the IT value proposition; and aligning IT operations with enterprise operations.
- Value delivery is about executing the value proposition throughout the delivery cycle, ensuring that IT delivers the promised benefits against the strategy, concentrating on optimising costs and proving the intrinsic value of IT.
- Resource management is about the optimal investment in, and the proper management of, critical IT resources: applications, information, infrastructure and people. Key issues relate to the optimisation of knowledge and infrastructure.
- Risk management requires risk awareness by senior corporate officers, a clear understanding of the enterprise's appetite for risk, understanding of compliance requirements, transparency about the significant risks to the enterprise and embedding of risk management responsibilities into the organisation.
- Performance measurement tracks and monitors strategy implementation, project completion, resource usage, process performance and service delivery, using, for example, balanced scorecards that translate strategy into action to achieve goals measurable beyond conventional accounting.

IT good practices have become significant due to a number of factors:

- Business managers and boards demanding a better return from IT investments, i.e., that IT delivers what the business needs to enhance stakeholder value
- Concern over the generally increasing level of IT expenditure

- The need to meet regulatory requirements for IT controls in areas such as privacy and financial reporting (e.g., the US Sarbanes-Oxley Act, Basel II) and in specific sectors such as finance, pharmaceutical and health-care
- The selection of service providers and the management of service outsourcing and acquisition
- Increasingly complex IT-related risks, such as network security
- IT governance initiatives that include adoption of control frameworks and good practices to help monitor and improve critical IT activities to increase business value and reduce business risk
- The need to optimise costs by following, where possible, standardised, rather than specially developed, approaches
- The growing maturity and consequent acceptance of well-regarded frameworks, such as COBIT, IT Infrastructure Library (ITIL), ISO27000 series on information security-related standards, ISO 9001:2000 Quality Management Systems Requirements, Capability Maturity Model® Integration (CMMI), Projects in Controlled Environments 2 (PRINCE2) and A Guide to the Project Management Body of Knowledge (PMBOK)
- The need for enterprises to assess how they are performing against generally accepted standards and their peers (benchmarking).

Figure 1 illustrates how the enterprise strategy should be translated by the business into objectives related to IT-enabled initiatives (the business goals for IT). These objectives should lead to a clear definition of IT's own objectives (the IT goals), which in turn define the IT resources and capabilities (the enterprise architecture for IT) required to successfully execute IT's part of the enterprise's strategy. Once the aligned goals have been defined, they need to be monitored to ensure that actual delivery matches expectations. This is achieved by metrics that are derived from the goals and captured in an IT scorecard.

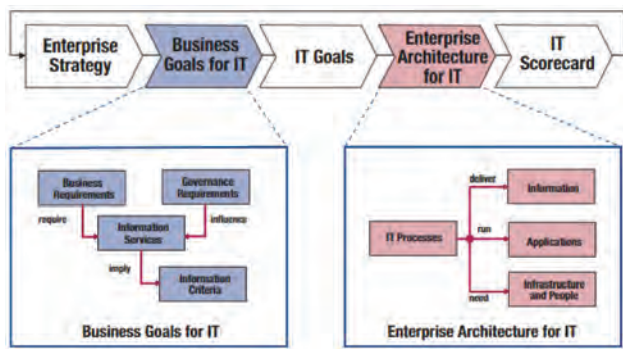


Fig. 1. Defining IT Goals and Enterprise Architecture for IT [19]

The IT resources identified in COBIT can be defined as follows:

- Applications are the automated user systems and manual procedures that process the information.
- Information is the data, in all their forms, input, processed and output by the information systems in whatever form is used by the business.

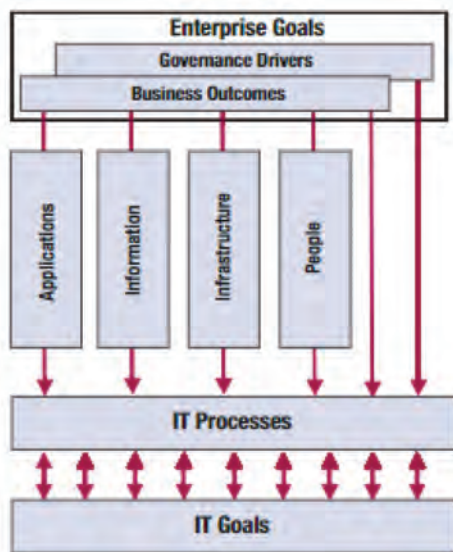


Fig. 2. Summarises how the business goals for IT influence how the IT resources need to be managed by the IT processes to deliver IT's goals. [19]

- Infrastructure is the technology and facilities (i.e., hardware, operating systems, database management systems, networking, multimedia, and the environment that houses and supports them) that enable the processing of the applications.
- People are the personnel required to plan, organise, acquire, implement, deliver, support,

monitor and evaluate the information systems and services. They may be internal, outsourced or contracted as required.

To govern IT effectively, it is important to appreciate the activities and risks within IT that need to be managed. They are usually ordered into the responsibility domains of plan, build, run and monitor. Within the COBIT framework, these domains, as shown in figure 8, are called:

- Plan and Organise (PO)—Provides direction to solution delivery (AI) and service delivery (DS);
- Acquire and Implement (AI)—Provides the solutions and passes them to be turned into services;
- Deliver and Support (DS)—Receives the solutions and makes them usable for end users;
- Monitor and Evaluate (ME)—Monitors all processes to ensure that the direction provided is followed.

COBIT appeals to different users:

- Executive management—To obtain value from IT investments and balance risk and control investment in an often unpredictable IT environment.
- Business management—To obtain assurance on the management and control of IT services provided by internal or third parties.
- IT management—To provide the IT services that the business requires to support the business strategy in a controlled and managed way.
- Auditors—To substantiate their opinions and/or provide advice to management on internal controls.

With Increasing dependence of the business on information technologies (ICT), management of business ICTs system (MBICTS) is becoming a fundamental business imperative for the [1] effective and efficient use of the ICT in achieving their primary purpose - to make business success in an organization in terms of higher profits, competitiveness, improved services and other organizational performances.



In this article, including the tables and figures, the unique expression known as the system of information and communication technologies (ICTS) will be used instead of abbreviations IT (information technology), information and communication technology (ICT) and information system (IS).

The proof that world's leading global challenge in achieving business success of organizations relies largely on the ICT, in relation to the MBICTS, is confirmed throughout the number of relevant researches [2, 3, 13, 4, 35, 1, 6, 11, 9, 10] and everyday practices. According to the research by ITGI (2011) only 5% of business and ICT managers believe that MBICTS is not considered important for business success. [5] The high degree of awareness of the importance of an MBICTS is an encouraging fact, but insufficient itself that the organization has a good MBICTS. Any improvement initiatives of the MBICTS have to start by evaluating the achieved level of maturity of its processes. To this end, number of standards, frameworks and best practice methods are developed such as COBIT, ITIL, CMMI, ISO / IEC, TOGAF, PMBOK, IT BSC, and others.

The main objective of this paper is to highlight the importance and significance of the process MBICTS for business success, as well as to show how to diagnose the current state of evaluation of the level of maturity of ICT processes using the standard or process model of good practice. The administration and management of an organization which was subject of this research, have implemented Quality Management System (QMS) - ISO 9001. With reference to the awareness of importance of MBICTS for achieving greater business success, administration and management stressed a desire to start improving ICT processes and MBICTS in a systematic way. The work should, at least partially, answer the following questions:

1. How to evaluate the current level of maturity of ICT processes?
2. How to identify the ICT processes that need to be improved?

3. How to reach degree of alignment of ICT and business goals with assessment processes?
4. How important is the evaluation of ICT processes for business success?

The answers to these questions authors of this paper have investigated using the application of best practice tools. The motivation behind the research lays in the ITGI report (2011) [5] that discusses the global position of managing the business of ICT. The results of the research, which polled 834 business executives and ICT leaders in 21 countries and 10 industries, large and small organizations, are listed in Table 1.

**Table 1. Maturity level of the MBICTS in large and small organizations (Adapted by authors from ITGI (2011) [5]. The authors added 'the average' in this research)**

Maturity levels	<500 (%)	>=500 (%)	Average (%)
We do not think that is important	8,3	1,7	4,9
We understand this important question, but we are just beginning with assessment of what needs to be done	30,8	14,5	22,7
We are aware that this is important and we have a number of ad hoc measures	25,9	32,1	29
We have defined good measures and processes on the MBICTS	15,9	29,2	22,7
We have well-functioning management of processes and performance assessments	4,4	12,6	8,5
Our processes with respect to the MBICTS are continuously optimized based on the results of students' assessment.	7,3	7,1	7,2

Table 1 shows the results of research on the level of MBICTS process maturity in large (500 or more employees) and small organizations (with less than 500 employees).

Data from Table 1 that only 8.5% have a well-functioning management processes and measurement of ICT performance is the most significant result of this study.

## 2. REVIEW OF THE LITERATURE RELATED TO THE MSBICT

In many organizations, ICT has become a key factor in the support, sustainability and growth of the business [2] [3] [13] [4] [5] [1] [6] [11] [9] [10]. Pervasive use of technology creates a critical dependence on ICT and requires specific focus on the MBICTs [3]. Therefore, in order to achieve good results in the management of the ICTs, i.e. good MBICTs [6] provides optimized ICT investments, compliance of the ICTs and business strategies, delivering new value and risks within acceptable limits - taking into account the organizational culture, structure, maturity and strategy. After defined framework for a good MBICTs, the next step [6] is to establish a foundation on which to build the MBICTs. The foundation consists of three parts [6]: (1) understanding the maturity of MBICTs, (2) knowledge of how structural matters affect the MBICTs, and (3) understanding of the objectives of an MBICTs. To achieve these objectives it is necessary to quantitatively measure the creation of the ICTs value-added and risks of its application. For a complete understanding of the MBICTs processes, its structures and mechanisms, some important existing theories, frameworks, models and practices are presented. Forrester<sup>2</sup> recommends organizations that are in the process of developing an MBICTs framework, to evaluate the maturity of the MBICTs processes. In this study evaluation of the MBICTs processes maturity is conducted using COBIT processes maturity model.

To secure a success in implementing MBICTs model, organizations need to focus on continuous planning, monitoring and improvement of the management model. Experience of the authors (16) shows that ICT management, committee for audit and ICT control have to work continuously to improve the MBICTs model with the appropriate share of involvement of Board and senior management of the organization. The assessment of the ICTs processes maturity of the organization gives the opportunity to identify possibilities to improve the MBICTs model [7, 6, 3].

The first step in improving an MBICTs is to identify the state of its processes. Due to the complexity of the MBICTs processes, this article provides an answer to the question of how to make it work and how to measure its performance? Although it is difficult to provide an universal model applicable to any organization and all business environments in which it is available, the proposed COBIT processes maturity model may be the optimal solution, due to its comprehensive ICTs processes, given that 'covers' estimate of 34 ICTs processes, identifies the state of the chosen MBICTs model and finds strengths and weaknesses of the chosen MBICTs model. Although we cannot claim with certainty that it is the best solution for each situation, the MBICTs is an integral part of the corporate business management, and includes components of the ICTs management at all levels [2]. The framework that emphasizes the constructive approach to the design and the MBICTs implementation and develops the relation of corporate governance of an organization and the ICT has been developed by authors [2]. Similarly ITGI (2003) states in its probably the most cited definition of the corporate MBICTs that the MBICTs is within the jurisdiction of the Board and executive managers and is an integral part of organizational management. According to [4] the MBICTs is made up of the leadership, organizational structures and processes to ensure that ICT maintains and extends strategies and objectives of the organization. This is a reference definition of the MBICTs in this article. The main purpose and objective of the MBICTs, particularly of its key resources including governing mechanisms, management team and executive managers, is to bring business value to the organization and keep the risks at acceptable level. The key resources in the MBICTs are the following [2]:

- **People:** Their skills, careers, training, mentoring, and competency;
- **Finance:** Cash, investments, liabilities, cash flows, accounts receivable;
- **Properties:** The physical buildings, facilities, equipment, maintenance, safety of use;

- **Intellectual property:** The products, services, processes, know-how formally patented (copyrighted or embedded in the business);
- **ICTS and information:** Digital data, information and knowledge, process performance, funding ICTS;
- **Relationship of resources:** Relationships within the organization, as well as relations to brands, vendors and business units, and reputation among customers, regulators, competitors, and partners.

According to ITGI (2003), the purpose of the process is ICT guidance in an effort to meet its performance targets following [4]:

- Aligning ICT with the business and the realization of future benefits;
- Using ICT to enable business exploit opportunities and maximize benefits;
- Responsible use of the ICT resources and
- Appropriate management of the risks associated to the ICTS.

Stated set of objectives, according to ITGI (2003) [4], is possible to be achieved by interaction and ICTS activities shown in Figure 3.

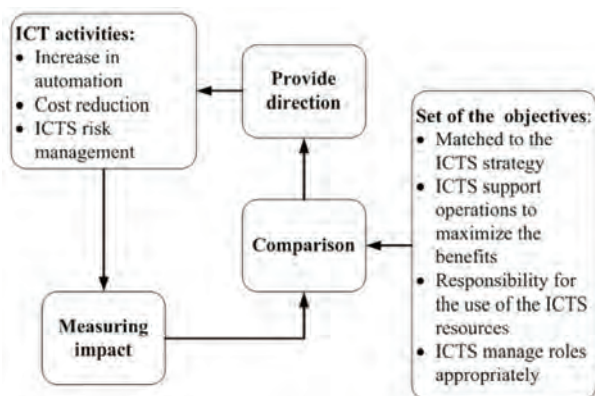


Fig. 3. Interaction of the ICT objectives and activities (Adapted by authors from [4])

For the interaction of the ICTS objectives and activities, organizations should define the MBICTS framework that will, in furtherance of good governance, implement processes of good practice, carry out constant monitoring and continuously educate management and users of the ICTS. An effective, good, and efficient MBICTS model can be only achieved

by competent managers at executive level of management, applying holistic and continuous management processes sticking to the framework and models of good practice. Only with such approach the MBICTS can achieve its base task - to bring new value and acceptable risk.

Effective MBICTS can bring to an organization up to 40% higher return of investment in the ICTS and at least 20% higher profit compared to organizations that have the same strategy, although weaker MBICTS [2]. Ineffective MBICTS, according to ITGI (2003), results in [4]:

- Business losses, damage to reputation or weakened competitive position
- Not meeting deadlines, higher costs than expected and lower quality than anticipated
- Negative impact of poor performance on the efficiency of the ICT operations and basic processes
- Failure of the ICT initiatives to bring innovation and deliver the promised benefits.

### 3. TARGETED AREAS OF THE MSBICT

The most important role within the MBICTS is to bring the new value and mitigate the risks [6]. According to ITGI (2011) [5], governance initiative of establishing MBICTS in a corporate have to be balanced with a holistic view on the five following main objectives of the MBICTS [4]: (1) Alignment of the ICTS and businesses; (2) Management of the associated ICTS risks; (3) Defining the responsibilities and checking the efficiency of the ICTS resources; (4) Realization of the ICTS business value, and (5) Continuous measurement of the ICTS performance, as shown in Figure 4.

Among these five MBICTS targets, the main focus of this article is to measure the ICTS performance as one of the main drivers of business success along with the alignment of the ICTS and business objectives. According to ITGI (2011) [5], performance measurement is related to the monitoring of the ICTS business objectives achievements related to services, ICTS solutions and compliance with the



business system. Without the measurement of the establishment and performance monitoring, it is unlikely that previous objectives could achieve their desired outcomes. Measuring performance provides a link to the focus on monitoring and other directions in creating the ability to undertake timely corrective action, if necessary.

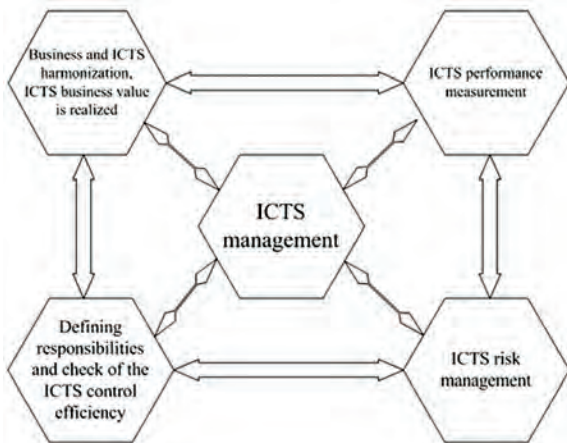


Fig. 4. Areas of the objectives related to the MBICTS  
[Adapted by authors from ITGI]

#### 4.1. SELECTION OF THE ICTS PROCESSES MATURITY LEVEL EVALUATION MODEL

In the selection of the evaluation methodology, the process of evaluation requires consideration of at least three factors including accuracy, cost, and the degree of damages of everyday operations of organization [14]. Mindful of this, the authors used two frameworks (both based/compliant with ISO/IEC 15504-2) in the analysis of model selection:

- CMMI (Capability Maturity Model Integration) DEV v.1.3 with the method of evaluation SCAMPI v.1.2 (Standard CMMI Appraisal Method for Process Improvement) and
- COBIT (Control Objectives for Information and Related Technologies) - Maturity Model.

The SCAMPI method of processes evaluation, distinguishes three different classes: (1) full evaluation - class (A), (2) temporarily profiling - class (B), and (3) mini evaluation - class (B and C). The SCAMPI Method (A) is used when the results of the evaluation itself

is a recommendation and step further in improvement of current processes, which is not in scope of this case study.

The purpose of the COBIT maturity level is a self-assessment of the processes maturity, and not the process improvement. The analysis of the COBIT model qualities corresponds to the characteristics of the SCAMPI (B), as shown in Table 2 [14].

Table 2. Comparative analysis of the attributes of the evaluation processes model-method

Type	Accuracy	Costs	Destruction
SCAMPI <sup>SM</sup> (B i C)	Moderate	Moderate	Moderate
SCAMPI <sup>SM</sup> (B)	Reasonable	low	low
SCAMPI <sup>SM</sup> (A)	high	high	high
COBIT	Reasonable	low	low

<sup>SM</sup> - Trademark of the Carnegie Mellon University.

In a situation where a sponsor wishes only maturity assessment, such as in this case study, the COBIT maturity model solution is optimal in relation to the advantages of the SCAMPI (B) and (B and C), due to a large number of defined processes (34 of them). Also, the choice of the evaluation model is affected by the character of the sponsors making the COBIT most appropriate maturity model, among all analyzed models. These reasons made authors implement the COBIT maturity model for the evaluation of the ICTS processes maturity in this study.

#### 4.2. REVIEW OF THE COBIT MATURITY MODEL

The COBIT 4.1 Maturity Model [12] earned the popularity in the business and ICT world by allowing the linkage of business objectives with ICTS organizations, and assesses existing quality of the ICTS by analyzing and measuring the quality of the processes maturity in all its parts. Although COBIT 5 PAM (Process Assessment Model) [13] provides a somewhat broader view at the ICTS processes evaluation due to its robustness, to apply COBIT 4.1 Maturity Model is more appropriate in terms of presenting the results in this case study.

The COBIT 4.1 maturity model that is compliant to the ISO/IEC 15504-2, provides an



opportunity for the Supervisory Board members and executive management to review the status of the all ICT processes - their strengths and weaknesses, and therefore the business side of the organization. The COBIT maturity model can describe in detail the state of the ICTS, and evaluate it according to process maturity scale from 0 to 5 (Figure 5).



Fig. 5. Scale rating by COBIT Maturity Model [19]

The supervisory board, administration and management are getting the clear picture of the process maturity level, and recommendations for improving the ICTS processes applying COBIT maturity models.

The initial phase of the COBIT methodology implementation begins with an assessment of the current state of the overall ICTS processes maturity in an organization. Based on the analysis of the results, the administration and management selects the process/es, which will be further analyzed and improved. Basically, the essence of concept of assessing the ICTS processes maturity levels is that simple criteria can distinguish different states of the ICTS organization, or any other segment of the businesses organization.

## 5. THE EVALUATION OF THE ICT PROCESSES MATURITY IN THE ORGANIZATION

This research mainly involves processing of the specific practices in order to show and demonstrate the application of the theoretical concept. In this paper, the authors presented an example of evaluation of the ICTS processes maturity level, applying best practices, based on research conducted in the particular organization in the public sector, which

‘covers’ the whole area of Federation of B-H, and performance of its ICTS and organizational structure. Name of the organization and its activity cannot be disclosed due to the NDA (Non Disclose Agreement) with the organization. Regardless of these circumstances, the research achieved its full capacity and with remarkable professionalism of interviewees who had a strong motive to get a clear picture of the MSBICT maturity level for the future business objectives of their organization. Otherwise, it is important to mention that this organization has implemented a quality management system (QMS), which further gives the higher importance of this research, due to the good practices achieve better results when combined. The goal of this paper is to show how the application of the model/method of the maturity best practice processes in the assessment of the ICTS processes maturity level in an organization, can help the Supervisory Board, the Board and management, defining the guidelines for further improving the management of the ICT processes in order to get a higher business success organization.

The goal of this paper is to show how the application of the best practices process maturity model/method to the assessment of the ICTS processes maturity level of organization, can help the Supervisory Board, the Board and management, defining the guidelines for further improvement of the MSBICT processes in order to get a higher business success organization.

Selection of the COBIT maturity models [12] was also performed due to its applicability in assessing the quality of the ICTS processes observed. This model is process-oriented and offers a wide range of the controls and assessment of the 34 key ICTS managing processes. For each process the detailed total of 318 goals and highly accurate tests are developed. These goals are farther focused on the elaboration of the problem - how to establish way of application total of 1547 monitoring controls.

### 5.1. SELECTION OF THE ICTS PROCESSES FOR EVALUATION

Selection of the processes that to be evaluated is the first and most important step in assessing the quality (i.e. maturity) of the ICTS. Although COBIT provides total of the thirty four (34) ICTS managing processes, in practice [3] has been shown to be the most frequently used fifteen (15) of them [15]. According to the COBIT framework process is defined as „a set of the activities that takes one or more types of inputs and creates an output that is important for the organization“[12]. Due to the fact that volume of this paper does not allow analysis of the all defined COBIT processes, this research will cover those fifteen (15) processes in the all four areas of the COBIT framework.

COBIT assumes the design and implementation of automated application controls to be the responsibility of IT, covered in the Acquire and Implement domain, based on business requirements defined using COBIT's information criteria, as shown in figure 6.

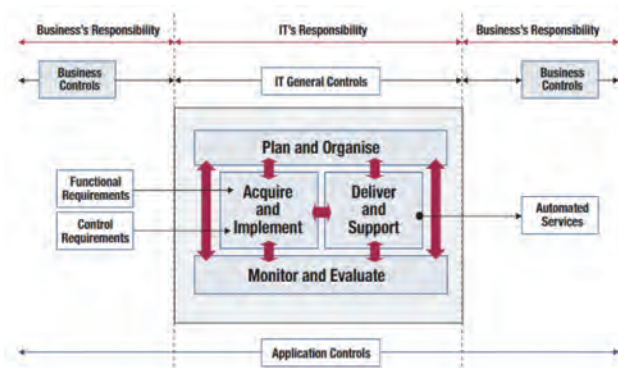


Fig. 6. Boundaries of Business, General and Application Controls [19]

The operational management and control responsibility for application controls is not with IT, but with the business process owner.

Among them being evaluated, the ICTS processes observed with the highest priority for the researched organization, are shown in Table 3.

Table 3. Analyzed COBIT processes

Area	Analyzed COBIT processes
Planning and organization (PO)	PO1 ICTS strategic plan defining PO3 Technological guidance determination PO5 Management of the investment in ICTS PO9 Assessment and management of the risks related to the ICTS PO10 ICT project management
Acquisition and implementation (AI)	AI1 Identification of the automatics solutions AI2 Application software acquisition and maintenance AI5 ICTS resources acquisition AI6 Change management
Delivery and support (DS)	DS1 Service level defining and managing DS5 ICTS security DS8 Support and incidents management DS10 Problems and incidents management DS11 Data management
Monitoring and evaluation (ME)	ME1 monitoring and evaluation of the ICTS success rate

### 5.2. THE METHODOLOGY OF THE SURVEY

The essence of entire research related to assessing and measuring maturity of the ICTS processes is to collect the evidence, based on which, the maturity levels will be assessed. For this reason, the special attention is paid to make the questionnaire, statements and explanations clear, concise, unambiguous, simple and logical. Also, the number of statements, i.e. questions, and their length were subject to careful selection to provide a positive feeling and enthusiasm of the interviewees to respond in best way and without much effort.

The main objective of this research was to collect reliable and valid data. Guided by this objective, to survey the competent interviewee was the first and foremost task. The level of competence of the respondents strongly influenced the reliability and validity of the data obtained.

Development of the questionnaire was based on the COBIT maturity model (COBIT 4.1, 2007) of each observed process and on the associated maturity levels of each process. The questionnaire was designed in a way that each

maturity level has its own scenario, which is described by adapted questions for each level of maturity. Each question is accompanied by a series of sub-questions and their explanations to provide a clear picture to interviewees. Each level of maturity is described through the statements that may get four different answers: YES, MOSTLY YES, MOSTLY NO and NO. To the each answer a numerical value was assigned, as shown in Table 4 (COBIT 5, 2011). [15].

**Table 4. Numeric values of the answers to the questions on maturity level alignment (Source: Adapted and prepared according to COBIT maturity model)**

Alignment with statement	Numeric value
NO	0
MOSTLY NO	0.33
MOSTLY YES	0.66
YES	1

**Table 5. Statement concept for description of the PO10 (ICT projects management) process**

Maturity level	Statement	Are You agreed?			
		NO	MOSTLY NO	MOSTLY YES	YES
0	Organization does not use ICTS project management techniques			0.66	
0	Organization does not use reports on project, effects of bad management, or failed project			0.66	
	<b>Total of the statements (maturity level 0): 2</b>	<b>0.00</b>	<b>0.00</b>	<b>1.32</b>	<b>0.00</b>
1	As a rule organization is aware of the need for structured ICTS projects				
1	Organization is aware of the risk of the bad project management			0.66	
1	Decision on use of the project management techniques is made by ICTS managers				1
1	As a rule ICTS projects are poorly defined				1
	<b>Total of the statements (maturity level 1): 4</b>	<b>0.00</b>	<b>0.00</b>	<b>0.66</b>	<b>3.00</b>
2	In organization there is developed awareness on project management importance			0.66	
2	Individuals take care on ICTS projects			0.66	
2	Basic metrics for ICTS project management are determined by management, but they are not used in practice		0.33		
2	There are initiatives for the ICTS projects management				1
2	There are activities for the ICTS projects management			0.66	
	<b>Total of the statements (maturity level 2): 5</b>	<b>0.00</b>	<b>0.33</b>	<b>1.98</b>	<b>1.00</b>
3	Process and methodology of the ICTS projects management are formally established			0.66	
3	ICTS projects are defined with appropriate business and technique objectives			0.66	
3	Stakeholders are involved in the ICTS projects management			0.66	
3	Organization, roles and responsibilities of the ICTS projects are defined			0.66	
3	ICTS project budget is defined			0.66	
3	Formal post-system implementation procedures of the ICTS projects are elaborated		0.33		
	<b>Total of the statements (maturity level 3): 6</b>	<b>0.00</b>	<b>0.33</b>	<b>3.30</b>	<b>0.00</b>
4	Success rate of the ICTS projects management is quantified and supported by metrics		0.33		
4	Expected performances and quality of the ICTS projects are accurately determined by management		0.33		
4	Projects are completely aligned with the ICTS strategy			0.66	
4	Management is fully aware of the projects application risk, their importance and opportunities that they offer			0.66	
4	Continuous project improvement becomes		0.33		
	<b>Total of the statements (maturity level 4): 5</b>	<b>0.00</b>	<b>1.32</b>	<b>1.32</b>	<b>0.00</b>

Maturity level	Statement	Are You agreed?			
		NO	MOSTLY NO	MOSTLY YES	YES
5	Very advanced understanding of the ICTS projects role in business		0.33		
5	ICTS project management is compared to the best practice organizations	0.00			
5	Important initiatives related to the ICTS projects are sponsored by management		0.33		
5	ICTS project risks and benefits are accurately defined, continuously controlled and introduced to the all parts of the organization		0.33		
5	Success rate of the ICTS project is often measured by independent experts	0.00			
5	ICTS projects gives a business competency advantage		0.33		
	<b>Total of the statements (maturity level 5): 6</b>	<b>0.00</b>	<b>1.32</b>	<b>0.00</b>	<b>0.00</b>

Each level of maturity is described with an average of 4-6 statements, and number of statements is in alignment with process in a way that each process is evaluated through 24-40 statement list.

In the example, which will be shown in full, we took the description of the maturity of IT processes according to COBIT maturity model "PO10 Managing of ICT projects." The reason for this choice of process is the fact that the estimated weakest grade (a system is only as good as its weakest part) and which, according to COBIT standards, belongs to the processes of the highest priorities for the operation of a number of processes in the organization.

The statement concept for description of the process, according to COBIT maturity model "PO10 Manage ICT projects" is given in Table 5.

The concept of a questionnaire for evaluating the level of process maturity, similarly to the previous table, and for all analyzed processes from Table 3, is designed to be forward-looking statements as they grow more complex level of maturity. In order to obtain accurate answers during the interview, each statement has been accompanied by technical clarifications to which the respondent argued in his/hers response. Also, authors were aware that the respondent does not find out, through the conversation, to which level of maturity statements belong. This ruled out the possibility of bias subjects that can be present when he knows the effects of the response to the final result. Likewise, the focus was on the

consistency of responses, ranging from low to high levels.

### 5.3. CALCULATING THE WEIGHT OF THE DATA COLLECTED

The next step, after collecting data, is their aggregation and normalization which gives the height of their contribution to the overall level of maturity of the observed processes. To calculate the level of process maturity (0-5) the authors used Pederivina methodology.

**Table 6. Counting of the aligned values of the PO10 process maturity levels**

Maturity level	Sum of numeric values of the statements on maturity level (A)	Number of statements on maturity level (B)	Aligned value of the statements on maturity level (A/B)
0	1.32	2	0.660
1	3.66	4	0.915
2	3.31	5	0.662
3	3.63	6	0.605
4	2.64	5	0.528
5	1.32	6	0.220

Calculation, [15] according to this methodology, harmonized value levels of process maturity "PO10 Manage ICT projects" is the first step in the process of calculating the level of process maturity, and the process is shown in Table 6.

Subsequent normalization adjusted value for each level, as shown in Table 7.



**Table 7. Counting of the normalized aligned value of the PO10 proces maturity level**

Maturity level	Aligned value of the statements on maturity levels (A)	Normalized aligned value of the maturity levels $[A/\text{sum}(A)]$
0	0.660	0.184
1	0.915	0.255
2	0.662	0.184
3	0.605	0.169
4	0.528	0.147
5	0.220	0.061
<b>Total</b>	<b>3.590</b>	<b>1.00</b>

**Table 8. Counting of the total maturity level of the PO10 process**

Maturity level	Normalized aligned value of the maturity levels (B)	Contribution (Maturity level *B)
	0.184	0.000
	0.255	0.255
	0.184	0.369
	0.169	0.506
	0.147	0.588
	0.061	0.306
<b>Total maturity level of the PO10 process:</b>		<b>2.024</b>

The total level of the PO10 process maturity (2.024) is calculated in Table 8, which, according to the COBIT maturity model, means that in the evaluated organization this process is at the second level of maturity or at the level of repeatable processes (see Figure 3).

The methodology used for the evaluation process "PO10 Manage IT projects" is fully implemented in the process of obtaining the results for the other processes listed in Table 3. After the procedures of all analyzed processes, numerical value is obtained by the total level of maturity of ICT processes in the observed association. However, that does not suggest much when the question is what needs to be done to improve certain processes. The next step, which should be taken, is the execution of a detailed analysis of all relevant factors that directly or indirectly affect the quality level of ICT processes. This analysis should identify, by priority, which processes should eventually improve because of their importance in achieving the business goals of the organization, or to point out the processes that are unreasonably high.

## 5.4. THE RESULTS OF THE EMPIRICAL RESEARCH

Maturity levels of the ICTS processes in the observed organization were calculated through the empirical research, based on the COBIT maturity model. The results of the maturity levels of the analyzed COBIT ICTS processes, obtained by empirical research, are listed in Table 9.

**Table 9. Maturity levels of the analyzed ICTS COBIT processes**

No.	Analyzed process	Maturity level
1	PO3 Technological guidance determination	3.484
2	PO5 Management of the investment in ICTS	2.043
3	PO9 Assessment and management of the risks related to the ICTS	2.171
4	PO10 ICT project management	3.638
5	PO3 Technological guidance determination	2.024
6	AI1 Identification of the automatics solutions	2.451
7	AI2 Application software acquisition and maintenance	2.176
8	AI5 ICTS resources acquisition	2.181
9	AI6 Change management	3.143
10	DS1 Service level defining and managing	3.948
11	DS5 ICTS security	3.937
12	DS8 Support and incidents management	3.040
13	DS10 Problems and incidents management	3.063
14	DS11 Data management	3.967
15	ME1 Monitoring and evaluation of the ICTS success rate	2.058
<b>Average value of the maturity levels of the analyzed ICTS COBIT processes</b>		<b>2.888</b>

## 5.5. ANALYSIS OF THE RESEARCHED RESULTS

By surveying fifteen (15) of the COBIT ICT processes, the average maturity level equals to 2.888, as shown in Table 9. That means the QMS of the ICTS processes in the respective organization corresponds to the level 2, or "repetitive" level (see Figure 3). Furthermore this means, according to COBIT Maturity Model for the

managing ICTS processes [11] the MSBICT processes exist in observed organization, but these are uncoordinated and run mainly by the ICTS services. Uncoordinated process often happens if a number of people performing the same tasks, and there is no system of supervision, coordination, or standardized procedures.

According to the COBIT Maturity Model, the diagram of the maturity levels of the analyzed COBIT ICT processes in this research is shown in Figure 7.

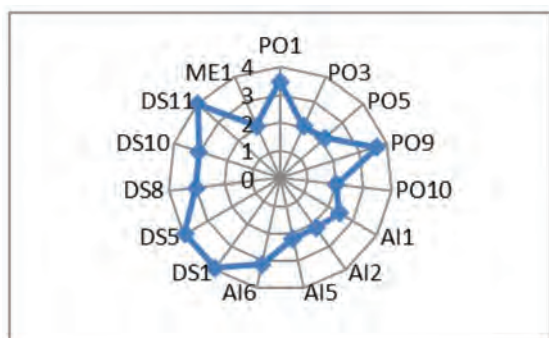


Fig. 7. Maturity levels of the COBIT ICT processes

At first glance, it appears that the evaluated MSBICT is one stable and high quality system with fairly balanced maturity levels of the processes (all processes are levels 2 and 3). For an organization in which the dependence of business on ICTS is not too high, this quality of the ICTS processes would be good. However, the present organization, in which a number of business processes are maximally relied on the ICTS that should respond to the demand of thousands of people every day, cannot be satisfied with this level of the MSBICT quality. Particularly it is case with the ICTS processes that decisively acts on the quality of the MSBICT, having score of a range of 2 to 2.2, such as:

- Management of ICT projects (PO 10),
- Determination of technological guidelines (PO 3),
- Evaluation and monitoring the success of ICT (ME 1)
- Investment Management in ICT (PO 5)
- Supply and maintenance of application software (AI 2).
- Procurement of ICT resources (AI 5).

Improving the first four ICT processes from the above list automatically would be improvement of the AI 2 and AI 5 processes, and contribution to the improvement of the remaining ICTS processes and the MSBICT process itself as an important factor of business success rate.

## 6. FUTURE WORK

Management of business information, to day, requires the processing of a large amount of data - Big data, exactly on time, with high reliability, with instant response speed and accuracy. These data are of crucial importance to managers in corporations and national governments. This is why new technologies are used that can meet all their requirements. This new data paradigm aims to transform the environment for socioeconomic policy and research, as well as managers for business management and decision-making. With Big Data analytics [20], many technical challenges can be analyzed, as well as economic issues can be solved effectively. Big Data analytics will change the landscape of business information management, economic policy and economic research. Just as there is no economic policy to be implemented by the government, it will be easy to operate an e-governance system using the latest developments in Big data. Big data analytics tools like Map Reduce over Hadoop and HDFS promise to better help organizations understand their customers and the market, which will hopefully lead to better business decisions, economic policies and competitive advantage. Thus, the Hadoop Framework was developed for ad-hoc parallel processing of unstructured data, using the MapReduce program model and the distributed file system HDFS (Hadoop Distributed Filesystem). Cloud Elastic MapReduce, also known as EMR, manages organizations' data in a wide range of scenarios, such as trend analysis, data warehousing, and online and offline data processing. EMR enables companies to use components of the Hadoop ecosystem. This architecture should be capable of managing the entire data lifecycle in an organization, including data ingestion, analysis, and storage,

among others. By using EMR, companies and organizations can instantly provision as much or as much capacity as they want to perform Big data-intensive tasks for such applications as web indexing, log file analysis, machine learning, data mining, financial analysis, scientific simulation, and bioinformatics research. EMR helps managers, analysts, developers, and data scientists prepare and visualize data, build applications, collaborate with colleagues, and do interactive analysis using EMR clusters. For example, Big Data approaches have been proven to improve forecasts of economic indicators such as the unemployment rate, help managers detect market trends so they can anticipate opportunities, and also help policymakers track the effects of a wide range of policies and public supports more quickly and more accurately.

## 7. CONCLUSION

Management can use the COBIT material to evaluate IT processes using the business goals and IT goals detailed in appendix I to clarify the objectives of the IT processes and the process maturity models to assess actual performance. Implementors and auditors can identify applicable control requirements from the control objectives and responsibilities from the activities and associated RACI charts.

Capability, coverage and control are all dimensions of process maturity, as illustrated in figure 14. The maturity model is a way of measuring how well developed management processes are, i.e., how capable they actually are. How well developed or capable they should be primarily depends on the IT goals and the underlying business needs they support.

The MSBICT process is ongoing and complex activity in each, in particular, in the organization with the pro-active role of the ICTS.

Analogously to the fact, this research is focused on how these activities more efficiently carried out in order to help the organization to achieve business success. This is the main objective of this paper. For this purpose, the authors investigated and used the tools of best practice. The survey was based in a public sector organization that 'covers' the whole area of the Federation of B-H. The research was performed at full capacity and with remarkable professionalism interviewed who had a strong motive to get a clear picture of the maturity level of the MSBICT for future business objectives of their organization.

Bearing in mind the motivation of the sponsor, character of an organization and pro-active role of the ICTS, the authors used COBIT framework to evaluate maturity level of the MSBICT processes. With the analysis of results obtained from the research and evaluation of maturity level of the MSBICT process, the question in the first part of the article has been answered. It is shown how to evaluate the maturity levels of the ICTS processes and with given evaluation how to identify the ICTS processes that need to be improved, and, improving them, how to increase compliance of the ICTS and business objectives as a key features for success of an organization. This research could be useful to all of those who recognize the importance of the MSBICT process as a basic and key factor for business success.

The objective of this article is achieved; the ICT processes that need to be improved for business success were identified. The authors proposed for future research application of the models of good practice on highlighted processes, for example, Information Technology Infrastructure Library, which would have been appropriate, given the nature of the observed service organization.

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## УПРАВЉАЊЕ ПОСЛОВНИМ ИНФОРМАЦИЈАМА И КОМУНИКАЦИЈАМА ТЕХНОЛОГИЈА

**Sažetak:** Polazna osnova za uspostavljanje dobrog upravljanja poslovnim informaciono-komunikacionim tehnologijama (IKT) je ocena dostignute zrelosti njenih procesa. Istraživanje predstavljeno u ovom članku fokusira se na merenje stepena zrelosti IKT procesa u organizaciji javnog sektora, koja 'pokriva' Federaciju Bosne i Hercegovine. Ovaj članak predstavlja jednostavan i fleksibilan model za merenje zrelosti IKT procesa kako bi se identifikovale njihove glavne prednosti i nedostaci. Predloženi model, koji je pomogao u postizanju rezultata istraživanja, poznat je kao model zrelosti COBIT. Prikazani model procenjuje zrelost IKT procesa i primenljiv je na druge organizacije, bez obzira na veličinu ili oblik vlasništva. Osnovna svrha ovog članka je da podstakne nadzorne odbore, menadžment i izvršno rukovodstvo organizacija, u cilju dobrog upravljanja poslovnim IKT, kao i na agilnost u prevazilaženju ovog problema.

**Ključne reči:** COBIT model zrelosti, IKT, MBICT



UDC: 338.1(497.11)"2023"  
 338.124.4:355.4(470:477)  
 COBISS.SR-ID 134010633  
 doi: <https://doi.org/10.61837/mbuir010223021m>

ORIGINAL SCIENTIFIC PAPER

RECEIVED: 06. 02. 2023.  
 ACCEPTED: 20. 04. 2023.

# MACROECONOMIC IMPACT OF THE CONFLICT BETWEEN RUSSIA AND UKRAINE TO THE GROSS DOMESTIC PRODUCT OF SERBIA

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**Abstract:** The conflict between Russia and Ukraine comes at a time when countries around the world are still recovering from the destabilizing effects of the global COVID-19 pandemic, which has caused deep economic regression, significant loss of productivity, worsening inequality, planetary pressures, and in some cases, security challenges. The economic impact reverberated through multiple channels, including commodity and financial markets, trade and migration links. At the same time, rising inflation is increasingly reducing the purchasing power of consumers. Such market tensions will reduce economic activity while accelerating inflation with the appearance of stagflation, where the state of the economy is characterized by a general jump in prices along with a drop in production. The direct effects of this conflict lead to macroeconomic instability. This conflict causes a jump in global prices, affects economies around the world, and it is expected that developing markets and countries in the European region, especially the countries of the Western Balkans, will bear the brunt. On the side of macroeconomic stability, the effects differ depending on their exposure to the market of Russia and Ukraine. True, the Republic of Serbia does not have significant, direct trade ties with Ukraine, but the conflict has put Serbia in front of new challenges, taking into account its energy dependence on Russia, as well as the agricultural sector, where products, primarily fruit, have a significant share in total exports to Russia. The key question that arises is in which direction the conflict will affect the macroeconomic stability of the Republic of Serbia.

**Keywords:** Conflict, Russia, Macroeconomics, Economy, Gross domestic product

**JEL classification:** E6, E7

## 1. INTRODUCTION

Numerous global economic crises of the 20th century made macroeconomic instability and its impact on GDP a key issue in the analysis of the determinants of economic growth. The multitude of ways in which macroeconomics affects GDP, its various causes, and the

range of methods by which it is measured make economic volatility a complex and multidimensional phenomenon. The fundamental challenge for economics is to understand the nature and causes of economic progress. We know that the total number of products and services produced in a country is the best measure of economic progress. An economy is like a machine

that transforms inputs into outputs, and the amount of input determines the amount of output. Thus, economic growth responds to changes in macroeconomic policy patterns. Therefore, we conclude that in order to achieve sustainable economic growth in the long term, macroeconomic stability is necessary.

Macroeconomic instability has stunted growth in many developing economies over the past two decades. As a result, states are looking through the economy for ways to better manage the economic factors that contribute to instability. Encouraging the creation of diverse financial markets, characterized by a wide range of financial institutions, may be one such option for better macroeconomic policy management. Greater institutional diversity could expand the reach of financial markets, thereby reducing liquidity constraints. And diversity can offer some insurance against the effects of boom and bust cycles in each type of institution, since each type of institution covers only a limited segment of the market. But greater institutional diversity could contribute to instability. This may especially be the case if states try to encourage institution building in otherwise underperforming markets through regulatory preferences and subsidies.

Macroeconomic instability has widespread and severe consequences. It tends to reduce long-term economic growth both domestically and abroad, as instability can spread to other countries due to trade and capital flows. Macroeconomic instability also negatively affects poor households more than higher-income households, as lower-income households have fewer ways to smooth consumption over time due to lack of access to financial markets, lower savings, and limited coverage.

The conflict in Ukraine has delayed the global response to the COVID-19 pandemic and the recovery of the global economy from it. Before the conflict, the world was focused on the health and economic challenges posed by the pandemic: reversing the severe loss of human capital and supporting the global economy amid an uneven recovery characterized by prolonged supply bottlenecks; withdrawal

of political support; rising inflation thereby including food and energy. The war has already added an immediate global negative impact, particularly through commodity markets.

The conflict worsens the short-term global economic outlook. It has significant economic spillovers through commodity and financial markets, trade and migration links, and investor and consumer confidence. Because of their significant direct trade, financial and migration links with Russia and Ukraine, countries in Eastern Europe are expected to suffer significant economic damage. Several major economies in Europe depend on Russia for natural gas and oil and will also continue to be adversely affected. Although most of the effects have so far been limited to the region, there are also important implications for the global economy.

Sharply higher food and energy prices are contributing to inflationary pressures and leading to expectations of a much faster tightening of monetary policy around the world. Moreover, since Russia and Ukraine are major exporters of raw materials that are upstream in many global value chains, shortages of these commodities could seriously affect a wide range of industries globally, including food, construction, petrochemicals and transportation.

The conflict has increased risks to global growth. This has increased the likelihood of acute financial stress in emerging markets and developing economies, dampening inflation expectations and widespread food and energy insecurity. A protracted conflict could increase global political uncertainty and lead to permanent fragmentation of global financial, trade and investment networks. Human capital would also be further affected, including in neighboring countries, and many others affected by spikes in food insecurity, especially for vulnerable households. The materialization of any of these risks could further degrade the underlying drivers of growth, weighing on long-term growth prospects, and increasing poverty and inequality.

## 2. THE INFLUENCE OF MACROECONOMIC FACTORS ON THE GROSS SOCIAL PRODUCT

To understand macroeconomics, we must first understand economics. The size of a nation's total economy is usually measured by its gross domestic product, or GDP, which is the value of all final goods and services produced in the country in a given year. Measuring GDP involves counting the output of millions of different products and services and all other non-financial products and services produced in the current year, and summing them up into the total value of a national unit of payment. For all countries, both developed and developing, one of the basic goals of macroeconomic policy is economic stability. With that, monetary and fiscal policy aims to maintain high growth rates in terms of gross domestic product together with low inflation through price stability.

Numerous factors influence the economic growth and development of the country, and one of the most important is the gross domestic product (GDP). On the other hand, many factors also affect the gross domestic product, which are important for the functioning of the economy: market openness, supply and demand for products and services, unequal distribution of income, population, political situation, etc. Natural factors have an equally important impact on economic growth: climate change, diversification and sustainable development. The effects of these factors directly affect macroeconomic stability and its impact on the country's economy. Literature on all these factors is available but very scattered.

One of the factors that influence the macroeconomic instability of a country and its impact on GDP are structural factors, that is, vulnerability from several factors that are related to economic political resilience. As far as structural factors are concerned, the difference is between the size and frequency of shocks (commercial or natural) and the country's exposure to such shocks. Factors affecting exposure to shocks (such as population size,

degree of economic diversification, distance from global markets, and geographic isolation) increase the propensity of economies to suffer shocks and the negative impact of such shocks on GDP. Macroeconomic stability is affected by the negative relationship between access to global markets and macroeconomic instabilities.

"Countries that are isolated from global markets tend to lack diversity in terms of exports and experience greater macroeconomic instability in relation to GDP. As for the resilience of individual countries, although it depends to some extent on structural factors, it is primarily related to economic policy and institutions" (Miljković, A., Miljković, Lj., 2010). As a result, development strategies must focus on foreign trade, procyclicality and countercyclicality of economic policy, and the quality of crisis management can determine the magnitude of instability experienced by countries and its impact on their development. The second set examines the sources of macroeconomic instability. They distinguish between external forms (exports, global prices, terms of trade or international interest rates) and internal forms (such as economic policy, agricultural production and natural or climatic disasters).

Similarly, it is possible to distinguish between exogenous sources of macroeconomic instability (related to international trade, agricultural production and natural disasters) and endogenous sources (related to economic policy instability or domestic socio-political conditions). Finally, several studies distinguish between so-called "normal" fluctuations and "crisis" fluctuations, the magnitude of which exceeds a certain threshold. Economic Vulnerability of Developing Countries highlights the significant contribution made by the size and frequency of external and natural shocks to the structural vulnerability of developing countries.

When analyzing the relationship and possible effects of macroeconomic factors on the GDP of the countries of the Western Balkans, it is necessary to take into account the unfavorable structure of foreign direct



investments, export/import, instability of political and social conditions, (non)compliance of legislation with EU regulations and directives, as well as many others factors, positive effects of the analyzed phenomena on GDP cannot be expected in a short period of time. (Estrin, 2013)

The economy of the Republic of Serbia has experienced significant changes in trade, fiscal, industrial, agricultural and financial policies in the last two decades. Nevertheless, the growth trend and structural changes of GDP in Serbia are still not satisfactory. Many problems are responsible for this unsatisfactory GDP: lack of domestic food production, narrow export structure, increasing import growth rate, failure to attract more foreign direct investment, dysfunctional banking system with cumulative interest on loans, continuous loss in public enterprises, poor infrastructure, ineffective taxation, high inflation rate, political instability and serious deterioration of the law and order situation. The Republic of Serbia has adopted a set of short-term and medium-term economic management. External factors such as exports, imports, foreign aid have always played an important role in the Serbian economy, although the relative importance of various external factors has changed over time. Serbia's economy is growing at 4 to 5 percent per year despite inefficient government-controlled enterprises, delays in the exploitation of natural gas resources, insufficient electricity supply and delayed implementation of economic reforms.

"Recent analyzes of the global financial and economic crisis include the possibility that the crisis itself has bottomed out and that the worst is behind us. However, since most analysts agree that this crisis will be Z-shaped, it is possible that we will face another falling before the final recovery. This opinion is shared by some of the leading officials of financial institutions, although they do not rule out the hypothesis that the recovery and the end of the recession may take several years". (Miljković Lj. M. D., 2012)

### 3. ECONOMIC CONSEQUENCES OF THE RUSSIAN - UKRAINIAN CONFLICT

Escalating conflict in Ukraine has caused turmoil in financial markets and dramatically increased uncertainty about the recovery of the global economy, two years after the start of the COVID-19 pandemic. Given that Russia is the world's third-largest oil producer, second-largest producer of natural gas, and among the world's top five producers of steel, nickel, and aluminum, any significant reduction in energy supply and metal shipments is very likely to lead to a spike in global prices for these products.

For this reason, on the day the conflict began, financial markets around the world began to plummet, and the prices of oil, natural gas, metals and food products (especially grains) rose. While high prices of key products are one of the risks we have already identified as potentially hindering the recovery, the escalation of the conflict between Russia and Ukraine increases the likelihood that prices of critical products will rise further. In turn, this increases the threat of prolonged high inflation, not least for basic needs, thus increasing the risk of social unrest in both advanced and developing economies. Industries such as automotive, transport, chemical and generally all sectors that use the above raw materials as inputs appear to be particularly vulnerable.

Many countries reacted immediately after the crisis by easing monetary policy by pumping large amounts of money at very low interest rates into insolvent banks and other financial institutions. Fiscal policy has stimulated economic activity, but for long-term recovery, the overall stabilization of the financial system is necessary, creating conditions for faster economic growth and its encouragement of investment in infrastructure and human resources as key factors of long-term growth and unemployment reduction. Addressing macroeconomic imbalances is essential to reduce the possibility of future crises. (Miljković A., 2013)

While the economic fallout will be felt mainly through rising commodity prices, fueling



pre-existing inflationary pressures in much of the pre-conflict world, falling demand from Europe will disrupt global trade. As always when product prices rise, energy and food importers will be particularly affected, and even more so in an environment of uncertain and volatile prices, with the prospect of major disruptions in supply in the event of further escalation of the conflict, and further sanctions and retaliation by each country could undertake.

### 3.1. MACROECONOMIC FACTORS AFFECTING GDP

Exports to Ukraine and Russia have fallen significantly and are likely to decline further as a result of a combination of EU sanctions and restrictions imposed by the Russian government and supply issues. Evidence suggests that, even in the absence of legal restrictions, European firms are already reluctant to trade with Russia, fearing legal and payment problems.

According to EU trade statistics, exports of goods to Russia amounted to EUR 89 billion in 2021; and if they stopped, which is an unrealistic assumption, it would, under equal conditions, lead to a decrease in the total demand for goods from the EU. A decrease in goods exports to Russia by 50 percent would reduce aggregate demand by 0.3 percent of GDP. The European Union also accounts for three-quarters of foreign direct investment in Russia, totaling more than 300 billion euros. Assuming that half the value of this investment will be lost, this would represent about 1% of the EU's GDP and less than 2% of its direct investment towards Russia. Although significant for several banks and companies, such a loss cannot be considered of major macroeconomic importance. (EU, Joint European Action for more affordable, secure and sustainable energy, 2022)

Evidence suggests, however, that this is unlikely to lead to major problems for the EU's financial system. Branches of Russian banks have already been closed and liquidated without endangering the financial system. The import of non-energy and non-food products from Russia and Ukraine is of minor economic importance. However, their disruption may

contribute to the wider disruption of supply chains from the pandemic.

**Refugees.** The flow of refugees from Ukraine has reached 4.6 million people (not counting the 7.1 million displaced persons in Ukraine) at the time of writing, mostly women and children. Estimates of the annual fiscal costs of providing accommodation, food, healthcare and education to refugees vary from 9,000 to 25,000 euros per person per year. Assuming a cost of €10,000 per refugee (per year), the cost of financing 5 million refugees for one year is €50 billion, or 0.35 percent of EU GDP. (UNHCR, 2022)

The outflow continues (albeit at a slower pace), so 5 million, and possibly more, is a likely number. This is a human drama of gigantic proportions and presents great problems in organization and distribution across countries. However, the likely macroeconomic costs appear relatively limited. Even this number overestimates the cost, because in a few months some refugees will return, some will find work, and some will emigrate from the European Union.

**Food.** Russia and Ukraine are major producers and, more importantly, major exporters of food, especially wheat. "According to data from the Food and Agriculture Organization (FAO), Russian and Ukrainian wheat exports accounted for 23 percent of world exports and 7 percent of world production in 2019. In Ukraine, planting for the next harvest can be difficult. Distribution problems, given fighting in ports along the Black Sea may further reduce exports. The market price of wheat has already risen nearly 50 percent from \$7.70 a bushel before the war to \$11, a level last seen for just a few days in 2008." (FAO, 2022)

Since the European Union is an exporter of agricultural products, global price increases could improve its terms of trade. However, there are two important caveats. The first is that the loss to EU consumers (as opposed to the European Union as a whole, i.e. producers and consumers together) can be large. The second is that elevated food prices are already having dramatic consequences for many

emerging markets and developing countries, affecting their growth and macroeconomic stability, and in turn potentially affecting the European Union.

**Oil and gas.** Energy data is easily confusing due to the heterogeneity of measurement units, so a brief summary of the situation is a useful starting point. EU energy supply (excluding the UK) relies essentially on oil (33 percent, virtually all imported), gas (24 percent, primarily imported) and coal (12 percent, primarily imported). Other sources include renewable (domestic), nuclear (essentially domestic, as fuel alone is a small part of the total cost) and imported electricity.

Before the conflict, the Russian export price closely tracked the global market price for Brent, an indication of high substitutability. Since Russia is one of the many suppliers of oil to the European Union, we assume that the smaller imports from Russia to the EU can be replaced by imports from other countries. And lower Russian exports to the West can be partially offset by purchases from India and China.

Unlike oil, the gas market is regional. Broadly speaking, there are three global markets: Europe, North America and Asia. The relevant market for discussing the impact of EU sanctions is therefore the European market, not the world market. "Gas is used in electricity production (1/3), in industry and services (1/3), and in households (smaller third)". It is highly substitutable in some of its uses (gas-fired electricity can be replaced by electricity generated from other sources), much less so in others (a gas-fired heating system cannot burn oil or coal). "On average, Russian gas accounts for 8.4 percent of primary energy supply in the European Union, but there are large variations among member states. For example, Portugal does not import any gas from Russia, but in Hungary, Russian gas accounts for 28.5 percent of primary energy supply". (Pisani-Ferry, 2022) Although not fully interconnected (Spain and Portugal, for example, have limited pipeline connections to Northern Europe), price differences in the European Union can

be largely arbitrated through internal transactions on imports from the rest of the world.

**Inflation.** The immediate and most visible macroeconomic effect is inflation. The effect can be quite large. "In 2021, electricity, fuel for heating and fuel for transport accounted for 9.6 percent of personal consumption expenditures in the Eurozone, and food represented 15.7 percent of the consumer basket on average." (PKS, 2022) Overall, the share of consumption that is directly affected by price increases is high. Empirical estimates generally show that the transmission of commodity price increases to consumer prices is partial but rapid.

Producers using energy or agricultural products as inputs raise their prices to restore their margins. Workers whose wages lagged behind consumer prices in the first round are demanding an increase in nominal wages to restore their real wages. This leads to further increases in prices and wages. All this depends on how hard companies try to restore margins and how hard workers try to maintain their real wages. Ultimately, if commodity prices remain high, inflationary pressures cease only when companies using these products accept lower margins and/or workers accept lower real wages.

### 3.2. GLOBAL MACROECONOMIC EFFECTS ON GDP

GDP forecasts for 2022 will certainly be reduced in light of the Russian-Ukrainian conflict. Production in the war zone will be directly reduced, while economic sanctions will impose costs on Russia and its trading partners. Higher food and energy prices will devalue income realities and reduce consumption and investment worldwide, which in turn will reduce global import demand. A small number of food and energy exporters may benefit from these price movements, but for most countries and the global economy they are net negative.

The International Monetary Fund's (IMF) latest forecast earlier this year predicted global GDP would grow by 4.4 percent at purchasing

power parity in 2022, but a recent estimate had global output growing at just 3.2 percent this year. There is an unusually high degree of uncertainty associated with this projection, which is based on limited data and strong assumptions. As a result, it should be interpreted with caution. (MMF, 2022)

Using a global economic simulation model, the World Trade Organization (WTO) predicts that the crisis and related policies could reduce global GDP growth by 0.7-1.3 percentage points, bringing growth to somewhere between 3.1 and 3.7 percent. The model also predicts that global trade growth could be cut in half this year, from the 4.7 percent the WTO forecast last October 2 to between 2.4 and 3 percent. (Góes, 2022)

Some regions will be more affected by the war than others. Europe, as the main destination for Russian and Ukrainian exports, is likely to experience the brunt of the economic impact. Reduced shipments of grain and other foodstuffs will also push up agricultural prices, with negative consequences for food security in poorer regions. Apart from these first-order effects, economic sanctions could lead major economies to move towards separation based on geopolitical considerations, with the aim of achieving greater self-sufficiency in production and trade. This second-order effect would ultimately be a waste, as it would reduce long-term economic growth by limiting competition and stifling innovation.

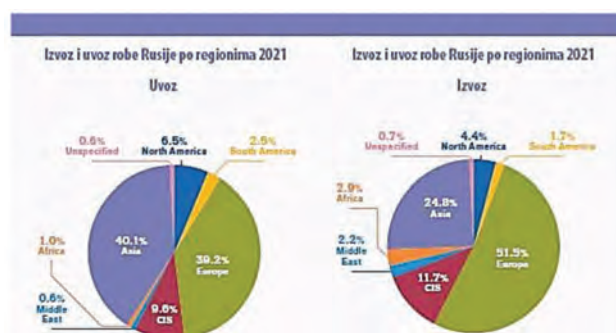


Figure 1. Export and import of products from Russia by region (STO, 2021)

The main impact of the conflict between Russia and Ukraine on the world economy is reflected in higher energy prices and weaker

confidence and financial markets, supported by strong international sanctions against Russia. Ukraine is not a significant trading partner of any major economy, Russia has a large exposure to the European Union and Great Britain. "Countries such as China, the USA, Germany, France and Italy represent one of the main import partners for Russia, where Russian product demand accounts for between 1-3.7 percent of its GDP. Russia's share of global GDP is expected to increase in 2022. will be 1.6 percent, according to the International Monetary Fund, while it is predicted that Ukrainian economic output will make up 0.2 percent of world output". (MMF, 2022) While the Ukrainian and Russian economies in aggregate are small relative to the global economy, they are significant in some key areas, particularly energy and food. The impact of the conflict on commodity prices, and thus on household consumption, is more important than potential contagion through trade links with other countries.

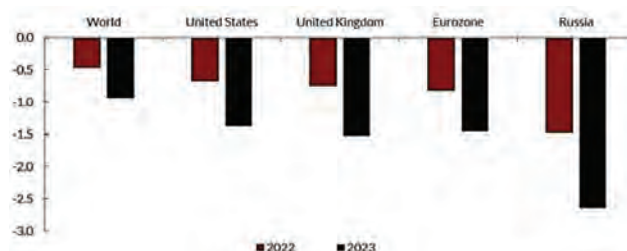


Figure 2. GDP movements due to conflicts for the global economy (EU, REPowerEU: Joint European Action for more affordable, secure and sustainable energy, 2022)

All in all, we see that the conflict contributes to the decline of GDP in the world, and especially in Russia. Global inflation will rise due to higher import prices and higher inflationary expectations. The negative effect will result in lower confidence, lower real incomes and disrupted trade. The overall effect on GDP will not be fully mitigated by higher revenues from energy exports. If the sanctions were extended to energy imports, the implications for the global economy would be much more severe, but the cost would still be higher energy prices and a greater blow to growth, increasing the chances of a recession accompanied by significantly higher inflation.



#### 4. MACROECONOMIC EFFECTS ON GDP IN EUROPE

Given the highly uncertain environment, several risks stemming from the conflict and protracted pandemic that could undermine growth stand out. The most worrying risk is the sudden stop of energy flows, however, we can also identify other negative risks, such as an increase in the risk of social unrest (due to higher food and energy prices, the risk is prevalent in countries hosting a large number of refugees) and the still existing risk from another wave of the highly contagious strain of COVID-19.

The main channel through which the conflict in Ukraine and sanctions against Russia affect the Eurozone economy is the rise in global energy prices and energy security. Because they are energy importers, higher global prices represent a negative terms-of-trade shock for most European countries, leading to lower output and higher inflation. Supply chain disruptions have also hurt some industries, including the automotive sector as the war and sanctions have further hampered the production of key inputs.

As a result, euro area GDP growth in 2022 has been revised down to 2.8 percent (1.1 percent lower than in January), with the biggest declines in economies such as Germany, Italy and France with relatively large manufacturing sectors and higher dependence on energy imports from Russia. Across the eurozone, the impact on activity was partially offset by increased fiscal support. In the UK, GDP growth for 2022 has been revised down to 1%, with consumption forecast to be weaker than expected as inflation erodes real disposable income, while tighter financial conditions are expected to cool investment. (OECD, 2022)

According to forecasts, EU countries will spend more than 9% of their GDP on energy in 2022. This is the largest share in 40 years and more than double the predicted rates, although two years ago the figure for both economies was around 2%. Higher product prices are exacerbating already high inflationary

pressures around the world. According to the European Central Bank, half of the recent rise in inflation was driven by higher energy prices. (ECB, Update on economic, financial and monetary developments, 2022)

“As a result of the sharp rise in commodity prices, the growth index of industrial production prices in the Eurozone countries in March 2022 was 30.9%, and in April it rose to 33.5%. At the end of March 2022, inflation rose for another month in a row and amounted to 7.8% in the EU, while the most affected countries were 15.6% in Lithuania, 14.8% in Estonia, 11.5% in Latvia and 7.6% in Germany”. (ECB, Results of the ECB Survey of Professional Forecasters for the second quarter of 2022, 2022b) “Consumer prices in Europe rose by 2.5 percent in March 2022 compared to February, seasonally adjusted. However, despite inflation already being high and rising in March 2022, the inflation rate continued to rise in April, to 8.1% (by 0.3 percentage points), to 16.6%”. (ECB, Survey of Professional Forecasters, European Central Bank, 2022b)

The IMF's latest regional economic outlook for Europe is assumed based on assumptions and identified transition channels, where GDP growth of 3.0% is predicted in developed European economies. Some of Europe's largest economies, such as France, Germany and Italy, are forecasting very weak or negative quarterly growth in mid-2022. This stall in the recovery is hidden in the annual growth projections for these economies due to a large carryover from 2021. Also, as mentioned earlier, higher product prices and supply disruptions are creating inflationary pressures, which should lead to average inflation reaching 5.5% in 2022 (up 2.2 percentage points from World Economic Outlook projections from January 2022). Inflation is predicted to grow more in countries where food and energy represent a larger share in consumer baskets (Romania, Slovak Republic and Spain), and in countries where exchange rates have weakened (Hungary, Poland and Turkey).

Summarizing this section, we note that the increase in inflation in 2021 and 2022 is mainly



due to the increase in demand and, accordingly, the increase in energy prices. The main factors that can affect the persistence of high inflation, and even its increase, are shocks in the prices and supply of energy and other goods and basic goods. The rate of inflation in the EU and a number of other countries may remain high for several years or longer and pose a significant threat to both countries' economies and companies.

## 5. THE MACROECONOMIC IMPACT OF THE CONFLICT ON THE GDP OF THE REPUBLIC OF SERBIA

The state of the economic environment depends on the totality of macro and micro economic parameters on which the coordinated action of the state and individual circles according to these parameters should ensure such a sustainable economic development of the country or region, it is necessary to have a good resource base and an appropriate macroeconomic policy, and to support sustainable competitive winners through continuous raising total productivity. (Miljković Lj. T. D., 2021)

Covid-19 and the conflict between Russia and Ukraine, according to the available data, had less of an impact on Serbia compared to most European countries, due to the achieved macroeconomic and financial stability, growth momentum, fiscal space created in previous years, a large and timely monetary and fiscal package and the structure of the economy. The economic policy measures adopted by the state minimized the drop in GDP in 2020, while additional aid packages in 2021 contributed to further growth of GDP and its return to the path of sustainable growth in the medium term. The recovery of GDP to the pre-crisis level was already achieved in the first half of 2022, while according to the data of the Republic Institute of Statistics (RZS), real GDP growth at the beginning of 2022 was higher than planned. Such developments are the result of growing activity in industry, construction and the service sector.

**Inflation.** Inflation is driven by food and energy prices. Higher inflation in the first half

of 2022 is a consequence of rising food and oil prices on the world market. "Average inflation in 2021 was 4.0%. Total inflation until June of this year was 11.9%. About 70% of year-on-year inflation is conditioned by factors that monetary policy cannot greatly influence, food prices and energy. Core inflation in the first half of 2022 was lower than overall inflation and amounted to 6.7%, which was contributed by preserved relative stability of the exchange rate and preserved business and consumer confidence. Short-term inflation expectations of the financial sector hovered around 6.0 %. Medium-term inflation expectations of the financial sector ranged between 3.5% and 4.0%". (NBS, Pregled dešavanja na svetskom finansijskom tržištu, 2022)

The key uncertainties of the projection arise from the ongoing conflict in Ukraine, geopolitical tensions and their impact on the prices of energy, grain and other products, the price of metals and other raw materials in the future. Risks also arise from the impact of the conflict on the global economic recovery and the duration of disruptions in global supply chains, and are also related to the domestic market, the agricultural season and the movement of regulated prices. Overall, projection risks are elevated and tilted to the upside.

**Gross domestic product.** In the coming years, Serbia will maintain strong, sustainable and broad growth, with GDP growth in 2022 revised in the range of 3.5%-4.5%. "Medium-term growth between 4%-5% According to RZS data, in 2021, Serbia achieved real GDP growth of 7.4 percent, fueled by the recovery in the service sectors, as well as the growth of construction and industrial production. GDP growth it was 4.4% in the first quarter of 2022. Growth of at least 4% is expected in the second quarter, driven by service sectors and industrial production, despite the conflict between Russia and Ukraine, which has negatively affected supply chains as well as product prices Bearing in mind the uncertainty regarding the further duration of the conflict, as well as the economic effect of rising energy, food and product prices on world markets, they revised

down the GDP growth projection for 2022 from a range of 4-5% to a range of 3, 5-4.5%. (eKapija)

Growth is expected to be driven by higher growth in the service sectors, as well as construction and industrial production. In the conditions of the conflict between Russia and Ukraine, the risks of the projection being tilted downwards are assessed. This particularly applies to the supply chain disruption, the energy crisis and the prices of primary products, as well as the pace of normalization of the monetary policy of the major central banks.

**Macroeconomic and financial stability.** In the period January-May 2022, the inflow of foreign direct investments (FDI) amounted to 1.14 billion euros (net inflow 1.0 billion euros), and a full recovery was recorded in May. The processing sectors with the largest inflow of foreign direct investments (metals, cars, food, rubber and plastics) recorded high growth in employment, production and exports. Serbia attracted about 60% of total investments in the Western Balkans region. In 2021, the inflow of FDI amounted to a record high amount of 3.9 billion euros (net inflow 3.6 billion euros). In the first five months of 2022, Serbia's balance of payments amounted to 2.3 billion euros. Taking into account the growth in prices of energy, food, manufactured goods, metals and industrial raw materials, the projection was revised to 6.5% of GDP. The temporary widening of this gap in 2022 was fueled by global price growth and, on the other hand, the growth of savings in conditions of increased uncertainty. (NBS, Inflation Report, 2022)

Fiscal deficit in 2022 smaller than planned; Public debt is back on a downward trajectory. Fiscal deficit in the first quarter of 2022 driven by capital expenditures and fiscal support to the population. In 2021, the fiscal deficit amounted to 259.4 billion dinars (4.1% of GDP). The deficit was most affected by the new stimulus package in the amount of 2.2 billion euros (4.2% of GDP). (Fiskalni savet, 2022). In the first half of 2022, a consolidated deficit of 58.8 billion dinars was recorded, while the projected deficit is 3.0% of GDP and

its return to 1.0% of GDP in the medium term. The share of public debt in GDP at the end of May 2022 was 52.3% and thus decreased compared to April, primarily due to the reduction of dinar debt. Public debt is expected to return to a downward trajectory in the coming years with further reliance on dinar and euro debt and a reduction in currency risk.

**Import/Export.** During the pandemic and crisis in Ukraine, new investments and continued expansion of export capacities will ensure high export growth in the medium term. The projection reflects that the new investment cycle will be reflected in the increased import of equipment and raw materials. "The first half of 2022 saw a 32.5% increase in exports of goods, driven by growth in manufacturing and mining exports. Exports of services increased by 34.7%. Imports of products increased by 46.9% during the first five months of 2022". (Rančić J., Stojanović B., 2022) Intermediate products made the biggest contribution, partly due to the rise in energy prices. Serbia's exports are mostly directed to the EU and the countries of the region, and it relies on demand in those countries that recovered during 2021. By country, the largest share of exports was made to Germany (12.7%), followed by Italy (8.5%), Bosnia and Herzegovina (7.2%), Romania (5.5%), Hungary (5.0%) and Russia (3.9%). Exports to China in 2021 continued to grow in comparison to 2020, while recording growth in 2022 as well, so that China is highly positioned on the list of Serbian export partners. (RSZ, Publikacije, 2022)

**Job market.** According to the employment office, the unemployment rate in the first quarter of 2022 decreased by 2.2% compared to 2021 and amounted to 10.6%, which is below the average for the entire year 2021 of 11.0%. The employment rate was 49.3%, which is an increase of 3.0% compared to the same quarter of the previous year, with an increase in the rate of informal employment from 10.9% to 13.3%. Nominal wages continued to grow faster than annual inflation, which continued real wage growth and preserved the disposable income and purchasing power of the population. The

real growth of the average net salary in April 2022 is 2.6%. (RSZ, Kretanja na tržištu rada u prvom kvartalu 2022., 2022)

## 6. CONCLUSION

During the pandemic, the Serbian economy ended with a minimal recession, since the state used most of the available fiscal space for the beginning of the pandemic. The impact of the program on the economy and living standards was favorable, but there was a significant fiscal cost. With limited room for future stimulus packages, further reforms are needed to return the economy to sustainable growth and to secure jobs and incomes while strengthening resilience to shocks. Due to the negative effect of the conflict between Russia and Ukraine and the uncertainty regarding its duration and the economic effect of further EU sanctions against Russia and Russia's countermeasures against the EU, GDP growth projections for the second part of 2022 have been revised downwards. For the same reasons, the new average inflation forecast is on a higher path compared to the planned one. In 2022, the current account deficit is expected to increase, but it will remain within sustainable limits. Thanks to production and geographical diversification and export-oriented investments, at the beginning of 2022, the export of goods increased by as much as 29.1%. Higher inflation in the first half of 2022 is a consequence of the rise in food and world oil prices. On the other hand, thanks to preserved foreign exchange and macroeconomic stability, core inflation remained stable and was lower than overall inflation, which was contributed by the preserved relative stability of the exchange rate and preserved business and consumer confidence. Real GDP growth was fueled by a recovery in the service sector, as well as growth in construction and industrial production. GDP growth in the first quarter of 2022 was driven by service sectors and industrial production, despite the conflict between Russia and Ukraine, which negatively affected supply chains as well as product prices.

The fiscal deficit increased significantly in 2022 and reached an estimated 8.1 percent of GDP. This increase is primarily the result of a large fiscal stimulus program. Public debt is estimated at 58.2 percent of GDP by the end of 2022. The dinar remained mostly stable against the euro, supported by significant interventions by the NBS in the foreign exchange market (the NBS sold reserves worth 1.5 billion euros in 2022). In July 2022, the NBS decided, for the fourth month in a row, to increase the reference interest rate, driven by persistently high global upward cost pressures due to international energy prices, primary agricultural products and industrial raw materials, as well as prolonged disruptions to global supply chains, while taking into account the preserving the continuity of economic growth. The stability of the banking sector has been preserved and additionally strengthened.

Urgent focus is needed on measures to improve the business environment and governance in order to reduce the cost of doing business and ensure safety and security, as well as efforts to improve the quality of infrastructure. The pace of labor market recovery will be critical to continued poverty reduction. The new package is expected to support citizens and the economic recovery, although poor and vulnerable households, which are more dependent on self-employment and less secure jobs, may take longer to recover their income levels. Bearing in mind the uncertainty regarding the further duration of the conflict, as well as the economic effect of rising energy, food and commodity prices on world markets, they revised the GDP growth projections for 2022. In the conditions of the conflict between Russia and Ukraine, assessing the risks of the projection being tilted downwards. This particularly applies to the supply chain disruption, the energy crisis and the prices of primary products, as well as the pace of normalization of the monetary policy of the major central banks. In the medium term, the Serbian economy is expected to return to its pre-Covid-19 growth pattern. However, some challenges limiting growth in both the short and medium and long



term will remain. Most importantly, Serbia needs to continue its efforts to remove the bottlenecks to private sector growth stemming from a deteriorating governance environment,

underdeveloped infrastructure and an underformed education sector that creates growing concerns about skills mismatches.

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## MAKROEKONOMSKI UTICAJ SUKOB IZMEĐU RUSIJE I UKRAJINE NA BRUTO DOMAĆI PROIZVOD SRBIJE

**Sažetak:** Sukob između Rusije i Ukrajine dolazi u trenutku kada se zemlje širom sveta još uvek oporavljaju od destabilizujućih efekata globalne pandemije COVID-19, koja je izazvala duboku ekonomsku regresiju, značajan gubitak produktivnosti, pogoršanje nejednakosti, planetarne pritiske, a u nekim slučajevima i bezbednosni izazovi. Ekonomski uticaj je odjeknuo kroz više kanala, uključujući robna i finansijska tržišta, trgovinske i migracione veze. Istovremeno, rastuća inflacija sve više smanjuje kupovnu moć potrošača. Ovakve tržišne tenzije će smanjiti privrednu aktivnost uz ubrzavanje inflacije sa pojavom stagflacije, gde stanje privrede karakteriše opšti skok cena uz pad proizvodnje. Direktni efekti ovog sukoba dovode do makroekonomske nestabilnosti. Ovaj sukob izaziva skok globalnih cena, utiče na ekonomije širom sveta, a očekuje se da će najveći teret podneti tržišta u razvoju i zemlje evropskog regiona, posebno zemlje Zapadnog Balkana. Na strani makroekonomske stabilnosti, efekti su različiti u zavisnosti od njihove izloženosti tržištu Rusije i Ukrajine. Istina, Republika Srbija nema značajne, direktne trgovinske veze sa Ukrajinom, ali sukob je Srbiju stavio pred nove izazove, uzimajući u obzir energetska zavisnost od Rusije, kao i poljoprivredni sektor, gde proizvodi, pre svega voće, imaju značajno učešće u ukupnom izvozu u Rusiju. Ključno pitanje koje se postavlja jeste u kom pravcu će sukob uticati na makroekonomsku stabilnost Republike Srbije.

**Ključne reči:** Konflikt, Rusija, Makroekonomija, Ekonomija, Bruto domaći proizvod

ORIGINAL SCIENTIFIC PAPER

RECEIVED: 18. 02. 2023.

ACCEPTED: 05. 04. 2023.

UDC: 339.92

COBISS.SR-ID 134011145

doi: <https://doi.org/10.61837/mbuir010223034k>

## ECONOMIC GLOBALIZATION IN THE HISTORICAL CONTEXT AND DEGLOBALIZATION

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**Abstract:** *The paper analyzes the key aspects and trends of economic globalization in the historical context and deglobalization. The focus is on the current process of declining integration of the international market, which has been going on since the World Financial Crisis in 2008. As this process in the modern era is caused by radical changes in its structure, it is long-term, not cyclical in nature. The paper discusses the causes of restructuring and re-fragmentation of the modern world economy. The key cause is identified as the strengthening of the opposition between the entities of the world economy and their development concepts, that is, the economy within state borders, as carriers of the concept of integral development, and transnational companies as carriers of functional development without borders of nation states. The restructuring crisis of the world economy has been further intensified and deepened with the COVID-19 pandemic and the conflict in Ukraine. Although a new social and techno-economic paradigm was established with the aim of the developed industrial states strengthening and restabilizing their global functional and structural dominance, the process of redistribution of economic and social power, in which the BRICS economies play an increasingly important role, continues unabated.*

**Keywords:** globalization; international trade and production; deglobalization; restructuring; development

**JEL classification:** F40, F60, F62

### 1. INTRODUCTION

The world economy and society at the beginning of the 21st century is experiencing significant transformations that have fundamentally changed the previous dominant techno-economic and development paradigm. In the paper, the key aspects and trends of economic globalization, understood as the integration of the international market and the economy, are analyzed in a historical context. The paper indicates that the process

of economic globalization practically ended during the World Financial Crisis at the end of the first decade of the 20th century, and that the process of reducing the integration of the global economy and society in various aspects has been going on for ten years. In the first part of the paper, the key features of economic globalization and globalization waves are analyzed in the historical context with a special focus on key similarities and differences. In the second part, special attention is paid to the transnationalization of capital in the

second globalization wave and the conflict between the development concepts of TNCs and national economies, which shapes the global business environment and competitive environment. In the third part of the paper, contemporary changes in the global economy are discussed as predominantly structural and not cyclical, and it points to the key characteristics of deglobalization as a phenomenon that radically changes business activity.

## 2. GLOBALIZATION

### 2.1. THE CONCEPT OF ECONOMIC GLOBALIZATION

The term globalization has been used in the social and economic literature, with very different meanings, for a relatively short time (about fifty years), significantly shorter than it exists in real economic and social life.

We list several definitions of globalization that indicate the key elements essential for its understanding and explanation in the contemporary period, but also in the historical context: „...globalization means the onset of the borderless world...” (Ohmae, 2005); „...the compression of the world and the intensification of consciousness of the world as a whole.” (Robertson, 1992); “Globalization refers to the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology.” (IMF, 1997); “...process in which the production and financial structures of countries are becoming interlinked by an increasing number of cross-border transactions to create an international division of labour in which national wealth creation comes, increasingly, to depend on economic agents in other countries, and the ultimate stage of economic integration where such dependence has reached its spatial limit.” (Bairoch, Kozul-Wright 1998); “Globalization – however the word is understood – implies the weakening of state sovereignty and state structures.” (Beck, 2000); „...globalization...

development of global financial markets, growth of transnational corporations and their growing dominance over national economies.” (Soros, 2005); „Economic ‘globalization’ is a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through trade and financial flows. The term sometimes also refers to the movement of people (labor) and knowledge (technology) across international borders. There are also broader cultural, political, and environmental dimensions of globalization that are not covered here.” (IMF, 2000/2).

The key components of understanding the concept of globalization as a whole, therefore, include: creating a world without borders; compression of the world in territorial, functional and information sense; loss of sovereignty and disintegration of the structure of national states; the development of the global financial market, the growth of transnational capital and its dominance in relation to the national state and the economy and its economic subjects; strengthening of interconnection and influence between economic and non-economic entities between different countries; growth of cross-border transactions in goods and services and of international capital flows and diffusion of technology, innovation and technological progress; movement of people and knowledge across international borders; broader social, political, cultural and ecological dimensions (which, although important, are not always included in the study of this process).

Economic globalization is often considered the most significant force in the development period after World War II. While the growing importance of international trade in goods and services in economic activity as a whole is evident throughout the entire period after World War II, the international movement of capital showed its importance in the closing decades of the twentieth and the beginning of the twenty-first century. Economic shocks during the 1970s not only interrupted three decades of exceptional growth of the world economy, but also weakened or destroyed the institutional

structure that was the basis of such economic activity and evolution. The open market, transnational companies (TNCs) and information technologies have become the new, key forces of economic growth and development in the entire global economy and the dominant mode of growth. Globalization entered the political and academic vocabulary with the aim of describing the speed and intensity of these changes, but also to emphasize that at the end of the twentieth century, a completely new period of economic growth and development was entered (Kotlica, 2002).

The globalization of economic activity is a process that can be historically divided into three phases that coexisted at the end of the 20th and the beginning of the 21st century (Hatzichronoglou, 1999): growth of international trade, especially exports; relocation of production and development of off-shore business; intensification of direct investments; globalization of technological innovations through the multiplication of R&D (Research and Development) centers abroad.

In the latest phase of the development of globalization, in the past twenty years, the development of global value chains (GVCs) was of particular importance. During the period after the World Financial Crisis (The Great Recession) in 2008, the problems of GVCs became one of the key components of the explanation of deglobalization tendencies in the world economy.

The tendency of internationalization of production at all levels of the hierarchical structure of the world economy initiates the transformation of previously different economic areas into a single economic area. In this area, the dominant benchmarks become the parameters and standards that are established at the level of the world economy as a whole. The demonstrated level of interdependence and established articulations and interactions between subjects of the world economy, despite the evident division into developed and underdeveloped parts at the global level, points to the thesis that the national economy as a unit of economic analysis, and even more as

a basic area of development, is an inadequate analytical framework for contemporary development processes.

Frankel (2000) lists a number of factors that influence economic globalization, that is, international economic integration and trade: Distance: other geographical variables; linguistic and colonial factors; military factors; free trade areas: political links; common country; currencies.

Baldwin (2016) has described globalization as a sequence of great unbundlings. The first occurred in the late nineteenth century when steam power cut the expense of moving goods internationally. The second came in the late twentieth century when information technology radically lowered the cost of moving ideas across borders. A third great unbundling beckons as digital technology makes it cheap and easy to move people across borders – without making them leave their bedroom or kitchen.

The rise of globalization was made possible by a series of major innovative developments. Internationalization in elementary form and globalization into world economies began in the first stages of industrialization or even earlier through long-distance international trade. In the phase of the industrial revolution, the significant development of means of communication, the construction of railways and the development of shipbuilding, reduced the costs of transport and enabled the globalization of the market at the domestic and international level. At the end of the 20th century information technology radically reduced the cost of transmitting ideas across borders and digital technology made it cheap and easy to move people across borders without physically leaving their place. Modern globalization takes place and intensifies as a consequence of the interaction of technological and economic development and the growth of all forms of foreign trade and economic activity. The increasingly intense internationalization of various segments of business activity from the 1970s, stimulated by the processes of regional integration in the 1980s, influenced the profiling of the basic features of the globalization



process at the turn of the century. These features are: globalization of the market, that is, trade transactions in all segments and at all levels; globalization of business and related, directly or indirectly, activities and operations; globalization of competition with the development of integral competitiveness, the essential elements of which are global companies, global market and global competition.

As part of the internationalization of production, the segmentation of the production process into parts that are produced in different organizational units in various parts of the world took place. The main goal was to carry out production with the most favorable cost structure for that specific production segment. With the already achieved prerequisites in the field of transport and communications, the creation of global type corporations and GVCs was made possible in this way. Individual segments of GVCs are connected and united by highly sophisticated activities in the field of management, organization, R&D, marketing.

Instead of the car that connected and united physical space from the beginning of the 20th century, communication and information gradually structured the entire world as a functional whole, united by intellectual and informational connections.

Physical transport and communication are losing importance. The basis of business and life activity is the collection, processing, distribution, and use of information. On the other hand, high technologies also help to improve the physical integration of the world market in numerous ways: a) jets radically reduce distances; b) the development of telecommunications provides fast, efficient and relatively cheap contacts that enable greater and more efficient coordination of management and production over long distances; c) modern means of transport enable fast and high-quality transfer of even the most sensitive products and over the greatest distances at relatively low costs...

The globalization of production in the 1970s caused a kind of empty spaces in the industrial structure of developed countries, precisely in those economic activities that, within the

earlier techno-economic paradigm (TEP) of mass production, were the carriers of development dynamics and the basic economic force. Due to the inadequacy of their own performance in relation to the requirements of the new TEP, those activities tried to overcome the crisis and revitalize themselves by segmenting technological procedures and systems and moving part or even the entire production to underdeveloped countries, especially to Asia. The goal was to take advantage of the favorable cost structure of production in them, first of all, cheap human labor, but not only that. As an illustration, we can cite Steve Jobs' explanation to the US President Barack Obama in February 2011, about the reasons why the Apple company will not return its production to the USA. Namely, at a meeting attended by representatives of the most important companies in the field of information technology in the USA in Silicon Valley, Jobs spoke about the lack of engineering staff and the advantages that China has in the production sphere. As he explained, it is not only a question of cheaper labor, but also its qualification and availability in sufficient numbers, as well as the speed of work and the quality of response to new and specific production requirements. The specific case he cited was the cutting of large panels of glass into an iPhone screen, a job that required 8,700 engineers out of 200,000 workers. The undertaking took iPhone workers in China 15 days, while in the US it would take 9 months (Duhig, Bradsher, 2012).

Internationalization of production systems and processes directly internationalized global relations in the world economic system. Previously, this process took place primarily through the internationalization of trade. With the globalization of production and the creation of a single economic world space, the autonomy and integrity of development in a certain national economic space have been substantially derogated from. This process causes reactions in the opposite direction, primarily in underdeveloped countries, which additionally generates a crisis of restructuring at the global level.

The system of open economy and universal norms of behavior in international trade relations are profiled under the dominant influence of the most powerful actors of the world economy. Autarky is impossible in the modern world economy. Openness brings benefits, but also harm. That is why transitional arrangements are foreseen for national economies that need to prepare for the new competitive situation. Otherwise, the domestic economy will be decimated or destroyed by the competitive pressure of transnational capital. This happened, to a greater or lesser extent, in several former socialist countries of Central and Eastern Europe (CEE) countries in transition, which rigidly interpreted and applied the concept of liberalization, privatization and open economy, weakened or even completely destroyed some local competitive resources, activities and real production potentials.

The internationalization of production processes and systems affects the reduction of the importance of local, national, and regional borders in both territorial and functional terms. National economic areas, as well as areas where modern corporations carry out their activities, become parts of the functional structure of the world economy. The lines of demarcation between different types of interdependence are unclear or at least very flexibly drawn. International trade statistics contribute to this by inadequately including the turnover of products of the ruling information technology paradigm, while at the same time multiple recording and multiplying the cross-border movement of goods and services, especially within transnational intra-firm interactions (Stanojević, Kotlica, 2018; Kotlica, Stanojević, 2018)

Signs of market integration and globalization of production are visible everywhere, with market opening having its own autonomous dynamics.

## 2.2. WAVES OF GLOBALIZATION

The idea that global economic integration represents a completely new phase of world economic development has not found universal acceptance in academic a thought. Some economic historians believe that the development of global, but also deglobalization, tendencies in the world economy, especially long-distance trade in high-value goods, can be observed in different periods of human history. The oldest examples of globalization cited in the literature are: Egypt and Mesopotamia (14-12 centuries BC); Roman Empire; and Eastern Han dynasty. Nevertheless, most economic historians consider the Mongol Empire (13-14 centuries) as the first trading globalization (O'Rourke, Williamson, 1999; 2002; Bordo, Taylor, Williamson, 2003; Findlay, O'Rourke, 2007; James, 2018). The Pax Mongolica is considered a precedent for the Pax Britannica and the Pax Americana. In addition, O'Rourke (2018) cites historical examples of deglobalization, such as the end of the Pax Mongolica, the disintegration of the Timurid Empire, or political crises in Persia or China. Baldwin (2016) points to the wrong perceptions of globalization as a creation of the modern West, recalling that until 1820, when modern globalization took off, the global economic center was actually Asia and especially China (Figure 1).

Nevertheless, indicators of economic development at the end of the 19th and beginning

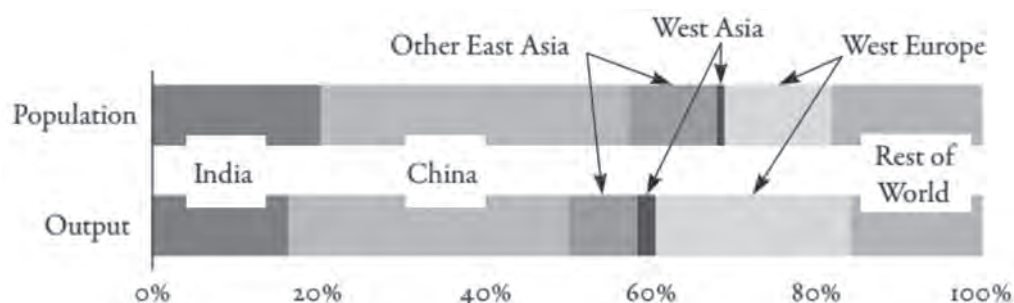


Figure 1. Asia's world economic dominance in 1820 (shares of world income)

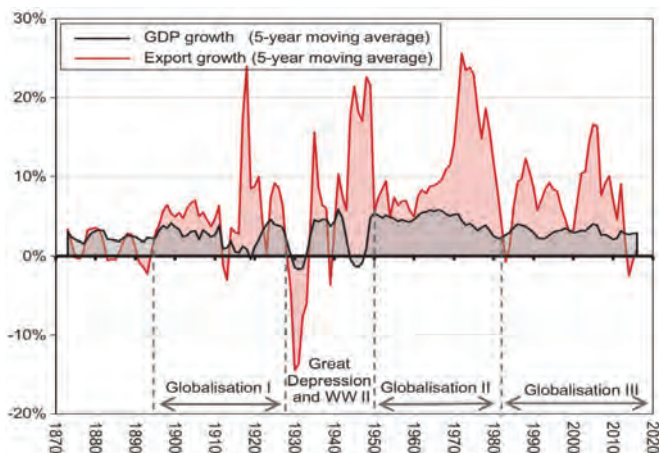
Source: Baldwin, 2016

of the 20th century are more often used as a basis for comparison with contemporary movements in the world economy (perhaps due to the availability and reliability of statistical data).

Mossi<sup>q</sup> and Lischka (2022) divided the globalization process into three phases based on the growth rates of exports and GDP through a 5-year moving average (Figure 2). The average annual growth rate of global exports from 1870 to 2018 was 6.77%, while global GDP only increased 2.93% on average in this period. Although these authors indicate that the recurrence of severe economic crises (the bursting of the dot-com bubble in March 2000 and 2007/2008) led to global disruptions due to economic interdependence, they do not consider the deglobalization tendencies after the Great Recession. It is clear that the COVID-19 pandemic will greatly reshape economic interdependencies. Already at the beginning of the crisis, a noticeable transformation or even a significant reduction of the previous globalization structures is visible, with consequences for prosperity and well-being that cannot yet be estimated.

Most of the authors who deal with this issue, observe the globalization processes after World War II as a unique phase. The study of the first wave of globalization has its intellectual origins in the works of a few authors such as A. Smith, K. Marx, J. S. Mill, E. F. Heckscher, B. Ohlin, J. M. Keynes, V. I. Lenin... The diversity of authors should not be surprising, because even in the modern phase of the development of economic science, there are wide and varied explanations for why economic activity tends to expand beyond the original national framework, connecting a growing number of dispersed economic locations around the world. Also, there are many myths about economic globalization, which are based on a superficial and biased consideration of the integration of the world economy while ignoring the real data on economic activity in the two great waves of globalization in industrial civilization (Bairoch, Kozul-Wright, 1998). In the 17th and 18th centuries, under strong state influence,

large colonial trade multinational companies were developed: the Dutch and British East India companies, the Muscovy Company, the Royal Africa Company, and the Hudson's Bay Company.



**Figure 2. Growth rates of global exports and economic growth measured by GDP 1870–2018 shown as five-year moving averages**

Source: Mossiq, Lischka, 2022

Among contemporary economists, therefore, the dominant view is that global integration is not a new phenomenon and characteristic of the world economy. Therefore, there is an intense interest in studying the characteristics of economic growth before the World War I as a useful basis, regardless of the significant differences, for understanding the current wave of globalization and deglobalization (Bordo, Taylor, Williamson, 2003).

O'Rourke and Williamson (1999), based on a study of the first wave of globalization, point out that history indicates "...that globalization can plant the seeds of its own destruction. Those seeds were planted in the 1870s, sprouted in the 1880s, grew vigorously around the turn of the century, and then came to full flower in the dark years between the two world wars."

Some authors believe that a hundred years ago, before the disturbances caused by World War I and II and the collapse of the commodity and financial markets during the World Economic Crisis, the world market was as internationalized as it is today. In a series of papers, Rodrik (2011) put forward the thesis that the achieved level of economic integration, in



the modern economy, is still far from the level that was reached at the time of the gold standard. Bordo, Eichengreen and Irwin (1999) believe that contemporary global integration is different from the first wave of globalization, which was limited and as an economic phenomenon had completely different characteristics from the contemporary.

O'Rourke and Williamson (1999) points to „...the similarities between the globalizing world economy after World War II and before World War I are far more striking than the differences. As we shall see, the main difference is this: *all* of the commodity market integration in the Atlantic economy after the 1860s was due to the fall in transport costs between markets, and *none* was due to more liberal trade policy. In contrast, most of the commodity market integration after the 1950s was (we suspect) due to more liberal trade policy.“

Frankel (2000) cites the reduction of transport and communication costs and the complete or partial removal of barriers to trade and investment as the two main driving forces of economic globalization. Bordo, Eichengreen and Irwin (1999) add to transport costs and trade barriers information barriers to exchange as a possible constraint to the expansion of market integration. Consumers want as complete information as possible about products that can meet their needs, and producers about local preferences and demand to produce suitable products. In the first wave of globalization, before the era of mass communications, high levels of migration were an important channel through which such information was exchanged.

Contemporary economic globalization is viewed by Sachs and Warner (1995) as a kind of return to the liberal international order that existed before 1914 and World War I, although there are many arguments about the essential differences between them. These authors believe that the world economy at the end of the 20th century was very similar to the world economy at the end of the 19th century. According to them, the global capitalist system is an attractive model that directs all regions

and countries towards an open economy and harmonization of institutions. As in the 19th century, a new round of globalization raises the question of convergence for the states joining the system. Sachs and Warner believe that a quick and efficient process of liberalization in the area of trade, capital flows and direct foreign investments is key for those countries. The development after 2008 and the movements in the world economy have largely disputed the claims of these authors regarding convergence and the dominant capitalist model of growth and development.

Contrary to the general impression of the contemporary unprecedented integration of the world economy, the available historical data show that the openness of the economy, measured by the share of foreign trade in the gross domestic product (GDP), as well as the share of net investments in GDP, show very similar, almost identical, values in the first and the second wave of globalization. Capital mobility was higher at the end of the 19th than at the end of the 20th century in all countries except Germany, Japan, and the USA (Williamson, 2002; Obstfeld, Taylor, 2003; Baldwin, Martin, 1999). The period from 1870-1913. was a period of exceptional growth in international trade. While trade, during that period, grew at a rate of 3.5% on average per year, until then the growth rate of output was 2.7% on average per year. The result was that the share of international trade in output (or openness) rose steadily, reaching a peak in 1913 that was not surpassed until the 1970s (Bairoch, Kozul-Wright, 1998). There was considerable variation in the data for individual states around that trend. A group of smaller super trading economies, such as Belgium, the Netherlands and Switzerland, had a significantly higher degree of openness than large European economies such as France and Italy. It is possible to draw a parallel between the economies of modern newly industrialized countries in the modern period, especially in East Asia, with that group of economies.

There are also variations between countries according to the periods in which they reached



the highest point of openness. The USA and Canada reached their highest level of openness around 1900, which was slightly reduced in the period leading up to World War I. Japan reached its highest point of openness only in 1929, which was not exceeded until 1992. These variations between countries and over time point to the inconsistency of the idea of a continuous and uniform process of market integration over the period. For example, in the UK in 1870 exports of goods and services as % of GDP accounted for 41% of GDP, in 1950 it was about 30%, and in 2021 it was 27%. In the USA, exports of goods and services as % of GDP was 10.2% lower in 2020 compared to 14% in 1870 (Baldwin, Martin, 1999; <https://data.worldbank.org/indicator>).

In terms of international trade in the first and second wave of globalization, there are also differences, but they do not relate to the degree of integration, but also, for example, on the diversity of trade directions. In the 19th century, developed countries had massive imports from underdeveloped countries. In the modern era, almost 2/3 of world trade is conducted between developed countries, while underdeveloped countries are marginalized in that process. In this sense, the degree of integration of the world economy was higher then because it included more countries.

The volume of goods exchanged between different markets is not necessarily an expression of the degree of market integration. O'Rourke and Williamson (2002) believe that the volume of trade can grow regardless of the low degree of integration of trade in goods and vice versa. Convergence in the prices of many products existed in the economies of many countries on the Atlantic rim towards the end of the nineteenth century. The price of wheat in Liverpool in 1870 was about 60% above the price of wheat in Chicago. By 1912, the gap between those two prices was reduced to about 15%. A similar convergence was present in many other traded products. In the modern period, basic agricultural products, ores, and raw materials are exchanged on organized global markets, which enables the realization

of the law of one price. Local product prices differ in reality (import duties, transport costs...), but the international market, which is highly integrated, establishes a base, reference price for different products.

A real global economy is one in which there is a dominance of transnational firms and financial institutions that carry out their activities in the world market independently of national borders, national political goals, and domestic economic constraints (Bryant, 1980).

Frankel (2000) presents an interesting interpretation of the contemporary level of global integration starting from the example of the USA. The total export or import of goods and services in the GDP of the USA at the time of his analysis participated with about 12%. It is still very far from the conditions in which transport and communication costs and barriers would be equal to zero. According to a simplified calculation, the output of the USA is about one quarter of the total world product. The output of other countries' producers is about three quarters of the total world product. If American consumers bought products and services from abroad in proportion to their share in the total world product, the ratio of American imports to GDP would be 0.75. In reality, that quotient is only one-sixth of that hypothetical level ( $12\%/75\% = 1/6$ ). Put another way, the level of globalization can, from the point of view of the American consumer, increased sixfold before Americans can be said to be doing business globally as easily as they are doing business locally. Such a calculation would be significant for the contemporary US economy and the explanation of the tariff war with China and Europe, in which the trade balance is in the foreground, not the use value of products and services, competitiveness and the difference between actual and potential imports (James, 2018): „In the case of European and Chinese responses to threatened US tariffs, they were also aimed as precision strikes ('acupuncture style') at particular constituencies whose support might be important for the Trump presidency: for instance, pork tariffs to specifically hit Iowa farmers“.

An observation by Keynes from 1919 is often quoted, which reflects the similar enthusiasm of contemporary economists for the same potentials of economic globalization, but in the space of a whole century (Keynes, 2019): „The inhabitant of London could order by telephone, sipping his morning coffee in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises in any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality.“

It seemed, as in the modern era, that there could be no obstacle to the further integration of the world economy because the entire process is based on technological progress, and it is considered irrevocably irreversible. It is true that technological progress has continued, but globalization has not.

The First World War encouraged trade protectionism in the form of a significant increase in import tariffs, but mostly on strategic agricultural products. The economic system of the countries involved in the conflict was temporarily destabilized, but after the end of the war, economic exchange intensified to remedy the consequences. What stopped the first wave of globalization started in 1870 was the Great Depression of 1929-1933. years. The war created the conditions for the subsequent destabilization of the international financial system: monetary instability, expansion of speculative activities, “moral hazard” in the form of expansion of international lending without a real economic basis, overcapacity and hyperproduction, etc. All these conditions were copied at the beginning of the 21st century and widely

accepted as the causes of the World Financial Crisis (WFC) in 2008.

Financial crises are not a direct cause of deglobalization, because not a single macroeconomic disturbance can be explained by a crisis ten years after its end. However, crises trigger mistrust in the safety of investments, in the return of invested capital, in the certainty of placement of goods on foreign markets, etc. Once initiated, distrust in the positive effects of the “free movement of goods, people and capital”, in the action of international organizations and integrations, and the processes of withdrawal into national frameworks initiated by it, cannot be reversed easily. During and after both financial crises, there was an expansion of customs duties, tariffs, quantitative restrictions, and other trade and investment restrictions, thereby decreasing the volume of international trade and investment. The expansion of trade protectionism in both globalization waves marked the beginning of the end of integration processes.

At the first hint of a crisis on the international market, in 1929, states began to introduce protective measures, especially on food imports. By 1931, average tariffs on food imports “had risen to 83% in Germany, 53% in France, 66% in Italy, 60% in and 75% in Yugoslavia” (Keynes 2019). The contemporary expansion of trade restrictions in certain trade directions exceeds these values, especially in relations between the USA, the European Union, China, and Russia. O’Rourke and Williamson (2000) believe that the integration of the goods market of the Atlantic economies after 1860 was the result of a reduction in transport costs, rather than a more liberal trade policy. If in 1913 the trade policy of developed countries can best be described as islands of liberalism surrounded by a sea of protectionism, underdeveloped countries can best be characterized as “an ocean of liberalism with islands of protectionism” (Bairoch, Kozul-Wright, 1998). In many cases, trade openness is the result of colonial policies and trade agreements that opened the markets of underdeveloped countries to the import of industrial goods from European countries.

The key tendencies of the Great Depression relate to: the erosion of the hegemonic position of the UK; the collapse of the dominant European currency arrangement – the Gold Standard; a group of factors that influenced the increase in trade – key technological innovations; long-term reduction of trade costs, new forms of transport and communication and increasing importance of formerly peripheral countries in the world trade system. The same tendencies can be observed in similar patterns of behavior in the Great Recession: the hegemon position of the USA is threatened and in a number of areas eroded by China; the position of the dominant reserve currency of the dollar and the EMU is under pressure: ICTs fundamentally change the forms, subject and ways of trading; emerging markets, primarily the BRICS countries, have moved to the center of the global trade system (van Bergrijk, 2018). Bairoch and Kozul-Wright (1998) also consider that already in the first wave of globalization, phenomena that are often treated as phenomena of the latest development period in the economy can be observed: intra-industry trade and foreign direct investments (FDI).

At the then peak of the integration of the world economy, the process went in the opposite direction: a return to the national concept of the economy, protectionism, bilateral versus multilateral relations. It is interesting that the first of these bilateral agreements was concluded between Hungary and Yugoslavia in January 1932; Germany followed with agreements with Hungary and then with other east-central European states (Berend 2016). Even in the modern period of the crisis of the restructuring of the world economy after the 1990s, there was a real explosion of bilateral contracts related to investment (Baldwin, 2016).

However, the interwar period cannot be called a period of isolationism. International trade and investment did not stop but were restored to the level necessary for the functioning of national economies, national priorities prevailed, and the world market was again fragmented. This period lasted until the integration processes were renewed after World

War II. The beginning of the post-war cycle of globalization was initiated by the interests of the war-torn national economies of the global West. Just as the first wave of globalization is not the product of any idea about the model of the world economy. Like the first wave of globalization, Great Britain and the USA have started but also stopped integration processes - Brexit, Donald Trump's trade restrictions and his America First concept. These two countries, which were the creators and leaders of the post-war international order, at the beginning of the twenty-first century appear as pioneers of its disintegration. Given the size of their economies and the influence of their governments, the protectionism and nationalism of Britain and the USA has set off a chain reaction in the countries of Western Europe.

Financial bubbles, their bursting, crises, and recessions, but also the turn to a prosperous period, appear in the central part of the transition to the new TEP and its application in the entire economy during all five major development periods since the industrial revolution (Perez, 2015). A fifth significant technological change (the ICT revolution) began to develop in the early 1970s when the potential of mass production technologies reached its limits, and the market became oversaturated. The conditions have been created for the search for other opportunities at the global level and in connection with the new ICT. The turnaround happens after two breakdowns (Perez, 2015): 1. bursting of the technology bubble – the NASDAQ index fell from an all-time high of 5,132.52 (March 10, 2000) to 800 (end of 2002). The Internet mania ended with a crash in which the idea of making quick money on new information and communication technologies was dramatically challenged, as it turned out that most companies founded during the dot-com boom did not have any serious production, business and profit potential; 2. bursting of the financial bubble – in the period from 2003 to 2008, a number of credit bubbles were developed, encouraged by investors and an abundance of quasi-money.



The unpredictable and enormous scale of this financial bubble was made possible by the process of globalization and the developed capacity for computer-aided financial innovation that developed during the dot-com boom. Perez (2015) therefore believes that the first, technological bubble was created and developed by innovations in information and communication technologies, and that the second, financial bubble was developed thanks to financial innovations with the application of information and communication technologies.

Although there are fundamental similarities in the structure and sequences of each long wave of development, there are also important differences. While in the Great Depression (1929) the technological and financial bubbles burst at the same time, in the most recent phase it happened in two separate processes.

James (2001) is one of the few globalization theorists who saw the limited scope of this process, back in 2001, well before the World Financial Crisis: "A major financial crisis can have systemic effects and catastrophically undermine the stability of the institutions that make global interchange possible. Such a picture, in which financial volatility destroys the system that was built up on the basis of a free flow of capital, has become increasingly worrying to many thoughtful analysts". The conclusions are based on the financial instability of the established system of the world economy, but above all on the historical lessons of the Great Depression. The process of globalization has already been stopped for a long period with clear signs of deglobalization.

### **3. NATIONAL ECONOMY, COMPETITIVENESS AND TNCs**

The key characteristics of the second wave of globalization, multiple crisis disturbances of a primarily financial nature and clear deglobalization tendencies after the Great Recession are indicators of the transition to a new social and techno-economic paradigm. In this shift, many authors observe a change in the dominant model of economic and social activity

and the hegemon, that is, the leading forces of the global economic system.

Before the crisis of the 1970s culminated, developed countries began restructuring their own economies and relations in the world economy, with the aim of making their global functional and structural dominance more stable and even stronger within the framework of the new techno-economic paradigm.

The bearers of that process were TNCs that strive to thwart the decline in profits with a series of partial actions such as: a) increased investment in fixed capital to increase labor productivity; b) determination of transfer prices for goods, services and technology; c) putting pressure on prices through inflation; d) transfer of technologically backward and physically outdated techniques to underdeveloped countries; e) profit extraction through high interest rates of financial capital; f) speculation on financial markets.

The transnationalization of production systems and processes after that period, and especially at the turn of the 21st century, was carried out to a considerable extent through and within intra-company articulations and transactions. The development of the complex around knowledge and information and the enrichment of the economic structure of developed countries with components of the service and information sector made it possible, by maintaining the basic corporate functions - marketing, distribution, R&D, finance - and the development of new, extremely propulsive, high technologies, to continuously increase profits without continuous and constantly growing volume and pace of material production itself.

TNC's complex production and distribution systems are functionally organized into units with a unique development, business, and technological strategy. Their main goal is the maximization of global profits and the long-term growth of market power. Technological decomposition of large production systems and their allocation can be done through transnationalization and without losing control over individual production segments. This

is made possible by a high level of information and communication connections of subordinated production segments with the central management structure, which monopolizes technological potential, R&D, financial resources, and the entire chain of sophisticated marketing activities.

Through the unfolding process of restructuring the world economy, the opposition between the entities that make it up and their development concepts grew stronger. Within that contradiction and conflict, the establishment of new structural, technological and functional foundations of the world economy as a whole took place, and is still ongoing.

The national state, as the primary historical bearer of the concept of integral development in its territorial area, is no longer the dominant development entity. The logic of the functioning and development of the state's economy is integral at the territorial, spatial level. This is manifested by the actions of state and parastatal institutions, as well as business entities to the extent that their behavior expresses the needs and interests of the entire material and non-material production, in the broadest sense, of a certain economy, and not just their business, commercial interest. Another type of subjects of the modern world economy, TNCs, with their logic of functional development cut across the economic space of states and connect and integrate their segments into their system. They thus carry out the deterritorialization of production systems and processes and organizational structures of the modern firm (Trputec, Stojanović, 1979). James (2001) considers that „the nation-state, the decisive driving force of the past two centuries, is dissolving under the pressure of a cross-national integration, which has developed with a dynamic and a momentum of its own.“

The economies of the states strove, within the framework of integral and endogenous development, towards the tightest possible integration of the stages of the reproduction cycle in their economic and territorial areas and their most complete articulation and intensive interaction. International economic relations

were based on the articulation of economies through the creation of a world market, i.e. the connection through trade of differentiated world markets of product groups.

In their activities, TNCs strive to eliminate territorial restrictions and, on a global level, establish functional connections in the world economy as a whole. TNCs are, therefore, carriers of a functional type of development that is in direct confrontation with the integrity of development within the economic space of a country. Within the framework of the integral concept, integration and connection that takes place at the territorial level, on a geographically defined territory, are essential. In contrast, according to the functional concept, integration takes place at functional intersections. Parts of national economies, individual production entities or distribution units are connected with similar parts of other economies. In this way, territorially disintegrated and dispersed, but functional and organizational unified production and distribution units are formed. TNCs must internalize more and more costs into their operating costs. That is why they try to externalize as many negative effects as possible on their own environment and unnecessary costs to the lower and weaker links of that system.

TNCs carried out the internationalization of distribution and production systems by dispersing their subordinate organizational units to the territories of different economies. The functional connection of units, which are organizationally within the TNC system, is carried out independently of the economic space of a given country. Transnational implementation in individual parts of the production chain within the national economy has a disintegrating and disarticulating effect on it. This especially applies to those economies that are not the parent economies of TNCs. Although organizationally, economically, financially, and technologically independent from their home countries, TNCs are connected to them by intense personal interest ties that result in significant positive effects for them. There is also a certain tendency to internalize international trade transactions within transnational

corporate structures, which is reflected in the absolute and relative growth of the share of intra-firm trade within the TNCs system in relation to the total volume of international trade transactions.

Traditional conceptions of international economic relations and development start primarily, even exclusively, from the economy of a given country as an integral and unique whole. The state is not only the basic unit of analysis, but also the space and goal of economic growth and development. In other words, the sum of economic relations and transactions between the economies of individual countries is the totality of international economic relations, and the sum of the results of development at the local level is global development at the level of the world economy as a whole.

It is the world economy that in the modern period controls and determines relations and processes at all levels of economic activity, not the macroeconomic level of some particular economy. This modifies the very observation and understanding of international economic relations. The focus is shifted from the balance of payments monitoring of transactions between different economies, to transactions within branches and production entities, with the determination of the bearers of those transactions. Such an approach also requires a new methodological instrument that will start from relativizing the existence of states and borders and focus attention on the very transactions of economic agents on a global scale, observing the world economy itself as the basic unit of analysis, and TNCs and state economies as relatively autonomous subsystems within that and of such a globalized system (Stanojević, Kotlica, 2018).

TNCs have become a specific advantage factor in the world economy and on the world market. With their organizational structure, they enable the dispersion of the locations of their branches anywhere on the globe where it is desirable from the point of view of certain criteria (profit, market proximity, cheap natural resources, low labor wages, penetration of new markets, etc.). In global competitiveness,

which is no longer a simple sum of individual competitive advantages, the economic scale of success of an economic entity, regardless of internal trade orientation, is related to production and sales on the global market.

If the old corporate structure managed multipronged, multinational activities that were a simple sum of separate entities, the new technological infrastructure enabled more efficient communication, organization, and management of gigantic, complex, and rapidly changing corporate structures in which the global result is a synergistic combination of individual optimums. TNCs have been moving in this direction since the seventies of the twentieth century. Technological development is itself a part of the global economy. It receives special impulses from the emergence of the transnationalization of production, GVCs and the changing character of international trade transactions.

The global competition of the economies of individual countries is being replaced by the globalization of competition between TNCs, and the specific structure and dynamics resulting from it intensively and significantly determine the character of relations in the world economy, especially international trade transactions and relations (Kotlica, 2002).

Information and communication technologies (ICT), as the most propulsive within the new TEP, are best used by TNCs. They represent one of the most powerful instruments for achieving influence and creating specific forms of dependence in the modern world economy. TNCs dominate the global market of information technologies, eliminating all alternative development directions and opportunities that are dysfunctional from the point of view of their interests in the field of ICT. The information systems of individual countries are disintegrating, especially the systems of public information services that are tied to and become dependent on TNCs. The internationalization of production and distribution systems within TNCs places significant and major obligations on their management structures in terms of achieving communication integrity. The technological possibilities for this have existed for a relatively long time.



The market dependence of the production units within the TNCs does not allow them to become independent and eventually integrate fully into the economic structure of the given country. This prevents significant benefits and independent development for underdeveloped countries where TNCs units are located.

Ohmae (1996), like Hammarlund (2005), believed that the nation state has come to an end and that the time is coming for the development of regional economies and states as natural business units of the global information economy and society, while Bobbitt (2008; 2013) indicates that the transition from late nineteenth- and twentieth-century industrial nation-state to twenty-first-century informational market state is underway. Fursov (Fursov, 2015; 2016) believes that for Pax Globalica it is more correct to speak of market statehood, and the concrete historical form that is appropriate for the global market and market statehood is called the corporation-state.

At the turn of the century, new forms of reintegration appeared at the level of national economic areas. Entities are emerging that have a territorial component as well as national economies, but with much more quantitatively and qualitatively richer functional dimensions than them. Condensation of all segments and stages of the reproduction cycle of a certain product in a narrower territory with the shortening of GVCs, which is one of the tendencies observed within TNCs in the recent phase, could lead in future development to the creation of complete production agglomerations of a certain type in each territorial area that is not related exclusively to the territory of one state. By concentrating the production potential on narrower geographical areas (which do not have to be within one national economy), the elements of two opposing development concepts are connected in a new way and a new form of connection of functional homogeneity and territorial integrity is achieved. This trend speaks about the possible direction of the development of relationships in the world economy. A specific combination of elements of the

logic of functional connection and a new type of integral development can be the basis of a new model of that system and a different long-term strategy of its development.

Rodrik (2022) believes that the solution to the economic and social problems of the USA and beyond is the concept of *productivism* „... which emphasizes the dissemination of productive economic opportunities throughout all regions and all segments of the labor force... It puts less faith in markets, is suspicious of large corporations, and emphasizes production and investment over finance, and revitalizing local communities over globalization. Productivism also departs from the Keynesian welfare state by focusing less on redistribution, social transfers, and macroeconomic management and more on supply-side measures to create good jobs for everyone.“

#### **4. THE CRISIS OF RESTRUCTURING OF THE WORLD ECONOMY AND DEGLOBALIZATION**

The dominant model of relations, functioning and development of the world economy began to show crisis disturbances of a cumulative nature in the 1970s. With its dimensions, comprehensiveness, duration, and intensification up to the third decade of the twentieth century, it shows that it is not a usual cyclical and conjunctural crisis, but a crisis that, to a considerable extent, has a secular and structural character. Like the Great Economic Crisis (Great Depression) and the crises during the past period, and especially the World Financial Crisis of 2008, are crises of restructuring. According to some authors, it is possible to explain as much as half of the current global trade slowdown by structural factors such as: changes in the pace of income convergence across countries and the associate impact on trade patterns and growth; changes in the composition of world income, such as the relative importance of investment and consumption; changes in the composition of world trade; changes in the trade regime, including the rise of protectionism; changes in the pattern of vertical specialisation – GVCs (Constantinescu, Mattoo, Ruta, 2015).

The crisis of the restructuring of the world economy, which began in the 1970s and which, with different characteristics and intensity, continues until the modern period, had three phases.

In the first period, the emphasis was on correcting and improving the performance of the existing economic and social system. It is an attempt to maintain and continue to function in a modified form the existing mode of growth through a feedback loop. The system changes spontaneously and chaotically, not in an organized and systematic way. Negative effects are externalized both to subordinate structures in one's own economic and social stratification, and to subordinate parts on a global scale. The key concept of that period of development of the global economy, as well as the next phase, is off-shore business.

In the second phase, restructuring in developed countries took on the characteristics of an organized process and a transition to a new mode of growth. The externalization of negative effects on the environment continued. But it also strengthens the internalization of the positive effects created at the expense of the environment and a clearer understanding of the processes taking place. That process was accompanied by large and constant internal structural transformations of an institutional, economic, organizational, and technological nature, which were not enough to avoid new challenges and crises.

In the third phase after the World Financial Crisis, the tendencies of deglobalization and the closing of national markets with protectionist measures, especially by the key actors of global development, are strengthening. An attempt is made to give the latest phase the character of a logical phase of the development of a system that has been dominant at the global level for about two hundred years, ignoring the obvious changes that occurred in the world economy and society at the beginning of the 21st century and the change of key players in the global economy, especially the role of China in that process. The phrase and concept Great Reset is often used to explain the

changes in the world after the COVID-19 pandemic based on the book Schwab and Malleret (2020) although the term Great Reset was used ten years earlier (Florida, 2010) in the context of paradigm-shifting systemic innovation after the World Financial Crisis of 2008 as the last, according to the author, in the series of Great Resets including the Long Depression of the 1870s and the Great Depression of the 1930s. The World Economic Forum itself used the term Great Reset well before the COVID-19 pandemic and intensively promotes it at a series of meetings until the latest material on the four scenarios of the future of globalization (WEF, 2022). Statements such as: „What we want to do in Davos this year... is to push the reset button“ (WEF, 2014); „We need to press restart on the global economy“ (WEF, 2015) serve to prove that the only realistic development alternative is the reset of the existing system and relations. For example, Hamada (2018) believes that the arguments in favor of globalization, free trade and a certain openness to migration are quite strong; that globalization increases the total wealth of all countries participating in it; and that an effective income redistribution policy and a developed and strong social protection system are sufficient to neutralize its negative aspects.

Belief in the practical value of the concept of free market economy and entrepreneurship, perfect competition, and passive behavior of economic agents (*laissez-faire*), which fully behave in accordance with the implicit economic laws arranged by the all-powerful invisible hand (A. Smith) of the market and cannot influence your environment, is over. There are numerous articles that demonstrate the essentially interventionist nature of the modern state and economy. It is symbolic, in this sense, that after more than half a century since the appearance of Keynes's essay (1926) on the end of the economy of free competition, Kuttner's text (1990) appeared with the same title, which talks about the other end of the economy of perfect competition, but also the end of the period of extensive growth of the world economy.

The key terms used in connection with this phase of the restructuring of the world economy are deglobalization (Bello, 2013; James, 2018; van Bergeijk, 2019), decoupling (Eppinger at alt., 2021) reshoring (Miroudot, 2020), friend-shoring (Rajan, 2022) and resilience (Mishra, Spilimbergo, 2022).

Although different authors qualify the contemporary changes taking place in the world economy differently, there is no doubt that deglobalization has been ongoing for more than a decade. Data on trade transactions, labor movements, capital flows and the volume and type of financial transactions, foreign direct investments... unequivocally indicate this. Any methodology and criteria used to measure the globalization of the world and countries indicate the tight closure of national economies and an increasing number of measures of a protectionist nature. Globalization that did not take into account the characteristics and specificities of the countries involved and the concept of a single, uniform system for everyone, which led to the problems and crises that occurred, no longer has a centrifugal, attractive power, nor is it a realistic basis for the development of the future, transformed world economic system.

Contemporary economic research indicates that the process of deglobalization can be best highlighted by watching at least three main economic flows, such as: dynamics of imports and exports of goods and services at a global or regional level, as an expression of international commerce; dynamics of expats' money remittance; inflows and outflows brought by foreign direct and portfolio investments.

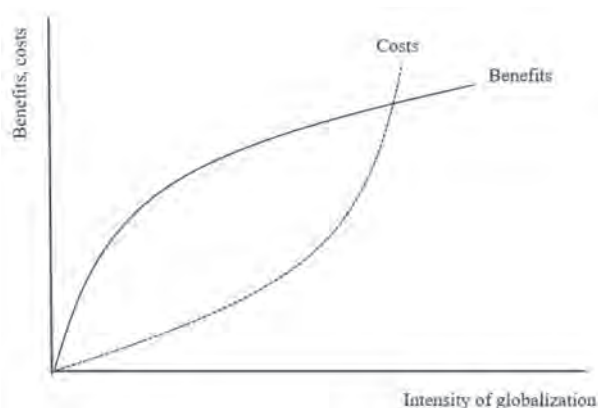
Bello (2005; 2013), who was among the first authors to use the term deglobalization, believes that deglobalization does not mean withdrawing from the international economy, but that it is necessary to include additional principles such as: 1. production for the domestic market rather than production for export; 2. the principle of subsidiarity should be enshrined in economic life by encouraging production of goods at the level of the community and at the national level; 3. trade policy

— that is, quotas and tariffs — should be used to protect the local economy from destruction by corporate-subsidized commodities with artificially low prices; 4. industrial policy — including subsidies, tariffs, and trade — should be used to revitalize and strengthen the manufacturing sector; 5. long-postponed measures of equitable income redistribution and land redistribution; 6. de-emphasizing growth, emphasizing the upgrading of the quality of life, and maximizing equity will reduce environmental disequilibrium; 7. the power and transportation systems must be transformed into decentralized systems based on renewable resources; 8. a healthy balance must be maintained between the country's carrying capacity and the size of its population; 9. environmentally congenial technology; 10. a gender lens to ensure gender equity; 11. strategic economic decisions must not be left to the market or to technocrats...the demystification of economics and a return to its origins as political economy and moral economy. 12. civil society must constantly monitor and supervise the private sector and the state, a process that should be institutionalized; 13. the property complex should be transformed into a 'mixed economy'; 14. Centralized global institutions should be replaced with regional institutions built not on free trade and capital mobility but on principles of cooperation that... 'transcend the logic of capitalism.'

van Bergeijk (2018) uses the change in the ratio of imports to gross product as a measure of (de)globalization, so that a decrease in that ratio indicates the existence of deglobalization. By analyzing the example of 22 countries, he found that the key difference between the two analyzed periods is in force deglobalization processes and the role of the political system: „...in the first 3 years of the Great Depression of the 1930s, the import to GDP ratio decreases in this sample of 22 countries on average by 17%, while this decline is 31% on average in the 2000s...The political system is highly significant in both 1930s and 2000s, but the impact is opposite. In the 1930s, autocratic rule and dictatorship are associated



with stronger deglobalisation; in the 2000s, democracy is associated with stronger deglobalisation.” van Bergeijk (2019) deintegration tendencies in the world economy 1930s named Deglobalization 1.0 and the 2000s named Deglobalization 2.0. „The basic argument is that phases of strong globalization carry the seeds of their destruction, that is: such phases generate the forces that ultimately set limits and force a retreat of internationalization.“ This author points out that (de)globalization implies benefits but also costs, and that at some point further globalization becomes a loss-making activity (Figure 3).



**Figure 3. Intensity of globalization, benefits and costs**

Source: van Bergeijk, 2019

What happens in the period after the 1970s in the world economy, had and will have an intense and long-term impact on the nature of relations between its subjects. The changes taking place are profound in their character and meaning, and global and long-term in their implications.

Contemporary crisis disturbances in different parts of the world, but also at the global level, occurred after thirty years of exceptional economic prosperity. The restructuring crisis has become a continuous process, but it has also taken specific forms in the territorial, organizational, functional, and sectoral areas. The restructuring crisis encompassed all parts of the world economy at the same time, but above all the most intensively developed countries. This makes it different in comparison to earlier crises, which, as a rule, involved only one part of the world economy. The way out of

such situations was easier and the dimensions milder compared to modern crises, which are manifested in long-term tendencies to reduce the rate of productivity growth and the decrease in the profit rate of companies. Relations at the global level became more complicated due to the changes taking place in the countries that belonged to the so-called group of countries. real socialism. The period of socialist development of a certain type has come to an end, which included, first of all, societies that once belonged to the Asian way of production and introduced significant changes in the understanding of world history in the past hundred years or so. That model failed to be fully realized as a social alternative and perspective, which would transcend modern global development beyond the framework of a mature industrial society. Changes in that part of the world economy open up the possibility of using the potential of those countries for successful inclusion in the currents of modern technical-technological, economic. and social development and affirming their development resources, including the possibility of some of those countries being incorporated into the central structure of the world economic system.

The international economic order, which was established after the Second World War, was initiated, and structured under the great influence of the USA as the global hegemon, which wanted to maintain its role as a director of the growth of the world economy, but also of global political, social, and cultural relations. In the institutional structure of the world economy, the mechanisms used to achieve this are the system of fixed exchange rates to reduce currency fluctuations, the International Monetary Fund (IMF) – to ensure the liquidity of countries, the World Bank (WB) – to ensure and finance development, and the GATT, i.e. the WTO – for defining and implementing harmonized principles and rules of the international trade system.

The restructuring crisis called into question the possibility of the existence of a monocentric model of the central structure of the world economy, showing the flaws of that concept.

That model was once effective and possible. This especially refers to the time of the industrial revolution and the domination of Great Britain in the time and conditions of the formation of the colonial empire and the establishment of strict vertical integration among the member states at all levels. The supremacy of the USA on a global scale and the disappearance of the USSR as a global competitor made the leadership of the USA almost absolute. The development of China in the past thirty years has changed that situation drastically, so that in the latest phase of the restructuring crisis, one of its essential elements is the tendency to change the global hegemon. Stiglitz (2022) believes that „...America does not want to be dethroned. But it is simply inevitable that China will outstrip the US economically, regardless of what official indicator one uses. Not only is its population four times larger than America's; its economy also has been growing three times faster for many years (indeed, it already surpassed the US in purchasing-power-parity terms back in 2015).“ Also, he claims that „neoliberalism and trickle-down economics were never widely embraced in the Global South, and now they are going out of fashion everywhere.“

Changes in the world economy are also reflected in the geographical shift of the central structure from the Mediterranean across the Atlantic to the Pacific, on the periphery of which the most significant development potentials and subjects of the modern world economy were concentrated during the 1990s. “The Mediterranean is the ocean of the past, the Atlantic the ocean of the present, the Pacific the ocean of the future” (John Hay, according to Naisbitt, 1982).

Traditional economic theory in explaining international economic relations still considers that trade in goods and services determines the international movement of capital and exchange rates for foreign currencies. However, since the first half of the 1970s, capital flows and exchange rates for foreign currencies have moved almost completely independently of international trade, and to a considerable extent

completely opposite to it. The movement of capital, therefore, without a significant connection with trade and to a large extent independent of it, in economic transactions in the modern world economy far exceeds the volume of international trade exchange. The success of the economy itself and investment activity is measured less by the quantity and quality of consumer goods, products, and services, and more by the number of new jobs created. „Investments by Japanese multinationals, especially in manufacturing, created 856,000 jobs in the US in 2015, accounting for \$72.2 billion in total compensation to US workers – second only to the United Kingdom, which created 1.1 million jobs in the US, with \$84.9 billion in total compensation“ (Hamada, 2018). The authors Dorn and Hanson (2013) do not deal with economic argumentation and the reasons for the competition of imported products and services from China, but only with the effects on the local labor market. As if the main goal of economic activity is the creation of new jobs, and not the production of consumer goods with the aim of satisfying people's needs. Creating new institutions and piling up and complicating regulations and rules is essentially a way to challenge or completely negate the results of technological progress.

Changes in the world economy associated with the World Financial Crisis, and the pandemic, then intensified by the conflict in Ukraine, caused shortages of intermediate inputs traded along GVCs. The world economy has been shocked by the stagnation of GDP trade growth, the abandonment or shortening of GVCs, as well as the strong political backlash against globalization, which culminated with Brexit and the Trump US-China trade war (Antràs 2020). The result was that in the countries that were once leaders in the world economic system during the previous development period, tendencies for reshoring and increasing the resilience of supply chains are strengthening. „We simulate a world without GVCs by setting the cost of international trade in intermediate goods to a prohibitive level.

We find welfare losses in all countries, ranging from -68% in Luxembourg to -3.3% in the US... The largest welfare losses accrue to small, highly integrated economies (including Malta, Ireland, and Estonia), while the losses are smallest for large economies that can revert more easily to their own intermediate inputs after decoupling (such as the US, China, and Brazil)" (Sheng, Geng, 2022).

## 5. CONCLUSION

Globalization, with very different meanings, is used relatively briefly in social and economic literature, significantly shorter than it exists in real economic and social life as a significant development force. The tendency of internationalization of finance, production, and R&D at all levels of the hierarchical structure of the world economy initiates the transformation of previously different economic areas into a single economic area in which the parameters and standards established at the level of the world economy as a whole become the dominant criteria. That is why the national economy as a unit of economic analysis, and even more so as the basic area of development, has become an inadequate analytical framework for modern development processes. Modern globalization takes place and intensifies as a consequence of the interaction of technological and economic development and the growth of all forms of foreign trade and economic activity. The dominant model of relations, functioning and development of the world economy began to show crisis disturbances of a cumulative nature in the 1970s, which by their dimensions, comprehensiveness, duration and intensification until the third decade of the twentieth century show that it is not a usual cyclical crisis, but a long-term crisis which, in to a considerable extent, it has a structural character.

Some economic historians believe that the development of globalization, but also deglobalization, tendencies in the world economy, especially when it comes to long-distance trade in high-value goods, can be observed in different periods of human history, but the characteristics of two globalization waves

are discussed in detail in the economic literature: the first in the period at the end of the 19th century until World War I and the Great Economic Crisis in 1929 and the second, after World War II until the World Financial Crisis in 2008, as well as two major deglobalization waves initiated by the Great Depression and the Great Recession.

Although there are significant similarities in the structure and sequences of each long wave of development, there are also important differences. While in the Great Depression (1929) the technological and financial bubbles burst at the same time, in the most recent phase it happened in two separate processes (2000 and 2008). Furthermore, the influence of the political system in the 1930s and 2000s is completely opposite. While in the 1930s, autocratic rule and dictatorship are associated with stronger deglobalization; in the 2000s, democracy is the one that is associated with stronger deglobalization.

During the second wave of globalization, the conflict between the concepts of development of the national economy, as carriers of the concept of integral development in its territorial area, and TNCs, as carriers of functional development at the global level, culminated. A specific combination of elements of the logic of functional connection and a new type of integral development can be the basis of a new model of that system and a different long-term strategy of its development, especially after the problems in the global economy caused by the World Financial Crisis of 2008, the COVID-19 pandemic, and the consequences of the conflict between Russia and Ukraine. Some authors believe that the evolution goes in the direction of the development of regional economies and states (Ohmae, 1996; Hammarlund, 2005), informational market state (Bobbitt, 2008; 2013) and corporation-state (Fursov, 2015; 2016).

In the latest phase of globalization, after the WFC of 2008, the tendencies of deglobalization and the closing of national markets with protectionist measures are strengthening, especially by the key actors of global development (Brexit; America first). There is



an unsuccessful attempt to give the most recent phase the character of a logical phase of the development of the system (Great Reset) which has been dominant on a global level for about two hundred years, ignoring the obvious changes that have occurred in the world economy and society at the beginning of the 21st century and the change of the key actors of the global economy. Attempts are being made to explain theoretically (within the new social and techno-economic paradigm, the basic contours of which are clearly outlined) and practically to do everything possible for

the developed industrial countries to restabilize and strengthen their global functional and structural dominance, although it is obvious that a restructuring process is taking place at the global level and the redistribution of economic and social power, in which the BRICS economies, and especially the Chinese economy, play an increasingly important role. The potential re-globalization (Benedikter, Gruber, Kofler, 2022) will have different characteristics compared to the previous globalization that was stopped in 2008 and other key actors and hegemonies.

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## EKONOMSKA GLOBALIZACIJA U ISTORIJSKOM KONTEKSTU I DEGLOBALIZACIJA

**Sažetak:** U radu se analiziraju ključni aspekti i trendovi ekonomske globalizacije u istorijskom kontekstu i deglobalizacije. Fokus je na aktuelnom procesu opadanja integracije međunarodnog tržišta, koji traje od Svetske finansijske krize 2008. Kako je ovaj proces u savremenom dobu izazvan radikalnim promenama u njegovoj strukturi, on je dugoročan, nije ciklične prirode. U radu se razmatraju uzroci restrukturiranja i refragmentacije savremene svetske privrede. Kao ključni uzrok identifikuje se jačanje suprotnosti između subjekata svetske privrede i njihovih koncepata razvoja, odnosno privrede u državnim granicama, kao nosilaca koncepta integralnog razvoja, i transnacionalnih kompanija kao nosilaca funkcionalnog razvoja bez granice nacionalnih država. Kriza restrukturiranja svetske ekonomije dodatno je intenzivirana i produbljena pandemijom COVID-19 i sukobom u Ukrajini. Iako je uspostavljena nova društvena i tehno-ekonomska paradigma sa ciljem da razvijene industrijske države osnaže i restabilizuju svoju globalnu funkcionalnu i strukturnu dominaciju, proces preraspodele ekonomske i društvene moći, u kome ekonomije BRIKS-a imaju sve značajniju ulogu, nastavlja nesmanjeno.

**Ključne reči:** globalizacija, međunarodna trgovina i proizvodnja, deglobalizacija, restrukturiranje, razvoj

UDC: 005.334:004]:624(497.11)

004.056.5:339.5

COBISS.SR-ID 134041097

doi: <https://doi.org/10.61837/mbuir010223057k>

ORIGINAL SCIENTIFIC PAPER

RECEIVED: 10. 02. 2023.

ACCEPTED: 20. 04. 2023.

# MULTI-CRITERIA ANALYSIS OF ICT IMPLEMENTATION IN INVESTMENT PROJECTS: CASE STUDY OF CONSTRUCTION COMPANIES IN THE REPUBLIC OF SERBIA

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**Abstract:** Analyzing the applicability of information and communication technologies (ICT) in investment projects and the risk management context, the paper presents the concept of modelling the situation of multiple criteria and multi-objective decision-making. A brief overview and interpretation of multi-criteria decision-making are given in basic business processes construction, where the ICT application is the most necessary. The significant criteria and alternatives are defined, and the simplest model of transformation of qualitative into quantitative attributes is given. With the introduction of ICT, business processes are not complete, but through their application, existing situations are constantly reviewed and analyzed. The application of multi-criteria analysis methods is one of the most useful mathematical methods for decision support so that complexity is reduced to a series of comparisons of criteria and alternatives and the synthesis of the final result. The research in this paper identifies the factors of ICT implementation in the management of construction projects to create models that can improve project performance and successfully manage business processes. This paper aims to point out that modern ICTs provide great opportunities and that a proactive approach and preventive action are more efficient and much cheaper than later repairing the damage from the effects of risk. After identifying the key attributes, the concluding remarks made recommendations for overcoming them and establishing a set of measures for the general application of ICT to improve business facilities and monitor global trends in this sector.

**Keywords:** information technologies; risk management; investment projects; multi-criteria analysis

**JEL classification:** L38, M14, O22, P43

## 1. INTRODUCTION

Numerous business entities and organizations have long recognized the need for ICT implementation in their business to ensure safer, better working conditions and increase business success.

There are two possible ways of including ICT: the project cycle automation of activities and integration linking. Automation involves using hardware and software tools/means to manage data or production. Integrative connection involves forwarding data in the process of production or communication. It is significant due

to sharing information between participants in the organizational system of the project and the particular parts of it (Bauk, 2010).

The research has been done in cooperation with the Association of Small and Medium Enterprises and Entrepreneurs of Serbia to determine the degree of application of information technologies in the construction sector in Serbia. The impact of the use of information technology on the success of the project is essential. The project is successful if the usage permit is within the stipulated period, the costs are less than or equal to the planned ones, and the project is finished earlier or within the agreed period.

The fundamental research question and starting hypothesis start from the fact that there is a significant correlation between mitigating established and accepted risks in investment projects by introducing a modern model of information technologies in the management of business processes throughout the life cycle of the project. Accordingly, the research has based on the following particular hypotheses:

- H1. The level of ICT application through business processes has a positive effect on the overall success of the project, and
- H2. Risk impacts and consequences can be reduced by the appropriate risk management model and timely recognition them what makes the difference between successful and unsuccessful projects.

For project management modelling in construction, the system should understood as an organized entirety; it is a set or combination of parts or elements that make up a complex or unique whole, which is much more than a simple set of parts. Parts of the system modelled project management can be participants or phases of work and individual sub-projects (Ivkovic & Popović, 2005). The ICT implementation in projects, such as software tools and mathematical methods, has proven to be extremely useful for many business systems and companies.

The application of ICT presupposes a project manager in charge of process management, who knows techniques and areas through all phases of the project's life cycle, and who

organizes and implements project risk management. In this context, it is necessary to know (Nidziy, 2021):

- Methodology-defined methods, tools and sources of data are used in project risk management;
- Roles and responsibilities, defined by leader and membership in the risk management team and connects people to roles and determines their responsibilities;
- Cost and time planning, which describes the planned costs and the time spent for implementing risk management;
- Risk categorization defines the basic categories of risks on the project. A pre-prepared categorization of individual risks can be used here, such as the structural decomposition of risks (work breakdown structure, WBS);
- Definitions of risk probability and impact (determined by adapted generally accepted definitions of degree of probability and risk impact used in the process of qualitative risk analysis; relative scale used to determine the probability or project status descriptions);
- Matrix of probability and impact, which determines the priority of risks concerning their potential consequences in achieving project goals;
- The report on risk management is defined by the format, content and way of reporting throughout the project.

All of these are made the project management base. With these techniques, the manager develops analytical thinking and successfully deals with future project management challenges.

The study has been based on ranking factors using the Analytic Hierarchy Process (AHP) method. AHP belongs to the class of methods for soft optimization. It is a specific tool for the formation and analysis of decision-making hierarchies (Tahir & Malek, 2016). The aim of this paper will enable decision-makers to give priority to those necessary to start the process of implementing ICT in investment construction projects.



## 2. LITERATURE REVIEW

Managing an investment construction project is a complex task where the most human and material resources are required for realizing the such project. So, for the project, it is essential to prepare an initial program, including the documentation, in cooperation with the investor and construction contractors. After that, sufficient data is available to prepare basic costs of the project, which are compared with previous estimates and present the basis for continuous control and supervision of project costs. For quality inspection of the completed project, a significant factor is the systematic control of the technical documentation and monitoring of possible changes, into cooperation of the investor and contractor, the advice on the procurement of equipment and materials, and the supervision and handover of facilities.

Individual parts of the system, which have the same features, can often be grouped into one unit - a subsystem. The subsystems have been considered through the vertical and horizontal connections or higher and lower levels. This approach is hierarchical - considering subsystems and their interaction from the highest to the lowest level and then studying the structure and connections between elements within individual subsystems. A typical example is a project that includes buildings with the same functionality.

Facility management and construction control require the development of a control subsystem for each element within the framework of the unique project implementation system (Burcar et al., 2007). Because of that, it is necessary to observe the connections between the participants at each object, assigning duties and costs in the determined period. For example, it is common in construction practice to collect unit prices of materials and devices and store them in a media space. These data become the information when they are applied to calculate the selling price of doing work and make the decision concerning the offer.

The task of project management is to provide continuous mechanisms for collecting data needed to filter, analyze and compare themselves (Vuletić, 2014). In the framework of information distribution, it is necessary to define the scope, format and frequency of receiving reports for each user, establish a system of privileges and implement a whole series of other actions to ensure the security and way of using the obtained information. The information distribution must be timely because good information received at the wrong time can lose value.

In the reports of the European Commission (The European Commission, 2006) on the use of e-data and e-business in EU construction companies, three significant segments of IT application are (1) e-procurement, (2) web project web page and (3) "3D". Also, the carriers of ICT development are big construction companies because they have financial resources and human and ICT potential, such as the public sector - the famous customer of construction services and the driver of development policy.

Numerous authors from the region, in their research on the state of ICT technologies in construction, mainly present the following conclusions (Ivković & Popović, 2005):

- Management construction structures are conscious of the need to acquire knowledge and skills in information and other modern management areas (such as the application of PMI methodology). However, most of them do not have enough knowledge for the effective use of ICT and need additional education;
- Existing divided and disconnected ICT systems do not meet the needs of modern business (mostly, construction sites do not directly connect to company management, nor are they informationally in connection with contractors, or with their suppliers... or banks), ready-made software solutions are bought, and to a lesser extent, company employees make applications (Ivković et al., 2006);
- There is an awareness of the need to re-engineer business processes, but most

project managers or management do not have enough knowledge to carry it out (Maksimović & Stamatović, 2018);

- There is a lack of strategic development plans, and for these reasons, investments in IT are spontaneous, without a clear strategic goal (mostly only hardware equipment is purchased);
- The weak interest of companies in introducing international quality management standards and integrated management systems.

Construction projects have specific aims and constraints, such as the required time frame for project completion. Systems in construction are the most open type, which means that they do not only have a one-way reaction but adapt to external influences. The mutual impact of the system and the environment is carried out in the real-time and dynamic project management (The European Commission, 2008).

The development of project management software and the everyday use of computers and user devices simplify the mentioned business processes so that project team members can focus on thinking about project tasks, making plans and strategies, and assessing risks. (Milošević et al., 2022)

The research was conducted during July 2022 in cooperation with the Association of Small and Medium Enterprises and Entrepreneurs of Serbia. Companies that are members of the association in the area of Belgrade, central and western Serbia were surveyed.

The objectives of the survey, as a quantitative component of the conducted research, are: first - obtaining information about the most frequent and most influential risk events in the implementation of investment projects, and second - examining the real impact of the use of information communication technology (ICT) throughout the life cycle of the project on the success of the project.

## 2.1. AHP METHOD

In the paper, used mathematical method of the Analytic Hierarchy Process (AHP) enabled solving complex decision problems. The field of method application is a multi-criteria analysis where, based on a predefined set of factors and the value of the attributes for each alternative, a selection of the most acceptable solution can be made, intending to present the final order of all according to their importance (Saaty, The Analytic Hierarchy Process, 1980). Methodologically, the AHP method is a multi-criteria technique based on solving the complex problem so that the goal is at the top of the hierarchy while the criteria, sub-criteria, and alternatives are at lower levels (Milošević et al., 2022). The AHP method allows the interactive creation of problems as preparation for decision-making scenarios and then evaluation in pairs of the alternatives of the hierarchy. According to the determined model, the corresponding weight coefficients of all factors are calculated, whereby the sum of the weight coefficients of the elements at each level of the hierarchy is equal to one (1). This condition allows the decision maker to rank all alternatives in the horizontal and vertical sense. AHP provides qualitative measures of priority preferences of one opinion over another rather than asking individuals to enable an estimation of outcomes for all criteria.

The entire approach is based on the pairwise comparison concept to define the importance of a given number of factors (say  $n$ ) for a specific situation. A relative scale is used to compare two objectives simultaneously. AHP begins with the hierarchical decomposition of a complex multi-criteria problem where each level hierarchy consists of some factors suitable for handling and decomposed into a set alternative (Saaty, 2008). The second step is to use a measurement methodology to determine priorities, among others elements within each level of the hierarchy. The third step is to use AHP, to synthesize priority of elements, for determining general priorities for decision-making alternatives

In this paper, alternatives have been evaluated by experts in the field of investment project and IT engineering. The research was conducted using a combined methodology, collecting data from secondary sources in the theoretical framework of risk management, and at the same time data was collected through targeted analysis.

A pairwise comparison matrix provides information on the dominance of each alternative over every other alternative. In order to rank an alternative with respect to a criterion, we must first perform a measure, priority criteria, per unit of dominance of alternative through interviews and quantitative methods through questionnaires. In the phase of analysis and in the phase of interpretation of the results, the data collected in both ways are integrated.

Any comparison of the two elements of the hierarchy is done using the Saaty's scale (Saaty, 2008):

$$S = \left\{ \frac{1}{9}, \frac{1}{8}, \frac{1}{7}, \frac{1}{6}, \frac{1}{5}, \frac{1}{4}, \frac{1}{3}, \frac{1}{2}, 1, 2, 3, 4, 5, 6, 7, 8, 9 \right\} \quad (1)$$

The priority which one alternative has over another is expressed by descriptive values.

Based on the comparison in pairs of hierarchy elements, the appropriate matrix of criteria comparison is formed. The AHP method allows monitoring the consistency of the estimates at any time in the process of comparing the pairs of alternatives by using the indexes:

$$CI = \frac{\lambda_{\max} - n}{n - 1}, \quad CR = \frac{CI}{RI} \quad (2)$$

where: CI is the index of consistency, CR is the ratio of the consistency, RI is a random index (consistency index of the matrix), n is the dimension of comparison matrix,  $\lambda_{\max}$  is the maximum eigenvalue of a matrix. If the comparison matrix applies to the  $CR < 0.10$  alternatives priorities are counted as acceptable [12,13,14].

Once the estimates for each part of the model are entered, the information is synthesized to show the overall picture preference. This synthesis provides a report that ranks the alternatives against the overall objective.

Table 1: Values of a random index RI

n	1	2	3	4	5	6	7	8	9
RI	0.00	0.00	0.58	0.90	1.12	1.24	1.32	1.41	1.45

### 3. RESULTS AND DISCUSSION

The project takes place in the future concerning its planning, with certain uncertainties and risks. These risks have to be managed to eliminate or mitigate their impact. Finding preventive measures for risk management is necessary because projects take place in an environment that is constantly changing, so mechanisms for adapting to changes should be determined so that they do not harm the achievement of the project's goals. The risk factors of ICT application in the construction industry mainly mentioned are (Uzelac, 2002): maintenance costs; the unreliability of methods and techniques for measuring potential benefits; issues related to data security; there is no guarantee for the return of invested capital. Most of the considerations are referred to the number of costs (upgrading the existing ICT system, procurement and maintenance of software, learning).

Besides costs, another significant issue is - security - protection against data loss and software viruses, so state policies related to ICT and availability of resources. The application of ICT in construction projects synergistically connects modeling, project management and defining the risk management process through the stages of the project life cycle, planning methods and techniques for creating term plans, multi-criteria decision-making methods and decision-making methods in conditions of uncertainty.

The authors of this research focused on ranking five main criteria for ICT implementation in investment construction projects, shown in Figure 1.

The interactive creation of a hierarchy of problems, as a preparation for a decision scenario, was done, and then evaluation in pairs of elements of the hierarchy (objectives, criteria and alternatives) in a top-down direction. Then, the synthesis is carried out, and the



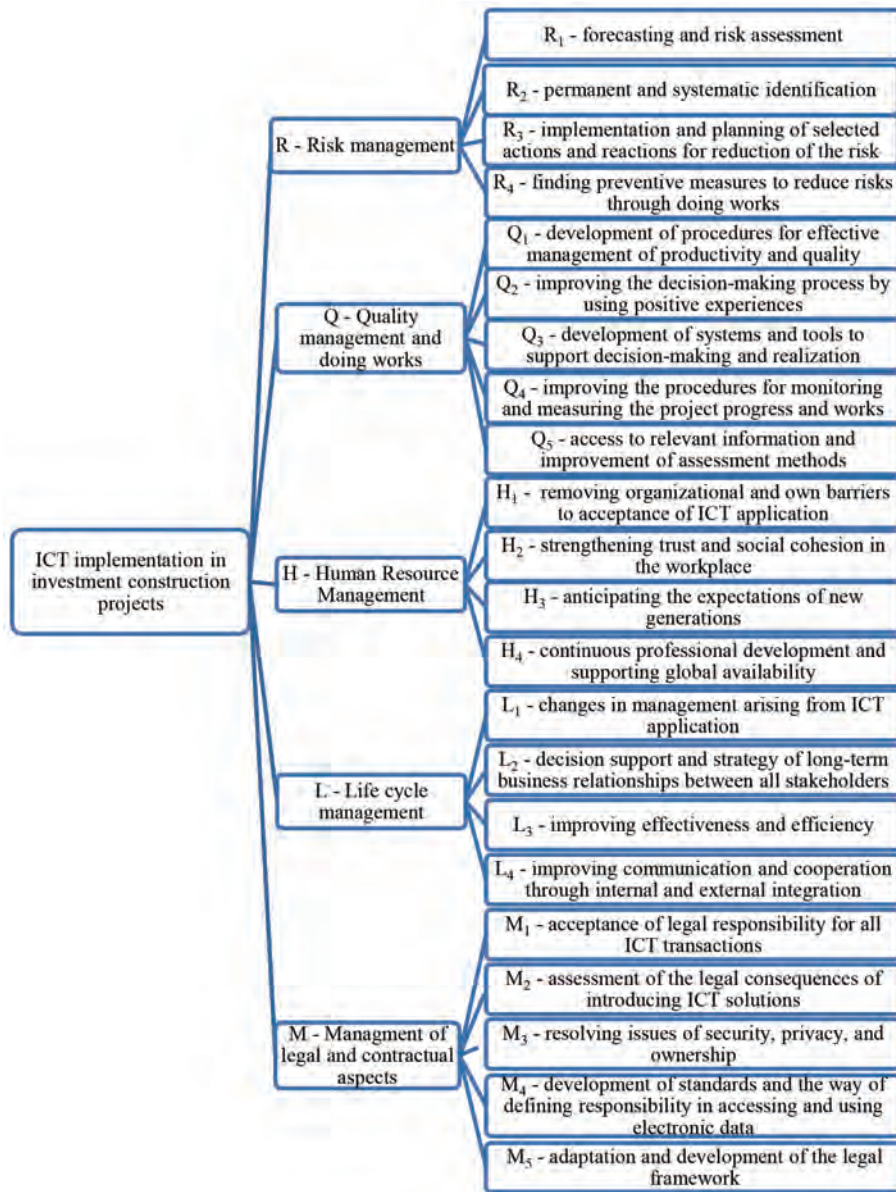


Figure 1. AHP structure

weighting coefficients of criteria  $W_C$  and alternatives  $W_A$  are calculated according to the established mathematical model. The sum of the weight coefficients of the elements is equal to 1, which allows the decision maker to rank all the elements. AHP method, step by step, compares alternatives and measures their impact on the objective and thus helps decision makers to make the right decision (Milošević, 2018). The mutual dependence of the estimates of five basic groups of factors is given in table 2, and the matrix of comparisons based on (1) and (2) is determined. It represents a comparison matrix of criteria at the first level. Since  $CI=0.00827851$ ;  $CR=0.00739152 < 0.10$  matrix

is consistent. The table contains appropriate weight coefficients  $W_C$ .

Table 2: Comparison matrix of criteria (R, Q, H, L and M) and corresponding priority vector ( $W_C$ ).

	R	H	L	Q	M	$W_C$
R	1	2	2	3	4	0.37600
H	1/2	1	1	2	3	0.21467
L	1/2	1	1	2	3	0.21467
Q	1/3	1/2	1/2	1	2	0.12089
M	1/4	1/3	1/3	1/2	1	0.07378

Table 3. presents a comparison matrix relating to an alternative of risk management and the corresponding weight coefficients ( $W_A$ ).

Since  $CI = 0.0034543$ ;  $CR = 0.00383811 < 0.10$  the matrix is consistent. Thus, finding preventive measures to reduce risks through work operations is more important than permanent and systematic identification with the relevant importance 3.

**Table 3: Comparison matrix in relation to the criteria R**

R	R <sub>1</sub>	R <sub>4</sub>	R <sub>2</sub>	R <sub>3</sub>	W <sub>A</sub>
R <sub>1</sub>	1	2	3	3	0.45541
R <sub>4</sub>	1/2	1	2	2	0.26283
R <sub>2</sub>	1/3	1/2	1	1	0.14088
R <sub>3</sub>	1/3	1/2	1	1	0.14088

Table 4. presents a comparison matrix relating to an alternative of human resource management and corresponding weight coefficients ( $W_A$ ). Thus, removing organizational and own barriers to acceptance of ICT application is more important than strengthening trust and social cohesion in the workplace with the relevant importance 2. Since  $CI = 0.0068734$ ;  $CR = 0.00763711 < 0.10$  the matrix is consistent.

**Table 4: Comparison matrix in relation to the criteria H**

H	H <sub>1</sub>	H <sub>2</sub>	H <sub>4</sub>	H <sub>3</sub>	W <sub>A</sub>
H <sub>1</sub>	1	2	2	4	0.43366
H <sub>2</sub>	1/2	1	1	3	0.23887
H <sub>4</sub>	1/2	1	1	3	0.23887
H <sub>3</sub>	1/4	1/3	1/3	1	0.08861

It follows that for the successful implementation of the project, it is necessary to provide a certain number of people with the appropriate professional profile who will be available when the project needs it. Because of the complex work, which characterizes construction projects, they are organized into smaller, more manageable units - work packages. This approach is known as the "Work Breakdown Structure" - WBS, through which the application of ICT significantly facilitates the monitoring of work tasks. In addition, construction projects are, in most cases, multidisciplinary, i.e. their realization is connected with the engagement of experts of different profiles - construction, finance, management and IT engineering, so the project manager should demonstrate skill in coordinating a variety of professional

vocations. The application of ICT in human resource management is a common name for continuous professional development, access to relevant information and knowledge during the realization of a construction project (standards, laws and regulations, models, cost estimates, products) (Hannus, 2003), development of decision support systems, use of positive experiences of others (best practice databases) etc. (Milošević, 2018).

In table 5, data present a comparison matrix relating to an alternative life cycle management. Improving effectiveness and efficiency is more important than the changes in management arising from ICT application with the relevant importance 3. Since  $CI = 0.0103278$ ;  $CR = 0.0114754 < 0.10$  the matrix of comparison is consistent.

**Table 5: Comparison matrix in relation to the criteria L**

L	L <sub>3</sub>	L <sub>4</sub>	L <sub>1</sub>	L <sub>2</sub>	W <sub>A</sub>
L <sub>3</sub>	1	2	3	4	0.46730
L <sub>4</sub>	1/2	1	2	3	0.27718
L <sub>1</sub>	1/3	1/2	1	2	0.16009
L <sub>2</sub>	1/4	1/3	1/2	1	0.09544

Comparison matrix relating to an alternative of quality management and work operations and corresponding weight coefficients are given in table 6. Since  $CI = 0.00908916$ ;  $CR = 0.00811532 < 0.10$  the comparison matrix is consistent. The essence is in preventive action, i.e. "quality assurance", that is, in establishing a working system that will provide a certain level of guarantee that all business processes take place following the planned and that there are no deviations from the requirements and that the final results will be following the expected according to the project request (Milošević et al., 2022) In this sense, "quality control" is only one way to achieve this, but by no means the only one.

The importance of ICT in quality management and performance is the following:

- improving the decision-making process for choosing the most favorable option;

- improvement of assessment methods; developing systems and tools to support project performances;
- improving the procedures for monitoring and measuring the progress of the project and the execution of the work itself;
- adoption of high standards of environmental protection, preservation of natural resources, health and safety, and worker safety;
- developing procedures for effective product management.

Table 6. Comparison matrix in relation to the criteria Q

Q	Q <sub>1</sub>	Q <sub>2</sub>	Q <sub>5</sub>	Q <sub>4</sub>	Q <sub>3</sub>	W <sub>A</sub>
Q <sub>1</sub>	1	1	2	3	4	0.31919
Q <sub>2</sub>	1	1	2	3	4	0.31919
Q <sub>5</sub>	1/2	1/2	1	2	3	0.18401
Q <sub>4</sub>	1/3	1/3	1/2	1	2	0.10934
Q <sub>3</sub>	1/4	1/4	1/3	1/2	1	0.06828

Comparison matrix relating to an alternative of management of legal and contractual aspects and corresponding weight coefficients are given in table 7. Since  $CI=0.00827851$ ;  $CR=0.00739152<0.10$  the comparison matrix is consistent. The essence is a good perception and understanding of the requests, needs and expectations and a realistic assessment of one's abilities to fulfil those obligations. In addition, the procurement management aspect is significant for construction projects. For the project to proceed smoothly, it acquires everything (material, equipment) on time. Software monitoring of these procedures significantly contributes to their better performances, so it is significant in the project planning phase to look at the type of activity and predict the time required for the realization of each (Dimić, Milošević & Milošević, 2018).

The management of legal and contractual aspects of the application of ICT in construction implies the assessment of the legal consequences of the introduction of ICT solutions into traditional practice, the adaptation and development of the legal framework, and the acceptance of legal responsibility for all ICT transactions, the development of standards

and the way of defining responsibility in accessing and using electronic data, resolving issues of security, privacy and ownership.

Table 7 Comparison matrix in relation to the criteria M

M	M <sub>4</sub>	M <sub>2</sub>	M <sub>3</sub>	M <sub>1</sub>	M <sub>5</sub>	W <sub>A</sub>
M <sub>4</sub>	1	2	2	3	4	0.37600
M <sub>2</sub>	1/2	1	1	2	3	0.21467
M <sub>3</sub>	1/2	1	1	2	3	0.21467
M <sub>1</sub>	1/3	1/2	1/2	1	2	0.12089
M <sub>5</sub>	1/4	1/3	1/3	1/2	1	0.07378

The proposed method performs the ranking 5 criteria and 22 alternatives, using all available data to find an optimal approach to drafting the investment construction project model from the viewpoint of ICT implementation. The precise implementation is realized by applying the AHP method of ranking factors with the recommended priority of importance. As in all comparison matrix  $CR<0.10$ , the condition of consistency is fulfilled, i.e. the relative importance criteria is acceptable. The results of ranking factors are shown in Table 8.

Table 8. Ranking factors

Factors	W <sub>C</sub>	W <sub>A</sub>	W
R <sub>1</sub>	.37600	.45541	.17123
L <sub>3</sub>	.21467	.46730	.10032
R <sub>4</sub>	.37600	.26283	.09882
H <sub>1</sub>	.21467	.43366	.09309
L <sub>4</sub>	.21467	.27718	.05950
R <sub>2</sub>	.37600	.14088	.05297
R <sub>3</sub>	.37600	.14088	.05297
H <sub>2</sub>	.21467	.23887	.05128
H <sub>4</sub>	.21467	.23887	.05128
Q <sub>1</sub>	.12089	.31919	.03859
Q <sub>2</sub>	.12089	.31919	.03859
L <sub>1</sub>	.21467	.16009	.03437
M <sub>4</sub>	.07378	.37600	.02774
Q <sub>5</sub>	.12089	.18401	.02225
L <sub>2</sub>	.21467	.09544	.02049
H <sub>3</sub>	.21467	.08861	.01902
M <sub>2</sub>	.07378	.21467	.01584
M <sub>3</sub>	.07378	.21467	.01584
Q <sub>4</sub>	.12089	.10934	.01322
M <sub>1</sub>	.07378	.12089	.00892
Q <sub>3</sub>	.12089	.06828	.00832
M <sub>5</sub>	.07378	.07378	.00544



Based on the AHP application, in this research, the following factors were identified as the most influential:

- forecasting and risk assessment -  $R_1$
- improving effectiveness and efficiency in lifecycle management -  $L_3$
- finding preventive measures to reduce risks of work -  $R_4$
- removing organizational and own barriers to introducing ICT -  $H_1$ .

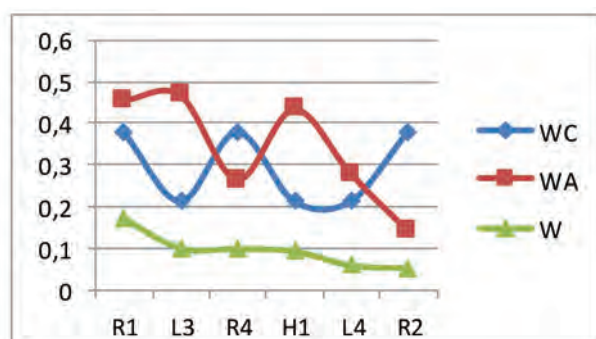


Figure 2. Priority factors

The obtained results (weight coefficients of the criteria and alternatives) can be used in further decision-making in the project. The exposed multi-criteria analysis can be used by decision-makers, i.e. managers who manage construction projects because it enables easy analysis of influential factors and parameters. Key factors point to the necessity of an information system for planning and controlling the implementation of such projects, which will be the goal of our further work.

#### 4. CONCLUSION

The purpose of this paper is the management methodology, estimation, analysis of factors and efficient measures for ICT implementation in investment construction projects. By adopting a list of priorities, participants in the implementation of projects will increase their success with the suggested model and the success of the entire project. The research presents that there are methods based on sufficiently structured data and the factors affecting the project success, i.e. that with an appropriate management policy, business processes can be improved and done riskless.

The application of information and communication technologies (ICT) in the management of construction projects takes place according to similar principles as in other areas, but with respect for the specifics related to the investment construction. The fact is that these projects are often related to infrastructure systems and that by their characteristics, as a rule, fall into investment projects, so their successful implementation requires a systematic approach to planning and analysis enabled through the model application of project management. The fact that projects are often related to infrastructure systems and that by their characteristics, as a rule, fall into investment projects, their successful implementation requires a systematic approach to planning and implementation ensured through the project management concept.

The paper highlights the life cycle of a project where the support of ICT application is the most important for the success of a project. The research results indicate which part of construction project management may be better by increasing the use of ICT. The presented multi-criteria decision-making model by the ranking factors and modelling the key priorities can provide decision-makers with holistic support and make the right decisions during the implementation of construction projects. The model is also an answer that eliminates risks, but it is also a step forward that can contribute to a better understanding and brief definition of individual factors that increase the success of projects by implementing ICT solutions or drawing attention to aspects that lead to the failure of projects. From all of the above, for the successful realization of construction projects, the ICT implementation is very significant for the project management from the very beginning, or rather, "all the strings" are held in the hands.

The author's intention is also to show how much expertise, application of knowledge and modelling are necessary for the implementation of ICT solutions in project management in our surroundings, it is a frequent phenomenon that the expertise in the technical area

to which the project relates is favoured, and other segments project management is neglected and considered formalism. In practice, there are rare situations in which a project is unsuccessful due to a failure in the technological part, but there are much more frequent situations with unsuccessful projects because they are not well managed. For this reason, the paper highlights the role of project managers, the importance of applying ICT and also

consideration of project management issues, among other things, due to the significant of learning lessons to repeat positive things and eliminate negative ones.

## 5. ACKNOWLEDGMENT

This research was supported by the Association of Small and Medium Enterprises and Entrepreneurs of Serbia.

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## VIŠEKRITERIJUMSKA ANALIZA IMPLEMENTACIJE IKT U INVESTICIONIM PROJEKTIMA: STUDIJA SLUČAJA GRAĐEVINSKIH PREDUZEĆA U REPUBLICI SRBIJI

**Sažetak:** Analizirajući primenljivost informaciono-komunikacionih tehnologija (IKT) u investicionim projektima i kontekst upravljanja rizicima, u radu je predstavljen koncept modeliranja situacije više kriterijuma i višeciljnog odlučivanja. Dat je kratak pregled i tumačenje višekriterijumskog odlučivanja u izgradnji osnovnih poslovnih procesa, gde je primena IKT najpotrebnija. Definisani su značajni kriterijumi i alternative i dat je najjednostavniji model transformacije kvalitativnih u kvantitativne attribute. Uvođenjem IKT-a poslovni procesi nisu potpuni, ali se kroz njihovu primenu stalno sagledavaju i analiziraju postojeće situacije. Primena metoda višekriterijumske analize jedna je od najkorisnijih matematičkih metoda za podršku odlučivanju tako da se kompleksnost svodi na niz poređenja kriterijuma i alternativa i sintezu konačnog rezultata. Istraživanje u ovom radu identifikuje faktore primene IKT u upravljanju građevinskim projektima za kreiranje modela koji mogu poboljšati performanse projekta i uspešno upravljati poslovnim procesima. Ovaj rad ima za cilj da ukaže na to da savremeni IKT pružaju velike mogućnosti i da su proaktivni pristup i preventivno delovanje efikasniji i mnogo jeftiniji od kasnijeg saniranja štete od efekata rizika. Nakon identifikovanja ključnih atributa, u zaključnim napomenama date su preporuke za njihovo prevazilaženje i uspostavljanje seta mera za opštu primenu IKT za unapređenje poslovnih objekata i praćenje globalnih trendova u ovom sektoru.

**Ključne reči:** informacione tehnologije; Upravljanje rizikom; investicioni projekti; višekriterijumska analiza



ORIGINAL SCIENTIFIC PAPER

RECEIVED: 11. 01. 2023.

ACCEPTED: 02. 03. 2023.

UDC: 334.726:336.221

COBISS.SR-ID 134041609

doi: <https://doi.org/10.61837/mbuir010223068s>

## MULTINATIONALS' TAXATION IN THE TIME OF GLOBALIZATION

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**Abstract:** *The era of globalization started in XX century has made many spheres of peoples' lives to become global. The same has happened with business operations and companies. It has become common to conduct business in two and more countries, even in more than two continents. Many shocks that had happened all around the world in last two decades just speed up the process of business globalization. Although this has brought many benefits, it is also faced with many risks both, for business and states' administrations, and even more for the world's wealth. Related with that, the international and regional organizations had initiated and realized the projects which resulted with reforms in many spheres of business operation, of which taxation is one of the most significant. This paper is dealing with the most important aspects of those projects and business globalization.*

**Keywords:** *multinationals; globalization; international organizations; taxation*

**JEL classification:** *K34, K33, K22, H26*

### 1. INTRODUCTION

Globalization as a phenomenon has appeared on the world's scene as a result of collapse of the communist system. Closed economy as a main characteristic of the communist system could not survive in the world where people and business tend to connect in many aspects. The drop of the Soviet communism in 1989 marked the begin of the new era, the era of globalization when the states slowly lose their power and the new global players take the main role in the world - companies that have spread their business in more countries, even

in more continents got the most influence on the global events, not only in economic sense, but also in making political decisions all over the world. There are data that in 2013, global corporations (known as "multinational companies", MNEs) are indicated making approximately 11% of the global GDP (Owens, 2013).

Certainly, development of the Internet and digital technology just speed up the process of globalization, as a phenomenon that once has started and cannot be stopped. All the borders have disappeared: not only economics' and political, but also social borders - people have become closer more than ever in the human

history (Gidens & Hanton, 2003). The main characteristic of the new era of globalization is interdependence and overlapping of various trends in different spheres: communications, industries, economy, financial markets, politics, etc. And all of them are, mainly, managed through Internet. The Internet has become the master of XXI century – almost everything in the modern world has become global, digital and online, and almost everything has become marketable good, even the life itself (Šiva, 2003) It could be said that such a trend had, not only significant, but the main influence on the power of the big companies: consolidation of many small companies in the group, enlargement of the business operations of the already big and powerful corporations, expansion of the cross-border activities and online transactions, etc. This produced the effect of the tail wind for many speculations and abuses of the companies all around the world on the one side, and the efforts of the international organizations and national governments to prevent and punish and disable such behavior and weakening of the nationals' economies and the global wealth. The OECD (Organization for Economic Cooperation and Development), UN (United Nations), IMF (International Monetary Fund), WB (World Bank), and various regional organizations had initiated, and implement or currently are implementing projects aimed to resolve the dangerous of rapid growing globalization. However, none of these organizations had been prepared to the current global crisis appeared as a consequence of the COVID-19 global pandemic that broke out in 2019-2020 and Russia-Ukraine war in 2022. As soon as the borders got opened for free traveling after the pandemic isolation, the war has started and made the recovery effects from the long isolation of people and close of national borders disappear at once, leading the world in deeper crisis – introducing embargo on Russian oil exports by many states and, related with that, economic and political sanctions to Russia caused the world to be faced with economic and financial crisis with global consequences: inflation of the global proportions; shortage of food, sources of drinking

water, fuel and gas for industry production and transport; disruption of Internet connections and online activities; endangering basic human needs and rights, etc. once again show how much the states and the whole world are related and interdependent – which is just one of the confirmation of the globalization.

But the globalization and interconnection of the states in the way they exist today is something specific for recent period and last two decades. The interstates' relation had been developed over time from "very poor" at the beginning of the XX century to very complex in XXI century This had led to the development of interstates' relations and cooperation in different spheres, of which economic is the second important one after the political sphere. And the taxes as the main generator of the national revenues are, certainly, the important issue "on the table" of interstates' relations.

## 2. DEVELOPMENT OF THE INTERNATIONAL TAX SYSTEM

The significant importance of taxation for the national economic power and interstates' relations had been noticed very early, at the beginning of the XX century, and especially after the First World War.

Taxation is one of the spheres where companies make the most illegal acts and abuses. Especially, this is the case with companies doing cross-border and online business, because these ways of business gives a lot of opportunities to hide profits and avoid paying taxes. Even more, the rules related with cross-border (international) taxation have been created in second and third decades of XX century when the states had been economically and financially weakened after the First World War. The states needed "fresh" capital for their economic recovery, and the companies and individuals from the business world got the opportunity for doing business crossing the national borders. Step by step, slowly, this opened the door for states' cooperation and creation of the international tax rules. Doing business and making income in two or more countries over time, required establishment of the precise

international rules to be applied by each state of business activity. Each state wanted to tax income made on its own territory, but also to tax income of its citizens no matter if the income was earned at home or in another state. Such interests of the states only could lead to the economic and financial conflicts and, consequently, to the new political and armed conflicts, which, certainly, had not been needed.

### 3. GLOBALIZATION OF THE BUSINESS ACTIVITIES

As already has been mentioned, the globalization, as the “main trend” of the last two decades of XX century and the current XXI century, has stimulated the growth of cross-bordering and making online almost all business activities. Also, it has stimulated the growth of the companies in size and making the majority of them to have business entities in different countries and become international (i.e. “multinational”). And the term “multinational” has become the global term used all around the world for international companies: “multinational companies” - MNCs or “multinational enterprises” – MNE. MNE is an enterprise operating in several countries and managed from one (home) country or more countries. It is a general view that company is multinational if it derives at least  $\frac{1}{4}$  of revenues from operations undertaken outside of its home country (IBFD, 1996). MNEs are the companies doing business and making profit in more than two countries (Stojanovic, 2014). They operate in all sectors of the economy and, usually, they include companies or other entities established and registered in two or several countries, with linked operations and close co-operation (OECD, 2011). The financial wealth and the economy influence on the states where doing business, made the MNEs to become important players on the global business and economic map. Not only in the spheres of the economics and business, but also in the sphere of the political relations between states, MNEs have an important role. Having this in mind, it has more than ever become clear that the rules of the international taxation established

in 1920s and 1930s do not fit and do not follow the rapid growth of business globalization and digitization of almost all areas of industry and social, cultural and other spheres of everyday life: the need for definition and establishment of the new international taxation rules and reestablishment of the existing ones have become urgent. As already have been mentioned in the Introduction of the paper: “there are data that in 2013, global corporations (known as multinational enterprises, MNEs) are indicated making approximately 11% of the global GDP”. Having in mind that MNEs have business activities and make profit in more than two countries, but also because of globalization, digitization, and ‘onlining’ and almost all or the biggest part of the business operation, these companies demand from national governments to define precise and transparent rules for the business: MNEs “want globally agreed rules which are consistently applied” (Owens, 2013). On the other hand, national governments and the international organizations require from MNEs to make their business transparent in each state of their business operations and to disclose precise data of their global income and profit made in each state, and resources used and spent in each state, because non-transparency and even, secrecy especially in cross-border business operations, had opened the space for many abuses and initiated global financial and economic crises in the first decade, continued in second and current third decade of the XXI century. “Between the requirements for making transparent and clear their business activities, requirement for tax transparency is one of the most important, because hidden profit and costs of the spent resources are in direct relation with national and global GDP and wealth.” (Stojanovic 2014)

Furthermore, the requirement for transparency of the business and other operations of the MNEs in their cross-borders, national and online activities is the main reason why the international and regional organizations are very active in drafting, initiation and realization of the projects that have both, international and national effects. It could be said



that the projects initiated by the OECD have the larger impact on the international and national aspects of business, but also in regions at all continents and in European Union. In this paper, the attention is paid to the projects related with taxation of companies generally and, especially, with taxation of MNEs as the powerful global players.

Although the projects of different organizations have been initiated separately, globalization and presence of the MNEs in all parts of the world made all the actors to work together trying to achieve the common goals (Stojanovic, 2014). This trend is now present more than ever to mitigate and overcome consequences of the global financial and economic crisis that broke out as the answer on general closing of national borders with an aim to prevent global COVID-19 pandemic in 2020 and current crises caused with Russia-Ukraine armed conflict. Many MNEs have used such situation and vaguely occasions for speculative operations to make and hide their profits.

#### **4. RECENT PROJECTS ORIENTED TO FAIR TAXATION OF THE COMPANIES**

The OECD as the international economic organization represents the interests of the world's most powerful economies and has the major impact on the global trends in taxation and fiscal spheres. "This organization was the first one that has initiated projects dealing with the issues of globalization, rapid expansion of the MNEs, "deletion" of the national borders, tax competition between jurisdictions, digitalization, financial crisis, etc. It is one of the first actors that had noticed potential danger of globalization and significant growth of the companies operating in two or more countries (Stojanovic, 2014). The Project on Harmful Tax Regimes (OECD, 1998) initiated in the last decade of XX century had been the one launched by the OECD as a leader organization fighting tax abuse and illegal tax behavior of all "business" taxpayers, especially MNEs. This project, originally, had been initiated to establish measures for prevention and tackling the influence of harmful tax competition

on investment decisions and tax consequences appearing in the economy of the states of investment. Having in mind decisive influence of the corporate tax regimes (especially, the tax rate and tax incentives), international actors realize that something must be done to prevent further actions of the national governments that have harmful impact on the neighboring economies. The OECD has started research and made the whole list of the measures to be undertaken to tackle the problem of the harmful tax regimes (Stojanovic, 2021). Parallel to the actions proposed by the OECD, the EU has undertaken measures to tackle the same problem within the borders of its Common Market. In the EU, harmful tax practices produce even bigger problems and higher costs because of the smaller market.

Initiated and started in the first half of the second decade of the XXI century, continued in the third decade of this century – the current OECD's project on Base Erosion and Profit Shifting (BEPS), certainly, has the biggest impact on the MNEs business operations and taxation all around the world. This project is focused on development of the new set of standards for prevention of double non-taxation; closer national and international cooperation, greater transparency in reporting and disclosure of certain data; development of multilateral instrument to amend bilateral tax treaties, but the main focus is on the digitalization, as phenomenon which is nowadays omnipresent (OECD, 2013). Originally, the BEPS project has been initiated by the G-8, continued by G-20, which asked the OECD to do research and make proposal on the actions preventing and eliminating tax avoidance and other abuses of the MNEs conducting the business worldwide. The Action Plan on BEPS was fully endorsed by the G20 in 2013. BEPS consists of 15 actions which, at the first glance, look like separated and independent one of another, but actually they are all closely related and are overlapping leading to achievement of a common goal - to make companies pay taxes where they do business and make profit. The actions are defined as following:

1. Addressing the tax challenges of the digital economy; 2. Neutralizing the effects of the hybrid mismatch arrangements; 3. Designing the effective controlled foreign companies rules; 4. Limiting base erosion involving interest deductions and other financial payments; 5. Countering harmful tax practices more effectively taking into account transparency and substance; 6. Preventing the granting of treaty benefits in inappropriate circumstances; 7. Preventing the artificial avoidance of permanent establishment status; Actions 8, 9 and 10. Aligning transfer pricing outcomes with value creation; 11. Measuring and monitoring BEPS; 12. Mandatory disclosure rules; 13. Transfer pricing documentation and country-by-country reporting; 14. Making dispute resolution mechanisms more effective; 15. Developing multilateral instrument to modify bilateral tax treaties. (Stojanovic 2017; Stojanovic, 2021)

The breaking out of the COVID-19 pandemic at the very end of the second decade of the XXI century resulted with significant drop of the “real” business and financial activity, but the close of the national borders even more speed up the already started digitalization of the business operations as defined in the Action 1 of the BEPS project. Companies that have been already doing their business *online* profited, others if wanted “to survive” the period of COVID-19 blockade, had to become digital. The states were focused on prevention of further spread of pandemic and curing already infected citizens, paying little or no attention on online abuse activities of the companies. Small or no control by the national governments and slowing the realization of the international projects (mainly BEPS), have given the large companies space to evade their tax duties around the globe. After the first wave of the global pandemic, states were mainly focused and put a lot of efforts to recover their economies which were faced with economic losses caused with close of national borders; suspension of travelling, export-import and other types of cross-border activities; minimum or no industry activities. However, the most powerful economies decided to stop

such a behavior of the MNEs and prevent breaking out new global financial and economic crisis: endorsed by the G-20, with an aim to implement the Action 1 of the BEPS – “digitalization”, the OECD proposed the global minimum tax as following: “the countries would apply the minimum tax to nearly any multinational company making more than €750 million (\$870 million), though some kinds of income will be exempt from that calculation”. Primarily, the rules will allow a country where a company is headquartered to “top up” its taxation of the company if it’s paying less than 15% in another country (Bloomberg, 2021).

The global minimum tax is defined in two pillars: the pillar one is oriented to the reallocation of the taxing rights between the countries of the business operations of the MNEs; the pillar two is oriented to the global anti-base erosion mechanism (global minimum tax). By the end of October 2021, totally 137 states have joined the two-pillar solution to reform the international tax rules and to ensure multinationals pay tax where they make profit. Adoption of these pillars, especially pillar two, would have significant effect to the trend of global base erosion and, certainly, would distract large companies to hide their profits in low-tax jurisdictions making certain tax and business arrangements using base and conduit companies to evade their tax duties. (Stojanovic, 2021) While in 2021, the OECD and national governments were focused on the effect that will be produced by the implementation of the pillar two solution, in 2022 the international attention is paid on the effects of the pillar one implementation. Pillar one rules applies to the biggest and most profitable MNEs that allocate parts of their profits to the countries where they sell their products and provide their services. Within the pillar one, two solutions are defined - known as Amount A and Amount B. The Amount A is based on a comprehensive scope that uses quantitative thresholds to determine whether a MNE is subject to the rules on Amount A. This means that any MNE that meets the scope thresholds will have to apply the Amount A rules,

regardless of what type of business it undertakes: the MNEs with revenues greater than EUR 20 billion and with profitability greater than 10% will be in scope of Amount A. These thresholds apply to the entire MNE using the financial data in MNE's consolidated financial statements. In exceptional cases when MNE does not meet the profitability threshold, but a segment reported in the MNE's consolidated financial statements (a 'Disclosed Segment') has revenues greater than EUR 20 billion and profitability greater than 10% on a standalone basis, the MNE's profit will be subject to tax - the Disclosed Segment will be in scope of Amount A.

It seems that the exclusion of profits made by the sectors of extractive industry and regulated financial services has been formulated more to satisfy the interest of national governments to collect taxes, than to protect interests of the companies operating in these types of industries: the exclusion for extractive industries (mining, oil and gas companies) is about protecting the right of source countries to have the sole right to levy tax on the profits related to the extraction of valuable resources that uniquely belong to the people of that country; the exclusion for regulated financial services is related to the unique nature of regulation of that industry (particularly capital requirements) that already drives substantial alignment between the location of taxable profits and the market, as well as the unique complexity and cost that would be introduced for tax administrations to administer the complex rules necessary to make Amount A fit for purpose for that industry. (OECD, 2022)

The goal of introducing the pillar one is to ensure a fairer distribution of profits and taxing rights among countries in relation to the largest MNEs (mainly, digital companies). It would re-allocate some taxing rights over MNEs from their home countries to the markets where they have business activities and earn profits, regardless of whether firms have a physical presence there. Under pillar one, taxing rights on more than USD 125 billion of

profit are expected to be reallocated to market jurisdictions each year.

Another part of pillar one (Amount B) would make it easier to identify how much tax might be owed on marketing and distribution activities in countries (Bunn, 2022)

Under the pillar two, the national competition over corporate income tax will be minimized or disappear using mechanism of a global minimum corporate tax rate. The global minimum corporate income tax with a minimum rate of 15% is estimated to generate annually around USD 150 billion in additional global tax revenues. Further effects are going to be achieved by increasing stabilization of the international tax system and the greater tax certainty for taxpayers and tax administrations. The so called "GLOBE rules" are intended to be implemented as a part of a common approach and are going to be brought into domestic legislation from 2022. (OECD 2021)

Although the proposal on two pillars is intended to increase certainty in taxation of the MNEs and to ease rapid expansion of business digitalization, it seems that many ambiguities still exist and many answers need to be given to clear key elements regarding its implementation. The coming public consultations and the period in front of us will show success or failure of the OECD proposal.

## 5. CONCLUSION

The era of globalization has started in XX century and continued in XXI century; started with the failure of Soviet communism and appearance of Internet, in recent years it experienced rapid expansion – digitalization of almost everything in everyday lives enable constant (24 hours per day) connection of people from different parts of the world. The same is with business world and financial markets. And the global close of national borders and suspension of all physical connections for a while because of COVID-19 pandemic just speed up already started process of digitalization. But, each coin has two sides – everything good has its own bad side – although digitalization and "onlining" almost everything ease



peoples' lives and business operation, it is also faced with many dangers and abuses. Related with business, there are the tax abuse and tax evasion of the large companies doing business around the globe. Such a behavior is directly related with inefficiency of the international tax rules established in 1920s and 1930s when the business operations required physical presence in each state of activity and "real" cross-bordering for delivering goods and services. Today, when the majority of business operation is doing online and using digital technology, especially when the delivering of intangible goods dominate over tangibles, it is more than evident that the rules defined at the beginning of XX century do not fit to the changed (global) world. This fact has been noticed early, in 1990s, when the first signs of the international tax system got into global scene.

XXI century and recent events – financial and economic crisis that broke out in 2008; financial, economic and political problems and turmoil in the EU; many blockades caused with the COVID-19 pandemic; Russia-Ukraine conflict and the US interference, and globally crisis in goods and food production, use of drinking water; global warming, etc. made "the world to come to the edge". And the questions to be asked are: how long this will last; how deep the world need to go down; how many people need to die and how much the Earth has to be destroyed ... to realize that the whole world is interdependent and connected and that globalization is with us to bring us benefits, not conflicts, wars, extermination and enrichment of politically powerful minority at the expense of poorer majority.

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## OPOREZIVANJE MULTINACIONALNOSTI U VREME GLOBALIZACIJE

**Sažetak:** Era globalizacije koja je započela u KSKS veku učinila je da mnoge sfere života ljudi postanu globalne. Isto se desilo i sa poslovanjem i kompanijama. Postalo je uobičajeno poslovanje u dve i više zemalja, čak i na više od dva kontinenta. Mnogi šokovi koji su se desili širom sveta u poslednje dve decenije samo su ubrzali proces globalizacije poslovanja. Iako je ovo donelo mnoge koristi, takođe je suočeno sa mnogim rizicima, kako za poslovanje tako i za državnu administraciju, a još više za svetsko bogatstvo. S tim u vezi, međunarodne i regionalne organizacije su pokrenule i realizovale projekte koji su rezultirali reformama u mnogim sferama poslovanja, od kojih je oporezivanje jedna od najznačajnijih. Ovaj rad se bavi najvažnijim aspektima ovih projekata i globalizacije poslovanja.

**Ključne reči:** multinacionalne kompanije, globalizacija, međunarodne organizacije, oporezivanje

ORIGINAL SCIENTIFIC PAPER

RECEIVED: 10. 01. 2023.

ACCEPTED: 21. 04. 2023.

UDC: 338.124.4(100)"2022"

COBISS.SR-ID 134042633

doi: <https://doi.org/10.61837/mbuir010223076d>

## GLOBALISATION AND ECONOMIC CRISIS IN 2022

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**Abstract:** Globalization in the conditions of the economic crisis has proven to be a very dangerous terrain producing the even bigger gap between developed and undeveloped countries. Information technologies are present in all spheres of human life and work and helps the globalization process to get into the top speed is very difficult to control. In the situation of the pandemic of COVID-19, we already seen drastically different policies which was applied not just in field of medicine, but also in economies around the world. We were a witness of protectionist measures that were applied to protect national economies even in the most developed countries, which is totally contrary to neoliberal economic policy and globalization. The current intervention in Ukraine and the introduction of sanctions against Russia have further particularly harmed the EU economy, leading to an energy crisis. That crisis caused a rise in inflation which as a financial pandemic spread very quickly in Europe, and countries all over the world. Globalism also caused creation of „general and global culture" without traditional values, national and cultural heritage, and helped process of losing cultural, economic, and political sovereignty specially in developing countries.

**Keywords:** globalization; inflation; economic crisis; energetic crisis; sovereignty

### 1. INTRODUCTION

What happened with globalization process in condition of powerful development and implementation of information technology? It looks like the information technology drive globalization process on a higher level of top speed, but speed which seems that is totally out of control. Does that mean, that globalization process seems to end, or it will just transform in some other process known as hiper globalisation.

There is a lot of benefits that comes through globalization process like: free movement of raw materials, goods, labor and capital. However, figures shows that those processes helped developed countries more than under-developed and developing countries.

Anti-globalists claim that it led to unipolar world, and hegemonic rules of most powerful countries, which cause process of denationalization and creating of multiculturalism represented as "general and global culture". That culture is culture without traditional values, national and cultural heritage.



Lockdown because of COVID 19 produce even more problems in economies of countries. The whole world was a shocked, and not well prepared for global pandemic of COVID19.

In the new era, it was at least unexpected possibility for most countries. Lockdown produce a big loss, even for the industries who very quickly transfer to remote work. Sector of certain services suffered great losses, while the pharmaceutical industry, and manufacturers of drugs, and vaccines, multiplied their wealth for several times.

We are witness of unexpected transfer of wealth that was done not just between the countries, but also through within different economic sector and industries. Multinational companies with its global economic and financial strength became more and more powerful, and stronger than economies of some countries. World is in process of constantly and very fast economic and political changes.

After the COVID 19, crisis in health sector make more deep problems in an economic sector. Because of the economic crisis, political crisis was also expected and practically announced.

Political crisis is present in the world through decades, but just on a different place. Does world globally always was that much unstable environment, or it is a phenomenon of modern days?

Currently, there is a lot of political crises around the world, but no one is such monitored as a crisis in Ukraine. Russian military intervention in Ukraine is considered separately among other crisis and is a most analyzed question. Why? Because of energy.

## 2. GLOBALISATION AND OCASIONS OF NEW ECONOMIC CRISIS

In this chapter, we will discuss about diferent occasions of actual economic crisis. It was driven at first by COVID 19 and lockdown of many countries and its economies. Some industries fast transfer does remote work, but for lots of jobs it was not possible regarding protection measures. After COVID 19 we are faced wit war in Ukraine who leads us to

energetic crisis because of implementation of sanctions to Russia.

Russia is the biggest country in the world with the very large reserves of gas, which is so much important, specially for the European countries. That means that Europe is dependent of Russian supply of gas.

But why than large numbers of countries introduce sanctions against Russia? There is no adequate economic reason for that procedures. Does we forgot negotiation, or it comes so much difficult that we do not have other solution. We do not speak in this paper about politics, but we speak about economies, about energetic crisis and raising of inflation caused by them.

That crisis will cause lots of damages around the world, but price of that crisis is certainly not paid by multinational companies nor big and developed countries. It seems that all effects of crises are transferred to undeveloped and developing countries. That means that reach will be richer, and poor will be poorer.

We are witness that war usually comes because of economic crisis. So, when we have inflation and energetic crisis, the importance of supply with energy to obtain normal functioning of economy is the top priority for each country who does not have enough energy resources.

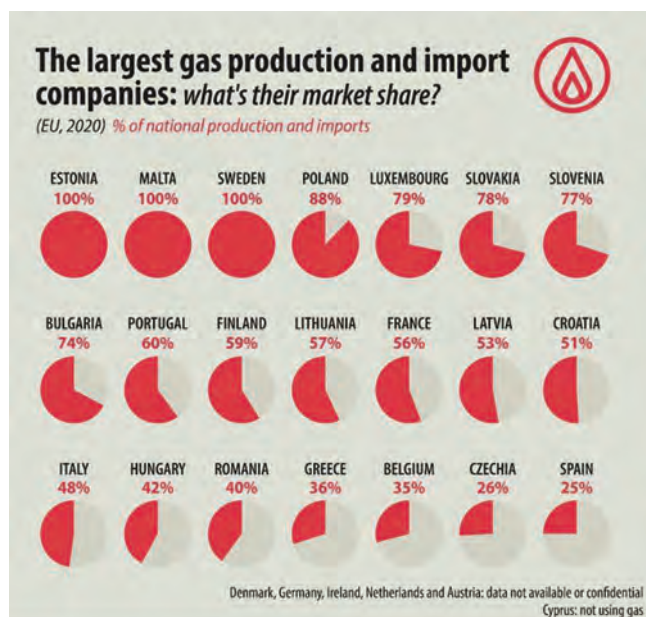


Fig. 1. Inflation trend in Europe since 2000

Source: Reference [1]

How countries faced with problems of inflation and energetic crises can be recovered. First, each country has some specific comparative advantages, of its economy and territory.

That means that we have lots of specific imputes about we should take care, and we cannot make a unique receipt for all of them.

We should create a specific economic recovery measure for each country because the neo-liberalism and globalism were really lockdown by COVID 19, and energetic crisis little after. Globalism suddenly was shocked by pandemic and energetic crisis.

It was so expected that sanctions will produce energy crisis with vary bad effect for all country in the world, and specially Europe. That crisis very quickly caused the raise and spread of inflation around the world.

Now, before a winter it looks more like dangerous and unstoppable financial pandemic. That inflation is named as "imported inflation" because it comes outside a special harm little and undeveloped countries. That countries unfortunately pay big price of globalization.

Most of European countries does not have enough reserve of energy, so the question is where we are going in term of economy of the EU countries?

Even the strongest economies in Europe have realized that in the conditions of a drastic increase of energy prices, all other prices will rise and a general increase in inflation will occur.

Increasing prices of energy multiple the effect of inflation. Because we deal with the raise cost of transportation on every step from raw materials to final products. How to stop the inflation in a global world is a most important issues of all economies.

There is a lot a benefit of open market, but in situation of crisis economies must make, a measure specific to each country to help its economies on the road of recovery.

The world bank recommends rising of interest rates. Does that will be helpful for little countries which are not financial in depended? The raise of interest rates will keep the money in banks developed countries to increase

liquidity and provide enough money for the purchase of gas and other energy products due to the increase in their prices.

Foreign banks operating in developing countries will not receive money from their mother branches. Then, they must increase interest rates in operating country to attract capital. That will cause also raise of interest rates for loans.

Previously facts will not help to economy of concrete country. Contrary it will reduce the economic activity because lot of entrepreneurs and companies will not be able to get a loan.

What can be useful receipt for the little developing countries. First through monetary and fiscal policy disable increase of interest rates on deposits, and stimulate economic activity, and production.

That will stimulate economic activity and growth that will enable a healthy treatment of the falling economy. The recipe sounds simple, and it begs with question what will we do with multinational companies who are powerful more than whole economy of entire states? Who will regulate them? Which monetary and fiscal policy will regulate their activity?

We do not have answer on those questions because they operate independently creating a rule which correspond to them, using an advantage of big capital who raise and became bigger and bigger, more powerful.

But we cannot succeed in everything, in every policy. Industries and activities that have the most prospects for prosperity and growth should be supported. Free movement of raw materials, goods, labor, and capital. however, helped developed countries more than underdeveloped and developing countries.

That means the powerful companies became much more powerful, and developing countries became more vulnerable.

The Europe, and a whole world have a problem with reduction in economic activity who became even bigger and bigger. Global market evaluates and adapts to new changes, and most of countries was unprepared to this situation.

The result is a change in consumer behavior, primarily a reduction in consumer spending on goods and services and an increase in savings. The pandemic has also produced an indirect effect on the economy following governmental decisions to enact lockdowns to reduce the spread of the virus. On the one hand, the lockdowns and restrictive measures contributed to a slow-down of economic activity, leading to shocks in both supply and demand, a decline in employment and production, and supply shortages [2].

There are many supporters of globalism, but also opponents on the other side but in every sense and aspect, it is an unstoppable process. He is certain as a day who comes after night.

Certainly, like every social period, globalism is a subject of changes and modifications. It is expected that in this global era, due to the rapid changing, development and application of IT technology, globalism will probably lead us to a totally new hyper global society.

In such circumstances, when information circulates at an incredible speed, the economic circumstances in which companies operate change very quickly.

In such a constantly changing environment, only those who are very well informed, who follow the trends, and who use the obtained information to gain a comparative advantage can survive.

That advantage in qualitative and in time get information obtain the owner of information's not just to survive, but also to prevent bad influences from the outside. That means that in addition to information, we must also consider negotiation skills. Why it is important? Because in line to good negotiating skills we will have opportunity to get the information, and to use them on the most proper way.

Negotiations at the beginning of the 21st century face an international environment that is very different from the one a century ago. First, the number of subjects of international law has increased enormously - instead of less than fifty sovereign states at the beginning of the 20th century, there are now

almost two hundred of them. The multitude of intergovernmental, non-governmental and transnational organizations and groups makes the international matrix much richer and more complex. The IT revolution, media globalization and the growth of large multinational companies, whose financial power and influence are often greater than many smaller countries, create a qualitatively different global arena where the most diverse negotiation processes take place [3].

Globalization is not necessarily a bad process. It depends what kind of economic politics we present to take all the chances and avoid all the threats that comes through that open market.

Countries that are rich in energy resources have used globalist processes for strong economic growth and strengthening of their economies.

Countries that are not rich in energy resources, and do not have other natural resources, are usually at a low level of development, have a high unemployment rate, a large foreign trade and balance of payments deficit, which they usually try to solve by additional state borrowing. In the situation when they become economically dependent, states initially lose their political sovereignty immediately with their economic sovereignty.

Therefore, first, each country should determine what its long-term goals in economic communication with foreign countries are, to establish a consistent policy of economic performance, to provide material resources for such performance, to train capable personnel who will implement it. If one of those elements is missing, the degree of success of its economic presentation and the results of its presentation are seriously reduced. If all those necessary preconditions are provided, favorable conditions are created for the realization of the functions of economic diplomacy.

Economic diplomats lead a daily, not at all polite, battle with competitors in search of confidential economic information, they compete to win new or expand their presence in old markets, they conduct painstaking



negotiations, often from the position of economic power, not paying much attention to etiquette and polite diplomatic rhetoric. Their professionalism (we would also say patriotism, although that word belongs to a different sphere) is reflected in an excessive fight for the economic interest or profit of their company and the country as a whole[4].

### 3. IMPORTED INFLATION CONECTED WITH ENERGETIC CRISIS

The fact is that opportunities for development and economic growth are not equally given to everyone.

How we can reduce the impact of imported inflation if we are in a group of little and developing countries. We cannot make influence on price of energetic, but we of course can make some measures and create adequate politics.

If we know that imported inflation relates to price of energetic, we can make politics of savings of energy, and to create programs that will reduce their consumption, and to stimulate the user for saving.

Also, savings can be made with transfer to other energy resources and with popularization of alternative resources of energy where we have economic profitability in production of that kind green energy. So, on the one hand we have a cost that are so much important, and on the other hand savings of energy, also very important globally. With these two tools we can make great improvements and reduction of costs.

In the literature, and in practice, there has been a growing interest in residential consumption, since it is at very high levels in many countries, even exceeding the industrial consumption. For this reason, many countries implement different policies to reduce electricity consumption by households, but the results are not always visible. Researchers in the field of consumer behavior also find this topic interesting and conduct research that has the goal to determine the influence of various factors on electricity consumption and behavior to provide empirical evidence for better policy making. [5]

Inflation directly affects the finances of companies, causing a reduction in liquidity. Companies don't have enough money for normal economic activity, and they need to borrow money from the banks. But banks, and complete financial sector in situation of crisis than have more restrictive risk rules.

That cause that banks in approval process for loans, guaranties, overdrafts, became much more careful. They always consider the liquidity of companies, analysis of financial report, analysis of stability of business and loan history.

So, just these companies who have good financial parameters can apply and ask the money from the bank. But even then, when financial statements tell us that company is doing well, it is not enough for getting desired amount of money.

After the financial analysis, the most important is qualitative opinion of the key account, and approval manager about the reputation of the client, and realistic performance of their business. Restrictive loan policy prevents financial institutions to make mistakes and I threaten its business through unpaid loans.

Again, we have a problem how help companies to survive because they are important to the state not just because of the GDP, TAX, but also because of social moment and deepening of the crisis.

To prevent serious social disturbances state must create health and powerful economic policy which will help companies to successfully goes through the crisis and to survive.

Economic policies in the situation of globalization are very complex and there is a very large number of factors that influence it, so it is very difficult to create an adequate mix that will give results. In a very fast changing environment there is no place for mistakes, and for other chances.

Global economic policies in recent history can hardly be well planned in the long term. It does not mean that we should not make them for a long period. It is more likely that we have a frame of politics, and inside the frame a lot of different combinations for every specialty

occasion. Because of that, short term policies are very important but in the same time observed with long-term forecast of economic trends. They are request constant fine-tuning in an ever-changing environment.

If we look the historical data of inflation trough the European countries, we can see the big discrepancies. Specially, we have a sudden jump of inflation in Europe in 2020 because of COVID 19 and the energy crisis caused by the introduction of sanctions against Russia in 2022 due to its military intervention in Ukraine.



**Fig. 2. Inflation trend in Europe since 2000**

Source: Reference [6]

In the period of economic instability, the rising inflation hurts liquid corporate assets. As the prices of the raw materials and other inputs rise, the company spends more on financing its operating activities. Moreover, managers who anticipate further inflation build stocks of raw materials and other inputs to cope with the inflation risk reducing the cash holdings even further. When the nominal interest rates rise due to the higher inflation, managers are assumed to try to reallocate the cash holdings into interest-bearing assets that are cash substitutes and are also cash equivalents. Thus, inflation may have an adverse effect on the corporate cash holdings. [7]

We saw what happened with inflation, and with price of energy, but what happens with unemployment. The next chart represents Unemployment rate (as a % of labor force) in Europe.



**Fig. 3. Unemployment rate (as a % of labor force)**

Source: Reference [8]

We can see that unemployment rate is falling but does we can keep that trend in condition of further energetic crises. Controlled little percent of inflation is a good for stimulating economic activity, but if she comes to greater percent than we deal with negative effects of inflation that causes a loss of wealth.

To stop inflation highly generated by COVID 19 and energetic crises is currently the top issue of all economies in the world.

#### 4. DIFFERENT RECOVERY MODEL

Different model of recovery of economies needs to be released in dependence of each economy. Developed countries decided to raise interest rates on deposits to collect more money in the banks. But does that model helps the undeveloped and developing countries. No, because if interest rates rise, then the money became more expensive for all companies who financing trough banks.

IF loans became more expensive, than companies are faced in the multiplication effects of inflation. Higher prices of energies, higher prices of loans, cause increase the necessary amount of funds, which is necessary to carry out economic activities. Does that helping the companies or reduce its capacity to survive and make a profit?

For developing countries that receipt will cause more problems and reduce the economic activity. On the other hand, we can consider the different model of subsidy for both, for developed and developing countries.

In an energy crisis, governments should stimulate international cooperation within countries from which energy sources are procured in order to achieve mutual compensation through greater interstate exchange

## 5. CONCLUSION

There is a solution for every problem, regardless of whether it is economic, social, or political. If we detail analyze all parameters of a problem and specials define the cause of the problem, we can also make an adequate mix for solution that will help to solve the problem that we have. It is just important to careful look at all parameters of the problem. The conclusion is that each country should make its own economic policy that will enable the verification in cases of crisis to pass with as few consequences as possible. It is perfect when a solution can be found that does not conflict with global economic policy and trends, but it is a reality that we cannot wait for the big economies to see what they will do? We can't apply the same economic policy, because we don't have that financial strength and compatibility of developed countries. What policy should implement the depended states who does not have influence on the economic scene in the financial sense? Due to globalization, it is very important to look at the impact of the same multinational companies on the local economy of the countries where they operate. What gives vitality to an industry is the small and medium-sized business that should be encouraged to maintain the vitality of concerned economy. Countries that are not rich in energy sources certainly cannot avoid the impact of increased inflation, but they can make a savings program and use the stimulation of those sectors in which they have a comparative advantage to compensate for losses due to external factors. As a strategic advantage of every state, it is currently necessary to ensure independent and self-sustainable food production

If the country is dependent on the import of energy and food, then it is in a situation where it has no possibility of influencing economic

trends and is totally subject to the influence of external factors.

If there is a problem with the supply of necessary goods, serious social problems may arise. This means that these countries have totally lost their economic sovereignty, and without economic sovereignty there is no political sovereignty either.

We were introduced with a good and bad effects of globalization. What is for shure is taht this process is unstoppable. The power of money is the financial power of multinational corporations who are so strong that can resist every change. Given the set of circumstances, it is crucial to conduct such a policy that will bring the least damage, and it is impossible to avoid damage in global inflationary trends, especially when we are also faced with an energy crisis. So just as neoliberals, i.e., the free movement of labor, raw materials, goods, and capital, enabled a new global growth. Then, we also have a domino effect that can drag a relatively healthy economy into crisis. In both cases, as a rule, the strongest will do the best and take the biggest part of the cake when it comes to profit, and when it comes to the crisis, they will try everything to prevail it on the other dependent states. Because of that an adequate adjustment at the economic level is necessary to avoid that threat. What gives the vitality of an economy is the small business and middle sector, which should always be stimulated because the growth of this segment is becoming more and more dispersed in the various activities. If we put all the money and all the cards on a couple of big companies as the bearers of the economic highway of an economy, then the fall of such companies in terms of their success would cause the collapse of specific states as well. In this sense, Germany has always wisely taken care of the small business and middle sector, stimulating its development in parallel with the development of its large strategic companies. If we are faced with the new faith of a new social order called hyper globalism, then we can say that the reality is that the world economy is under the baton of a small number of members of the global world elite and their



conceptual creation of a new society and a totally new hyper-accelerated neoliberal. That process to the creation of an even greater gap between the rich and the poor. Time will show how democratic the new society is. States and

their companies have no choice but to listen the new impulses of the global market and try to adapt to them because they have neither the economic strength nor the power to oppose them, or influence to change them.

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## GLOBALIZACIJA I EKONOMSKA KRIZA 2022. GODINE

**Sažetak:** Globalizacija se u uslovima ekonomske krize pokazala kao veoma opasan teren koji stvara još veći jaz između razvijenih i nerazvijenih zemalja. Informacione tehnologije prisutne su u svim sferama ljudskog života i rada i pomažu da proces globalizacije uđe u najveću brzinu koju je veoma teško kontrolisati. U situaciji pandemije COVID-19 već smo videli drastično različite politike koje su primenjivane ne samo u oblasti medicine, već i u privredama širom sveta. Bili smo svedoci protekcionističkih mera koje su primenjivane za zaštitu nacionalnih ekonomija čak iu najrazvijenijim zemljama, što je potpuno suprotno neoliberalnoj ekonomskoj politici i globalizaciji. Sadašnja intervencija u Ukrajini i uvođenje sankcija Rusiji dodatno su posebno naškodili ekonomiji EU, što je dovelo do energetske krize. Ta kriza je izazvala porast inflacije koja se kao finansijska pandemija veoma brzo proširila Evropom, ali i zemljama širom sveta. Globalizam je takođe izazvao stvaranje „opšte i globalne kulture“ bez tradicionalnih vrednosti, nacionalnog i kulturnog nasleđa i pomogao proces gubljenja kulturnog, ekonomskog i političkog suvereniteta posebno u zemljama u razvoju.

**Ključne reči:** globalizacija, inflacija, ekonomska kriza, energetska kriza, suverenitet



# **LAW AND SECURITY STUDIES**



## ORIGINAL SCIENTIFIC PAPER

RECEIVED: 10. 08. 2023.

ACCEPTED: 20. 08. 2023.

UDC: 341.1: 502.131.1

551.583

COBISS.SR-ID 134043401

doi: <https://doi.org/10.61837/mbuir010223086d>

## SUSTAINABLE DEVELOPMENT GOAL13 IN INTERNATIONAL LAW

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**Abstract:** The idea of sustainable development has found its way into numerous national and international legal instruments. Its complexity and uncertainty have often sparked debate among international lawyers. Due to the wide dissemination of information on sustainable development, academic discussions have often been limited by the complexity of the concept and its flexible content. The sustainable development goals (SDG) enacted in 2015 are part of the UN's global development program and represent the summon for action to protect the planet and prevent climate change. They recognize that tackling climate change and improving the living conditions of the poor are both critical to the well-being of the planet's biodiversity. This paper aims to provide an in-depth analysis of the sustainable development goal 13 and its legal nature. Despite the positive effects of the COVID-19 pandemic, which has led to a reduction in greenhouse gas emissions, the situation is still very challenging. Climate change is one of the most demanding and complex environmental problems that governments around the world need to address. Its complexity makes it harder to implement legally-based actions.

**Keywords:** Sustainable Development, Climate Change, Climate Action, International Law, SDG 13

**JEL classification:** K12, K21

## 1. INTRODUCTION

The concept of sustainable development has often caught the attention of international lawyers due to its complexity and uncertainty (Barral, 2012; Bonanomi, 2015; Filipović, 2019; Koester, 2006). Its complicity has often sparked debate within international legal communities (Bosselmann, 2016:377). The Sustainable Development Goals were enacted in 2015 and are part of the UN's global development program (SDG UN, 2021; Herath,

2018). Notwithstanding the obvious mandate to integrate environmental, social, and economic objectives in the SDGs, the lack of ecosystem health has been lasting inadequately represented. The SDGs are a set of global goals that aim to address the most critical issues of our time, such as climate change and poverty. The new SDGs are in fact a lengthening of the Millennium Development Goals, dealt with during the period from 2000 to 2015 (Hering, 2017; Papas, 2017). These 17 goals are based on

the success of the Millennium Development Goals, but also include new priority areas such as climate change, economic inequalities, innovation, sustainable consumption, peace, and justice. Goals are interrelated as the key to the success of one goal often lies in perceiving the challenges inherent in another goal.

The SDG number 13 refers to one of the most challenging issues of overcoming issues and preventing climate change. It is one of the 17 goals established in 2015 to achieve sustainable development. SDG 13 has five targets and eight indicators of compliance. Targets specify goals, and indicators represent the metrics by which the world strives to monitor whether these goals have been achieved (UN SDG, 2021). SDG Targets are: 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries; 13.2 Integrate climate change measures into national policies, strategies and planning; 13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning; 13.A Implement the commitment undertaken by developed-country parties to the United Nations Framework Convention on Climate Change to a goal of mobilizing jointly \$100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund through its capitalization as soon as possible; 13.B Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries and small island developing States, including focusing on women, youth and local and marginalized communities (SDG UN, 2021).

## **2. LEGAL FRAMEWORK OF THE CONCEPT OF SUSTAINABLE DEVELOPMENT AT THE INTERNATIONAL LEVEL**

The first United Nations Conference on the Environment was held in Stockholm in

1972, and it is believed that it marked a turning point in the attitude of humanity towards the environment. Then, for the first time, a scientifically based warning comes at the global level that nature does not possess immeasurable and inexhaustible resources. A warning alarm has been activated that natural resources can no longer be exploited uncontrollably and excessively, without consequences for all of humanity. About ten years later (1983), the United Nations General Assembly passed a Resolution on the initiative to establish the World Commission on Environment and Development. In 1987, this commission published the report "Our Common Future". This report points out the consequences that uncontrolled demographic and economic growth can have on the environment and the need to define sustainable development (Brundtland, 1987:43). The mentioned Commission adopted one of the most frequently cited definitions of this concept in science, which states that it is "development that meets the needs of the present, without denying future generations the opportunity to meet their needs" (WCED, 1987). In June 1992, the United Nations Conference on Environment and Development was held in Rio de Janeiro (Brazil). It was the largest of all the United Nations conferences ever held. The conference was attended by nearly 10,000 official representatives from about 150 countries, as well as 116 national political leaders. The conference for non-governmental organizations attracted even more participants. This conference was attended by over 7,000 representatives of the "seventh force". Although a comprehensive conference, the summit participants did not manage to reach a solution and agreement on many issues. It was difficult to reach an agreement between countries on issues where different economic interests or deeply ingrained values were at stake. The greatest success of the 1992 World Summit is that it has linked the issues of development and protection of the environment for the first time. During the 1990s, Agenda 21 became the most prominent and influential (though not binding) document in the field of sustainable development in most countries in the world.

In most European countries, administrative regions and municipalities have adopted, according to Agenda 21, their own action plans, in order to specifically define what sustainable development means for them. Agenda 21 is one of the key documents adopted at the summit in Rio de Janeiro (Miossec, 2014). It is a declaration of intent and a commitment to sustainable development in the 21st century. There are 40 chapters on about 500 pages, from the topic of poverty, protection of the atmosphere, forests, water resources, through health, agriculture, environmentally sound management of biotechnology to the issue of waste disposal. What is new in relation to other United Nations documents is the explicit recognition of the roles of “important groups”, such as women, children, and youth, farmers, and entrepreneurs. Since 1992, the United Nations has begun to rely more and more on the role of these groups in its programs, unlike previous practices that excluded all participants except national governments and a few favored observer organizations. As one of the most important parts of Agenda 21, we can mention a group of chapters on the role of local authorities in devising a strategy for creating Local Agenda 21. From all over the world, various bodies stressed that they play a key role in the concrete implementation of “sustainability” at the local level.

The United Nations Framework Convention on Climate Change (UNFCCC) was adopted at the World Summit in Rio de Janeiro, Brazil, in June 1992. The Convention entered into force in March 1994 and has so far been ratified by 195 states representing the parties to the Convention (UNFCCC, 1992). It is important to point out that the main goal of the Convention is to stabilize the concentration of greenhouse gases “at a level that would prevent negative anthropogenic impacts on the climate system”, stating that “such a level should be achieved in a time frame sufficient to allow natural ecosystem adaptation to climate change, so as not to jeopardize food production, and to enable sustainable development.” The United Nations Framework Convention on Climate Change

aims to stabilize concentrations of greenhouse gases (hereinafter GHG) and prevent negative anthropogenic impacts on the climate system (UNFCCC, 1992). The Republic of Serbia ratified the Convention in 2001. The convention emphasized that industrialized countries are expected to do the most in terms of reducing such emissions. These industrialized countries are defined as Annex I states and are required, inter alia, to report regularly on their policies and measures in the field of climate change and to submit their annual inventories of GHG emissions. Industrially developed countries have also agreed to support climate change efforts and activities in developing countries by providing financial support (grants, loans, etc.). The Republic of Serbia belongs to the group of developing countries, which report on their activities aimed at combating climate change and adapting to changed climate conditions. Given that Serbia belongs to the group of non-Annex I countries, there are no quantitative obligations to reduce greenhouse gas emissions in the first binding period. However, the Republic of Serbia has all obligations in terms of establishing and implementing measures and activities to achieve the objectives of the Convention.

In addition to the UN Framework Convention on Climate Change, the Kyoto Protocol was adopted in Kyoto (Japan) in December 1997, with the aim of achieving better implementation of the Convention. The main goal of the Kyoto Protocol is to reduce global anthropogenic GHG emissions by at least 5% compared to the reference year 1990, in the first binding period, 2008-2012. The main difference between the Protocol and the Convention is that the Convention encourages industrialized countries to reduce GHG emissions, while the Protocol obliges them to do so (Leimkühler, 2010). More accurately, Kyoto Protocol, for the first time, establishes legally binding limits for industrialized countries on GHG emissions (Breidenich, Magraw, Rowley & Rubin, 1998).

As the relevance and dimension of the problem of environmental protection and further



development of humanity continued to grow, this led to the reunion of relevant experts and politicians of the world ten years after the Rio Conference at the 2002 World Summit on Sustainable Development in Johannesburg (Rio + 10) (UN, 2002). Sustainable development was once again at the center of the summit's interest, but the emphasis was placed on the problem of increasing human poverty in certain parts of the world. The convention pointed out that industrialized countries are expected to do the most in terms of reducing such emissions. These industrialized countries are defined as Annex I states and are required, *inter alia*, to report regularly on their policies and measures in the field of climate change and to submit their annual inventories of GHG emissions. Industrialized countries have also agreed to support climate change efforts and activities in developing countries by providing financial support (grants, loans, etc.). The Republic of Serbia belongs to the group of developing countries, which report on their activities aimed at combating climate change and adapting to changed climate conditions. Given that Serbia belongs to the group of non-Annex I countries, there are no quantitative obligations to reduce greenhouse gas emissions in the first binding period. However, the Republic of Serbia has all obligations regarding the establishment and implementation of measures and activities to achieve the objectives of the Convention. Certainly one of the most important agreements in this area refers to the Paris Agreement (UNFCCC, 2015), which can be said to be the first universal legally binding international climate agreement that set the goal of global warming of our planet to be less than 2 and striving to be less than 1.5 degrees Celsius by the end of the century. In November 2021, the British Government hosted the COP26 conference on environmental protection, which was attended by delegations from almost all countries of the world. At the conference, discussions were held on acting towards achieving the goals of the Paris Agreement and the United Nations Framework Convention on Climate Change.

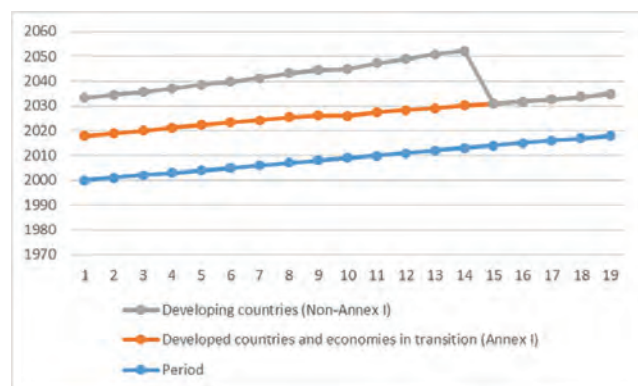
One of the major differences is that the UNFCCC process which frames the COP meetings and agreements is supposed to be legally binding in international law, while the procedure driving to, and the outcomes from, the SDGs are voluntary. Those agreements are based on the framework of the 2015-2030 period and share the same fundamental objective, which is to sustain human life without harming humanity (Kelman, 2017).

### 3. SUSTAINABLE DEVELOPMENT AND CLIMATE CHANGE PREVENTION

Climate change is affecting globally and touching all people on the planet. It is increasing the frequency of natural disasters, floods, wildfires, hurricanes, as well as droughts that are becoming more severe due to rising temperatures (SDGs report, 2020). The effects of climate change are affecting the lives of millions of people around the world. Therefore, most countries have largely started implementing national plans for adaptation to climate change.

Attempts to establish the legitimate status of SD have been made mainly by international law (Gan, 2012). For some, the concept of SD is still a political one, while others believe that it is already faced with the formation of a new branch of international law of SD (Kenig-Witkowska, 2017). The idea of sustainable development has found its way into numerous national, regional and international legal instruments. Its complexity and uncertainty have often sparked debate among international lawyers. Due to the wide dissemination of information on sustainable development, academic discussions have often been limited by the complexity of the concept and its flexible content. Rising temperatures on Earth, known in the scientific literature as global warming, can cause a variety of problems, such as the melting Arctic ice and rising sea levels (Thompson, 2017; Vihma, 2014). The concept of sustainable development was first discussed in 1987 in the Report of the World Commission on the Environment and Development (WCED, 1987). This concept has

become a global standard for addressing issues related to the environment and development. It has been noted that 2019 was the second warmest after 2016, which brought with it devastating weather disasters such as hurricanes, droughts, massive wildfires, and floods (SDGs report, 2020). The Graph 1 below shows the difference in total greenhouse gas emissions from developed and developing countries.



**Graph 1. Total aggregate greenhouse gas emissions of developed and developing countries (gigatons of equivalent CO<sub>2</sub>) (SDG UN, 2021).**

Source: (SDG UN, 2021).

The graph shows that total global greenhouse gas emissions in economies in transition and developed countries decreased by 6.5 percent between 2000 and 2018. Meanwhile, emissions in developing countries increased by 43.2 percent from 2000 to 2013. The reason for this situation is the increase in industrialization and improved economic production measured in terms of GDP. The notion of social development, which includes the ecological component, arises with the cognition that progress cannot be based solely on quantitative material growth, where “conquest of nature” and air contamination are understood as independent values. Given that the trend of negative impact of industrialization in the world is becoming more pronounced, the challenge for the international community is, above all, to achieve a balance between the intensity of exploitation of renewable resources and contamination of all environmental media (water, air, land) and time for their regeneration. Effective air quality management at the global level requires an adequate system of data

collection and analysis in the field of air quality and protection in all countries. In addition, for air quality management purposes, it is extremely important to ensure realistic presentation of pollution data and ensure compliance of national documents (strategies, plans and programs) with real problems and needs of air protection in local communities of the country where monitoring is performed. Namely, between different countries, regions or continents there is a great difference in the distribution of economic and natural resources, but also environmental pollution. Therefore, there is a need for environmental indicators to be presented according to geographical areas and local governments. The National Strategy for Sustainable Development of the Republic of Serbia was adopted in May 2008. At the time it was written, efforts were made to keep it in line with international strategies in this area and with numerous other development strategies adopted by the Government of the Republic of Serbia. The solutions given in the National Strategy for Sustainable Development are in line with European integration: the EU Sustainable Development Strategy (adopted in 2001 and renewed in 2009) and the Lisbon Strategy (adopted by the Council of Europe in March 2000). By doing this, the Government of the Republic of Serbia has shown interest in the issue of sustainable development and readiness to develop adequate policies and undertake appropriate activities in this area, but that in itself is not enough. Regarding air quality, the Government of the Republic of Serbia adopted the Decree on Conditions for Monitoring and Requirements for Air Quality (“Official Gazette of the RS”, No. 11/2010, 75/2010 and 63/2013), according to which the authorities of the Republic of Serbia, autonomous provinces and local self-government units within their competencies provide: measuring stations for fixed measurements in state and local networks; continuous measurement and sampling of pollutants at fixed locations; transmission, processing, validation and analysis of results obtained by measuring and taking samples and analysis; quality control of measuring procedures; maintenance of measuring

points, measuring instruments with accompanying equipment. ("Official Gazette of RS", No. 11/2010, 75/2010 and 63/2013). Some authors believe that in order to realize the idea of sustainable development in practice, it is more rational to think and act in the context of glocalism or the process of glocalization that connects the global and local. The main reason is that many forms of environmental problems extend beyond national borders (acid rain, climate change, ozone depletion, etc.). The concept of glocalization was introduced and widely explained by the British sociologist Roland Robertson, in order to point out the possibility of erasing the boundaries between the global and the local, adding that the local must be understood as an aspect and condition of globalization (Robertson, 2005). Robert Solow was the first to point to the demand for intergenerational equality in the use of natural resources so that every generation of people could have an equal right to enjoy the benefits of nature and the environment, and the development model that provides it can be considered sustainable (Solow, 1974).

The National Strategy for Sustainable Development of the Republic of Serbia defines this term somewhat broadly as a long-term concept that implies continuous economic growth, which, in addition to economic efficiency, technological progress, cleaner technologies, innovative society, and socially responsible businesses, also provides poverty reduction, long-term better use of resources, improvement of health conditions and quality of life, reduction of pollution to the level that environmental factors can withstand, as well as prevention of new ones (National Strategy for Sustainable Development of the Republic of Serbia, Official Gazette of RS, No. 57/08).

#### 4. CONCLUSION

The concept of sustainable development has been presented in various legal instruments. Its complexity often sparks debate among international lawyers. Sustainable development, as a development concept in which economic development is harmonized with ecological

possibilities in order to avoid environmental degradation, should enable a permanent increase in per capita income growth while preserving "natural capital". These are issues that are increasingly present at the international, national, and local levels. The main problem when it comes to the real possibilities of achieving sustainable development, outside the formally proclaimed documents, is how, and in what way to implement the global idea and agreement in practice on individual (local) examples of all countries. That is, how to implement it when there is a different level of economic and any other development in countries around the world, especially in developing countries, and to provide future generations with conditions that will not be worse than the conditions in which we live today. In this way, the requirements of sustainable development are imposed as problems that are addressed by a large number of countries in the world, but also local communities, which are paying more and more attention to this issue. Thus, local communities are classified into the group of those who think strategically, in the long run, and promote various segments of sustainable development in their territory. As one of the answers to the complexity of issues and activities related to environmental protection in local governments, a methodology for solving environmental problems through the development and implementation of Local Environmental Action Plans (LEAP) has been developed. The challenge of developing and implementing these plans is to define and harmonize all types of local community development in such a way that does not destroy existing ecosystems but improves the economic stability of the community while enabling a better and better life for current and future generations. One of the 17 Sustainable Development goals that was established in 2015 is tackling climate change. The concept of the goal is to prevent global warming from happening and achieving sustainable development. Climate change is already causing various natural disasters and increasing the frequency of these events. It is also contributing to the rise in extreme weather conditions. It is one of a major challenge



that affects all countries and regions. The UN's 2030 Agenda aims to strengthen the resilience and adaptive capacity of nations to address it. Striving to get closer to world and European trends, Serbia recognizes the importance of the concept of sustainable development, but what lags behind formal and normative progress is the adoption and implementation of practices conceived on sustainable development in everyday life. Another step towards meeting EU standards is achieved by Serbia's adoption of the Law on Climate Change (Official Gazette of RS No. 26/2021), which regulates the system for limiting greenhouse gas emissions and

adapting to changed climate conditions, monitoring and reporting on the low-carbon development strategy and its improvement, and the program of adaptation to the changed climate conditions, adoption of a low-carbon development strategy, and the program of adaptation to changed climate conditions, issuing permits for greenhouse gas emissions to the plant operator, issuing approvals to the aircraft operator's monitoring plan, monitoring, reporting, verification and accreditation of verifiers, administrative fees, supervision and other issues important for limiting greenhouse gas emissions and adapting to changed climate conditions.

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## CILJ ODRŽIVOG RAZVOJA 13 U MEĐUNARODNOM PRAVU

**Sažetak:** Ideja održivog razvoja našla je put u brojnim nacionalnim i međunarodnim pravnim instrumentima. Njegova složenost i neizvesnost često su izazivali debatu među međunarodnim pravnicima. Zbog širokog širenja informacija o održivom razvoju, akademske diskusije su često bile ograničene složenošću koncepta i njegovim fleksibilnim sadržajem. Ciljevi održivog razvoja (SDG) usvojeni 2015. godine deo su globalnog razvojnog programa UN i predstavljaju poziv za akciju za zaštitu planete i sprečavanje klimatskih promena. Oni prepoznaju da su rešavanje klimatskih promena i poboljšanje uslova života siromašnih od ključne važnosti za dobrobit biodiverziteta planete. Ovaj rad ima za cilj da pruži detaljnu analizu cilja održivog razvoja 13 i njegove pravne prirode. Uprkos pozitivnim efektima pandemije COVID-19, koja je dovela do smanjenja emisije gasova staklene bašte, situacija je i dalje veoma izazovna. Klimatske promene su jedan od najzahtevnijih i najsloženijih ekoloških problema sa kojima vlade širom sveta treba da se pozabave. Njegova složenost otežava sprovođenje pravno zasnovanih radnji.

**Ključne reči:** održivi razvoj, klimatske promene, klimatske akcije, međunarodno pravo, SDG 13

ORIGINAL SCIENTIFIC PAPER

RECEIVED: 01. 02. 2023.

ACCEPTED: 20. 03. 2023.

UDC: 3.077.3(497.11)

336.225(497.11)

COBISS.SR-ID 134051593

doi: <https://doi.org/10.61837/mbuir010223094k>

## THE SPECIFICITIES OF TAX PROCEDURE AS A SPECIFIC ADMINISTRATIVE PROCEDURE

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**Abstract:** *The specificities of tax procedure as a specific administrative procedure have been analyzed in this paper. The specificity of tax procedure in relation to the general administrative procedure is reflected in several elements. The author analyzes the relation between tax procedure and general administrative procedure, discusses the principles of tax procedure, the contents of tax law relationship, the initiation of tax procedure and tax acts. It is stated that tax regulations, which regulate tax procedure, contain certain departures from the general administrative procedure. It is pointed to the fact that provisions of the Law on tax procedure are satisfactory, but that the legislator did not align certain provisions with the provisions of the Law on general administrative procedure.*

**Keywords:** public revenue, procedure, principle, tax law relationship, tax act

### 1. INTRODUCTION

The tax procedure is a procedure of assessing, collecting and auditing public revenues, which is regulated by the Law. Legal rules are applied in the tax procedure and they regulate the relationship between tax authorities and taxpayers and other tax obligors, who enter into the tax law relationship when solving the tax related matters.

The substantive tax law regulates the rights and obligations of individuals and legal entities in regard with their tax law relationships. The substantive tax regulations include legal principles that regulate the basic elements of taxation: tax obligor, object of taxation, tax base, tax rate and tax reliefs. These principles are included in tax regulations. The substantive tax regulations contain abstract legal rules, which

should be applied to specific cases, that is, to certain individuals or legal entities.

In order to apply the substantive tax regulations adequately to concrete cases, legal rules are passed and all tax authorities, individuals and legal entities must obey the rules during the implementation of tax laws and other substantive tax regulations in concrete cases. These legal rules are called the tax procedure or tax procedural rules. The rules of tax procedure are also included in tax regulations and they are called formal tax regulations or procedural tax regulations, that is, regulations of tax procedure. This means that procedural tax regulations include rules that regulate the acts performed by tax administration, individuals and legal entities during the implementation of substantive tax regulations in specific cases (Milošević, 2021:143).



Considering that the substantive tax law is in specific cases implemented with the help of tax acts, mainly with the help of tax administrative acts, the rules of tax procedure stipulate the jurisdiction of tax authorities that are authorized to implement tax regulations in concrete cases, as well as concrete ways of acting, that is, specific acts that tax authorities have to perform while passing certain acts. These rules should enable collecting all facts according to which a tax administrative act will be passed. The rules of tax procedure regulate the rights and obligations of tax obligors and other persons involved in the tax procedure. Therefore, formal tax regulations are aimed at securing the adequate implementation of substantive tax regulations. The absence of rules of tax procedure could cause arbitrariness, and even the self-will of tax authorities, which could lead to the inadequate implementation of substantive tax law regulations (Kulić, 2013:105).

## **2. THE RELATIONSHIP BETWEEN TAX PROCEDURE AND GENERAL ADMINISTRATIVE PROCEDURE**

The relationship between tax procedure and general administrative procedure is the relationship between specific and general. This relationship results from the relationship between tax law and administrative law. Tax law is the segment of objective law that regulates fiscal (tax) public revenues (that is, tax in general sense) (Popović, 2010:16). Administrative law, as a branch of legislation, is the positive law that represents the system of legal regulations that regulates public administration and administrative-legal relations (Kulić, 2017:3). The subject matter of administrative law includes administrative-legal relations that are common for administrative acting of authorities of government administration in all administrative fields, while the subject matter of tax law includes administrative legal relations that are specific only in relation to administrative acting of tax authorities in the tax field. However, it is hard to define the borderline between these two scientific disciplines because their subject matters are often mutually interconnected (Vasiljević, 2015:6).

In the legal theory, there are two viewpoints regarding the relationship between tax and administrative law. According to the first viewpoint, tax law is not an autonomous law, and it is a segment of administrative law. This viewpoint starts from the premise that the tax law relationship is an administrative-legal relation by its nature. According to the second viewpoint, which is more acceptable, tax law is autonomous in relation to administrative law. Tax law was separated from administrative law and thus became a separate branch of law. In order to determine the nature of tax law relationship, which contains administrative as well as property-related components, it is significant to determine which element is prevalent. The separation of tax law from administrative law happened due to the specificity and significance of the property element in its subject matter. Although in both tax and administrative law, legal rules that regulate the relations between public authorities and private-legal subjects are implemented, and although a formal (administrative) component exists in the tax law relationship, one may conclude that property-related (material) element is prevalent in the tax law relationship, which makes the tax law an autonomous legal discipline in relation to its object, task and methods (Popović, 2003:8).

With regard to the relationship between tax and administrative law, it should be said that tax authorities are administrative bodies and that in tax procedures they act as administrative authorities. Tax administration, as a segment of government administration, is regulated by provisions of administrative law. The activity of tax administration is shown through issuing tax administrative acts and performing tax administrative acts. The relationship between these two branches of law is the relationship between specific and general. Therefore, the principles of administrative law are accepted in tax law (Kulić, 2018:17).

Tax procedure is a special administrative procedure. General administrative procedure includes uniform general rules of administrative procedure in the process of passing

administrative acts. The regulations about general administrative procedure contain such rules that are common for operations and actions of all bodies of government administration and holders of public authorizations during the implementation of substantive regulations related to solving of administrative matters. A special administrative procedure includes special rules of administrative procedure in the process of passing the administrative acts. A special administrative procedure is implemented in cases when regulations of general administrative procedure cannot be applied, and therefore, it is necessary to pass special rules in certain administrative matters, as well as special ways of operation when solving administrative matters. Namely, some matters of administrative procedure for the certain administrative field may be regulated by law differently than it is stipulated by the Law on general administrative procedure, only if it is necessary for performing actions in that administrative field. Provisions of the law, which due to the specific nature of administrative matters in certain administrative fields regulate necessary departure from the rules on general administrative procedure, have to be in accordance with the basic principles stipulated by the Law on general administrative procedure. Provisions of special laws that regulate special administrative procedures cannot reduce the level of protection of rights and legal interests of parties, which are guaranteed by the Law on general administrative procedure. Thus, the Law on general administrative procedure has been raised to the level of basic law (Kulić, 2018:17).

The subject matter of tax procedure includes solving tax matters, as a type of administrative matter. A tax matter is an individual matter that is solved when substantive tax regulations are applied to a specific case. This procedure includes assessing, collecting and auditing all public revenues, which is performed by tax authorities. The specificity of tax procedure in relation to general administrative procedure is reflected in the fact that the practical aim of the tax law relationship is to provide sufficient

income for the government necessary for accomplishing its functions, which is achieved by the obligation of paying tax.

Tax procedure is regulated by the Law on tax procedure and tax administration<sup>1</sup>, as well as other legal regulations. If an issue from within the scope of tax procedure is regulated differently by another law, provisions of this law are applied. When some issue is not specifically regulated by provisions of tax law, norms of administrative law are applied (Popović, 1997:17). In other words, if an issue from within the scope of tax procedure is not regulated by the Law on tax procedure and tax administration, tax procedure is conducted according to the principles and provisions of the Law on general administrative procedure.<sup>2</sup> Thus, it is regulated by the Law on tax procedure and tax administration, unless otherwise provided under this law, that tax procedure is conducted according to the principles and provisions of the law that regulate general administrative procedure<sup>3</sup>, that is, according to the provisions of the law regulating the inspection oversight. This means that the Law on general administrative procedure serves as a subsidiary (additional) law when the Law on tax procedure and tax administration is implemented.

The Law on tax procedure and tax administration applies to all public revenues collected by Tax administration, unless otherwise provided by another tax law. This Law applies to the so-called secondary tax duties including: 1) interest on owed tax and 2) costs of procedure of enforced collection of tax. The Law on tax procedure and tax administration applies to tax and secondary tax duty, which according to the Law, is collected by local self-government.

<sup>1</sup> Law on tax procedure and tax administration published in Official Gazette RS, no 80/2002, 84/2002 – correction, 23/2003 – correction, 70/2003, 55/2004, 61/2005, 85/2005 – other law, 62/2006 – other law, 63/2006 – correction of other law, 61/2007, 20/2007, 20/2009, 72/2009 – other law, 53/2010, 101/2011, 2/2012 – correction, 93/2012, 47/2013, 108, 2013, 68/2014, 105/2014, 91/2015 – authentic interpretation, 112/2015, 15/2016, 108/2016, 30/2018, 95/2018, 86/2019 and 144/2020.

<sup>2</sup> Law on general administrative procedure published in the Official Gazette of RS, number 18/2016 and 95/2018 – authentic interpretation.

<sup>3</sup> Article 3, paragraph 2, Law on tax procedure and tax administration

### 3. THE SPECIFICITIES AND PRINCIPLES OF TAX PROCEDURE

When tax procedure is conducted, tax principles that are prescribed by the Law on tax procedure and tax administration must be taken into consideration. Due to the subsidiary implementation of Law on general administrative procedure, basic principles of administrative procedure that are prescribed by that Law are of importance for the tax procedure, as well.<sup>4</sup> The legal significance of these principles means that provisions of tax acts, if they are not clear, have to be interpreted with regard to these principles.

In The Law on tax procedure and tax administration, the following principles of tax procedure are stated: 1) principle of legality; 2) principle of temporal applicability of tax relations; 3) principle of allowing a review of facts; 4) principle of confidentiality in tax procedure; 5) principle of acting in good faith and 6) principle of facticity.

#### 3.1. PRINCIPLE OF LEGALITY

The principle of legality is one of the basic principles of tax procedure, as well as general administrative procedure.<sup>5</sup> According to this principle, tax authorities solve tax matters based on the tax laws and other regulations that are passed on the basis of authorizations from these laws. A similar provision is included in Article 5 of the Law on General Administrative Procedure.

The Tax Administration is obliged to exercise all rights and obligations related to the tax law relationship in keeping with the law. The Tax Administration is obliged to establish all facts relevant for passing a legal and correct decision, dedicating equal attention to the facts that are in favor of taxpayers and to their detriment. This actually refers to the requirement to establish the objective truth, that is, to establish accurately and completely all the

facts and circumstances that are important for passing the legal and correct tax administrative act. There are certain exceptions related to establishing the truth. Thus, for example, the tax base estimation by comparator method in Article 58a, point 3 of the Law on tax procedure and tax administration is performed by comparison with the data of other taxpayers performing the same or comparable activity at the same or comparable location, under approximately the same conditions, which may lead to the estimation of tax base that does not correspond to the real state of affairs of that taxpayer.

The principle of legality is fully expressed in cases when the Tax Administration is authorized to exercise discretion, that is, to act according to the free estimates. Discretion is exercised when the tax authority is authorized by tax regulations to choose between several possible situations when solving the concrete tax matter, that is, to choose the situation which is deemed to be the most appropriate one. Such is the authorization in Article 72 of the Law on tax procedure and tax administration, according to which the Tax Administration may enter a lien in the register of pledges immediately after the tax becomes due. However, the Tax Administration does not have to exercise this right in a concrete case if it estimates that it would not be suitable. In cases, when the tax authority can exercise discretion, it is obliged to act in accordance with the purpose of those authorizations and in keeping with the law. This means that the tax authority is obliged in these cases to comply with regulations regulating the tax procedure, that is, to conduct the entire tax procedure in keeping with law (Kulić, 2011:4).

#### 3.2. PRINCIPLE OF TEMPORAL APPLICABILITY OF TAX REGULATIONS

A tax liability is assessed based on the regulations that were in force at the time of its origination, unless certain provisions of the law are to apply retrospectively, in keeping with the

<sup>4</sup> Basic principles of administrative procedure are prescribed by provisions in Articles 5-15 of the Law on General Administrative Procedure.

<sup>5</sup> Principle of legality is regulated by provisions of Article 4 of the Law on Tax Procedure and Tax Administration



Constitution and the law.<sup>6</sup> There is one exception to this rule and it refers to a tax liability based on property taxes concerning calendar years following the year when the tax liability was incurred. Namely, this liability will be assessed based on the law governing property tax that was in force on January 1<sup>st</sup> of the calendar year for which the tax liability is assessed, unless certain provisions of the law are to apply retroactively, in keeping with the Constitution and the law.

As far as activities in the course of tax procedure are concerned, they are performed according to regulations in force at the time of their implementation.

### 3.3. PRINCIPLE OF ALLOWING A REVIEW OF FACTS

Prior to passing an administrative act determining rights and obligations of the taxpayer, the Tax Administration is obliged to, at his request, allow the taxpayer to review the legal and factual basis for passing such act.<sup>7</sup> By passing this principle, the legislator wanted to allow the taxpayers to review factual state according to which the tax authorities pass the tax administrative act, so that they could better protect their rights.

The difference should be made between this principle and the right of the party to make a statement, which is, as the general principle of the administrative procedure, defined by Article 11 of the Law on general administrative procedure, which is applied in the tax procedure based on the subsidiary implementation of Law on general administrative procedure. However, if all conditions from Article 104 of the Law on general administrative procedure are met, the tax authorities may directly solve the tax matter without taking a statement from the taxpayer.

<sup>6</sup> The Principle of Temporal Applicability of Tax Regulations is regulated by provisions in Article 6 of the Law on tax procedure and tax administration

<sup>7</sup> Principle of Allowing a Review of Facts is regulated by Article 6 of the Law on tax procedure and tax administration

### 3.4. PRINCIPLE OF CONFIDENTIALITY IN TAX PROCEDURE

1. The tax obligor is obliged to file the tax return in the tax procedure to the tax authorities and to deliver complete and true data about business operations, income and property, so that a tax liability could be established. Breach of data confidentiality may jeopardize the interest of taxpayers, as well as the public interest. Therefore, certain data are considered to be confidential data.<sup>8</sup> Data that are kept confidential in the tax procedure are the following:

- 1) every document, information, data or other fact concerning the taxpayer obtained by officials and all other persons involved in tax procedure in the course of tax, misdemeanor, preliminary investigation or court procedure, and
- 2) data on technical inventions or patents, as well as all other data on technological procedures applied by the taxpayer, obtained by officials and all other persons involved in tax procedure in the course of tax, misdemeanor, preliminary investigation or court procedure.

Breach of data confidentiality jeopardizes the interest of taxpayers and public interest of the Republic of Serbia, which override the interest concerning the access to information of public importance that is subject to data confidentiality, the disclosure of which may result in serious legal or other consequences to the interests protected by the Law on tax procedure and tax administration. All officials and other persons taking part in tax, misdemeanor, preliminary investigation or court procedure keep data confidentiality. The obligation to keep data confidentiality also relates to the above mentioned persons after the termination of their employment or capacity in which they obtained knowledge of the documents, facts or data. The obligation of keeping data confidentiality is also breached if the above mentioned

<sup>8</sup> Principle of Confidentiality in Tax Procedure is defined in Article 7 of the Law on tax procedure and tax administration

documents, facts or data are used or published without authorization.

2. Data confidentiality is not considered breached:

- 1) by an action to which the taxpayer agrees in writing;
- 2) if a particular document, fact or data cannot be connected with the particular taxpayer;
- 3) if a particular document, fact or data is disclosed in the course of tax, misdemeanor, preliminary investigation or court proceedings;
- 4) if the information in question is the taxpayer's tax identification number (TIN);
- 5) if a particular document, fact or data is used by competent authorities in the procedure of detecting criminal offences or misdemeanors;
- 6) if a particular document, fact or data, in keeping with the law, is delivered to an official of a foreign tax authority in the process of information exchange and provision of legal assistance;
- 7) if a tax guarantor is allowed to access data on the taxpayer, relevant for discharging the obligations arising from his relation with the taxpayer;
- 8) if a particular document, fact or data relevant for the existence of tax debt is delivered in keeping with the special law provisions, unless the volume of such delivery of documents, facts or data causes large costs or requires excessive engagement of Tax Administration employees, which the tax authority defines in each individual case, and
- 9) if a particular document, fact or data is delivered to an official of another state institution or organization, or territorial autonomy and local self-government authority in the process of information exchange required for undertaking activities within the scope of their respective competences.

The Tax Administration publishes on its web page at least once a year, at the last day of the calendar month preceding the date of publication, the tax debtors' business names or names and surnames, TINs and the amount of tax debt, for legal entities with a tax debt amounting to twenty million dinars and more and sole traders with a tax debt amounting to five million dinars and more, whereby data confidentiality obligation is not breached.

With regard to data confidentiality, in all other matters that are not regulated by the Law on tax procedure and tax administration, the tax authority is obliged to act in keeping with the law governing data confidentiality and the law governing personal data protection.

### 3.5. PRINCIPLE OF ACTING IN GOOD FAITH

Parties to tax procedure (tax authority and tax obligor) shall act in good faith. Good faith (*bona fides*) is a good intention, honor and conscientiousness. The frequency and duration of tax audit should be restricted to the extent necessary. In other words, the tax authorities should avoid frequent and too long audits of tax payers.<sup>9</sup>

### 3.6. PRINCIPLE OF FACTICITY

Tax facts are established based on their economic substance.<sup>10</sup> Tax law is associated with economic facticity, because the object of taxation includes facts that point to the existence of certain economic power in a taxpayer. Concealing the economic substance behind the legal form could jeopardize the principle of equity in taxation. Thus, for example, it is stipulated by provisions in item 1 of Article 29 of the Property Tax Law that if no valid contract of real estate sale has been concluded, pursuant to the law dealing with the sale of real estate, tax liability is deemed effective on the date the buyer or participant in sale took possession of the real estate concerned. If one would insist on legal effects of the contract

<sup>9</sup> Principle of Acting in Good Faith is defined by Article 8 of the Law on tax procedure and tax administration

<sup>10</sup> Principle of Facticity is defined by Article 9 of the Law on tax procedure and tax administration

of real estate sale, in which the form was not fulfilled (the contract was not concluded in the written form, or if it was concluded in the written form, the parties' signatures were not certified), such a contract would be considered void and the transaction could not be liable to a tax although it factually happened. However, the principle, according to which tax facts are established based on their economic substance, is relevant in situations which are not explicitly defined by tax laws. When such authorization is used, the tax authority should take care that the legitimate legal transaction, regulated by rules of obligation or other branches of private law, is not jeopardized. Therefore, if there are no evasive motifs in a taxpayer, the tax authority will not apply the principle that economic substance is more important than legal form. If one may conclude from the circumstances of the case that in mixed legal affairs, in order to evade tax, a taxpayer chose one legal form instead of another, the tax authority will have to explain the elements that indicate the factual state (overriding essence) in a decision on assessing tax, and to provide documentation which explains why the legal form was not accepted in that individual case (Popović, 17).

If a simulated legal transaction is used to conceal a different legal transaction, the base for assessing the tax liability is the dissimulated legal transaction. Simulated legal transactions are those transactions that conceal other legal transactions. Here parties conclude one (dissimulated) legal transaction in reality, while they present that they concluded another contract (simulated). The simulated legal transaction is considered void, while the dissimulated transaction is valid if it in itself fulfills all conditions for validity (Kulić, 7).

When income is earned contrary to regulations, or when property is acquired, the tax authority will assess the tax liability in keeping with the law that regulates a particular kind of tax. Thus, for example, if an individual without the consent of authorized bodies provides auto-mechanic services, the tax authority will assess tax liability to income earned by

independent activities in keeping with the provisions of the Individual Income Tax Law.

#### 4. CONTENTS OF THE TAX LAW RELATIONSHIP

The operations of participants in the tax procedure lead to their mutual tax law relationships. The tax law relationship is understood to mean a public law relationship encompassing tax procedure-related rights and obligations of the Tax Administration, on the one side, and an individual or legal entity, and open investment fund, that is, alternative investment fund that does not have the status of legal entity, but which is registered in keeping with the law, on the other side, regulating the following: 1) obligation of an individual, legal entity or fund to pay tax, secure a tax liability, and pay secondary tax duties and the Tax Administration's right to demand the fulfillment of these obligations; and 2) obligation of an individual, legal entity or fund, in keeping with the law, to assess tax or to collect the withholding tax on behalf of the taxpayer, keep the prescribed accounting records, file tax returns, submit the requested documents and data to the Tax Administration, not to make payments in a manner other than the prescribed one, allow a Tax Administration official to inspect their business operation and other statutory obligations to act, refrain from acting or tolerate, for the purpose of timely and correct payment of tax, as well as the right of the Tax Administration to demand the fulfillment of these obligations.<sup>11</sup>

In the tax law relationship, the individual, legal entity and the fund are entitled to: 1) a refund of overpaid or erroneously paid tax or secondary tax duties, as well as to a tax return when provided by a separate tax law; 2) a tax reimbursement or tax rebate in keeping with the tax law; 3) apply a tax credit against a tax liability or secondary tax duties, and 4) apply the overpaid or erroneously paid tax or secondary tax duties against other due liabilities, through transfer to another tax account. Other

<sup>11</sup> The contents of tax law relationship is regulated by provisions in Article 10 of the Law on tax procedure and tax administration



rights of an individual or legal entity and obligations of the Tax Administration related to the tax law relationship are regulated by the law. Tax credit is the amount by which a tax liability is reduced.

If these persons opt for a refund of overpaid or erroneously paid tax or secondary tax duties, as well as for tax reimbursement or rebate, or settlement of other due liabilities through transfer to another tax account, the Tax Administration has to issue a decision at request without delay, no later than 15 days from the receipt of such request, unless otherwise provided under the tax law. Together with the request for the refund of overpaid or erroneously paid tax for pension and disability insurance, a taxpayer submits the decision of the Republic Fund for Pension and Disability Insurance about the established right to refund tax for pension and disability insurance. A taxpayer may submit the request online via the portal of Tax Administration or in a written form – directly or via postal service.

If a taxpayer delivers a document in a language and alphabet not used officially by the tax authorities in keeping with the law governing the official use of language and alphabet, the tax authority will set a time limit which may not be shorter than five days for the taxpayer to deliver a certified translation into the Serbian language. If the taxpayer fails to deliver the certified translation within the provided time limit, the document will be deemed not delivered.

Although there are two components of tax law relationship (property and procedural), this relationship is understood to mean a unique entity. The uniqueness of the tax law relationship results from the fact that all its institutes are directed at one aim – paying tax (Popović, 2007:21).

## 5. THE SPECIFICITIES OF THE INITIATION OF TAX PROCEDURE AND TAX ACTS

1. Tax procedure is initiated by the Tax Administration *ex officio*, and exceptionally

at a party's request. The time of initiation of procedure is regulated differently in tax procedure in comparison to general administrative procedure. Pursuant to Article 33, item 2 of the Law on tax procedure and tax administration, tax procedure is initiated when the Tax Administration undertakes any action in order to conduct a procedure. The time of the initiation of procedure is regulated in the same way in Article 92, paragraph 2 of the Law on general administrative procedure, relating to the initiation of procedure *ex officio*, which is in the party's interest. However, pursuant to Article 91, paragraph 1 of the Law on general administrative procedure, the procedure is initiated at party's request upon the receipt of the party's request. Pursuant to the paragraph 3 of the same Article, the procedure that is initiated *ex officio*, and which is not in the party's interest, is deemed to be initiated when the party is informed on the act of initiation of procedure.

If the Tax Administration establishes, at a party's request, that the conditions for initiating the tax procedure have not been met, in keeping with the law, it passes a conclusion thereon, which can be appealed against.

2. A tax act is the act, by which the Tax Administration establishes, in keeping with tax and other regulations, the rights and obligations of the tax obligor or other individual or legal entities, or performs an action in tax procedure. Tax acts include the following: 1) a tax decision; 2) conclusion; 3) tax audit order; 4) tax audit summons; 5) tax audit report and tax audit; 6) other act initiating, supplementing, modifying or completing an action in tax procedure (for example the report on verbal information from Article 45, paragraph 6 of the Law on tax procedure and tax administration, the report on the sale of movables from Article 104, paragraph 23 of the same law etc.).

A tax administrative act is an act, by which the Tax Administration in tax procedure applies the tax and other regulations to individual cases in order to establish the rights and

obligations of a taxpayer. This act represents a unilateral declaration of Tax Administration in cases stipulated by tax laws. It is the act, by which authoritative decisions are made in individual tax matters. A tax administrative act is an individual act, which means that it refers to a specific tax obligor, who was a party in the tax procedure, in which that act was passed.

A tax administrative act is passed in written form, or in the form of an electronic document in accordance with the regulations governing electronic documents. Other tax acts are passed in written form when it is prescribed by this Law or at the taxpayer's request, or in the form of an electronic document in accordance with the regulations governing electronic documents. Exceptionally, an official of the Tax Administration may pass a tax act, which is passed in written form, verbal form and order its execution without delay, if the procedure of tax collection or audit is jeopardized. The verbal tax act must be issued in written form within three days from the day it was passed at the latest.

A tax administrative act, by which the Tax Administration decides on individual rights and obligations of the tax obligor from the tax law relationship, includes the following: 1) a tax decision and 2) conclusion.

A tax decision is the most important tax act. It is an act, by which the administration decides on the subject matter of tax procedure, or solves the individual tax matter. Appeal is permitted against a tax decision passed in first-instance tax procedure. Pursuant to the Article 142 of the Law on tax procedure and tax administration, appeal is submitted within 15 days from the day of receipt of tax administrative act, but different time limits are prescribed, as well. Thus, in Article 77, paragraph 5 of the same law, it is prescribed that appeal is permitted against the decision on enforced tax collection within eight days from the day when the decision was delivered.

Contrary to the general rule in Article 154, paragraph 2 of the Law on general administrative procedure, according to which an appeal stays the execution, pursuant to Article 147 of

the Law on tax procedure and tax administration, an appeal shall not stay the execution of the tax administrative act. Exceptionally, the second-instance authority may stay the execution of the appealed tax assessment administrative act if the taxpayer provides documents demonstrating that the payment of tax or secondary tax duties before the challenged act has become final would cause him considerable economic damage. A conclusion to stay the execution shall be passed by the second-instance authority within five days from the receipt date of application and it may not be appealed.

If enforced collection procedure has been initiated based on an appealed tax decision and the appeal proceedings are not concluded within the time limit, a conclusion is passed to suspend the enforced collection pending the delivery of the appeal decision to the taxpayer or the first-instance authority's acting as ordered by the second-instance authority.

A conclusion is, as a rule, a preceding, additional and accessory decision (Bačanin, 2000:444). A conclusion that is passed in the tax procedure is a tax administrative act, by which tax authorities decide on individual matters relating to tax procedure, as well as on questions which appear as accessory in regard to the procedure, and which are not solved by a decision. The legislator has not brought into line the provisions of the Law on tax procedure and tax administration with the provisions of the current Law on general administrative procedure. Consequentially, a lot wider implementation of conclusion in tax procedure has been kept in comparison to general administrative procedure. An appeal may be filed against the conclusion passed in tax procedure, unless otherwise provided by the law. Thus, for example, pursuant to Article 144, paragraphs 1 and 2 of the Law on tax procedure and tax administration, an appeal inadmissible, belated or filed by an unauthorized person may be dismissed by the first-instance tax authority by issuing a conclusion. An appeal may be filed against this conclusion within eight days from the receipt date of the conclusion. Contrary to the rules of tax procedure, pursuant to Article

146, item 3 of the Law on general administrative procedure, an appeal is not allowed against the conclusion.

## 6. CONCLUSION

The procedure of assessing, collecting and auditing public revenues is one of the issues of legal system that have great significance. Tax procedure in the Republic of Serbia is conducted based on the provisions of tax regulations. The solutions in these regulations are satisfactory. The Law on tax procedure and tax administration and other tax regulations regulate the jurisdiction of tax authorities for solving the tax matters, as well as the form of their activities and tax acts. These regulations include certain departures from the general administrative procedure.

General administrative procedure in comparison to tax procedure has an additional (subsidiary) character. Thus, if issues from within the scope of tax law are regulated by specific provisions, the procedure is conducted according to the provisions of that tax law, while in all other cases, the Law on general administrative procedure shall apply. In other

words, provisions of the Law on general administrative procedure are applied in all tax matters, unless special procedure is prescribed by tax law, while the Law on general administrative procedure is applied in the cases and issues that are not regulated by provisions of tax law.

The legislator has not brought into line certain provisions of the Law on tax procedure and tax administration with the provisions of the current Law on general administrative procedure, which may lead to uncertainties regarding their implementation. Thus, in the Law on tax procedure and tax administration, the provisions which regulate the conclusion, as a kind of tax administrative act, respond, according to their contents, to the provisions about the conclusion from the Law on general administrative procedure, which was put out of force when the current Law on general administrative procedure was passed. The legislator has significantly reduced cases in which a conclusion is made in the current Law on general administrative procedure. Due to these reasons, these two laws should necessarily be brought into line.

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- [17] Principle of Allowing a Review of Facts is regulated by Article 6 of the Law on tax procedure and tax administration.
- [18] Principle of Confidentiality in Tax Procedure is defined in Article 7 of the Law on tax procedure and tax administration.
- [19] Principle of Acting in Good Faith is defined by Article 8 of the Law on tax procedure and tax administration.
- [20] Principle of Facticity is defined by Article 9 of the Law on tax procedure and tax administration.
- [21] The contents of tax law relationship is regulated by provisions in Article 10 of the Law on tax procedure and tax administration.

## SPECIFIČNOSTI PORESKOG POSTUPKA KAO POSEBNOG UPRAVNOG POSTUPKA

**Sažetak:** U radu su analizirane specifičnosti poreskog postupka kao specifičnog upravnog postupka. Specifičnost poreskog postupka u odnosu na opšti upravni postupak ogleda se u nekoliko elemenata. Autor analizira odnos poreskog postupka i opšteg upravnog postupka, razmatra načela poreskog postupka, sadržinu poreskopravnog odnosa, pokretanje poreskog postupka i poreska akta. Navodi se da poreski propisi, kojima se uređuje poreski postupak, sadrže određena odstupanja od opšteg upravnog postupka. Ukazuje se na činjenicu da su odredbe Zakona o poreskom postupku zadovoljavajuće, ali da zakonodavac nije uskladio pojedine odredbe sa odredbama Zakona o opštem upravnom postupku.

**Ključne reči:** javni prihod, postupak, načelo, poreskopravni odnos, poreski akt

UDC: 347.44:3.078.2(430)  
 347.44:3.078.2(497.11)  
 COBISS.SR-ID 134108169  
 doi: <https://doi.org/10.61837/mbuir010223105k>

ORIGINAL SCIENTIFIC PAPER

RECEIVED: 10. 08. 2023.  
 ACCEPTED: 20. 08. 2023.

# ADMINISTRATIVE CONTRACT – IN GERMAN AND SERBIAN LAW

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**Abstract:** In administrative practice, primarily our national one, administrative bodies perform their activities through authoritative and non-authoritative activities, acts and measures. Of the non-authoritative activities, the activity is most often carried out through the adoption of administrative regulations and administrative acts, and more recently, administrative contracts. Although the largest number and scope of administrative legal relations, i.e. administrative matters are decided on the basis of a unilateral decision of the competent authority, in the form of an administrative act-decision, in foreign legal systems, and recently in our domestic one, the administrative-legal relationship can be based on a unilateral or bilateral administrative contract. This type of administrative legal relationship is created by the agreement of the will of the contracting parties by which they define and accept mutual rights and obligations. Theoreticians of administrative law have been dealing with the concept of administrative contract for a long time, while their recognition in practice was mainly reduced to "formal recognition by the courts", and in comparative law also in special material laws and laws on general administrative procedure. Initially, the administrative contract was created and developed in French legal theory, regulation and practice. However, very soon this legal work was accepted in the legislation of other European countries, first of all in FR Germany. In the Republic of Serbia, the institute of administrative contracts was legally regulated for the first time in 2016.

**Keywords:** administrative contract, administrative act, German administrative law, Law on Administrative Procedure of RS

## 1. CONCEPT AND BASIC CHARACTERISTICS OF ADMINISTRATIVE CONTRACT

This contract is in many features and its legal nature different from the contract of obligation, civil or commercial law, but it also has a lot in common with them because its nature and features are significantly different from the administrative legal act. The most impressive

features that make it special compared to other contracts and administrative legal acts:

It represents an act of business, not an act by which the administration exercises its power, but has the status of a contracting party (Milosavljevic, 2007).

- as a bilateral legal act, the administrative contract is an expression of the agreement of the will of the state - administrative body

or other public legal entity, with private legal entities - natural and legal persons. The area of effect of administrative contracts is wider than that in which administrative-legal relations are regulated by administrative acts. We claim this for reasons that are contractually possible to establish more diverse legal relationships, and not only those based on the unilateral will of administrative bodies and their authoritative powers (Maurer, 2006);

- the motive for the conclusion of the contract is creation of an administrative-legal relationship, the goal of which is to collect monetary gain-profit, and therefore the contract also serves the acquisition of valuable profit and not only the realization of public interest<sup>1</sup>;
- it is a public law contract in which the contracting parties can be public-law and/or private-law entities;
- the rights are characteristic because it is an area of administrative activity and authority, so the right to collect monetary compensation after the fulfillment of contractual obligations is unusual for administrative-legal relations. Obligations are non-transferable, and this can happen only exceptionally, because the contracting parties are certainly an essential element for the conclusion and legality of this contract.

## 2. EMERGENCE AND TWO BASIC MODELS OF THE ADMINISTRATIVE CONTRACT IN THE EURO-CONTINENTAL LEGAL SYSTEM

Initially, the administrative contract was created and developed in French legal theory, regulation and practice. Although very quickly this legal work was accepted in the legislation of other European countries, first of all in FR Germany. As in some other legal institutes or issues, among others in administrative law - such as the way of resolving prejudicial issues in administrative proceedings, the administrative contract is also different in France and Germany. Therefore, in the Euro-continental

legal system there are two basic models of administrative contracts, originating from these two countries, somewhat similar but also significantly different.

The French model of the administrative contract is conditioned by the fact that at least one contracting party must be a public legal entity, that is, it must act in the public interest of society and the state. It is defined as a bilateral public-legal act concluded between a certain state authority or public society (Kavran, 1993:11) and third parties, whether it is a natural person, a legal entity or a state body, in order to achieve a specific goal of public and social interest. If the contract was concluded between private law subjects, or its subject and goal do not have a public law character - it is not aimed at achieving the general social interest<sup>2</sup>, it is not classified as an administrative contract in French law.

The definition of an administrative contract in the Federal Republic of Germany, which refers to a special named contract by which, based on the agreement of the will of the contracting parties, public law relations are created, changed or terminated, does not contain an explicit determination of the contracting parties who should enter into its conclusion, in order for it to be classified such as. Immanent to this fact, it is obvious that an administrative contract can be concluded by two private law subjects (Tomić, 1993:11). However, by interpreting the provisions of the German Law on Administrative Procedure, and especially on the basis of Articles 1 and 9, it is noted that even according to this model for concluding an administrative contract, it is desirable that at least one contracting party should be a public legal entity.

## 3. CONCEPT AND TYPES OF ADMINISTRATIVE CONTRACT IN GERMAN LAW

The influence of French and German law has always been significant and strong in terms

<sup>1</sup> The concession contract is a glaring example in support of these allegations

<sup>2</sup> In civil law contracts, the goal of the contract is to realize the mutual interests of the contracting parties, even when one of those parties is a state.



of the development of the Serbian legal system (primarily the Principality of Serbia and its Civil Code from 1844). An important institute that should have been introduced into Serbian administrative law is the administrative contract, which the author pointed out since 2007.

In November 2016, the organization of the German Foundation for International Legal Cooperation and the Faculty of Law of the University of Belgrade held a regional seminar "Introduction to German Law", from which, among other things, a message was sent to our lawyers "to be open to legal orders of other countries because that is a prerequisite for progress". The analysis of foreign legal systems and norms, in this case German, makes us see the advantages and disadvantages of that law, as well as our domestic law. Only by this way of comparison, and by no means by simple re-writing, can we qualitatively improve our national legal system.

At the meeting, it was also pointed out that "a lot can be learned from the German experience about the harmonization of domestic law with the law of the European Union, which is very important for the further process of European integration".

In the end, it remains to point out the fact that in the national legislation and practice of the Republic of Serbia, the administrative contract was generally accepted and defined only after the entry into force of the Law on General Administrative Procedure from 2018 (Law on general administrative procedure („Official Gazette of RS“, no. 18/2016 and 95/2018). Article 22, paragraph 1, reads: "An administrative contract is a bilaterally binding written act which, when determined by a special law, is concluded by an authority and a party and which creates, changes or terminates a legal relationship in an administrative matter". Until the entry into force of the new Law on administrative procedure, this contract was not generally accepted and defined by regulations as an institute of administrative law, but its details were recognized in the public procurement contract or the concession contract.

### **3.1. TERM - A SPECIAL TYPE OF PUBLIC-LEGAL CONTRACT THAT CREATES, CHANGES OR TERMINATES ADMINISTRATIVE-LEGAL RELATIONS**

In addition to the term administrative contract (German: *Verwaltungsvertrag*), the term public law contract (*oeffentlichsrechtlicher Vertrag*) is also used in German law. As one of the valid positive legal institutes of administrative law, it was regulated as early as 1976 within the Administrative Procedure Act (*Verwaltungsverfahrensgesetz – VwVfG*)<sup>3</sup>. So, as far back as the 1970s, its legal and formal importance was recognized, and in practice the frequency of its application in the regulation of more and more administrative and legal relations is constantly growing and developing. The main reason for this frequent application of administrative contracts is the fact that the area of application of administrative contracts exceeds the limits of administrative-legal relations that can be regulated by an administrative act, as a unilateral declaration of will. The well-known German pragmatism obviously recognized the possibilities of this contract and the German legislator therefore constantly supports and improves the ways of its implementation. A characteristic example is the situation when it is necessary to establish and regulate a concrete relationship between two administrative bodies, which are equal in a hierarchical sense and neither can impose its will on the other. This is where the role of the administrative contract comes to the fore, which is concluded based on the agreement of the will of both parties (Battis, 1997).

The legal definition of a public-law/administrative-law contract is given by Article

<sup>3</sup> Specifically, the basic principles and elements of administrative contracts are regulated within Chapter IV, Articles 54-61 of the German Administrative Procedure Act. According to Article 62 of the Law, with regard to administrative contracts, other provisions of the Law (such as Article 3 on the local competence of administrative bodies, etc.) and the relevant provisions of the Civil Code (*Bürgerliches Gesetzbuch – BGB*) are applied subsidiarily, if the existence of the necessary prerequisites for withdrawing the legal analogy in a specific case; see: *Verwaltungsverfahrensgesetz vom 25.5.1976, BGB I, S. 1253; Gurlit: „Verwaltungsvertrag und Gesetz“, Juristische Ausbildung – Jura, 2000 i isti autor, „Grundlagen des Verwaltungsvertrages“, Jura, 2001*

54 of the Law on Administrative Procedure (VwVfG). It is a specific type of contract, which creates, changes or terminates public law relations (Article 54 Law on Administrative Procedure / *Verwaltungsverfahrensgesetz* (VwVfG) vom 25.5.1976, BGBI I, S. 1253). It is clear that the legal nature of this contract is primarily determined by the uniqueness of its subject, which has the same purpose as an administrative-legal act. An administrative contract is considered to be only one that establishes and assumes rights and obligations of a public-law nature (Krebs, 2000). Doubts when defining the nature of this contract arise only in cases where the nature of the obligation is "neutral". In those situations, one approaches the interpretation of fulfilling the contractual obligation and the general character of the specific contract<sup>4</sup>.

Each contract is an individual legal act by which, based on the free will of the parties, certain legal relationships are created, changed and terminated and it achieves a specific legal effect. This is a general concept of contract in comparative law, inherent in all branches of law in which the contract is represented and based on two basic principles of modern contract law - the principles of freedom of contract and consensualism (Kostić, 2008:443). An administrative contract is only one by which public-legal relations are regulated by a consensual declaration of will. If we were to interpret the aforementioned definition from Article 54 of the Law on Administrative Procedure "in isolation" from the rest of the legal text, we could very easily see that this type of contract can be concluded both between public-legal subjects (or public-legal-private-legal), as well as only private-legal ones. However, based on Art. 1. VwVfG, in connection with the public-legal powers of state administration bodies<sup>5</sup> and Art.

<sup>4</sup> A typical example is the obligation to pay a monetary claim, which can be of a private or public law nature. If the citizen is the debtor of this obligation, and the payment refers to the compensation for the used services of the state authority, it is an administrative legal contract.

<sup>5</sup> Article 1 stipulates that the Law on Administrative Procedure regulates the basic competences and activities of public authorities, i.e. the mutual cooperation of state administration authorities and the cooperation of these authorities with other holders of administrative powers.

9. The VwVfG, which defines the concept of administrative procedure, is undeniably regulated by administrative-legal regulations and is characterized by two basic characteristics:

- the subject of the administrative contract is the establishment and regulation of administrative-legal relations (administrative-legal rights and duties) and
- that one contracting party is a subject of public authority (Koop, 2005).

### 3.2. DIVISIONS-TYPES OF ADMINISTRATIVE CONTRACTS IN GERMAN LEGAL DOCTRINE

One of the important features of the German administrative contract model is that in the legal doctrine of this country there is a division into coordinating-legal and sub-coordinating-legal administrative contracts, as well as two additional possible classifications - one, derived from the division of civil law contracts, into mandatory and dispositive contracts and second, settlement agreement and barter agreement.

The reason why we only mention the legal doctrine regarding the division of administrative contracts is the fact that the Law on Administrative Procedure of the Federal Republic of Germany does not contain the *numerus clausus* of their basic types in any norm. The only expressly prescribed division is between a settlement agreement and a barter agreement (Articles 55. and 56. Law on Administrative Procedure (VwVfG *Verwaltungsverfahrensgesetz*).

### 3.3. COORDINATION-LEGAL AND SUB-COORDINATION-LEGAL ADMINISTRATIVE CONTRACTS

By interpreting Article 54 of the Law on General Administrative Procedure, and based on the nature of the relationship established between the contracting parties, we clearly see the division of administrative contracts into coordination-legal and sub-coordination, although the legislator did not explicitly mention these terms (Koop, 2005).

Coordination-legal contracts are concluded in situations where a certain administrative

matter, i.e. the administrative-legal relationship cannot be regulated by an administrative act. Subjects that enter into a coordination-legal administrative contract are equal in terms of their legal force and position - most often they are two public-law subjects, i.e. holders of administrative authority). Therefore, the equality of the contracting parties is one of the essential characteristics this type of contract, but it is not the only one. An even more striking feature is the fact that the principle of hierarchy and subordination is not applied in terms of the subject of the contract itself, i.e. neither side is subordinate to the other. of a coordinating legal character is the fact that with respect to the subject matter of the contract, none of the contracting parties is in a superior position in relation to the other (regardless of whether the contract was concluded exclusively between public authorities or public authorities and citizens, or even only between private law entities).

Administrative contracts concluded between superior and subordinate subjects, natural/legal persons and public authorities are called subordination-legal contracts. They are most often represented in the sphere of construction. In practice, this type of contract is concluded for three possible reasons: to replace a specific administrative decision, to obligate the adoption of a future administrative act or to conclude "for its own sake" - without any direct connection with any individual administrative act.

### **3.4. DISPOSITIVE AND OBLIGATORY CONTRACTS**

The division into dispositive (German *Verfügungsvertrag*) and obligatory (German *Verpflichtungsvertrag*) contracts essentially corresponds to the division into unilateral and bilateral civil law contracts, but when applied in the sphere of administrative-legal relations, the above-mentioned terminology is used. A bilaterally binding administrative contract is called obligatory in German law and by nature binds both contracting parties to specific actions. Both parties acquire mutual rights and obligations, i.e. both parties are creditors

and debtors at the same time. With this type of administrative contract, the administrative authority or the holder of administrative authority commits to some action, among other things, it can be the adoption of a specific administrative act.

With a dispositive contract, only one party undertakes the obligations of unilateral fulfillment of not only contracted, but also legal or otherwise assumed duties. consists in the obligation to unilaterally fulfill both contractual and legal or otherwise based obligations. Reciprocity of rights and obligations is omitted here, i.e. one party is exclusively the holder of rights, and the other is the holder of obligations. This type of administrative contract implies the duty of the administrative body to directly fulfill an obligation within its jurisdiction, e.g. issues the relevant permit or authorization for use for special purposes (Koop, 2005).

### **3.5. SETTLEMENT AGREEMENT (VERGLEICHsvertrag) AND BARTER AGREEMENT (AUSTAUSCHvertrag)**

The German Law on Administrative Procedure foresees the possibility of applying two more contracts in order to regulate administrative-legal relations. These are the settlement agreement and the barter agreement. This division and the mode of application of these contracts in administrative law is regulated by Articles 55 and 56. By interpreting the provisions of Article 55, we see that the purpose of the settlement agreement is the resolution of a certain administrative matter by making mutual concessions, and not strictly mutual fulfillment of contractual obligations, i.e. actions.

There are three prerequisites for the possibility of applying this type of contract:

- that the specific administrative matter arises from realistically existing uncertain circumstances of the case or certain legal doubts;
- that its solution cannot be achieved in another way without significant costs and
- that all contracting parties are ready for mutual concessions (Erfmeyer, 1998).



Article 56 of the VwVfG, the barter agreement defines that both contracting parties accept mutual rights and obligations, so it is a bilateral legal transaction. This reciprocity of obligations itself must have distinctive features, in order to be subsumed under the key element of the barter contract (Maurer, 2006). Mutual actions must be aimed at the realization of the agreed goal, the achievement of public interests, and it is necessary that they are legal, expedient and appropriate.

#### **4. SIMILARITIES AND DIFFERENCES BETWEEN AN ADMINISTRATIVE ACT AND AN ADMINISTRATIVE AGREEMENT IN GERMAN LAW**

The legal solution specified in Article 54 of the VwVfG essentially defines the relationship between an administrative act and an administrative contract, by explicitly allowing that “a public-law contract can replace the adoption of an administrative act in a specific administrative matter”, as long as the contract meets the requirements of the legally prescribed form. The mentioned article can be interpreted in two ways: that the administrative contract is a special type of administrative act that is not unilateral, but requires the consent of the addressee, or that the administrative contract and the administrative act are two completely different legal institutes (Vodinelić, 1993).

##### **4.1. THE MOST IMPORTANT SIMILARITIES OF THE DIFFERENCE BETWEEN AN ADMINISTRATIVE ACT AND AN ADMINISTRATIVE CONTRACT**

There are several important common characteristics of an administrative act and an administrative contract, primarily:

- belong to the field of public law, “causing external administrative legal consequences on individual life events and related to them, broader phenomena” (Tomić, 1993:11).
- have an identical goal - to regulate a specific administrative-legal relationship, that is, to resolve a specific administrative matter. Therefore, the administrative procedure ends

with both. For this reason, both are defined as “acts that end the administrative procedure”<sup>6</sup>.

Contrary to the similarities, there is also a key difference between them - the way, that is, the method of their creation and adoption. An administrative act is passed on the basis of the unilateral will of the public authority, while the agreement of the will of the administrative body and the party is necessary for the creation of an administrative contract. Therefore, the basic characteristic of an administrative act is its own one-sidedness, as opposed to the bilateral-legal nature of the administrative contract. This difference alone is more than enough to affect not only the completely different appearance of an administrative contract compared to an administrative act, but also to indicate a significant difference in terms of the legal consequences it produces<sup>7</sup>.

##### **4.2. ADMINISTRATIVE ACT THAT REQUIRES THE CONSENT OF THE PARTY/ADDRESSEE**

We believe that it is useful to point out in more detail the concept of an administrative act passed by an administrative authority, but in order for it to be passed, it requires the consent of the addressee. So, typically by administrative act we mean a unilateral act passed on the basis of the will and unilateral authority of an administrative body or an authority that performs administrative tasks as entrusted, regardless of whether the addressee agrees with the disposition of the decision or not.

Unlike our law, in German law there is another type of administrative act that is passed on the basis of the exclusive unilateral will of the competent authority, in German law there are also administrative acts that can and must be passed only with the express consent of the entity to which it refers. As a rule, this consent is expressed before the start of the administrative procedure itself, by submitting a request for the adoption of an administrative act. In

<sup>6</sup> Article 9 of German Law on Administrative Procedure (VwVfG)

<sup>7</sup> This primarily refers to: legally equal position, ie the strength of the contracting parties, reciprocity of rights and obligations, the consequences of breach of contractual obligations, the possibility of terminating the contract due to changed circumstances, etc.

our law, it is inherent in the first instance administrative procedure initiated at the request of a party, because the administrative matter itself concerns the realization of a party's right, legal interest or reduction of an obligation. However, in German law there are other ways to disclose the consent of the party/addressee.

In any case, an administrative act adopted in this way remains, by its nature, a unilateral declaration of the will of the competent administrative body, because the request for obtaining the consent of the addressee does not aim to include his will in the process of joint, agreed decision-making (as is the case when concluding an administrative contract), but to avoid the situation of passing an administrative act which imposes on the addressee something he does not want (Butterwege, 2001), and he himself initiated the decision-making process.

The existence of the consent of the will of the private legal entity (party) is a condition for the creation and existence of an administrative contract, while the expression of consent with regard to a specific administrative act is a condition for its legality. In other words, the absence of consent regarding the administrative contract prevents its very creation, while regarding the administrative act, the absence of consent of the addressee makes such an act illegal and disputed.

It is often difficult to determine at first glance whether a specific case was resolved on the basis of an administrative act or contract. This is established by establishing one fact: if the party had an influence on the shaping of the content of the decision itself - then it is an administrative contract, and if its participation in the procedure was reduced to dispositive actions, giving or withholding consent in order to strengthen / prevent the adoption of a decision in a specific case, then it is an administrative act.

#### **4.3. ADMINISTRATIVE CONTRACT AND DECLARATION OF COMMITMENT OR ACCEPTANCE OF THE COMPETENT AUTHORITY**

It is interesting to point out the parallel that can be drawn between the binding/bilateral

contract (Verpflichtungsvertrag) and the declaration of acceptance or obligation of the competent authority. In both cases, the competent authority of the public authority commits to concrete action, non-action or refraining from action, with the fact that in the case of a contract there is reciprocity of the mentioned mutual actions on the side of the other subject of the contract, and in the case of a statement, only the competent authority is unilaterally committed public authorities.

### **5. ADMINISTRATIVE CONTRACT IN THE LAW ON GENERAL ADMINISTRATIVE PROCEDURE OF THE REPUBLIC OF SERBIA**

Modern reforms of the activities and work of the administration also imply the strengthening of the importance of the institute of the administrative contract in the Republic of Serbia. Its legal regulation in our country, for the first time, took place in 2016.

#### **5.1. DEVELOPMENT OF THE ADMINISTRATIVE CONTRACT IN NATIONAL LAW**

Administrative contracts have secretly existed in special laws since the period of the Kingdom of Yugoslavia, through the period of development of socialist self-management in the former FNRJ/SFRJ, and certain forms of administrative contracts also existed in the positive law of that time. However, not even in any of the mentioned countries were these contracts determined through the then laws on general administrative procedure (Milenković, 2017:72).

#### **5.2. CONCEPT, FORM AND CONTENT OF THE ADMINISTRATIVE CONTRACT IN THE RS**

The term of this contract, in terms of form and content, is defined by Article 22 of the Law on General Administrative Procedure of RS as "a bilaterally binding written act which, when specified by a special law, is concluded by the authority and the party and which creates, changes or terminates a legal relationship in an

administrative matter “, and its content must not be against the public interest or the legal interest of third parties<sup>8</sup>. The form and content are necessary conditions for the permissibility of this contract in domestic law. Therefore, it follows from the previous provision that the contracting parties are the competent authority and the party. In terms of the Law on General Administrative Procedure of RS, the competent authority is considered to be: state bodies and organizations, bodies and organizations of provincial autonomy and bodies and organizations of local self-government units, institutions, public companies, special bodies through which the regulatory function is exercised and legal and natural persons to whom they are entrusted public authorities, and who apply the rules of administrative procedure when acting in administrative matters<sup>9</sup>. At this point, it is worth quoting the judge of the Administrative Court, Ruža Urošević: “The cause of those contracts is the achievement of some public interest, the creation of a certain public benefit for citizens and legal entities.” This reflects the specificity of these contracts in relation to civil law contracts, because the powers of the public-law entity, in order to achieve the public interest, are strengthened in relation to the other contracting party, giving the public-law entity the authority to terminate the administrative contract under certain conditions, while the other party the contracting party does not have that right. Another specificity of this type of contract is reflected in the fact that they do not act exclusively, that is, primarily between the contracting parties, but are only a means to achieve the intended cause, a certain public interest, which is why they act towards everyone (*erga omnes*)<sup>10</sup>.”

## 6. CONCLUSION

Through a comparative analysis, we noticed that for a long time one of the dominant trends

in the largest number of countries is the desire for greater flexibility in the work and procedures of the executive power and its bodies. Although conceptually different, the administrative systems of individual countries have certain common features. The primary and most well-known characteristic is the far more pronounced rigidity of the rules for performing administrative activities in relation to the activities of other state authorities. Then, it is characteristic of all of them that they intensively and continuously search for better quality, more acceptable to citizens, ways of realizing their goals and tasks. The basic goal of the existence and work of the administration today, in modern democratic states, is the achievement of public interests, which requires permanent efforts to improve the existing ones and find new ways and forms to fulfill that task. These ways and forms should be more flexible, better adapted to the specific needs of society and the individual, and therefore significantly more efficient. The individual's desire to realize personal rights and interests is inextricably linked with the efforts of the administration to, by protecting its rights and interests, achieve the highest public interests of the entire social community. The existence of these two types of actions, traditionally known in the light of the division into private and public spheres, had an exceptional influence on the origin and characteristics of the administrative contract institute, as a reflection of the modern, democratic and flexible way of administration. Essentially, this legal institute ensures more direct and frequent participation of citizens in the performance of public services, which results in a higher degree of realization of the standards of democracy and the guarantee of basic human rights, because the authoritative powers of administrative bodies are reduced. Our conclusion and expectations based on everything presented are that the aforementioned trend of strengthening the flexibility of administrative systems will continue, and thus the application of administrative contracts will be an increasingly common phenomenon in practice.

<sup>8</sup> Law on General Administrative Procedure, Official Gazette RS, no. 18/2016., 95/2018., article 22.

<sup>9</sup> Law on General Administrative Procedure, Official Gazette RS, no. 18/2016., 95/2018., article. 1.

<sup>10</sup> <https://www.pravniportal.com/upravni-ugovor/>, approached 5.8.2022.



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## UPRAVNI UGOVOR – U NEMAČKOM I SRPSKOM PRAVU

**Sažetak:** U upravnoj praksi, pre svega našoj nacionalnoj, organi uprave svoju delatnost obavljaju putem autoritativnih i neovlašćenih radnji, akata i mera. Od neovlašćenih delatnosti, delatnost se najčešće odvija kroz donošenje upravnih propisa i upravnih akata, au novije vreme i upravnih ugovora. Iako se najveći broj i obim upravnih pravnih odnosa, odnosno upravnih stvari rešava na osnovu jednostrane odluke nadležnog organa, u formi upravnog akta-rešenja, u stranim pravnim sistemima, a odnedavno i u našem domaćem, upravno-pravni odnos može biti zasnovan na jednostranom ili dvostranom upravnom ugovoru. Ova vrsta upravnog pravnog odnosa nastaje sporazumom volje ugovornih strana kojim one definišu i prihvataju međusobna prava i obaveze. Teoretičari upravnog prava se već duže vreme bave pojmom upravnog ugovora, dok se njihovo priznavanje u praksi uglavnom svelo na „formalno priznanje od strane sudova“, a u uporednom pravu i u posebnim materijalnim zakonima i zakonima o opštem upravnom postupku. U početku je upravni ugovor nastao i razvijen u francuskoj pravnoj teoriji, regulativi i praksi. Međutim, vrlo brzo je ovaj pravni rad prihvaćen u zakonodavstvu drugih evropskih zemalja, pre svega SR Nemačke. U Republici Srbiji institut upravnih ugovora je prvi put pravno regulisan 2016. godine.

**Ključne reči:** upravni ugovor, upravni akt, nemačko upravno право, Zakon o upravnom postupku RS

## ORIGINAL SCIENTIFIC PAPER

RECEIVED: 16. 01. 2023.

ACCEPTED: 20. 04. 2023.

UDC: 340.13(4-672EU)

342.4(497.11)

COBISS.SR-ID 134109705

doi: <https://doi.org/10.61837/mbuir010223114v>

# RULE OF LAW: LEGAL PRINCIPLE(S), EU RULE OF LAW MECHANISM AND CONSTITUTIONAL CATEGORY IN THE REPUBLIC OF SERBIA

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**Abstract:** *The rule of law is a civilizational achievement and a legal standard that limits the actions of public authorities to actions exclusively within the framework of the law in accordance with democratic values and respect for human rights and basic freedoms. Limitations on the actions of public authorities established by law are monitored by independent and impartial courts that draw the limits of the state's actions in the encroachment and violation of the rights and freedoms of citizens. Thus, the rule of law directly affects the lives of citizens and is a prerequisite for achieving equality before the law and protecting the rights of citizens. Today, the rule of law is a constitutional category in all democratic states. It is an integral part of all laws related to state regulation, criminal protection, media freedom. Most often, the legal standard that is referred to by politicians, holders of high power and high civil servants is publicly presented. One gets the impression based on the public discourse that there is no other legal topic, category, area that is mentioned more and that everyone refers to on the one hand, and the area that is most misused and violated, on the other hand. In this paper, the emphasis is placed on some of the existing definitions of the rule of law and the elements and legal principles that are an essential part of the rule of law in international frameworks are analyzed. The analysis of the mechanisms of the rule of law of the EU determines the constituent elements of the rule of law that are the subject of the newly established annual assessment of the state of the rule of law in the member states conducted by the European Commission. Also, a special focus in the paper is placed on researching the constitutional foundations of the rule of law in the Republic of Serbia and the institutional application of elements of the rule of law that are of particular importance for citizens and the process of European integration. integration.*

**Keywords:** rule of law, democracy, judiciary, corruption, media freedom

**JEL classification:** K12, K21

## 1. INTRODUCTION

Limiting the power of the ruler, the king, and the state regarding the citizens, and the application of state powers within the framework

of the constitution and laws has been a topic discussed in the work of a large number of theorists of state organization, philosophers, and lawyers since ancient times. Thus, Plato and Aristotle pointed to the first forms of state

organization with free citizens at the center of the political activity of the polis of that time.

The theoretical and philosophical considerations of state organization and the creation of a responsible, efficient political community in which the authority, power, and action of the state are limited by legal rules continued in the Age of Enlightenment. In his "Social Contract" in 1762, Jean-Jacques Rousseau proclaimed that in the relationship between the individual and the government during the creation of a political society by equal and free citizens, the state must be limited in encroaching on the private sphere of human life.

Since the Magna Carta, the Bill of Rights, and the Declaration of the Rights of the Man and of the Citizen after the Bourgeois Revolution in France there has been a large number of documents establishing a link between the rule of law (limiting the power of the state through law, the existence of independent courts and the right to a fair trial), respect for human rights and fundamental freedoms, and democratic organization of the state.

Essentially, the rule of law without respect for human rights is not quite reasonable, whereas certain rights such as the right to a fair trial and freedom of expression principally overlap and form the basis for further enhancement of the rule of law. Democracy, on the other hand, as a system of majority rule implies the inclusion of citizens in the decision-making process and protection from arbitrary and excessive interference in the rights, freedom, and dignity of every citizen by the democratically elected government. The rule of law and democracy establish the responsibility of the holder of public authority for respecting human rights, including the rights of minorities. It could be stated that the rule of law, human rights, and democracy represent a triangle of intertwined and connected legal principles, incorporated nowadays into the national legal systems of modern countries and previously accepted and developed through universal and regional international instruments adopted within the framework of the United Nations, the Council of Europe, the European Union, the African

Union, and the Organization of American States. Thus, for example, the universal character of the rule of law has been developed since the Universal Declaration of Human Rights followed by the International Covenant on Civil and Political Rights and the *United Nations Rule of Law Indicators*. On the African continent, the rule of law has found its place in the Constitutive Act of the African Union, the African Charter on Human and Peoples' Rights and the African Charter on Democracy, Elections and Governance. The American Convention on Human Rights and the Inter-American Democratic Charter have brought the rule of law to the American continent. The ASEAN Human Rights Declaration adopted within the framework of the Association of South Asian Nations has accepted the rule of law as a fundamental principle on the Asian continent as well. This list of universal and regional documents serves primarily as a confirmation that the rule of law is a civilisational achievement which does not imply uniformity and uniform implementation on all continents. Namely, in the definition and implementation of the main principles of the rule of law, historical, cultural, legal, political, and social differences have nevertheless been accepted, varying from country to country primarily due to the constitutional arrangements and traditions of each individual country.

Apart from being an achievement that has been in the process of constant development for the last 300 years, the rule of law is also characterized by certain retrograde processes. Dynamic processes of political development of the states and societies with evident constitutional and legal red lines and limitations of state intervention do not imply the disappearance of the arbitrariness of public authorities and the absence of violations of the rule of law. On the contrary, one gets the impression that the holders of political power and authority very often refer to the rule of law, while simultaneously allowing its abuse and violation. This applies particularly to the countries where populist and conservative political parties have been elected by the majority in democratic elections



and which, in the name of national interests, emphasize the full sovereignty of the state that has been “seized” by some international factors of power by imposing the rule of law, human rights, and democracy as universal values.

This paper presents the results of the research related to the very definition of the rule of law as a set of principles and analyzes the components of the rule of law presented by the Venice Commission of the Council of Europe. The second part of the paper analyzes the definition of the rule of law within the European Union, which as a supranational organization of sovereign states considers the rule of law one of the fundamental common values. The European mechanism of the rule of law, applied as a response to the challenges of gradual derogation and violation of the rule of law in some member states, is presented in particular. The third part of the paper refers to the constitutional foundation of the rule of law in the Republic of Serbia and the institutional implementation of elements of the rule of law that are of particular importance for citizens and the process of European integration.

## 2. THE DEFINITION OF THE RULE OF LAW AND ITS BASIC ELEMENTS

The rule of law as a constitutional and legal norm is quite often a subject of misunderstanding in public discourse. It is used in a narrower sense as a synonym for the state of law and legal security, but sometimes also for pejorative, invented and imposed standards imposed by Western countries, international organizations, civil society, and human rights advocates. Citizens’ lack of understanding of the content of the rule of law results in a negative attitude, particularly when referred to by public authorities but also by the representatives of international organizations and foreign countries. A particularly negative impression in the perception of the rule of law is created due to its conflicting relationship with full state sovereignty. This is an argument stated most frequently by popular and populist political options worldwide.

Certainly, one of the reasons for the negative attitude and confusion caused by the concept of the rule of law as a civilizational achievement, a category of contemporary social order and constitutional norms, is the existence of different definitions of the rule of law. More precise definitions of the rule of law include various elements that differ and depending on the author contain the same initial premises that spread diffusely and cannot be considered the final and definitive list of certain elements or real categories that constitute the essence of the rule of law. In an attempt to determine the basic components and differences in the conceptual definition of the rule of law, three definitions of the rule of law will be considered for the purposes of this paper. One is related to the theoretical and professional approach to the rule of law from the point of view of the representatives of the judiciary in Anglo-Saxon law, and the other two are definitions of certain institutions within the Council of Europe and the EU.

According to Bingham, the core of the rule of law consists of all persons and authorities within the state, whether public or private, who should be bound by and benefit from laws that are publicly promulgated, come into force, and are publicly administered in courts (Bingham, 2010:18). The rule of law consists of eight principles: 1) access to justice implying that laws must be accessible, intelligible, clear, and predictable; 2) exercise of laws and not the exercise of discretionary powers; 3) equality before the law; 4) exercise of authority in good faith and fairly without exceeding the limits of authority; 5) protection of human rights; 6) dispute resolution; 7) fair trial in fair court proceedings; and 8) the rule of law in the international legal order or the rule of law requires compliance by the state with its obligations both in international and national laws.

The Venice Commission, as a body of the Council of Europe, has paid special attention to the Rule of Law and provided a definition, criteria, and explanations of special elements of the rule of law in a document entitled the Rule of Law Checklist (Venice Commission, 2016).

The definition of the rule of law was agreed on after analysing the definitions by many authors belonging to different legal systems and state organisations, taking into account the differences of legal cultures and traditions.

The term rule of law implies a certain and predictable legal system in which everyone has the right, in accordance with the law, to be treated with dignity, equally and sensibly by all decision-makers and to have the opportunity to challenge these decisions before an independent and impartial court in a fair judicial procedure. Exercise of the rule of law is an obligation of all levels of public authority. The key principles contained in the concept of the rule of law are: 1) legality, including a transparent, accountable and democratic law-making process; 2) legal certainty; 3) prohibition of arbitrariness; 4) access to justice before independent and impartial courts, including judicial review of administrative acts; 5) respect for human rights; and 6) prohibition of discrimination and equality before the law (Venice Commission 2016:7).

There are individual benchmarks concerning all the key principles assessed when examining the implementation of the rule of law in a country. Thus, the criteria for legality are the rule of law, obeying the law, the relationship between international and national law, the process of enacting legislation, procedures for enacting legislation, exceptions in cases of emergency, the obligation to implement the law, and the conduct of private entities in the exercise of public authority. The criteria of legal certainty are: availability of legislation, availability of court decisions, predictability of laws, stability and consistency of laws, legitimate expectations, non-retroactivity, the principle “*nullum crimen sine lege* and *nulla poena sine lege*”, finality of court judgments, prevention of abuse of authority. Prohibition of discrimination and equality before the law are ensured by constitutional norms and laws. Detailed criteria are provided for the principle of access to justice. They refer to the independence and impartiality of the judiciary and the judges themselves, the autonomy and control

of the prosecution, the independence and impartiality of lawyers. The right to a fair trial is one of the fundamental human rights recognized by all international documents on human rights and fundamental freedoms. Access to justice as a principle of the rule of law includes the right to a fair trial and constitutional justice carried out by constitutional courts in reviewing the constitutionality and legality of national legislation (Venice Commission 2016:21). Criteria such as access to courts, presumption of innocence, as well as some other aspects, primarily the right to appeal, have been established for the right to a fair trial.

In addition to the key principles, some special challenges regarding the rule of law are also foreseen, such as: corruption and conflict of interest, data gathering and surveillance (gathering and processing of personal data, targeted surveillance, strategic surveillance, and video surveillance).

Particular challenges and decisions that may affect and undermine the rule of law have not been specifically listed in detail. They depend on the novel circumstances and challenges faced by individuals, the state, and the society. Such challenges are clearly stated within the EU mechanism of the rule of law and will be analysed in the following chapter.

## 2.1. THE RULE OF LAW BETWEEN THE WEST AND THE EAST

The rule of law is often perceived as an “invention” and a value of European countries and the USA or Western countries, Western civilization, Western democracies, the Western world, whose legal tradition is based on continental and Anglo-Saxon law. However, the Venice Commission itself has confirmed that historical, cultural, legal, political and social differences varying from country to country (primarily due to the constitutional arrangement and traditions of each individual country) have nevertheless been acknowledged in the definition and implementation of the main principles of the rule of law.

The traditions of individual countries relate to certain historical aspects of the development of society and state organisation. Hence, in this context, it is important to briefly review the peculiarities of the traditions of individual countries of the Eastern world. Fair treatment of the individual, distribution of justice, and limitation of the power of those in power, whether they are referred to as a ruler, king, or religious leader in the tradition and culture of eastern countries and civilizations, in the traditional sense, cannot be considered an achievement of only a group of countries located in a certain geographical area, as in this case, the West, with no contribution made by the Eastern, primarily Asian countries. Eastern traditions recognize the role of the individual but place greater emphasis on collectivism. For example, Asian traditional values in the context of the rule of law have quite a few points related to Confucian teachings. Asian societies use a certain number of Confucian doctrines emphasising the core of society is the moral progress of individuals, which leads to strengthening the community morals thus contributing to the creation of a benevolent and caring state. Confucian teaching expresses this rule in different ways, and one of the most significant is that, for example, the individual is more important than the family or community, whereas the family or community in turn is more important than the rulers themselves (Ehr-Soon Tay, 2007: 578). This is in accordance with the Chinese legal tradition, which developed in the distant past and advanced from “rule by rites” to “rule by law”. The historical genesis of the Chinese tradition confirms Confucian teachings recognizing greater importance of community rights or collective rights compared to individual rights (Shu-Chen, 2007: 616).

The Islamic tradition, relying on religious norms, perceives the division of power and human rights in accordance with the teachings originating from the “holy book”. According to some interpretations, the following human rights arise from it: the right to life, dignity, privacy, property, fair treatment before the court, equality before the law, freedom of

belief, freedom of assembly and freedom from religious persecution (Bahlul, 2007:528).

Despite the differences and the absence of certain components of the rule of law and the protection of specific human rights in some modern political systems on the Asian and African continents, the change of approach, or narrative, in international relations, from the rule of law as a Western value to the rule of law as a civilizational achievement of universal value (as it is essentially, together with human rights) would perhaps cause less animosity, contradictions, and refusal to accept the complete set of human rights defined and proclaimed by the UN documents. Certainly, the universality of the rule of law, human rights, and democracy must not be a justification and must be deprived of an aggressive and tendentious approach in order to prevent the use of force in international relations and the transformation of aggression into humanitarian interventions due to human rights violations, as it was the case with NATO pact aggression on the FRY in 1999, due to the “severe violation of Kosovo Albanians’ human rights”.

### 3. MECHANISM OF THE RULE OF LAW OF THE EUROPEAN UNION

The rule of law is a principle accepted by the EU and promoted as a common core value of the member states. The development of the rule of law within the EU is primarily the result of the judicial practice of the European Court of Justice and the introduction of this principle into the founding treaties, i.e. the European Union’s primary law.

The rule of law, together with respect for human rights and fundamental freedoms, and democracy, was established as a political criterion for the accession of new member states, at the European Council in Copenhagen (Copenhagen Summit 1993). It could be said that the rule of law, human rights, and democracy represent a triangle of intertwined and connected legal principles outlining the political systems of the member states, but also the principles the EU insists on in international relations, especially regarding the enlargement



process. Thus, the process of enlargement, especially from 1993 (Carrera, Guild, and Hernanz, 2013:1) to date, has become conditioned by respecting and improving the principles of the rule of law to enable political and institutional reforms and the transformation of the candidate states into democratic and economically prosperous societies during the process of negotiations and upon the eventual EU accession. This process is accompanied by respect, improvement, and implementation of key elements of the rule of law in the legal, institutional, and political structures of the new member states. However, in the post-accession period, a retrograde process of breaching and violating the principles of the rule of law, human rights, and fundamental freedoms occurred in some of the new member states due to the lack of a post-accession monitoring mechanism.

Persistent appeals for the necessity of strengthening the rule of law in the European Parliament, translated into the adoption of resolutions in regard to the member states that undermine the principles of the rule of law together with the activities of the European Commission, have resulted in the establishment of a special European mechanism of the rule of law applied as a monitoring and control system in the member states. It was established in 2020 and conceived as an annual analysis and careful monitoring of the state of the rule of law in EU member states by the Commission. The report on the rule of law contains 27 chapters regarding each individual country and evaluations of the previous year's state of the rule of law. The Commission determines the key elements of the state of the rule of law in the member states based on the area of application and the methodology adopted together with the member states. Before pointing out the individual elements, connections and effects of 2020 and 2021 European Rule of Law Mechanisms, it is important to present the definition of the rule of law provided by the Commission in its first report.

The rule of law implies that all public authorities always act within the limits

established by law in accordance with democratic values, respect for human rights, and under the supervision of independent and impartial courts. To put it differently, the rule of law is a set of principles including legality as a transparent, accountable, democratic and pluralistic process for enacting laws, legal certainty, prohibition of arbitrary exercise of executive powers, effective judicial protection by independent and impartial courts, effective judicial review of decisions, respect for human rights, separation of power, and equality before the law (COM/2020/580:1). Both a slight difference and a high degree of overlap in key principles are both evident when comparing the above-stated definition and the one provided by the Venice Commission of the Council of Europe.

The newly established European mechanism of the rule of law does not examine the state of all defined principles of the rule of law for each member state but is established based on four specific pillars subject to the assessment and evaluation, namely: the judicial system, the anti-corruption framework, media pluralism and other systems of institutional checks and balances (EPRS, 2021:15) All four pillars also include an assessment of functioning during the Covid 19 pandemic.

The efficiency of judicial systems that should ensure respect for the rule of law is measured by the parameters related to the independence, quality, and credibility of the judiciary, regardless of a model and tradition the national legal system of each member state has been established on. The establishment of national judicial councils, the method of appointing judges and the reform of disciplinary procedures for judges and prosecutors are crucial structural measures to protect against political pressures and ensure the independence of the judiciary.

Combating corruption requires a comprehensive approach and has to include preventive and repressive measures. A successful fight against corruption requires independent and impartial judicial systems that implement legislation effectively and conduct impartial investigations and prosecutions to result in

effective, proportionate, and dissuasive sanctions, including the return of the proceeds of corruption. Equally important is the existence of a legal and institutional framework, additional administrative and judicial capacities, and the political will to implement measures in the fight against corruption.

Media freedom and pluralism are essential elements contributing to the rule of law. Particular attention involving the analysis and monitoring is directed towards the independence of media regulatory bodies, transparency of media ownership, state advertising, safety of journalists and access to information.

Other systems of institutional checks and balances are related to the strengthening of the culture of the rule of law, constitutional reforms and assessment of the constitutionality of the system of checks and balances, the quality of the legislative procedure, expedited and urgent enactment of laws, the action of public ombudsmen and support to civil society organisations (COM/2021/700:22). In addition to the Commission, the institutional framework for monitoring and implementing the new European mechanism of the rule of law consists of the European Parliament and the Council of the European Union.

The European Parliament plays a significant role in monitoring the state of the rule of law, inter alia, by forming a special Democracy, Rule of Law and Fundamental Rights Monitoring Group within the Committee on Civil Liberties, Justice and Home Affairs. The idea of creating such a unique mechanism including both democracy and human rights had been a matter of debate at the EP sessions for a long time (P8 TA (2016)0409); however, eventually, the Commission's approach was accepted. In addition to the mechanism of the rule of law, this approach also involves special mechanisms for strengthening democracy and respect for human rights. The role of the EU Council is to help strengthen the rule of law through political discussions about individual member states based on the Commission's annual report. The Commission's substantive annual report within the European Rule of Law

Mechanism is part of the EU's more comprehensive action to support and defend its core values (COM/2021/700:3).

Those activities include an action plan for European democracy (COM/2020/790) and a renewed strategy for the implementation of the Charter of Fundamental Rights (COM/2020/711) and targeted strategies and action plans for progress towards a "Union of Equality" relating to gender equality, anti-racism, Roma equality, children's rights, rights of persons with disabilities, equality of LGBTIQ persons and implementation of social rights.

#### **4. THE RULE OF LAW AS A CONSTITUTIONAL CATEGORY**

Law as a set of norms that regulate the behavior of people in society is concretely indicated depending on the institutional application and to what extent the rule of law has been achieved, as a quantum of the quality of legal and political institutions. The rule of law in the 21st century exists only if there is a democratic constitutional judiciary, which implies that the constitution is based on the principle of popular sovereignty. Michel Troper points out that it is absolutely clear that the existence of the constitutional judiciary presupposes the concept of democracy, which is not defined as the rule of the people by the people themselves, but as the rule of the general will that is partially formulated under the influence exerted by the indirect or direct election of those who express it. (Troper, 2014:350) According to Kelsen, the constitution is the work of the founder of the state. Referring to this thesis in modern society, we come to the conclusion that the constitution is the political will of the majority or that the constitution promotes and protects the interests of the majority political elite. What is the basis of every state that has strong institutions is the assertion that the term constitution implies a set of legislative norms, that is, the state constitution as a "fundamental law" must be the foundation of the state's legal order. A catalog of citizens' freedoms and rights is a typical part of modern constitutions, the so-called "Bill of Rights" contained in the

first ten amendments of the United States Constitution and those amendments mostly have the character of prohibitions and orders sent to the bodies of the legislative, executive and judicial authorities. (Kelzen, 2010:366) However, to define the rights and obligations of the individual, the state, the individual towards the state and the state towards the individual, it does not mean establishing hypotheses about human behavior, but it means defining the rules and principles that everyone must adhere to. Compliance with these principles is controlled by the institutions. This attitude implies that only strong institutions can determine the difference between rational human, specific political and moral behavior. Injury can come from both sides, from the side of a natural person, an individual, but also from the side of the state, it depends on which form of political regime establishes and applies the provisions of the constitution. However, the measure of a strong state and the rule of law are exactly neutral institutions. Of the rights and obligations that we call democratic, some are political while others are not; those that are political help to secure those that are not and vice versa; those two types of rights and obligations usually go together, because a community that respects one kind usually respects the other, at least to a certain degree; however, neither right is valued merely as a means to other rights, nor do countries that claim to be democratic equally value both types or achieve equal success in securing them. (Plamenac, 2006:190) The topics of human freedom and equality within a society, which does not necessarily have to be a national society, but must be under the legislation of a constitution, are particularly important for this research work. It is about respect for human dignity as a measure of the strength of the constitution and institutions that guarantee the rule of law. This is supported by the Charter of the United Nations and the Universal Declaration of Human Rights from 1948 - where the world is conceived in such a way that the dignity of every human being will be respected. This is supported by the obligation arising from the Constitutional Treaty of the European Union,

where human dignity is put first. In order to talk about the rule of law as a constitutional category, it is necessary to separate natural human dignity (which indicates that we are all equal), which symbolizes man as a free and creative being, and social dignity on the other hand. Human dignity is immanent to each individual based on individual characteristics (genetics, environment, upbringing), while social dignity is to a serious extent conditioned by the social environment, political culture, national orientations, system of overall national values, international environment, economic position, social status, education and another. Today it is considered that the best (and not ideal) rule of law is a kind of Aristotelian politics that ensures respect for human freedoms and rights; thanks to that "A free man obeys and does not serve", he has bosses but not masters, he obeys only laws, thanks to laws he obeys men. (Mitrović, 2010:227) Can we talk about the democracy that most closely ensures a high degree of respect for the rule of law from a contemporary perspective? S. Delaillie Burns believes that such a democracy has not yet been achieved. It is the ideal of those who want a society of interdependent groups, which would be so organized that every man would have equal conditions to develop what is best in him; and such a society does not exist anywhere. (Burns, 2010:211) The 21st century is characterized by social erosion caused by globalization, this kind of decline of valorized quantum determines the new age, which is a time in which there is no central national responsibility, and therefore international agreements and international conventions do not have to be globally observed (nor are they) always be in the interest of national progress. The crisis of power caused by increasing sub-grouping, decentralization is embodied in the disintegration of the state and occurs in parallel with the erosion of its power and authority; traditional loyalties and bases of authority are becoming weaker, in order to gain loyalty, the state must provide evidence of whether it is capable of fulfilling its obligations and governing effectively. (Ricer, 2012:431) The guarantor of the implementation of the rule of law, both in



theory and in practice, must be the constitution, that is, the implementation of the rules has an institutional application through the constitutional form.

## 5. ATTITUDES OF THE CITIZENS OF THE REPUBLIC OF SERBIA ON THE STRENGTH OF NATIONAL INSTITUTIONS AND POLITICAL CULTURE

The Republic of Serbia, as a transitional block country, is a modern training ground for creating instant business, strengthening the gray economy, weakening national institutions and promoting other people's values. For the purposes of this research, the authors conducted a Questionnaire, which is methodologically based on the subject of the research. The research lasted from June 1 to August 31, and was conducted on the territory of the Republic of Serbia (without the province of Kosovo and Metohija). The minimum sample of responses to the questionnaire is 5% of the total number of citizens who are registered in the electoral roll of the Republic of Serbia.

To the question "To what extent does the political system influence the creation of a cultural environment in which institutions are respected/disrespected" in the Republic of Serbia, 78.1% of respondents answered that it has an extreme influence, 19.2% of respondents answered that it has a partial influence, while only 2.7% of respondents answered that the political system has no influence at all. Based on these answers, we can conclude that a serious majority of respondents are aware of the share of the political and economic environment that creates a system with consequential effects.

3. To what extent does the political system influence the creation of a cultural environment in which institutions are/are not respected?

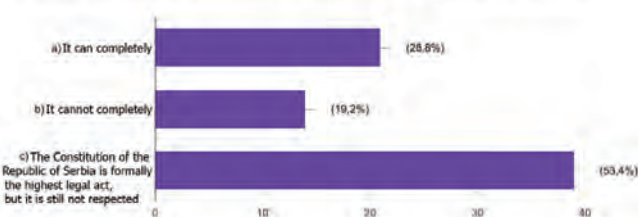


Graph 1.

Source: Questionnaire conducted by the authors

To the question "To what extent can the Constitution of the Republic of Serbia guarantee the Rule of Law" - 53.4% of the total number of respondents answered that the Constitution of the Republic of Serbia is formally the highest legal act, but that it is still not respected. 28.8% of the total number of respondents answered that the Constitution of the Republic of Serbia fully guarantees the rule of law, while 19.2% answered that the Constitution of the Republic of Serbia cannot guarantee the rule of law in the Republic of Serbia. This ratio of answers describes that the reality of legal application and respect for the institutions of the Republic of Serbia by the citizens and vice versa, the respect of the citizens by the institutions is extremely unfavorable, i.e. undemocratic correlational relationship. The constitution of a country is the highest legal act and as such it provides citizens with the certainty that they can exercise their rights, but at the same time it guarantees the application of rights through institutions that are supervised by the state. More than half of the respondents answered that the Constitution of the Republic of Serbia is only a declarative act, that is, an act that is not respected to the extent and in the way it should be. This percentage of responses is alarming and warns of the necessity of strengthening the institutions of the Republic of Serbia.

4. To what extent can the Constitution of the Republic of Serbia guarantee the rule of law?



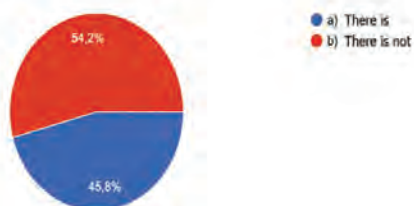
Graph 2.

Source: Questionnaire conducted by the authors

To the question "In your opinion, is there responsibility (sanctioning) in case of non-compliance with the Constitution of the Republic of Serbia", 54.2% of respondents answered that it does not exist, and 45.8% that it does. From this ratio of percentage responses, we can conclude that there is practically a small difference

in trust or distrust of citizens in the existence of sanctions in case of non-compliance with the Constitution of the Republic of Serbia. This type of answer also indicates that it is possible to restore the trust of citizens, if the strength of institutional justice is at a higher level.

5. Whether, in your opinion, there is responsibility (sanctioning) in case of non-compliance with the Constitution of the Republic of Serbia?

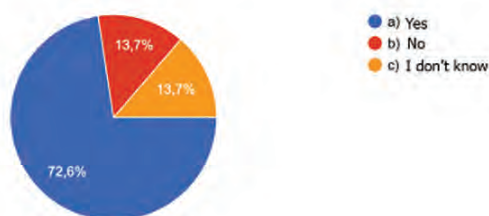


Graph 3.

Source: Questionnaire conducted by the authors

To the question “Do you think strong institutions are the basis of the rule of law”, 72.6% of the respondents answered yes - yes. However, the answers “no” and “I don’t know” were answered by an identical percentage of respondents - 13.7%. From this answer, we conclude that the citizens of the Republic of Serbia still firmly believe that strong and unshakable institutions are the bearers of the rule of law. That is, that the application of rights can only be achieved through institutional frameworks, which indicates a fairly high degree of political culture of the citizens of the Republic of Serbia.

6. Do you think strong institutions are the foundation of the rule of law?



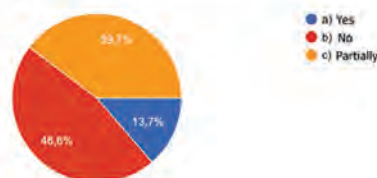
Graph 4.

Source: Questionnaire conducted by the authors

To the question “Do you think you can get effective protection of your endangered rights and freedoms in the Republic of Serbia”, 46.6% of respondents answered that they cannot get protection of their rights, while 39.7% of respondents answered that they can get partial protection of endangered rights, and 13.7% of

respondents answered that they can receive effective protection of endangered rights and freedoms in the Republic of Serbia. This ratio of responses is alarming and it requires urgent intervention of the state, as well as the non-governmental sector. If only 13.7% of respondents believe that in the Republic of Serbia they can receive protection of endangered rights and freedoms, then it follows that the Republic of Serbia is a legally unstable, politically insecure country where the rule of law does not rule, and citizens do not feel safe in such a living environment.

11. Do you think that you can get effective protection of your threatened rights and freedoms in the Republic of Serbia?

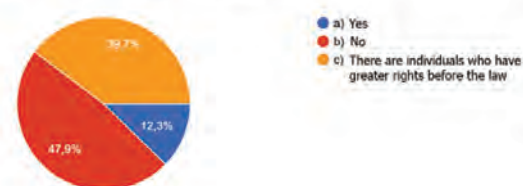


Graph 5.

Source: Questionnaire conducted by the authors

To the question “Do you think that all citizens are equal before the law” 47.9% answered - no. To this same question, 39.7% of respondents answered that “there are individuals who have greater rights before the law”, while only 12.3% answered that all citizens are equal before the law. What is specific here is that there is a very thin line between answer “b” and answer “c”. In fact, the majority of citizens of the Republic of Serbia believe that all citizens do not have the same status before the law and do not have the same opportunity to protect their own freedoms. Every country in the world exists because of the normal functioning of the order because that order is the symbol of the balance established from within.

12. Do you think that all citizens are equal before the law?



Graph 6.

Source: Questionnaire conducted by the authors

## 6. CONCLUSION

Every legal state in its most important regulations and documents is obliged to foresee situations in which the rule of law may be violated. William Hazlitt (1778-1830) pointed out that the development from a state of lawlessness to a state of law and the rule of law is not accidental, because if humanity wanted justice, it could have had it a long time ago. Nothing is different today. Therefore, people created the rule of law as a model by which they replaced justice as a value with the values of the rule of law. Based on the research conducted for the purposes of this work, we clearly see that the Republic of Serbia, as a country undergoing transition, has a rather negative reputation when it comes to the rule of law. This look gives her a collective, civic attitude. The questionnaire that was prepared for the purposes of this research decisively dealt with topics that are parameters of the rule of law and thus showed to what extent and in which areas intervention is needed in the legal and political system of the Republic of Serbia. The Republic of Serbia, as a candidate for EU membership, has the obligation to permanently measure the rule of law and the achievement of the progress of citizens' freedoms. Based on the research results, we note that the majority of citizens of the Republic of Serbia do not trust national institutions, that they believe that the Constitution does not protect the interests and freedoms of all citizens, which indirectly implies social (civil) inequality. This is certainly not a good position of the rule of law in the Republic of Serbia, nor is it a positive indicator of the Europeanization process. The essence of the quality of life in a country is that citizens, residents of that country have confidence in the institutions that implement

the law and guarantee equality, freedom, justice, fairness, human dignity, tolerance, security, order, peace, expediency, effectiveness to all citizens who live in it. The value element of the legal order is based on the elements that were mentioned, which, based on the responses of the respondents, participants in the conducted questionnaire, is not at a high level of development. The Republic of Serbia must necessarily work to strengthen institutions, to strive to ensure that all citizens enjoy their freedoms and exercise their rights, without restrictions. A human being has the freedom given by birth that he should live in any place in the world, including in the Republic of Serbia, in accordance with his personal nature. The cause of citizens' distrust in the legal and political institutions of the Republic of Serbia is precisely the transition cycle that Serbia has been going through for three full decades, followed by an unstable economic situation, a high degree of economic migration, unemployment, low incomes, pronounced politicization in all segments of society and life, a high degree of populist ideology at the head of which are corrupt and tyrannical elites. In the process of developing and strengthening social awareness, the Republic of Serbia must create independent institutions, non-corrupt educational, health, transition, economic and other systems, to introduce a set of legal regulations, which would, for example, among other things, prohibit all employees in the public sector from at the same time, they participate in political life as holders of political offices. Considering the geopolitical position of the Republic of Serbia and the current international positions, there is a serious potential for the Republic of Serbia to develop in a progressive direction and to position itself as a modern democratic state on the world stage.



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## VLADAVINA PRAVA: PRAVNI PRINCIPI, MEHANIZAM VLADAVINE PRAVA EU I USTAVNA KATEGORIJA U REPUBLICI SRBIJI

**Sazetak:** Vladavina prava je civilizacijska tekovina i pravni standard koji ograničava delovanje organa vlasti na postupanje isključivo u okviru zakona u skladu sa demokratskim vrednostima i poštovanjem ljudskih prava i osnovnih sloboda. Zakonom utvrđena ograničenja postupanja organa javne vlasti prate nezavisni i nepristrasni sudovi koji graniče postupanje države u zadiranju i povredi prava i sloboda građana. Dakle, vladavina prava direktno utiče na živote građana i predstavlja preduslov za postizanje jednakosti pred zakonom i zaštitu prava građana. Danas je vladavina prava ustavna kategorija u svim demokratskim državama. Sastavni je deo svih zakona koji se odnose na državnu regulativu, krivičnu zaštitu, slobodu medija. Najčešće se javno predstavlja pravni standard na koji se pozivaju političari, nosioci visoke vlasti i visoki državni službenici. Stiče se utisak na osnovu javnog diskursa da ne postoji nijedna druga pravna tema, kategorija, oblast koja se više pominje i na koju se svi pozivaju s jedne strane, a oblast koja se najviše zloupotrebljava i krši, s druge strane. U ovom radu akcenat je stavljen na neke od postojećih definicija vladavine prava i analizirani su elementi i pravni principi koji su suštinski deo vladavine prava u međunarodnim okvirima. Analizom mehanizama vladavine prava EU utvrđuju se sastavni elementi vladavine prava koji su predmet novouspostavljene godišnje procene stanja vladavine prava u državama članicama koju sprovodi Evropska komisija. Takođe, poseban fokus u radu je stavljen na istraživanje ustavnih osnova vladavine prava u Republici Srbiji i institucionalnu primenu elemenata vladavine prava koji su od posebnog značaja za građane i proces evropskih integracija. integracija.

**Ključne reči:** vladavina prava, demokratija, pravosuđe, korupcija, sloboda medija

UDC: 343.85:343.341(4)

343.85:323.28(4)

COBISS.SR-ID 134115337

doi: <https://doi.org/10.61837/mbuir010223127d>

ORIGINAL SCIENTIFIC PAPER

RECEIVED: 11. 01. 2023.

ACCEPTED: 20. 02. 2023.

# EUROPEAN POLICE COOPERATION IN THE COUNTERTERRORISM EFFORTS OF THE 21<sup>ST</sup> CENTURY

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**Abstract:** This paper explores the evolution of European police cooperation in the context of countering terrorism in the 21st century. The primary objective is to analyze the shifts in perceptions and responses to security threats following the pivotal events of September 11, 2001, with a focus on the European Union's efforts in formulating a unified counterterrorism policy. The theory of securitization provides a theoretical framework for understanding the perception and management of terrorism as a borderless threat. The analysis culminates in the exploration of Europol's pivotal role in facilitating coordination and information exchange among member states in response to dynamic and contemporary threats. In this context, the paper addresses cyberterrorism threats, exploring the international dimension of this crime and the inadequacy of local regulations in member states for prevention and defense. The paper concludes by highlighting the evolving landscape of European police cooperation, marked by collaborative frameworks and institutional adaptability in addressing emerging security challenges and preserving fundamental European values. Through the analysis of police cooperation development in this context, the paper contributes to a better understanding of the effectiveness and efficiency of EU counterterrorism efforts.

**Keywords:** Police Cooperation, European Union, Counterterrorism, Securitization Theory, Cyberterrorism

## 1. INTRODUCTION

The beginning of the new millennium was marked by the emergence of new security challenges, risks, and threats to which even the most powerful states were unprepared to provide an adequate response. The terrorist act on September 11, 2001, executed at The World Trade Center in New York and the Pentagon building in Washington, was a pivotal event that 'forever changed the world' and ushered in a new era of global terrorism (Kegley & Wittkopf, 2006). This terrorist act also raised

awareness among the member states of the European Union (EU) that they were all, in fact, confronted with a common terrorist threat, then embodied by Al-Qaeda. This realization contradicted the previous perception across Europe that each member state faced a distinct threat. This moment was crucial as it initiated the discussion on the development of a common EU policy to counterterrorism for the first time (Kaunert & Léonard, 2019).

The freedom of movement for people, goods, information, and capital, despite the



benefits it brings, has simultaneously necessitated the revision and enhancement of security strategies in all countries. This is to account for the newly created facilitation and opportunities for terrorists to promote their ideas, travel more easily, carry out violent acts, and achieve their objectives by spreading fear. Law enforcement institutions have a unique contribution to make to counterterrorism efforts (Deflem & Chicoine, 2018). EU member states are making efforts towards the consolidation of police and judicial cooperation in the counterterrorism, particularly after a series of impactful terrorist attacks in Belgium, the United Kingdom, Germany, Sweden, Spain, Finland, France, and the recent ones in Austria. Investigations conducted after these terrorist attacks in Europe indicate a collision between what it deems the 'free movement of terrorists across Europe' and the timely exchange of intelligence data about their plans within the EU (Bureš, 2016:57).

Traditionally, the state and the police are considered closely intertwined societal phenomena. However, the rapid legal development of the EU means that European police forces are no longer solely bound by a specific national legal context or territory in the way they once were (Ugelvik, 2018). Concerns of the international community regarding the proliferation of terrorism threats have been a primary driver for pooling the capacities of national states in the fight against a common enemy. The goals of cooperation in this field include understanding the nature and causes of terrorism, as well as developing policies and building an institutional framework for counterterrorism, which has become a transnational phenomenon (Ejova, 2016). Despite the EU institutions' attempts to enhance counterterrorism measures through various programs, strategic policy documents, adopting new legal instruments, and their harmonization/updates by member states with existing national legislation; convening expert groups for exchanging best practices; improving information exchange between security agencies; strengthening the capacities of agencies

(especially Europol and Eurojust); and coordinating activities related to preventing radicalization and enhancing cooperation with third countries, the overall impact of the EU on how member states implement counterterrorism actions remains quite limited due to a lack of relevant competencies and tools (Bures & Bätz, 2021). The level of integration in police cooperation in the EU can be measured by analyzing institutional capacities, legal frameworks, and cross-border professionalism and collaboration (Boer, 2014). Thus, the EU adopted an EU Action Plan on combating terrorism, calling for the strengthening of police and judicial cooperation among member states, the development of a legal framework for counterterrorism activities, and the prevention of the financing of terrorist organizations (Потемкина, 2011). The European Union's Action Plan on combating terrorism has been expanded, updated, and revised countless times since its first appearance at the end of September 2001. While the international community generally views the plan to combat terrorism as useful, albeit somewhat cumbersome, a closer and more systematic analysis of the Action Plan highlights a series of challenges in the EU's counterterrorism policy.

Cyberattacks and online threats, jeopardizing critical infrastructure through the internet, pose one of the key challenges to the EU's security policy in the 21st century. Therefore, ensuring the security of the EU's cyberspace is of paramount importance for safeguarding individual freedoms, the right to informational self-determination, and democracy as a whole – fundamental European values.

## 2. THE SECURITIZATION OF TERRORISM AS A BORDERLESS THREAT

The theory of securitization has its roots in the so-called Copenhagen School of International Relations, serving as an analytical framework to understand how traditional and non-traditional security threats are perceived and managed by states (Buzan, Wæver, & Wilde, 1998:24). Emerging in the 1990s, the

theory of securitization represents a kind of compromise between traditional and modern interpretations of the security concept, expanding the notions of security. In the traditional approach, the focus of security studies is the 'phenomenon of war' (Walt, 1991:212; Vultee, 2010). However, with the broadening concept of security, military power is no longer the sole focus. Other critical issues such as arms control, pollution, diseases, terrorism, or economic recession, which can be perceived as threats, come into consideration. Barry Buzan, Ole Wæver, and Jaap de Wilde argue that securitization occurs when an agent identifies and communicates a specific problem as an existential threat to the referent object. According to them, an existential threat jeopardizes the 'essential quality of existence' of the referent object. Addressing the threat becomes a priority and replaces the 'normal.' They characterize existential threats as: 'If we do not address this issue, everything else will be irrelevant (because there will be no 'us,' or we won't be free to handle it on our terms)' (Van Damme, 2008). More precisely, when an issue is securitized, a political actor portrays it as an existential threat, an immediate danger to the physical, cultural, or social health of the community. As such, it gains a certain degree of public consensus for the use of extraordinary measures to combat that threat (Buzan & Wæver, 1997). In the context of counterterrorism, securitization theory helps analyze how terrorism is framed as a borderless threat, transcending conventional notions of national security. The theory posits that security issues become "securitized" when political actors depict them as urgent matters requiring extraordinary measures to protect the societal order. In the case of terrorism, securitization involves framing it not merely as a criminal or political issue but as an imminent danger demanding exceptional responses, often involving the suspension of standard legal and political procedures. This theoretical lens aids in understanding the construction of terrorism as a borderless menace, influencing policy decisions, and shaping the responses of states and international actors in the global security landscape.

### 3. EUROPEAN LEGAL FRAMEWORK FOR COMBATING TERRORISM

The legislation at the EU level in the field of police and security is extensive (Hufnagel, 2018). When it comes to the efforts of these institutions in the fight against terrorism, the EU began institutionalizing counterterrorism cooperation among its member states in 1992, following an extended period of exposure to terrorist attacks (Unnerbäck, 2018). In explaining the increased level of cooperation in the fight against terrorism among EU member states in recent years, some scholars use the concept of 'collective securitization'. The 11th of September has been used as a pivotal event, after which EU member states ceased to perceive the phenomenon of terrorism as an isolated threat to a single state. Instead, there was a growing awareness of a collective threat that required a unified response. This was a crucial moment that, for the first time, opened the possibility of developing a common EU counterterrorism policy (Kaunert & Léonard, 2019).

When it comes to the number of European legal and institutional measures to combat terrorism, they have been adopted and exist in international law. However, beyond quantity, it is essential to question the quality of all these laws and institutions. Specifically, one must ask whether Europe is safer from terrorism today. Some experts argue that Europe's counterterrorism efforts are, at best, only administrative achievements without operational effects. Others, on the other hand, take a more positive stance, claiming that the counterterrorism framework has a real and positive impact on the efforts of EU member states in the fight against terrorism, measurable through a reduction in terrorist activities. The Council of Europe has been addressing counterterrorism issues since the 1970s through activities built on three foundational pillars: strengthening legal capacities against terrorism, safeguarding fundamental values, and addressing the root causes of terrorism. The Council of Europe adopted the Convention on the Prevention of Terrorism to enhance the effectiveness of existing international documents combating

terrorism. The Convention aims to bolster the efforts of member states in preventing terrorism and outlines two ways to achieve this. First, it identifies specific acts constituting and defining criminal offenses. Second, it enhances cooperation in preventing terrorism, both at the national and international levels. This convention is unique compared to other legal frameworks in the European Union, as it provides protection for fundamental human rights against terrorism (Tehrani, Manap & Taji, 2013). As the most important instrument of EU policy in the fight against terrorism, the "EU Action Plan for Combating Terrorism" is considered. It has been expanded, updated, and revised numerous times since it first appeared at the end of September 2001. While the Action Plan has generally been viewed as useful, it is perceived by some as somewhat cumbersome. However, a closer and more systematic analysis of the Action Plan focuses on a series of issues in EU counterterrorism policy. Some authors argue that the Action Plan for combating terrorism implied an administrative approach to governance, which contradicted the controversial and ambiguous nature of the political struggle against terrorism. Therefore, serious implementation problems were expected. This inconsistency was exacerbated by the fact that the rushed policy following major terrorist attacks led to a significant overload of the agenda, neglecting the strategic definition of EU efforts in the fight against terrorism (Bossong, 2008).

The response to terrorist threats is organized at various levels within the European Union. This primarily involves actions at the national level of EU member states, as well as the adoption of legislation at the EU level. New EU institutions have been created to facilitate seamless cooperation in the fight against terrorism within the Union and with third parties. One institution that has gained power in the past two decades in the EU's fight against terrorism is the European Police Office – Europol.

#### 4. PERSPECTIVES ON POLICE COOPERATION IN COUNTERTERRORISM

Perspectives of police cooperation in the fight against terrorism within the EU can be observed through the activities of organizations and institutions that, within their mandates, carry out a range of both preventive and repressive measures to protect people's lives and property, as well as cultural and natural assets from terrorism threats. First and foremost, it is necessary to analyze the activities of Europol, considering the obstacles it faced regarding the lack of trust from the law enforcement agencies of member states and the limitations that arose from these issues. Additionally, bearing in mind that Europol lacks arrest powers, it is essential to highlight arrests resulting from successful investigations to which Europol contributed indirectly. Europol is involved in this aspect of police work, albeit indirectly. However, despite the EU's promotion of Europol and the expansion of its mandate after 2004, giving the agency significant potential to fulfill police functions fully, this has been achieved only in some areas. The EU sought to promote Europol and strengthened its mandate after September 11 through the Hague and Stockholm programs. Still, these efforts were successful only in certain aspects of combating crime, with minimal success in the fight against terrorism. It became evident that competent authorities in member states trust Europol and consider it to offer significant added value only in specific areas, especially when it comes to the fight against terrorism. Moreover, the challenges Europol faces, such as the varying legal frameworks and operational practices across member states, hinder its effectiveness in combating terrorism uniformly. The differences in legal systems and information-sharing protocols among EU nations often create obstacles in seamless collaboration. Despite these challenges, initiatives like the European Counter Terrorism Centre (ECTC) within Europol demonstrate the ongoing efforts to enhance coordination and information exchange.



The expansion of Europol's role and the establishment of joint investigation teams (JITs) illustrate attempts to address the multifaceted nature of terrorism. JITs, composed of law enforcement officers from different countries, enable a more integrated and collaborative approach to investigations, aiming to overcome jurisdictional hurdles. While Europol plays a vital role in facilitating police cooperation against terrorism within the EU, ongoing efforts are essential to overcome challenges and further strengthen collaborative mechanisms for a more effective response to the evolving nature of terrorist threats.

## 5. CYBER TERRORIST THREATS

The rapid advancement of technology, alongside its immense benefits for humanity, has also given rise to the threat of cyber terrorism, which has become one of the most alarming global challenges of the 21st century. Cyber terrorist attacks are increasingly becoming an urgent issue and problem due to the lack of consistent international agreements and decisions for a unified response to these types of threats. In the virtual world, cyber criminals and cyber terrorists use computers as weapons, while the computers of potential victims serve as targets. Terrorists execute their attacks using various methods, and the consequences extend beyond the virtual realm, impacting real-life situations by causing property damage or loss of life (Tehrani, Manap & Taji, 2013). Cyber terrorists exploit the cyberspace to create disturbances, fighting against governments to achieve their goals by utilizing all possible means. Cyber-attacks manifest in two forms: attacks against data and attacks against management systems (Lemos, 2002). The growing concern about potential cyber terrorism threats in the EU has prompted member states and their institutions to make efforts to combat this threat. Considering that cyber terrorism is an international crime, the local regulations of individual member states alone are insufficient for preventing and defending against such attacks, requiring a transnational response. Without the assistance and

involvement of international institutional capacities, preventing cyber terrorism is challenging. The European Committee on Crime Problems of the Council of Europe established a specialized commission on cyberspace in 1997. This commission was assigned to address the issue of "criminal procedural law related to information technology," cyber-crimes, and international cooperation in criminal law when necessary. The European Committee on Crime Problems in Cyberspace adopted the Convention on Cybercrime, also known as the first "international convention on crimes committed through the use of the internet and other computer networks" (Clough, 2012). A central challenge for cybersecurity policy in the EU is the absence of a systematic, quantitative method for detecting and spreading information about cyber security threats. Neither national nor international institutions have the technical capabilities or legal authority needed to register all cyber-attacks on the Internet, businesses, government agencies, or private accounts.

The absence of a systematic, quantitative method for detecting and disseminating information about cyber threats poses a central challenge for cybersecurity policy in the EU. Neither national nor international institutions possess the technical capabilities or legal authority required to register all cyber-attacks on the Internet, businesses, government agencies, or private accounts. Recognizing the transnational nature of cyber terrorism, the EU has realized that local regulations of individual member states alone are insufficient for preventing and defending against such attacks. This realization has prompted member states and their institutions to make concerted efforts to combat cyberterrorism.

The EU response to cyberterrorism involves enhancing cooperation, coordination, and information exchange among member states. The continuous updates and revisions of the EU Action Plan on combating terrorism also encompass measures to address cyber threats. However, the evolving nature of cyber threats requires ongoing adaptation and collaboration,

necessitating the involvement of international institutional capacities. The efforts to combat cyberterrorism reflect the EU's commitment to a transnational response, acknowledging the interconnected and borderless nature of cyber threats in the contemporary security landscape.

Furthermore, the rise of cyber terrorism has highlighted the need for enhanced international cooperation and information sharing to effectively counter these threats. The EU has recognized the significance of collaborative efforts in developing comprehensive strategies to address cybersecurity challenges. Initiatives such as the European Cybersecurity Act aim to strengthen the EU's overall resilience against cyber threats by establishing a framework for certification and cooperation among member states. In response to the evolving nature of cyber threats, EU institutions have also focused on fostering innovation in cybersecurity technologies. Research and development initiatives, along with public-private partnerships, play a crucial role in staying ahead of cyber adversaries.

## 6. CONCLUSION

European police cooperation in the counterterrorism efforts of the 21st century has witnessed a dynamic evolution, marked by the strengthening of institutions and collaborative frameworks. Europol, as the EU Agency for Law Enforcement Cooperation, plays a crucial role in fostering coordination and information exchange among member states. Its mandate has expanded over the years to encompass a spectrum of counterterrorism activities, reflecting the dynamic nature of contemporary threats.

In the face of traditional and emerging challenges, European police forces have increasingly recognized the necessity of synergized efforts. Europol's engagement in counterterrorism extends beyond physical threats to encompass the growing realm of cyber threats and the potential misuse of artificial intelligence technologies by terrorist organizations. As technological advancements offer new avenues for terrorist activities, the focus on cybersecurity becomes paramount. Enhancing cyber resilience and international collaboration in addressing cyber threats will be integral to the effectiveness of European police cooperation in the evolving landscape of counterterrorism.

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## EVROPSKA POLICIJSKA SARADNJA U BORBI PROTIV TERORIZMA U 21. VEKU

**Sažetak:** Ovaj rad istražuje evoluciju evropske policijske saradnje u kontekstu suprotstavljanja terorizmu u 21. veku. Primarni cilj je analizirati promene u percepciji i odgovorima na bezbednosne pretnje nakon ključnih događaja od 11. septembra 2001, sa fokusom na napore Evropske unije u formulisanoj jedinstvenoj antiterorističkoj politici. Teorija sekuritizacije pruža teorijski okvir za razumevanje percepcije i upravljanja terorizmom kao pretnjom bez granica. Analiza kulminira istraživanjem ključne uloge Evropola u olakšavanju koordinacije i razmene informacija među državama članicama u odgovoru na dinamične i savremene pretnje. U tom kontekstu, rad se bavi pretnjama sajberterorizma, istražujući međunarodnu dimenziju ovog zločina i neadekvatnost lokalnih propisa u državama članicama za prevenciju i odbranu. Rad se završava naglašavanjem evolutivnog pejzaža evropske policijske saradnje, obeleženog okvirima saradnje i institucionalnom prilagodljivošću u suočavanju sa novonastalim bezbednosnim izazovima i očuvanju osnovnih evropskih vrednosti. Kroz analizu razvoja policijske saradnje u ovom kontekstu, rad doprinosi boljem razumevanju efektivnosti i efikasnosti antiterorističkih napora EU.

**Ključne reči:** policijska saradnja, Evropska unija, protivterorizam, teorija sekuritizacije, sajberterorizam





# **PRESENTATION SCIENTIFIC PUBLICATIONS AND CONFERENCES**

## SOCIAL SCIENCES

PRESENTATION OF A MONOGRAPH AUTHORED BY

ALEKSANDAR HALMI, NEĐO DANILOVIĆ AND DŽEVAD TERMIZ

### **Emeritus dr. sc. Vlatko Previšić, full professor** **EVALUATION STUDIES IN SOCIAL SCIENCES**

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The monograph *Evaluation studies in the social sciences*, authored by regular professors Dr. Aleksandar Halmi, Dr. Neđo Danilović, and Dr. Dževad Termiz, is an original scientific work in the field of Methodology of Social Sciences written on a total of 401 pages of text. The text is divided into eight units with a larger number of chapters and subchapters (1. Preface, 2. Introductory considerations and 3. Introduction to evaluation and evaluation research, 4. Paradigmatic discussion, 5. Theory-driven evaluation programs, 6. Types of evaluation programs, 7. Quantitative evaluation programs, 8. Qualitative evaluation programs. It includes 19 tables and several schematic representations, a large number of instruments that can be used in the evaluation of the program, as well as 245 works listed in the list of literature and an index of terms.

The content of the monograph fully corresponds to the content included in the curriculum of the Methodology of Scientific Research course, and to a large extent to the content from the course methodology of sociological and pedagogical research. The contents are appropriately thematically connected, which contributes to their easier understanding and mutual connection. In the monograph, the authors start from the thesis that the

methodology of evaluation research is difficult to understand outside the broad reference framework of theoretical-scientific and meta-theoretical conceptions, but also the specific sociocultural, political and economic context within which the evaluation takes place. It is at the same time the specific social ecology of the evaluation program, which the authors especially emphasize in the monography. Therefore, evaluation programs and evaluation research are objective facts but also socially constructed categories shaped by a specific context within which different participants operate: clients/users, multiple stakeholders, politicians, decision makers and evaluators.

As part of that, the authors apostrophize some contemporary trends that shape the methodology of evaluation programs and evaluation research. The first trend is related to the gradual strengthening of the program theory of evaluation, which along with the development of a specific research methodology leads to the generation of a unique and consistent conceptual-categorical system within this disciplinary area. The second trend follows the still dominant quantitative approach characterized by the comprehensive development of analytical procedures of a high level of statistical and mathematical formalism. This



trend is developing within the traditional positivist-functionalist paradigm in which survey and experimental research and designs are the main research strategy and fundamental feature of the evaluation program. towards every form of “quantophrenia” and “metromania” in the field of social and humanities. A distinctive feature of qualitative evaluation methods is the development of models for assessing user-oriented evaluation. At the same time, the trends of reconciliation and finding consensus between traditional and alternative approaches to evaluation programs are strengthening. These new trends bear the epithet of the so-called “triangulation perspectives” or “multimethod operationalism” which mean the combination of research strategies into a unique interdisciplinary project that takes place through a generic research and problem-solving methodology (problem-solving approach).

The methodological suitability of this study ensures a rich theoretical-conceptual basis for strengthening existing knowledge and practice, as well as a reference meta-theoretical framework for the development and implementation of formative and summative (causative) evaluation programs. In the monograph, the authors developed a multidisciplinary and eclectic view of many new approaches that have recently developed in the field of theory and methodology of evaluation research. The goal is to help practitioners to quickly and effectively undertake evaluation research that induces planning programs and management of the project cycle and is intended for the process of making social and politically relevant decisions in those substantive areas where public health and social programs take place. The text is designed in the form of a modern monograph-textbook and methodically fully adapted to the subject of evaluation research methodology for which it is intended.

The monograph contains a rich list of 245 literature sources. The cited literature is completely relevant to the evaluation content discussed in the monograph and indicates the author's great awareness of the subject of evaluation studies in the social sciences, and

especially their knowledge of recent findings in that area. This monograph definitely represents the most extensive and appropriate text in the area of research on evaluation programs in the social sciences. In fact, there are no complete works in this area in our country, and in the professional and scientific literature, only one part of this extensive problem is usually dealt with, which makes it difficult to get a more detailed insight into all the methodological possibilities when creating a program for assessing success and efficiency in the social sciences. This can be considered the reason that both in the field of social and humanities and in the field of sociology and political science, such research is rarely conducted, and when it is conducted, not all methodological possibilities of designing evaluation models are regularly used to assess the evaluability of a program. The special value of this monograph is that, in addition to the excellent theoretical treatment of the problem, which will enable students, evaluators at various levels and other users to gain a complete insight into the topic of evaluation, the attachment also provides materials that can be directly used in practice and on the basis of which evaluators can to gain appropriate experience for later independent conduct of such research. Until now, such materials have been very rarely represented in our methodological literature and difficult to access for our students, evaluators and researchers, which is not the case with world literature. It is precisely in this world literature that the authors find the appropriate cited examples.

Although it is a monographic-textbook work, considering the above, we can consider this text as an original scientific work in our country, because it represents a specific synthesis of the area of quantitative and qualitative evaluation programs and a complete presentation of an entire area of research methodology as it has been in these areas so far did not exist.

The meanings of concepts and terms in this monograph are harmonized with the usual meanings of concepts and terms in the field of evaluation research methodology, and are

understandable to users. Its added value is that it contributes to overcoming the conceptual confusion that exists in our country in the field of meaning related to this problem, and it gives appropriate names to concepts that have not been named in our country so far. Namely, in our country, different authors use different meanings to describe the same phenomena, which makes scientific and professional communication difficult. One of the features of this text is that it overcomes the terminological inconsistency that occurs in most of the works in this area in our country.

Despite the complex scientific and professional language in which the text is written, which arises from the complexity of the issues being addressed, as well as difficulties related to the lack of appropriate meaning in us, the text is linguistically and conceptually clear and understandable to its intended users.

In the conclusion of the presentation of this monograph, it is necessary to emphasize that it represents a very extensive presentation of the methodology of evaluation research with numerous examples of implementation and materials for the implementation of such

research. Therefore, this text, with the richness of its content, its modernity and the way of its presentation, surpasses similar texts in our country, and especially the previous manuals of evaluation. The wealth of content it presents, its transparent and clear conceptualization of content make it a contemporary monographic-textbook work of an enviably high level. Therefore, this monograph fully meets the requirements of scientific and teaching literature in the field of scientific research methodology in the social sciences. Therefore, we can recommend it as a source of literature for courses in the field of research methodology at undergraduate, graduate and postgraduate studies in social sciences and humanities.

According to everything, the manuscript can also be classified as monograph-textbook works at universities, faculties and colleges. As this is a systematic comprehensive and quality manuscript, the monograph *Evaluation studies in the social sciences* is essential for scientists, researchers, scientific practitioners and students in the field of social sciences at all levels of study.

## SOCIAL SCIENCES

PRESENTATION OF A MONOGRAPH AUTHORED BY  
ACADEMICIAN PROF. DZHEVADA TERMIZA, PhD**SOCIAL SCIENCE METHODOLOGY  
(THIRD REVISED EDITION 2022)****Prof. Ph.D.Sc. Alexander HALMI***University of Zadar and Zagreb*[aleksandar.halmi@gmail.com](mailto:aleksandar.halmi@gmail.com)

Monograph “Methodology of social sciences”, Akademika.Prof.dr. Dzevada Termiza, a distinguished methodologist and member of the International Association of Social Science Methodologists, is so far one of the most comprehensive books in the field of social science methodology in Southeastern Europe.

The term “methodology” is increasingly used here in certain scientific disciplines, as well as in professional circles. This probably testifies not only to the openness of the language and the need of some disciplines for the best possible mutually developed communication symbols, but also to the fact that through individual terms (concepts) the diversity of cognitions and meanings are synthesized in order to more effectively research and explain contemporary tendencies in different areas and branches of methodology and logic researched from general and general theories of high scope, to specific methodologies in the field of fundamental and applied disciplines such as: political science, criminology, educology, psychology, sociology and social work. However, sometimes the new terminology used by the author can mean only formal structural changes, an attempt to find a way out of real difficulties in new forms. That's why every new term must have a new content or a new meaning, especially if terms from other disciplines are accepted.

In the book “Methodology of Social Sciences”, Dzevad Termiz presented in an appropriate manner part of his works created in recent years, which actualize the problems of methodology, but also of “meta-methodology” in a wider critical context, on the one hand and on the other indirectly they should “serve” to the author as an argument for his effort to interdisciplinarily elaborate the methodological topic, regardless of all its complexity, in the context of understanding different methods and modes of research, from quantitative, qualitative, mixed or triangulation and evaluation methodology.

The book is otherwise conceived in three parts and XV chapters with a preface and introductory considerations.

The first part of the monograph, in the first chapter, covers the theoretical and logical foundations of social science methodology, which includes an introduction to social science methodology. The author starts from the systematization of science and its taxonomization, where he states the specifics of social sciences and states the concept of methods and methodologies of sciences. The question of methodology as a scientific discipline is raised, as well as the research goals of this special discipline.

In the second chapter, the author enters the very concept of scientific research (second part), without which methodology would be a pointless logical discipline in itself. We state

that the author himself was the protagonist of numerous empirical researches, especially within the scientific institutes in Bosnia and Herzegovina. The general concept of research and scientific research is given, as well as the structure and typology of research, and the types of scientific research.

The third chapter includes the logical foundations of scientific research, where it enters into the very concept and structure of logic, which gives the epistemological level of the methodology. The author comprehensively examines logical variables and constants as well as logical expressive functions, which leads to logical valence and rules of true thinking, which is a necessary part of every research, be it ontological, epistemological or methodological.

The fourth chapter lists the basic methods of logical and scientific knowledge: analysis, synthesis, abstraction, specialization, concretization, generalization, deduction and induction. These are the basic forms of every epistemological and epistemological construction and structuring of the scientific method as such, where the place and role of other basic forms and processes of scientific knowledge are stated, such as: proving and refuting (Popper), axioms and postulates, which form the basis of "positive" science. on society (Durkheim). There is a wide discussion about the hypothetical-deductive general scientific method, statistical method, modeling method, axiomatic method and comparative method, which is particularly interesting in the field of political science and other disciplines (social work and sociology, etc.).

The fifth chapter consists of the basic theoretical-methodological directions in understanding the scientific knowledge of society. The author lists seven methodological trends or paradigms that were dominant in the history of the philosophy of social sciences, and are still relevant today. The first is the positivist theoretical-methodological direction, which consists of representatives of English analytical philosophy (Comte, Bacon, Mill, etc.). This is opposed to the French positivism of Emile Durkheim, especially in the work "Rules of Sociological Method". This approach experienced its greatest

momentum in the scope of the Vienna circle of "logical positivists" (Carnap, Neurath, Wittgenstein). Of course, then some important differences in the author's understanding of positivism emerge from this. As a very important theoretical-methodological approach, the author cites structuralism (C.L. Strauss), which is divided into: phenomenological structuralism (Husserl, Schutz), genetic structuralism (responsible for genealogical research), modeling structuralism and the structuralist method, which developed for a long time in social-humanistic sciences. As a significant reinforcement and amplification of positivism, the author introduces the notion of functionalism, which still dominates sociological methodology (Milić, Supek, Kuvačić), which further leads to structuralism. There are criticisms of functionalism from some authors who advocate the genetic approach, considering that society is not a morphostatic structure but a changing and dynamic one, and development approaches such as behaviorism and non-behaviorism should be brought into focus. Of course, these approaches and directions consider the possibilities of introducing experimental methods and models into the social sciences and thereby retrogradely reinforce positivism, which is also its shortcoming. The fifth direction that the author considers is historicism or the axiological theoretical-methodological direction. This direction is developed as part of the South German neo-Kantian school (Dilthey, Windelband and Rikert). This direction is especially considered by Dilthey in his study "Introduction to spiritual sciences", which is further developed by Weber as part of the "sociology of understanding" and thus opens the way to the developed axiological method. Criticism of that method was particularly developed in the German Institute for Social Policy (Schmoller), which believes that science cannot be "value-neutral" but should be at the service of man. The pinnacle of the theoretical-methodological directions is represented by the dialectical theoretical-methodological approach, which experiences its greatest scope in Hegel's dialectical triad, which opens up German idealist philosophy, which was until recently the dominant approach until



the phenomenological school appeared on the scene, led by: Husserl, Schutz, of which developed numerous phenomenologies all aimed at the study of human consciousness and their categorical concepts such as meaning and meaning.

The second part of the monograph focuses on the process of scientific research, where the author links theoretical and empirical scientific research and emphasizes their mutual synergism. Just as theoretical research would not be possible without empirical research, so is the reverse postulate that empirical research is not possible without theoretical considerations.

Thus, in the sixth chapter, this interdependence is stated. In doing so, the author starts from the formulation of the ruling theoretical paradigm, which he develops through various research strategies related to certain theoretical and methodological directions that were the subject of the author's earlier reflections.

In the seventh chapter, the author develops a phased approach to the process of designing scientific research. The first part begins with the conceptualization and reconceptualization of the topic or problem that precedes the development of the research project, where some basic phases are stated such as: determining the title-topic of the research, formulating the research problem, determining the subject of the research, setting the research objectives as well as the hypothetical framework that follows as well as determining indicators that will be used to test or refute hypotheses. Special attention is directed to models of research projects that refer to models of complex design, some of which are related to quantitative and others to qualitative research, and end with their mutual combination or triangulation.

In the eighth chapter, the author states how data is collected in scientific research. In doing so, it defines what data, facts, variables and indicators are, and the most commonly applied methods of data collection are listed, such as: observation, examination, experiment, method of analysis (content) of documents, biographical method and case study methods. Furthermore, the interrelationships of the

applied methods of obtaining data in the research are stated.

In the ninth chapter, the author states some specific problems of obtaining factual, valuable and other data by various methods. Thus, the specifics of obtaining qualitative empirical material, quantitative data, as well as the problem of their mutual connection are stated. Qualitative methods of data collection and analysis are based on the hermeneutic and phenomenological tradition, which in further development is supported by interpretivist and constructivist paradigms, while quantitative methods rely on positivist and post-positivist paradigms and perspectives such as: functionalism and structuralism.

In the tenth chapter, the author lists measurement problems in the social sciences that contribute to quantitative formalism and the development of complex stochastic procedures, the richness of which can be seen in his famous study: "Statistical data processing in empirical social research" (2020). Here he states how the measurement is carried out during the actual realization of the research, and it is carried out based on the application of scales from which four measurement scales were developed: nominal, ordinal, interval and ratio, which further form the Likert, Bogardus, Thursten scale, to which certain statistical procedures are linked. depending on the type of scale, they can be: parametric and non-parametric.

In the eleventh chapter, the author presents how data processing is carried out, which can be manual mechanographic and computer based, depending on the complexity of the collected empirical material, which is processed by univariate, bivariate and multivariate analysis.

The author devotes the third part of the monograph to testing hypotheses and drawing conclusions based on data. Here he links the type of scale with the qualitative and quantitative characteristics to which they are linked with the application of certain parameters which, depending on the parameters, conditions the application of certain statistical procedures or tests. Of course, it is not possible to determine statistical procedures for all research in the

social sciences. Suffice it to say that within each discipline (economics, political science, law, social work, etc.) specific statistical techniques are applied (Lukić, R. "Methodology of Law", Blagojević, S. "Methodology of Law", Termiz, Dž. Basics of Social Work Science Methodology", Termiz, Dž. and Milosavljević, "Introduction to Political Science Methodology" and Practicum in Political Science Methodology, Milosavljević, S. and Radosavljević, I. "Basics of Political Science Methodology").

In the twelfth chapter, the author states how to test hypotheses and draw conclusions based on data. He states that in methodological literature there are two concepts of hypothesis testing: confirmation and derogation or refutation. The first concept is widely applied in the social sciences, but no less valuable is Popper's concept of refutation, which can be expressed in two positions: the hypothesis should be checked so that its position will be refuted according to the rules of the method of proof and refutation, and if the hypothesis is not successfully refuted, it is considered valid until its refutation. Of course, this point of view cannot be observed in isolation: firstly, from the aspect of formal logic, and secondly, the concept of refutation is much poorer compared to the traditional procedure of hypothesis testing (Ristić, Ž. "On research, method and knowledge". approaches: 1. traditional, 2. logical-positivist and logical-empirical (Hempelov, Carnapov), 3. Feyerabend's falsificationist, and 4. Lakatos' hypothetical-deductive point of view, and 5. Khun's understanding of the proliferation of knowledge based on the growth of hypotheses.

In the thirteenth chapter, the author lists modes of reasoning about research and research results. There are two important issues in the subject of research conclusions. They are distant from each other in time. The first period takes place in the course of research planning and it is used to select approaches, research methods and techniques and to extract them from the scientific and methodological corpus and apply them to the research subject. The second period of conclusion takes place after the end of the research and includes three

tests: material-organizational, operational and scientific-methodological and they can be conceptualized and dimensioned differently and require the procedure of explanation of the results reached in the research.

In the fourteenth chapter, the author gives an overview of the research report. There are several criteria for classifying research on research results: 1. preliminary, 2. phase - stage, and 3. final - final report. Preliminary refers to the entirety of the research results, but it can also refer to some parts of the research. Phased or staged - partial reports are all those whose subject is parts of the research. Termiz Dž and S. Milosavljević state and describe the following types of partial research: 1. phase-staged, 2. spatially defined, 3. problem-defined and 4. methodologically defined. It is customary to divide the subjects of research and the research itself into theoretical and empirical. Every empirical research begins with theoretical research and also ends with it. Research is thus divided into theoretical and empirical research activities. This practically means that they must be considered, as phased, theoretical and empirical reports according to the criteria of subject content and research methods.

In the final, fifteenth chapter, the author presents ways of using the results of scientific research and thus states the research results in their practical application. The application of research results in social practice is realized by the elaboration of study-analytical works, which later become scientific-research through their adequate application. Thus he states:

- Use of research results in the preparation of diploma theses,
- Using the results of research for the preparation of postgraduate theses,
- Using the results of research for the preparation of specialist works,
- Use of research results for the preparation of master's theses, i
- The use of research results for the preparation of doctoral dissertations, which represents the highest level of the final thesis in the hierarchy of the educational system.

The procedure for acquiring professional and scientific knowledge is prescribed by: a) state laws and by-laws; b) internal regulations of the institutions where certain qualifications and titles are acquired; and c) regulations of other authorized entities. Nevertheless, the basic flow of that process, with minor specific deviations, is essentially the same: selection of a topic for processing, selection of a mentor, submission of a request for processing a specific topic - preparation of a specific final paper consisting of: introduction, research subject, research results, discussion and conclusions. The candidate is asked to create the first version of the work and after consultation with the mentor, access to the final version of the work. Defense of the work before the expert commission. Of course, the greater the complexity of the essay, the greater the complexity of the defense itself. The defense procedure generally goes like this: a) the president of the commission opens a public defense, b) the following are read: information about the candidate and the commission's assessment of the work, c) the candidate presents the propositions of his introductory speech in which he states: the reasons that determined him to choose the topic, challenges and the difficulties he encountered, important contributions to science or scientific discipline with the solution of problems, questions and hypotheses that need to be processed, and which were reached by processing the mentioned topic, intentions for engagement in the future. All of the above should be a synthesized presentation of the essence of the published research and its results.

What to say about the author's conception? In the course of his research so far, as is the case with numerous other scientific workers, the author feels the need for comprehensive answers to the problems of methodology, which cannot be provided by each discipline individually, so he is looking for a new way out in interdisciplinarity and transdisciplinarity. In any case, the author should be supported in the search for new syntheses in science and syntheses of sciences in responding to problematic challenges in social research methodology. Through his previous research and studies, the author has proven himself to be

an excellent connoisseur of methodology in many aspects and areas (disciplines) where it is performed as a compulsory subject. Here, it is necessary to give an account of his previous studies that led to this integrative and capital work for science:

- Termiz, Dževad and Milosavljević, S. (1999). Introduction to political science methodology, DAX-Trade, Sarajevo.
- Termiz, Dževad, Milosavljević, S. (2000). Practicum in the methodology of political science. Sarajevo.
- Termiz, Dževad (2001). Basics of social work science methodology. NIK Grafit, Lukavac.
- Termiz, Dževad (2003). Methodology of social sciences. First edition. TKD Šahinpašić, Sarajevo.
- Termiz, Dževad (2009). Methodology of social sciences. Second amended and expanded edition, NIK Grafit, Lukavac.
- Termiz, Dževad (2013). Basics of social psychology methodology. Amos Graf, Sarajevo.
- Termiz, Dževad (2013). Criticism of the theory. Amosa Graf, Sarajevo.
- Termiz, Dževad (2016). Problems of meta methodology. Faculty of Political Sciences, University of Sarajevo, Sarajevo.
- Termiz, Dževad (2020). Statistical processing of data in empirical social research. Faculty of Political Sciences, University of Sarajevo, Sarajevo.
- Termiz, Dževad, Milosavljević, Slavomir (2018). Practicum in the methodology of political science. Second amended, supplemented and expanded edition, Faculty of Political Sciences, University of Sarajevo and International Association of Methodologists of Social Sciences, Sarajevo/Belgrade.

There are many more works and empirical research that the author published alone or in co-authorship with others during his many years of work. All that has been said so far qualifies him as one of the greatest methodologists in this region and beyond. It was a special honor and pleasure for me to present his latest work: Methodology of Social Sciences (2022).



**FINE APPLIED ARTS**  
**Presentation symposium**

## **RECOGNITION/2023.** **REGIONAL/INTERNATIONAL CONFERENCE**

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The Recognition conference was held from 4 to 6 October 2023 in Čačak, and was organized as the final part of the realized five cycles of the Recognition project, which started in 2004, dedicated to establishing and promoting partnership cooperation between galleries,

museums, curators and artists in joint action on the recognition of local art scenes and the visibility of contemporary art practice in the region.

The conference was an opportunity to hear, in addition to presenting the project, very inspiring presentations, interesting announcements, experiences of artists of the project participants, exciting and instructive discussions, on topics that stem from the multi-layered character of the project Recognition, and concern, first of all, the place and role of museums / galleries, curators, artists, contemporary art and culture.

Participants Curators of the project, expert team: Biljana Grković, Milica Todorović, Ljubiša Simović, Ljiljana Karadžić, Julka Marinković.

Artists: Academy of Classical Painting, MB University, Milena Maksimović Kovačević and Ivan Petrović (Kruševac), Nenad Dimitrijević (Kraljevo), prof Perica Donkov and prof. Miljan Nedeljković (Niš), Katarina Alempijević and Rade Mutapović (Čačak), Darko Vučković (Podgorica).

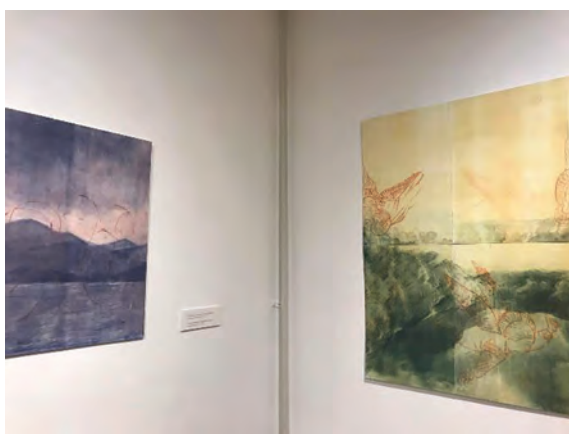
In addition to curators and artists (two artists from each participating city) on the project Recognition, participants art historians, art critics, art theorists, museology and heritology.



The guests of the project were Dr Irina Subotić, prof emeritus, prof. Dr Dragan Bulatović, Dr Zoran Erić, Institute of Philosophy and Social Theory, University of Belgrade, Dimitrije Tadić, Advisor for Visual Arts, Ministry of Culture of the Republic of Serbia, Una Popović, Museum of Contemporary Art and Milica Petronijević and Marija Radisavčević, curators.

At the 2023 Conference, the theme was the importance of connecting and networking of different participants, institutions and individuals was considered, as a way of engaging in the field of contemporary art.

Starting from the experience of working on this regional project that brings together museums/galleries, curators and artists from Serbia, Montenegro and Bulgaria, the importance of establishing a collaborative network and new forms of work, a place in valorizing and encouraging local art scenes, creating conditions for the development and promotion of contemporary fine art was summed up. Therefore, the emphasis of the conference was on new models of work of institutions and curators, mobility and connection, collaborative networks on achieving established common goals, but also on observing changes in contemporary fine art, from the beginning of the new century, when the project itself was created and lasted.



**Milena Maksimović Kovačević, MA, works from the project Recognition, collection of the National Museum Kruševac**

What does the cooperation of museums/galleries, curators and artists bring, as well as the recognition of local art scenes, adaptability and

willingness of curators to act in changed circumstances, but also what is the contribution to the recognition and familiarization of certain art scenes, openness to the confrontation of opinions, different poetics and specific themes through joint exhibitions and exhibitions, and what is the contribution, through the creation of new networks - institutional, curatorial and artistic, establishing new collaborations and a wider regional cultural scene, recognizing opinions and processes within the cultural environment in the circumstances of various social and cultural circumstances, and how much is the incentive for the development and promotion of contemporary fine art, and the creation of new and different collaborative networks directed towards the public and the artistic and curatorial community... some of the questions and topics that have arisen from the work on the project as part of the circumstances in which museums / galleries and curators work and in which contemporary art is created.

Recognition is a continuation of a long-term regional art project that was launched in 2004, and so far realized through five exhibition cycles: Recognition, 2005 – 2007, Kruševac, Čačak, Kraljevo, Niš and Podgorica (Montenegro); Recognition 2, 2010 – 2012, Podgorica, Čačak, Niš, Kruševac, Kraljevo, Kumanovo (Macedonia) and Sofia (Bulgaria); regional conference Recognition 2013, Kruševac, when an exhibition of Bulgarian artists was organized; Recognition 3, started with a residential program in Sicevo and Niš in 2014 and completed with the organizing of exhibitions in 2015-2016 in Niš, Kruševac, Kraljevo, Čačak, Plovdiv (Bulgaria) and Niksic (Montenegro); Recognition 4, started with a residential program in Ribarska Banja and Kruševac in 2017 and concluded with the organizing of exhibitions in 2018-2020 in Kruševac, Čačak, Kraljevo, Niš, Vidin (Bulgaria) and Bar (Montenegro), as well as Recognition 5, started with a residential program in Vrnjačka Banja and Kraljevo in 2020 and concluded with the organization of exhibitions 2021-2022 in Kraljevo, Kruševac, Čačak, Niš, Vidin (Bulgaria) and Podgorica (Montenegro).

Institutions, associates on the art project Recognition: Art Gallery-National Museum Kruševac /project holder/, Art Gallery "Nadežda Petrović", Čačak, National Museum Kraljevo, Gallery of Contemporary Fine Art, Niš. Institutions associates from Montenegro in previous cycles were: Center of Contemporary Art of Montenegro, Podgorica, National Museum of Montenegro in Cetinje, and from Bulgaria: National Art Academy, Sofia, Art Gallery "Nikola Petrov", Vidin.

Expert team: Biljana Grković, Julka Marinković, Ljubiša Simović, Milica Todorović, Ljiljana Karadžić, Svilen Stefanov.

Through five cycles, 13 galleries and museums cooperated on the project, and in addition to the permanent team of experts, more

than ten curators from different cities and institutions in which exhibitions were organized were involved in the realizations, while 64 artists from Serbia, Montenegro, Macedonia and Bulgaria participated in the project.

The conference was organized in cooperation with the institutions of collaborators on the project Recognition, and the holders of the organization are: Art Gallery - National Museum Kruševac and Art Gallery "Nadežda Petrović" in Čačak. The presentations at the conference were recorded and will be printed within the Proceedings. The conference was held with the support of the Ministry of Culture of the Republic of Serbia and the City of Čačak.

# THE (CON)TEMPORANIETY OF STONE

## ORGANIZED BY THE MUSEUM OF CONTEMPORARY ART, BELGRADE GALLERY-LEGACY OF MILICA ZORIĆ & RODOLJUB ČOLAKOVIĆ

4 NOVEMBER 2023

Organizer and moderator:  
Rajka BOŠKOVIĆ, PhD

Museum of Contemporary Art, Belgrade  
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Even today, in the age of growing electronic and digital possibilities and complexities, which can be measured not only from century to century, but on the scale of decades, stone offers an impetus and inspiration for creation, just like in all former historical periods. The fact that, in addition to all the new, industrially manufactured materials that are incomparably easier to work with, and despite the resistance of stone during processing, the risk involving the irreparability of a wrong gesture, the material attracts contemporary artists time and again to engage with it and to be challenged by it. There is also the incomparable drive to “take on” all challenges, as well as the inspiration that stone, as a millennia-old primal substance offers the artistic hand and mind. Stone as material, in all its primal integrity, offers extraordinary possibilities for artistic creation. The contemporary art scene bears witness to this because despite all the innovations in the design and conception of a work of art in the 20th and early 21st centuries, stone remains and survives as a constant stimulus for artistic expression. At present, with the “unbearable lightness” of creation – because it is very simple, interesting, likeable, easy to present and quickly accepted by the public – one returns to

stone as a very hard material, both literally and figuratively, because stone requires great effort and fortitude.

*The (Con)Temporaniety of Stone* symposium has been conceived on the basis of the research exhibition of the same title by Rajka Bošković, PhD, presented at the Gallery-Legacy of Milica Zorić & Rodoljub Čolaković in Belgrade, and conceptualised with the intent to offer expert and scientific consideration of the importance and significance of stone as matter and material used in different fields of human enterprise and life, offering a comprehensive understanding and insight into the profound symbolic meanings of stone. The symposium involved the participation of fine and applied arts artists, experts and scientists from various fields, primarily art history and art theory, as well as from the fields of archaeology, geology and conservation.

The symposium was opened with a lecture by geologist **Alena Zdravković, PhD**, professor at the Faculty of Mining and Geology in Belgrade, on the topic of *The Temporal Durability of Minerals and Rocks*. The lecture provided expert insight into the structure and characteristics of minerals, with a special focus on their



Figure 1. The presentation art theorist Rajka Bošković, PhD, curator of the Collection of Sculptures and Installations at the Museum of Contemporary Art in Belgrade and professor at the Academy of Classical Painting of “MB” University in Belgrade

Source: Personal archive, painter Ivana Dragutinović Sokolovski, D. F. A.

durability, which is crucial in choosing the type of stone for different purposes, both in sculpture, painting and architecture, as well as in our everyday environment. Considering *Stone in the Era of Transhumanism and New Media*, sculptor **Ivan Jeremić D. F. A.**, drew attention to the importance and role of stone as a material which acts as a protective shield for man from the “transhumanism” of the modern era.

The presentation of archaeologist **Ljubinka Babović** offered a valuable contribution to the symposium. For decades she has devoted herself to one of the most important archaeological sites not only in our country, but also the world – Lepenski vir and its stone sculptures which continue to captivate with their expressiveness to this day. With her research, published in numerous professional and scientific publications, Babović added to understanding and perceiving the importance of stone even today at the beginning of the 21st century. In her exposition themed *Lepenski vir – The Place of Divine Hierophany*, she presented the results of her decades-long research, which undoubtedly testifies to this site as a “hierophany of the divine.”

Art historian **Milan Popadić, PhD**, professor at the Faculty of Philosophy in Belgrade, based on his research work gave an overview and history of the creation of the Museum of Contemporary Art (MSU) building, with an extremely significant reference to the relationship between the first architectural plans and the final structure of this building, which differs greatly primarily in terms of the materials. With *The MSU Building: From Red ‘Sojenicas’ to White Crystals on the Banks of the Sava*, Popadić brilliantly sublimated the essential quality and value (use) of stone for this architectural structure. The sculptor **Đorđe Čpajak**, professor at the Faculty of Fine Arts in Belgrade, presented some of the most significant examples of stone sculpture in his presentation *Open Air Monumental Stone Sculptures*. Research into the materiality of stone in the broadest sense was presented by sculptor **Milan Kulić, D. F. A.**, in his presentation *The Materiality of Stone*. The exposition focused on the role of stone in general for man and its fire-making potentials, as well as the materiality of stone through a completely unexpected form of materiality – stone dust. The experience of working with stone and wood



was conveyed by sculptor **Kristina Ivić** in her presentation entitled *Stone and Wood*, wherein she offered a special overview of the specifics of working on and shaping sculpture in each of these materials.

In the lecture entitled *Stone as an Element in Ambient Artistic Settings*, the painter **Ivana Dragutinović Sokolovski, D. F. A.**, professor at the Faculty of Classical Painting at “MB” University in Belgrade, in addition to conveying her personal experience in working with stone as a material that she uses for her ambient artworks, offered insight into this specific aspect of artistic activity on the world’s contemporary art scene. The presentation dedicated to the collection of sculptures in the Bukovička banja Park in Aranđelovac, by art historian **Tanja Vićentić**, curator at the National Museum in Aranđelovac in charge of this collection of outdoor stone sculptures, offered a concise albeit layered insight into the value of this exceptional collection by placing special attention to the specificity of the maintenance, preservation and conservation of this type of artwork in public space. In her closing presentation, art theorist **Rajka**

**Bošković, PhD**, curator of the Collection of Sculptures and Installations at the Museum of Contemporary Art in Belgrade and professor at the Academy of Classical Painting of “MB” University in Belgrade, focused on the phenomenon of the *Irreplaceability of Stone*.

The idea behind the *(Con)Temporaneity of Stone* symposium was that, in addition to looking at the essence of the inspiration for creating in this material today at the beginning of the 21st century, the research, study and observation of the phenomenon of the contemporaneity of stone should be extended to professional and scientific fields that, from their point of view, complete the image of stone as exceptional and unique material, interpreted by different ranges of human spirit and work. In this sense, the symposium was organised with the aim of providing insight and facilitating an understanding of the contemporary nature of stone in the broadest sense of its role and significance, not only for contemporary artistic expression, but also for our existence – for the purpose of remembering the past as much as building the future, both literally and metaphorically.



Figure 2. The presentation painter Ivana Dragutinović Sokolovski, D. F. A., professor at the Faculty of Classical Painting at “MB” University in Belgrade entitled “Stone as an Element in Ambient Artistic Settings”

Source: Personal archive, Rajka Bošković, PhD

## CRITERIA AND RULES FOR SUBMISSION OF AUTHOR'S PAPERS IN THE PUBLISHING PLAN OF THE MAGAZINE MB UNIVERSITY INTERNATIONAL REVIEW (MBUIR)

### ARTICLE 1.

"MB University International Review - MBUIR" (further: Journal) is the journal of "MB" University.

The journal provides open access (Open Access) and applies Creative Commons (CC BY) copyright provisions. The magazine is of open type and its content is freely available to users and their institutions. Users may read, download, copy, distribute, print, search, or access the full text of the articles, as well as use them for any other legally permitted purposes without seeking prior permission from the publisher or author, provided that they cite scientifically correctly to the sources, which is in accordance with the definition of open access according to BOAI.

According to the classification of the Ministry of Science, Technological Development and Innovation of the Republic of Serbia, the magazine is classified in category M54 - a scientific magazine that is being categorized for the first time. It is referenced in the national database of scientific journals of the National Index and meets all the requirements of the conditions for editing scientific journals that are categorized for the first time.

### ARTICLE 2.

The journal publishes the results of analytical, experimental, basic and applied, diagnostic, prognostic and futurological research from various narrow scientific areas of the social studies and humanities:

- Management and business
- Economy
- Political and legal sciences
- Information society
- Theory of visual art.

### ARTICLE 3.

The journal is available in printed and electronic open access versions. It is published in English: two times a year according to the following dynamics:

- number 1 (January-May),
- number 2 (August-December).

### ARTICLE 4.

In the journal MB UNIVERSITY INTERNATIONAL REVIEW, the following author's papers (hereinafter referred to as works) are published:

1. Scientific works according to the categories of the Ministry of Science of the Republic of Serbia - original scientific work, review work, short or previous announcement, scientific criticism, i.e. polemic and work in the form of a monographic study, and a critical edition of scientific material previously unknown or insufficiently accessible for scientific research, which have not been published and have not been simultaneously submitted to other journals for publication;
2. Professional papers - professional papers, i.e. contributions in which experiences useful for the improvement of professional practice are offered, but which are not necessarily based on the scientific method; informational contribution (editorial, commentary, etc.); presentation (of books, scientific conferences, computer programs, case studies and other public scientific conferences), as expert criticism, that is, polemics and reviews.

### ARTICLE 5.

Papers from Article 1 are submitted to the Editorial Board of the Journal, written in English and proofread by a qualified person. References are cited in the original language and numbered in order of first appearance in the text. It is preferable that the references are not older than ten years, which depends on the subject of the work.

The text and graphics are prepared according to the Technical Instructions, which form an integral part of these Criteria and Rules.

### ARTICLE 6.

The following rules apply to the works listed in Article 1 under point 1.

Papers are submitted with an abstract at the beginning of the text, in the length of 100 to 250 words or 10-15 lines and with 5 to 8 keywords. The abstract is translated into Serbian and becomes a summary.

The volume of work should be up to one author's sheet (about 30,000 characters, with white spaces). Due to the peculiarities of the scientific field or discipline from which the paper is written, there may be deviations in the scope, provided that the number of letters with white spaces is not less than 20,000 nor more than 45,000, which is resolved in agreement with the Editorial Board of the Journal. For particularly justified reasons (social importance of the topic, co-authorship of internationally recognized scientists, scientific discovery, etc.), the editorial staff of the journal may exceptionally allow the publication of an article of a larger volume, but not larger than 2.5 pages (75,000 characters).

Papers of a theoretical nature should have one author, exceptionally two, and papers of an empirical nature a maximum of three.

#### **ARTICLE 7.**

Papers from Article 1 under item 2 are submitted to the Editorial Board of the journal written in English in the length of 60 to 150 lines, with a description in Serbian of 100-250 words or 15 to 20 lines. These works are signed by one author.

#### **ARTICLE 8.**

All works that are the subject of these Criteria and rules are submitted to the Editorial Board of the Journal electronically to the e-mail address: mbuir@ppf.edu.rs.

A brief biography of the author of up to 10 lines, a personal photo of the size for an identity card and the following information about the author (or authors) in English must be submitted with the paper:

1. first name, middle initial, last name,
2. academic title - in Serbian and English,
3. affiliation – name and address of the institution (company), and for pensioners the name and address of the previous workplace,
4. email address,
5. year and place of birth,
6. mobile and landline phone numbers,
7. residential address.

The data listed in Article 5, under serial numbers 1, 3 and 4, along with the photo, are printed in the Journal and represent an electronic database.

#### **ARTICLE 9.**

Papers listed in Article 1 under item 1 of these Criteria and Rules are subject to review by two blind reviewers for a given scientific discipline.

The work is reviewed by two independent reviewers, to whom the text is submitted electronically without indicating the author's name. The reviewers submit their opinion to the Editorial Board of the Journal also electronically. The names of the reviewers are known exclusively to the Editorial Board of the Journal.

If the review is positive, the author is informed that the paper has been accepted for publication.

If, in the opinion of the reviewers, an intervention is needed in the work, the author is obliged to carry it out or to give up the request for publication of the work. This conclusion applies to all authors if the work is a joint work of authorship.

In the event that the reviewers do not agree on the assessment of the work, the Editorial Board of the Journal appoints a third reviewer (possibly several), whose opinion is delivered to the previous reviewers and the author without mentioning the names of the authors and reviewers. The final position is taken by the Editorial Board of the Journal based on the opinions of all reviewers.

Reviewers of the work are informed about the performed intervention.

In all cases from the previous paragraphs, the Editorial Board of the Journal is included.

#### **ARTICLE 10.**

In the scientific presentation of the author's works, the Journal will act in relation to socially responsible behavior, which implies non-acceptance of:

- works that do not rely on recognized scientific methodologies, and which are used in research (improvisations of scientific thought),
- general information, political and scientifically unfounded announcements and other texts that are not based on scientific research and analysis and have a weak basis in science,
- texts that shock and amuse the public quasi-scientifically, speculations in science and the like,

- texts that encourage religious, national, racial intolerance and gender inequality,
- review texts of textbook and manual content,
- generally of all texts that cannot withstand scientific criticism,
- texts that contain plagiarism or auto-plagiarism,
- texts in which other authors are insulted or attacked.

The views presented in this article form the basis for the evaluation of papers by reviewers and the Editorial Board of the journal. They are also the basis for the actions of the Editorial Board and the Journal Council.

#### **ARTICLE 11.**

Under equal conditions, according to these Criteria and rules, authors of works who are members of the Publishing Council, editorial board and reviewers of works in the journal have priority.

In case the work is classified in the group of priority scientific information (rapid communication), the Editorial Board will act according to the opinion of the reviewers.

#### **ARTICLE 12**

In case of a dispute that is not resolved between the author - the Journal's Editorial Board - the Editorial Board, the decision is made by the Journal's Publishing Council on the basis of these Criteria and rules.

#### **ARTICLE 13.**

Papers accepted for print and electronic presentation become the property of the Journal and may not be reprinted without the consent of the Editorial Board of the Journal.

The Publishing Council and the Editorial Board of the Journal are interested in the works published in the Journal being used for further publication with the indication of the publisher, volume, number and year of publication of the Journal, for which the future publisher is given written consent.

#### **ARTICLE 14.**

The author is obliged to sign a declaration that the work is not plagiarized, or contains self-plagiarism. The works will be checked and the Editorial Board of the Journal will act in accordance with the Law on the Protection of Copyright and Related Rights ("Official Gazette" No. 104/2009, 99/2011 and 119/2012, 29/2016 - decision of the Constitutional court and 66/2019).

#### **ARTICLE 15**

These Criteria and rules are a public document, they are published at the end of each issue of the journal and are applied by the Editorial Board and Editorial Board of the Journal from the day of publication on the journal's website.

The editorial board of the journal is obliged to inform each author and reviewer of the papers with these Criteria and rules.



## INSTRUCTIONS FOR AUTHORS

### 1. MANUSCRIPT OF THE PAPER

The manuscript of the paper is submitted in electronic form (MS Word) in A4 format, font Times New Roman, size 12 pt for the text, including the abstract, without spacing. The paper is sent to the e-mail address: [mbuir@ppf.edu.rs](mailto:mbuir@ppf.edu.rs). A written statement by the author stating that the paper is an original paper (signed and scanned statement) is submitted with the paper. The condition for the paper to enter the review procedure is that it fully meets the technical criteria prescribed by this instruction. The paper must be proofread, i.e. must meet the spelling language standards of the English language.

### 2. NUMBER OF AUTHORS

The number of authors on one paper is limited to a maximum of three authors. Papers of a theoretical nature should have one author, exceptionally two, and papers of an empirical nature a maximum of three. Preference is given to articles written by only one or two authors (single author and co-authored paper).

### 3. READ LANGUAGE

The manuscript is submitted in English. If it is accepted, it will be published in the language in which it was submitted, with the obligation that the title and content of the summary at the end of the paper be in Serbian. Also, if the language of the paper is one of the world languages that is used in domestic or international communication in a given scientific field, and which is not English, the title and abstract must be in English.

### 4. SCOPE OF PAPER

The article should have approximately 30,000 characters, including white space (1 author's page). It can be shorter or longer, provided that the number of characters with white spaces is not less than 20,000 or more than 45,000. For particularly justified reasons (social importance of the topic, co-authorship of internationally recognized scientists, scientific discovery, etc.), the editors can exceptionally allow the publication of an article

of a larger volume, but not larger than 2.5 pages (75,000 characters).

### 5. TABLES AND FORMULAS

Create tables exclusively with the table tool in the MS Word program. Tables must have titles and be numbered in Arabic numerals. Paper with formulas using the formula editor in MS Word.

### 6. GRAPHICS AND PHOTOGRAPHS

Graphic representations (pictures, graphs, drawings, etc.) and their descriptions should be treated as a separate paragraph with an empty line above and below. Drawings and photographs must have signatures, and all illustrations must be numbered with Arabic numerals, according to the order of appearance in the text.

Graphics in electronic form should be in one of the following formats: EPS, AI, CDR, TIF or JPG. If the author does not know or uses a specific program, it is necessary to agree on the format of the record with the technical editor of the journal. Graphics should not be drawn in MS Word! Photographs must be clear, contrasting and undamaged. It is not recommended that the author scan the images himself, but to leave this sensitive paper to the editors. If drawings and photographs are not included in the electronic version, they must be clearly marked where they should be placed. Labels in the text must match those in the attached images (or files).

### 7. ORGANIZATION OF THE MANUSCRIPT

The paper must contain the following elements, in the following order:

7.1. The title of the paper should describe the content of the article as faithfully as possible. The title of the paper should use words suitable for indexing and searching. If there are no such words in the title of the paper, it is preferable to add a subtitle to the title.

The running title is printed in the header of each page of the article for easy identification, especially copies of articles in electronic form.

7.2. Information about the author(s) and affiliation are listed below the title of the paper with the full name and surname of (all) authors, without the function and title of the author, which are not listed. The names and surnames of local authors are always written in their original form (with Serbian diacritical marks, diacritical marks of letters of world languages or diacritical marks of letters of national minorities and ethnic groups), regardless of the language of the paper. Along with the author's first and last name, the full (official) name and headquarters of the institution where the author is employed, and possibly also the name of the institution where the author conducted the research, is indicated. In complex organizations, the overall hierarchy of that organization is indicated (from the full registered name to the internal organizational unit). If there are more than one author, and some of them come from the same institution, it must be indicated, with special marks or in another way, from which of the mentioned institutions each one comes from. The e-mail address of the author must be specified. If there are more than one author, as a rule, only the address of one author, responsible for communication on the occasion, is given. For example: Name and surname, name of the institution where the author is employed (affiliation), e-mail address of the author.

7.3. A summary or abstract is a short informative presentation of the content of the article, which contains the aim of the research, the methods used, the main results and the conclusion. It is in the interest of the author that the abstracts contain terms that are often used for indexing and searching articles.

The summary or abstract should be in English, the same language as the paper itself. In terms of length, it should be 100 to 250 words or 10-15 lines and should be between the title of the paper and the keywords, followed by the text of the article.

In the narrower scientific disciplines of the social sciences and humanities for which the main subject of the journal is the abstract, the summary traditionally contains other elements, in accordance with the scientific heritage that the journal nurtures (the scientific area(s) to which the paper belongs, the social meaning of the paper, the importance of the research itself, etc.)

7.4. Keywords, list the terms or phrases that best describe the content of the article. It is allowed to specify 5-8 words or phrases.

7.5. The text of the article is the central part of the paper and represents the elaboration of the article in which the author, with the use of appropriate scientific apparatus, deals with a certain problem and the subject of the scientific paper. For articles in English, it is necessary for the author to provide qualified proofreading, i.e. grammatical and spelling correctness.

7.6. References, i.e. the list of used literature, should contain all the necessary data and should be cited according to APA style. The literature is cited in the original language and numbered with Arabic numbers in square brackets, in the order of first appearance in the text, with the note that the year of publication is placed immediately after the author's name, and at the end of citing an article in a journal or paper in a collection, the pages on which finds the cited paper, according to the examples shown below for citing references.

In the instructions for authors, we provide several examples of citing sources according to the type of reference:

- Books: surname (comma), first name (period), year of publication in parentheses (period), title in italics (period), place of publication (colon), publisher (comma), page number if the author wishes to state (period).

- [1] Đorđević, S., Mitić, M. (2000). *Diplomatsko i konzularno pravo*. Beograd: Službeni list SRJ, 56-58.
- [2] Đurković, M. (ured.) (2007). *Srbija 2000-2006: država, društvo, privreda*. Beograd: Institut za evropske studije.
- [3] Lukić, R. (2010). *Revizija u bankama* (4. izd.). Beograd: Centar za izdavačku delatnost Ekonomskog fakulteta.
- [4] Danilović, N., et al. (2016). *Statistika u istraživanju društvenih pojava*. Beograd: Zavod za udžbenike (ako je u knjizi broj autora veći od tri).

Note: Papers by the same author are listed in chronological order, and if several papers by the same author published in the same year are listed, the letters "a", "b", "c" etc. are added to the year of publication.

- Articles: surname (comma), first name (period), year of publication in parentheses (period), title of the article (period), title of journal in italics (comma), volume number and journal number in parentheses (comma), pages on which it is found article (period).

[1] Kennedy, C., Michael, B., Stephen, B. (1970). Police in Disasters. *Survival*, 6(2), 58–68.

[2] Mišić, M. (1. feb. 2012). Ju-Es stil smanjio gubitke. *Politika*, 11.

[3] Kennedy, C., et al. (1970). Police in Disasters. *Survival*, 6(2), 58–68. (if the number of authors of the journal article is more than three)

- Articles from the anthology: last name (comma), first name initial (period), year of publication in parentheses (period), article title (period), U or In (colon), editor's last name (comma), editor's first name (period), in parentheses office. or ed. (dot), the title of the proceedings in italics and in parentheses the pages on which the article is located (dot), place of publication (colon), publisher (dot).

[1] Radović, Z. (2007). Donošenje ustava. U: Đurković, M. (ured.). *Srbija 2000–2006: država, društvo, privreda* (27–38). Beograd: Institut za evropske studije.

[2] Brubaker, R. (2006). Civic and Ethnic Nationalism. In: Brubaker, R. (ed.). *Ethnicity without Groups* (132–147). Cambridge: Harvard UP.

[3] Danilovic, N., et. al. (2016). The Role of General Scientific Statistical Method in Futurology Research. In: Termiz, Dž. et al. (eds.). *Nauka i budućnost* (199–217). Beograd: Međunarodno udruženje metodologa društvenih nauka (if the number of authors of the anthology article and the number of editors of the anthology is more than three).

- Internet sources: surname (comma), first name (period), year of publication in parentheses (period), article title (period), journal name in italics (comma), pages on which the article is located (period), Downloaded from or Then the http address and the download date in parentheses.

[1] Hall, S. (1992). The Question of Cultural Identity. *Modernity and Its Futures*, 274–316. On <http://www.library.auckland.ac.nz/ereserves/1224039b.pdf> (February 25, 2023).

It is recommended that the references not be older than 10 years, depending on the topic of the paper

**7.7. The summary (Summary)** is given at the very end of the paper in Serbian, which can be the same as the summary (abstract) at the beginning of the paper, and it can be somewhat longer, but no more than 1 page.

**7.8. The titles in the paper** have different levels depending on the specific text, with the following marking method being used:

**1. The first level of the title (centered, regular, bold, Arabic numerals)**

1.1. Second level heading (centered, regular, no bold, Arabic numerals)

1.1.1. *Third level heading (above the beginning of the paragraph, right-aligned, italics, Arabic numerals).*

In case of ambiguity in labeling, authors are advised to consult previous issues of the journal or to contact the secretary or technical editor of the journal. The editors reserve the right to, depending on the specifics of the text, and in order to make it more transparent, edit the titles in a slightly different way, staying within the basic framework of the presented division of titles.

**7.9. Citing, self-citing and referring** to parts of other authors' texts is done in such a way that at the end of the quoted text, the sequence number of the reference from the bibliography is indicated in square brackets with a comma and the page number on which the text to which the author refers is located. Example: [32, p. 58].

If quoting or referring to information from the same page of the same reference cited in the previous footnote, only the Latin abbreviation *Ibidem* is used in square brackets. Example: [*Ibidem*].

If information from the paper cited in the previous footnote is cited or referred to, but from a different page, *Ibid* is cited, followed by a comma and the page number. Example: [*Ibid*, 54].

**7.10. Acknowledgments** are listed in a separate note, after the conclusion, and before the literature. The thank you note presents: the name and number of the project financed from the budget, that is, the name of the program within which the article was created, as well as the name of the scientific research organization and the ministry that financed the project or program. The thank you note can also contain other elements.

**7.11. Editorial office address.** - Papers are sent in electronic form to the following

e-mail address: [mbuir@ppf.edu.rs](mailto:mbuir@ppf.edu.rs)

“MB University International Review”.

Editorial office: “MB” University,

Drajzerova 27, 11000 Belgrade.

Editorial office phone: +381 64 65 970 39.

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CIP - Каталогизација у публикацији  
Народна библиотека Србије, Београд

347.7

**MB University International Review : MBUIR**  
: journal of Theory and Practice / editor in chief  
Živanka Miladinović Bogavac. - [Štampano izd.]. -  
Vol. 1, no. 1 (2023)- . - Belgrade : Faculty of Business  
and Law, University of MB, 2023- (Belgrade : Planeta  
print). - 30 cm

Polugodišnje. - Drugo izdanje na drugom medijumu:  
MBUIR. MB University International Review (Online)  
= ISSN 2956-249X  
ISSN 2956-2406 = MBUIR. MB University  
International Review  
COBISS.SR-ID 118970633

## **Publisher:**

Faculty of Business and Law, University of MB  
Serbia, Belgrade, Dražerova 27

Tel./fax: +381 64 65 970 39, +381 11 33 91 641

e-mail: mbuir@ppf.edu.rs

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**Printed by:** Planeta Print d.o.o., Belgrade

**Copies printed:** 100

**Indexed & Abstracted:**

# CONTENTS

## ARTICLES

### MANAGEMENT AND BUSINESS

Dušan B. Regodić, Borivoje Milošević, <i>Management of Business information and Communication technologies</i> .....	6-20
Ljubomir Miljković, Dragana Trnavac, <i>Macroeconomic impact of the Conflict between Russia and Ukraine the Gross domestic product of Serbia</i> .....	21-33
Slobodan Kotlica, Nataša Stanojević, <i>Economic globalization in the historical context and deglobalization</i> .....	34-56
Snežana Maksimović, Violeta Dimić, <i>Multi-criteria analysis of ict implementation in investment projects: Case Study of construction companies in the Republic of Serbia</i> .....	57-67
Snežana R. Stojanović, <i>Multinationals tahation in the Time of globalization</i> .....	68-75
Mirjana Dejanović, <i>Globalisation and economic crisis in 2022</i> .....	76-83

### LAW AND SECURITY STUDIES

Marina Dabetić, Živanka Miladinović Bogavac, <i>Sustainable development Goal 13 in Internaional Law</i> .....	86-93
Mirko Kulić, <i>The Specificities of Tax procedure as a Specific administrative procedure</i> .....	94-104
Marija Kostić, <i>Administrative contract in German and Serbian Law</i> .....	105-113
Zorančo Vasilkov, Slobodan Petrović, <i>Rule of Law: Legal principle(s), EU Rule of Law mechanism and constitutional category in the Republic of Serbia</i> .....	114-126
Aleksandar Dabetić, Martin Matijašević, <i>European police cooperation in the counterterrorism efforts of the 21st century</i> .....	127-133

### PRESENTATION SCIENTIFIC PUBLICATIONS AND CONFERENCES

Emeritus dr. sc. Vlatko Previšić, <i>Presentation of a book in the field of social sciences "Evaluation studies in social sciences"</i> .....	136-138
Prof. Ph. D. Sc. Alexander Halmi, <i>Presentation of a monograph Social Science Methodology (Third Revised Edition 2022)</i> .....	139-143
Milena Maksimović Kovačević, Biljana Grković, <i>Recognition/2023.-regional/international conference</i> .....	144-146
Rajka Bošković, PhD, <i>Presentation of a Symposium The (con)temporaniety of stone</i> .....	147-149
Criteria and Rules for Entering an Author's Work Into the Publishing Plan of the Journal MB University International Review (MBUIR).....	150-152
Instructions for authors.....	153-155
List of Peer Reviewers for the MB University International Review - MBUIR, 2022.....	156-157



ORIGINAL SCIENTIFIC PAPER

RECEIVED: 10. 01. 2023.

ACCEPTED: 13. 04. 2023.

UDC: 005.57

COBISS.SR-ID 134006281

doi: <https://doi.org/10.61837/mbuir010223006r>

## MANAGEMENT OF BUSINESS INFORMATION AND COMMUNICATION TECHNOLOGIES

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**Abstract:** *The starting point for the good governance establishment of the business information communication technologies (ICT) is the assessment of the achieved maturity of its processes. The research presented in this article focuses on measuring level of the ICT processes maturity in a public-sector organization, which 'covers' Federation of Bosnia and Herzegovina. This article presents a simple and flexible model for measuring the ICT processes maturity to identify their main advantages and disadvantages. The proposed model, which helped in achieving the research results, is known as COBIT Maturity Model. The presented model estimates the ICT processes maturity and it is applicable to other organizations, regardless of size or form of ownership. The main purpose of this article is to encourage the supervisory boards, management and executive management of organizations, without good governance of business ICTs, for the agility in overcoming this problem.*

**Keywords:** COBIT Maturity Model, ICT, MBICTS

### 1. INTRODUCTION

An answer to these requirements of determining and monitoring the appropriate IT control and performance level is COBIT's definition of:

- Benchmarking of IT process performance and capability, expressed as maturity models, derived from the Software Engineering Institute's Capability Maturity Model (CMM).
- Goals and metrics of the IT processes to define and measure their outcome and performance based on the principles of Robert Kaplan and David Norton's balanced business scorecard.

- Activity goals for getting these processes under control, based on COBIT's control objectives.

The assessment of process capability based on the COBIT maturity models is a key part of IT governance implementation. After identifying critical IT processes and controls, maturity modelling enables gaps in capability to be identified and demonstrated to management. Action plans can then be developed to bring these processes up to the desired capability target level.

Thus, COBIT supports IT governance (figure 2) by providing a framework to ensure that:

- IT is aligned with the business.
- IT enables the business and maximises benefits.
- IT resources are used responsibly.
- IT risks are managed appropriately

#### IT Governance Focus Areas:

- Strategic alignment focuses on ensuring the linkage of business and IT plans; defining, maintaining and validating the IT value proposition; and aligning IT operations with enterprise operations.
- Value delivery is about executing the value proposition throughout the delivery cycle, ensuring that IT delivers the promised benefits against the strategy, concentrating on optimising costs and proving the intrinsic value of IT.
- Resource management is about the optimal investment in, and the proper management of, critical IT resources: applications, information, infrastructure and people. Key issues relate to the optimisation of knowledge and infrastructure.
- Risk management requires risk awareness by senior corporate officers, a clear understanding of the enterprise's appetite for risk, understanding of compliance requirements, transparency about the significant risks to the enterprise and embedding of risk management responsibilities into the organisation.
- Performance measurement tracks and monitors strategy implementation, project completion, resource usage, process performance and service delivery, using, for example, balanced scorecards that translate strategy into action to achieve goals measurable beyond conventional accounting.

IT good practices have become significant due to a number of factors:

- Business managers and boards demanding a better return from IT investments, i.e., that IT delivers what the business needs to enhance stakeholder value
- Concern over the generally increasing level of IT expenditure

- The need to meet regulatory requirements for IT controls in areas such as privacy and financial reporting (e.g., the US Sarbanes-Oxley Act, Basel II) and in specific sectors such as finance, pharmaceutical and health-care
- The selection of service providers and the management of service outsourcing and acquisition
- Increasingly complex IT-related risks, such as network security
- IT governance initiatives that include adoption of control frameworks and good practices to help monitor and improve critical IT activities to increase business value and reduce business risk
- The need to optimise costs by following, where possible, standardised, rather than specially developed, approaches
- The growing maturity and consequent acceptance of well-regarded frameworks, such as COBIT, IT Infrastructure Library (ITIL), ISO27000 series on information security-related standards, ISO 9001:2000 Quality Management Systems Requirements, Capability Maturity Model® Integration (CMMI), Projects in Controlled Environments 2 (PRINCE2) and A Guide to the Project Management Body of Knowledge (PMBOK)
- The need for enterprises to assess how they are performing against generally accepted standards and their peers (benchmarking).

Figure 1 illustrates how the enterprise strategy should be translated by the business into objectives related to IT-enabled initiatives (the business goals for IT). These objectives should lead to a clear definition of IT's own objectives (the IT goals), which in turn define the IT resources and capabilities (the enterprise architecture for IT) required to successfully execute IT's part of the enterprise's strategy. Once the aligned goals have been defined, they need to be monitored to ensure that actual delivery matches expectations. This is achieved by metrics that are derived from the goals and captured in an IT scorecard.

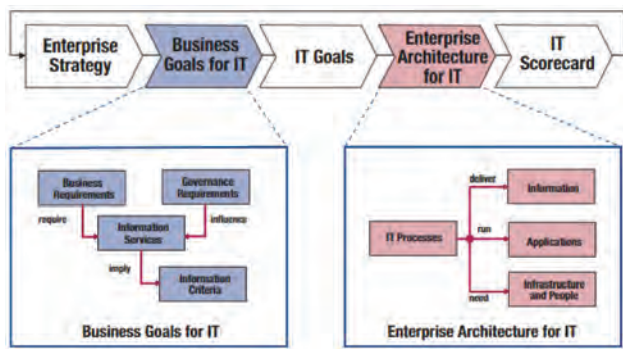


Fig. 1. Defining IT Goals and Enterprise Architecture for IT [19]

The IT resources identified in COBIT can be defined as follows:

- Applications are the automated user systems and manual procedures that process the information.
- Information is the data, in all their forms, input, processed and output by the information systems in whatever form is used by the business.

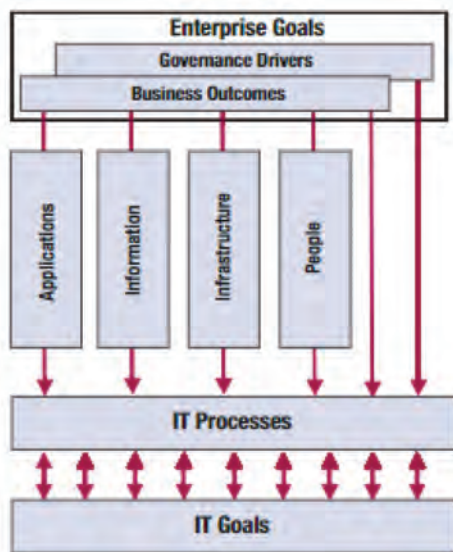


Fig. 2. Summarises how the business goals for IT influence how the IT resources need to be managed by the IT processes to deliver IT's goals. [19]

- Infrastructure is the technology and facilities (i.e., hardware, operating systems, database management systems, networking, multimedia, and the environment that houses and supports them) that enable the processing of the applications.
- People are the personnel required to plan, organise, acquire, implement, deliver, support,

monitor and evaluate the information systems and services. They may be internal, out-sourced or contracted as required.

To govern IT effectively, it is important to appreciate the activities and risks within IT that need to be managed. They are usually ordered into the responsibility domains of plan, build, run and monitor. Within the COBIT framework, these domains, as shown in figure 8, are called:

- Plan and Organise (PO)—Provides direction to solution delivery (AI) and service delivery (DS);
- Acquire and Implement (AI)—Provides the solutions and passes them to be turned into services;
- Deliver and Support (DS)—Receives the solutions and makes them usable for end users;
- Monitor and Evaluate (ME)—Monitors all processes to ensure that the direction provided is followed.

COBIT appeals to different users:

- Executive management—To obtain value from IT investments and balance risk and control investment in an often unpredictable IT environment.
- Business management—To obtain assurance on the management and control of IT services provided by internal or third parties.
- IT management—To provide the IT services that the business requires to support the business strategy in a controlled and managed way.
- Auditors—To substantiate their opinions and/or provide advice to management on internal controls.

With Increasing dependence of the business on information technologies (ICT), management of business ICTs system (MBICTS) is becoming a fundamental business imperative for the [1] effective and efficient use of the ICT in achieving their primary purpose - to make business success in an organization in terms of higher profits, competitiveness, improved services and other organizational performances.



In this article, including the tables and figures, the unique expression known as the system of information and communication technologies (ICTS) will be used instead of abbreviations IT (information technology), information and communication technology (ICT) and information system (IS).

The proof that world's leading global challenge in achieving business success of organizations relies largely on the ICT, in relation to the MBICTS, is confirmed throughout the number of relevant researches [2, 3, 13, 4, 35, 1, 6, 11, 9, 10] and everyday practices. According to the research by ITGI (2011) only 5% of business and ICT managers believe that MBICTS is not considered important for business success. [5] The high degree of awareness of the importance of an MBICTS is an encouraging fact, but insufficient itself that the organization has a good MBICTS. Any improvement initiatives of the MBICTS have to start by evaluating the achieved level of maturity of its processes. To this end, number of standards, frameworks and best practice methods are developed such as COBIT, ITIL, CMMI, ISO / IEC, TOGAF, PMBOK, IT BSC, and others.

The main objective of this paper is to highlight the importance and significance of the process MBICTS for business success, as well as to show how to diagnose the current state of evaluation of the level of maturity of ICT processes using the standard or process model of good practice. The administration and management of an organization which was subject of this research, have implemented Quality Management System (QMS) - ISO 9001. With reference to the awareness of importance of MBICTS for achieving greater business success, administration and management stressed a desire to start improving ICT processes and MBICTS in a systematic way. The work should, at least partially, answer the following questions:

1. How to evaluate the current level of maturity of ICT processes?
2. How to identify the ICT processes that need to be improved?

3. How to reach degree of alignment of ICT and business goals with assessment processes?
4. How important is the evaluation of ICT processes for business success?

The answers to these questions authors of this paper have investigated using the application of best practice tools. The motivation behind the research lays in the ITGI report (2011) [5] that discusses the global position of managing the business of ICT. The results of the research, which polled 834 business executives and ICT leaders in 21 countries and 10 industries, large and small organizations, are listed in Table 1.

**Table 1. Maturity level of the MBICTS in large and small organizations (Adapted by authors from ITGI (2011) [5]. The authors added 'the average' in this research)**

Maturity levels	<500 (%)	>=500 (%)	Average (%)
We do not think that is important	8,3	1,7	4,9
We understand this important question, but we are just beginning with assessment of what needs to be done	30,8	14,5	22,7
We are aware that this is important and we have a number of ad hoc measures	25,9	32,1	29
We have defined good measures and processes on the MBICTS	15,9	29,2	22,7
We have well-functioning management of processes and performance assessments	4,4	12,6	8,5
Our processes with respect to the MBICTS are continuously optimized based on the results of students' assessment.	7,3	7,1	7,2

Table 1 shows the results of research on the level of MBICTS process maturity in large (500 or more employees) and small organizations (with less than 500 employees).

Data from Table 1 that only 8.5% have a well-functioning management processes and measurement of ICT performance is the most significant result of this study.



## 2. REVIEW OF THE LITERATURE RELATED TO THE MSBICT

In many organizations, ICT has become a key factor in the support, sustainability and growth of the business [2] [3] [13] [4] [5] [1] [6] [11] [9] [10]. Pervasive use of technology creates a critical dependence on ICT and requires specific focus on the MBICTs [3]. Therefore, in order to achieve good results in the management of the ICTs, i.e. good MBICTs [6] provides optimized ICT investments, compliance of the ICTs and business strategies, delivering new value and risks within acceptable limits - taking into account the organizational culture, structure, maturity and strategy. After defined framework for a good MBICTs, the next step [6] is to establish a foundation on which to build the MBICTs. The foundation consists of three parts [6]: (1) understanding the maturity of MBICTs, (2) knowledge of how structural matters affect the MBICTs, and (3) understanding of the objectives of an MBICTs. To achieve these objectives it is necessary to quantitatively measure the creation of the ICTs value-added and risks of its application. For a complete understanding of the MBICTs processes, its structures and mechanisms, some important existing theories, frameworks, models and practices are presented. Forrester<sup>2</sup> recommends organizations that are in the process of developing an MBICTs framework, to evaluate the maturity of the MBICTs processes. In this study evaluation of the MBICTs processes maturity is conducted using COBIT processes maturity model.

To secure a success in implementing MBICTs model, organizations need to focus on continuous planning, monitoring and improvement of the management model. Experience of the authors (16) shows that ICT management, committee for audit and ICT control have to work continuously to improve the MBICTs model with the appropriate share of involvement of Board and senior management of the organization. The assessment of the ICTs processes maturity of the organization gives the opportunity to identify possibilities to improve the MBICTs model [7, 6, 3].

The first step in improving an MBICTs is to identify the state of its processes. Due to the complexity of the MBICTs processes, this article provides an answer to the question of how to make it work and how to measure its performance? Although it is difficult to provide an universal model applicable to any organization and all business environments in which it is available, the proposed COBIT processes maturity model may be the optimal solution, due to its comprehensive ICTs processes, given that 'covers' estimate of 34 ICTs processes, identifies the state of the chosen MBICTs model and finds strengths and weaknesses of the chosen MBICTs model. Although we cannot claim with certainty that it is the best solution for each situation, the MBICTs is an integral part of the corporate business management, and includes components of the ICTs management at all levels [2]. The framework that emphasizes the constructive approach to the design and the MBICTs implementation and develops the relation of corporate governance of an organization and the ICT has been developed by authors [2]. Similarly ITGI (2003) states in its probably the most cited definition of the corporate MBICTs that the MBICTs is within the jurisdiction of the Board and executive managers and is an integral part of organizational management. According to [4] the MBICTs is made up of the leadership, organizational structures and processes to ensure that ICT maintains and extends strategies and objectives of the organization. This is a reference definition of the MBICTs in this article. The main purpose and objective of the MBICTs, particularly of its key resources including governing mechanisms, management team and executive managers, is to bring business value to the organization and keep the risks at acceptable level. The key resources in the MBICTs are the following [2]:

- **People:** Their skills, careers, training, mentoring, and competency;
- **Finance:** Cash, investments, liabilities, cash flows, accounts receivable;
- **Properties:** The physical buildings, facilities, equipment, maintenance, safety of use;

- **Intellectual property:** The products, services, processes, know-how formally patented (copyrighted or embedded in the business);
- **ICTS and information:** Digital data, information and knowledge, process performance, funding ICTS;
- **Relationship of resources:** Relationships within the organization, as well as relations to brands, vendors and business units, and reputation among customers, regulators, competitors, and partners.

According to ITGI (2003), the purpose of the process is ICT guidance in an effort to meet its performance targets following [4]:

- Aligning ICT with the business and the realization of future benefits;
- Using ICT to enable business exploit opportunities and maximize benefits;
- Responsible use of the ICT resources and
- Appropriate management of the risks associated to the ICTS.

Stated set of objectives, according to ITGI (2003) [4], is possible to be achieved by interaction and ICTS activities shown in Figure 3.

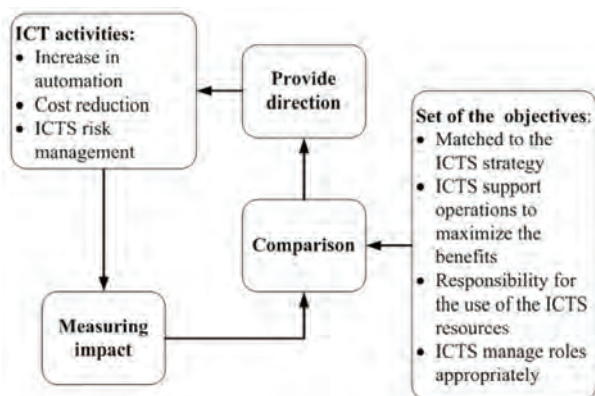


Fig. 3. Interaction of the ICT objectives and activities (Adapted by authors from [4])

For the interaction of the ICTS objectives and activities, organizations should define the MBICTS framework that will, in furtherance of good governance, implement processes of good practice, carry out constant monitoring and continuously educate management and users of the ICTS. An effective, good, and efficient MBICTS model can be only achieved

by competent managers at executive level of management, applying holistic and continuous management processes sticking to the framework and models of good practice. Only with such approach the MBICTS can achieve its base task - to bring new value and acceptable risk.

Effective MBICTS can bring to an organization up to 40% higher return of investment in the ICTS and at least 20% higher profit compared to organizations that have the same strategy, although weaker MBICTS [2]. Ineffective MBICTS, according to ITGI (2003), results in [4]:

- Business losses, damage to reputation or weakened competitive position
- Not meeting deadlines, higher costs than expected and lower quality than anticipated
- Negative impact of poor performance on the efficiency of the ICT operations and basic processes
- Failure of the ICT initiatives to bring innovation and deliver the promised benefits.

### 3. TARGETED AREAS OF THE MSBICT

The most important role within the MBICTS is to bring the new value and mitigate the risks [6]. According to ITGI (2011) [5], governance initiative of establishing MBICTS in a corporate have to be balanced with a holistic view on the five following main objectives of the MBICTS [4]: (1) Alignment of the ICTS and businesses; (2) Management of the associated ICTS risks; (3) Defining the responsibilities and checking the efficiency of the ICTS resources; (4) Realization of the ICTS business value, and (5) Continuous measurement of the ICTS performance, as shown in Figure 4.

Among these five MBICTS targets, the main focus of this article is to measure the ICTS performance as one of the main drivers of business success along with the alignment of the ICTS and business objectives. According to ITGI (2011) [5], performance measurement is related to the monitoring of the ICTS business objectives achievements related to services, ICTS solutions and compliance with the

business system. Without the measurement of the establishment and performance monitoring, it is unlikely that previous objectives could achieve their desired outcomes. Measuring performance provides a link to the focus on monitoring and other directions in creating the ability to undertake timely corrective action, if necessary.

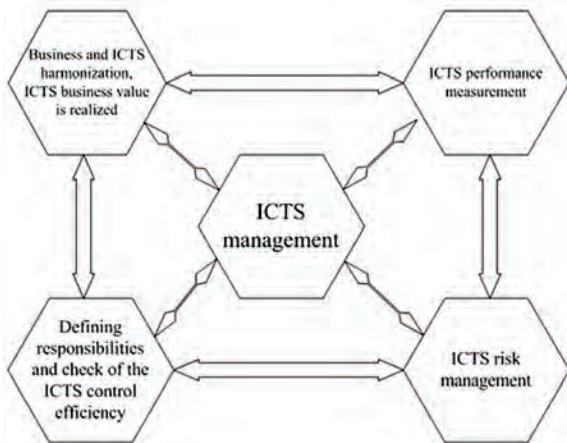


Fig. 4. Areas of the objectives related to the MBICTS  
[Adapted by authors from ITGI]

#### 4.1. SELECTION OF THE ICTS PROCESSES MATURITY LEVEL EVALUATION MODEL

In the selection of the evaluation methodology, the process of evaluation requires consideration of at least three factors including accuracy, cost, and the degree of damages of everyday operations of organization [14]. Mindful of this, the authors used two frameworks (both based/compliant with ISO/IEC 15504-2) in the analysis of model selection:

- CMMI (Capability Maturity Model Integration) DEV v.1.3 with the method of evaluation SCAMPI v.1.2 (Standard CMMI Appraisal Method for Process Improvement) and
- COBIT (Control Objectives for Information and Related Technologies) - Maturity Model.

The SCAMPI method of processes evaluation, distinguishes three different classes: (1) full evaluation - class (A), (2) temporarily profiling - class (B), and (3) mini evaluation - class (B and C). The SCAMPI Method (A) is used when the results of the evaluation itself

is a recommendation and step further in improvement of current processes, which is not in scope of this case study.

The purpose of the COBIT maturity level is a self-assessment of the processes maturity, and not the process improvement. The analysis of the COBIT model qualities corresponds to the characteristics of the SCAMPI (B), as shown in Table 2 [14].

Table 2. Comparative analysis of the attributes of the evaluation processes model-method

Type	Accuracy	Costs	Destruction
SCAMPI <sup>SM</sup> (B i C)	Moderate	Moderate	Moderate
SCAMPI <sup>SM</sup> (B)	Reasonable	low	low
SCAMPI <sup>SM</sup> (A)	high	high	high
COBIT	Reasonable	low	low

<sup>SM</sup> - Trademark of the Carnegie Mellon University.

In a situation where a sponsor wishes only maturity assessment, such as in this case study, the COBIT maturity model solution is optimal in relation to the advantages of the SCAMPI (B) and (B and C), due to a large number of defined processes (34 of them). Also, the choice of the evaluation model is affected by the character of the sponsors making the COBIT most appropriate maturity model, among all analyzed models. These reasons made authors implement the COBIT maturity model for the evaluation of the ICTS processes maturity in this study.

#### 4.2. REVIEW OF THE COBIT MATURITY MODEL

The COBIT 4.1 Maturity Model [12] earned the popularity in the business and ICT world by allowing the linkage of business objectives with ICTS organizations, and assesses existing quality of the ICTS by analyzing and measuring the quality of the processes maturity in all its parts. Although COBIT 5 PAM (Process Assessment Model) [13] provides a somewhat broader view at the ICTS processes evaluation due to its robustness, to apply COBIT 4.1 Maturity Model is more appropriate in terms of presenting the results in this case study.

The COBIT 4.1 maturity model that is compliant to the ISO/IEC 15504-2, provides an



opportunity for the Supervisory Board members and executive management to review the status of the all ICT processes - their strengths and weaknesses, and therefore the business side of the organization. The COBIT maturity model can describe in detail the state of the ICTS, and evaluate it according to process maturity scale from 0 to 5 (Figure 5).



Fig. 5. Scale rating by COBIT Maturity Model [19]

The supervisory board, administration and management are getting the clear picture of the process maturity level, and recommendations for improving the ICTS processes applying COBIT maturity models.

The initial phase of the COBIT methodology implementation begins with an assessment of the current state of the overall ICTS processes maturity in an organization. Based on the analysis of the results, the administration and management selects the process/es, which will be further analyzed and improved. Basically, the essence of concept of assessing the ICTS processes maturity levels is that simple criteria can distinguish different states of the ICTS organization, or any other segment of the businesses organization.

## 5. THE EVALUATION OF THE ICT PROCESSES MATURITY IN THE ORGANIZATION

This research mainly involves processing of the specific practices in order to show and demonstrate the application of the theoretical concept. In this paper, the authors presented an example of evaluation of the ICTS processes maturity level, applying best practices, based on research conducted in the particular organization in the public sector, which

‘covers’ the whole area of Federation of B-H, and performance of its ICTS and organizational structure. Name of the organization and its activity cannot be disclosed due to the NDA (Non Disclose Agreement) with the organization. Regardless of these circumstances, the research achieved its full capacity and with remarkable professionalism of interviewees who had a strong motive to get a clear picture of the MSBICT maturity level for the future business objectives of their organization. Otherwise, it is important to mention that this organization has implemented a quality management system (QMS), which further gives the higher importance of this research, due to the good practices achieve better results when combined. The goal of this paper is to show how the application of the model/method of the maturity best practice processes in the assessment of the ICTS processes maturity level in an organization, can help the Supervisory Board, the Board and management, defining the guidelines for further improving the management of the ICT processes in order to get a higher business success organization.

The goal of this paper is to show how the application of the best practices process maturity model/method to the assessment of the ICTS processes maturity level of organization, can help the Supervisory Board, the Board and management, defining the guidelines for further improvement of the MSBICT processes in order to get a higher business success organization.

Selection of the COBIT maturity models [12] was also performed due to its applicability in assessing the quality of the ICTS processes observed. This model is process-oriented and offers a wide range of the controls and assessment of the 34 key ICTS managing processes. For each process the detailed total of 318 goals and highly accurate tests are developed. These goals are farther focused on the elaboration of the problem - how to establish way of application total of 1547 monitoring controls.



### 5.1. SELECTION OF THE ICTS PROCESSES FOR EVALUATION

Selection of the processes that to be evaluated is the first and most important step in assessing the quality (i.e. maturity) of the ICTS. Although COBIT provides total of the thirty four (34) ICTS managing processes, in practice [3] has been shown to be the most frequently used fifteen (15) of them [15]. According to the COBIT framework process is defined as „a set of the activities that takes one or more types of inputs and creates an output that is important for the organization“[12]. Due to the fact that volume of this paper does not allow analysis of the all defined COBIT processes, this research will cover those fifteen (15) processes in the all four areas of the COBIT framework.

COBIT assumes the design and implementation of automated application controls to be the responsibility of IT, covered in the Acquire and Implement domain, based on business requirements defined using COBIT's information criteria, as shown in figure 6.

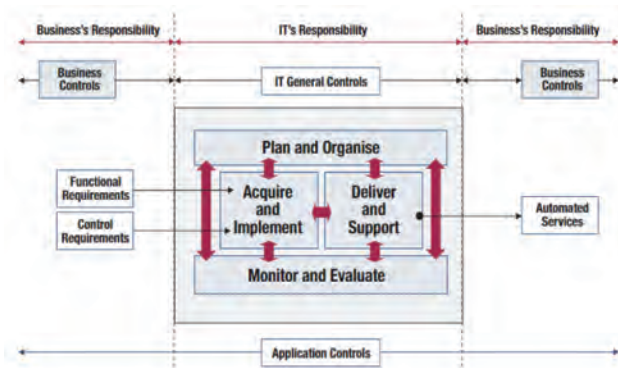


Fig. 6. Boundaries of Business, General and Application Controls [19]

The operational management and control responsibility for application controls is not with IT, but with the business process owner.

Among them being evaluated, the ICTS processes observed with the highest priority for the researched organization, are shown in Table 3.

Table 3. Analyzed COBIT processes

Area	Analyzed COBIT processes
Planning and organization (PO)	PO1 ICTS strategic plan defining PO3 Technological guidance determination PO5 Management of the investment in ICTS PO9 Assessment and management of the risks related to the ICTS PO10 ICT project management
Acquisition and implementation (AI)	AI1 Identification of the automatics solutions AI2 Application software acquisition and maintenance AI5 ICTS resources acquisition AI6 Change management
Delivery and support (DS)	DS1 Service level defining and managing DS5 ICTS security DS8 Support and incidents management DS10 Problems and incidents management DS11 Data management
Monitoring and evaluation (ME)	ME1 monitoring and evaluation of the ICTS success rate

### 5.2. THE METHODOLOGY OF THE SURVEY

The essence of entire research related to assessing and measuring maturity of the ICTS processes is to collect the evidence, based on which, the maturity levels will be assessed. For this reason, the special attention is paid to make the questionnaire, statements and explanations clear, concise, unambiguous, simple and logical. Also, the number of statements, i.e. questions, and their length were subject to careful selection to provide a positive feeling and enthusiasm of the interviewees to respond in best way and without much effort.

The main objective of this research was to collect reliable and valid data. Guided by this objective, to survey the competent interviewee was the first and foremost task. The level of competence of the respondents strongly influenced the reliability and validity of the data obtained.

Development of the questionnaire was based on the COBIT maturity model (COBIT 4.1, 2007) of each observed process and on the associated maturity levels of each process. The questionnaire was designed in a way that each

maturity level has its own scenario, which is described by adapted questions for each level of maturity. Each question is accompanied by a series of sub-questions and their explanations to provide a clear picture to interviewees. Each level of maturity is described through the statements that may get four different answers: YES, MOSTLY YES, MOSTLY NO and NO. To the each answer a numerical value was assigned, as shown in Table 4 (COBIT 5, 2011). [15].

**Table 4. Numeric values of the answers to the questions on maturity level alignment (Source: Adapted and prepared according to COBIT maturity model)**

Alignment with statement	Numeric value
NO	0
MOSTLY NO	0.33
MOSTLY YES	0.66
YES	1

**Table 5. Statement concept for description of the PO10 (ICT projects management) process**

Maturity level	Statement	Are You agreed?			
		NO	MOSTLY NO	MOSTLY YES	YES
0	Organization does not use ICTS project management techniques			0.66	
0	Organization does not use reports on project, effects of bad management, or failed project			0.66	
	<b>Total of the statements (maturity level 0): 2</b>	<b>0.00</b>	<b>0.00</b>	<b>1.32</b>	<b>0.00</b>
1	As a rule organization is aware of the need for structured ICTS projects				
1	Organization is aware of the risk of the bad project management			0.66	
1	Decision on use of the project management techniques is made by ICTS managers				1
1	As a rule ICTS projects are poorly defined				1
	<b>Total of the statements (maturity level 1): 4</b>	<b>0.00</b>	<b>0.00</b>	<b>0.66</b>	<b>3.00</b>
2	In organization there is developed awareness on project management importance			0.66	
2	Individuals take care on ICTS projects			0.66	
2	Basic metrics for ICTS project management are determined by management, but they are not used in practice		0.33		
2	There are initiatives for the ICTS projects management				1
2	There are activities for the ICTS projects management			0.66	
	<b>Total of the statements (maturity level 2): 5</b>	<b>0.00</b>	<b>0.33</b>	<b>1.98</b>	<b>1.00</b>
3	Process and methodology of the ICTS projects management are formally established			0.66	
3	ICTS projects are defined with appropriate business and technique objectives			0.66	
3	Stakeholders are involved in the ICTS projects management			0.66	
3	Organization, roles and responsibilities of the ICTS projects are defined			0.66	
3	ICTS project budget is defined			0.66	
3	Formal post-system implementation procedures of the ICTS projects are elaborated		0.33		
	<b>Total of the statements (maturity level 3): 6</b>	<b>0.00</b>	<b>0.33</b>	<b>3.30</b>	<b>0.00</b>
4	Success rate of the ICTS projects management is quantified and supported by metrics		0.33		
4	Expected performances and quality of the ICTS projects are accurately determined by management		0.33		
4	Projects are completely aligned with the ICTS strategy			0.66	
4	Management is fully aware of the projects application risk, their importance and opportunities that they offer			0.66	
4	Continuous project improvement becomes		0.33		
	<b>Total of the statements (maturity level 4): 5</b>	<b>0.00</b>	<b>1.32</b>	<b>1.32</b>	<b>0.00</b>

Maturity level	Statement	Are You agreed?			
		NO	MOSTLY NO	MOSTLY YES	YES
5	Very advanced understanding of the ICTS projects role in business		0.33		
5	ICTS project management is compared to the best practice organizations	0.00			
5	Important initiatives related to the ICTS projects are sponsored by management		0.33		
5	ICTS project risks and benefits are accurately defined, continuously controlled and introduced to the all parts of the organization		0.33		
5	Success rate of the ICTS project is often measured by independent experts	0.00			
5	ICTS projects gives a business competency advantage		0.33		
<b>Total of the statements (maturity level 5): 6</b>		<b>0.00</b>	<b>1.32</b>	<b>0.00</b>	<b>0.00</b>

Each level of maturity is described with an average of 4-6 statements, and number of statements is in alignment with process in a way that each process is evaluated through 24-40 statement list.

In the example, which will be shown in full, we took the description of the maturity of IT processes according to COBIT maturity model "PO10 Managing of ICT projects." The reason for this choice of process is the fact that the estimated weakest grade (a system is only as good as its weakest part) and which, according to COBIT standards, belongs to the processes of the highest priorities for the operation of a number of processes in the organization.

The statement concept for description of the process, according to COBIT maturity model "PO10 Manage ICT projects" is given in Table 5.

The concept of a questionnaire for evaluating the level of process maturity, similarly to the previous table, and for all analyzed processes from Table 3, is designed to be forward-looking statements as they grow more complex level of maturity. In order to obtain accurate answers during the interview, each statement has been accompanied by technical clarifications to which the respondent argued in his/hers response. Also, authors were aware that the respondent does not find out, through the conversation, to which level of maturity statements belong. This ruled out the possibility of bias subjects that can be present when he knows the effects of the response to the final result. Likewise, the focus was on the

consistency of responses, ranging from low to high levels.

### 5.3. CALCULATING THE WEIGHT OF THE DATA COLLECTED

The next step, after collecting data, is their aggregation and normalization which gives the height of their contribution to the overall level of maturity of the observed processes. To calculate the level of process maturity (0-5) the authors used Pederivina methodology.

**Table 6. Counting of the aligned values of the PO10 process maturity levels**

Maturity level	Sum of numeric values of the statements on maturity level (A)	Number of statements on maturity level (B)	Aligned value of the statements on maturity level (A/B)
0	1.32	2	0.660
1	3.66	4	0.915
2	3.31	5	0.662
3	3.63	6	0.605
4	2.64	5	0.528
5	1.32	6	0.220

Calculation, [15] according to this methodology, harmonized value levels of process maturity "PO10 Manage ICT projects" is the first step in the process of calculating the level of process maturity, and the process is shown in Table 6.

Subsequent normalization adjusted value for each level, as shown in Table 7.

**Table 7. Counting of the normalized aligned value of the PO10 proces maturity level**

Maturity level	Aligned value of the statements on maturity levels (A)	Normalized aligned value of the maturity levels $[A/\text{sum}(A)]$
0	0.660	0.184
1	0.915	0.255
2	0.662	0.184
3	0.605	0.169
4	0.528	0.147
5	0.220	0.061
<b>Total</b>	<b>3.590</b>	<b>1.00</b>

**Table 8. Counting of the total maturity level of the PO10 process**

Maturity level	Normalized aligned value of the maturity levels (B)	Contribution (Maturity level *B)
	0.184	0.000
	0.255	0.255
	0.184	0.369
	0.169	0.506
	0.147	0.588
	0.061	0.306
<b>Total maturity level of the PO10 process:</b>		<b>2.024</b>

The total level of the PO10 process maturity (2.024) is calculated in Table 8, which, according to the COBIT maturity model, means that in the evaluated organization this process is at the second level of maturity or at the level of repeatable processes (see Figure 3).

The methodology used for the evaluation process "PO10 Manage IT projects" is fully implemented in the process of obtaining the results for the other processes listed in Table 3. After the procedures of all analyzed processes, numerical value is obtained by the total level of maturity of ICT processes in the observed association. However, that does not suggest much when the question is what needs to be done to improve certain processes. The next step, which should be taken, is the execution of a detailed analysis of all relevant factors that directly or indirectly affect the quality level of ICT processes. This analysis should identify, by priority, which processes should eventually improve because of their importance in achieving the business goals of the organization, or to point out the processes that are unreasonably high.

## 5.4. THE RESULTS OF THE EMPIRICAL RESEARCH

Maturity levels of the ICTS processes in the observed organization were calculated through the empirical research, based on the COBIT maturity model. The results of the maturity levels of the analyzed COBIT ICTS processes, obtained by empirical research, are listed in Table 9.

**Table 9. Maturity levels of the analyzed ICTS COBIT processes**

No.	Analyzed process	Maturity level
1	PO3 Technological guidance determination	3.484
2	PO5 Management of the investment in ICTS	2.043
3	PO9 Assessment and management of the risks related to the ICTS	2.171
4	PO10 ICT project management	3.638
5	PO3 Technological guidance determination	2.024
6	AI1 Identification of the automatics solutions	2.451
7	AI2 Application software acquisition and maintenance	2.176
8	AI5 ICTS resources acquisition	2.181
9	AI6 Change management	3.143
10	DS1 Service level defining and managing	3.948
11	DS5 ICTS security	3.937
12	DS8 Support and incidents management	3.040
13	DS10 Problems and incidents management	3.063
14	DS11 Data management	3.967
15	ME1 Monitoring and evaluation of the ICTS success rate	2.058
<b>Average value of the maturity levels of the analyzed ICTS COBIT processes</b>		<b>2.888</b>

## 5.5. ANALYSIS OF THE RESEARCHED RESULTS

By surveying fifteen (15) of the COBIT ICT processes, the average maturity level equals to 2.888, as shown in Table 9. That means the QMS of the ICTS processes in the respective organization corresponds to the level 2, or "repetitive" level (see Figure 3). Furthermore this means, according to COBIT Maturity Model for the



managing ICTS processes [11] the MSBICT processes exist in observed organization, but these are uncoordinated and run mainly by the ICTS services. Uncoordinated process often happens if a number of people performing the same tasks, and there is no system of supervision, coordination, or standardized procedures.

According to the COBIT Maturity Model, the diagram of the maturity levels of the analyzed COBIT ICT processes in this research is shown in Figure 7.

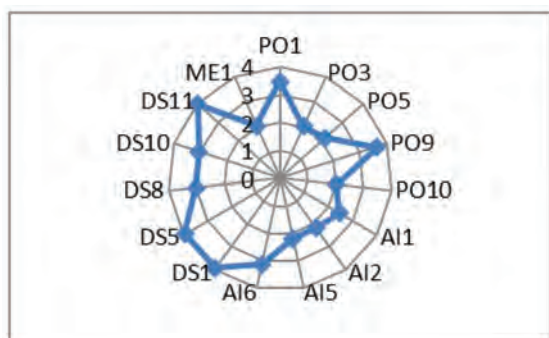


Fig. 7. Maturity levels of the COBIT ICT processes

At first glance, it appears that the evaluated MSBICT is one stable and high quality system with fairly balanced maturity levels of the processes (all processes are levels 2 and 3). For an organization in which the dependence of business on ICTS is not too high, this quality of the ICTS processes would be good. However, the present organization, in which a number of business processes are maximally relied on the ICTS that should respond to the demand of thousands of people every day, cannot be satisfied with this level of the MSBICT quality. Particularly it is case with the ICTS processes that decisively acts on the quality of the MSBICT, having score of a range of 2 to 2.2, such as:

- Management of ICT projects (PO 10),
- Determination of technological guidelines (PO 3),
- Evaluation and monitoring the success of ICT (ME 1)
- Investment Management in ICT (PO 5)
- Supply and maintenance of application software (AI 2).
- Procurement of ICT resources (AI 5).

Improving the first four ICT processes from the above list automatically would be improvement of the AI 2 and AI 5 processes, and contribution to the improvement of the remaining ICTS processes and the MSBICT process itself as an important factor of business success rate.

## 6. FUTURE WORK

Management of business information, to day, requires the processing of a large amount of data - Big data, exactly on time, with high reliability, with instant response speed and accuracy. These data are of crucial importance to managers in corporations and national governments. This is why new technologies are used that can meet all their requirements. This new data paradigm aims to transform the environment for socioeconomic policy and research, as well as managers for business management and decision-making. With Big Data analytics [20], many technical challenges can be analyzed, as well as economic issues can be solved effectively. Big Data analytics will change the landscape of business information management, economic policy and economic research. Just as there is no economic policy to be implemented by the government, it will be easy to operate an e-governance system using the latest developments in Big data. Big data analytics tools like Map Reduce over Hadoop and HDFS promise to better help organizations understand their customers and the market, which will hopefully lead to better business decisions, economic policies and competitive advantage. Thus, the Hadoop Framework was developed for ad-hoc parallel processing of unstructured data, using the MapReduce program model and the distributed file system HDFS (Hadoop Distributed Filesystem). Cloud Elastic MapReduce, also known as EMR, manages organizations' data in a wide range of scenarios, such as trend analysis, data warehousing, and online and offline data processing. EMR enables companies to use components of the Hadoop ecosystem. This architecture should be capable of managing the entire data lifecycle in an organization, including data ingestion, analysis, and storage,

among others. By using EMR, companies and organizations can instantly provision as much or as much capacity as they want to perform Big data-intensive tasks for such applications as web indexing, log file analysis, machine learning, data mining, financial analysis, scientific simulation, and bioinformatics research. EMR helps managers, analysts, developers, and data scientists prepare and visualize data, build applications, collaborate with colleagues, and do interactive analysis using EMR clusters. For example, Big Data approaches have been proven to improve forecasts of economic indicators such as the unemployment rate, help managers detect market trends so they can anticipate opportunities, and also help policymakers track the effects of a wide range of policies and public supports more quickly and more accurately.

## 7. CONCLUSION

Management can use the COBIT material to evaluate IT processes using the business goals and IT goals detailed in appendix I to clarify the objectives of the IT processes and the process maturity models to assess actual performance. Implementors and auditors can identify applicable control requirements from the control objectives and responsibilities from the activities and associated RACI charts.

Capability, coverage and control are all dimensions of process maturity, as illustrated in figure 14. The maturity model is a way of measuring how well developed management processes are, i.e., how capable they actually are. How well developed or capable they should be primarily depends on the IT goals and the underlying business needs they support.

The MSBICT process is ongoing and complex activity in each, in particular, in the organization with the pro-active role of the ICTS.

Analogously to the fact, this research is focused on how these activities more efficiently carried out in order to help the organization to achieve business success. This is the main objective of this paper. For this purpose, the authors investigated and used the tools of best practice. The survey was based in a public sector organization that 'covers' the whole area of the Federation of B-H. The research was performed at full capacity and with remarkable professionalism interviewed who had a strong motive to get a clear picture of the maturity level of the MSBICT for future business objectives of their organization.

Bearing in mind the motivation of the sponsor, character of an organization and pro-active role of the ICTS, the authors used COBIT framework to evaluate maturity level of the MSBICT processes. With the analysis of results obtained from the research and evaluation of maturity level of the MSBICT process, the question in the first part of the article has been answered. It is shown how to evaluate the maturity levels of the ICTS processes and with given evaluation how to identify the ICTS processes that need to be improved, and, improving them, how to increase compliance of the ICTS and business objectives as a key features for success of an organization. This research could be useful to all of those who recognize the importance of the MSBICT process as a basic and key factor for business success.

The objective of this article is achieved; the ICT processes that need to be improved for business success were identified. The authors proposed for future research application of the models of good practice on highlighted processes, for example, Information Technology Infrastructure Library, which would have been appropriate, given the nature of the observed service organization.

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## УПРАВЉАЊЕ ПОСЛОВНИМ ИНФОРМАЦИЈАМА И КОМУНИКАЦИЈАМА ТЕХНОЛОГИЈА

**Sažetak:** Polazna osnova za uspostavljanje dobrog upravljanja poslovnim informaciono-komunikacionim tehnologijama (IKT) je ocena dostignute zrelosti njenih procesa. Istraživanje predstavljeno u ovom članku fokusira se na merenje stepena zrelosti IKT procesa u organizaciji javnog sektora, koja 'pokriva' Federaciju Bosne i Hercegovine. Ovaj članak predstavlja jednostavan i fleksibilan model za merenje zrelosti IKT procesa kako bi se identifikovale njihove glavne prednosti i nedostaci. Predloženi model, koji je pomogao u postizanju rezultata istraživanja, poznat je kao model zrelosti COBIT. Prikazani model procenjuje zrelost IKT procesa i primenljiv je na druge organizacije, bez obzira na veličinu ili oblik vlasništva. Osnovna svrha ovog članka je da podstakne nadzorne odbore, menadžment i izvršno rukovodstvo organizacija, u cilju dobrog upravljanja poslovnim IKT, kao i na agilnost u prevazilaženju ovog problema.

**Ključne reči:** COBIT model zrelosti, IKT, MBICT



UDC: 338.1(497.11)"2023"  
 338.124.4:355.4(470:477)  
 COBISS.SR-ID 134010633  
 doi: <https://doi.org/10.61837/mbuir010223021m>

ORIGINAL SCIENTIFIC PAPER

RECEIVED: 06. 02. 2023.  
 ACCEPTED: 20. 04. 2023.

# MACROECONOMIC IMPACT OF THE CONFLICT BETWEEN RUSSIA AND UKRAINE TO THE GROSS DOMESTIC PRODUCT OF SERBIA

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**Abstract:** The conflict between Russia and Ukraine comes at a time when countries around the world are still recovering from the destabilizing effects of the global COVID-19 pandemic, which has caused deep economic regression, significant loss of productivity, worsening inequality, planetary pressures, and in some cases, security challenges. The economic impact reverberated through multiple channels, including commodity and financial markets, trade and migration links. At the same time, rising inflation is increasingly reducing the purchasing power of consumers. Such market tensions will reduce economic activity while accelerating inflation with the appearance of stagflation, where the state of the economy is characterized by a general jump in prices along with a drop in production. The direct effects of this conflict lead to macroeconomic instability. This conflict causes a jump in global prices, affects economies around the world, and it is expected that developing markets and countries in the European region, especially the countries of the Western Balkans, will bear the brunt. On the side of macroeconomic stability, the effects differ depending on their exposure to the market of Russia and Ukraine. True, the Republic of Serbia does not have significant, direct trade ties with Ukraine, but the conflict has put Serbia in front of new challenges, taking into account its energy dependence on Russia, as well as the agricultural sector, where products, primarily fruit, have a significant share in total exports to Russia. The key question that arises is in which direction the conflict will affect the macroeconomic stability of the Republic of Serbia.

**Keywords:** Conflict, Russia, Macroeconomics, Economy, Gross domestic product

**JEL classification:** E6, E7

## 1. INTRODUCTION

Numerous global economic crises of the 20th century made macroeconomic instability and its impact on GDP a key issue in the analysis of the determinants of economic growth. The multitude of ways in which macroeconomics affects GDP, its various causes, and the

range of methods by which it is measured make economic volatility a complex and multidimensional phenomenon. The fundamental challenge for economics is to understand the nature and causes of economic progress. We know that the total number of products and services produced in a country is the best measure of economic progress. An economy is like a machine



that transforms inputs into outputs, and the amount of input determines the amount of output. Thus, economic growth responds to changes in macroeconomic policy patterns. Therefore, we conclude that in order to achieve sustainable economic growth in the long term, macroeconomic stability is necessary.

Macroeconomic instability has stunted growth in many developing economies over the past two decades. As a result, states are looking through the economy for ways to better manage the economic factors that contribute to instability. Encouraging the creation of diverse financial markets, characterized by a wide range of financial institutions, may be one such option for better macroeconomic policy management. Greater institutional diversity could expand the reach of financial markets, thereby reducing liquidity constraints. And diversity can offer some insurance against the effects of boom and bust cycles in each type of institution, since each type of institution covers only a limited segment of the market. But greater institutional diversity could contribute to instability. This may especially be the case if states try to encourage institution building in otherwise underperforming markets through regulatory preferences and subsidies.

Macroeconomic instability has widespread and severe consequences. It tends to reduce long-term economic growth both domestically and abroad, as instability can spread to other countries due to trade and capital flows. Macroeconomic instability also negatively affects poor households more than higher-income households, as lower-income households have fewer ways to smooth consumption over time due to lack of access to financial markets, lower savings, and limited coverage.

The conflict in Ukraine has delayed the global response to the COVID-19 pandemic and the recovery of the global economy from it. Before the conflict, the world was focused on the health and economic challenges posed by the pandemic: reversing the severe loss of human capital and supporting the global economy amid an uneven recovery characterized by prolonged supply bottlenecks; withdrawal

of political support; rising inflation thereby including food and energy. The war has already added an immediate global negative impact, particularly through commodity markets.

The conflict worsens the short-term global economic outlook. It has significant economic spillovers through commodity and financial markets, trade and migration links, and investor and consumer confidence. Because of their significant direct trade, financial and migration links with Russia and Ukraine, countries in Eastern Europe are expected to suffer significant economic damage. Several major economies in Europe depend on Russia for natural gas and oil and will also continue to be adversely affected. Although most of the effects have so far been limited to the region, there are also important implications for the global economy.

Sharply higher food and energy prices are contributing to inflationary pressures and leading to expectations of a much faster tightening of monetary policy around the world. Moreover, since Russia and Ukraine are major exporters of raw materials that are upstream in many global value chains, shortages of these commodities could seriously affect a wide range of industries globally, including food, construction, petrochemicals and transportation.

The conflict has increased risks to global growth. This has increased the likelihood of acute financial stress in emerging markets and developing economies, dampening inflation expectations and widespread food and energy insecurity. A protracted conflict could increase global political uncertainty and lead to permanent fragmentation of global financial, trade and investment networks. Human capital would also be further affected, including in neighboring countries, and many others affected by spikes in food insecurity, especially for vulnerable households. The materialization of any of these risks could further degrade the underlying drivers of growth, weighing on long-term growth prospects, and increasing poverty and inequality.

## 2. THE INFLUENCE OF MACROECONOMIC FACTORS ON THE GROSS SOCIAL PRODUCT

To understand macroeconomics, we must first understand economics. The size of a nation's total economy is usually measured by its gross domestic product, or GDP, which is the value of all final goods and services produced in the country in a given year. Measuring GDP involves counting the output of millions of different products and services and all other non-financial products and services produced in the current year, and summing them up into the total value of a national unit of payment. For all countries, both developed and developing, one of the basic goals of macroeconomic policy is economic stability. With that, monetary and fiscal policy aims to maintain high growth rates in terms of gross domestic product together with low inflation through price stability.

Numerous factors influence the economic growth and development of the country, and one of the most important is the gross domestic product (GDP). On the other hand, many factors also affect the gross domestic product, which are important for the functioning of the economy: market openness, supply and demand for products and services, unequal distribution of income, population, political situation, etc. Natural factors have an equally important impact on economic growth: climate change, diversification and sustainable development. The effects of these factors directly affect macroeconomic stability and its impact on the country's economy. Literature on all these factors is available but very scattered.

One of the factors that influence the macroeconomic instability of a country and its impact on GDP are structural factors, that is, vulnerability from several factors that are related to economic political resilience. As far as structural factors are concerned, the difference is between the size and frequency of shocks (commercial or natural) and the country's exposure to such shocks. Factors affecting exposure to shocks (such as population size,

degree of economic diversification, distance from global markets, and geographic isolation) increase the propensity of economies to suffer shocks and the negative impact of such shocks on GDP. Macroeconomic stability is affected by the negative relationship between access to global markets and macroeconomic instabilities.

"Countries that are isolated from global markets tend to lack diversity in terms of exports and experience greater macroeconomic instability in relation to GDP. As for the resilience of individual countries, although it depends to some extent on structural factors, it is primarily related to economic policy and institutions" (Miljković, A., Miljković, Lj., 2010). As a result, development strategies must focus on foreign trade, procyclicality and countercyclicality of economic policy, and the quality of crisis management can determine the magnitude of instability experienced by countries and its impact on their development. The second set examines the sources of macroeconomic instability. They distinguish between external forms (exports, global prices, terms of trade or international interest rates) and internal forms (such as economic policy, agricultural production and natural or climatic disasters).

Similarly, it is possible to distinguish between exogenous sources of macroeconomic instability (related to international trade, agricultural production and natural disasters) and endogenous sources (related to economic policy instability or domestic socio-political conditions). Finally, several studies distinguish between so-called "normal" fluctuations and "crisis" fluctuations, the magnitude of which exceeds a certain threshold. Economic Vulnerability of Developing Countries highlights the significant contribution made by the size and frequency of external and natural shocks to the structural vulnerability of developing countries.

When analyzing the relationship and possible effects of macroeconomic factors on the GDP of the countries of the Western Balkans, it is necessary to take into account the unfavorable structure of foreign direct

investments, export/import, instability of political and social conditions, (non)compliance of legislation with EU regulations and directives, as well as many others factors, positive effects of the analyzed phenomena on GDP cannot be expected in a short period of time. (Estrin, 2013)

The economy of the Republic of Serbia has experienced significant changes in trade, fiscal, industrial, agricultural and financial policies in the last two decades. Nevertheless, the growth trend and structural changes of GDP in Serbia are still not satisfactory. Many problems are responsible for this unsatisfactory GDP: lack of domestic food production, narrow export structure, increasing import growth rate, failure to attract more foreign direct investment, dysfunctional banking system with cumulative interest on loans, continuous loss in public enterprises, poor infrastructure, ineffective taxation, high inflation rate, political instability and serious deterioration of the law and order situation. The Republic of Serbia has adopted a set of short-term and medium-term economic management. External factors such as exports, imports, foreign aid have always played an important role in the Serbian economy, although the relative importance of various external factors has changed over time. Serbia's economy is growing at 4 to 5 percent per year despite inefficient government-controlled enterprises, delays in the exploitation of natural gas resources, insufficient electricity supply and delayed implementation of economic reforms.

"Recent analyzes of the global financial and economic crisis include the possibility that the crisis itself has bottomed out and that the worst is behind us. However, since most analysts agree that this crisis will be Z-shaped, it is possible that we will face another falling before the final recovery. This opinion is shared by some of the leading officials of financial institutions, although they do not rule out the hypothesis that the recovery and the end of the recession may take several years". (Miljković Lj. M. D., 2012)

### 3. ECONOMIC CONSEQUENCES OF THE RUSSIAN - UKRAINIAN CONFLICT

Escalating conflict in Ukraine has caused turmoil in financial markets and dramatically increased uncertainty about the recovery of the global economy, two years after the start of the COVID-19 pandemic. Given that Russia is the world's third-largest oil producer, second-largest producer of natural gas, and among the world's top five producers of steel, nickel, and aluminum, any significant reduction in energy supply and metal shipments is very likely to lead to a spike in global prices for these products.

For this reason, on the day the conflict began, financial markets around the world began to plummet, and the prices of oil, natural gas, metals and food products (especially grains) rose. While high prices of key products are one of the risks we have already identified as potentially hindering the recovery, the escalation of the conflict between Russia and Ukraine increases the likelihood that prices of critical products will rise further. In turn, this increases the threat of prolonged high inflation, not least for basic needs, thus increasing the risk of social unrest in both advanced and developing economies. Industries such as automotive, transport, chemical and generally all sectors that use the above raw materials as inputs appear to be particularly vulnerable.

Many countries reacted immediately after the crisis by easing monetary policy by pumping large amounts of money at very low interest rates into insolvent banks and other financial institutions. Fiscal policy has stimulated economic activity, but for long-term recovery, the overall stabilization of the financial system is necessary, creating conditions for faster economic growth and its encouragement of investment in infrastructure and human resources as key factors of long-term growth and unemployment reduction. Addressing macroeconomic imbalances is essential to reduce the possibility of future crises. (Miljković A., 2013)

While the economic fallout will be felt mainly through rising commodity prices, fueling



pre-existing inflationary pressures in much of the pre-conflict world, falling demand from Europe will disrupt global trade. As always when product prices rise, energy and food importers will be particularly affected, and even more so in an environment of uncertain and volatile prices, with the prospect of major disruptions in supply in the event of further escalation of the conflict, and further sanctions and retaliation by each country could undertake.

### 3.1. MACROECONOMIC FACTORS AFFECTING GDP

Exports to Ukraine and Russia have fallen significantly and are likely to decline further as a result of a combination of EU sanctions and restrictions imposed by the Russian government and supply issues. Evidence suggests that, even in the absence of legal restrictions, European firms are already reluctant to trade with Russia, fearing legal and payment problems.

According to EU trade statistics, exports of goods to Russia amounted to EUR 89 billion in 2021; and if they stopped, which is an unrealistic assumption, it would, under equal conditions, lead to a decrease in the total demand for goods from the EU. A decrease in goods exports to Russia by 50 percent would reduce aggregate demand by 0.3 percent of GDP. The European Union also accounts for three-quarters of foreign direct investment in Russia, totaling more than 300 billion euros. Assuming that half the value of this investment will be lost, this would represent about 1% of the EU's GDP and less than 2% of its direct investment towards Russia. Although significant for several banks and companies, such a loss cannot be considered of major macroeconomic importance. (EU, Joint European Action for more affordable, secure and sustainable energy, 2022)

Evidence suggests, however, that this is unlikely to lead to major problems for the EU's financial system. Branches of Russian banks have already been closed and liquidated without endangering the financial system. The import of non-energy and non-food products from Russia and Ukraine is of minor economic importance. However, their disruption may

contribute to the wider disruption of supply chains from the pandemic.

**Refugees.** The flow of refugees from Ukraine has reached 4.6 million people (not counting the 7.1 million displaced persons in Ukraine) at the time of writing, mostly women and children. Estimates of the annual fiscal costs of providing accommodation, food, healthcare and education to refugees vary from 9,000 to 25,000 euros per person per year. Assuming a cost of €10,000 per refugee (per year), the cost of financing 5 million refugees for one year is €50 billion, or 0.35 percent of EU GDP. (UNHCR, 2022)

The outflow continues (albeit at a slower pace), so 5 million, and possibly more, is a likely number. This is a human drama of gigantic proportions and presents great problems in organization and distribution across countries. However, the likely macroeconomic costs appear relatively limited. Even this number overestimates the cost, because in a few months some refugees will return, some will find work, and some will emigrate from the European Union.

**Food.** Russia and Ukraine are major producers and, more importantly, major exporters of food, especially wheat. "According to data from the Food and Agriculture Organization (FAO), Russian and Ukrainian wheat exports accounted for 23 percent of world exports and 7 percent of world production in 2019. In Ukraine, planting for the next harvest can be difficult. Distribution problems, given fighting in ports along the Black Sea may further reduce exports. The market price of wheat has already risen nearly 50 percent from \$7.70 a bushel before the war to \$11, a level last seen for just a few days in 2008." (FAO, 2022)

Since the European Union is an exporter of agricultural products, global price increases could improve its terms of trade. However, there are two important caveats. The first is that the loss to EU consumers (as opposed to the European Union as a whole, i.e. producers and consumers together) can be large. The second is that elevated food prices are already having dramatic consequences for many



emerging markets and developing countries, affecting their growth and macroeconomic stability, and in turn potentially affecting the European Union.

**Oil and gas.** Energy data is easily confusing due to the heterogeneity of measurement units, so a brief summary of the situation is a useful starting point. EU energy supply (excluding the UK) relies essentially on oil (33 percent, virtually all imported), gas (24 percent, primarily imported) and coal (12 percent, primarily imported). Other sources include renewable (domestic), nuclear (essentially domestic, as fuel alone is a small part of the total cost) and imported electricity.

Before the conflict, the Russian export price closely tracked the global market price for Brent, an indication of high substitutability. Since Russia is one of the many suppliers of oil to the European Union, we assume that the smaller imports from Russia to the EU can be replaced by imports from other countries. And lower Russian exports to the West can be partially offset by purchases from India and China.

Unlike oil, the gas market is regional. Broadly speaking, there are three global markets: Europe, North America and Asia. The relevant market for discussing the impact of EU sanctions is therefore the European market, not the world market. "Gas is used in electricity production (1/3), in industry and services (1/3), and in households (smaller third)". It is highly substitutable in some of its uses (gas-fired electricity can be replaced by electricity generated from other sources), much less so in others (a gas-fired heating system cannot burn oil or coal). "On average, Russian gas accounts for 8.4 percent of primary energy supply in the European Union, but there are large variations among member states. For example, Portugal does not import any gas from Russia, but in Hungary, Russian gas accounts for 28.5 percent of primary energy supply". (Pisani-Ferry, 2022) Although not fully interconnected (Spain and Portugal, for example, have limited pipeline connections to Northern Europe), price differences in the European Union can

be largely arbitrated through internal transactions on imports from the rest of the world.

**Inflation.** The immediate and most visible macroeconomic effect is inflation. The effect can be quite large. "In 2021, electricity, fuel for heating and fuel for transport accounted for 9.6 percent of personal consumption expenditures in the Eurozone, and food represented 15.7 percent of the consumer basket on average." (PKS, 2022) Overall, the share of consumption that is directly affected by price increases is high. Empirical estimates generally show that the transmission of commodity price increases to consumer prices is partial but rapid.

Producers using energy or agricultural products as inputs raise their prices to restore their margins. Workers whose wages lagged behind consumer prices in the first round are demanding an increase in nominal wages to restore their real wages. This leads to further increases in prices and wages. All this depends on how hard companies try to restore margins and how hard workers try to maintain their real wages. Ultimately, if commodity prices remain high, inflationary pressures cease only when companies using these products accept lower margins and/or workers accept lower real wages.

### 3.2. GLOBAL MACROECONOMIC EFFECTS ON GDP

GDP forecasts for 2022 will certainly be reduced in light of the Russian-Ukrainian conflict. Production in the war zone will be directly reduced, while economic sanctions will impose costs on Russia and its trading partners. Higher food and energy prices will devalue income realities and reduce consumption and investment worldwide, which in turn will reduce global import demand. A small number of food and energy exporters may benefit from these price movements, but for most countries and the global economy they are net negative.

The International Monetary Fund's (IMF) latest forecast earlier this year predicted global GDP would grow by 4.4 percent at purchasing

power parity in 2022, but a recent estimate had global output growing at just 3.2 percent this year. There is an unusually high degree of uncertainty associated with this projection, which is based on limited data and strong assumptions. As a result, it should be interpreted with caution. (MMF, 2022)

Using a global economic simulation model, the World Trade Organization (WTO) predicts that the crisis and related policies could reduce global GDP growth by 0.7-1.3 percentage points, bringing growth to somewhere between 3.1 and 3.7 percent. The model also predicts that global trade growth could be cut in half this year, from the 4.7 percent the WTO forecast last October 2 to between 2.4 and 3 percent. (Góes, 2022)

Some regions will be more affected by the war than others. Europe, as the main destination for Russian and Ukrainian exports, is likely to experience the brunt of the economic impact. Reduced shipments of grain and other foodstuffs will also push up agricultural prices, with negative consequences for food security in poorer regions. Apart from these first-order effects, economic sanctions could lead major economies to move towards separation based on geopolitical considerations, with the aim of achieving greater self-sufficiency in production and trade. This second-order effect would ultimately be a waste, as it would reduce long-term economic growth by limiting competition and stifling innovation.

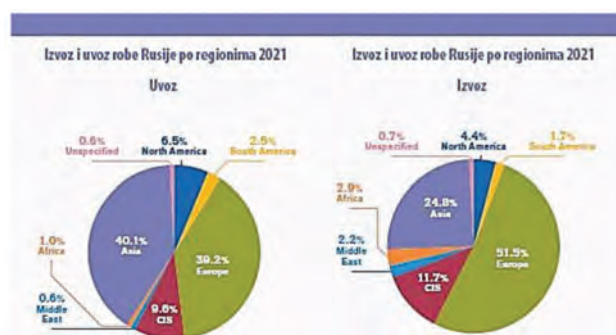


Figure 1. Export and import of products from Russia by region (STO, 2021)

The main impact of the conflict between Russia and Ukraine on the world economy is reflected in higher energy prices and weaker

confidence and financial markets, supported by strong international sanctions against Russia. Ukraine is not a significant trading partner of any major economy, Russia has a large exposure to the European Union and Great Britain. "Countries such as China, the USA, Germany, France and Italy represent one of the main import partners for Russia, where Russian product demand accounts for between 1-3.7 percent of its GDP. Russia's share of global GDP is expected to increase in 2022. will be 1.6 percent, according to the International Monetary Fund, while it is predicted that Ukrainian economic output will make up 0.2 percent of world output". (MMF, 2022) While the Ukrainian and Russian economies in aggregate are small relative to the global economy, they are significant in some key areas, particularly energy and food. The impact of the conflict on commodity prices, and thus on household consumption, is more important than potential contagion through trade links with other countries.

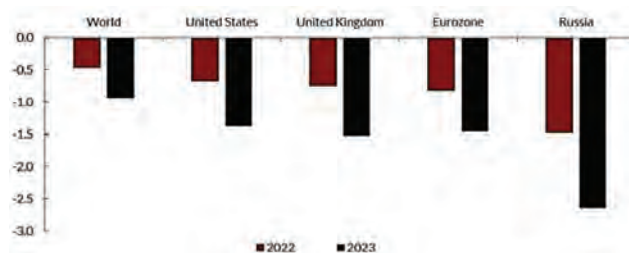


Figure 2. GDP movements due to conflicts for the global economy (EU, REPowerEU: Joint European Action for more affordable, secure and sustainable energy, 2022)

All in all, we see that the conflict contributes to the decline of GDP in the world, and especially in Russia. Global inflation will rise due to higher import prices and higher inflationary expectations. The negative effect will result in lower confidence, lower real incomes and disrupted trade. The overall effect on GDP will not be fully mitigated by higher revenues from energy exports. If the sanctions were extended to energy imports, the implications for the global economy would be much more severe, but the cost would still be higher energy prices and a greater blow to growth, increasing the chances of a recession accompanied by significantly higher inflation.

#### 4. MACROECONOMIC EFFECTS ON GDP IN EUROPE

Given the highly uncertain environment, several risks stemming from the conflict and protracted pandemic that could undermine growth stand out. The most worrying risk is the sudden stop of energy flows, however, we can also identify other negative risks, such as an increase in the risk of social unrest (due to higher food and energy prices, the risk is prevalent in countries hosting a large number of refugees) and the still existing risk from another wave of the highly contagious strain of COVID-19.

The main channel through which the conflict in Ukraine and sanctions against Russia affect the Eurozone economy is the rise in global energy prices and energy security. Because they are energy importers, higher global prices represent a negative terms-of-trade shock for most European countries, leading to lower output and higher inflation. Supply chain disruptions have also hurt some industries, including the automotive sector as the war and sanctions have further hampered the production of key inputs.

As a result, euro area GDP growth in 2022 has been revised down to 2.8 percent (1.1 percent lower than in January), with the biggest declines in economies such as Germany, Italy and France with relatively large manufacturing sectors and higher dependence on energy imports from Russia. Across the eurozone, the impact on activity was partially offset by increased fiscal support. In the UK, GDP growth for 2022 has been revised down to 1%, with consumption forecast to be weaker than expected as inflation erodes real disposable income, while tighter financial conditions are expected to cool investment. (OECD, 2022)

According to forecasts, EU countries will spend more than 9% of their GDP on energy in 2022. This is the largest share in 40 years and more than double the predicted rates, although two years ago the figure for both economies was around 2%. Higher product prices are exacerbating already high inflationary

pressures around the world. According to the European Central Bank, half of the recent rise in inflation was driven by higher energy prices. (ECB, Update on economic, financial and monetary developments, 2022)

“As a result of the sharp rise in commodity prices, the growth index of industrial production prices in the Eurozone countries in March 2022 was 30.9%, and in April it rose to 33.5%. At the end of March 2022, inflation rose for another month in a row and amounted to 7.8% in the EU, while the most affected countries were 15.6% in Lithuania, 14.8% in Estonia, 11.5% in Latvia and 7.6% in Germany”. (ECB, Results of the ECB Survey of Professional Forecasters for the second quarter of 2022, 2022b) “Consumer prices in Europe rose by 2.5 percent in March 2022 compared to February, seasonally adjusted. However, despite inflation already being high and rising in March 2022, the inflation rate continued to rise in April, to 8.1% (by 0.3 percentage points), to 16.6%”. (ECB, Survey of Professional Forecasters, European Central Bank, 2022b)

The IMF's latest regional economic outlook for Europe is assumed based on assumptions and identified transition channels, where GDP growth of 3.0% is predicted in developed European economies. Some of Europe's largest economies, such as France, Germany and Italy, are forecasting very weak or negative quarterly growth in mid-2022. This stall in the recovery is hidden in the annual growth projections for these economies due to a large carryover from 2021. Also, as mentioned earlier, higher product prices and supply disruptions are creating inflationary pressures, which should lead to average inflation reaching 5.5% in 2022 (up 2.2 percentage points from World Economic Outlook projections from January 2022). Inflation is predicted to grow more in countries where food and energy represent a larger share in consumer baskets (Romania, Slovak Republic and Spain), and in countries where exchange rates have weakened (Hungary, Poland and Turkey).

Summarizing this section, we note that the increase in inflation in 2021 and 2022 is mainly



due to the increase in demand and, accordingly, the increase in energy prices. The main factors that can affect the persistence of high inflation, and even its increase, are shocks in the prices and supply of energy and other goods and basic goods. The rate of inflation in the EU and a number of other countries may remain high for several years or longer and pose a significant threat to both countries' economies and companies.

## 5. THE MACROECONOMIC IMPACT OF THE CONFLICT ON THE GDP OF THE REPUBLIC OF SERBIA

The state of the economic environment depends on the totality of macro and micro economic parameters on which the coordinated action of the state and individual circles according to these parameters should ensure such a sustainable economic development of the country or region, it is necessary to have a good resource base and an appropriate macroeconomic policy, and to support sustainable competitive winners through continuous raising total productivity. (Miljković Lj. T. D., 2021)

Covid-19 and the conflict between Russia and Ukraine, according to the available data, had less of an impact on Serbia compared to most European countries, due to the achieved macroeconomic and financial stability, growth momentum, fiscal space created in previous years, a large and timely monetary and fiscal package and the structure of the economy. The economic policy measures adopted by the state minimized the drop in GDP in 2020, while additional aid packages in 2021 contributed to further growth of GDP and its return to the path of sustainable growth in the medium term. The recovery of GDP to the pre-crisis level was already achieved in the first half of 2022, while according to the data of the Republic Institute of Statistics (RZS), real GDP growth at the beginning of 2022 was higher than planned. Such developments are the result of growing activity in industry, construction and the service sector.

**Inflation.** Inflation is driven by food and energy prices. Higher inflation in the first half

of 2022 is a consequence of rising food and oil prices on the world market. "Average inflation in 2021 was 4.0%. Total inflation until June of this year was 11.9%. About 70% of year-on-year inflation is conditioned by factors that monetary policy cannot greatly influence, food prices and energy. Core inflation in the first half of 2022 was lower than overall inflation and amounted to 6.7%, which was contributed by preserved relative stability of the exchange rate and preserved business and consumer confidence. Short-term inflation expectations of the financial sector hovered around 6.0 %. Medium-term inflation expectations of the financial sector ranged between 3.5% and 4.0%". (NBS, Pregled dešavanja na svetskom finansijskom tržištu, 2022)

The key uncertainties of the projection arise from the ongoing conflict in Ukraine, geopolitical tensions and their impact on the prices of energy, grain and other products, the price of metals and other raw materials in the future. Risks also arise from the impact of the conflict on the global economic recovery and the duration of disruptions in global supply chains, and are also related to the domestic market, the agricultural season and the movement of regulated prices. Overall, projection risks are elevated and tilted to the upside.

**Gross domestic product.** In the coming years, Serbia will maintain strong, sustainable and broad growth, with GDP growth in 2022 revised in the range of 3.5%-4.5%. "Medium-term growth between 4%-5% According to RZS data, in 2021, Serbia achieved real GDP growth of 7.4 percent, fueled by the recovery in the service sectors, as well as the growth of construction and industrial production. GDP growth it was 4.4% in the first quarter of 2022. Growth of at least 4% is expected in the second quarter, driven by service sectors and industrial production, despite the conflict between Russia and Ukraine, which has negatively affected supply chains as well as product prices Bearing in mind the uncertainty regarding the further duration of the conflict, as well as the economic effect of rising energy, food and product prices on world markets, they revised



down the GDP growth projection for 2022 from a range of 4-5% to a range of 3, 5-4.5%. (eKapija)

Growth is expected to be driven by higher growth in the service sectors, as well as construction and industrial production. In the conditions of the conflict between Russia and Ukraine, the risks of the projection being tilted downwards are assessed. This particularly applies to the supply chain disruption, the energy crisis and the prices of primary products, as well as the pace of normalization of the monetary policy of the major central banks.

**Macroeconomic and financial stability.** In the period January-May 2022, the inflow of foreign direct investments (FDI) amounted to 1.14 billion euros (net inflow 1.0 billion euros), and a full recovery was recorded in May. The processing sectors with the largest inflow of foreign direct investments (metals, cars, food, rubber and plastics) recorded high growth in employment, production and exports. Serbia attracted about 60% of total investments in the Western Balkans region. In 2021, the inflow of FDI amounted to a record high amount of 3.9 billion euros (net inflow 3.6 billion euros). In the first five months of 2022, Serbia's balance of payments amounted to 2.3 billion euros. Taking into account the growth in prices of energy, food, manufactured goods, metals and industrial raw materials, the projection was revised to 6.5% of GDP. The temporary widening of this gap in 2022 was fueled by global price growth and, on the other hand, the growth of savings in conditions of increased uncertainty. (NBS, Inflation Report, 2022)

Fiscal deficit in 2022 smaller than planned; Public debt is back on a downward trajectory. Fiscal deficit in the first quarter of 2022 driven by capital expenditures and fiscal support to the population. In 2021, the fiscal deficit amounted to 259.4 billion dinars (4.1% of GDP). The deficit was most affected by the new stimulus package in the amount of 2.2 billion euros (4.2% of GDP). (Fiskalni savet, 2022). In the first half of 2022, a consolidated deficit of 58.8 billion dinars was recorded, while the projected deficit is 3.0% of GDP and

its return to 1.0% of GDP in the medium term. The share of public debt in GDP at the end of May 2022 was 52.3% and thus decreased compared to April, primarily due to the reduction of dinar debt. Public debt is expected to return to a downward trajectory in the coming years with further reliance on dinar and euro debt and a reduction in currency risk.

**Import/Export.** During the pandemic and crisis in Ukraine, new investments and continued expansion of export capacities will ensure high export growth in the medium term. The projection reflects that the new investment cycle will be reflected in the increased import of equipment and raw materials. "The first half of 2022 saw a 32.5% increase in exports of goods, driven by growth in manufacturing and mining exports. Exports of services increased by 34.7%. Imports of products increased by 46.9% during the first five months of 2022". (Rančić J., Stojanović B., 2022) Intermediate products made the biggest contribution, partly due to the rise in energy prices. Serbia's exports are mostly directed to the EU and the countries of the region, and it relies on demand in those countries that recovered during 2021. By country, the largest share of exports was made to Germany (12.7%), followed by Italy (8.5%), Bosnia and Herzegovina (7.2%), Romania (5.5%), Hungary (5.0%) and Russia (3.9%). Exports to China in 2021 continued to grow in comparison to 2020, while recording growth in 2022 as well, so that China is highly positioned on the list of Serbian export partners. (RSZ, Publikacije, 2022)

**Job market.** According to the employment office, the unemployment rate in the first quarter of 2022 decreased by 2.2% compared to 2021 and amounted to 10.6%, which is below the average for the entire year 2021 of 11.0%. The employment rate was 49.3%, which is an increase of 3.0% compared to the same quarter of the previous year, with an increase in the rate of informal employment from 10.9% to 13.3%. Nominal wages continued to grow faster than annual inflation, which continued real wage growth and preserved the disposable income and purchasing power of the population. The

real growth of the average net salary in April 2022 is 2.6%. (RSZ, Kretanja na tržištu rada u prvom kvartalu 2022., 2022)

## 6. CONCLUSION

During the pandemic, the Serbian economy ended with a minimal recession, since the state used most of the available fiscal space for the beginning of the pandemic. The impact of the program on the economy and living standards was favorable, but there was a significant fiscal cost. With limited room for future stimulus packages, further reforms are needed to return the economy to sustainable growth and to secure jobs and incomes while strengthening resilience to shocks. Due to the negative effect of the conflict between Russia and Ukraine and the uncertainty regarding its duration and the economic effect of further EU sanctions against Russia and Russia's countermeasures against the EU, GDP growth projections for the second part of 2022 have been revised downwards. For the same reasons, the new average inflation forecast is on a higher path compared to the planned one. In 2022, the current account deficit is expected to increase, but it will remain within sustainable limits. Thanks to production and geographical diversification and export-oriented investments, at the beginning of 2022, the export of goods increased by as much as 29.1%. Higher inflation in the first half of 2022 is a consequence of the rise in food and world oil prices. On the other hand, thanks to preserved foreign exchange and macroeconomic stability, core inflation remained stable and was lower than overall inflation, which was contributed by the preserved relative stability of the exchange rate and preserved business and consumer confidence. Real GDP growth was fueled by a recovery in the service sector, as well as growth in construction and industrial production. GDP growth in the first quarter of 2022 was driven by service sectors and industrial production, despite the conflict between Russia and Ukraine, which negatively affected supply chains as well as product prices.

The fiscal deficit increased significantly in 2022 and reached an estimated 8.1 percent of GDP. This increase is primarily the result of a large fiscal stimulus program. Public debt is estimated at 58.2 percent of GDP by the end of 2022. The dinar remained mostly stable against the euro, supported by significant interventions by the NBS in the foreign exchange market (the NBS sold reserves worth 1.5 billion euros in 2022). In July 2022, the NBS decided, for the fourth month in a row, to increase the reference interest rate, driven by persistently high global upward cost pressures due to international energy prices, primary agricultural products and industrial raw materials, as well as prolonged disruptions to global supply chains, while taking into account the preserving the continuity of economic growth. The stability of the banking sector has been preserved and additionally strengthened.

Urgent focus is needed on measures to improve the business environment and governance in order to reduce the cost of doing business and ensure safety and security, as well as efforts to improve the quality of infrastructure. The pace of labor market recovery will be critical to continued poverty reduction. The new package is expected to support citizens and the economic recovery, although poor and vulnerable households, which are more dependent on self-employment and less secure jobs, may take longer to recover their income levels. Bearing in mind the uncertainty regarding the further duration of the conflict, as well as the economic effect of rising energy, food and commodity prices on world markets, they revised the GDP growth projections for 2022. In the conditions of the conflict between Russia and Ukraine, assessing the risks of the projection being tilted downwards. This particularly applies to the supply chain disruption, the energy crisis and the prices of primary products, as well as the pace of normalization of the monetary policy of the major central banks. In the medium term, the Serbian economy is expected to return to its pre-Covid-19 growth pattern. However, some challenges limiting growth in both the short and medium and long

term will remain. Most importantly, Serbia needs to continue its efforts to remove the bottlenecks to private sector growth stemming from a deteriorating governance environment,

underdeveloped infrastructure and an underformed education sector that creates growing concerns about skills mismatches.

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## MAKROEKONOMSKI UTICAJ SUKOB IZMEĐU RUSIJE I UKRAJINE NA BRUTO DOMAĆI PROIZVOD SRBIJE

**Sažetak:** Sukob između Rusije i Ukrajine dolazi u trenutku kada se zemlje širom sveta još uvek oporavljaju od destabilizujućih efekata globalne pandemije COVID-19, koja je izazvala duboku ekonomsku regresiju, značajan gubitak produktivnosti, pogoršanje nejednakosti, planetarne pritiske, a u nekim slučajevima i bezbednosni izazovi. Ekonomski uticaj je odjeknuo kroz više kanala, uključujući robna i finansijska tržišta, trgovinske i migracione veze. Istovremeno, rastuća inflacija sve više smanjuje kupovnu moć potrošača. Ovakve tržišne tenzije će smanjiti privrednu aktivnost uz ubrzavanje inflacije sa pojavom stagflacije, gde stanje privrede karakteriše opšti skok cena uz pad proizvodnje. Direktni efekti ovog sukoba dovode do makroekonomske nestabilnosti. Ovaj sukob izaziva skok globalnih cena, utiče na ekonomije širom sveta, a očekuje se da će najveći teret podneti tržišta u razvoju i zemlje evropskog regiona, posebno zemlje Zapadnog Balkana. Na strani makroekonomske stabilnosti, efekti su različiti u zavisnosti od njihove izloženosti tržištu Rusije i Ukrajine. Istina, Republika Srbija nema značajne, direktne trgovinske veze sa Ukrajinom, ali sukob je Srbiju stavio pred nove izazove, uzimajući u obzir energetska zavisnost od Rusije, kao i poljoprivredni sektor, gde proizvodi, pre svega voće, imaju značajno učešće u ukupnom izvozu u Rusiju. Ključno pitanje koje se postavlja jeste u kom pravcu će sukob uticati na makroekonomsku stabilnost Republike Srbije.

**Ključne reči:** Konflikt, Rusija, Makroekonomija, Ekonomija, Bruto domaći proizvod



ORIGINAL SCIENTIFIC PAPER

RECEIVED: 18. 02. 2023.

ACCEPTED: 05. 04. 2023.

UDC: 339.92

COBISS.SR-ID 134011145

doi: <https://doi.org/10.61837/mbuir010223034k>

## ECONOMIC GLOBALIZATION IN THE HISTORICAL CONTEXT AND DEGLOBALIZATION

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**Abstract:** *The paper analyzes the key aspects and trends of economic globalization in the historical context and deglobalization. The focus is on the current process of declining integration of the international market, which has been going on since the World Financial Crisis in 2008. As this process in the modern era is caused by radical changes in its structure, it is long-term, not cyclical in nature. The paper discusses the causes of restructuring and re-fragmentation of the modern world economy. The key cause is identified as the strengthening of the opposition between the entities of the world economy and their development concepts, that is, the economy within state borders, as carriers of the concept of integral development, and transnational companies as carriers of functional development without borders of nation states. The restructuring crisis of the world economy has been further intensified and deepened with the COVID-19 pandemic and the conflict in Ukraine. Although a new social and techno-economic paradigm was established with the aim of the developed industrial states strengthening and restabilizing their global functional and structural dominance, the process of redistribution of economic and social power, in which the BRICS economies play an increasingly important role, continues unabated.*

**Keywords:** globalization; international trade and production; deglobalization; restructuring; development

**JEL classification:** F40, F60, F62

### 1. INTRODUCTION

The world economy and society at the beginning of the 21st century is experiencing significant transformations that have fundamentally changed the previous dominant techno-economic and development paradigm. In the paper, the key aspects and trends of economic globalization, understood as the integration of the international market and the economy, are analyzed in a historical context. The paper indicates that the process

of economic globalization practically ended during the World Financial Crisis at the end of the first decade of the 20th century, and that the process of reducing the integration of the global economy and society in various aspects has been going on for ten years. In the first part of the paper, the key features of economic globalization and globalization waves are analyzed in the historical context with a special focus on key similarities and differences. In the second part, special attention is paid to the transnationalization of capital in the

second globalization wave and the conflict between the development concepts of TNCs and national economies, which shapes the global business environment and competitive environment. In the third part of the paper, contemporary changes in the global economy are discussed as predominantly structural and not cyclical, and it points to the key characteristics of deglobalization as a phenomenon that radically changes business activity.

## 2. GLOBALIZATION

### 2.1. THE CONCEPT OF ECONOMIC GLOBALIZATION

The term globalization has been used in the social and economic literature, with very different meanings, for a relatively short time (about fifty years), significantly shorter than it exists in real economic and social life.

We list several definitions of globalization that indicate the key elements essential for its understanding and explanation in the contemporary period, but also in the historical context: „...globalization means the onset of the borderless world...” (Ohmae, 2005); „...the compression of the world and the intensification of consciousness of the world as a whole.” (Robertson, 1992); “Globalization refers to the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology.” (IMF, 1997); “...process in which the production and financial structures of countries are becoming interlinked by an increasing number of cross-border transactions to create an international division of labour in which national wealth creation comes, increasingly, to depend on economic agents in other countries, and the ultimate stage of economic integration where such dependence has reached its spatial limit.” (Bairoch, Kozul-Wright 1998); “Globalization – however the word is understood – implies the weakening of state sovereignty and state structures.” (Beck, 2000); „...globalization...

development of global financial markets, growth of transnational corporations and their growing dominance over national economies.” (Soros, 2005); „Economic ‘globalization’ is a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through trade and financial flows. The term sometimes also refers to the movement of people (labor) and knowledge (technology) across international borders. There are also broader cultural, political, and environmental dimensions of globalization that are not covered here.” (IMF, 2000/2).

The key components of understanding the concept of globalization as a whole, therefore, include: creating a world without borders; compression of the world in territorial, functional and information sense; loss of sovereignty and disintegration of the structure of national states; the development of the global financial market, the growth of transnational capital and its dominance in relation to the national state and the economy and its economic subjects; strengthening of interconnection and influence between economic and non-economic entities between different countries; growth of cross-border transactions in goods and services and of international capital flows and diffusion of technology, innovation and technological progress; movement of people and knowledge across international borders; broader social, political, cultural and ecological dimensions (which, although important, are not always included in the study of this process).

Economic globalization is often considered the most significant force in the development period after World War II. While the growing importance of international trade in goods and services in economic activity as a whole is evident throughout the entire period after World War II, the international movement of capital showed its importance in the closing decades of the twentieth and the beginning of the twenty-first century. Economic shocks during the 1970s not only interrupted three decades of exceptional growth of the world economy, but also weakened or destroyed the institutional

structure that was the basis of such economic activity and evolution. The open market, transnational companies (TNCs) and information technologies have become the new, key forces of economic growth and development in the entire global economy and the dominant mode of growth. Globalization entered the political and academic vocabulary with the aim of describing the speed and intensity of these changes, but also to emphasize that at the end of the twentieth century, a completely new period of economic growth and development was entered (Kotlica, 2002).

The globalization of economic activity is a process that can be historically divided into three phases that coexisted at the end of the 20th and the beginning of the 21st century (Hatzichronoglou, 1999): growth of international trade, especially exports; relocation of production and development of off-shore business; intensification of direct investments; globalization of technological innovations through the multiplication of R&D (Research and Development) centers abroad.

In the latest phase of the development of globalization, in the past twenty years, the development of global value chains (GVCs) was of particular importance. During the period after the World Financial Crisis (The Great Recession) in 2008, the problems of GVCs became one of the key components of the explanation of deglobalization tendencies in the world economy.

The tendency of internationalization of production at all levels of the hierarchical structure of the world economy initiates the transformation of previously different economic areas into a single economic area. In this area, the dominant benchmarks become the parameters and standards that are established at the level of the world economy as a whole. The demonstrated level of interdependence and established articulations and interactions between subjects of the world economy, despite the evident division into developed and underdeveloped parts at the global level, points to the thesis that the national economy as a unit of economic analysis, and even more as

a basic area of development, is an inadequate analytical framework for contemporary development processes.

Frankel (2000) lists a number of factors that influence economic globalization, that is, international economic integration and trade: Distance: other geographical variables; linguistic and colonial factors; military factors; free trade areas: political links; common country; currencies.

Baldwin (2016) has described globalization as a sequence of great unbundlings. The first occurred in the late nineteenth century when steam power cut the expense of moving goods internationally. The second came in the late twentieth century when information technology radically lowered the cost of moving ideas across borders. A third great unbundling beckons as digital technology makes it cheap and easy to move people across borders – without making them leave their bedroom or kitchen.

The rise of globalization was made possible by a series of major innovative developments. Internationalization in elementary form and globalization into world economies began in the first stages of industrialization or even earlier through long-distance international trade. In the phase of the industrial revolution, the significant development of means of communication, the construction of railways and the development of shipbuilding, reduced the costs of transport and enabled the globalization of the market at the domestic and international level. At the end of the 20th century information technology radically reduced the cost of transmitting ideas across borders and digital technology made it cheap and easy to move people across borders without physically leaving their place. Modern globalization takes place and intensifies as a consequence of the interaction of technological and economic development and the growth of all forms of foreign trade and economic activity. The increasingly intense internationalization of various segments of business activity from the 1970s, stimulated by the processes of regional integration in the 1980s, influenced the profiling of the basic features of the globalization



process at the turn of the century. These features are: globalization of the market, that is, trade transactions in all segments and at all levels; globalization of business and related, directly or indirectly, activities and operations; globalization of competition with the development of integral competitiveness, the essential elements of which are global companies, global market and global competition.

As part of the internationalization of production, the segmentation of the production process into parts that are produced in different organizational units in various parts of the world took place. The main goal was to carry out production with the most favorable cost structure for that specific production segment. With the already achieved prerequisites in the field of transport and communications, the creation of global type corporations and GVCs was made possible in this way. Individual segments of GVCs are connected and united by highly sophisticated activities in the field of management, organization, R&D, marketing.

Instead of the car that connected and united physical space from the beginning of the 20th century, communication and information gradually structured the entire world as a functional whole, united by intellectual and informational connections.

Physical transport and communication are losing importance. The basis of business and life activity is the collection, processing, distribution, and use of information. On the other hand, high technologies also help to improve the physical integration of the world market in numerous ways: a) jets radically reduce distances; b) the development of telecommunications provides fast, efficient and relatively cheap contacts that enable greater and more efficient coordination of management and production over long distances; c) modern means of transport enable fast and high-quality transfer of even the most sensitive products and over the greatest distances at relatively low costs...

The globalization of production in the 1970s caused a kind of empty spaces in the industrial structure of developed countries, precisely in those economic activities that, within the

earlier techno-economic paradigm (TEP) of mass production, were the carriers of development dynamics and the basic economic force. Due to the inadequacy of their own performance in relation to the requirements of the new TEP, those activities tried to overcome the crisis and revitalize themselves by segmenting technological procedures and systems and moving part or even the entire production to underdeveloped countries, especially to Asia. The goal was to take advantage of the favorable cost structure of production in them, first of all, cheap human labor, but not only that. As an illustration, we can cite Steve Jobs' explanation to the US President Barack Obama in February 2011, about the reasons why the Apple company will not return its production to the USA. Namely, at a meeting attended by representatives of the most important companies in the field of information technology in the USA in Silicon Valley, Jobs spoke about the lack of engineering staff and the advantages that China has in the production sphere. As he explained, it is not only a question of cheaper labor, but also its qualification and availability in sufficient numbers, as well as the speed of work and the quality of response to new and specific production requirements. The specific case he cited was the cutting of large panels of glass into an iPhone screen, a job that required 8,700 engineers out of 200,000 workers. The undertaking took iPhone workers in China 15 days, while in the US it would take 9 months (Duhig, Bradsher, 2012).

Internationalization of production systems and processes directly internationalized global relations in the world economic system. Previously, this process took place primarily through the internationalization of trade. With the globalization of production and the creation of a single economic world space, the autonomy and integrity of development in a certain national economic space have been substantially derogated from. This process causes reactions in the opposite direction, primarily in underdeveloped countries, which additionally generates a crisis of restructuring at the global level.



The system of open economy and universal norms of behavior in international trade relations are profiled under the dominant influence of the most powerful actors of the world economy. Autarky is impossible in the modern world economy. Openness brings benefits, but also harm. That is why transitional arrangements are foreseen for national economies that need to prepare for the new competitive situation. Otherwise, the domestic economy will be decimated or destroyed by the competitive pressure of transnational capital. This happened, to a greater or lesser extent, in several former socialist countries of Central and Eastern Europe (CEE) countries in transition, which rigidly interpreted and applied the concept of liberalization, privatization and open economy, weakened or even completely destroyed some local competitive resources, activities and real production potentials.

The internationalization of production processes and systems affects the reduction of the importance of local, national, and regional borders in both territorial and functional terms. National economic areas, as well as areas where modern corporations carry out their activities, become parts of the functional structure of the world economy. The lines of demarcation between different types of interdependence are unclear or at least very flexibly drawn. International trade statistics contribute to this by inadequately including the turnover of products of the ruling information technology paradigm, while at the same time multiple recording and multiplying the cross-border movement of goods and services, especially within transnational intra-firm interactions (Stanojević, Kotlica, 2018; Kotlica, Stanojević, 2018)

Signs of market integration and globalization of production are visible everywhere, with market opening having its own autonomous dynamics.

## 2.2. WAVES OF GLOBALIZATION

The idea that global economic integration represents a completely new phase of world economic development has not found universal acceptance in academic a thought. Some economic historians believe that the development of global, but also deglobalization, tendencies in the world economy, especially long-distance trade in high-value goods, can be observed in different periods of human history. The oldest examples of globalization cited in the literature are: Egypt and Mesopotamia (14-12 centuries BC); Roman Empire; and Eastern Han dynasty. Nevertheless, most economic historians consider the Mongol Empire (13-14 centuries) as the first trading globalization (O'Rourke, Williamson, 1999; 2002; Bordo, Taylor, Williamson, 2003; Findlay, O'Rourke, 2007; James, 2018). The Pax Mongolica is considered a precedent for the Pax Britannica and the Pax Americana. In addition, O'Rourke (2018) cites historical examples of deglobalization, such as the end of the Pax Mongolica, the disintegration of the Timurid Empire, or political crises in Persia or China. Baldwin (2016) points to the wrong perceptions of globalization as a creation of the modern West, recalling that until 1820, when modern globalization took off, the global economic center was actually Asia and especially China (Figure 1).

Nevertheless, indicators of economic development at the end of the 19th and beginning

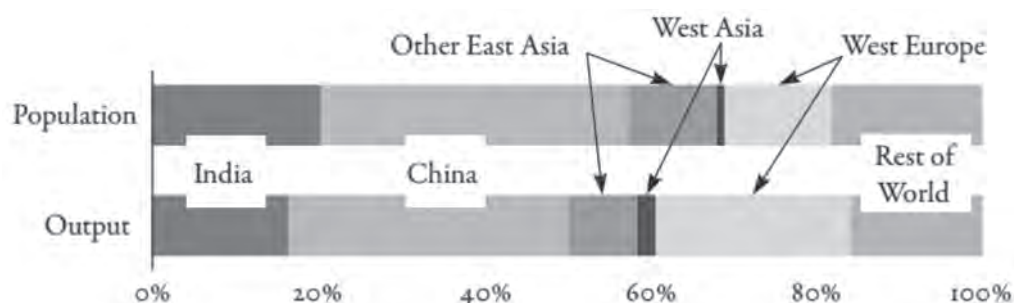


Figure 1. Asia's world economic dominance in 1820 (shares of world income)

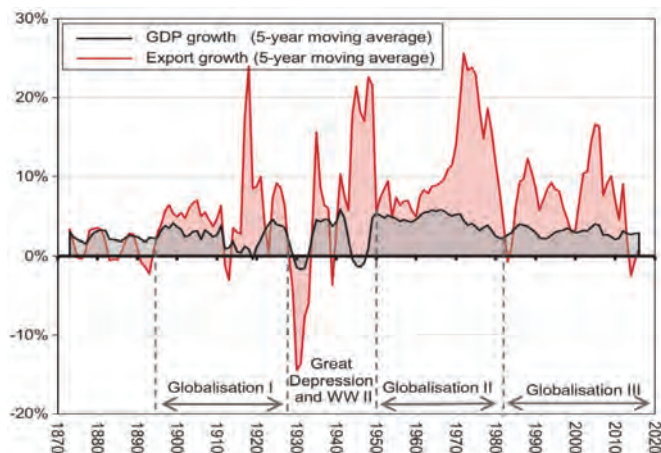
Source: Baldwin, 2016

of the 20th century are more often used as a basis for comparison with contemporary movements in the world economy (perhaps due to the availability and reliability of statistical data).

Mossi and Lischka (2022) divided the globalization process into three phases based on the growth rates of exports and GDP through a 5-year moving average (Figure 2). The average annual growth rate of global exports from 1870 to 2018 was 6.77%, while global GDP only increased 2.93% on average in this period. Although these authors indicate that the recurrence of severe economic crises (the bursting of the dot-com bubble in March 2000 and 2007/2008) led to global disruptions due to economic interdependence, they do not consider the deglobalization tendencies after the Great Recession. It is clear that the COVID-19 pandemic will greatly reshape economic interdependencies. Already at the beginning of the crisis, a noticeable transformation or even a significant reduction of the previous globalization structures is visible, with consequences for prosperity and well-being that cannot yet be estimated.

Most of the authors who deal with this issue, observe the globalization processes after World War II as a unique phase. The study of the first wave of globalization has its intellectual origins in the works of a few authors such as A. Smith, K. Marx, J. S. Mill, E. F. Heckscher, B. Ohlin, J. M. Keynes, V. I. Lenin... The diversity of authors should not be surprising, because even in the modern phase of the development of economic science, there are wide and varied explanations for why economic activity tends to expand beyond the original national framework, connecting a growing number of dispersed economic locations around the world. Also, there are many myths about economic globalization, which are based on a superficial and biased consideration of the integration of the world economy while ignoring the real data on economic activity in the two great waves of globalization in industrial civilization (Bairoch, Kozul-Wright, 1998). In the 17th and 18th centuries, under strong state influence,

large colonial trade multinational companies were developed: the Dutch and British East India companies, the Muscovy Company, the Royal Africa Company, and the Hudson's Bay Company.



**Figure 2. Growth rates of global exports and economic growth measured by GDP 1870–2018 shown as five-year moving averages**

Source: Mossiq, Lischka, 2022

Among contemporary economists, therefore, the dominant view is that global integration is not a new phenomenon and characteristic of the world economy. Therefore, there is an intense interest in studying the characteristics of economic growth before the World War I as a useful basis, regardless of the significant differences, for understanding the current wave of globalization and deglobalization (Bordo, Taylor, Williamson, 2003).

O'Rourke and Williamson (1999), based on a study of the first wave of globalization, point out that history indicates "...that globalization can plant the seeds of its own destruction. Those seeds were planted in the 1870s, sprouted in the 1880s, grew vigorously around the turn of the century, and then came to full flower in the dark years between the two world wars."

Some authors believe that a hundred years ago, before the disturbances caused by World War I and II and the collapse of the commodity and financial markets during the World Economic Crisis, the world market was as internationalized as it is today. In a series of papers, Rodrik (2011) put forward the thesis that the achieved level of economic integration, in

the modern economy, is still far from the level that was reached at the time of the gold standard. Bordo, Eichengreen and Irwin (1999) believe that contemporary global integration is different from the first wave of globalization, which was limited and as an economic phenomenon had completely different characteristics from the contemporary.

O'Rourke and Williamson (1999) points to „...the similarities between the globalizing world economy after World War II and before World War I are far more striking than the differences. As we shall see, the main difference is this: *all* of the commodity market integration in the Atlantic economy after the 1860s was due to the fall in transport costs between markets, and *none* was due to more liberal trade policy. In contrast, most of the commodity market integration after the 1950s was (we suspect) due to more liberal trade policy.“

Frankel (2000) cites the reduction of transport and communication costs and the complete or partial removal of barriers to trade and investment as the two main driving forces of economic globalization. Bordo, Eichengreen and Irwin (1999) add to transport costs and trade barriers information barriers to exchange as a possible constraint to the expansion of market integration. Consumers want as complete information as possible about products that can meet their needs, and producers about local preferences and demand to produce suitable products. In the first wave of globalization, before the era of mass communications, high levels of migration were an important channel through which such information was exchanged.

Contemporary economic globalization is viewed by Sachs and Warner (1995) as a kind of return to the liberal international order that existed before 1914 and World War I, although there are many arguments about the essential differences between them. These authors believe that the world economy at the end of the 20th century was very similar to the world economy at the end of the 19th century. According to them, the global capitalist system is an attractive model that directs all regions

and countries towards an open economy and harmonization of institutions. As in the 19th century, a new round of globalization raises the question of convergence for the states joining the system. Sachs and Warner believe that a quick and efficient process of liberalization in the area of trade, capital flows and direct foreign investments is key for those countries. The development after 2008 and the movements in the world economy have largely disputed the claims of these authors regarding convergence and the dominant capitalist model of growth and development.

Contrary to the general impression of the contemporary unprecedented integration of the world economy, the available historical data show that the openness of the economy, measured by the share of foreign trade in the gross domestic product (GDP), as well as the share of net investments in GDP, show very similar, almost identical, values in the first and the second wave of globalization. Capital mobility was higher at the end of the 19th than at the end of the 20th century in all countries except Germany, Japan, and the USA (Williamson, 2002; Obstfeld, Taylor, 2003; Baldwin, Martin, 1999). The period from 1870-1913. was a period of exceptional growth in international trade. While trade, during that period, grew at a rate of 3.5% on average per year, until then the growth rate of output was 2.7% on average per year. The result was that the share of international trade in output (or openness) rose steadily, reaching a peak in 1913 that was not surpassed until the 1970s (Bairoch, Kozul-Wright, 1998). There was considerable variation in the data for individual states around that trend. A group of smaller super trading economies, such as Belgium, the Netherlands and Switzerland, had a significantly higher degree of openness than large European economies such as France and Italy. It is possible to draw a parallel between the economies of modern newly industrialized countries in the modern period, especially in East Asia, with that group of economies.

There are also variations between countries according to the periods in which they reached



the highest point of openness. The USA and Canada reached their highest level of openness around 1900, which was slightly reduced in the period leading up to World War I. Japan reached its highest point of openness only in 1929, which was not exceeded until 1992. These variations between countries and over time point to the inconsistency of the idea of a continuous and uniform process of market integration over the period. For example, in the UK in 1870 exports of goods and services as % of GDP accounted for 41% of GDP, in 1950 it was about 30%, and in 2021 it was 27%. In the USA, exports of goods and services as % of GDP was 10.2% lower in 2020 compared to 14% in 1870 (Baldwin, Martin, 1999; <https://data.worldbank.org/indicator>).

In terms of international trade in the first and second wave of globalization, there are also differences, but they do not relate to the degree of integration, but also, for example, on the diversity of trade directions. In the 19th century, developed countries had massive imports from underdeveloped countries. In the modern era, almost 2/3 of world trade is conducted between developed countries, while underdeveloped countries are marginalized in that process. In this sense, the degree of integration of the world economy was higher then because it included more countries.

The volume of goods exchanged between different markets is not necessarily an expression of the degree of market integration. O'Rourke and Williamson (2002) believe that the volume of trade can grow regardless of the low degree of integration of trade in goods and vice versa. Convergence in the prices of many products existed in the economies of many countries on the Atlantic rim towards the end of the nineteenth century. The price of wheat in Liverpool in 1870 was about 60% above the price of wheat in Chicago. By 1912, the gap between those two prices was reduced to about 15%. A similar convergence was present in many other traded products. In the modern period, basic agricultural products, ores, and raw materials are exchanged on organized global markets, which enables the realization

of the law of one price. Local product prices differ in reality (import duties, transport costs...), but the international market, which is highly integrated, establishes a base, reference price for different products.

A real global economy is one in which there is a dominance of transnational firms and financial institutions that carry out their activities in the world market independently of national borders, national political goals, and domestic economic constraints (Bryant, 1980).

Frankel (2000) presents an interesting interpretation of the contemporary level of global integration starting from the example of the USA. The total export or import of goods and services in the GDP of the USA at the time of his analysis participated with about 12%. It is still very far from the conditions in which transport and communication costs and barriers would be equal to zero. According to a simplified calculation, the output of the USA is about one quarter of the total world product. The output of other countries' producers is about three quarters of the total world product. If American consumers bought products and services from abroad in proportion to their share in the total world product, the ratio of American imports to GDP would be 0.75. In reality, that quotient is only one-sixth of that hypothetical level ( $12\%/75\% = 1/6$ ). Put another way, the level of globalization can, from the point of view of the American consumer, increased sixfold before Americans can be said to be doing business globally as easily as they are doing business locally. Such a calculation would be significant for the contemporary US economy and the explanation of the tariff war with China and Europe, in which the trade balance is in the foreground, not the use value of products and services, competitiveness and the difference between actual and potential imports (James, 2018): „In the case of European and Chinese responses to threatened US tariffs, they were also aimed as precision strikes ('acupuncture style') at particular constituencies whose support might be important for the Trump presidency: for instance, pork tariffs to specifically hit Iowa farmers“.



An observation by Keynes from 1919 is often quoted, which reflects the similar enthusiasm of contemporary economists for the same potentials of economic globalization, but in the space of a whole century (Keynes, 2019): „The inhabitant of London could order by telephone, sipping his morning coffee in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises in any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality.“

It seemed, as in the modern era, that there could be no obstacle to the further integration of the world economy because the entire process is based on technological progress, and it is considered irrevocably irreversible. It is true that technological progress has continued, but globalization has not.

The First World War encouraged trade protectionism in the form of a significant increase in import tariffs, but mostly on strategic agricultural products. The economic system of the countries involved in the conflict was temporarily destabilized, but after the end of the war, economic exchange intensified to remedy the consequences. What stopped the first wave of globalization started in 1870 was the Great Depression of 1929-1933. years. The war created the conditions for the subsequent destabilization of the international financial system: monetary instability, expansion of speculative activities, “moral hazard” in the form of expansion of international lending without a real economic basis, overcapacity and hyperproduction, etc. All these conditions were copied at the beginning of the 21st century and widely

accepted as the causes of the World Financial Crisis (WFC) in 2008.

Financial crises are not a direct cause of deglobalization, because not a single macroeconomic disturbance can be explained by a crisis ten years after its end. However, crises trigger mistrust in the safety of investments, in the return of invested capital, in the certainty of placement of goods on foreign markets, etc. Once initiated, distrust in the positive effects of the “free movement of goods, people and capital”, in the action of international organizations and integrations, and the processes of withdrawal into national frameworks initiated by it, cannot be reversed easily. During and after both financial crises, there was an expansion of customs duties, tariffs, quantitative restrictions, and other trade and investment restrictions, thereby decreasing the volume of international trade and investment. The expansion of trade protectionism in both globalization waves marked the beginning of the end of integration processes.

At the first hint of a crisis on the international market, in 1929, states began to introduce protective measures, especially on food imports. By 1931, average tariffs on food imports “had risen to 83% in Germany, 53% in France, 66% in Italy, 60% in and 75% in Yugoslavia” (Keynes 2019). The contemporary expansion of trade restrictions in certain trade directions exceeds these values, especially in relations between the USA, the European Union, China, and Russia. O’Rourke and Williamson (2000) believe that the integration of the goods market of the Atlantic economies after 1860 was the result of a reduction in transport costs, rather than a more liberal trade policy. If in 1913 the trade policy of developed countries can best be described as islands of liberalism surrounded by a sea of protectionism, underdeveloped countries can best be characterized as “an ocean of liberalism with islands of protectionism” (Bairoch, Kozul-Wright, 1998). In many cases, trade openness is the result of colonial policies and trade agreements that opened the markets of underdeveloped countries to the import of industrial goods from European countries.

The key tendencies of the Great Depression relate to: the erosion of the hegemonic position of the UK; the collapse of the dominant European currency arrangement – the Gold Standard; a group of factors that influenced the increase in trade – key technological innovations; long-term reduction of trade costs, new forms of transport and communication and increasing importance of formerly peripheral countries in the world trade system. The same tendencies can be observed in similar patterns of behavior in the Great Recession: the hegemon position of the USA is threatened and in a number of areas eroded by China; the position of the dominant reserve currency of the dollar and the EMU is under pressure: ICTs fundamentally change the forms, subject and ways of trading; emerging markets, primarily the BRICS countries, have moved to the center of the global trade system (van Bergrijk, 2018). Bairoch and Kozul-Wright (1998) also consider that already in the first wave of globalization, phenomena that are often treated as phenomena of the latest development period in the economy can be observed: intra-industry trade and foreign direct investments (FDI).

At the then peak of the integration of the world economy, the process went in the opposite direction: a return to the national concept of the economy, protectionism, bilateral versus multilateral relations. It is interesting that the first of these bilateral agreements was concluded between Hungary and Yugoslavia in January 1932; Germany followed with agreements with Hungary and then with other east-central European states (Berend 2016). Even in the modern period of the crisis of the restructuring of the world economy after the 1990s, there was a real explosion of bilateral contracts related to investment (Baldwin, 2016).

However, the interwar period cannot be called a period of isolationism. International trade and investment did not stop but were restored to the level necessary for the functioning of national economies, national priorities prevailed, and the world market was again fragmented. This period lasted until the integration processes were renewed after World

War II. The beginning of the post-war cycle of globalization was initiated by the interests of the war-torn national economies of the global West. Just as the first wave of globalization is not the product of any idea about the model of the world economy. Like the first wave of globalization, Great Britain and the USA have started but also stopped integration processes - Brexit, Donald Trump's trade restrictions and his America First concept. These two countries, which were the creators and leaders of the post-war international order, at the beginning of the twenty-first century appear as pioneers of its disintegration. Given the size of their economies and the influence of their governments, the protectionism and nationalism of Britain and the USA has set off a chain reaction in the countries of Western Europe.

Financial bubbles, their bursting, crises, and recessions, but also the turn to a prosperous period, appear in the central part of the transition to the new TEP and its application in the entire economy during all five major development periods since the industrial revolution (Perez, 2015). A fifth significant technological change (the ICT revolution) began to develop in the early 1970s when the potential of mass production technologies reached its limits, and the market became oversaturated. The conditions have been created for the search for other opportunities at the global level and in connection with the new ICT. The turnaround happens after two breakdowns (Perez, 2015): 1. bursting of the technology bubble – the NASDAQ index fell from an all-time high of 5,132.52 (March 10, 2000) to 800 (end of 2002). The Internet mania ended with a crash in which the idea of making quick money on new information and communication technologies was dramatically challenged, as it turned out that most companies founded during the dot-com boom did not have any serious production, business and profit potential; 2. bursting of the financial bubble – in the period from 2003 to 2008, a number of credit bubbles were developed, encouraged by investors and an abundance of quasi-money.

The unpredictable and enormous scale of this financial bubble was made possible by the process of globalization and the developed capacity for computer-aided financial innovation that developed during the dot-com boom. Perez (2015) therefore believes that the first, technological bubble was created and developed by innovations in information and communication technologies, and that the second, financial bubble was developed thanks to financial innovations with the application of information and communication technologies.

Although there are fundamental similarities in the structure and sequences of each long wave of development, there are also important differences. While in the Great Depression (1929) the technological and financial bubbles burst at the same time, in the most recent phase it happened in two separate processes.

James (2001) is one of the few globalization theorists who saw the limited scope of this process, back in 2001, well before the World Financial Crisis: "A major financial crisis can have systemic effects and catastrophically undermine the stability of the institutions that make global interchange possible. Such a picture, in which financial volatility destroys the system that was built up on the basis of a free flow of capital, has become increasingly worrying to many thoughtful analysts". The conclusions are based on the financial instability of the established system of the world economy, but above all on the historical lessons of the Great Depression. The process of globalization has already been stopped for a long period with clear signs of deglobalization.

### **3. NATIONAL ECONOMY, COMPETITIVENESS AND TNCs**

The key characteristics of the second wave of globalization, multiple crisis disturbances of a primarily financial nature and clear deglobalization tendencies after the Great Recession are indicators of the transition to a new social and techno-economic paradigm. In this shift, many authors observe a change in the dominant model of economic and social activity

and the hegemon, that is, the leading forces of the global economic system.

Before the crisis of the 1970s culminated, developed countries began restructuring their own economies and relations in the world economy, with the aim of making their global functional and structural dominance more stable and even stronger within the framework of the new techno-economic paradigm.

The bearers of that process were TNCs that strive to thwart the decline in profits with a series of partial actions such as: a) increased investment in fixed capital to increase labor productivity; b) determination of transfer prices for goods, services and technology; c) putting pressure on prices through inflation; d) transfer of technologically backward and physically outdated techniques to underdeveloped countries; e) profit extraction through high interest rates of financial capital; f) speculation on financial markets.

The transnationalization of production systems and processes after that period, and especially at the turn of the 21st century, was carried out to a considerable extent through and within intra-company articulations and transactions. The development of the complex around knowledge and information and the enrichment of the economic structure of developed countries with components of the service and information sector made it possible, by maintaining the basic corporate functions - marketing, distribution, R&D, finance - and the development of new, extremely propulsive, high technologies, to continuously increase profits without continuous and constantly growing volume and pace of material production itself.

TNC's complex production and distribution systems are functionally organized into units with a unique development, business, and technological strategy. Their main goal is the maximization of global profits and the long-term growth of market power. Technological decomposition of large production systems and their allocation can be done through transnationalization and without losing control over individual production segments. This



is made possible by a high level of information and communication connections of subordinated production segments with the central management structure, which monopolizes technological potential, R&D, financial resources, and the entire chain of sophisticated marketing activities.

Through the unfolding process of restructuring the world economy, the opposition between the entities that make it up and their development concepts grew stronger. Within that contradiction and conflict, the establishment of new structural, technological and functional foundations of the world economy as a whole took place, and is still ongoing.

The national state, as the primary historical bearer of the concept of integral development in its territorial area, is no longer the dominant development entity. The logic of the functioning and development of the state's economy is integral at the territorial, spatial level. This is manifested by the actions of state and parastatal institutions, as well as business entities to the extent that their behavior expresses the needs and interests of the entire material and non-material production, in the broadest sense, of a certain economy, and not just their business, commercial interest. Another type of subjects of the modern world economy, TNCs, with their logic of functional development cut across the economic space of states and connect and integrate their segments into their system. They thus carry out the deterritorialization of production systems and processes and organizational structures of the modern firm (Trputec, Stojanović, 1979). James (2001) considers that „the nation-state, the decisive driving force of the past two centuries, is dissolving under the pressure of a cross-national integration, which has developed with a dynamic and a momentum of its own.“

The economies of the states strove, within the framework of integral and endogenous development, towards the tightest possible integration of the stages of the reproduction cycle in their economic and territorial areas and their most complete articulation and intensive interaction. International economic relations

were based on the articulation of economies through the creation of a world market, i.e. the connection through trade of differentiated world markets of product groups.

In their activities, TNCs strive to eliminate territorial restrictions and, on a global level, establish functional connections in the world economy as a whole. TNCs are, therefore, carriers of a functional type of development that is in direct confrontation with the integrity of development within the economic space of a country. Within the framework of the integral concept, integration and connection that takes place at the territorial level, on a geographically defined territory, are essential. In contrast, according to the functional concept, integration takes place at functional intersections. Parts of national economies, individual production entities or distribution units are connected with similar parts of other economies. In this way, territorially disintegrated and dispersed, but functional and organizational unified production and distribution units are formed. TNCs must internalize more and more costs into their operating costs. That is why they try to externalize as many negative effects as possible on their own environment and unnecessary costs to the lower and weaker links of that system.

TNCs carried out the internationalization of distribution and production systems by dispersing their subordinate organizational units to the territories of different economies. The functional connection of units, which are organizationally within the TNC system, is carried out independently of the economic space of a given country. Transnational implementation in individual parts of the production chain within the national economy has a disintegrating and disarticulating effect on it. This especially applies to those economies that are not the parent economies of TNCs. Although organizationally, economically, financially, and technologically independent from their home countries, TNCs are connected to them by intense personal interest ties that result in significant positive effects for them. There is also a certain tendency to internalize international trade transactions within transnational



corporate structures, which is reflected in the absolute and relative growth of the share of intra-firm trade within the TNCs system in relation to the total volume of international trade transactions.

Traditional conceptions of international economic relations and development start primarily, even exclusively, from the economy of a given country as an integral and unique whole. The state is not only the basic unit of analysis, but also the space and goal of economic growth and development. In other words, the sum of economic relations and transactions between the economies of individual countries is the totality of international economic relations, and the sum of the results of development at the local level is global development at the level of the world economy as a whole.

It is the world economy that in the modern period controls and determines relations and processes at all levels of economic activity, not the macroeconomic level of some particular economy. This modifies the very observation and understanding of international economic relations. The focus is shifted from the balance of payments monitoring of transactions between different economies, to transactions within branches and production entities, with the determination of the bearers of those transactions. Such an approach also requires a new methodological instrument that will start from relativizing the existence of states and borders and focus attention on the very transactions of economic agents on a global scale, observing the world economy itself as the basic unit of analysis, and TNCs and state economies as relatively autonomous subsystems within that and of such a globalized system (Stanojević, Kotlica, 2018).

TNCs have become a specific advantage factor in the world economy and on the world market. With their organizational structure, they enable the dispersion of the locations of their branches anywhere on the globe where it is desirable from the point of view of certain criteria (profit, market proximity, cheap natural resources, low labor wages, penetration of new markets, etc.). In global competitiveness,

which is no longer a simple sum of individual competitive advantages, the economic scale of success of an economic entity, regardless of internal trade orientation, is related to production and sales on the global market.

If the old corporate structure managed multipronged, multinational activities that were a simple sum of separate entities, the new technological infrastructure enabled more efficient communication, organization, and management of gigantic, complex, and rapidly changing corporate structures in which the global result is a synergistic combination of individual optimums. TNCs have been moving in this direction since the seventies of the twentieth century. Technological development is itself a part of the global economy. It receives special impulses from the emergence of the transnationalization of production, GVCs and the changing character of international trade transactions.

The global competition of the economies of individual countries is being replaced by the globalization of competition between TNCs, and the specific structure and dynamics resulting from it intensively and significantly determine the character of relations in the world economy, especially international trade transactions and relations (Kotlica, 2002).

Information and communication technologies (ICT), as the most propulsive within the new TEP, are best used by TNCs. They represent one of the most powerful instruments for achieving influence and creating specific forms of dependence in the modern world economy. TNCs dominate the global market of information technologies, eliminating all alternative development directions and opportunities that are dysfunctional from the point of view of their interests in the field of ICT. The information systems of individual countries are disintegrating, especially the systems of public information services that are tied to and become dependent on TNCs. The internationalization of production and distribution systems within TNCs places significant and major obligations on their management structures in terms of achieving communication integrity. The technological possibilities for this have existed for a relatively long time.

The market dependence of the production units within the TNCs does not allow them to become independent and eventually integrate fully into the economic structure of the given country. This prevents significant benefits and independent development for underdeveloped countries where TNCs units are located.

Ohmae (1996), like Hammarlund (2005), believed that the nation state has come to an end and that the time is coming for the development of regional economies and states as natural business units of the global information economy and society, while Bobbitt (2008; 2013) indicates that the transition from late nineteenth- and twentieth-century industrial nation-state to twenty-first-century informational market state is underway. Fursov (Fursov, 2015; 2016) believes that for Pax Globalica it is more correct to speak of market statehood, and the concrete historical form that is appropriate for the global market and market statehood is called the corporation-state.

At the turn of the century, new forms of reintegration appeared at the level of national economic areas. Entities are emerging that have a territorial component as well as national economies, but with much more quantitatively and qualitatively richer functional dimensions than them. Condensation of all segments and stages of the reproduction cycle of a certain product in a narrower territory with the shortening of GVCs, which is one of the tendencies observed within TNCs in the recent phase, could lead in future development to the creation of complete production agglomerations of a certain type in each territorial area that is not related exclusively to the territory of one state. By concentrating the production potential on narrower geographical areas (which do not have to be within one national economy), the elements of two opposing development concepts are connected in a new way and a new form of connection of functional homogeneity and territorial integrity is achieved. This trend speaks about the possible direction of the development of relationships in the world economy. A specific combination of elements of the

logic of functional connection and a new type of integral development can be the basis of a new model of that system and a different long-term strategy of its development.

Rodrik (2022) believes that the solution to the economic and social problems of the USA and beyond is the concept of *productivism* „... which emphasizes the dissemination of productive economic opportunities throughout all regions and all segments of the labor force... It puts less faith in markets, is suspicious of large corporations, and emphasizes production and investment over finance, and revitalizing local communities over globalization. Productivism also departs from the Keynesian welfare state by focusing less on redistribution, social transfers, and macroeconomic management and more on supply-side measures to create good jobs for everyone.“

#### **4. THE CRISIS OF RESTRUCTURING OF THE WORLD ECONOMY AND DEGLOBALIZATION**

The dominant model of relations, functioning and development of the world economy began to show crisis disturbances of a cumulative nature in the 1970s. With its dimensions, comprehensiveness, duration, and intensification up to the third decade of the twentieth century, it shows that it is not a usual cyclical and conjunctural crisis, but a crisis that, to a considerable extent, has a secular and structural character. Like the Great Economic Crisis (Great Depression) and the crises during the past period, and especially the World Financial Crisis of 2008, are crises of restructuring. According to some authors, it is possible to explain as much as half of the current global trade slowdown by structural factors such as: changes in the pace of income convergence across countries and the associate impact on trade patterns and growth; changes in the composition of world income, such as the relative importance of investment and consumption; changes in the composition of world trade; changes in the trade regime, including the rise of protectionism; changes in the pattern of vertical specialisation – GVCs (Constantinescu, Mattoo, Ruta, 2015).

The crisis of the restructuring of the world economy, which began in the 1970s and which, with different characteristics and intensity, continues until the modern period, had three phases.

In the first period, the emphasis was on correcting and improving the performance of the existing economic and social system. It is an attempt to maintain and continue to function in a modified form the existing mode of growth through a feedback loop. The system changes spontaneously and chaotically, not in an organized and systematic way. Negative effects are externalized both to subordinate structures in one's own economic and social stratification, and to subordinate parts on a global scale. The key concept of that period of development of the global economy, as well as the next phase, is off-shore business.

In the second phase, restructuring in developed countries took on the characteristics of an organized process and a transition to a new mode of growth. The externalization of negative effects on the environment continued. But it also strengthens the internalization of the positive effects created at the expense of the environment and a clearer understanding of the processes taking place. That process was accompanied by large and constant internal structural transformations of an institutional, economic, organizational, and technological nature, which were not enough to avoid new challenges and crises.

In the third phase after the World Financial Crisis, the tendencies of deglobalization and the closing of national markets with protectionist measures, especially by the key actors of global development, are strengthening. An attempt is made to give the latest phase the character of a logical phase of the development of a system that has been dominant at the global level for about two hundred years, ignoring the obvious changes that occurred in the world economy and society at the beginning of the 21st century and the change of key players in the global economy, especially the role of China in that process. The phrase and concept Great Reset is often used to explain the

changes in the world after the COVID-19 pandemic based on the book Schwab and Malleret (2020) although the term Great Reset was used ten years earlier (Florida, 2010) in the context of paradigm-shifting systemic innovation after the World Financial Crisis of 2008 as the last, according to the author, in the series of Great Resets including the Long Depression of the 1870s and the Great Depression of the 1930s. The World Economic Forum itself used the term Great Reset well before the COVID-19 pandemic and intensively promotes it at a series of meetings until the latest material on the four scenarios of the future of globalization (WEF, 2022). Statements such as: „What we want to do in Davos this year... is to push the reset button“ (WEF, 2014); „We need to press restart on the global economy“ (WEF, 2015) serve to prove that the only realistic development alternative is the reset of the existing system and relations. For example, Hamada (2018) believes that the arguments in favor of globalization, free trade and a certain openness to migration are quite strong; that globalization increases the total wealth of all countries participating in it; and that an effective income redistribution policy and a developed and strong social protection system are sufficient to neutralize its negative aspects.

Belief in the practical value of the concept of free market economy and entrepreneurship, perfect competition, and passive behavior of economic agents (*laissez-faire*), which fully behave in accordance with the implicit economic laws arranged by the all-powerful invisible hand (A. Smith) of the market and cannot influence your environment, is over. There are numerous articles that demonstrate the essentially interventionist nature of the modern state and economy. It is symbolic, in this sense, that after more than half a century since the appearance of Keynes's essay (1926) on the end of the economy of free competition, Kuttner's text (1990) appeared with the same title, which talks about the other end of the economy of perfect competition, but also the end of the period of extensive growth of the world economy.



The key terms used in connection with this phase of the restructuring of the world economy are deglobalization (Bello, 2013; James, 2018; van Bergeijk, 2019), decoupling (Eppinger at alt., 2021) reshoring (Miroudot, 2020), friend-shoring (Rajan, 2022) and resilience (Mishra, Spilimbergo, 2022).

Although different authors qualify the contemporary changes taking place in the world economy differently, there is no doubt that deglobalization has been ongoing for more than a decade. Data on trade transactions, labor movements, capital flows and the volume and type of financial transactions, foreign direct investments... unequivocally indicate this. Any methodology and criteria used to measure the globalization of the world and countries indicate the tight closure of national economies and an increasing number of measures of a protectionist nature. Globalization that did not take into account the characteristics and specificities of the countries involved and the concept of a single, uniform system for everyone, which led to the problems and crises that occurred, no longer has a centrifugal, attractive power, nor is it a realistic basis for the development of the future, transformed world economic system.

Contemporary economic research indicates that the process of deglobalization can be best highlighted by watching at least three main economic flows, such as: dynamics of imports and exports of goods and services at a global or regional level, as an expression of international commerce; dynamics of expats' money remittance; inflows and outflows brought by foreign direct and portfolio investments.

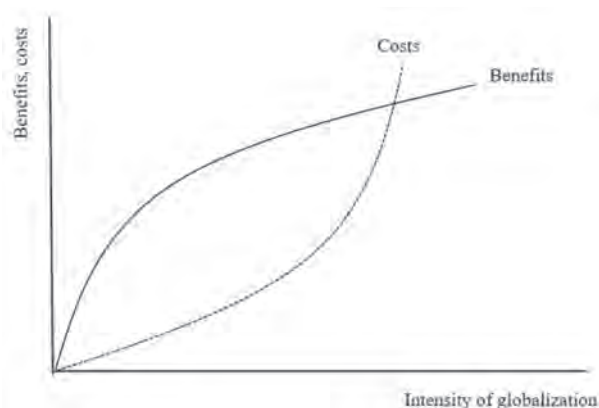
Bello (2005; 2013), who was among the first authors to use the term deglobalization, believes that deglobalization does not mean withdrawing from the international economy, but that it is necessary to include additional principles such as: 1. production for the domestic market rather than production for export; 2. the principle of subsidiarity should be enshrined in economic life by encouraging production of goods at the level of the community and at the national level; 3. trade policy

— that is, quotas and tariffs — should be used to protect the local economy from destruction by corporate-subsidized commodities with artificially low prices; 4. industrial policy — including subsidies, tariffs, and trade — should be used to revitalize and strengthen the manufacturing sector; 5. long-postponed measures of equitable income redistribution and land redistribution; 6. de-emphasizing growth, emphasizing the upgrading of the quality of life, and maximizing equity will reduce environmental disequilibrium; 7. the power and transportation systems must be transformed into decentralized systems based on renewable resources; 8. a healthy balance must be maintained between the country's carrying capacity and the size of its population; 9. environmentally congenial technology; 10. a gender lens to ensure gender equity; 11. strategic economic decisions must not be left to the market or to technocrats...the demystification of economics and a return to its origins as political economy and moral economy. 12. civil society must constantly monitor and supervise the private sector and the state, a process that should be institutionalized; 13. the property complex should be transformed into a 'mixed economy'; 14. Centralized global institutions should be replaced with regional institutions built not on free trade and capital mobility but on principles of cooperation that... 'transcend the logic of capitalism.'

van Bergeijk (2018) uses the change in the ratio of imports to gross product as a measure of (de)globalization, so that a decrease in that ratio indicates the existence of deglobalization. By analyzing the example of 22 countries, he found that the key difference between the two analyzed periods is in force deglobalization processes and the role of the political system: „...in the first 3 years of the Great Depression of the 1930s, the import to GDP ratio decreases in this sample of 22 countries on average by 17%, while this decline is 31% on average in the 2000s...The political system is highly significant in both 1930s and 2000s, but the impact is opposite. In the 1930s, autocratic rule and dictatorship are associated



with stronger deglobalisation; in the 2000s, democracy is associated with stronger deglobalisation.” van Bergeijk (2019) deintegration tendencies in the world economy 1930s named Deglobalization 1.0 and the 2000s named Deglobalization 2.0. „The basic argument is that phases of strong globalization carry the seeds of their destruction, that is: such phases generate the forces that ultimately set limits and force a retreat of internationalization.“ This author points out that (de)globalization implies benefits but also costs, and that at some point further globalization becomes a loss-making activity (Figure 3).



**Figure 3. Intensity of globalization, benefits and costs**

Source: van Bergeijk, 2019

What happens in the period after the 1970s in the world economy, had and will have an intense and long-term impact on the nature of relations between its subjects. The changes taking place are profound in their character and meaning, and global and long-term in their implications.

Contemporary crisis disturbances in different parts of the world, but also at the global level, occurred after thirty years of exceptional economic prosperity. The restructuring crisis has become a continuous process, but it has also taken specific forms in the territorial, organizational, functional, and sectoral areas. The restructuring crisis encompassed all parts of the world economy at the same time, but above all the most intensively developed countries. This makes it different in comparison to earlier crises, which, as a rule, involved only one part of the world economy. The way out of

such situations was easier and the dimensions milder compared to modern crises, which are manifested in long-term tendencies to reduce the rate of productivity growth and the decrease in the profit rate of companies. Relations at the global level became more complicated due to the changes taking place in the countries that belonged to the so-called group of countries. real socialism. The period of socialist development of a certain type has come to an end, which included, first of all, societies that once belonged to the Asian way of production and introduced significant changes in the understanding of world history in the past hundred years or so. That model failed to be fully realized as a social alternative and perspective, which would transcend modern global development beyond the framework of a mature industrial society. Changes in that part of the world economy open up the possibility of using the potential of those countries for successful inclusion in the currents of modern technical-technological, economic. and social development and affirming their development resources, including the possibility of some of those countries being incorporated into the central structure of the world economic system.

The international economic order, which was established after the Second World War, was initiated, and structured under the great influence of the USA as the global hegemon, which wanted to maintain its role as a director of the growth of the world economy, but also of global political, social, and cultural relations. In the institutional structure of the world economy, the mechanisms used to achieve this are the system of fixed exchange rates to reduce currency fluctuations, the International Monetary Fund (IMF) – to ensure the liquidity of countries, the World Bank (WB) – to ensure and finance development, and the GATT, i.e. the WTO – for defining and implementing harmonized principles and rules of the international trade system.

The restructuring crisis called into question the possibility of the existence of a monocentric model of the central structure of the world economy, showing the flaws of that concept.

That model was once effective and possible. This especially refers to the time of the industrial revolution and the domination of Great Britain in the time and conditions of the formation of the colonial empire and the establishment of strict vertical integration among the member states at all levels. The supremacy of the USA on a global scale and the disappearance of the USSR as a global competitor made the leadership of the USA almost absolute. The development of China in the past thirty years has changed that situation drastically, so that in the latest phase of the restructuring crisis, one of its essential elements is the tendency to change the global hegemon. Stiglitz (2022) believes that „...America does not want to be dethroned. But it is simply inevitable that China will outstrip the US economically, regardless of what official indicator one uses. Not only is its population four times larger than America's; its economy also has been growing three times faster for many years (indeed, it already surpassed the US in purchasing-power-parity terms back in 2015).“ Also, he claims that „neoliberalism and trickle-down economics were never widely embraced in the Global South, and now they are going out of fashion everywhere.“

Changes in the world economy are also reflected in the geographical shift of the central structure from the Mediterranean across the Atlantic to the Pacific, on the periphery of which the most significant development potentials and subjects of the modern world economy were concentrated during the 1990s. “The Mediterranean is the ocean of the past, the Atlantic the ocean of the present, the Pacific the ocean of the future“ (John Hay, according to Naisbitt, 1982).

Traditional economic theory in explaining international economic relations still considers that trade in goods and services determines the international movement of capital and exchange rates for foreign currencies. However, since the first half of the 1970s, capital flows and exchange rates for foreign currencies have moved almost completely independently of international trade, and to a considerable extent

completely opposite to it. The movement of capital, therefore, without a significant connection with trade and to a large extent independent of it, in economic transactions in the modern world economy far exceeds the volume of international trade exchange. The success of the economy itself and investment activity is measured less by the quantity and quality of consumer goods, products, and services, and more by the number of new jobs created. „Investments by Japanese multinationals, especially in manufacturing, created 856,000 jobs in the US in 2015, accounting for \$72.2 billion in total compensation to US workers – second only to the United Kingdom, which created 1.1 million jobs in the US, with \$84.9 billion in total compensation“ (Hamada, 2018). The authors Dorn and Hanson (2013) do not deal with economic argumentation and the reasons for the competition of imported products and services from China, but only with the effects on the local labor market. As if the main goal of economic activity is the creation of new jobs, and not the production of consumer goods with the aim of satisfying people's needs. Creating new institutions and piling up and complicating regulations and rules is essentially a way to challenge or completely negate the results of technological progress.

Changes in the world economy associated with the World Financial Crisis, and the pandemic, then intensified by the conflict in Ukraine, caused shortages of intermediate inputs traded along GVCs. The world economy has been shocked by the stagnation of GDP trade growth, the abandonment or shortening of GVCs, as well as the strong political backlash against globalization, which culminated with Brexit and the Trump US-China trade war (Antràs 2020). The result was that in the countries that were once leaders in the world economic system during the previous development period, tendencies for reshoring and increasing the resilience of supply chains are strengthening. „We simulate a world without GVCs by setting the cost of international trade in intermediate goods to a prohibitive level.

We find welfare losses in all countries, ranging from -68% in Luxembourg to -3.3% in the US... The largest welfare losses accrue to small, highly integrated economies (including Malta, Ireland, and Estonia), while the losses are smallest for large economies that can revert more easily to their own intermediate inputs after decoupling (such as the US, China, and Brazil)" (Sheng, Geng, 2022).

## 5. CONCLUSION

Globalization, with very different meanings, is used relatively briefly in social and economic literature, significantly shorter than it exists in real economic and social life as a significant development force. The tendency of internationalization of finance, production, and R&D at all levels of the hierarchical structure of the world economy initiates the transformation of previously different economic areas into a single economic area in which the parameters and standards established at the level of the world economy as a whole become the dominant criteria. That is why the national economy as a unit of economic analysis, and even more so as the basic area of development, has become an inadequate analytical framework for modern development processes. Modern globalization takes place and intensifies as a consequence of the interaction of technological and economic development and the growth of all forms of foreign trade and economic activity. The dominant model of relations, functioning and development of the world economy began to show crisis disturbances of a cumulative nature in the 1970s, which by their dimensions, comprehensiveness, duration and intensification until the third decade of the twentieth century show that it is not a usual cyclical crisis, but a long-term crisis which, in to a considerable extent, it has a structural character.

Some economic historians believe that the development of globalization, but also deglobalization, tendencies in the world economy, especially when it comes to long-distance trade in high-value goods, can be observed in different periods of human history, but the characteristics of two globalization waves

are discussed in detail in the economic literature: the first in the period at the end of the 19th century until World War I and the Great Economic Crisis in 1929 and the second, after World War II until the World Financial Crisis in 2008, as well as two major deglobalization waves initiated by the Great Depression and the Great Recession.

Although there are significant similarities in the structure and sequences of each long wave of development, there are also important differences. While in the Great Depression (1929) the technological and financial bubbles burst at the same time, in the most recent phase it happened in two separate processes (2000 and 2008). Furthermore, the influence of the political system in the 1930s and 2000s is completely opposite. While in the 1930s, autocratic rule and dictatorship are associated with stronger deglobalization; in the 2000s, democracy is the one that is associated with stronger deglobalization.

During the second wave of globalization, the conflict between the concepts of development of the national economy, as carriers of the concept of integral development in its territorial area, and TNCs, as carriers of functional development at the global level, culminated. A specific combination of elements of the logic of functional connection and a new type of integral development can be the basis of a new model of that system and a different long-term strategy of its development, especially after the problems in the global economy caused by the World Financial Crisis of 2008, the COVID-19 pandemic, and the consequences of the conflict between Russia and Ukraine. Some authors believe that the evolution goes in the direction of the development of regional economies and states (Ohmae, 1996; Hammarlund, 2005), informational market state (Bobbitt, 2008; 2013) and corporation-state (Fursov, 2015; 2016).

In the latest phase of globalization, after the WFC of 2008, the tendencies of deglobalization and the closing of national markets with protectionist measures are strengthening, especially by the key actors of global development (Brexit; America first). There is



an unsuccessful attempt to give the most recent phase the character of a logical phase of the development of the system (Great Reset) which has been dominant on a global level for about two hundred years, ignoring the obvious changes that have occurred in the world economy and society at the beginning of the 21st century and the change of the key actors of the global economy. Attempts are being made to explain theoretically (within the new social and techno-economic paradigm, the basic contours of which are clearly outlined) and practically to do everything possible for

the developed industrial countries to restabilize and strengthen their global functional and structural dominance, although it is obvious that a restructuring process is taking place at the global level and the redistribution of economic and social power, in which the BRICS economies, and especially the Chinese economy, play an increasingly important role. The potential re-globalization (Benedikter, Gruber, Kofler, 2022) will have different characteristics compared to the previous globalization that was stopped in 2008 and other key actors and hegemonies.

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## EKONOMSKA GLOBALIZACIJA U ISTORIJSKOM KONTEKSTU I DEGLOBALIZACIJA

**Sažetak:** U radu se analiziraju ključni aspekti i trendovi ekonomske globalizacije u istorijskom kontekstu i deglobalizacije. Fokus je na aktuelnom procesu opadanja integracije međunarodnog tržišta, koji traje od Svetske finansijske krize 2008. Kako je ovaj proces u savremenom dobu izazvan radikalnim promenama u njegovoj strukturi, on je dugoročan, nije ciklične prirode. U radu se razmatraju uzroci restrukturiranja i refragmentacije savremene svetske privrede. Kao ključni uzrok identifikuje se jačanje suprotnosti između subjekata svetske privrede i njihovih koncepata razvoja, odnosno privrede u državnim granicama, kao nosilaca koncepta integralnog razvoja, i transnacionalnih kompanija kao nosilaca funkcionalnog razvoja bez granice nacionalnih država. Kriza restrukturiranja svetske ekonomije dodatno je intenzivirana i produbljena pandemijom COVID-19 i sukobom u Ukrajini. Iako je uspostavljena nova društvena i tehno-ekonomska paradigma sa ciljem da razvijene industrijske države osnaže i restabilizuju svoju globalnu funkcionalnu i strukturnu dominaciju, proces preraspodele ekonomske i društvene moći, u kome ekonomije BRIKS-a imaju sve značajniju ulogu, nastavlja nesmanjeno.

**Ključne reči:** globalizacija, međunarodna trgovina i proizvodnja, deglobalizacija, restrukturiranje, razvoj

UDC: 005.334:004]:624(497.11)

004.056.5:339.5

COBISS.SR-ID 134041097

doi: <https://doi.org/10.61837/mbuir010223057k>

ORIGINAL SCIENTIFIC PAPER

RECEIVED: 10. 02. 2023.

ACCEPTED: 20. 04. 2023.

# MULTI-CRITERIA ANALYSIS OF ICT IMPLEMENTATION IN INVESTMENT PROJECTS: CASE STUDY OF CONSTRUCTION COMPANIES IN THE REPUBLIC OF SERBIA

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**Abstract:** Analyzing the applicability of information and communication technologies (ICT) in investment projects and the risk management context, the paper presents the concept of modelling the situation of multiple criteria and multi-objective decision-making. A brief overview and interpretation of multi-criteria decision-making are given in basic business processes construction, where the ICT application is the most necessary. The significant criteria and alternatives are defined, and the simplest model of transformation of qualitative into quantitative attributes is given. With the introduction of ICT, business processes are not complete, but through their application, existing situations are constantly reviewed and analyzed. The application of multi-criteria analysis methods is one of the most useful mathematical methods for decision support so that complexity is reduced to a series of comparisons of criteria and alternatives and the synthesis of the final result. The research in this paper identifies the factors of ICT implementation in the management of construction projects to create models that can improve project performance and successfully manage business processes. This paper aims to point out that modern ICTs provide great opportunities and that a proactive approach and preventive action are more efficient and much cheaper than later repairing the damage from the effects of risk. After identifying the key attributes, the concluding remarks made recommendations for overcoming them and establishing a set of measures for the general application of ICT to improve business facilities and monitor global trends in this sector.

**Keywords:** information technologies; risk management; investment projects; multi-criteria analysis

**JEL classification:** L38, M14, O22, P43

## 1. INTRODUCTION

Numerous business entities and organizations have long recognized the need for ICT implementation in their business to ensure safer, better working conditions and increase business success.

There are two possible ways of including ICT: the project cycle automation of activities and integration linking. Automation involves using hardware and software tools/means to manage data or production. Integrative connection involves forwarding data in the process of production or communication. It is significant due



to sharing information between participants in the organizational system of the project and the particular parts of it (Bauk, 2010).

The research has been done in cooperation with the Association of Small and Medium Enterprises and Entrepreneurs of Serbia to determine the degree of application of information technologies in the construction sector in Serbia. The impact of the use of information technology on the success of the project is essential. The project is successful if the usage permit is within the stipulated period, the costs are less than or equal to the planned ones, and the project is finished earlier or within the agreed period.

The fundamental research question and starting hypothesis start from the fact that there is a significant correlation between mitigating established and accepted risks in investment projects by introducing a modern model of information technologies in the management of business processes throughout the life cycle of the project. Accordingly, the research has based on the following particular hypotheses:

- H1. The level of ICT application through business processes has a positive effect on the overall success of the project, and
- H2. Risk impacts and consequences can be reduced by the appropriate risk management model and timely recognition them what makes the difference between successful and unsuccessful projects.

For project management modelling in construction, the system should understood as an organized entirety; it is a set or combination of parts or elements that make up a complex or unique whole, which is much more than a simple set of parts. Parts of the system modelled project management can be participants or phases of work and individual sub-projects (Ivkovic & Popović, 2005). The ICT implementation in projects, such as software tools and mathematical methods, has proven to be extremely useful for many business systems and companies.

The application of ICT presupposes a project manager in charge of process management, who knows techniques and areas through all phases of the project's life cycle, and who

organizes and implements project risk management. In this context, it is necessary to know (Nidziy, 2021):

- Methodology-defined methods, tools and sources of data are used in project risk management;
- Roles and responsibilities, defined by leader and membership in the risk management team and connects people to roles and determines their responsibilities;
- Cost and time planning, which describes the planned costs and the time spent for implementing risk management;
- Risk categorization defines the basic categories of risks on the project. A pre-prepared categorization of individual risks can be used here, such as the structural decomposition of risks (work breakdown structure, WBS);
- Definitions of risk probability and impact (determined by adapted generally accepted definitions of degree of probability and risk impact used in the process of qualitative risk analysis; relative scale used to determine the probability or project status descriptions);
- Matrix of probability and impact, which determines the priority of risks concerning their potential consequences in achieving project goals;
- The report on risk management is defined by the format, content and way of reporting throughout the project.

All of these are made the project management base. With these techniques, the manager develops analytical thinking and successfully deals with future project management challenges.

The study has been based on ranking factors using the Analytic Hierarchy Process (AHP) method. AHP belongs to the class of methods for soft optimization. It is a specific tool for the formation and analysis of decision-making hierarchies (Tahir & Malek, 2016). The aim of this paper will enable decision-makers to give priority to those necessary to start the process of implementing ICT in investment construction projects.

## 2. LITERATURE REVIEW

Managing an investment construction project is a complex task where the most human and material resources are required for realizing the such project. So, for the project, it is essential to prepare an initial program, including the documentation, in cooperation with the investor and construction contractors. After that, sufficient data is available to prepare basic costs of the project, which are compared with previous estimates and present the basis for continuous control and supervision of project costs. For quality inspection of the completed project, a significant factor is the systematic control of the technical documentation and monitoring of possible changes, into cooperation of the investor and contractor, the advice on the procurement of equipment and materials, and the supervision and handover of facilities.

Individual parts of the system, which have the same features, can often be grouped into one unit - a subsystem. The subsystems have been considered through the vertical and horizontal connections or higher and lower levels. This approach is hierarchical - considering subsystems and their interaction from the highest to the lowest level and then studying the structure and connections between elements within individual subsystems. A typical example is a project that includes buildings with the same functionality.

Facility management and construction control require the development of a control subsystem for each element within the framework of the unique project implementation system (Burcar et al., 2007). Because of that, it is necessary to observe the connections between the participants at each object, assigning duties and costs in the determined period. For example, it is common in construction practice to collect unit prices of materials and devices and store them in a media space. These data become the information when they are applied to calculate the selling price of doing work and make the decision concerning the offer.

The task of project management is to provide continuous mechanisms for collecting data needed to filter, analyze and compare themselves (Vuletić, 2014). In the framework of information distribution, it is necessary to define the scope, format and frequency of receiving reports for each user, establish a system of privileges and implement a whole series of other actions to ensure the security and way of using the obtained information. The information distribution must be timely because good information received at the wrong time can lose value.

In the reports of the European Commission (The European Commission, 2006) on the use of e-data and e-business in EU construction companies, three significant segments of IT application are (1) e-procurement, (2) web project web page and (3) "3D". Also, the carriers of ICT development are big construction companies because they have financial resources and human and ICT potential, such as the public sector - the famous customer of construction services and the driver of development policy.

Numerous authors from the region, in their research on the state of ICT technologies in construction, mainly present the following conclusions (Ivković & Popović, 2005):

- Management construction structures are conscious of the need to acquire knowledge and skills in information and other modern management areas (such as the application of PMI methodology). However, most of them do not have enough knowledge for the effective use of ICT and need additional education;
- Existing divided and disconnected ICT systems do not meet the needs of modern business (mostly, construction sites do not directly connect to company management, nor are they informationally in connection with contractors, or with their suppliers... or banks), ready-made software solutions are bought, and to a lesser extent, company employees make applications (Ivković et al., 2006);
- There is an awareness of the need to re-engineer business processes, but most

project managers or management do not have enough knowledge to carry it out (Maksimović & Stamatović, 2018);

- There is a lack of strategic development plans, and for these reasons, investments in IT are spontaneous, without a clear strategic goal (mostly only hardware equipment is purchased);
- The weak interest of companies in introducing international quality management standards and integrated management systems.

Construction projects have specific aims and constraints, such as the required time frame for project completion. Systems in construction are the most open type, which means that they do not only have a one-way reaction but adapt to external influences. The mutual impact of the system and the environment is carried out in the real-time and dynamic project management (The European Commission, 2008).

The development of project management software and the everyday use of computers and user devices simplify the mentioned business processes so that project team members can focus on thinking about project tasks, making plans and strategies, and assessing risks. (Milošević et al., 2022)

The research was conducted during July 2022 in cooperation with the Association of Small and Medium Enterprises and Entrepreneurs of Serbia. Companies that are members of the association in the area of Belgrade, central and western Serbia were surveyed.

The objectives of the survey, as a quantitative component of the conducted research, are: first - obtaining information about the most frequent and most influential risk events in the implementation of investment projects, and second - examining the real impact of the use of information communication technology (ICT) throughout the life cycle of the project on the success of the project.

## 2.1. AHP METHOD

In the paper, used mathematical method of the Analytic Hierarchy Process (AHP) enabled solving complex decision problems. The field of method application is a multi-criteria analysis where, based on a predefined set of factors and the value of the attributes for each alternative, a selection of the most acceptable solution can be made, intending to present the final order of all according to their importance (Saaty, The Analytic Hierarchy Process, 1980). Methodologically, the AHP method is a multi-criteria technique based on solving the complex problem so that the goal is at the top of the hierarchy while the criteria, sub-criteria, and alternatives are at lower levels (Milošević et al., 2022). The AHP method allows the interactive creation of problems as preparation for decision-making scenarios and then evaluation in pairs of the alternatives of the hierarchy. According to the determined model, the corresponding weight coefficients of all factors are calculated, whereby the sum of the weight coefficients of the elements at each level of the hierarchy is equal to one (1). This condition allows the decision maker to rank all alternatives in the horizontal and vertical sense. AHP provides qualitative measures of priority preferences of one opinion over another rather than asking individuals to enable an estimation of outcomes for all criteria.

The entire approach is based on the pairwise comparison concept to define the importance of a given number of factors (say  $n$ ) for a specific situation. A relative scale is used to compare two objectives simultaneously. AHP begins with the hierarchical decomposition of a complex multi-criteria problem where each level hierarchy consists of some factors suitable for handling and decomposed into a set alternative (Saaty, 2008). The second step is to use a measurement methodology to determine priorities, among others elements within each level of the hierarchy. The third step is to use AHP, to synthesize priority of elements, for determining general priorities for decision-making alternatives



In this paper, alternatives have been evaluated by experts in the field of investment project and IT engineering. The research was conducted using a combined methodology, collecting data from secondary sources in the theoretical framework of risk management, and at the same time data was collected through targeted analysis.

A pairwise comparison matrix provides information on the dominance of each alternative over every other alternative. In order to rank an alternative with respect to a criterion, we must first perform a measure, priority criteria, per unit of dominance of alternative through interviews and quantitative methods through questionnaires. In the phase of analysis and in the phase of interpretation of the results, the data collected in both ways are integrated.

Any comparison of the two elements of the hierarchy is done using the Saaty's scale (Saaty, 2008):

$$S = \left\{ \frac{1}{9}, \frac{1}{8}, \frac{1}{7}, \frac{1}{6}, \frac{1}{5}, \frac{1}{4}, \frac{1}{3}, \frac{1}{2}, 1, 2, 3, 4, 5, 6, 7, 8, 9 \right\} \quad (1)$$

The priority which one alternative has over another is expressed by descriptive values.

Based on the comparison in pairs of hierarchy elements, the appropriate matrix of criteria comparison is formed. The AHP method allows monitoring the consistency of the estimates at any time in the process of comparing the pairs of alternatives by using the indexes:

$$CI = \frac{\lambda_{\max} - n}{n - 1}, \quad CR = \frac{CI}{RI} \quad (2)$$

where: CI is the index of consistency, CR is the ratio of the consistency, RI is a random index (consistency index of the matrix), n is the dimension of comparison matrix,  $\lambda_{\max}$  is the maximum eigenvalue of a matrix. If the comparison matrix applies to the  $CR < 0.10$  alternatives priorities are counted as acceptable [12,13,14].

Once the estimates for each part of the model are entered, the information is synthesized to show the overall picture preference. This synthesis provides a report that ranks the alternatives against the overall objective.

Table 1: Values of a random index RI

n	1	2	3	4	5	6	7	8	9
RI	0.00	0.00	0.58	0.90	1.12	1.24	1.32	1.41	1.45

### 3. RESULTS AND DISCUSSION

The project takes place in the future concerning its planning, with certain uncertainties and risks. These risks have to be managed to eliminate or mitigate their impact. Finding preventive measures for risk management is necessary because projects take place in an environment that is constantly changing, so mechanisms for adapting to changes should be determined so that they do not harm the achievement of the project's goals. The risk factors of ICT application in the construction industry mainly mentioned are (Uzelac, 2002): maintenance costs; the unreliability of methods and techniques for measuring potential benefits; issues related to data security; there is no guarantee for the return of invested capital. Most of the considerations are referred to the number of costs (upgrading the existing ICT system, procurement and maintenance of software, learning).

Besides costs, another significant issue is - security - protection against data loss and software viruses, so state policies related to ICT and availability of resources. The application of ICT in construction projects synergistically connects modeling, project management and defining the risk management process through the stages of the project life cycle, planning methods and techniques for creating term plans, multi-criteria decision-making methods and decision-making methods in conditions of uncertainty.

The authors of this research focused on ranking five main criteria for ICT implementation in investment construction projects, shown in Figure 1.

The interactive creation of a hierarchy of problems, as a preparation for a decision scenario, was done, and then evaluation in pairs of elements of the hierarchy (objectives, criteria and alternatives) in a top-down direction. Then, the synthesis is carried out, and the



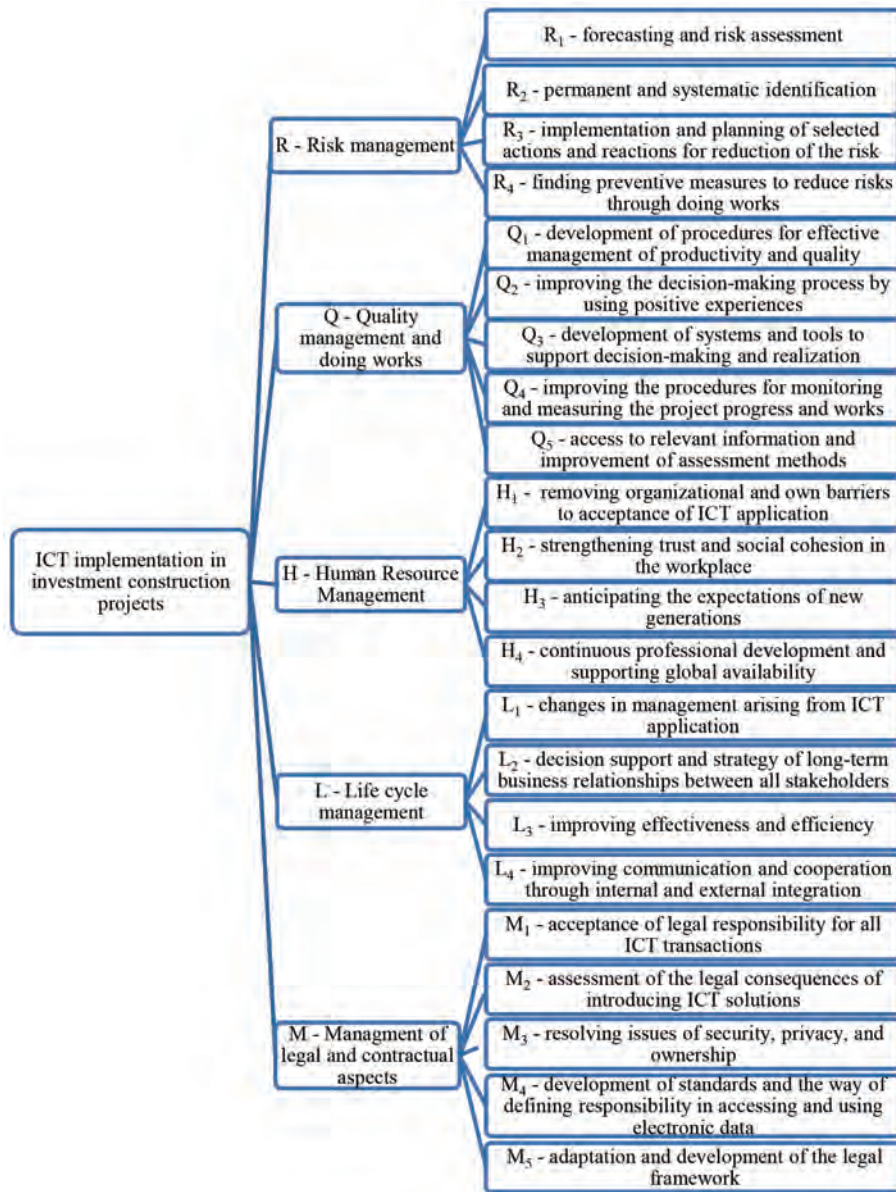


Figure 1. AHP structure

weighting coefficients of criteria  $W_C$  and alternatives  $W_A$  are calculated according to the established mathematical model. The sum of the weight coefficients of the elements is equal to 1, which allows the decision maker to rank all the elements. AHP method, step by step, compares alternatives and measures their impact on the objective and thus helps decision makers to make the right decision (Milošević, 2018). The mutual dependence of the estimates of five basic groups of factors is given in table 2, and the matrix of comparisons based on (1) and (2) is determined. It represents a comparison matrix of criteria at the first level. Since  $CI=0.00827851$ ;  $CR=0.00739152 < 0.10$  matrix

is consistent. The table contains appropriate weight coefficients  $W_C$ .

Table 2: Comparison matrix of criteria (R, Q, H, L and M) and corresponding priority vector ( $W_C$ ).

	R	H	L	Q	M	$W_C$
R	1	2	2	3	4	0.37600
H	1/2	1	1	2	3	0.21467
L	1/2	1	1	2	3	0.21467
Q	1/3	1/2	1/2	1	2	0.12089
M	1/4	1/3	1/3	1/2	1	0.07378

Table 3. presents a comparison matrix relating to an alternative of risk management and the corresponding weight coefficients ( $W_A$ ).

Since  $CI = 0.0034543$ ;  $CR = 0.00383811 < 0.10$  the matrix is consistent. Thus, finding preventive measures to reduce risks through work operations is more important than permanent and systematic identification with the relevant importance 3.

**Table 3: Comparison matrix in relation to the criteria R**

R	R <sub>1</sub>	R <sub>4</sub>	R <sub>2</sub>	R <sub>3</sub>	W <sub>A</sub>
R <sub>1</sub>	1	2	3	3	0.45541
R <sub>4</sub>	1/2	1	2	2	0.26283
R <sub>2</sub>	1/3	1/2	1	1	0.14088
R <sub>3</sub>	1/3	1/2	1	1	0.14088

Table 4. presents a comparison matrix relating to an alternative of human resource management and corresponding weight coefficients ( $W_A$ ). Thus, removing organizational and own barriers to acceptance of ICT application is more important than strengthening trust and social cohesion in the workplace with the relevant importance 2. Since  $CI = 0.0068734$ ;  $CR = 0.00763711 < 0.10$  the matrix is consistent.

**Table 4: Comparison matrix in relation to the criteria H**

H	H <sub>1</sub>	H <sub>2</sub>	H <sub>4</sub>	H <sub>3</sub>	W <sub>A</sub>
H <sub>1</sub>	1	2	2	4	0.43366
H <sub>2</sub>	1/2	1	1	3	0.23887
H <sub>4</sub>	1/2	1	1	3	0.23887
H <sub>3</sub>	1/4	1/3	1/3	1	0.08861

It follows that for the successful implementation of the project, it is necessary to provide a certain number of people with the appropriate professional profile who will be available when the project needs it. Because of the complex work, which characterizes construction projects, they are organized into smaller, more manageable units - work packages. This approach is known as the "Work Breakdown Structure" - WBS, through which the application of ICT significantly facilitates the monitoring of work tasks. In addition, construction projects are, in most cases, multidisciplinary, i.e. their realization is connected with the engagement of experts of different profiles - construction, finance, management and IT engineering, so the project manager should demonstrate skill in coordinating a variety of professional

vocations. The application of ICT in human resource management is a common name for continuous professional development, access to relevant information and knowledge during the realization of a construction project (standards, laws and regulations, models, cost estimates, products) (Hannus, 2003), development of decision support systems, use of positive experiences of others (best practice databases) etc. (Milošević, 2018).

In table 5, data present a comparison matrix relating to an alternative life cycle management. Improving effectiveness and efficiency is more important than the changes in management arising from ICT application with the relevant importance 3. Since  $CI = 0.0103278$ ;  $CR = 0.0114754 < 0.10$  the matrix of comparison is consistent.

**Table 5: Comparison matrix in relation to the criteria L**

L	L <sub>3</sub>	L <sub>4</sub>	L <sub>1</sub>	L <sub>2</sub>	W <sub>A</sub>
L <sub>3</sub>	1	2	3	4	0.46730
L <sub>4</sub>	1/2	1	2	3	0.27718
L <sub>1</sub>	1/3	1/2	1	2	0.16009
L <sub>2</sub>	1/4	1/3	1/2	1	0.09544

Comparison matrix relating to an alternative of quality management and work operations and corresponding weight coefficients are given in table 6. Since  $CI = 0.00908916$ ;  $CR = 0.00811532 < 0.10$  the comparison matrix is consistent. The essence is in preventive action, i.e. "quality assurance", that is, in establishing a working system that will provide a certain level of guarantee that all business processes take place following the planned and that there are no deviations from the requirements and that the final results will be following the expected according to the project request (Milošević et al., 2022) In this sense, "quality control" is only one way to achieve this, but by no means the only one.

The importance of ICT in quality management and performance is the following:

- improving the decision-making process for choosing the most favorable option;

- improvement of assessment methods; developing systems and tools to support project performances;
- improving the procedures for monitoring and measuring the progress of the project and the execution of the work itself;
- adoption of high standards of environmental protection, preservation of natural resources, health and safety, and worker safety;
- developing procedures for effective product management.

**Table 6. Comparison matrix in relation to the criteria Q**

Q	Q <sub>1</sub>	Q <sub>2</sub>	Q <sub>5</sub>	Q <sub>4</sub>	Q <sub>3</sub>	W <sub>A</sub>
Q <sub>1</sub>	1	1	2	3	4	0.31919
Q <sub>2</sub>	1	1	2	3	4	0.31919
Q <sub>5</sub>	1/2	1/2	1	2	3	0.18401
Q <sub>4</sub>	1/3	1/3	1/2	1	2	0.10934
Q <sub>3</sub>	1/4	1/4	1/3	1/2	1	0.06828

Comparison matrix relating to an alternative of management of legal and contractual aspects and corresponding weight coefficients are given in table 7. Since  $CI=0.00827851$ ;  $CR=0.00739152<0.10$  the comparison matrix is consistent. The essence is a good perception and understanding of the requests, needs and expectations and a realistic assessment of one's abilities to fulfil those obligations. In addition, the procurement management aspect is significant for construction projects. For the project to proceed smoothly, it acquires everything (material, equipment) on time. Software monitoring of these procedures significantly contributes to their better performances, so it is significant in the project planning phase to look at the type of activity and predict the time required for the realization of each (Dimić, Milošević & Milošević, 2018).

The management of legal and contractual aspects of the application of ICT in construction implies the assessment of the legal consequences of the introduction of ICT solutions into traditional practice, the adaptation and development of the legal framework, and the acceptance of legal responsibility for all ICT transactions, the development of standards

and the way of defining responsibility in accessing and using electronic data, resolving issues of security, privacy and ownership.

**Table 7 Comparison matrix in relation to the criteria M**

M	M <sub>4</sub>	M <sub>2</sub>	M <sub>3</sub>	M <sub>1</sub>	M <sub>5</sub>	W <sub>A</sub>
M <sub>4</sub>	1	2	2	3	4	0.37600
M <sub>2</sub>	1/2	1	1	2	3	0.21467
M <sub>3</sub>	1/2	1	1	2	3	0.21467
M <sub>1</sub>	1/3	1/2	1/2	1	2	0.12089
M <sub>5</sub>	1/4	1/3	1/3	1/2	1	0.07378

The proposed method performs the ranking 5 criteria and 22 alternatives, using all available data to find an optimal approach to drafting the investment construction project model from the viewpoint of ICT implementation. The precise implementation is realized by applying the AHP method of ranking factors with the recommended priority of importance. As in all comparison matrix  $CR<0.10$ , the condition of consistency is fulfilled, i.e. the relative importance criteria is acceptable. The results of ranking factors are shown in Table 8.

**Table 8. Ranking factors**

Factors	W <sub>C</sub>	W <sub>A</sub>	W
R <sub>1</sub>	.37600	.45541	.17123
L <sub>3</sub>	.21467	.46730	.10032
R <sub>4</sub>	.37600	.26283	.09882
H <sub>1</sub>	.21467	.43366	.09309
L <sub>4</sub>	.21467	.27718	.05950
R <sub>2</sub>	.37600	.14088	.05297
R <sub>3</sub>	.37600	.14088	.05297
H <sub>2</sub>	.21467	.23887	.05128
H <sub>4</sub>	.21467	.23887	.05128
Q <sub>1</sub>	.12089	.31919	.03859
Q <sub>2</sub>	.12089	.31919	.03859
L <sub>1</sub>	.21467	.16009	.03437
M <sub>4</sub>	.07378	.37600	.02774
Q <sub>5</sub>	.12089	.18401	.02225
L <sub>2</sub>	.21467	.09544	.02049
H <sub>3</sub>	.21467	.08861	.01902
M <sub>2</sub>	.07378	.21467	.01584
M <sub>3</sub>	.07378	.21467	.01584
Q <sub>4</sub>	.12089	.10934	.01322
M <sub>1</sub>	.07378	.12089	.00892
Q <sub>3</sub>	.12089	.06828	.00832
M <sub>5</sub>	.07378	.07378	.00544



Based on the AHP application, in this research, the following factors were identified as the most influential:

- forecasting and risk assessment -  $R_1$
- improving effectiveness and efficiency in lifecycle management -  $L_3$
- finding preventive measures to reduce risks of work -  $R_4$
- removing organizational and own barriers to introducing ICT -  $H_1$ .

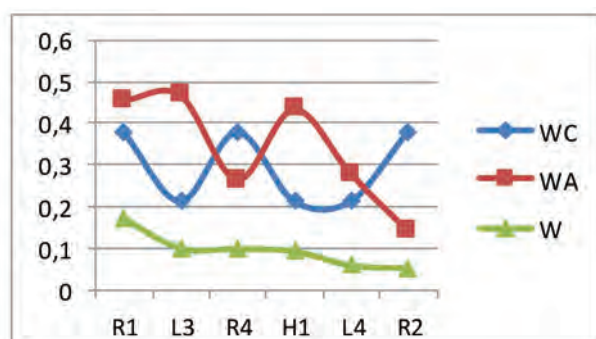


Figure 2. Priority factors

The obtained results (weight coefficients of the criteria and alternatives) can be used in further decision-making in the project. The exposed multi-criteria analysis can be used by decision-makers, i.e. managers who manage construction projects because it enables easy analysis of influential factors and parameters. Key factors point to the necessity of an information system for planning and controlling the implementation of such projects, which will be the goal of our further work.

#### 4. CONCLUSION

The purpose of this paper is the management methodology, estimation, analysis of factors and efficient measures for ICT implementation in investment construction projects. By adopting a list of priorities, participants in the implementation of projects will increase their success with the suggested model and the success of the entire project. The research presents that there are methods based on sufficiently structured data and the factors affecting the project success, i.e. that with an appropriate management policy, business processes can be improved and done riskless.

The application of information and communication technologies (ICT) in the management of construction projects takes place according to similar principles as in other areas, but with respect for the specifics related to the investment construction. The fact is that these projects are often related to infrastructure systems and that by their characteristics, as a rule, fall into investment projects, so their successful implementation requires a systematic approach to planning and analysis enabled through the model application of project management. The fact that projects are often related to infrastructure systems and that by their characteristics, as a rule, fall into investment projects, their successful implementation requires a systematic approach to planning and implementation ensured through the project management concept.

The paper highlights the life cycle of a project where the support of ICT application is the most important for the success of a project. The research results indicate which part of construction project management may be better by increasing the use of ICT. The presented multi-criteria decision-making model by the ranking factors and modelling the key priorities can provide decision-makers with holistic support and make the right decisions during the implementation of construction projects. The model is also an answer that eliminates risks, but it is also a step forward that can contribute to a better understanding and brief definition of individual factors that increase the success of projects by implementing ICT solutions or drawing attention to aspects that lead to the failure of projects. From all of the above, for the successful realization of construction projects, the ICT implementation is very significant for the project management from the very beginning, or rather, "all the strings" are held in the hands.

The author's intention is also to show how much expertise, application of knowledge and modelling are necessary for the implementation of ICT solutions in project management in our surroundings, it is a frequent phenomenon that the expertise in the technical area



to which the project relates is favoured, and other segments project management is neglected and considered formalism. In practice, there are rare situations in which a project is unsuccessful due to a failure in the technological part, but there are much more frequent situations with unsuccessful projects because they are not well managed. For this reason, the paper highlights the role of project managers, the importance of applying ICT and also

consideration of project management issues, among other things, due to the significant of learning lessons to repeat positive things and eliminate negative ones.

## 5. ACKNOWLEDGMENT

This research was supported by the Association of Small and Medium Enterprises and Entrepreneurs of Serbia.

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## VIŠEKRITERIJUMSKA ANALIZA IMPLEMENTACIJE IKT U INVESTICIONIM PROJEKTIMA: STUDIJA SLUČAJA GRAĐEVINSKIH PREDUZEĆA U REPUBLICI SRBIJI

**Sažetak:** Analizirajući primenljivost informaciono-komunikacionih tehnologija (IKT) u investicionim projektima i kontekst upravljanja rizicima, u radu je predstavljen koncept modeliranja situacije više kriterijuma i višeciljnog odlučivanja. Dat je kratak pregled i tumačenje višekriterijumskog odlučivanja u izgradnji osnovnih poslovnih procesa, gde je primena IKT najpotrebnija. Definisani su značajni kriterijumi i alternative i dat je najjednostavniji model transformacije kvalitativnih u kvantitativne attribute. Uvođenjem IKT-a poslovni procesi nisu potpuni, ali se kroz njihovu primenu stalno sagledavaju i analiziraju postojeće situacije. Primena metoda višekriterijumske analize jedna je od najkorisnijih matematičkih metoda za podršku odlučivanju tako da se kompleksnost svodi na niz poređenja kriterijuma i alternativa i sintezu konačnog rezultata. Istraživanje u ovom radu identifikuje faktore primene IKT u upravljanju građevinskim projektima za kreiranje modela koji mogu poboljšati performanse projekta i uspešno upravljati poslovnim procesima. Ovaj rad ima za cilj da ukaže na to da savremeni IKT pružaju velike mogućnosti i da su proaktivni pristup i preventivno delovanje efikasniji i mnogo jeftiniji od kasnijeg saniranja štete od efekata rizika. Nakon identifikovanja ključnih atributa, u zaključnim napomenama date su preporuke za njihovo prevazilaženje i uspostavljanje seta mera za opštu primenu IKT za unapređenje poslovnih objekata i praćenje globalnih trendova u ovom sektoru.

**Ključne reči:** informacione tehnologije; Upravljanje rizikom; investicioni projekti; višekriterijumska analiza

ORIGINAL SCIENTIFIC PAPER

RECEIVED: 11. 01. 2023.

ACCEPTED: 02. 03. 2023.

UDC: 334.726:336.221

COBISS.SR-ID 134041609

doi: <https://doi.org/10.61837/mbuir010223068s>

## MULTINATIONALS' TAXATION IN THE TIME OF GLOBALIZATION

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**Abstract:** *The era of globalization started in XX century has made many spheres of peoples' lives to become global. The same has happened with business operations and companies. It has become common to conduct business in two and more countries, even in more than two continents. Many shocks that had happened all around the world in last two decades just speed up the process of business globalization. Although this has brought many benefits, it is also faced with many risks both, for business and states' administrations, and even more for the world's wealth. Related with that, the international and regional organizations had initiated and realized the projects which resulted with reforms in many spheres of business operation, of which taxation is one of the most significant. This paper is dealing with the most important aspects of those projects and business globalization.*

**Keywords:** *multinationals; globalization; international organizations; taxation*

**JEL classification:** K34, K33, K22, H26

### 1. INTRODUCTION

Globalization as a phenomenon has appeared on the world's scene as a result of collapse of the communist system. Closed economy as a main characteristic of the communist system could not survive in the world where people and business tend to connect in many aspects. The drop of the Soviet communism in 1989 marked the begin of the new era, the era of globalization when the states slowly lose their power and the new global players take the main role in the world - companies that have spread their business in more countries, even

in more continents got the most influence on the global events, not only in economic sense, but also in making political decisions all over the world. There are data that in 2013, global corporations (known as "multinational companies", MNEs) are indicated making approximately 11% of the global GDP (Owens, 2013).

Certainly, development of the Internet and digital technology just speed up the process of globalization, as a phenomenon that once has started and cannot be stopped. All the borders have disappeared: not only economics' and political, but also social borders - people have become closer more than ever in the human

history (Gidens & Hanton, 2003). The main characteristic of the new era of globalization is interdependence and overlapping of various trends in different spheres: communications, industries, economy, financial markets, politics, etc. And all of them are, mainly, managed through Internet. The Internet has become the master of XXI century – almost everything in the modern world has become global, digital and online, and almost everything has become marketable good, even the life itself (Šiva, 2003) It could be said that such a trend had, not only significant, but the main influence on the power of the big companies: consolidation of many small companies in the group, enlargement of the business operations of the already big and powerful corporations, expansion of the cross-border activities and online transactions, etc. This produced the effect of the tail wind for many speculations and abuses of the companies all around the world on the one side, and the efforts of the international organizations and national governments to prevent and punish and disable such behavior and weakening of the nationals' economies and the global wealth. The OECD (Organization for Economic Cooperation and Development), UN (United Nations), IMF (International Monetary Fund), WB (World Bank), and various regional organizations had initiated, and implement or currently are implementing projects aimed to resolve the dangerous of rapid growing globalization. However, none of these organizations had been prepared to the current global crisis appeared as a consequence of the COVID-19 global pandemic that broke out in 2019-2020 and Russia-Ukraine war in 2022. As soon as the borders got opened for free traveling after the pandemic isolation, the war has started and made the recovery effects from the long isolation of people and close of national borders disappear at once, leading the world in deeper crisis – introducing embargo on Russian oil exports by many states and, related with that, economic and political sanctions to Russia caused the world to be faced with economic and financial crisis with global consequences: inflation of the global proportions; shortage of food, sources of drinking

water, fuel and gas for industry production and transport; disruption of Internet connections and online activities; endangering basic human needs and rights, etc. once again show how much the states and the whole world are related and interdependent – which is just one of the confirmation of the globalization.

But the globalization and interconnection of the states in the way they exist today is something specific for recent period and last two decades. The interstates' relation had been developed over time from "very poor" at the beginning of the XX century to very complex in XXI century This had led to the development of interstates' relations and cooperation in different spheres, of which economic is the second important one after the political sphere. And the taxes as the main generator of the national revenues are, certainly, the important issue "on the table" of interstates' relations.

## 2. DEVELOPMENT OF THE INTERNATIONAL TAX SYSTEM

The significant importance of taxation for the national economic power and interstates' relations had been noticed very early, at the beginning of the XX century, and especially after the First World War.

Taxation is one of the spheres where companies make the most illegal acts and abuses. Especially, this is the case with companies doing cross-border and online business, because these ways of business gives a lot of opportunities to hide profits and avoid paying taxes. Even more, the rules related with cross-border (international) taxation have been created in second and third decades of XX century when the states had been economically and financially weakened after the First World War. The states needed "fresh" capital for their economic recovery, and the companies and individuals from the business world got the opportunity for doing business crossing the national borders. Step by step, slowly, this opened the door for states' cooperation and creation of the international tax rules. Doing business and making income in two or more countries over time, required establishment of the precise



international rules to be applied by each state of business activity. Each state wanted to tax income made on its own territory, but also to tax income of its citizens no matter if the income was earned at home or in another state. Such interests of the states only could lead to the economic and financial conflicts and, consequently, to the new political and armed conflicts, which, certainly, had not been needed.

### 3. GLOBALIZATION OF THE BUSINESS ACTIVITIES

As already has been mentioned, the globalization, as the “main trend” of the last two decades of XX century and the current XXI century, has stimulated the growth of cross-bordering and making online almost all business activities. Also, it has stimulated the growth of the companies in size and making the majority of them to have business entities in different countries and become international (i.e. “multinational”). And the term “multinational” has become the global term used all around the world for international companies: “multinational companies” - MNCs or “multinational enterprises” – MNE. MNE is an enterprise operating in several countries and managed from one (home) country or more countries. It is a general view that company is multinational if it derives at least  $\frac{1}{4}$  of revenues from operations undertaken outside of its home country (IBFD, 1996). MNEs are the companies doing business and making profit in more than two countries (Stojanovic, 2014). They operate in all sectors of the economy and, usually, they include companies or other entities established and registered in two or several countries, with linked operations and close co-operation (OECD, 2011). The financial wealth and the economy influence on the states where doing business, made the MNEs to become important players on the global business and economic map. Not only in the spheres of the economics and business, but also in the sphere of the political relations between states, MNEs have an important role. Having this in mind, it has more than ever become clear that the rules of the international taxation established

in 1920s and 1930s do not fit and do not follow the rapid growth of business globalization and digitization of almost all areas of industry and social, cultural and other spheres of everyday life: the need for definition and establishment of the new international taxation rules and reestablishment of the existing ones have become urgent. As already have been mentioned in the Introduction of the paper: “there are data that in 2013, global corporations (known as multinational enterprises, MNEs) are indicated making approximately 11% of the global GDP”. Having in mind that MNEs have business activities and make profit in more than two countries, but also because of globalization, digitization, and ‘onlining’ and almost all or the biggest part of the business operation, these companies demand from national governments to define precise and transparent rules for the business: MNEs “want globally agreed rules which are consistently applied” (Owens, 2013). On the other hand, national governments and the international organizations require from MNEs to make their business transparent in each state of their business operations and to disclose precise data of their global income and profit made in each state, and resources used and spent in each state, because non-transparency and even, secrecy especially in cross-border business operations, had opened the space for many abuses and initiated global financial and economic crises in the first decade, continued in second and current third decade of the XXI century. “Between the requirements for making transparent and clear their business activities, requirement for tax transparency is one of the most important, because hidden profit and costs of the spent resources are in direct relation with national and global GDP and wealth.” (Stojanovic 2014)

Furthermore, the requirement for transparency of the business and other operations of the MNEs in their cross-borders, national and online activities is the main reason why the international and regional organizations are very active in drafting, initiation and realization of the projects that have both, international and national effects. It could be said

that the projects initiated by the OECD have the larger impact on the international and national aspects of business, but also in regions at all continents and in European Union. In this paper, the attention is paid to the projects related with taxation of companies generally and, especially, with taxation of MNEs as the powerful global players.

Although the projects of different organizations have been initiated separately, globalization and presence of the MNEs in all parts of the world made all the actors to work together trying to achieve the common goals (Stojanovic, 2014). This trend is now present more than ever to mitigate and overcome consequences of the global financial and economic crisis that broke out as the answer on general closing of national borders with an aim to prevent global COVID-19 pandemic in 2020 and current crises caused with Russia-Ukraine armed conflict. Many MNEs have used such situation and vaguely occasions for speculative operations to make and hide their profits.

#### **4. RECENT PROJECTS ORIENTED TO FAIR TAXATION OF THE COMPANIES**

The OECD as the international economic organization represents the interests of the world's most powerful economies and has the major impact on the global trends in taxation and fiscal spheres. "This organization was the first one that has initiated projects dealing with the issues of globalization, rapid expansion of the MNEs, "deletion" of the national borders, tax competition between jurisdictions, digitalization, financial crisis, etc. It is one of the first actors that had noticed potential danger of globalization and significant growth of the companies operating in two or more countries (Stojanovic, 2014). The Project on Harmful Tax Regimes (OECD, 1998) initiated in the last decade of XX century had been the one launched by the OECD as a leader organization fighting tax abuse and illegal tax behavior of all "business" taxpayers, especially MNEs. This project, originally, had been initiated to establish measures for prevention and tackling the influence of harmful tax competition

on investment decisions and tax consequences appearing in the economy of the states of investment. Having in mind decisive influence of the corporate tax regimes (especially, the tax rate and tax incentives), international actors realize that something must be done to prevent further actions of the national governments that have harmful impact on the neighboring economies. The OECD has started research and made the whole list of the measures to be undertaken to tackle the problem of the harmful tax regimes (Stojanovic, 2021). Parallel to the actions proposed by the OECD, the EU has undertaken measures to tackle the same problem within the borders of its Common Market. In the EU, harmful tax practices produce even bigger problems and higher costs because of the smaller market.

Initiated and started in the first half of the second decade of the XXI century, continued in the third decade of this century – the current OECD's project on Base Erosion and Profit Shifting (BEPS), certainly, has the biggest impact on the MNEs business operations and taxation all around the world. This project is focused on development of the new set of standards for prevention of double non-taxation; closer national and international cooperation, greater transparency in reporting and disclosure of certain data; development of multilateral instrument to amend bilateral tax treaties, but the main focus is on the digitalization, as phenomenon which is nowadays omnipresent (OECD, 2013). Originally, the BEPS project has been initiated by the G-8, continued by G-20, which asked the OECD to do research and make proposal on the actions preventing and eliminating tax avoidance and other abuses of the MNEs conducting the business worldwide. The Action Plan on BEPS was fully endorsed by the G20 in 2013. BEPS consists of 15 actions which, at the first glance, look like separated and independent one of another, but actually they are all closely related and are overlapping leading to achievement of a common goal - to make companies pay taxes where they do business and make profit. The actions are defined as following:

1. Addressing the tax challenges of the digital economy; 2. Neutralizing the effects of the hybrid mismatch arrangements; 3. Designing the effective controlled foreign companies rules; 4. Limiting base erosion involving interest deductions and other financial payments; 5. Countering harmful tax practices more effectively taking into account transparency and substance; 6. Preventing the granting of treaty benefits in inappropriate circumstances; 7. Preventing the artificial avoidance of permanent establishment status; Actions 8, 9 and 10. Aligning transfer pricing outcomes with value creation; 11. Measuring and monitoring BEPS; 12. Mandatory disclosure rules; 13. Transfer pricing documentation and country-by-country reporting; 14. Making dispute resolution mechanisms more effective; 15. Developing multilateral instrument to modify bilateral tax treaties. (Stojanovic 2017; Stojanovic, 2021)

The breaking out of the COVID-19 pandemic at the very end of the second decade of the XXI century resulted with significant drop of the “real” business and financial activity, but the close of the national borders even more speed up the already started digitalization of the business operations as defined in the Action 1 of the BEPS project. Companies that have been already doing their business *online* profited, others if wanted “to survive” the period of COVID-19 blockade, had to become digital. The states were focused on prevention of further spread of pandemic and curing already infected citizens, paying little or no attention on online abuse activities of the companies. Small or no control by the national governments and slowing the realization of the international projects (mainly BEPS), have given the large companies space to evade their tax duties around the globe. After the first wave of the global pandemic, states were mainly focused and put a lot of efforts to recover their economies which were faced with economic losses caused with close of national borders; suspension of travelling, export-import and other types of cross-border activities; minimum or no industry activities. However, the most powerful economies decided to stop

such a behavior of the MNEs and prevent breaking out new global financial and economic crisis: endorsed by the G-20, with an aim to implement the Action 1 of the BEPS – “digitalization”, the OECD proposed the global minimum tax as following: “the countries would apply the minimum tax to nearly any multinational company making more than €750 million (\$870 million), though some kinds of income will be exempt from that calculation”. Primarily, the rules will allow a country where a company is headquartered to “top up” its taxation of the company if it’s paying less than 15% in another country (Bloomberg, 2021).

The global minimum tax is defined in two pillars: the pillar one is oriented to the reallocation of the taxing rights between the countries of the business operations of the MNEs; the pillar two is oriented to the global anti-base erosion mechanism (global minimum tax). By the end of October 2021, totally 137 states have joined the two-pillar solution to reform the international tax rules and to ensure multinationals pay tax where they make profit. Adoption of these pillars, especially pillar two, would have significant effect to the trend of global base erosion and, certainly, would distract large companies to hide their profits in low-tax jurisdictions making certain tax and business arrangements using base and conduit companies to evade their tax duties. (Stojanovic, 2021) While in 2021, the OECD and national governments were focused on the effect that will be produced by the implementation of the pillar two solution, in 2022 the international attention is paid on the effects of the pillar one implementation. Pillar one rules applies to the biggest and most profitable MNEs that allocate parts of their profits to the countries where they sell their products and provide their services. Within the pillar one, two solutions are defined - known as Amount A and Amount B. The Amount A is based on a comprehensive scope that uses quantitative thresholds to determine whether a MNE is subject to the rules on Amount A. This means that any MNE that meets the scope thresholds will have to apply the Amount A rules,



regardless of what type of business it undertakes: the MNEs with revenues greater than EUR 20 billion and with profitability greater than 10% will be in scope of Amount A. These thresholds apply to the entire MNE using the financial data in MNE's consolidated financial statements. In exceptional cases when MNE does not meet the profitability threshold, but a segment reported in the MNE's consolidated financial statements (a 'Disclosed Segment') has revenues greater than EUR 20 billion and profitability greater than 10% on a standalone basis, the MNE's profit will be subject to tax - the Disclosed Segment will be in scope of Amount A.

It seems that the exclusion of profits made by the sectors of extractive industry and regulated financial services has been formulated more to satisfy the interest of national governments to collect taxes, than to protect interests of the companies operating in these types of industries: the exclusion for extractive industries (mining, oil and gas companies) is about protecting the right of source countries to have the sole right to levy tax on the profits related to the extraction of valuable resources that uniquely belong to the people of that country; the exclusion for regulated financial services is related to the unique nature of regulation of that industry (particularly capital requirements) that already drives substantial alignment between the location of taxable profits and the market, as well as the unique complexity and cost that would be introduced for tax administrations to administer the complex rules necessary to make Amount A fit for purpose for that industry. (OECD, 2022)

The goal of introducing the pillar one is to ensure a fairer distribution of profits and taxing rights among countries in relation to the largest MNEs (mainly, digital companies). It would re-allocate some taxing rights over MNEs from their home countries to the markets where they have business activities and earn profits, regardless of whether firms have a physical presence there. Under pillar one, taxing rights on more than USD 125 billion of

profit are expected to be reallocated to market jurisdictions each year.

Another part of pillar one (Amount B) would make it easier to identify how much tax might be owed on marketing and distribution activities in countries (Bunn, 2022)

Under the pillar two, the national competition over corporate income tax will be minimized or disappear using mechanism of a global minimum corporate tax rate. The global minimum corporate income tax with a minimum rate of 15% is estimated to generate annually around USD 150 billion in additional global tax revenues. Further effects are going to be achieved by increasing stabilization of the international tax system and the greater tax certainty for taxpayers and tax administrations. The so called "GLOBE rules" are intended to be implemented as a part of a common approach and are going to be brought into domestic legislation from 2022. (OECD 2021)

Although the proposal on two pillars is intended to increase certainty in taxation of the MNEs and to ease rapid expansion of business digitalization, it seems that many ambiguities still exist and many answers need to be given to clear key elements regarding its implementation. The coming public consultations and the period in front of us will show success or failure of the OECD proposal.

## 5. CONCLUSION

The era of globalization has started in XX century and continued in XXI century; started with the failure of Soviet communism and appearance of Internet, in recent years it experienced rapid expansion – digitalization of almost everything in everyday lives enable constant (24 hours per day) connection of people from different parts of the world. The same is with business world and financial markets. And the global close of national borders and suspension of all physical connections for a while because of COVID-19 pandemic just speed up already started process of digitalization. But, each coin has two sides – everything good has its own bad side – although digitalization and "onlining" almost everything ease



peoples' lives and business operation, it is also faced with many dangers and abuses. Related with business, there are the tax abuse and tax evasion of the large companies doing business around the globe. Such a behavior is directly related with inefficiency of the international tax rules established in 1920s and 1930s when the business operations required physical presence in each state of activity and "real" cross-bordering for delivering goods and services. Today, when the majority of business operation is doing online and using digital technology, especially when the delivering of intangible goods dominate over tangibles, it is more than evident that the rules defined at the beginning of XX century do not fit to the changed (global) world. This fact has been noticed early, in 1990s, when the first signs of the international tax system got into global scene.

XXI century and recent events – financial and economic crisis that broke out in 2008; financial, economic and political problems and turmoil in the EU; many blockades caused with the COVID-19 pandemic; Russia-Ukraine conflict and the US interference, and globally crisis in goods and food production, use of drinking water; global warming, etc. made "the world to come to the edge". And the questions to be asked are: how long this will last; how deep the world need to go down; how many people need to die and how much the Earth has to be destroyed ... to realize that the whole world is interdependent and connected and that globalization is with us to bring us benefits, not conflicts, wars, extermination and enrichment of politically powerful minority at the expense of poorer majority.

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## OPOREZIVANJE MULTINACIONALNOSTI U VREME GLOBALIZACIJE

**Sažetak:** Era globalizacije koja je započela u KSKS veku učinila je da mnoge sfere života ljudi postanu globalne. Isto se desilo i sa poslovanjem i kompanijama. Postalo je uobičajeno poslovanje u dve i više zemalja, čak i na više od dva kontinenta. Mnogi šokovi koji su se desili širom sveta u poslednje dve decenije samo su ubrzali proces globalizacije poslovanja. Iako je ovo donelo mnoge koristi, takođe je suočeno sa mnogim rizicima, kako za poslovanje tako i za državnu administraciju, a još više za svetsko bogatstvo. S tim u vezi, međunarodne i regionalne organizacije su pokrenule i realizovale projekte koji su rezultirali reformama u mnogim sferama poslovanja, od kojih je oporezivanje jedna od najznačajnijih. Ovaj rad se bavi najvažnijim aspektima ovih projekata i globalizacije poslovanja.

**Ključne reči:** multinacionalne kompanije, globalizacija, međunarodne organizacije, oporezivanje

ORIGINAL SCIENTIFIC PAPER

RECEIVED: 10. 01. 2023.

ACCEPTED: 21. 04. 2023.

UDC: 338.124.4(100)"2022"

COBISS.SR-ID 134042633

doi: <https://doi.org/10.61837/mbuir010223076d>

## GLOBALISATION AND ECONOMIC CRISIS IN 2022

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**Abstract:** Globalization in the conditions of the economic crisis has proven to be a very dangerous terrain producing the even bigger gap between developed and undeveloped countries. Information technologies are present in all spheres of human life and work and helps the globalization process to get into the top speed is very difficult to control. In the situation of the pandemic of COVID-19, we already seen drastically different policies which was applied not just in field of medicine, but also in economies around the world. We were a witness of protectionist measures that were applied to protect national economies even in the most developed countries, which is totally contrary to neoliberal economic policy and globalization. The current intervention in Ukraine and the introduction of sanctions against Russia have further particularly harmed the EU economy, leading to an energy crisis. That crisis caused a rise in inflation which as a financial pandemic spread very quickly in Europe, and countries all over the world. Globalism also caused creation of „general and global culture" without traditional values, national and cultural heritage, and helped process of losing cultural, economic, and political sovereignty specially in developing countries.

**Keywords:** globalization; inflation; economic crisis; energetic crisis; sovereignty

### 1. INTRODUCTION

What happened with globalization process in condition of powerful development and implementation of information technology? It looks like the information technology drive globalization process on a higher level of top speed, but speed which seems that is totally out of control. Does that mean, that globalization process seems to end, or it will just transform in some other process known as hiper globalisation.

There is a lot of benefits that comes through globalization process like: free movement of raw materials, goods, labor and capital. However, figures shows that those processes helped developed countries more than under-developed and developing countries.

Anti-globalists claim that it led to unipolar world, and hegemonic rules of most powerful countries, which cause process of denationalization and creating of multiculturalism represented as "general and global culture". That culture is culture without traditional values, national and cultural heritage.

Lockdown because of COVID 19 produce even more problems in economies of countries. The whole world was a shocked, and not well prepared for global pandemic of COVID19.

In the new era, it was at least unexpected possibility for most countries. Lockdown produce a big loss, even for the industries who very quickly transfer to remote work. Sector of certain services suffered great losses, while the pharmaceutical industry, and manufacturers of drugs, and vaccines, multiplied their wealth for several times.

We are witness of unexpected transfer of wealth that was done not just between the countries, but also through within different economic sector and industries. Multinational companies with its global economic and financial strength became more and more powerful, and stronger than economies of some countries. World is in process of constantly and very fast economic and political changes.

After the COVID 19, crisis in health sector make more deep problems in an economic sector. Because of the economic crisis, political crisis was also expected and practically announced.

Political crisis is present in the world through decades, but just on a different place. Does world globally always was that much unstable environment, or it is a phenomenon of modern days?

Currently, there is a lot of political crises around the world, but no one is such monitored as a crisis in Ukraine. Russian military intervention in Ukraine is considered separately among other crisis and is a most analyzed question. Why? Because of energy.

## 2. GLOBALISATION AND OCASIONS OF NEW ECONOMIC CRISIS

In this chapter, we will discuss about diferent occasions of actual economic crisis. It was driven at first by COVID 19 and lockdown of many countries and its economies. Some industries fast transfer does remote work, but for lots of jobs it was not possible regarding protection measures. After COVID 19 we are faced wit war in Ukraine who leads us to

energetic crisis because of implementation of sanctions to Russia.

Russia is the biggest country in the world with the very large reserves of gas, which is so much important, specially for the European countries. That means that Europe is dependent of Russian supply of gas.

But why than large numbers of countries introduce sanctions against Russia? There is no adequate economic reason for that procedures. Does we forgot negotiation, or it comes so much difficult that we do not have other solution. We do not speak in this paper about politics, but we speak about economies, about energetic crisis and raising of inflation caused by them.

That crisis will cause lots of damages around the world, but price of that crisis is certainly not paid by multinational companies nor big and developed countries. It seems that all effects of crises are transferred to undeveloped and developing countries. That means that reach will be richer, and poor will be poorer.

We are witness that war usually comes because of economic crisis. So, when we have inflation and energetic crisis, the importance of supply with energy to obtain normal functioning of economy is the top priority for each country who does not have enough energy resources.

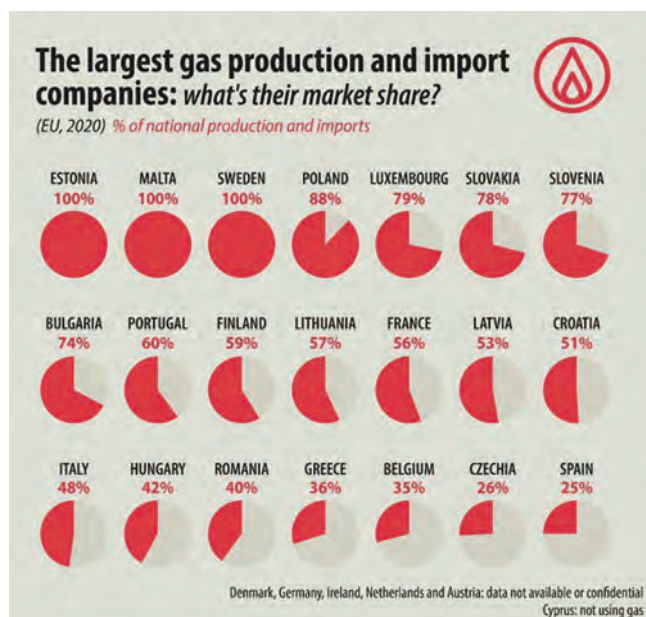


Fig. 1. Inflation trend in Europe since 2000

Source: Reference [1]



How countries faced with problems of inflation and energetic crises can be recovered. First, each country has some specific comparative advantages, of its economy and territory.

That means that we have lots of specific imputes about we should take care, and we cannot make a unique receipt for all of them.

We should create a specific economic recovery measure for each country because the neo-liberalism and globalism were really lockdown by COVID 19, and energetic crisis little after. Globalism suddenly was shocked by pandemic and energetic crisis.

It was so expected that sanctions will produce energy crisis with vary bad effect for all country in the world, and specially Europe. That crisis very quickly caused the raise and spread of inflation around the world.

Now, before a winter it looks more like dangerous and unstoppable financial pandemic. That inflation is named as "imported inflation" because it comes outside a special harm little and undeveloped countries. That countries unfortunately pay big price of globalization.

Most of European countries does not have enough reserve of energy, so the question is where we are going in term of economy of the EU countries?

Even the strongest economies in Europe have realized that in the conditions of a drastic increase of energy prices, all other prices will rise and a general increase in inflation will occur.

Increasing prices of energy multiple the effect of inflation. Because we deal with the raise cost of transportation on every step from raw materials to final products. How to stop the inflation in a global world is a most important issues of all economies.

There is a lot a benefit of open market, but in situation of crisis economies must make, a measure specific to each country to help its economies on the road of recovery.

The world bank recommends rising of interest rates. Does that will be helpful for little countries which are not financial in depended? The raise of interest rates will keep the money in banks developed countries to increase

liquidity and provide enough money for the purchase of gas and other energy products due to the increase in their prices.

Foreign banks operating in developing countries will not receive money from their mother branches. Then, they must increase interest rates in operating country to attract capital. That will cause also raise of interest rates for loans.

Previously facts will not help to economy of concrete country. Contrary it will reduce the economic activity because lot of entrepreneurs and companies will not be able to get a loan.

What can be useful receipt for the little developing countries. First through monetary and fiscal policy disable increase of interest rates on deposits, and stimulate economic activity, and production.

That will stimulate economic activity and growth that will enable a healthy treatment of the falling economy. The recipe sounds simple, and it begs with question what will we do with multinational companies who are powerful more than whole economy of entire states? Who will regulate them? Which monetary and fiscal policy will regulate their activity?

We do not have answer on those questions because they operate independently creating a rule which correspond to them, using an advantage of big capital who raise and became bigger and bigger, more powerful.

But we cannot succeed in everything, in every policy. Industries and activities that have the most prospects for prosperity and growth should be supported. Free movement of raw materials, goods, labor, and capital. however, helped developed countries more than underdeveloped and developing countries.

That means the powerful companies became much more powerful, and developing countries became more vulnerable.

The Europe, and a whole world have a problem with reduction in economic activity who became even bigger and bigger. Global market evaluates and adapts to new changes, and most of countries was unprepared to this situation.

The result is a change in consumer behavior, primarily a reduction in consumer spending on goods and services and an increase in savings. The pandemic has also produced an indirect effect on the economy following governmental decisions to enact lockdowns to reduce the spread of the virus. On the one hand, the lockdowns and restrictive measures contributed to a slow-down of economic activity, leading to shocks in both supply and demand, a decline in employment and production, and supply shortages [2].

There are many supporters of globalism, but also opponents on the other side but in every sense and aspect, it is an unstoppable process. He is certain as a day who comes after night.

Certainly, like every social period, globalism is a subject of changes and modifications. It is expected that in this global era, due to the rapid changing, development and application of IT technology, globalism will probably lead us to a totally new hyper global society.

In such circumstances, when information circulates at an incredible speed, the economic circumstances in which companies operate change very quickly.

In such a constantly changing environment, only those who are very well informed, who follow the trends, and who use the obtained information to gain a comparative advantage can survive.

That advantage in qualitative and in time get information obtain the owner of information's not just to survive, but also to prevent bad influences from the outside. That means that in addition to information, we must also consider negotiation skills. Why it is important? Because in line to good negotiating skills we will have opportunity to get the information, and to use them on the most proper way.

Negotiations at the beginning of the 21st century face an international environment that is very different from the one a century ago. First, the number of subjects of international law has increased enormously - instead of less than fifty sovereign states at the beginning of the 20th century, there are now

almost two hundred of them. The multitude of intergovernmental, non-governmental and transnational organizations and groups makes the international matrix much richer and more complex. The IT revolution, media globalization and the growth of large multinational companies, whose financial power and influence are often greater than many smaller countries, create a qualitatively different global arena where the most diverse negotiation processes take place [3].

Globalization is not necessarily a bad process. It depends what kind of economic politics we present to take all the chances and avoid all the threats that comes through that open market.

Countries that are rich in energy resources have used globalist processes for strong economic growth and strengthening of their economies.

Countries that are not rich in energy resources, and do not have other natural resources, are usually at a low level of development, have a high unemployment rate, a large foreign trade and balance of payments deficit, which they usually try to solve by additional state borrowing. In the situation when they become economically dependent, states initially lose their political sovereignty immediately with their economic sovereignty.

Therefore, first, each country should determine what its long-term goals in economic communication with foreign countries are, to establish a consistent policy of economic performance, to provide material resources for such performance, to train capable personnel who will implement it. If one of those elements is missing, the degree of success of its economic presentation and the results of its presentation are seriously reduced. If all those necessary preconditions are provided, favorable conditions are created for the realization of the functions of economic diplomacy.

Economic diplomats lead a daily, not at all polite, battle with competitors in search of confidential economic information, they compete to win new or expand their presence in old markets, they conduct painstaking

negotiations, often from the position of economic power, not paying much attention to etiquette and polite diplomatic rhetoric. Their professionalism (we would also say patriotism, although that word belongs to a different sphere) is reflected in an excessive fight for the economic interest or profit of their company and the country as a whole[4].

### 3. IMPORTED INFLATION CONECTED WITH ENERGETIC CRISIS

The fact is that opportunities for development and economic growth are not equally given to everyone.

How we can reduce the impact of imported inflation if we are in a group of little and developing countries. We cannot make influence on price of energetic, but we of course can make some measures and create adequate politics.

If we know that imported inflation relates to price of energetic, we can make politics of savings of energy, and to create programs that will reduce their consumption, and to stimulate the user for saving.

Also, savings can be made with transfer to other energy resources and with popularization of alternative resources of energy where we have economic profitability in production of that kind green energy. So, on the one hand we have a cost that are so much important, and on the other hand savings of energy, also very important globally. With these two tools we can make great improvements and reduction of costs.

In the literature, and in practice, there has been a growing interest in residential consumption, since it is at very high levels in many countries, even exceeding the industrial consumption. For this reason, many countries implement different policies to reduce electricity consumption by households, but the results are not always visible. Researchers in the field of consumer behavior also find this topic interesting and conduct research that has the goal to determine the influence of various factors on electricity consumption and behavior to provide empirical evidence for better policy making. [5]

Inflation directly affects the finances of companies, causing a reduction in liquidity. Companies don't have enough money for normal economic activity, and they need to borrow money from the banks. But banks, and complete financial sector in situation of crisis than have more restrictive risk rules.

That cause that banks in approval process for loans, guaranties, overdrafts, became much more careful. They always consider the liquidity of companies, analysis of financial report, analysis of stability of business and loan history.

So, just these companies who have good financial parameters can apply and ask the money from the bank. But even then, when financial statements tell us that company is doing well, it is not enough for getting desired amount of money.

After the financial analysis, the most important is qualitative opinion of the key account, and approval manager about the reputation of the client, and realistic performance of their business. Restrictive loan policy prevents financial institutions to make mistakes and I threaten its business through unpaid loans.

Again, we have a problem how help companies to survive because they are important to the state not just because of the GDP, TAX, but also because of social moment and deepening of the crisis.

To prevent serious social disturbances state must create health and powerful economic policy which will help companies to successfully goes through the crisis and to survive.

Economic policies in the situation of globalization are very complex and there is a very large number of factors that influence it, so it is very difficult to create an adequate mix that will give results. In a very fast changing environment there is no place for mistakes, and for other chances.

Global economic policies in recent history can hardly be well planned in the long term. It does not mean that we should not make them for a long period. It is more likely that we have a frame of politics, and inside the frame a lot of different combinations for every specialty



occasion. Because of that, short term policies are very important but in the same time observed with long-term forecast of economic trends. They are request constant fine-tuning in an ever-changing environment.

If we look the historical data of inflation trough the European countries, we can see the big discrepancies. Specially, we have a sudden jump of inflation in Europe in 2020 because of COVID 19 and the energy crisis caused by the introduction of sanctions against Russia in 2022 due to its military intervention in Ukraine.



**Fig. 2. Inflation trend in Europe since 2000**

Source: Reference [6]

In the period of economic instability, the rising inflation hurts liquid corporate assets. As the prices of the raw materials and other inputs rise, the company spends more on financing its operating activities. Moreover, managers who anticipate further inflation build stocks of raw materials and other inputs to cope with the inflation risk reducing the cash holdings even further. When the nominal interest rates rise due to the higher inflation, managers are assumed to try to reallocate the cash holdings into interest-bearing assets that are cash substitutes and are also cash equivalents. Thus, inflation may have an adverse effect on the corporate cash holdings. [7]

We saw what happened with inflation, and with price of energy, but what happens with unemployment. The next chart represents Unemployment rate (as a % of labor force) in Europe.



**Fig. 3. Unemployment rate (as a % of labor force)**

Source: Reference [8]

We can see that unemployment rate is falling but does we can keep that trend in condition of further energetic crises. Controlled little percent of inflation is a good for stimulating economic activity, but if she comes to greater percent than we deal with negative effects of inflation that causes a loss of wealth.

To stop inflation highly generated by COVID 19 and energetic crises is currently the top issue of all economies in the world.

#### 4. DIFFERENT RECOVERY MODEL

Different model of recovery of economies needs to be released in dependence of each economy. Developed countries decided to raise interest rates on deposits to collect more money in the banks. But does that model helps the undeveloped and developing countries. No, because if interest rates rise, then the money became more expensive for all companies who financing trough banks.

IF loans became more expensive, than companies are faced in the multiplication effects of inflation. Higher prices of energies, higher prices of loans, cause increase the necessary amount of funds, which is necessary to carry out economic activities. Does that helping the companies or reduce its capacity to survive and make a profit?

For developing countries that receipt will cause more problems and reduce the economic activity. On the other hand, we can consider the different model of subsidy for both, for developed and developing countries.



In an energy crisis, governments should stimulate international cooperation within countries from which energy sources are procured in order to achieve mutual compensation through greater interstate exchange

## 5. CONCLUSION

There is a solution for every problem, regardless of whether it is economic, social, or political. If we detail analyze all parameters of a problem and specials define the cause of the problem, we can also make an adequate mix for solution that will help to solve the problem that we have. It is just important to careful look at all parameters of the problem. The conclusion is that each country should make its own economic policy that will enable the verification in cases of crisis to pass with as few consequences as possible. It is perfect when a solution can be found that does not conflict with global economic policy and trends, but it is a reality that we cannot wait for the big economies to see what they will do? We can't apply the same economic policy, because we don't have that financial strength and compatibility of developed countries. What policy should implement the depended states who does not have influence on the economic scene in the financial sense? Due to globalization, it is very important to look at the impact of the same multinational companies on the local economy of the countries where they operate. What gives vitality to an industry is the small and medium-sized business that should be encouraged to maintain the vitality of concerned economy. Countries that are not rich in energy sources certainly cannot avoid the impact of increased inflation, but they can make a savings program and use the stimulation of those sectors in which they have a comparative advantage to compensate for losses due to external factors. As a strategic advantage of every state, it is currently necessary to ensure independent and self-sustainable food production

If the country is dependent on the import of energy and food, then it is in a situation where it has no possibility of influencing economic

trends and is totally subject to the influence of external factors.

If there is a problem with the supply of necessary goods, serious social problems may arise. This means that these countries have totally lost their economic sovereignty, and without economic sovereignty there is no political sovereignty either.

We were introduced with a good and bad effects of globalization. What is for shure is taht this process is unstoppable. The power of money is the financial power of multinational corporations who are so strong that can resist every change. Given the set of circumstances, it is crucial to conduct such a policy that will bring the least damage, and it is impossible to avoid damage in global inflationary trends, especially when we are also faced with an energy crisis. So just as neoliberals, i.e., the free movement of labor, raw materials, goods, and capital, enabled a new global growth. Then, we also have a domino effect that can drag a relatively healthy economy into crisis. In both cases, as a rule, the strongest will do the best and take the biggest part of the cake when it comes to profit, and when it comes to the crisis, they will try everything to prevail it on the other dependent states. Because of that an adequate adjustment at the economic level is necessary to avoid that threat. What gives the vitality of an economy is the small business and middle sector, which should always be stimulated because the growth of this segment is becoming more and more dispersed in the various activities. If we put all the money and all the cards on a couple of big companies as the bearers of the economic highway of an economy, then the fall of such companies in terms of their success would cause the collapse of specific states as well. In this sense, Germany has always wisely taken care of the small business and middle sector, stimulating its development in parallel with the development of its large strategic companies. If we are faced with the new faith of a new social order called hyper globalism, then we can say that the reality is that the world economy is under the baton of a small number of members of the global world elite and their

conceptual creation of a new society and a totally new hyper-accelerated neoliberal. That process to the creation of an even greater gap between the rich and the poor. Time will show how democratic the new society is. States and

their companies have no choice but to listen the new impulses of the global market and try to adapt to them because they have neither the economic strength nor the power to oppose them, or influence to change them.

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## GLOBALIZACIJA I EKONOMSKA KRIZA 2022. GODINE

**Sažetak:** Globalizacija se u uslovima ekonomske krize pokazala kao veoma opasan teren koji stvara još veći jaz između razvijenih i nerazvijenih zemalja. Informacione tehnologije prisutne su u svim sferama ljudskog života i rada i pomažu da proces globalizacije uđe u najveću brzinu koju je veoma teško kontrolisati. U situaciji pandemije COVID-19 već smo videli drastično različite politike koje su primenjivane ne samo u oblasti medicine, već i u privredama širom sveta. Bili smo svedoci protekcionističkih mera koje su primenjivane za zaštitu nacionalnih ekonomija čak iu najrazvijenijim zemljama, što je potpuno suprotno neoliberalnoj ekonomskoj politici i globalizaciji. Sadašnja intervencija u Ukrajini i uvođenje sankcija Rusiji dodatno su posebno naškodili ekonomiji EU, što je dovelo do energetske krize. Ta kriza je izazvala porast inflacije koja se kao finansijska pandemija veoma brzo proširila Evropom, ali i zemljama širom sveta. Globalizam je takođe izazvao stvaranje „opšte i globalne kulture“ bez tradicionalnih vrednosti, nacionalnog i kulturnog nasleđa i pomogao proces gubljenja kulturnog, ekonomskog i političkog suvereniteta posebno u zemljama u razvoju.

**Ključne reči:** globalizacija, inflacija, ekonomska kriza, energetska kriza, suverenitet

## ORIGINAL SCIENTIFIC PAPER

RECEIVED: 10. 08. 2023.

ACCEPTED: 20. 08. 2023.

UDC: 341.1: 502.131.1

551.583

COBISS.SR-ID 134043401

doi: <https://doi.org/10.61837/mbuir010223086d>

## SUSTAINABLE DEVELOPMENT GOAL13 IN INTERNATIONAL LAW

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**Abstract:** The idea of sustainable development has found its way into numerous national and international legal instruments. Its complexity and uncertainty have often sparked debate among international lawyers. Due to the wide dissemination of information on sustainable development, academic discussions have often been limited by the complexity of the concept and its flexible content. The sustainable development goals (SDG) enacted in 2015 are part of the UN's global development program and represent the summon for action to protect the planet and prevent climate change. They recognize that tackling climate change and improving the living conditions of the poor are both critical to the well-being of the planet's biodiversity. This paper aims to provide an in-depth analysis of the sustainable development goal 13 and its legal nature. Despite the positive effects of the COVID-19 pandemic, which has led to a reduction in greenhouse gas emissions, the situation is still very challenging. Climate change is one of the most demanding and complex environmental problems that governments around the world need to address. Its complexity makes it harder to implement legally-based actions.

**Keywords:** Sustainable Development, Climate Change, Climate Action, International Law, SDG 13

**JEL classification:** K12, K21

## 1. INTRODUCTION

The concept of sustainable development has often caught the attention of international lawyers due to its complexity and uncertainty (Barral, 2012; Bonanomi, 2015; Filipović, 2019; Koester, 2006). Its complicity has often sparked debate within international legal communities (Bosselmann, 2016:377). The Sustainable Development Goals were enacted in 2015 and are part of the UN's global development program (SDG UN, 2021; Herath,

2018). Notwithstanding the obvious mandate to integrate environmental, social, and economic objectives in the SDGs, the lack of ecosystem health has been lasting inadequately represented. The SDGs are a set of global goals that aim to address the most critical issues of our time, such as climate change and poverty. The new SDGs are in fact a lengthening of the Millennium Development Goals, dealt with during the period from 2000 to 2015 (Hering, 2017; Papas, 2017). These 17 goals are based on

the success of the Millennium Development Goals, but also include new priority areas such as climate change, economic inequalities, innovation, sustainable consumption, peace, and justice. Goals are interrelated as the key to the success of one goal often lies in perceiving the challenges inherent in another goal.

The SDG number 13 refers to one of the most challenging issues of overcoming issues and preventing climate change. It is one of the 17 goals established in 2015 to achieve sustainable development. SDG 13 has five targets and eight indicators of compliance. Targets specify goals, and indicators represent the metrics by which the world strives to monitor whether these goals have been achieved (UN SDG, 2021). SDG Targets are: 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries; 13.2 Integrate climate change measures into national policies, strategies and planning; 13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning; 13.A Implement the commitment undertaken by developed-country parties to the United Nations Framework Convention on Climate Change to a goal of mobilizing jointly \$100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund through its capitalization as soon as possible; 13.B Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries and small island developing States, including focusing on women, youth and local and marginalized communities (SDG UN, 2021).

## **2. LEGAL FRAMEWORK OF THE CONCEPT OF SUSTAINABLE DEVELOPMENT AT THE INTERNATIONAL LEVEL**

The first United Nations Conference on the Environment was held in Stockholm in

1972, and it is believed that it marked a turning point in the attitude of humanity towards the environment. Then, for the first time, a scientifically based warning comes at the global level that nature does not possess immeasurable and inexhaustible resources. A warning alarm has been activated that natural resources can no longer be exploited uncontrollably and excessively, without consequences for all of humanity. About ten years later (1983), the United Nations General Assembly passed a Resolution on the initiative to establish the World Commission on Environment and Development. In 1987, this commission published the report "Our Common Future". This report points out the consequences that uncontrolled demographic and economic growth can have on the environment and the need to define sustainable development (Brundtland, 1987:43). The mentioned Commission adopted one of the most frequently cited definitions of this concept in science, which states that it is "development that meets the needs of the present, without denying future generations the opportunity to meet their needs" (WCED, 1987). In June 1992, the United Nations Conference on Environment and Development was held in Rio de Janeiro (Brazil). It was the largest of all the United Nations conferences ever held. The conference was attended by nearly 10,000 official representatives from about 150 countries, as well as 116 national political leaders. The conference for non-governmental organizations attracted even more participants. This conference was attended by over 7,000 representatives of the "seventh force". Although a comprehensive conference, the summit participants did not manage to reach a solution and agreement on many issues. It was difficult to reach an agreement between countries on issues where different economic interests or deeply ingrained values were at stake. The greatest success of the 1992 World Summit is that it has linked the issues of development and protection of the environment for the first time. During the 1990s, Agenda 21 became the most prominent and influential (though not binding) document in the field of sustainable development in most countries in the world.



In most European countries, administrative regions and municipalities have adopted, according to Agenda 21, their own action plans, in order to specifically define what sustainable development means for them. Agenda 21 is one of the key documents adopted at the summit in Rio de Janeiro (Miossec, 2014). It is a declaration of intent and a commitment to sustainable development in the 21st century. There are 40 chapters on about 500 pages, from the topic of poverty, protection of the atmosphere, forests, water resources, through health, agriculture, environmentally sound management of biotechnology to the issue of waste disposal. What is new in relation to other United Nations documents is the explicit recognition of the roles of “important groups”, such as women, children, and youth, farmers, and entrepreneurs. Since 1992, the United Nations has begun to rely more and more on the role of these groups in its programs, unlike previous practices that excluded all participants except national governments and a few favored observer organizations. As one of the most important parts of Agenda 21, we can mention a group of chapters on the role of local authorities in devising a strategy for creating Local Agenda 21. From all over the world, various bodies stressed that they play a key role in the concrete implementation of “sustainability” at the local level.

The United Nations Framework Convention on Climate Change (UNFCCC) was adopted at the World Summit in Rio de Janeiro, Brazil, in June 1992. The Convention entered into force in March 1994 and has so far been ratified by 195 states representing the parties to the Convention (UNFCCC, 1992). It is important to point out that the main goal of the Convention is to stabilize the concentration of greenhouse gases “at a level that would prevent negative anthropogenic impacts on the climate system”, stating that “such a level should be achieved in a time frame sufficient to allow natural ecosystem adaptation to climate change, so as not to jeopardize food production, and to enable sustainable development.” The United Nations Framework Convention on Climate Change

aims to stabilize concentrations of greenhouse gases (hereinafter GHG) and prevent negative anthropogenic impacts on the climate system (UNFCCC, 1992). The Republic of Serbia ratified the Convention in 2001. The convention emphasized that industrialized countries are expected to do the most in terms of reducing such emissions. These industrialized countries are defined as Annex I states and are required, inter alia, to report regularly on their policies and measures in the field of climate change and to submit their annual inventories of GHG emissions. Industrially developed countries have also agreed to support climate change efforts and activities in developing countries by providing financial support (grants, loans, etc.). The Republic of Serbia belongs to the group of developing countries, which report on their activities aimed at combating climate change and adapting to changed climate conditions. Given that Serbia belongs to the group of non-Annex I countries, there are no quantitative obligations to reduce greenhouse gas emissions in the first binding period. However, the Republic of Serbia has all obligations in terms of establishing and implementing measures and activities to achieve the objectives of the Convention.

In addition to the UN Framework Convention on Climate Change, the Kyoto Protocol was adopted in Kyoto (Japan) in December 1997, with the aim of achieving better implementation of the Convention. The main goal of the Kyoto Protocol is to reduce global anthropogenic GHG emissions by at least 5% compared to the reference year 1990, in the first binding period, 2008-2012. The main difference between the Protocol and the Convention is that the Convention encourages industrialized countries to reduce GHG emissions, while the Protocol obliges them to do so (Leimkühler, 2010). More accurately, Kyoto Protocol, for the first time, establishes legally binding limits for industrialized countries on GHG emissions (Breidenich, Magraw, Rowley & Rubin, 1998).

As the relevance and dimension of the problem of environmental protection and further

development of humanity continued to grow, this led to the reunion of relevant experts and politicians of the world ten years after the Rio Conference at the 2002 World Summit on Sustainable Development in Johannesburg (Rio + 10) (UN, 2002). Sustainable development was once again at the center of the summit's interest, but the emphasis was placed on the problem of increasing human poverty in certain parts of the world. The convention pointed out that industrialized countries are expected to do the most in terms of reducing such emissions. These industrialized countries are defined as Annex I states and are required, *inter alia*, to report regularly on their policies and measures in the field of climate change and to submit their annual inventories of GHG emissions. Industrialized countries have also agreed to support climate change efforts and activities in developing countries by providing financial support (grants, loans, etc.). The Republic of Serbia belongs to the group of developing countries, which report on their activities aimed at combating climate change and adapting to changed climate conditions. Given that Serbia belongs to the group of non-Annex I countries, there are no quantitative obligations to reduce greenhouse gas emissions in the first binding period. However, the Republic of Serbia has all obligations regarding the establishment and implementation of measures and activities to achieve the objectives of the Convention. Certainly one of the most important agreements in this area refers to the Paris Agreement (UNFCCC, 2015), which can be said to be the first universal legally binding international climate agreement that set the goal of global warming of our planet to be less than 2 and striving to be less than 1.5 degrees Celsius by the end of the century. In November 2021, the British Government hosted the COP26 conference on environmental protection, which was attended by delegations from almost all countries of the world. At the conference, discussions were held on acting towards achieving the goals of the Paris Agreement and the United Nations Framework Convention on Climate Change.

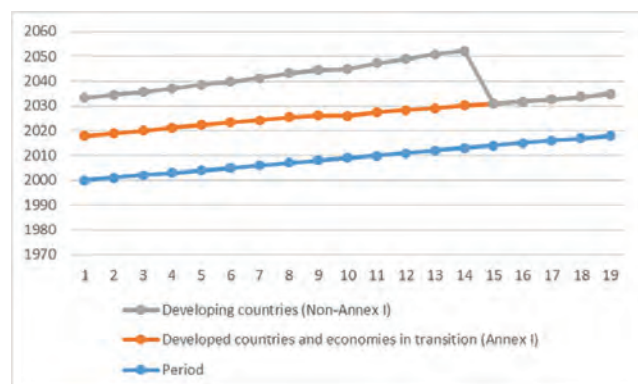
One of the major differences is that the UNFCCC process which frames the COP meetings and agreements is supposed to be legally binding in international law, while the procedure driving to, and the outcomes from, the SDGs are voluntary. Those agreements are based on the framework of the 2015-2030 period and share the same fundamental objective, which is to sustain human life without harming humanity (Kelman, 2017).

### 3. SUSTAINABLE DEVELOPMENT AND CLIMATE CHANGE PREVENTION

Climate change is affecting globally and touching all people on the planet. It is increasing the frequency of natural disasters, floods, wildfires, hurricanes, as well as droughts that are becoming more severe due to rising temperatures (SDGs report, 2020). The effects of climate change are affecting the lives of millions of people around the world. Therefore, most countries have largely started implementing national plans for adaptation to climate change.

Attempts to establish the legitimate status of SD have been made mainly by international law (Gan, 2012). For some, the concept of SD is still a political one, while others believe that it is already faced with the formation of a new branch of international law of SD (Kenig-Witkowska, 2017). The idea of sustainable development has found its way into numerous national, regional and international legal instruments. Its complexity and uncertainty have often sparked debate among international lawyers. Due to the wide dissemination of information on sustainable development, academic discussions have often been limited by the complexity of the concept and its flexible content. Rising temperatures on Earth, known in the scientific literature as global warming, can cause a variety of problems, such as the melting Arctic ice and rising sea levels (Thompson, 2017; Vihma, 2014). The concept of sustainable development was first discussed in 1987 in the Report of the World Commission on the Environment and Development (WCED, 1987). This concept has

become a global standard for addressing issues related to the environment and development. It has been noted that 2019 was the second warmest after 2016, which brought with it devastating weather disasters such as hurricanes, droughts, massive wildfires, and floods (SDGs report, 2020). The Graph 1 below shows the difference in total greenhouse gas emissions from developed and developing countries.



**Graph 1. Total aggregate greenhouse gas emissions of developed and developing countries (gigatons of equivalent CO<sub>2</sub>) (SDG UN, 2021).**

Source: (SDG UN, 2021).

The graph shows that total global greenhouse gas emissions in economies in transition and developed countries decreased by 6.5 percent between 2000 and 2018. Meanwhile, emissions in developing countries increased by 43.2 percent from 2000 to 2013. The reason for this situation is the increase in industrialization and improved economic production measured in terms of GDP. The notion of social development, which includes the ecological component, arises with the cognition that progress cannot be based solely on quantitative material growth, where “conquest of nature” and air contamination are understood as independent values. Given that the trend of negative impact of industrialization in the world is becoming more pronounced, the challenge for the international community is, above all, to achieve a balance between the intensity of exploitation of renewable resources and contamination of all environmental media (water, air, land) and time for their regeneration. Effective air quality management at the global level requires an adequate system of data

collection and analysis in the field of air quality and protection in all countries. In addition, for air quality management purposes, it is extremely important to ensure realistic presentation of pollution data and ensure compliance of national documents (strategies, plans and programs) with real problems and needs of air protection in local communities of the country where monitoring is performed. Namely, between different countries, regions or continents there is a great difference in the distribution of economic and natural resources, but also environmental pollution. Therefore, there is a need for environmental indicators to be presented according to geographical areas and local governments. The National Strategy for Sustainable Development of the Republic of Serbia was adopted in May 2008. At the time it was written, efforts were made to keep it in line with international strategies in this area and with numerous other development strategies adopted by the Government of the Republic of Serbia. The solutions given in the National Strategy for Sustainable Development are in line with European integration: the EU Sustainable Development Strategy (adopted in 2001 and renewed in 2009) and the Lisbon Strategy (adopted by the Council of Europe in March 2000). By doing this, the Government of the Republic of Serbia has shown interest in the issue of sustainable development and readiness to develop adequate policies and undertake appropriate activities in this area, but that in itself is not enough. Regarding air quality, the Government of the Republic of Serbia adopted the Decree on Conditions for Monitoring and Requirements for Air Quality (“Official Gazette of the RS”, No. 11/2010, 75/2010 and 63/2013), according to which the authorities of the Republic of Serbia, autonomous provinces and local self-government units within their competencies provide: measuring stations for fixed measurements in state and local networks; continuous measurement and sampling of pollutants at fixed locations; transmission, processing, validation and analysis of results obtained by measuring and taking samples and analysis; quality control of measuring procedures; maintenance of measuring



points, measuring instruments with accompanying equipment. ("Official Gazette of RS", No. 11/2010, 75/2010 and 63/2013). Some authors believe that in order to realize the idea of sustainable development in practice, it is more rational to think and act in the context of glocalism or the process of glocalization that connects the global and local. The main reason is that many forms of environmental problems extend beyond national borders (acid rain, climate change, ozone depletion, etc.). The concept of glocalization was introduced and widely explained by the British sociologist Roland Robertson, in order to point out the possibility of erasing the boundaries between the global and the local, adding that the local must be understood as an aspect and condition of globalization (Robertson, 2005). Robert Solow was the first to point to the demand for intergenerational equality in the use of natural resources so that every generation of people could have an equal right to enjoy the benefits of nature and the environment, and the development model that provides it can be considered sustainable (Solow, 1974).

The National Strategy for Sustainable Development of the Republic of Serbia defines this term somewhat broadly as a long-term concept that implies continuous economic growth, which, in addition to economic efficiency, technological progress, cleaner technologies, innovative society, and socially responsible businesses, also provides poverty reduction, long-term better use of resources, improvement of health conditions and quality of life, reduction of pollution to the level that environmental factors can withstand, as well as prevention of new ones (National Strategy for Sustainable Development of the Republic of Serbia, Official Gazette of RS, No. 57/08).

#### 4. CONCLUSION

The concept of sustainable development has been presented in various legal instruments. Its complexity often sparks debate among international lawyers. Sustainable development, as a development concept in which economic development is harmonized with ecological

possibilities in order to avoid environmental degradation, should enable a permanent increase in per capita income growth while preserving "natural capital". These are issues that are increasingly present at the international, national, and local levels. The main problem when it comes to the real possibilities of achieving sustainable development, outside the formally proclaimed documents, is how, and in what way to implement the global idea and agreement in practice on individual (local) examples of all countries. That is, how to implement it when there is a different level of economic and any other development in countries around the world, especially in developing countries, and to provide future generations with conditions that will not be worse than the conditions in which we live today. In this way, the requirements of sustainable development are imposed as problems that are addressed by a large number of countries in the world, but also local communities, which are paying more and more attention to this issue. Thus, local communities are classified into the group of those who think strategically, in the long run, and promote various segments of sustainable development in their territory. As one of the answers to the complexity of issues and activities related to environmental protection in local governments, a methodology for solving environmental problems through the development and implementation of Local Environmental Action Plans (LEAP) has been developed. The challenge of developing and implementing these plans is to define and harmonize all types of local community development in such a way that does not destroy existing ecosystems but improves the economic stability of the community while enabling a better and better life for current and future generations. One of the 17 Sustainable Development goals that was established in 2015 is tackling climate change. The concept of the goal is to prevent global warming from happening and achieving sustainable development. Climate change is already causing various natural disasters and increasing the frequency of these events. It is also contributing to the rise in extreme weather conditions. It is one of a major challenge



that affects all countries and regions. The UN's 2030 Agenda aims to strengthen the resilience and adaptive capacity of nations to address it. Striving to get closer to world and European trends, Serbia recognizes the importance of the concept of sustainable development, but what lags behind formal and normative progress is the adoption and implementation of practices conceived on sustainable development in everyday life. Another step towards meeting EU standards is achieved by Serbia's adoption of the Law on Climate Change (Official Gazette of RS No. 26/2021), which regulates the system for limiting greenhouse gas emissions and

adapting to changed climate conditions, monitoring and reporting on the low-carbon development strategy and its improvement, and the program of adaptation to the changed climate conditions, adoption of a low-carbon development strategy, and the program of adaptation to changed climate conditions, issuing permits for greenhouse gas emissions to the plant operator, issuing approvals to the aircraft operator's monitoring plan, monitoring, reporting, verification and accreditation of verifiers, administrative fees, supervision and other issues important for limiting greenhouse gas emissions and adapting to changed climate conditions.

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## CILJ ODRŽIVOG RAZVOJA 13 U MEĐUNARODNOM PRAVU

**Sažetak:** Ideja održivog razvoja našla je put u brojnim nacionalnim i međunarodnim pravnim instrumentima. Njegova složenost i neizvesnost često su izazivali debatu među međunarodnim pravnicima. Zbog širokog širenja informacija o održivom razvoju, akademske diskusije su često bile ograničene složenošću koncepta i njegovim fleksibilnim sadržajem. Ciljevi održivog razvoja (SDG) usvojeni 2015. godine deo su globalnog razvojnog programa UN i predstavljaju poziv za akciju za zaštitu planete i sprečavanje klimatskih promena. Oni prepoznaju da su rešavanje klimatskih promena i poboljšanje uslova života siromašnih od ključne važnosti za dobrobit biodiverziteta planete. Ovaj rad ima za cilj da pruži detaljnu analizu cilja održivog razvoja 13 i njegove pravne prirode. Uprkos pozitivnim efektima pandemije COVID-19, koja je dovela do smanjenja emisije gasova staklene bašte, situacija je i dalje veoma izazovna. Klimatske promene su jedan od najzahtevnijih i najsloženijih ekoloških problema sa kojima vlade širom sveta treba da se pozabave. Njegova složenost otežava sprovođenje pravno zasnovanih radnji.

**Ključne reči:** održivi razvoj, klimatske promene, klimatske akcije, međunarodno pravo, SDG 13

ORIGINAL SCIENTIFIC PAPER

RECEIVED: 01. 02. 2023.

ACCEPTED: 20. 03. 2023.

UDC: 3.077.3(497.11)

336.225(497.11)

COBISS.SR-ID 134051593

doi: <https://doi.org/10.61837/mbuir010223094k>

## THE SPECIFICITIES OF TAX PROCEDURE AS A SPECIFIC ADMINISTRATIVE PROCEDURE

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**Abstract:** *The specificities of tax procedure as a specific administrative procedure have been analyzed in this paper. The specificity of tax procedure in relation to the general administrative procedure is reflected in several elements. The author analyzes the relation between tax procedure and general administrative procedure, discusses the principles of tax procedure, the contents of tax law relationship, the initiation of tax procedure and tax acts. It is stated that tax regulations, which regulate tax procedure, contain certain departures from the general administrative procedure. It is pointed to the fact that provisions of the Law on tax procedure are satisfactory, but that the legislator did not align certain provisions with the provisions of the Law on general administrative procedure.*

**Keywords:** public revenue, procedure, principle, tax law relationship, tax act

### 1. INTRODUCTION

The tax procedure is a procedure of assessing, collecting and auditing public revenues, which is regulated by the Law. Legal rules are applied in the tax procedure and they regulate the relationship between tax authorities and taxpayers and other tax obligors, who enter into the tax law relationship when solving the tax related matters.

The substantive tax law regulates the rights and obligations of individuals and legal entities in regard with their tax law relationships. The substantive tax regulations include legal principles that regulate the basic elements of taxation: tax obligor, object of taxation, tax base, tax rate and tax reliefs. These principles are included in tax regulations. The substantive tax regulations contain abstract legal rules, which

should be applied to specific cases, that is, to certain individuals or legal entities.

In order to apply the substantive tax regulations adequately to concrete cases, legal rules are passed and all tax authorities, individuals and legal entities must obey the rules during the implementation of tax laws and other substantive tax regulations in concrete cases. These legal rules are called the tax procedure or tax procedural rules. The rules of tax procedure are also included in tax regulations and they are called formal tax regulations or procedural tax regulations, that is, regulations of tax procedure. This means that procedural tax regulations include rules that regulate the acts performed by tax administration, individuals and legal entities during the implementation of substantive tax regulations in specific cases (Milošević, 2021:143).

Considering that the substantive tax law is in specific cases implemented with the help of tax acts, mainly with the help of tax administrative acts, the rules of tax procedure stipulate the jurisdiction of tax authorities that are authorized to implement tax regulations in concrete cases, as well as concrete ways of acting, that is, specific acts that tax authorities have to perform while passing certain acts. These rules should enable collecting all facts according to which a tax administrative act will be passed. The rules of tax procedure regulate the rights and obligations of tax obligors and other persons involved in the tax procedure. Therefore, formal tax regulations are aimed at securing the adequate implementation of substantive tax regulations. The absence of rules of tax procedure could cause arbitrariness, and even the self-will of tax authorities, which could lead to the inadequate implementation of substantive tax law regulations (Kulić, 2013:105).

## **2. THE RELATIONSHIP BETWEEN TAX PROCEDURE AND GENERAL ADMINISTRATIVE PROCEDURE**

The relationship between tax procedure and general administrative procedure is the relationship between specific and general. This relationship results from the relationship between tax law and administrative law. Tax law is the segment of objective law that regulates fiscal (tax) public revenues (that is, tax in general sense) (Popović, 2010:16). Administrative law, as a branch of legislation, is the positive law that represents the system of legal regulations that regulates public administration and administrative-legal relations (Kulić, 2017:3). The subject matter of administrative law includes administrative-legal relations that are common for administrative acting of authorities of government administration in all administrative fields, while the subject matter of tax law includes administrative legal relations that are specific only in relation to administrative acting of tax authorities in the tax field. However, it is hard to define the borderline between these two scientific disciplines because their subject matters are often mutually interconnected (Vasiljević, 2015:6).

In the legal theory, there are two viewpoints regarding the relationship between tax and administrative law. According to the first viewpoint, tax law is not an autonomous law, and it is a segment of administrative law. This viewpoint starts from the premise that the tax law relationship is an administrative-legal relation by its nature. According to the second viewpoint, which is more acceptable, tax law is autonomous in relation to administrative law. Tax law was separated from administrative law and thus became a separate branch of law. In order to determine the nature of tax law relationship, which contains administrative as well as property-related components, it is significant to determine which element is prevalent. The separation of tax law from administrative law happened due to the specificity and significance of the property element in its subject matter. Although in both tax and administrative law, legal rules that regulate the relations between public authorities and private-legal subjects are implemented, and although a formal (administrative) component exists in the tax law relationship, one may conclude that property-related (material) element is prevalent in the tax law relationship, which makes the tax law an autonomous legal discipline in relation to its object, task and methods (Popović, 2003:8).

With regard to the relationship between tax and administrative law, it should be said that tax authorities are administrative bodies and that in tax procedures they act as administrative authorities. Tax administration, as a segment of government administration, is regulated by provisions of administrative law. The activity of tax administration is shown through issuing tax administrative acts and performing tax administrative acts. The relationship between these two branches of law is the relationship between specific and general. Therefore, the principles of administrative law are accepted in tax law (Kulić, 2018:17).

Tax procedure is a special administrative procedure. General administrative procedure includes uniform general rules of administrative procedure in the process of passing



administrative acts. The regulations about general administrative procedure contain such rules that are common for operations and actions of all bodies of government administration and holders of public authorizations during the implementation of substantive regulations related to solving of administrative matters. A special administrative procedure includes special rules of administrative procedure in the process of passing the administrative acts. A special administrative procedure is implemented in cases when regulations of general administrative procedure cannot be applied, and therefore, it is necessary to pass special rules in certain administrative matters, as well as special ways of operation when solving administrative matters. Namely, some matters of administrative procedure for the certain administrative field may be regulated by law differently than it is stipulated by the Law on general administrative procedure, only if it is necessary for performing actions in that administrative field. Provisions of the law, which due to the specific nature of administrative matters in certain administrative fields regulate necessary departure from the rules on general administrative procedure, have to be in accordance with the basic principles stipulated by the Law on general administrative procedure. Provisions of special laws that regulate special administrative procedures cannot reduce the level of protection of rights and legal interests of parties, which are guaranteed by the Law on general administrative procedure. Thus, the Law on general administrative procedure has been raised to the level of basic law (Kulić, 2018:17).

The subject matter of tax procedure includes solving tax matters, as a type of administrative matter. A tax matter is an individual matter that is solved when substantive tax regulations are applied to a specific case. This procedure includes assessing, collecting and auditing all public revenues, which is performed by tax authorities. The specificity of tax procedure in relation to general administrative procedure is reflected in the fact that the practical aim of the tax law relationship is to provide sufficient

income for the government necessary for accomplishing its functions, which is achieved by the obligation of paying tax.

Tax procedure is regulated by the Law on tax procedure and tax administration<sup>1</sup>, as well as other legal regulations. If an issue from within the scope of tax procedure is regulated differently by another law, provisions of this law are applied. When some issue is not specifically regulated by provisions of tax law, norms of administrative law are applied (Popović, 1997:17). In other words, if an issue from within the scope of tax procedure is not regulated by the Law on tax procedure and tax administration, tax procedure is conducted according to the principles and provisions of the Law on general administrative procedure.<sup>2</sup> Thus, it is regulated by the Law on tax procedure and tax administration, unless otherwise provided under this law, that tax procedure is conducted according to the principles and provisions of the law that regulate general administrative procedure<sup>3</sup>, that is, according to the provisions of the law regulating the inspection oversight. This means that the Law on general administrative procedure serves as a subsidiary (additional) law when the Law on tax procedure and tax administration is implemented.

The Law on tax procedure and tax administration applies to all public revenues collected by Tax administration, unless otherwise provided by another tax law. This Law applies to the so-called secondary tax duties including: 1) interest on owed tax and 2) costs of procedure of enforced collection of tax. The Law on tax procedure and tax administration applies to tax and secondary tax duty, which according to the Law, is collected by local self-government.

<sup>1</sup> Law on tax procedure and tax administration published in Official Gazette RS, no 80/2002, 84/2002 – correction, 23/2003 – correction, 70/2003, 55/2004, 61/2005, 85/2005 – other law, 62/2006 – other law, 63/2006 – correction of other law, 61/2007, 20/2007, 20/2009, 72/2009 – other law, 53/2010, 101/2011, 2/2012 – correction, 93/2012, 47/2013, 108, 2013, 68/2014, 105/2014, 91/2015 – authentic interpretation, 112/2015, 15/2016, 108/2016, 30/2018, 95/2018, 86/2019 and 144/2020.

<sup>2</sup> Law on general administrative procedure published in the Official Gazette of RS, number 18/2016 and 95/2018 – authentic interpretation.

<sup>3</sup> Article 3, paragraph 2, Law on tax procedure and tax administration

### 3. THE SPECIFICITIES AND PRINCIPLES OF TAX PROCEDURE

When tax procedure is conducted, tax principles that are prescribed by the Law on tax procedure and tax administration must be taken into consideration. Due to the subsidiary implementation of Law on general administrative procedure, basic principles of administrative procedure that are prescribed by that Law are of importance for the tax procedure, as well.<sup>4</sup> The legal significance of these principles means that provisions of tax acts, if they are not clear, have to be interpreted with regard to these principles.

In The Law on tax procedure and tax administration, the following principles of tax procedure are stated: 1) principle of legality; 2) principle of temporal applicability of tax relations; 3) principle of allowing a review of facts; 4) principle of confidentiality in tax procedure; 5) principle of acting in good faith and 6) principle of facticity.

#### 3.1. PRINCIPLE OF LEGALITY

The principle of legality is one of the basic principles of tax procedure, as well as general administrative procedure.<sup>5</sup> According to this principle, tax authorities solve tax matters based on the tax laws and other regulations that are passed on the basis of authorizations from these laws. A similar provision is included in Article 5 of the Law on General Administrative Procedure.

The Tax Administration is obliged to exercise all rights and obligations related to the tax law relationship in keeping with the law. The Tax Administration is obliged to establish all facts relevant for passing a legal and correct decision, dedicating equal attention to the facts that are in favor of taxpayers and to their detriment. This actually refers to the requirement to establish the objective truth, that is, to establish accurately and completely all the

facts and circumstances that are important for passing the legal and correct tax administrative act. There are certain exceptions related to establishing the truth. Thus, for example, the tax base estimation by comparator method in Article 58a, point 3 of the Law on tax procedure and tax administration is performed by comparison with the data of other taxpayers performing the same or comparable activity at the same or comparable location, under approximately the same conditions, which may lead to the estimation of tax base that does not correspond to the real state of affairs of that taxpayer.

The principle of legality is fully expressed in cases when the Tax Administration is authorized to exercise discretion, that is, to act according to the free estimates. Discretion is exercised when the tax authority is authorized by tax regulations to choose between several possible situations when solving the concrete tax matter, that is, to choose the situation which is deemed to be the most appropriate one. Such is the authorization in Article 72 of the Law on tax procedure and tax administration, according to which the Tax Administration may enter a lien in the register of pledges immediately after the tax becomes due. However, the Tax Administration does not have to exercise this right in a concrete case if it estimates that it would not be suitable. In cases, when the tax authority can exercise discretion, it is obliged to act in accordance with the purpose of those authorizations and in keeping with the law. This means that the tax authority is obliged in these cases to comply with regulations regulating the tax procedure, that is, to conduct the entire tax procedure in keeping with law (Kulić, 2011:4).

#### 3.2. PRINCIPLE OF TEMPORAL APPLICABILITY OF TAX REGULATIONS

A tax liability is assessed based on the regulations that were in force at the time of its origination, unless certain provisions of the law are to apply retrospectively, in keeping with the

<sup>4</sup> Basic principles of administrative procedure are prescribed by provisions in Articles 5-15 of the Law on General Administrative Procedure.

<sup>5</sup> Principle of legality is regulated by provisions of Article 4 of the Law on Tax Procedure and Tax Administration

Constitution and the law.<sup>6</sup> There is one exception to this rule and it refers to a tax liability based on property taxes concerning calendar years following the year when the tax liability was incurred. Namely, this liability will be assessed based on the law governing property tax that was in force on January 1<sup>st</sup> of the calendar year for which the tax liability is assessed, unless certain provisions of the law are to apply retroactively, in keeping with the Constitution and the law.

As far as activities in the course of tax procedure are concerned, they are performed according to regulations in force at the time of their implementation.

### 3.3. PRINCIPLE OF ALLOWING A REVIEW OF FACTS

Prior to passing an administrative act determining rights and obligations of the taxpayer, the Tax Administration is obliged to, at his request, allow the taxpayer to review the legal and factual basis for passing such act.<sup>7</sup> By passing this principle, the legislator wanted to allow the taxpayers to review factual state according to which the tax authorities pass the tax administrative act, so that they could better protect their rights.

The difference should be made between this principle and the right of the party to make a statement, which is, as the general principle of the administrative procedure, defined by Article 11 of the Law on general administrative procedure, which is applied in the tax procedure based on the subsidiary implementation of Law on general administrative procedure. However, if all conditions from Article 104 of the Law on general administrative procedure are met, the tax authorities may directly solve the tax matter without taking a statement from the taxpayer.

<sup>6</sup> The Principle of Temporal Applicability of Tax Regulations is regulated by provisions in Article 6 of the Law on tax procedure and tax administration

<sup>7</sup> Principle of Allowing a Review of Facts is regulated by Article 6 of the Law on tax procedure and tax administration

### 3.4. PRINCIPLE OF CONFIDENTIALITY IN TAX PROCEDURE

1. The tax obligor is obliged to file the tax return in the tax procedure to the tax authorities and to deliver complete and true data about business operations, income and property, so that a tax liability could be established. Breach of data confidentiality may jeopardize the interest of taxpayers, as well as the public interest. Therefore, certain data are considered to be confidential data.<sup>8</sup> Data that are kept confidential in the tax procedure are the following:

- 1) every document, information, data or other fact concerning the taxpayer obtained by officials and all other persons involved in tax procedure in the course of tax, misdemeanor, preliminary investigation or court procedure, and
- 2) data on technical inventions or patents, as well as all other data on technological procedures applied by the taxpayer, obtained by officials and all other persons involved in tax procedure in the course of tax, misdemeanor, preliminary investigation or court procedure.

Breach of data confidentiality jeopardizes the interest of taxpayers and public interest of the Republic of Serbia, which override the interest concerning the access to information of public importance that is subject to data confidentiality, the disclosure of which may result in serious legal or other consequences to the interests protected by the Law on tax procedure and tax administration. All officials and other persons taking part in tax, misdemeanor, preliminary investigation or court procedure keep data confidentiality. The obligation to keep data confidentiality also relates to the above mentioned persons after the termination of their employment or capacity in which they obtained knowledge of the documents, facts or data. The obligation of keeping data confidentiality is also breached if the above mentioned

<sup>8</sup> Principle of Confidentiality in Tax Procedure is defined in Article 7 of the Law on tax procedure and tax administration



documents, facts or data are used or published without authorization.

2. Data confidentiality is not considered breached:

- 1) by an action to which the taxpayer agrees in writing;
- 2) if a particular document, fact or data cannot be connected with the particular taxpayer;
- 3) if a particular document, fact or data is disclosed in the course of tax, misdemeanor, preliminary investigation or court proceedings;
- 4) if the information in question is the taxpayer's tax identification number (TIN);
- 5) if a particular document, fact or data is used by competent authorities in the procedure of detecting criminal offences or misdemeanors;
- 6) if a particular document, fact or data, in keeping with the law, is delivered to an official of a foreign tax authority in the process of information exchange and provision of legal assistance;
- 7) if a tax guarantor is allowed to access data on the taxpayer, relevant for discharging the obligations arising from his relation with the taxpayer;
- 8) if a particular document, fact or data relevant for the existence of tax debt is delivered in keeping with the special law provisions, unless the volume of such delivery of documents, facts or data causes large costs or requires excessive engagement of Tax Administration employees, which the tax authority defines in each individual case, and
- 9) if a particular document, fact or data is delivered to an official of another state institution or organization, or territorial autonomy and local self-government authority in the process of information exchange required for undertaking activities within the scope of their respective competences.

The Tax Administration publishes on its web page at least once a year, at the last day of the calendar month preceding the date of publication, the tax debtors' business names or names and surnames, TINs and the amount of tax debt, for legal entities with a tax debt amounting to twenty million dinars and more and sole traders with a tax debt amounting to five million dinars and more, whereby data confidentiality obligation is not breached.

With regard to data confidentiality, in all other matters that are not regulated by the Law on tax procedure and tax administration, the tax authority is obliged to act in keeping with the law governing data confidentiality and the law governing personal data protection.

### 3.5. PRINCIPLE OF ACTING IN GOOD FAITH

Parties to tax procedure (tax authority and tax obligor) shall act in good faith. Good faith (*bona fides*) is a good intention, honor and conscientiousness. The frequency and duration of tax audit should be restricted to the extent necessary. In other words, the tax authorities should avoid frequent and too long audits of tax payers.<sup>9</sup>

### 3.6. PRINCIPLE OF FACTICITY

Tax facts are established based on their economic substance.<sup>10</sup> Tax law is associated with economic facticity, because the object of taxation includes facts that point to the existence of certain economic power in a taxpayer. Concealing the economic substance behind the legal form could jeopardize the principle of equity in taxation. Thus, for example, it is stipulated by provisions in item 1 of Article 29 of the Property Tax Law that if no valid contract of real estate sale has been concluded, pursuant to the law dealing with the sale of real estate, tax liability is deemed effective on the date the buyer or participant in sale took possession of the real estate concerned. If one would insist on legal effects of the contract

<sup>9</sup> Principle of Acting in Good Faith is defined by Article 8 of the Law on tax procedure and tax administration

<sup>10</sup> Principle of Facticity is defined by Article 9 of the Law on tax procedure and tax administration



of real estate sale, in which the form was not fulfilled (the contract was not concluded in the written form, or if it was concluded in the written form, the parties' signatures were not certified), such a contract would be considered void and the transaction could not be liable to a tax although it factually happened. However, the principle, according to which tax facts are established based on their economic substance, is relevant in situations which are not explicitly defined by tax laws. When such authorization is used, the tax authority should take care that the legitimate legal transaction, regulated by rules of obligation or other branches of private law, is not jeopardized. Therefore, if there are no evasive motifs in a taxpayer, the tax authority will not apply the principle that economic substance is more important than legal form. If one may conclude from the circumstances of the case that in mixed legal affairs, in order to evade tax, a taxpayer chose one legal form instead of another, the tax authority will have to explain the elements that indicate the factual state (overriding essence) in a decision on assessing tax, and to provide documentation which explains why the legal form was not accepted in that individual case (Popović, 17).

If a simulated legal transaction is used to conceal a different legal transaction, the base for assessing the tax liability is the dissimulated legal transaction. Simulated legal transactions are those transactions that conceal other legal transactions. Here parties conclude one (dissimulated) legal transaction in reality, while they present that they concluded another contract (simulated). The simulated legal transaction is considered void, while the dissimulated transaction is valid if it in itself fulfills all conditions for validity (Kulić, 7).

When income is earned contrary to regulations, or when property is acquired, the tax authority will assess the tax liability in keeping with the law that regulates a particular kind of tax. Thus, for example, if an individual without the consent of authorized bodies provides auto-mechanic services, the tax authority will assess tax liability to income earned by

independent activities in keeping with the provisions of the Individual Income Tax Law.

#### 4. CONTENTS OF THE TAX LAW RELATIONSHIP

The operations of participants in the tax procedure lead to their mutual tax law relationships. The tax law relationship is understood to mean a public law relationship encompassing tax procedure-related rights and obligations of the Tax Administration, on the one side, and an individual or legal entity, and open investment fund, that is, alternative investment fund that does not have the status of legal entity, but which is registered in keeping with the law, on the other side, regulating the following: 1) obligation of an individual, legal entity or fund to pay tax, secure a tax liability, and pay secondary tax duties and the Tax Administration's right to demand the fulfillment of these obligations; and 2) obligation of an individual, legal entity or fund, in keeping with the law, to assess tax or to collect the withholding tax on behalf of the taxpayer, keep the prescribed accounting records, file tax returns, submit the requested documents and data to the Tax Administration, not to make payments in a manner other than the prescribed one, allow a Tax Administration official to inspect their business operation and other statutory obligations to act, refrain from acting or tolerate, for the purpose of timely and correct payment of tax, as well as the right of the Tax Administration to demand the fulfillment of these obligations.<sup>11</sup>

In the tax law relationship, the individual, legal entity and the fund are entitled to: 1) a refund of overpaid or erroneously paid tax or secondary tax duties, as well as to a tax return when provided by a separate tax law; 2) a tax reimbursement or tax rebate in keeping with the tax law; 3) apply a tax credit against a tax liability or secondary tax duties, and 4) apply the overpaid or erroneously paid tax or secondary tax duties against other due liabilities, through transfer to another tax account. Other

<sup>11</sup> The contents of tax law relationship is regulated by provisions in Article 10 of the Law on tax procedure and tax administration

rights of an individual or legal entity and obligations of the Tax Administration related to the tax law relationship are regulated by the law. Tax credit is the amount by which a tax liability is reduced.

If these persons opt for a refund of overpaid or erroneously paid tax or secondary tax duties, as well as for tax reimbursement or rebate, or settlement of other due liabilities through transfer to another tax account, the Tax Administration has to issue a decision at request without delay, no later than 15 days from the receipt of such request, unless otherwise provided under the tax law. Together with the request for the refund of overpaid or erroneously paid tax for pension and disability insurance, a taxpayer submits the decision of the Republic Fund for Pension and Disability Insurance about the established right to refund tax for pension and disability insurance. A taxpayer may submit the request online via the portal of Tax Administration or in a written form – directly or via postal service.

If a taxpayer delivers a document in a language and alphabet not used officially by the tax authorities in keeping with the law governing the official use of language and alphabet, the tax authority will set a time limit which may not be shorter than five days for the taxpayer to deliver a certified translation into the Serbian language. If the taxpayer fails to deliver the certified translation within the provided time limit, the document will be deemed not delivered.

Although there are two components of tax law relationship (property and procedural), this relationship is understood to mean a unique entity. The uniqueness of the tax law relationship results from the fact that all its institutes are directed at one aim – paying tax (Popović, 2007:21).

## 5. THE SPECIFICITIES OF THE INITIATION OF TAX PROCEDURE AND TAX ACTS

1. Tax procedure is initiated by the Tax Administration *ex officio*, and exceptionally

at a party's request. The time of initiation of procedure is regulated differently in tax procedure in comparison to general administrative procedure. Pursuant to Article 33, item 2 of the Law on tax procedure and tax administration, tax procedure is initiated when the Tax Administration undertakes any action in order to conduct a procedure. The time of the initiation of procedure is regulated in the same way in Article 92, paragraph 2 of the Law on general administrative procedure, relating to the initiation of procedure *ex officio*, which is in the party's interest. However, pursuant to Article 91, paragraph 1 of the Law on general administrative procedure, the procedure is initiated at party's request upon the receipt of the party's request. Pursuant to the paragraph 3 of the same Article, the procedure that is initiated *ex officio*, and which is not in the party's interest, is deemed to be initiated when the party is informed on the act of initiation of procedure.

If the Tax Administration establishes, at a party's request, that the conditions for initiating the tax procedure have not been met, in keeping with the law, it passes a conclusion thereon, which can be appealed against.

2. A tax act is the act, by which the Tax Administration establishes, in keeping with tax and other regulations, the rights and obligations of the tax obligor or other individual or legal entities, or performs an action in tax procedure. Tax acts include the following: 1) a tax decision; 2) conclusion; 3) tax audit order; 4) tax audit summons; 5) tax audit report and tax audit; 6) other act initiating, supplementing, modifying or completing an action in tax procedure (for example the report on verbal information from Article 45, paragraph 6 of the Law on tax procedure and tax administration, the report on the sale of movables from Article 104, paragraph 23 of the same law etc.).

A tax administrative act is an act, by which the Tax Administration in tax procedure applies the tax and other regulations to individual cases in order to establish the rights and

obligations of a taxpayer. This act represents a unilateral declaration of Tax Administration in cases stipulated by tax laws. It is the act, by which authoritative decisions are made in individual tax matters. A tax administrative act is an individual act, which means that it refers to a specific tax obligor, who was a party in the tax procedure, in which that act was passed.

A tax administrative act is passed in written form, or in the form of an electronic document in accordance with the regulations governing electronic documents. Other tax acts are passed in written form when it is prescribed by this Law or at the taxpayer's request, or in the form of an electronic document in accordance with the regulations governing electronic documents. Exceptionally, an official of the Tax Administration may pass a tax act, which is passed in written form, verbal form and order its execution without delay, if the procedure of tax collection or audit is jeopardized. The verbal tax act must be issued in written form within three days from the day it was passed at the latest.

A tax administrative act, by which the Tax Administration decides on individual rights and obligations of the tax obligor from the tax law relationship, includes the following: 1) a tax decision and 2) conclusion.

A tax decision is the most important tax act. It is an act, by which the administration decides on the subject matter of tax procedure, or solves the individual tax matter. Appeal is permitted against a tax decision passed in first-instance tax procedure. Pursuant to the Article 142 of the Law on tax procedure and tax administration, appeal is submitted within 15 days from the day of receipt of tax administrative act, but different time limits are prescribed, as well. Thus, in Article 77, paragraph 5 of the same law, it is prescribed that appeal is permitted against the decision on enforced tax collection within eight days from the day when the decision was delivered.

Contrary to the general rule in Article 154, paragraph 2 of the Law on general administrative procedure, according to which an appeal stays the execution, pursuant to Article 147 of

the Law on tax procedure and tax administration, an appeal shall not stay the execution of the tax administrative act. Exceptionally, the second-instance authority may stay the execution of the appealed tax assessment administrative act if the taxpayer provides documents demonstrating that the payment of tax or secondary tax duties before the challenged act has become final would cause him considerable economic damage. A conclusion to stay the execution shall be passed by the second-instance authority within five days from the receipt date of application and it may not be appealed.

If enforced collection procedure has been initiated based on an appealed tax decision and the appeal proceedings are not concluded within the time limit, a conclusion is passed to suspend the enforced collection pending the delivery of the appeal decision to the taxpayer or the first-instance authority's acting as ordered by the second-instance authority.

A conclusion is, as a rule, a preceding, additional and accessory decision (Bačanin, 2000:444). A conclusion that is passed in the tax procedure is a tax administrative act, by which tax authorities decide on individual matters relating to tax procedure, as well as on questions which appear as accessory in regard to the procedure, and which are not solved by a decision. The legislator has not brought into line the provisions of the Law on tax procedure and tax administration with the provisions of the current Law on general administrative procedure. Consequentially, a lot wider implementation of conclusion in tax procedure has been kept in comparison to general administrative procedure. An appeal may be filed against the conclusion passed in tax procedure, unless otherwise provided by the law. Thus, for example, pursuant to Article 144, paragraphs 1 and 2 of the Law on tax procedure and tax administration, an appeal inadmissible, belated or filed by an unauthorized person may be dismissed by the first-instance tax authority by issuing a conclusion. An appeal may be filed against this conclusion within eight days from the receipt date of the conclusion. Contrary to the rules of tax procedure, pursuant to Article



146, item 3 of the Law on general administrative procedure, an appeal is not allowed against the conclusion.

## 6. CONCLUSION

The procedure of assessing, collecting and auditing public revenues is one of the issues of legal system that have great significance. Tax procedure in the Republic of Serbia is conducted based on the provisions of tax regulations. The solutions in these regulations are satisfactory. The Law on tax procedure and tax administration and other tax regulations regulate the jurisdiction of tax authorities for solving the tax matters, as well as the form of their activities and tax acts. These regulations include certain departures from the general administrative procedure.

General administrative procedure in comparison to tax procedure has an additional (subsidiary) character. Thus, if issues from within the scope of tax law are regulated by specific provisions, the procedure is conducted according to the provisions of that tax law, while in all other cases, the Law on general administrative procedure shall apply. In other

words, provisions of the Law on general administrative procedure are applied in all tax matters, unless special procedure is prescribed by tax law, while the Law on general administrative procedure is applied in the cases and issues that are not regulated by provisions of tax law.

The legislator has not brought into line certain provisions of the Law on tax procedure and tax administration with the provisions of the current Law on general administrative procedure, which may lead to uncertainties regarding their implementation. Thus, in the Law on tax procedure and tax administration, the provisions which regulate the conclusion, as a kind of tax administrative act, respond, according to their contents, to the provisions about the conclusion from the Law on general administrative procedure, which was put out of force when the current Law on general administrative procedure was passed. The legislator has significantly reduced cases in which a conclusion is made in the current Law on general administrative procedure. Due to these reasons, these two laws should necessarily be brought into line.

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- [17] Principle of Allowing a Review of Facts is regulated by Article 6 of the Law on tax procedure and tax administration.
- [18] Principle of Confidentiality in Tax Procedure is defined in Article 7 of the Law on tax procedure and tax administration.
- [19] Principle of Acting in Good Faith is defined by Article 8 of the Law on tax procedure and tax administration.
- [20] Principle of Facticity is defined by Article 9 of the Law on tax procedure and tax administration.
- [21] The contents of tax law relationship is regulated by provisions in Article 10 of the Law on tax procedure and tax administration.

## SPECIFIČNOSTI PORESKOG POSTUPKA KAO POSEBNOG UPRAVNOG POSTUPKA

**Sažetak:** U radu su analizirane specifičnosti poreskog postupka kao specifičnog upravnog postupka. Specifičnost poreskog postupka u odnosu na opšti upravni postupak ogleda se u nekoliko elemenata. Autor analizira odnos poreskog postupka i opšteg upravnog postupka, razmatra načela poreskog postupka, sadržinu poreskopravnog odnosa, pokretanje poreskog postupka i poreska akta. Navodi se da poreski propisi, kojima se uređuje poreski postupak, sadrže određena odstupanja od opšteg upravnog postupka. Ukazuje se na činjenicu da su odredbe Zakona o poreskom postupku zadovoljavajuće, ali da zakonodavac nije uskladio pojedine odredbe sa odredbama Zakona o opštem upravnom postupku.

**Ključne reči:** javni prihod, postupak, načelo, poreskopravni odnos, poreski akt

UDC: 347.44:3.078.2(430)  
 347.44:3.078.2(497.11)  
 COBISS.SR-ID 134108169  
 doi: <https://doi.org/10.61837/mbuir010223105k>

ORIGINAL SCIENTIFIC PAPER

RECEIVED: 10. 08. 2023.  
 ACCEPTED: 20. 08. 2023.

## ADMINISTRATIVE CONTRACT – IN GERMAN AND SERBIAN LAW

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**Abstract:** In administrative practice, primarily our national one, administrative bodies perform their activities through authoritative and non-authoritative activities, acts and measures. Of the non-authoritative activities, the activity is most often carried out through the adoption of administrative regulations and administrative acts, and more recently, administrative contracts. Although the largest number and scope of administrative legal relations, i.e. administrative matters are decided on the basis of a unilateral decision of the competent authority, in the form of an administrative act-decision, in foreign legal systems, and recently in our domestic one, the administrative-legal relationship can be based on a unilateral or bilateral administrative contract. This type of administrative legal relationship is created by the agreement of the will of the contracting parties by which they define and accept mutual rights and obligations. Theoreticians of administrative law have been dealing with the concept of administrative contract for a long time, while their recognition in practice was mainly reduced to "formal recognition by the courts", and in comparative law also in special material laws and laws on general administrative procedure. Initially, the administrative contract was created and developed in French legal theory, regulation and practice. However, very soon this legal work was accepted in the legislation of other European countries, first of all in FR Germany. In the Republic of Serbia, the institute of administrative contracts was legally regulated for the first time in 2016.

**Keywords:** administrative contract, administrative act, German administrative law, Law on Administrative Procedure of RS

### 1. CONCEPT AND BASIC CHARACTERISTICS OF ADMINISTRATIVE CONTRACT

This contract is in many features and its legal nature different from the contract of obligation, civil or commercial law, but it also has a lot in common with them because its nature and features are significantly different from the administrative legal act. The most impressive

features that make it special compared to other contracts and administrative legal acts:

It represents an act of business, not an act by which the administration exercises its power, but has the status of a contracting party (Milosavljevic, 2007).

- as a bilateral legal act, the administrative contract is an expression of the agreement of the will of the state - administrative body

or other public legal entity, with private legal entities - natural and legal persons. The area of effect of administrative contracts is wider than that in which administrative-legal relations are regulated by administrative acts. We claim this for reasons that are contractually possible to establish more diverse legal relationships, and not only those based on the unilateral will of administrative bodies and their authoritative powers (Maurer, 2006);

- the motive for the conclusion of the contract is creation of an administrative-legal relationship, the goal of which is to collect monetary gain-profit, and therefore the contract also serves the acquisition of valuable profit and not only the realization of public interest<sup>1</sup>;
- it is a public law contract in which the contracting parties can be public-law and/or private-law entities;
- the rights are characteristic because it is an area of administrative activity and authority, so the right to collect monetary compensation after the fulfillment of contractual obligations is unusual for administrative-legal relations. Obligations are non-transferable, and this can happen only exceptionally, because the contracting parties are certainly an essential element for the conclusion and legality of this contract.

## 2. EMERGENCE AND TWO BASIC MODELS OF THE ADMINISTRATIVE CONTRACT IN THE EURO-CONTINENTAL LEGAL SYSTEM

Initially, the administrative contract was created and developed in French legal theory, regulation and practice. Although very quickly this legal work was accepted in the legislation of other European countries, first of all in FR Germany. As in some other legal institutes or issues, among others in administrative law - such as the way of resolving prejudicial issues in administrative proceedings, the administrative contract is also different in France and Germany. Therefore, in the Euro-continental

legal system there are two basic models of administrative contracts, originating from these two countries, somewhat similar but also significantly different.

The French model of the administrative contract is conditioned by the fact that at least one contracting party must be a public legal entity, that is, it must act in the public interest of society and the state. It is defined as a bilateral public-legal act concluded between a certain state authority or public society (Kavran, 1993:11) and third parties, whether it is a natural person, a legal entity or a state body, in order to achieve a specific goal of public and social interest. If the contract was concluded between private law subjects, or its subject and goal do not have a public law character - it is not aimed at achieving the general social interest<sup>2</sup>, it is not classified as an administrative contract in French law.

The definition of an administrative contract in the Federal Republic of Germany, which refers to a special named contract by which, based on the agreement of the will of the contracting parties, public law relations are created, changed or terminated, does not contain an explicit determination of the contracting parties who should enter into its conclusion, in order for it to be classified such as. Immanent to this fact, it is obvious that an administrative contract can be concluded by two private law subjects (Tomić, 1993:11). However, by interpreting the provisions of the German Law on Administrative Procedure, and especially on the basis of Articles 1 and 9, it is noted that even according to this model for concluding an administrative contract, it is desirable that at least one contracting party should be a public legal entity.

## 3. CONCEPT AND TYPES OF ADMINISTRATIVE CONTRACT IN GERMAN LAW

The influence of French and German law has always been significant and strong in terms

<sup>1</sup> The concession contract is a glaring example in support of these allegations

<sup>2</sup> In civil law contracts, the goal of the contract is to realize the mutual interests of the contracting parties, even when one of those parties is a state.

of the development of the Serbian legal system (primarily the Principality of Serbia and its Civil Code from 1844). An important institute that should have been introduced into Serbian administrative law is the administrative contract, which the author pointed out since 2007.

In November 2016, the organization of the German Foundation for International Legal Cooperation and the Faculty of Law of the University of Belgrade held a regional seminar "Introduction to German Law", from which, among other things, a message was sent to our lawyers "to be open to legal orders of other countries because that is a prerequisite for progress". The analysis of foreign legal systems and norms, in this case German, makes us see the advantages and disadvantages of that law, as well as our domestic law. Only by this way of comparison, and by no means by simple re-writing, can we qualitatively improve our national legal system.

At the meeting, it was also pointed out that "a lot can be learned from the German experience about the harmonization of domestic law with the law of the European Union, which is very important for the further process of European integration".

In the end, it remains to point out the fact that in the national legislation and practice of the Republic of Serbia, the administrative contract was generally accepted and defined only after the entry into force of the Law on General Administrative Procedure from 2018 (Law on general administrative procedure („Official Gazette of RS“, no. 18/2016 and 95/2018). Article 22, paragraph 1, reads: "An administrative contract is a bilaterally binding written act which, when determined by a special law, is concluded by an authority and a party and which creates, changes or terminates a legal relationship in an administrative matter". Until the entry into force of the new Law on administrative procedure, this contract was not generally accepted and defined by regulations as an institute of administrative law, but its details were recognized in the public procurement contract or the concession contract.

### **3.1. TERM - A SPECIAL TYPE OF PUBLIC-LEGAL CONTRACT THAT CREATES, CHANGES OR TERMINATES ADMINISTRATIVE-LEGAL RELATIONS**

In addition to the term administrative contract (German: *Verwaltungsvertrag*), the term public law contract (*oeffentlichsrechtlicher Vertrag*) is also used in German law. As one of the valid positive legal institutes of administrative law, it was regulated as early as 1976 within the Administrative Procedure Act (*Verwaltungsverfahrensgesetz – VwVfG*)<sup>3</sup>. So, as far back as the 1970s, its legal and formal importance was recognized, and in practice the frequency of its application in the regulation of more and more administrative and legal relations is constantly growing and developing. The main reason for this frequent application of administrative contracts is the fact that the area of application of administrative contracts exceeds the limits of administrative-legal relations that can be regulated by an administrative act, as a unilateral declaration of will. The well-known German pragmatism obviously recognized the possibilities of this contract and the German legislator therefore constantly supports and improves the ways of its implementation. A characteristic example is the situation when it is necessary to establish and regulate a concrete relationship between two administrative bodies, which are equal in a hierarchical sense and neither can impose its will on the other. This is where the role of the administrative contract comes to the fore, which is concluded based on the agreement of the will of both parties (Battis, 1997).

The legal definition of a public-law/administrative-law contract is given by Article

<sup>3</sup> Specifically, the basic principles and elements of administrative contracts are regulated within Chapter IV, Articles 54-61 of the German Administrative Procedure Act. According to Article 62 of the Law, with regard to administrative contracts, other provisions of the Law (such as Article 3 on the local competence of administrative bodies, etc.) and the relevant provisions of the Civil Code (*Bürgerliches Gesetzbuch – BGB*) are applied subsidiarily, if the existence of the necessary prerequisites for withdrawing the legal analogy in a specific case; see: *Verwaltungsverfahrensgesetz vom 25.5.1976, BGB I, S. 1253; Gurlit: „Verwaltungsvertrag und Gesetz“, Juristische Ausbildung – Jura, 2000 i isti autor, „Grundlagen des Verwaltungsvertrages“, Jura, 2001*



54 of the Law on Administrative Procedure (VwVfG). It is a specific type of contract, which creates, changes or terminates public law relations (Article 54 Law on Administrative Procedure / *Verwaltungsverfahrensgesetz* (VwVfG) vom 25.5.1976, BGBI I, S. 1253). It is clear that the legal nature of this contract is primarily determined by the uniqueness of its subject, which has the same purpose as an administrative-legal act. An administrative contract is considered to be only one that establishes and assumes rights and obligations of a public-law nature (Krebs, 2000). Doubts when defining the nature of this contract arise only in cases where the nature of the obligation is "neutral". In those situations, one approaches the interpretation of fulfilling the contractual obligation and the general character of the specific contract<sup>4</sup>.

Each contract is an individual legal act by which, based on the free will of the parties, certain legal relationships are created, changed and terminated and it achieves a specific legal effect. This is a general concept of contract in comparative law, inherent in all branches of law in which the contract is represented and based on two basic principles of modern contract law - the principles of freedom of contract and consensualism (Kostić, 2008:443). An administrative contract is only one by which public-legal relations are regulated by a consensual declaration of will. If we were to interpret the aforementioned definition from Article 54 of the Law on Administrative Procedure "in isolation" from the rest of the legal text, we could very easily see that this type of contract can be concluded both between public-legal subjects (or public-legal-private-legal), as well as only private-legal ones. However, based on Art. 1. VwVfG, in connection with the public-legal powers of state administration bodies<sup>5</sup> and Art.

<sup>4</sup> A typical example is the obligation to pay a monetary claim, which can be of a private or public law nature. If the citizen is the debtor of this obligation, and the payment refers to the compensation for the used services of the state authority, it is an administrative legal contract.

<sup>5</sup> Article 1 stipulates that the Law on Administrative Procedure regulates the basic competences and activities of public authorities, i.e. the mutual cooperation of state administration authorities and the cooperation of these authorities with other holders of administrative powers.

9. The VwVfG, which defines the concept of administrative procedure, is undeniably regulated by administrative-legal regulations and is characterized by two basic characteristics:

- the subject of the administrative contract is the establishment and regulation of administrative-legal relations (administrative-legal rights and duties) and
- that one contracting party is a subject of public authority (Koop, 2005).

### 3.2. DIVISIONS-TYPES OF ADMINISTRATIVE CONTRACTS IN GERMAN LEGAL DOCTRINE

One of the important features of the German administrative contract model is that in the legal doctrine of this country there is a division into coordinating-legal and sub-coordinating-legal administrative contracts, as well as two additional possible classifications - one, derived from the division of civil law contracts, into mandatory and dispositive contracts and second, settlement agreement and barter agreement.

The reason why we only mention the legal doctrine regarding the division of administrative contracts is the fact that the Law on Administrative Procedure of the Federal Republic of Germany does not contain the *numerus clausus* of their basic types in any norm. The only expressly prescribed division is between a settlement agreement and a barter agreement (Articles 55. and 56. Law on Administrative Procedure (VwVfG *Verwaltungsverfahrensgesetz*).

### 3.3. COORDINATION-LEGAL AND SUB-COORDINATION-LEGAL ADMINISTRATIVE CONTRACTS

By interpreting Article 54 of the Law on General Administrative Procedure, and based on the nature of the relationship established between the contracting parties, we clearly see the division of administrative contracts into coordination-legal and sub-coordination, although the legislator did not explicitly mention these terms (Koop, 2005).

Coordination-legal contracts are concluded in situations where a certain administrative

matter, i.e. the administrative-legal relationship cannot be regulated by an administrative act. Subjects that enter into a coordination-legal administrative contract are equal in terms of their legal force and position - most often they are two public-law subjects, i.e. holders of administrative authority). Therefore, the equality of the contracting parties is one of the essential characteristics this type of contract, but it is not the only one. An even more striking feature is the fact that the principle of hierarchy and subordination is not applied in terms of the subject of the contract itself, i.e. neither side is subordinate to the other. of a coordinating legal character is the fact that with respect to the subject matter of the contract, none of the contracting parties is in a superior position in relation to the other (regardless of whether the contract was concluded exclusively between public authorities or public authorities and citizens, or even only between private law entities).

Administrative contracts concluded between superior and subordinate subjects, natural/legal persons and public authorities are called subordination-legal contracts. They are most often represented in the sphere of construction. In practice, this type of contract is concluded for three possible reasons: to replace a specific administrative decision, to obligate the adoption of a future administrative act or to conclude "for its own sake" - without any direct connection with any individual administrative act.

### **3.4. DISPOSITIVE AND OBLIGATORY CONTRACTS**

The division into dispositive (German *Verfügungsvertrag*) and obligatory (German *Verpflichtungsvertrag*) contracts essentially corresponds to the division into unilateral and bilateral civil law contracts, but when applied in the sphere of administrative-legal relations, the above-mentioned terminology is used. A bilaterally binding administrative contract is called obligatory in German law and by nature binds both contracting parties to specific actions. Both parties acquire mutual rights and obligations, i.e. both parties are creditors

and debtors at the same time. With this type of administrative contract, the administrative authority or the holder of administrative authority commits to some action, among other things, it can be the adoption of a specific administrative act.

With a dispositive contract, only one party undertakes the obligations of unilateral fulfillment of not only contracted, but also legal or otherwise assumed duties. consists in the obligation to unilaterally fulfill both contractual and legal or otherwise based obligations. Reciprocity of rights and obligations is omitted here, i.e. one party is exclusively the holder of rights, and the other is the holder of obligations. This type of administrative contract implies the duty of the administrative body to directly fulfill an obligation within its jurisdiction, e.g. issues the relevant permit or authorization for use for special purposes (Koop, 2005).

### **3.5. SETTLEMENT AGREEMENT (VERGLEICHsvertrag) AND BARTER AGREEMENT (AUSTAUSCHvertrag)**

The German Law on Administrative Procedure foresees the possibility of applying two more contracts in order to regulate administrative-legal relations. These are the settlement agreement and the barter agreement. This division and the mode of application of these contracts in administrative law is regulated by Articles 55 and 56. By interpreting the provisions of Article 55, we see that the purpose of the settlement agreement is the resolution of a certain administrative matter by making mutual concessions, and not strictly mutual fulfillment of contractual obligations, i.e. actions.

There are three prerequisites for the possibility of applying this type of contract:

- that the specific administrative matter arises from realistically existing uncertain circumstances of the case or certain legal doubts;
- that its solution cannot be achieved in another way without significant costs and
- that all contracting parties are ready for mutual concessions (Erfmeyer, 1998).

Article 56 of the VwVfG, the barter agreement defines that both contracting parties accept mutual rights and obligations, so it is a bilateral legal transaction. This reciprocity of obligations itself must have distinctive features, in order to be subsumed under the key element of the barter contract (Maurer, 2006). Mutual actions must be aimed at the realization of the agreed goal, the achievement of public interests, and it is necessary that they are legal, expedient and appropriate.

#### **4. SIMILARITIES AND DIFFERENCES BETWEEN AN ADMINISTRATIVE ACT AND AN ADMINISTRATIVE AGREEMENT IN GERMAN LAW**

The legal solution specified in Article 54 of the VwVfG essentially defines the relationship between an administrative act and an administrative contract, by explicitly allowing that “a public-law contract can replace the adoption of an administrative act in a specific administrative matter”, as long as the contract meets the requirements of the legally prescribed form. The mentioned article can be interpreted in two ways: that the administrative contract is a special type of administrative act that is not unilateral, but requires the consent of the addressee, or that the administrative contract and the administrative act are two completely different legal institutes (Vodinelić, 1993).

##### **4.1. THE MOST IMPORTANT SIMILARITIES OF THE DIFFERENCE BETWEEN AN ADMINISTRATIVE ACT AND AN ADMINISTRATIVE CONTRACT**

There are several important common characteristics of an administrative act and an administrative contract, primarily:

- belong to the field of public law, “causing external administrative legal consequences on individual life events and related to them, broader phenomena” (Tomić, 1993:11).
- have an identical goal - to regulate a specific administrative-legal relationship, that is, to resolve a specific administrative matter. Therefore, the administrative procedure ends

with both. For this reason, both are defined as “acts that end the administrative procedure”<sup>6</sup>.

Contrary to the similarities, there is also a key difference between them - the way, that is, the method of their creation and adoption. An administrative act is passed on the basis of the unilateral will of the public authority, while the agreement of the will of the administrative body and the party is necessary for the creation of an administrative contract. Therefore, the basic characteristic of an administrative act is its own one-sidedness, as opposed to the bilateral-legal nature of the administrative contract. This difference alone is more than enough to affect not only the completely different appearance of an administrative contract compared to an administrative act, but also to indicate a significant difference in terms of the legal consequences it produces<sup>7</sup>.

##### **4.2. ADMINISTRATIVE ACT THAT REQUIRES THE CONSENT OF THE PARTY/ADDRESSEE**

We believe that it is useful to point out in more detail the concept of an administrative act passed by an administrative authority, but in order for it to be passed, it requires the consent of the addressee. So, typically by administrative act we mean a unilateral act passed on the basis of the will and unilateral authority of an administrative body or an authority that performs administrative tasks as entrusted, regardless of whether the addressee agrees with the disposition of the decision or not.

Unlike our law, in German law there is another type of administrative act that is passed on the basis of the exclusive unilateral will of the competent authority, in German law there are also administrative acts that can and must be passed only with the express consent of the entity to which it refers. As a rule, this consent is expressed before the start of the administrative procedure itself, by submitting a request for the adoption of an administrative act. In

<sup>6</sup> Article 9 of German Law on Administrative Procedure (VwVfG)

<sup>7</sup> This primarily refers to: legally equal position, ie the strength of the contracting parties, reciprocity of rights and obligations, the consequences of breach of contractual obligations, the possibility of terminating the contract due to changed circumstances, etc.



our law, it is inherent in the first instance administrative procedure initiated at the request of a party, because the administrative matter itself concerns the realization of a party's right, legal interest or reduction of an obligation. However, in German law there are other ways to disclose the consent of the party/addressee.

In any case, an administrative act adopted in this way remains, by its nature, a unilateral declaration of the will of the competent administrative body, because the request for obtaining the consent of the addressee does not aim to include his will in the process of joint, agreed decision-making (as is the case when concluding an administrative contract), but to avoid the situation of passing an administrative act which imposes on the addressee something he does not want (Butterwege, 2001), and he himself initiated the decision-making process.

The existence of the consent of the will of the private legal entity (party) is a condition for the creation and existence of an administrative contract, while the expression of consent with regard to a specific administrative act is a condition for its legality. In other words, the absence of consent regarding the administrative contract prevents its very creation, while regarding the administrative act, the absence of consent of the addressee makes such an act illegal and disputed.

It is often difficult to determine at first glance whether a specific case was resolved on the basis of an administrative act or contract. This is established by establishing one fact: if the party had an influence on the shaping of the content of the decision itself - then it is an administrative contract, and if its participation in the procedure was reduced to dispositive actions, giving or withholding consent in order to strengthen / prevent the adoption of a decision in a specific case, then it is an administrative act.

#### **4.3. ADMINISTRATIVE CONTRACT AND DECLARATION OF COMMITMENT OR ACCEPTANCE OF THE COMPETENT AUTHORITY**

It is interesting to point out the parallel that can be drawn between the binding/bilateral

contract (Verpflichtungsvertrag) and the declaration of acceptance or obligation of the competent authority. In both cases, the competent authority of the public authority commits to concrete action, non-action or refraining from action, with the fact that in the case of a contract there is reciprocity of the mentioned mutual actions on the side of the other subject of the contract, and in the case of a statement, only the competent authority is unilaterally committed public authorities.

### **5. ADMINISTRATIVE CONTRACT IN THE LAW ON GENERAL ADMINISTRATIVE PROCEDURE OF THE REPUBLIC OF SERBIA**

Modern reforms of the activities and work of the administration also imply the strengthening of the importance of the institute of the administrative contract in the Republic of Serbia. Its legal regulation in our country, for the first time, took place in 2016.

#### **5.1. DEVELOPMENT OF THE ADMINISTRATIVE CONTRACT IN NATIONAL LAW**

Administrative contracts have secretly existed in special laws since the period of the Kingdom of Yugoslavia, through the period of development of socialist self-management in the former FNRJ/SFRJ, and certain forms of administrative contracts also existed in the positive law of that time. However, not even in any of the mentioned countries were these contracts determined through the then laws on general administrative procedure (Milenković, 2017:72).

#### **5.2. CONCEPT, FORM AND CONTENT OF THE ADMINISTRATIVE CONTRACT IN THE RS**

The term of this contract, in terms of form and content, is defined by Article 22 of the Law on General Administrative Procedure of RS as "a bilaterally binding written act which, when specified by a special law, is concluded by the authority and the party and which creates, changes or terminates a legal relationship in an



administrative matter “, and its content must not be against the public interest or the legal interest of third parties<sup>8</sup>. The form and content are necessary conditions for the permissibility of this contract in domestic law. Therefore, it follows from the previous provision that the contracting parties are the competent authority and the party. In terms of the Law on General Administrative Procedure of RS, the competent authority is considered to be: state bodies and organizations, bodies and organizations of provincial autonomy and bodies and organizations of local self-government units, institutions, public companies, special bodies through which the regulatory function is exercised and legal and natural persons to whom they are entrusted public authorities, and who apply the rules of administrative procedure when acting in administrative matters<sup>9</sup>. At this point, it is worth quoting the judge of the Administrative Court, Ruža Urošević: “The cause of those contracts is the achievement of some public interest, the creation of a certain public benefit for citizens and legal entities.” This reflects the specificity of these contracts in relation to civil law contracts, because the powers of the public-law entity, in order to achieve the public interest, are strengthened in relation to the other contracting party, giving the public-law entity the authority to terminate the administrative contract under certain conditions, while the other party the contracting party does not have that right. Another specificity of this type of contract is reflected in the fact that they do not act exclusively, that is, primarily between the contracting parties, but are only a means to achieve the intended cause, a certain public interest, which is why they act towards everyone (*erga omnes*)<sup>10</sup>.”

## 6. CONCLUSION

Through a comparative analysis, we noticed that for a long time one of the dominant trends

in the largest number of countries is the desire for greater flexibility in the work and procedures of the executive power and its bodies. Although conceptually different, the administrative systems of individual countries have certain common features. The primary and most well-known characteristic is the far more pronounced rigidity of the rules for performing administrative activities in relation to the activities of other state authorities. Then, it is characteristic of all of them that they intensively and continuously search for better quality, more acceptable to citizens, ways of realizing their goals and tasks. The basic goal of the existence and work of the administration today, in modern democratic states, is the achievement of public interests, which requires permanent efforts to improve the existing ones and find new ways and forms to fulfill that task. These ways and forms should be more flexible, better adapted to the specific needs of society and the individual, and therefore significantly more efficient. The individual's desire to realize personal rights and interests is inextricably linked with the efforts of the administration to, by protecting its rights and interests, achieve the highest public interests of the entire social community. The existence of these two types of actions, traditionally known in the light of the division into private and public spheres, had an exceptional influence on the origin and characteristics of the administrative contract institute, as a reflection of the modern, democratic and flexible way of administration. Essentially, this legal institute ensures more direct and frequent participation of citizens in the performance of public services, which results in a higher degree of realization of the standards of democracy and the guarantee of basic human rights, because the authoritative powers of administrative bodies are reduced. Our conclusion and expectations based on everything presented are that the aforementioned trend of strengthening the flexibility of administrative systems will continue, and thus the application of administrative contracts will be an increasingly common phenomenon in practice.

<sup>8</sup> Law on General Administrative Procedure, Official Gazette RS, no. 18/2016., 95/2018., article 22.

<sup>9</sup> Law on General Administrative Procedure, Official Gazette RS, no. 18/2016., 95/2018., article. 1.

<sup>10</sup> <https://www.pravniportal.com/upravni-ugovor/>, approached 5.8.2022.

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## UPRAVNI UGOVOR – U NEMAČKOM I SRPSKOM PRAVU

**Sažetak:** U upravnoj praksi, pre svega našoj nacionalnoj, organi uprave svoju delatnost obavljaju putem autoritativnih i neovlašćenih radnji, akata i mera. Od neovlašćenih delatnosti, delatnost se najčešće odvija kroz donošenje upravnih propisa i upravnih akata, au novije vreme i upravnih ugovora. Iako se najveći broj i obim upravnih pravnih odnosa, odnosno upravnih stvari rešava na osnovu jednostrane odluke nadležnog organa, u formi upravnog akta-rešenja, u stranim pravnim sistemima, a odnedavno i u našem domaćem, upravno-pravni odnos može biti zasnovan na jednostranom ili dvostranom upravnom ugovoru. Ova vrsta upravnog pravnog odnosa nastaje sporazumom volje ugovornih strana kojim one definišu i prihvataju međusobna prava i obaveze. Teoretičari upravnog prava se već duže vreme bave pojmom upravnog ugovora, dok se njihovo priznavanje u praksi uglavnom svelo na „formalno priznanje od strane sudova“, a u uporednom pravu i u posebnim materijalnim zakonima i zakonima o opštem upravnom postupku. U početku je upravni ugovor nastao i razvijen u francuskoj pravnoj teoriji, regulativi i praksi. Međutim, vrlo brzo je ovaj pravni rad prihvaćen u zakonodavstvu drugih evropskih zemalja, pre svega SR Nemačke. U Republici Srbiji institut upravnih ugovora je prvi put pravno regulisan 2016. godine.

**Ključne reči:** upravni ugovor, upravni akt, nemačko upravno право, Zakon o upravnom postupku RS

## ORIGINAL SCIENTIFIC PAPER

RECEIVED: 16. 01. 2023.

ACCEPTED: 20. 04. 2023.

UDC: 340.13(4-672EU)

342.4(497.11)

COBISS.SR-ID 134109705

doi: <https://doi.org/10.61837/mbuir010223114v>

# RULE OF LAW: LEGAL PRINCIPLE(S), EU RULE OF LAW MECHANISM AND CONSTITUTIONAL CATEGORY IN THE REPUBLIC OF SERBIA

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**Abstract:** *The rule of law is a civilizational achievement and a legal standard that limits the actions of public authorities to actions exclusively within the framework of the law in accordance with democratic values and respect for human rights and basic freedoms. Limitations on the actions of public authorities established by law are monitored by independent and impartial courts that draw the limits of the state's actions in the encroachment and violation of the rights and freedoms of citizens. Thus, the rule of law directly affects the lives of citizens and is a prerequisite for achieving equality before the law and protecting the rights of citizens. Today, the rule of law is a constitutional category in all democratic states. It is an integral part of all laws related to state regulation, criminal protection, media freedom. Most often, the legal standard that is referred to by politicians, holders of high power and high civil servants is publicly presented. One gets the impression based on the public discourse that there is no other legal topic, category, area that is mentioned more and that everyone refers to on the one hand, and the area that is most misused and violated, on the other hand. In this paper, the emphasis is placed on some of the existing definitions of the rule of law and the elements and legal principles that are an essential part of the rule of law in international frameworks are analyzed. The analysis of the mechanisms of the rule of law of the EU determines the constituent elements of the rule of law that are the subject of the newly established annual assessment of the state of the rule of law in the member states conducted by the European Commission. Also, a special focus in the paper is placed on researching the constitutional foundations of the rule of law in the Republic of Serbia and the institutional application of elements of the rule of law that are of particular importance for citizens and the process of European integration. integration.*

**Keywords:** rule of law, democracy, judiciary, corruption, media freedom

**JEL classification:** K12, K21

## 1. INTRODUCTION

Limiting the power of the ruler, the king, and the state regarding the citizens, and the application of state powers within the framework

of the constitution and laws has been a topic discussed in the work of a large number of theorists of state organization, philosophers, and lawyers since ancient times. Thus, Plato and Aristotle pointed to the first forms of state

organization with free citizens at the center of the political activity of the polis of that time.

The theoretical and philosophical considerations of state organization and the creation of a responsible, efficient political community in which the authority, power, and action of the state are limited by legal rules continued in the Age of Enlightenment. In his "Social Contract" in 1762, Jean-Jacques Rousseau proclaimed that in the relationship between the individual and the government during the creation of a political society by equal and free citizens, the state must be limited in encroaching on the private sphere of human life.

Since the Magna Carta, the Bill of Rights, and the Declaration of the Rights of the Man and of the Citizen after the Bourgeois Revolution in France there has been a large number of documents establishing a link between the rule of law (limiting the power of the state through law, the existence of independent courts and the right to a fair trial), respect for human rights and fundamental freedoms, and democratic organization of the state.

Essentially, the rule of law without respect for human rights is not quite reasonable, whereas certain rights such as the right to a fair trial and freedom of expression principally overlap and form the basis for further enhancement of the rule of law. Democracy, on the other hand, as a system of majority rule implies the inclusion of citizens in the decision-making process and protection from arbitrary and excessive interference in the rights, freedom, and dignity of every citizen by the democratically elected government. The rule of law and democracy establish the responsibility of the holder of public authority for respecting human rights, including the rights of minorities. It could be stated that the rule of law, human rights, and democracy represent a triangle of intertwined and connected legal principles, incorporated nowadays into the national legal systems of modern countries and previously accepted and developed through universal and regional international instruments adopted within the framework of the United Nations, the Council of Europe, the European Union, the African

Union, and the Organization of American States. Thus, for example, the universal character of the rule of law has been developed since the Universal Declaration of Human Rights followed by the International Covenant on Civil and Political Rights and the *United Nations Rule of Law Indicators*. On the African continent, the rule of law has found its place in the Constitutive Act of the African Union, the African Charter on Human and Peoples' Rights and the African Charter on Democracy, Elections and Governance. The American Convention on Human Rights and the Inter-American Democratic Charter have brought the rule of law to the American continent. The ASEAN Human Rights Declaration adopted within the framework of the Association of South Asian Nations has accepted the rule of law as a fundamental principle on the Asian continent as well. This list of universal and regional documents serves primarily as a confirmation that the rule of law is a civilisational achievement which does not imply uniformity and uniform implementation on all continents. Namely, in the definition and implementation of the main principles of the rule of law, historical, cultural, legal, political, and social differences have nevertheless been accepted, varying from country to country primarily due to the constitutional arrangements and traditions of each individual country.

Apart from being an achievement that has been in the process of constant development for the last 300 years, the rule of law is also characterized by certain retrograde processes. Dynamic processes of political development of the states and societies with evident constitutional and legal red lines and limitations of state intervention do not imply the disappearance of the arbitrariness of public authorities and the absence of violations of the rule of law. On the contrary, one gets the impression that the holders of political power and authority very often refer to the rule of law, while simultaneously allowing its abuse and violation. This applies particularly to the countries where populist and conservative political parties have been elected by the majority in democratic elections



and which, in the name of national interests, emphasize the full sovereignty of the state that has been “seized” by some international factors of power by imposing the rule of law, human rights, and democracy as universal values.

This paper presents the results of the research related to the very definition of the rule of law as a set of principles and analyzes the components of the rule of law presented by the Venice Commission of the Council of Europe. The second part of the paper analyzes the definition of the rule of law within the European Union, which as a supranational organization of sovereign states considers the rule of law one of the fundamental common values. The European mechanism of the rule of law, applied as a response to the challenges of gradual derogation and violation of the rule of law in some member states, is presented in particular. The third part of the paper refers to the constitutional foundation of the rule of law in the Republic of Serbia and the institutional implementation of elements of the rule of law that are of particular importance for citizens and the process of European integration.

## 2. THE DEFINITION OF THE RULE OF LAW AND ITS BASIC ELEMENTS

The rule of law as a constitutional and legal norm is quite often a subject of misunderstanding in public discourse. It is used in a narrower sense as a synonym for the state of law and legal security, but sometimes also for pejorative, invented and imposed standards imposed by Western countries, international organizations, civil society, and human rights advocates. Citizens’ lack of understanding of the content of the rule of law results in a negative attitude, particularly when referred to by public authorities but also by the representatives of international organizations and foreign countries. A particularly negative impression in the perception of the rule of law is created due to its conflicting relationship with full state sovereignty. This is an argument stated most frequently by popular and populist political options worldwide.

Certainly, one of the reasons for the negative attitude and confusion caused by the concept of the rule of law as a civilizational achievement, a category of contemporary social order and constitutional norms, is the existence of different definitions of the rule of law. More precise definitions of the rule of law include various elements that differ and depending on the author contain the same initial premises that spread diffusely and cannot be considered the final and definitive list of certain elements or real categories that constitute the essence of the rule of law. In an attempt to determine the basic components and differences in the conceptual definition of the rule of law, three definitions of the rule of law will be considered for the purposes of this paper. One is related to the theoretical and professional approach to the rule of law from the point of view of the representatives of the judiciary in Anglo-Saxon law, and the other two are definitions of certain institutions within the Council of Europe and the EU.

According to Bingham, the core of the rule of law consists of all persons and authorities within the state, whether public or private, who should be bound by and benefit from laws that are publicly promulgated, come into force, and are publicly administered in courts (Bingham, 2010:18). The rule of law consists of eight principles: 1) access to justice implying that laws must be accessible, intelligible, clear, and predictable; 2) exercise of laws and not the exercise of discretionary powers; 3) equality before the law; 4) exercise of authority in good faith and fairly without exceeding the limits of authority; 5) protection of human rights; 6) dispute resolution; 7) fair trial in fair court proceedings; and 8) the rule of law in the international legal order or the rule of law requires compliance by the state with its obligations both in international and national laws.

The Venice Commission, as a body of the Council of Europe, has paid special attention to the Rule of Law and provided a definition, criteria, and explanations of special elements of the rule of law in a document entitled the Rule of Law Checklist (Venice Commission, 2016).

The definition of the rule of law was agreed on after analysing the definitions by many authors belonging to different legal systems and state organisations, taking into account the differences of legal cultures and traditions.

The term rule of law implies a certain and predictable legal system in which everyone has the right, in accordance with the law, to be treated with dignity, equally and sensibly by all decision-makers and to have the opportunity to challenge these decisions before an independent and impartial court in a fair judicial procedure. Exercise of the rule of law is an obligation of all levels of public authority. The key principles contained in the concept of the rule of law are: 1) legality, including a transparent, accountable and democratic law-making process; 2) legal certainty; 3) prohibition of arbitrariness; 4) access to justice before independent and impartial courts, including judicial review of administrative acts; 5) respect for human rights; and 6) prohibition of discrimination and equality before the law (Venice Commission 2016:7).

There are individual benchmarks concerning all the key principles assessed when examining the implementation of the rule of law in a country. Thus, the criteria for legality are the rule of law, obeying the law, the relationship between international and national law, the process of enacting legislation, procedures for enacting legislation, exceptions in cases of emergency, the obligation to implement the law, and the conduct of private entities in the exercise of public authority. The criteria of legal certainty are: availability of legislation, availability of court decisions, predictability of laws, stability and consistency of laws, legitimate expectations, non-retroactivity, the principle “*nullum crimen sine lege* and *nulla poena sine lege*”, finality of court judgments, prevention of abuse of authority. Prohibition of discrimination and equality before the law are ensured by constitutional norms and laws. Detailed criteria are provided for the principle of access to justice. They refer to the independence and impartiality of the judiciary and the judges themselves, the autonomy and control

of the prosecution, the independence and impartiality of lawyers. The right to a fair trial is one of the fundamental human rights recognized by all international documents on human rights and fundamental freedoms. Access to justice as a principle of the rule of law includes the right to a fair trial and constitutional justice carried out by constitutional courts in reviewing the constitutionality and legality of national legislation (Venice Commission 2016:21). Criteria such as access to courts, presumption of innocence, as well as some other aspects, primarily the right to appeal, have been established for the right to a fair trial.

In addition to the key principles, some special challenges regarding the rule of law are also foreseen, such as: corruption and conflict of interest, data gathering and surveillance (gathering and processing of personal data, targeted surveillance, strategic surveillance, and video surveillance).

Particular challenges and decisions that may affect and undermine the rule of law have not been specifically listed in detail. They depend on the novel circumstances and challenges faced by individuals, the state, and the society. Such challenges are clearly stated within the EU mechanism of the rule of law and will be analysed in the following chapter.

## 2.1. THE RULE OF LAW BETWEEN THE WEST AND THE EAST

The rule of law is often perceived as an “invention” and a value of European countries and the USA or Western countries, Western civilization, Western democracies, the Western world, whose legal tradition is based on continental and Anglo-Saxon law. However, the Venice Commission itself has confirmed that historical, cultural, legal, political and social differences varying from country to country (primarily due to the constitutional arrangement and traditions of each individual country) have nevertheless been acknowledged in the definition and implementation of the main principles of the rule of law.

The traditions of individual countries relate to certain historical aspects of the development of society and state organisation. Hence, in this context, it is important to briefly review the peculiarities of the traditions of individual countries of the Eastern world. Fair treatment of the individual, distribution of justice, and limitation of the power of those in power, whether they are referred to as a ruler, king, or religious leader in the tradition and culture of eastern countries and civilizations, in the traditional sense, cannot be considered an achievement of only a group of countries located in a certain geographical area, as in this case, the West, with no contribution made by the Eastern, primarily Asian countries. Eastern traditions recognize the role of the individual but place greater emphasis on collectivism. For example, Asian traditional values in the context of the rule of law have quite a few points related to Confucian teachings. Asian societies use a certain number of Confucian doctrines emphasising the core of society is the moral progress of individuals, which leads to strengthening the community morals thus contributing to the creation of a benevolent and caring state. Confucian teaching expresses this rule in different ways, and one of the most significant is that, for example, the individual is more important than the family or community, whereas the family or community in turn is more important than the rulers themselves (Ehr-Soon Tay, 2007: 578). This is in accordance with the Chinese legal tradition, which developed in the distant past and advanced from “rule by rites” to “rule by law”. The historical genesis of the Chinese tradition confirms Confucian teachings recognizing greater importance of community rights or collective rights compared to individual rights (Shu-Chen, 2007: 616).

The Islamic tradition, relying on religious norms, perceives the division of power and human rights in accordance with the teachings originating from the “holy book”. According to some interpretations, the following human rights arise from it: the right to life, dignity, privacy, property, fair treatment before the court, equality before the law, freedom of

belief, freedom of assembly and freedom from religious persecution (Bahlul, 2007:528).

Despite the differences and the absence of certain components of the rule of law and the protection of specific human rights in some modern political systems on the Asian and African continents, the change of approach, or narrative, in international relations, from the rule of law as a Western value to the rule of law as a civilizational achievement of universal value (as it is essentially, together with human rights) would perhaps cause less animosity, contradictions, and refusal to accept the complete set of human rights defined and proclaimed by the UN documents. Certainly, the universality of the rule of law, human rights, and democracy must not be a justification and must be deprived of an aggressive and tendentious approach in order to prevent the use of force in international relations and the transformation of aggression into humanitarian interventions due to human rights violations, as it was the case with NATO pact aggression on the FRY in 1999, due to the “severe violation of Kosovo Albanians’ human rights”.

### 3. MECHANISM OF THE RULE OF LAW OF THE EUROPEAN UNION

The rule of law is a principle accepted by the EU and promoted as a common core value of the member states. The development of the rule of law within the EU is primarily the result of the judicial practice of the European Court of Justice and the introduction of this principle into the founding treaties, i.e. the European Union’s primary law.

The rule of law, together with respect for human rights and fundamental freedoms, and democracy, was established as a political criterion for the accession of new member states, at the European Council in Copenhagen (Copenhagen Summit 1993). It could be said that the rule of law, human rights, and democracy represent a triangle of intertwined and connected legal principles outlining the political systems of the member states, but also the principles the EU insists on in international relations, especially regarding the enlargement



process. Thus, the process of enlargement, especially from 1993 (Carrera, Guild, and Hernanz, 2013:1) to date, has become conditioned by respecting and improving the principles of the rule of law to enable political and institutional reforms and the transformation of the candidate states into democratic and economically prosperous societies during the process of negotiations and upon the eventual EU accession. This process is accompanied by respect, improvement, and implementation of key elements of the rule of law in the legal, institutional, and political structures of the new member states. However, in the post-accession period, a retrograde process of breaching and violating the principles of the rule of law, human rights, and fundamental freedoms occurred in some of the new member states due to the lack of a post-accession monitoring mechanism.

Persistent appeals for the necessity of strengthening the rule of law in the European Parliament, translated into the adoption of resolutions in regard to the member states that undermine the principles of the rule of law together with the activities of the European Commission, have resulted in the establishment of a special European mechanism of the rule of law applied as a monitoring and control system in the member states. It was established in 2020 and conceived as an annual analysis and careful monitoring of the state of the rule of law in EU member states by the Commission. The report on the rule of law contains 27 chapters regarding each individual country and evaluations of the previous year's state of the rule of law. The Commission determines the key elements of the state of the rule of law in the member states based on the area of application and the methodology adopted together with the member states. Before pointing out the individual elements, connections and effects of 2020 and 2021 European Rule of Law Mechanisms, it is important to present the definition of the rule of law provided by the Commission in its first report.

The rule of law implies that all public authorities always act within the limits

established by law in accordance with democratic values, respect for human rights, and under the supervision of independent and impartial courts. To put it differently, the rule of law is a set of principles including legality as a transparent, accountable, democratic and pluralistic process for enacting laws, legal certainty, prohibition of arbitrary exercise of executive powers, effective judicial protection by independent and impartial courts, effective judicial review of decisions, respect for human rights, separation of power, and equality before the law (COM/2020/580:1). Both a slight difference and a high degree of overlap in key principles are both evident when comparing the above-stated definition and the one provided by the Venice Commission of the Council of Europe.

The newly established European mechanism of the rule of law does not examine the state of all defined principles of the rule of law for each member state but is established based on four specific pillars subject to the assessment and evaluation, namely: the judicial system, the anti-corruption framework, media pluralism and other systems of institutional checks and balances (EPRS, 2021:15) All four pillars also include an assessment of functioning during the Covid 19 pandemic.

The efficiency of judicial systems that should ensure respect for the rule of law is measured by the parameters related to the independence, quality, and credibility of the judiciary, regardless of a model and tradition the national legal system of each member state has been established on. The establishment of national judicial councils, the method of appointing judges and the reform of disciplinary procedures for judges and prosecutors are crucial structural measures to protect against political pressures and ensure the independence of the judiciary.

Combating corruption requires a comprehensive approach and has to include preventive and repressive measures. A successful fight against corruption requires independent and impartial judicial systems that implement legislation effectively and conduct impartial investigations and prosecutions to result in



effective, proportionate, and dissuasive sanctions, including the return of the proceeds of corruption. Equally important is the existence of a legal and institutional framework, additional administrative and judicial capacities, and the political will to implement measures in the fight against corruption.

Media freedom and pluralism are essential elements contributing to the rule of law. Particular attention involving the analysis and monitoring is directed towards the independence of media regulatory bodies, transparency of media ownership, state advertising, safety of journalists and access to information.

Other systems of institutional checks and balances are related to the strengthening of the culture of the rule of law, constitutional reforms and assessment of the constitutionality of the system of checks and balances, the quality of the legislative procedure, expedited and urgent enactment of laws, the action of public ombudsmen and support to civil society organisations (COM/2021/700:22). In addition to the Commission, the institutional framework for monitoring and implementing the new European mechanism of the rule of law consists of the European Parliament and the Council of the European Union.

The European Parliament plays a significant role in monitoring the state of the rule of law, inter alia, by forming a special Democracy, Rule of Law and Fundamental Rights Monitoring Group within the Committee on Civil Liberties, Justice and Home Affairs. The idea of creating such a unique mechanism including both democracy and human rights had been a matter of debate at the EP sessions for a long time (P8 TA (2016)0409); however, eventually, the Commission's approach was accepted. In addition to the mechanism of the rule of law, this approach also involves special mechanisms for strengthening democracy and respect for human rights. The role of the EU Council is to help strengthen the rule of law through political discussions about individual member states based on the Commission's annual report. The Commission's substantive annual report within the European Rule of Law

Mechanism is part of the EU's more comprehensive action to support and defend its core values (COM/2021/700:3).

Those activities include an action plan for European democracy (COM/2020/790) and a renewed strategy for the implementation of the Charter of Fundamental Rights (COM/2020/711) and targeted strategies and action plans for progress towards a "Union of Equality" relating to gender equality, anti-racism, Roma equality, children's rights, rights of persons with disabilities, equality of LGBTIQ persons and implementation of social rights.

#### **4. THE RULE OF LAW AS A CONSTITUTIONAL CATEGORY**

Law as a set of norms that regulate the behavior of people in society is concretely indicated depending on the institutional application and to what extent the rule of law has been achieved, as a quantum of the quality of legal and political institutions. The rule of law in the 21st century exists only if there is a democratic constitutional judiciary, which implies that the constitution is based on the principle of popular sovereignty. Michel Troper points out that it is absolutely clear that the existence of the constitutional judiciary presupposes the concept of democracy, which is not defined as the rule of the people by the people themselves, but as the rule of the general will that is partially formulated under the influence exerted by the indirect or direct election of those who express it. (Troper, 2014:350) According to Kelsen, the constitution is the work of the founder of the state. Referring to this thesis in modern society, we come to the conclusion that the constitution is the political will of the majority or that the constitution promotes and protects the interests of the majority political elite. What is the basis of every state that has strong institutions is the assertion that the term constitution implies a set of legislative norms, that is, the state constitution as a "fundamental law" must be the foundation of the state's legal order. A catalog of citizens' freedoms and rights is a typical part of modern constitutions, the so-called "Bill of Rights" contained in the

first ten amendments of the United States Constitution and those amendments mostly have the character of prohibitions and orders sent to the bodies of the legislative, executive and judicial authorities. (Kelzen, 2010:366) However, to define the rights and obligations of the individual, the state, the individual towards the state and the state towards the individual, it does not mean establishing hypotheses about human behavior, but it means defining the rules and principles that everyone must adhere to. Compliance with these principles is controlled by the institutions. This attitude implies that only strong institutions can determine the difference between rational human, specific political and moral behavior. Injury can come from both sides, from the side of a natural person, an individual, but also from the side of the state, it depends on which form of political regime establishes and applies the provisions of the constitution. However, the measure of a strong state and the rule of law are exactly neutral institutions. Of the rights and obligations that we call democratic, some are political while others are not; those that are political help to secure those that are not and vice versa; those two types of rights and obligations usually go together, because a community that respects one kind usually respects the other, at least to a certain degree; however, neither right is valued merely as a means to other rights, nor do countries that claim to be democratic equally value both types or achieve equal success in securing them. (Plamenac, 2006:190) The topics of human freedom and equality within a society, which does not necessarily have to be a national society, but must be under the legislation of a constitution, are particularly important for this research work. It is about respect for human dignity as a measure of the strength of the constitution and institutions that guarantee the rule of law. This is supported by the Charter of the United Nations and the Universal Declaration of Human Rights from 1948 - where the world is conceived in such a way that the dignity of every human being will be respected. This is supported by the obligation arising from the Constitutional Treaty of the European Union,

where human dignity is put first. In order to talk about the rule of law as a constitutional category, it is necessary to separate natural human dignity (which indicates that we are all equal), which symbolizes man as a free and creative being, and social dignity on the other hand. Human dignity is immanent to each individual based on individual characteristics (genetics, environment, upbringing), while social dignity is to a serious extent conditioned by the social environment, political culture, national orientations, system of overall national values, international environment, economic position, social status, education and another. Today it is considered that the best (and not ideal) rule of law is a kind of Aristotelian politics that ensures respect for human freedoms and rights; thanks to that "A free man obeys and does not serve", he has bosses but not masters, he obeys only laws, thanks to laws he obeys men. (Mitrović, 2010:227) Can we talk about the democracy that most closely ensures a high degree of respect for the rule of law from a contemporary perspective? S. Delaillie Burns believes that such a democracy has not yet been achieved. It is the ideal of those who want a society of interdependent groups, which would be so organized that every man would have equal conditions to develop what is best in him; and such a society does not exist anywhere. (Burns, 2010:211) The 21st century is characterized by social erosion caused by globalization, this kind of decline of valorized quantum determines the new age, which is a time in which there is no central national responsibility, and therefore international agreements and international conventions do not have to be globally observed (nor are they) always be in the interest of national progress. The crisis of power caused by increasing sub-grouping, decentralization is embodied in the disintegration of the state and occurs in parallel with the erosion of its power and authority; traditional loyalties and bases of authority are becoming weaker, in order to gain loyalty, the state must provide evidence of whether it is capable of fulfilling its obligations and governing effectively. (Ricer, 2012:431) The guarantor of the implementation of the rule of law, both in

theory and in practice, must be the constitution, that is, the implementation of the rules has an institutional application through the constitutional form.

## 5. ATTITUDES OF THE CITIZENS OF THE REPUBLIC OF SERBIA ON THE STRENGTH OF NATIONAL INSTITUTIONS AND POLITICAL CULTURE

The Republic of Serbia, as a transitional block country, is a modern training ground for creating instant business, strengthening the gray economy, weakening national institutions and promoting other people's values. For the purposes of this research, the authors conducted a Questionnaire, which is methodologically based on the subject of the research. The research lasted from June 1 to August 31, and was conducted on the territory of the Republic of Serbia (without the province of Kosovo and Metohija). The minimum sample of responses to the questionnaire is 5% of the total number of citizens who are registered in the electoral roll of the Republic of Serbia.

To the question "To what extent does the political system influence the creation of a cultural environment in which institutions are respected/disrespected" in the Republic of Serbia, 78.1% of respondents answered that it has an extreme influence, 19.2% of respondents answered that it has a partial influence, while only 2.7% of respondents answered that the political system has no influence at all. Based on these answers, we can conclude that a serious majority of respondents are aware of the share of the political and economic environment that creates a system with consequential effects.

3. To what extent does the political system influence the creation of a cultural environment in which institutions are/are not respected?

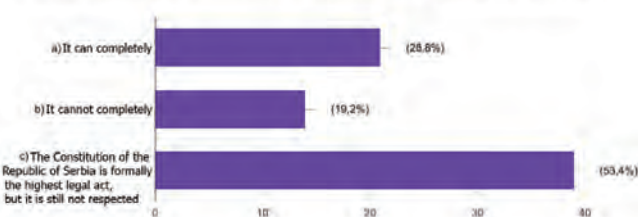


Graph 1.

Source: Questionnaire conducted by the authors

To the question "To what extent can the Constitution of the Republic of Serbia guarantee the Rule of Law" - 53.4% of the total number of respondents answered that the Constitution of the Republic of Serbia is formally the highest legal act, but that it is still not respected. 28.8% of the total number of respondents answered that the Constitution of the Republic of Serbia fully guarantees the rule of law, while 19.2% answered that the Constitution of the Republic of Serbia cannot guarantee the rule of law in the Republic of Serbia. This ratio of answers describes that the reality of legal application and respect for the institutions of the Republic of Serbia by the citizens and vice versa, the respect of the citizens by the institutions is extremely unfavorable, i.e. undemocratic correlational relationship. The constitution of a country is the highest legal act and as such it provides citizens with the certainty that they can exercise their rights, but at the same time it guarantees the application of rights through institutions that are supervised by the state. More than half of the respondents answered that the Constitution of the Republic of Serbia is only a declarative act, that is, an act that is not respected to the extent and in the way it should be. This percentage of responses is alarming and warns of the necessity of strengthening the institutions of the Republic of Serbia.

4. To what extent can the Constitution of the Republic of Serbia guarantee the rule of law?



Graph 2.

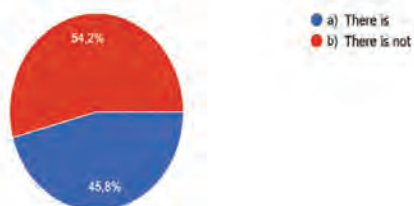
Source: Questionnaire conducted by the authors

To the question "In your opinion, is there responsibility (sanctioning) in case of non-compliance with the Constitution of the Republic of Serbia", 54.2% of respondents answered that it does not exist, and 45.8% that it does. From this ratio of percentage responses, we can conclude that there is practically a small difference



in trust or distrust of citizens in the existence of sanctions in case of non-compliance with the Constitution of the Republic of Serbia. This type of answer also indicates that it is possible to restore the trust of citizens, if the strength of institutional justice is at a higher level.

5. Whether, in your opinion, there is responsibility (sanctioning) in case of non-compliance with the Constitution of the Republic of Serbia?

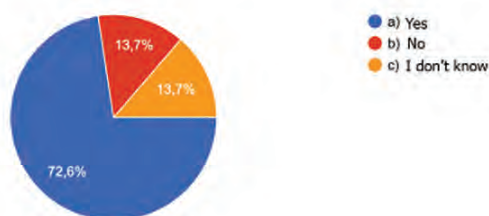


Graph 3.

Source: Questionnaire conducted by the authors

To the question “Do you think strong institutions are the basis of the rule of law”, 72.6% of the respondents answered yes - yes. However, the answers “no” and “I don’t know” were answered by an identical percentage of respondents - 13.7%. From this answer, we conclude that the citizens of the Republic of Serbia still firmly believe that strong and unshakable institutions are the bearers of the rule of law. That is, that the application of rights can only be achieved through institutional frameworks, which indicates a fairly high degree of political culture of the citizens of the Republic of Serbia.

6. Do you think strong institutions are the foundation of the rule of law?



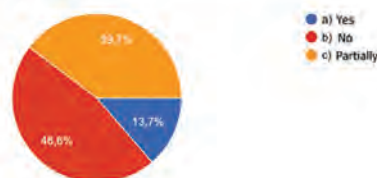
Graph 4.

Source: Questionnaire conducted by the authors

To the question “Do you think you can get effective protection of your endangered rights and freedoms in the Republic of Serbia”, 46.6% of respondents answered that they cannot get protection of their rights, while 39.7% of respondents answered that they can get partial protection of endangered rights, and 13.7% of

respondents answered that they can receive effective protection of endangered rights and freedoms in the Republic of Serbia. This ratio of responses is alarming and it requires urgent intervention of the state, as well as the non-governmental sector. If only 13.7% of respondents believe that in the Republic of Serbia they can receive protection of endangered rights and freedoms, then it follows that the Republic of Serbia is a legally unstable, politically insecure country where the rule of law does not rule, and citizens do not feel safe in such a living environment.

11. Do you think that you can get effective protection of your threatened rights and freedoms in the Republic of Serbia?

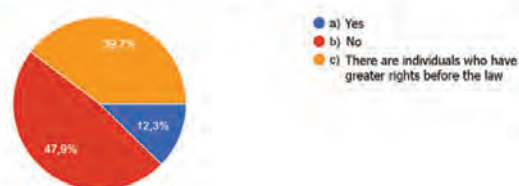


Graph 5.

Source: Questionnaire conducted by the authors

To the question “Do you think that all citizens are equal before the law” 47.9% answered - no. To this same question, 39.7% of respondents answered that “there are individuals who have greater rights before the law”, while only 12.3% answered that all citizens are equal before the law. What is specific here is that there is a very thin line between answer “b” and answer “c”. In fact, the majority of citizens of the Republic of Serbia believe that all citizens do not have the same status before the law and do not have the same opportunity to protect their own freedoms. Every country in the world exists because of the normal functioning of the order because that order is the symbol of the balance established from within.

12. Do you think that all citizens are equal before the law?



Graph 6.

Source: Questionnaire conducted by the authors



## 6. CONCLUSION

Every legal state in its most important regulations and documents is obliged to foresee situations in which the rule of law may be violated. William Hazlitt (1778-1830) pointed out that the development from a state of lawlessness to a state of law and the rule of law is not accidental, because if humanity wanted justice, it could have had it a long time ago. Nothing is different today. Therefore, people created the rule of law as a model by which they replaced justice as a value with the values of the rule of law. Based on the research conducted for the purposes of this work, we clearly see that the Republic of Serbia, as a country undergoing transition, has a rather negative reputation when it comes to the rule of law. This look gives her a collective, civic attitude. The questionnaire that was prepared for the purposes of this research decisively dealt with topics that are parameters of the rule of law and thus showed to what extent and in which areas intervention is needed in the legal and political system of the Republic of Serbia. The Republic of Serbia, as a candidate for EU membership, has the obligation to permanently measure the rule of law and the achievement of the progress of citizens' freedoms. Based on the research results, we note that the majority of citizens of the Republic of Serbia do not trust national institutions, that they believe that the Constitution does not protect the interests and freedoms of all citizens, which indirectly implies social (civil) inequality. This is certainly not a good position of the rule of law in the Republic of Serbia, nor is it a positive indicator of the Europeanization process. The essence of the quality of life in a country is that citizens, residents of that country have confidence in the institutions that implement

the law and guarantee equality, freedom, justice, fairness, human dignity, tolerance, security, order, peace, expediency, effectiveness to all citizens who live in it. The value element of the legal order is based on the elements that were mentioned, which, based on the responses of the respondents, participants in the conducted questionnaire, is not at a high level of development. The Republic of Serbia must necessarily work to strengthen institutions, to strive to ensure that all citizens enjoy their freedoms and exercise their rights, without restrictions. A human being has the freedom given by birth that he should live in any place in the world, including in the Republic of Serbia, in accordance with his personal nature. The cause of citizens' distrust in the legal and political institutions of the Republic of Serbia is precisely the transition cycle that Serbia has been going through for three full decades, followed by an unstable economic situation, a high degree of economic migration, unemployment, low incomes, pronounced politicization in all segments of society and life, a high degree of populist ideology at the head of which are corrupt and tyrannical elites. In the process of developing and strengthening social awareness, the Republic of Serbia must create independent institutions, non-corrupt educational, health, transition, economic and other systems, to introduce a set of legal regulations, which would, for example, among other things, prohibit all employees in the public sector from at the same time, they participate in political life as holders of political offices. Considering the geopolitical position of the Republic of Serbia and the current international positions, there is a serious potential for the Republic of Serbia to develop in a progressive direction and to position itself as a modern democratic state on the world stage.

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## VLADAVINA PRAVA: PRAVNI PRINCIPI, MEHANIZAM VLADAVINE PRAVA EU I USTAVNA KATEGORIJA U REPUBLICI SRBIJI

**Sazetak:** Vladavina prava je civilizacijska tekovina i pravni standard koji ograničava delovanje organa vlasti na postupanje isključivo u okviru zakona u skladu sa demokratskim vrednostima i poštovanjem ljudskih prava i osnovnih sloboda. Zakonom utvrđena ograničenja postupanja organa javne vlasti prate nezavisni i nepristrasni sudovi koji graniče postupanje države u zadiranju i povredi prava i sloboda građana. Dakle, vladavina prava direktno utiče na živote građana i predstavlja preduslov za postizanje jednakosti pred zakonom i zaštitu prava građana. Danas je vladavina prava ustavna kategorija u svim demokratskim državama. Sastavni je deo svih zakona koji se odnose na državnu regulativu, krivičnu zaštitu, slobodu medija. Najčešće se javno predstavlja pravni standard na koji se pozivaju političari, nosioci visoke vlasti i visoki državni službenici. Stiče se utisak na osnovu javnog diskursa da ne postoji nijedna druga pravna tema, kategorija, oblast koja se više pominje i na koju se svi pozivaju s jedne strane, a oblast koja se najviše zloupotrebljava i krši, s druge strane. U ovom radu akcenat je stavljen na neke od postojećih definicija vladavine prava i analizirani su elementi i pravni principi koji su suštinski deo vladavine prava u međunarodnim okvirima. Analizom mehanizama vladavine prava EU utvrđuju se sastavni elementi vladavine prava koji su predmet novouspostavljene godišnje procene stanja vladavine prava u državama članicama koju sprovodi Evropska komisija. Takođe, poseban fokus u radu je stavljen na istraživanje ustavnih osnova vladavine prava u Republici Srbiji i institucionalnu primenu elemenata vladavine prava koji su od posebnog značaja za građane i proces evropskih integracija. integracija.

**Ključne reči:** vladavina prava, demokratija, pravosuđe, korupcija, sloboda medija

UDC: 343.85:343.341(4)

343.85:323.28(4)

COBISS.SR-ID 134115337

doi: <https://doi.org/10.61837/mbuir010223127d>

ORIGINAL SCIENTIFIC PAPER

RECEIVED: 11. 01. 2023.

ACCEPTED: 20. 02. 2023.

# EUROPEAN POLICE COOPERATION IN THE COUNTERTERRORISM EFFORTS OF THE 21<sup>ST</sup> CENTURY

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**Abstract:** This paper explores the evolution of European police cooperation in the context of countering terrorism in the 21st century. The primary objective is to analyze the shifts in perceptions and responses to security threats following the pivotal events of September 11, 2001, with a focus on the European Union's efforts in formulating a unified counterterrorism policy. The theory of securitization provides a theoretical framework for understanding the perception and management of terrorism as a borderless threat. The analysis culminates in the exploration of Europol's pivotal role in facilitating coordination and information exchange among member states in response to dynamic and contemporary threats. In this context, the paper addresses cyberterrorism threats, exploring the international dimension of this crime and the inadequacy of local regulations in member states for prevention and defense. The paper concludes by highlighting the evolving landscape of European police cooperation, marked by collaborative frameworks and institutional adaptability in addressing emerging security challenges and preserving fundamental European values. Through the analysis of police cooperation development in this context, the paper contributes to a better understanding of the effectiveness and efficiency of EU counterterrorism efforts.

**Keywords:** Police Cooperation, European Union, Counterterrorism, Securitization Theory, Cyberterrorism

## 1. INTRODUCTION

The beginning of the new millennium was marked by the emergence of new security challenges, risks, and threats to which even the most powerful states were unprepared to provide an adequate response. The terrorist act on September 11, 2001, executed at The World Trade Center in New York and the Pentagon building in Washington, was a pivotal event that 'forever changed the world' and ushered in a new era of global terrorism (Kegley & Wittkopf, 2006). This terrorist act also raised

awareness among the member states of the European Union (EU) that they were all, in fact, confronted with a common terrorist threat, then embodied by Al-Qaeda. This realization contradicted the previous perception across Europe that each member state faced a distinct threat. This moment was crucial as it initiated the discussion on the development of a common EU policy to counterterrorism for the first time (Kaunert & Léonard, 2019).

The freedom of movement for people, goods, information, and capital, despite the



benefits it brings, has simultaneously necessitated the revision and enhancement of security strategies in all countries. This is to account for the newly created facilitation and opportunities for terrorists to promote their ideas, travel more easily, carry out violent acts, and achieve their objectives by spreading fear. Law enforcement institutions have a unique contribution to make to counterterrorism efforts (Deflem & Chicoine, 2018). EU member states are making efforts towards the consolidation of police and judicial cooperation in the counterterrorism, particularly after a series of impactful terrorist attacks in Belgium, the United Kingdom, Germany, Sweden, Spain, Finland, France, and the recent ones in Austria. Investigations conducted after these terrorist attacks in Europe indicate a collision between what it deems the 'free movement of terrorists across Europe' and the timely exchange of intelligence data about their plans within the EU (Bureš, 2016:57).

Traditionally, the state and the police are considered closely intertwined societal phenomena. However, the rapid legal development of the EU means that European police forces are no longer solely bound by a specific national legal context or territory in the way they once were (Ugelvik, 2018). Concerns of the international community regarding the proliferation of terrorism threats have been a primary driver for pooling the capacities of national states in the fight against a common enemy. The goals of cooperation in this field include understanding the nature and causes of terrorism, as well as developing policies and building an institutional framework for counterterrorism, which has become a transnational phenomenon (Ejova, 2016). Despite the EU institutions' attempts to enhance counterterrorism measures through various programs, strategic policy documents, adopting new legal instruments, and their harmonization/updates by member states with existing national legislation; convening expert groups for exchanging best practices; improving information exchange between security agencies; strengthening the capacities of agencies

(especially Europol and Eurojust); and coordinating activities related to preventing radicalization and enhancing cooperation with third countries, the overall impact of the EU on how member states implement counterterrorism actions remains quite limited due to a lack of relevant competencies and tools (Bures & Bätz, 2021). The level of integration in police cooperation in the EU can be measured by analyzing institutional capacities, legal frameworks, and cross-border professionalism and collaboration (Boer, 2014). Thus, the EU adopted an EU Action Plan on combating terrorism, calling for the strengthening of police and judicial cooperation among member states, the development of a legal framework for counterterrorism activities, and the prevention of the financing of terrorist organizations (Потемкина, 2011). The European Union's Action Plan on combating terrorism has been expanded, updated, and revised countless times since its first appearance at the end of September 2001. While the international community generally views the plan to combat terrorism as useful, albeit somewhat cumbersome, a closer and more systematic analysis of the Action Plan highlights a series of challenges in the EU's counterterrorism policy.

Cyberattacks and online threats, jeopardizing critical infrastructure through the internet, pose one of the key challenges to the EU's security policy in the 21st century. Therefore, ensuring the security of the EU's cyberspace is of paramount importance for safeguarding individual freedoms, the right to informational self-determination, and democracy as a whole – fundamental European values.

## 2. THE SECURITIZATION OF TERRORISM AS A BORDERLESS THREAT

The theory of securitization has its roots in the so-called Copenhagen School of International Relations, serving as an analytical framework to understand how traditional and non-traditional security threats are perceived and managed by states (Buzan, Wæver, & Wilde, 1998:24). Emerging in the 1990s, the

theory of securitization represents a kind of compromise between traditional and modern interpretations of the security concept, expanding the notions of security. In the traditional approach, the focus of security studies is the 'phenomenon of war' (Walt, 1991:212; Vultee, 2010). However, with the broadening concept of security, military power is no longer the sole focus. Other critical issues such as arms control, pollution, diseases, terrorism, or economic recession, which can be perceived as threats, come into consideration. Barry Buzan, Ole Wæver, and Jaap de Wilde argue that securitization occurs when an agent identifies and communicates a specific problem as an existential threat to the referent object. According to them, an existential threat jeopardizes the 'essential quality of existence' of the referent object. Addressing the threat becomes a priority and replaces the 'normal.' They characterize existential threats as: 'If we do not address this issue, everything else will be irrelevant (because there will be no 'us,' or we won't be free to handle it on our terms)' (Van Damme, 2008). More precisely, when an issue is securitized, a political actor portrays it as an existential threat, an immediate danger to the physical, cultural, or social health of the community. As such, it gains a certain degree of public consensus for the use of extraordinary measures to combat that threat (Buzan & Wæver, 1997). In the context of counterterrorism, securitization theory helps analyze how terrorism is framed as a borderless threat, transcending conventional notions of national security. The theory posits that security issues become "securitized" when political actors depict them as urgent matters requiring extraordinary measures to protect the societal order. In the case of terrorism, securitization involves framing it not merely as a criminal or political issue but as an imminent danger demanding exceptional responses, often involving the suspension of standard legal and political procedures. This theoretical lens aids in understanding the construction of terrorism as a borderless menace, influencing policy decisions, and shaping the responses of states and international actors in the global security landscape.

### 3. EUROPEAN LEGAL FRAMEWORK FOR COMBATING TERRORISM

The legislation at the EU level in the field of police and security is extensive (Hufnagel, 2018). When it comes to the efforts of these institutions in the fight against terrorism, the EU began institutionalizing counterterrorism cooperation among its member states in 1992, following an extended period of exposure to terrorist attacks (Unnerbäck, 2018). In explaining the increased level of cooperation in the fight against terrorism among EU member states in recent years, some scholars use the concept of 'collective securitization.' The 11th of September has been used as a pivotal event, after which EU member states ceased to perceive the phenomenon of terrorism as an isolated threat to a single state. Instead, there was a growing awareness of a collective threat that required a unified response. This was a crucial moment that, for the first time, opened the possibility of developing a common EU counterterrorism policy (Kaunert & Léonard, 2019).

When it comes to the number of European legal and institutional measures to combat terrorism, they have been adopted and exist in international law. However, beyond quantity, it is essential to question the quality of all these laws and institutions. Specifically, one must ask whether Europe is safer from terrorism today. Some experts argue that Europe's counterterrorism efforts are, at best, only administrative achievements without operational effects. Others, on the other hand, take a more positive stance, claiming that the counterterrorism framework has a real and positive impact on the efforts of EU member states in the fight against terrorism, measurable through a reduction in terrorist activities. The Council of Europe has been addressing counterterrorism issues since the 1970s through activities built on three foundational pillars: strengthening legal capacities against terrorism, safeguarding fundamental values, and addressing the root causes of terrorism. The Council of Europe adopted the Convention on the Prevention of Terrorism to enhance the effectiveness of existing international documents combating

terrorism. The Convention aims to bolster the efforts of member states in preventing terrorism and outlines two ways to achieve this. First, it identifies specific acts constituting and defining criminal offenses. Second, it enhances cooperation in preventing terrorism, both at the national and international levels. This convention is unique compared to other legal frameworks in the European Union, as it provides protection for fundamental human rights against terrorism (Tehrani, Manap & Taji, 2013). As the most important instrument of EU policy in the fight against terrorism, the "EU Action Plan for Combating Terrorism" is considered. It has been expanded, updated, and revised numerous times since it first appeared at the end of September 2001. While the Action Plan has generally been viewed as useful, it is perceived by some as somewhat cumbersome. However, a closer and more systematic analysis of the Action Plan focuses on a series of issues in EU counterterrorism policy. Some authors argue that the Action Plan for combating terrorism implied an administrative approach to governance, which contradicted the controversial and ambiguous nature of the political struggle against terrorism. Therefore, serious implementation problems were expected. This inconsistency was exacerbated by the fact that the rushed policy following major terrorist attacks led to a significant overload of the agenda, neglecting the strategic definition of EU efforts in the fight against terrorism (Bossong, 2008).

The response to terrorist threats is organized at various levels within the European Union. This primarily involves actions at the national level of EU member states, as well as the adoption of legislation at the EU level. New EU institutions have been created to facilitate seamless cooperation in the fight against terrorism within the Union and with third parties. One institution that has gained power in the past two decades in the EU's fight against terrorism is the European Police Office – Europol.

#### 4. PERSPECTIVES ON POLICE COOPERATION IN COUNTERTERRORISM

Perspectives of police cooperation in the fight against terrorism within the EU can be observed through the activities of organizations and institutions that, within their mandates, carry out a range of both preventive and repressive measures to protect people's lives and property, as well as cultural and natural assets from terrorism threats. First and foremost, it is necessary to analyze the activities of Europol, considering the obstacles it faced regarding the lack of trust from the law enforcement agencies of member states and the limitations that arose from these issues. Additionally, bearing in mind that Europol lacks arrest powers, it is essential to highlight arrests resulting from successful investigations to which Europol contributed indirectly. Europol is involved in this aspect of police work, albeit indirectly. However, despite the EU's promotion of Europol and the expansion of its mandate after 2004, giving the agency significant potential to fulfill police functions fully, this has been achieved only in some areas. The EU sought to promote Europol and strengthened its mandate after September 11 through the Hague and Stockholm programs. Still, these efforts were successful only in certain aspects of combating crime, with minimal success in the fight against terrorism. It became evident that competent authorities in member states trust Europol and consider it to offer significant added value only in specific areas, especially when it comes to the fight against terrorism. Moreover, the challenges Europol faces, such as the varying legal frameworks and operational practices across member states, hinder its effectiveness in combating terrorism uniformly. The differences in legal systems and information-sharing protocols among EU nations often create obstacles in seamless collaboration. Despite these challenges, initiatives like the European Counter Terrorism Centre (ECTC) within Europol demonstrate the ongoing efforts to enhance coordination and information exchange.



The expansion of Europol's role and the establishment of joint investigation teams (JITs) illustrate attempts to address the multifaceted nature of terrorism. JITs, composed of law enforcement officers from different countries, enable a more integrated and collaborative approach to investigations, aiming to overcome jurisdictional hurdles. While Europol plays a vital role in facilitating police cooperation against terrorism within the EU, ongoing efforts are essential to overcome challenges and further strengthen collaborative mechanisms for a more effective response to the evolving nature of terrorist threats.

## 5. CYBER TERRORIST THREATS

The rapid advancement of technology, alongside its immense benefits for humanity, has also given rise to the threat of cyber terrorism, which has become one of the most alarming global challenges of the 21st century. Cyber terrorist attacks are increasingly becoming an urgent issue and problem due to the lack of consistent international agreements and decisions for a unified response to these types of threats. In the virtual world, cyber criminals and cyber terrorists use computers as weapons, while the computers of potential victims serve as targets. Terrorists execute their attacks using various methods, and the consequences extend beyond the virtual realm, impacting real-life situations by causing property damage or loss of life (Tehrani, Manap & Taji, 2013). Cyber terrorists exploit the cyberspace to create disturbances, fighting against governments to achieve their goals by utilizing all possible means. Cyber-attacks manifest in two forms: attacks against data and attacks against management systems (Lemos, 2002). The growing concern about potential cyber terrorism threats in the EU has prompted member states and their institutions to make efforts to combat this threat. Considering that cyber terrorism is an international crime, the local regulations of individual member states alone are insufficient for preventing and defending against such attacks, requiring a transnational response. Without the assistance and

involvement of international institutional capacities, preventing cyber terrorism is challenging. The European Committee on Crime Problems of the Council of Europe established a specialized commission on cyberspace in 1997. This commission was assigned to address the issue of "criminal procedural law related to information technology," cyber-crimes, and international cooperation in criminal law when necessary. The European Committee on Crime Problems in Cyberspace adopted the Convention on Cybercrime, also known as the first "international convention on crimes committed through the use of the internet and other computer networks" (Clough, 2012). A central challenge for cybersecurity policy in the EU is the absence of a systematic, quantitative method for detecting and spreading information about cyber security threats. Neither national nor international institutions have the technical capabilities or legal authority needed to register all cyber-attacks on the Internet, businesses, government agencies, or private accounts.

The absence of a systematic, quantitative method for detecting and disseminating information about cyber threats poses a central challenge for cybersecurity policy in the EU. Neither national nor international institutions possess the technical capabilities or legal authority required to register all cyber-attacks on the Internet, businesses, government agencies, or private accounts. Recognizing the transnational nature of cyber terrorism, the EU has realized that local regulations of individual member states alone are insufficient for preventing and defending against such attacks. This realization has prompted member states and their institutions to make concerted efforts to combat cyberterrorism.

The EU response to cyberterrorism involves enhancing cooperation, coordination, and information exchange among member states. The continuous updates and revisions of the EU Action Plan on combating terrorism also encompass measures to address cyber threats. However, the evolving nature of cyber threats requires ongoing adaptation and collaboration,



necessitating the involvement of international institutional capacities. The efforts to combat cyberterrorism reflect the EU's commitment to a transnational response, acknowledging the interconnected and borderless nature of cyber threats in the contemporary security landscape.

Furthermore, the rise of cyber terrorism has highlighted the need for enhanced international cooperation and information sharing to effectively counter these threats. The EU has recognized the significance of collaborative efforts in developing comprehensive strategies to address cybersecurity challenges. Initiatives such as the European Cybersecurity Act aim to strengthen the EU's overall resilience against cyber threats by establishing a framework for certification and cooperation among member states. In response to the evolving nature of cyber threats, EU institutions have also focused on fostering innovation in cybersecurity technologies. Research and development initiatives, along with public-private partnerships, play a crucial role in staying ahead of cyber adversaries.

## 6. CONCLUSION

European police cooperation in the counterterrorism efforts of the 21st century has witnessed a dynamic evolution, marked by the strengthening of institutions and collaborative frameworks. Europol, as the EU Agency for Law Enforcement Cooperation, plays a crucial role in fostering coordination and information exchange among member states. Its mandate has expanded over the years to encompass a spectrum of counterterrorism activities, reflecting the dynamic nature of contemporary threats.

In the face of traditional and emerging challenges, European police forces have increasingly recognized the necessity of synergized efforts. Europol's engagement in counterterrorism extends beyond physical threats to encompass the growing realm of cyber threats and the potential misuse of artificial intelligence technologies by terrorist organizations. As technological advancements offer new avenues for terrorist activities, the focus on cybersecurity becomes paramount. Enhancing cyber resilience and international collaboration in addressing cyber threats will be integral to the effectiveness of European police cooperation in the evolving landscape of counterterrorism.

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## EVROPSKA POLICIJSKA SARADNJA U BORBI PROTIV TERORIZMA U 21. VEKU

**Sažetak:** Ovaj rad istražuje evoluciju evropske policijske saradnje u kontekstu suprotstavljanja terorizmu u 21. veku. Primarni cilj je analizirati promene u percepciji i odgovorima na bezbednosne pretnje nakon ključnih događaja od 11. septembra 2001, sa fokusom na napore Evropske unije u formulisanoj jedinstvenoj antiterorističkoj politici. Teorija sekuritizacije pruža teorijski okvir za razumevanje percepcije i upravljanja terorizmom kao pretnjom bez granica. Analiza kulminira istraživanjem ključne uloge Evropola u olakšavanju koordinacije i razmene informacija među državama članicama u odgovoru na dinamične i savremene pretnje. U tom kontekstu, rad se bavi pretnjama sajberterorizma, istražujući međunarodnu dimenziju ovog zločina i neadekvatnost lokalnih propisa u državama članicama za prevenciju i odbranu. Rad se završava naglašavanjem evolutivnog pejzaža evropske policijske saradnje, obeleženog okvirima saradnje i institucionalnom prilagodljivošću u suočavanju sa novonastalim bezbednosnim izazovima i očuvanju osnovnih evropskih vrednosti. Kroz analizu razvoja policijske saradnje u ovom kontekstu, rad doprinosi boljem razumevanju efektivnosti i efikasnosti antiterorističkih napora EU.

**Ključne reči:** policijska saradnja, Evropska unija, protivterorizam, teorija sekuritizacije, sajberterorizam

## SOCIAL SCIENCES

PRESENTATION OF A MONOGRAPH AUTHORED BY

ALEKSANDAR HALMI, NEĐO DANILOVIĆ AND DŽEVAD TERMIZ

# Emeritus dr. sc. Vlatko Previšić, full professor EVALUATION STUDIES IN SOCIAL SCIENCES

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The monograph *Evaluation studies in the social sciences*, authored by regular professors Dr. Aleksandar Halmi, Dr. Neđo Danilović, and Dr. Dževad Termiz, is an original scientific work in the field of Methodology of Social Sciences written on a total of 401 pages of text. The text is divided into eight units with a larger number of chapters and subchapters (1. Preface, 2. Introductory considerations and 3. Introduction to evaluation and evaluation research, 4. Paradigmatic discussion, 5. Theory-driven evaluation programs, 6. Types of evaluation programs, 7. Quantitative evaluation programs, 8. Qualitative evaluation programs. It includes 19 tables and several schematic representations, a large number of instruments that can be used in the evaluation of the program, as well as 245 works listed in the list of literature and an index of terms.

The content of the monograph fully corresponds to the content included in the curriculum of the Methodology of Scientific Research course, and to a large extent to the content from the course methodology of sociological and pedagogical research. The contents are appropriately thematically connected, which contributes to their easier understanding and mutual connection. In the monograph, the authors start from the thesis that the

methodology of evaluation research is difficult to understand outside the broad reference framework of theoretical-scientific and meta-theoretical conceptions, but also the specific sociocultural, political and economic context within which the evaluation takes place. It is at the same time the specific social ecology of the evaluation program, which the authors especially emphasize in the monography. Therefore, evaluation programs and evaluation research are objective facts but also socially constructed categories shaped by a specific context within which different participants operate: clients/users, multiple stakeholders, politicians, decision makers and evaluators.

As part of that, the authors apostrophize some contemporary trends that shape the methodology of evaluation programs and evaluation research. The first trend is related to the gradual strengthening of the program theory of evaluation, which along with the development of a specific research methodology leads to the generation of a unique and consistent conceptual-categorical system within this disciplinary area. The second trend follows the still dominant quantitative approach characterized by the comprehensive development of analytical procedures of a high level of statistical and mathematical formalism. This

trend is developing within the traditional positivist-functionalist paradigm in which survey and experimental research and designs are the main research strategy and fundamental feature of the evaluation program. towards every form of “quantophrenia” and “metromania” in the field of social and humanities. A distinctive feature of qualitative evaluation methods is the development of models for assessing user-oriented evaluation. At the same time, the trends of reconciliation and finding consensus between traditional and alternative approaches to evaluation programs are strengthening. These new trends bear the epithet of the so-called “triangulation perspectives” or “multimethod operationalism” which mean the combination of research strategies into a unique interdisciplinary project that takes place through a generic research and problem-solving methodology (problem-solving approach).

The methodological suitability of this study ensures a rich theoretical-conceptual basis for strengthening existing knowledge and practice, as well as a reference meta-theoretical framework for the development and implementation of formative and summative (causative) evaluation programs. In the monograph, the authors developed a multidisciplinary and eclectic view of many new approaches that have recently developed in the field of theory and methodology of evaluation research. The goal is to help practitioners to quickly and effectively undertake evaluation research that induces planning programs and management of the project cycle and is intended for the process of making social and politically relevant decisions in those substantive areas where public health and social programs take place. The text is designed in the form of a modern monograph-textbook and methodically fully adapted to the subject of evaluation research methodology for which it is intended.

The monograph contains a rich list of 245 literature sources. The cited literature is completely relevant to the evaluation content discussed in the monograph and indicates the author's great awareness of the subject of evaluation studies in the social sciences, and

especially their knowledge of recent findings in that area. This monograph definitely represents the most extensive and appropriate text in the area of research on evaluation programs in the social sciences. In fact, there are no complete works in this area in our country, and in the professional and scientific literature, only one part of this extensive problem is usually dealt with, which makes it difficult to get a more detailed insight into all the methodological possibilities when creating a program for assessing success and efficiency in the social sciences. This can be considered the reason that both in the field of social and humanities and in the field of sociology and political science, such research is rarely conducted, and when it is conducted, not all methodological possibilities of designing evaluation models are regularly used to assess the evaluability of a program. The special value of this monograph is that, in addition to the excellent theoretical treatment of the problem, which will enable students, evaluators at various levels and other users to gain a complete insight into the topic of evaluation, the attachment also provides materials that can be directly used in practice and on the basis of which evaluators can to gain appropriate experience for later independent conduct of such research. Until now, such materials have been very rarely represented in our methodological literature and difficult to access for our students, evaluators and researchers, which is not the case with world literature. It is precisely in this world literature that the authors find the appropriate cited examples.

Although it is a monographic-textbook work, considering the above, we can consider this text as an original scientific work in our country, because it represents a specific synthesis of the area of quantitative and qualitative evaluation programs and a complete presentation of an entire area of research methodology as it has been in these areas so far did not exist.

The meanings of concepts and terms in this monograph are harmonized with the usual meanings of concepts and terms in the field of evaluation research methodology, and are



understandable to users. Its added value is that it contributes to overcoming the conceptual confusion that exists in our country in the field of meaning related to this problem, and it gives appropriate names to concepts that have not been named in our country so far. Namely, in our country, different authors use different meanings to describe the same phenomena, which makes scientific and professional communication difficult. One of the features of this text is that it overcomes the terminological inconsistency that occurs in most of the works in this area in our country.

Despite the complex scientific and professional language in which the text is written, which arises from the complexity of the issues being addressed, as well as difficulties related to the lack of appropriate meaning in us, the text is linguistically and conceptually clear and understandable to its intended users.

In the conclusion of the presentation of this monograph, it is necessary to emphasize that it represents a very extensive presentation of the methodology of evaluation research with numerous examples of implementation and materials for the implementation of such

research. Therefore, this text, with the richness of its content, its modernity and the way of its presentation, surpasses similar texts in our country, and especially the previous manuals of evaluation. The wealth of content it presents, its transparent and clear conceptualization of content make it a contemporary monographic-textbook work of an enviably high level. Therefore, this monograph fully meets the requirements of scientific and teaching literature in the field of scientific research methodology in the social sciences. Therefore, we can recommend it as a source of literature for courses in the field of research methodology at undergraduate, graduate and postgraduate studies in social sciences and humanities.

According to everything, the manuscript can also be classified as monograph-textbook works at universities, faculties and colleges. As this is a systematic comprehensive and quality manuscript, the monograph *Evaluation studies in the social sciences* is essential for scientists, researchers, scientific practitioners and students in the field of social sciences at all levels of study.

## SOCIAL SCIENCES

PRESENTATION OF A MONOGRAPH AUTHORED BY  
ACADEMICIAN PROF. DZHEVADA TERMIZA, PhD**SOCIAL SCIENCE METHODOLOGY  
(THIRD REVISED EDITION 2022)****Prof. Ph.D.Sc. Alexander HALMI***University of Zadar and Zagreb*[aleksandar.halmi@gmail.com](mailto:aleksandar.halmi@gmail.com)

Monograph “Methodology of social sciences”, Akademika.Prof.dr. Dzevada Termiza, a distinguished methodologist and member of the International Association of Social Science Methodologists, is so far one of the most comprehensive books in the field of social science methodology in Southeastern Europe.

The term “methodology” is increasingly used here in certain scientific disciplines, as well as in professional circles. This probably testifies not only to the openness of the language and the need of some disciplines for the best possible mutually developed communication symbols, but also to the fact that through individual terms (concepts) the diversity of cognitions and meanings are synthesized in order to more effectively research and explain contemporary tendencies in different areas and branches of methodology and logic researched from general and general theories of high scope, to specific methodologies in the field of fundamental and applied disciplines such as: political science, criminology, educology, psychology, sociology and social work. However, sometimes the new terminology used by the author can mean only formal structural changes, an attempt to find a way out of real difficulties in new forms. That's why every new term must have a new content or a new meaning, especially if terms from other disciplines are accepted.

In the book “Methodology of Social Sciences”, Dzevad Termiz presented in an appropriate manner part of his works created in recent years, which actualize the problems of methodology, but also of “meta-methodology” in a wider critical context, on the one hand and on the other indirectly they should “serve” to the author as an argument for his effort to interdisciplinarily elaborate the methodological topic, regardless of all its complexity, in the context of understanding different methods and modes of research, from quantitative, qualitative, mixed or triangulation and evaluation methodology.

The book is otherwise conceived in three parts and XV chapters with a preface and introductory considerations.

The first part of the monograph, in the first chapter, covers the theoretical and logical foundations of social science methodology, which includes an introduction to social science methodology. The author starts from the systematization of science and its taxonomization, where he states the specifics of social sciences and states the concept of methods and methodologies of sciences. The question of methodology as a scientific discipline is raised, as well as the research goals of this special discipline.

In the second chapter, the author enters the very concept of scientific research (second part), without which methodology would be a pointless logical discipline in itself. We state

that the author himself was the protagonist of numerous empirical researches, especially within the scientific institutes in Bosnia and Herzegovina. The general concept of research and scientific research is given, as well as the structure and typology of research, and the types of scientific research.

The third chapter includes the logical foundations of scientific research, where it enters into the very concept and structure of logic, which gives the epistemological level of the methodology. The author comprehensively examines logical variables and constants as well as logical expressive functions, which leads to logical valence and rules of true thinking, which is a necessary part of every research, be it ontological, epistemological or methodological.

The fourth chapter lists the basic methods of logical and scientific knowledge: analysis, synthesis, abstraction, specialization, concretization, generalization, deduction and induction. These are the basic forms of every epistemological and epistemological construction and structuring of the scientific method as such, where the place and role of other basic forms and processes of scientific knowledge are stated, such as: proving and refuting (Popper), axioms and postulates, which form the basis of “positive” science. on society (Durkheim). There is a wide discussion about the hypothetical-deductive general scientific method, statistical method, modeling method, axiomatic method and comparative method, which is particularly interesting in the field of political science and other disciplines (social work and sociology, etc.).

The fifth chapter consists of the basic theoretical-methodological directions in understanding the scientific knowledge of society. The author lists seven methodological trends or paradigms that were dominant in the history of the philosophy of social sciences, and are still relevant today. The first is the positivist theoretical-methodological direction, which consists of representatives of English analytical philosophy (Comte, Bacon, Mill, etc.). This is opposed to the French positivism of Emile Durkheim, especially in the work “Rules of Sociological Method”. This approach experienced its greatest

momentum in the scope of the Vienna circle of “logical positivists” (Carnap, Neurath, Wittgenstein). Of course, then some important differences in the author’s understanding of positivism emerge from this. As a very important theoretical-methodological approach, the author cites structuralism (C.L. Strauss), which is divided into: phenomenological structuralism (Husserl, Schutz), genetic structuralism (responsible for genealogical research), modeling structuralism and the structuralist method, which developed for a long time in social-humanistic sciences. As a significant reinforcement and amplification of positivism, the author introduces the notion of functionalism, which still dominates sociological methodology (Milić, Supek, Kuvačić), which further leads to structuralism. There are criticisms of functionalism from some authors who advocate the genetic approach, considering that society is not a morphostatic structure but a changing and dynamic one, and development approaches such as behaviorism and non-behaviorism should be brought into focus. Of course, these approaches and directions consider the possibilities of introducing experimental methods and models into the social sciences and thereby retrogradely reinforce positivism, which is also its shortcoming. The fifth direction that the author considers is historicism or the axiological theoretical-methodological direction. This direction is developed as part of the South German neo-Kantian school (Dilthey, Windelband and Rikert). This direction is especially considered by Dilthey in his study “Introduction to spiritual sciences”, which is further developed by Weber as part of the “sociology of understanding” and thus opens the way to the developed axiological method. Criticism of that method was particularly developed in the German Institute for Social Policy (Schmoller), which believes that science cannot be “value-neutral” but should be at the service of man. The pinnacle of the theoretical-methodological directions is represented by the dialectical theoretical-methodological approach, which experiences its greatest scope in Hegel’s dialectical triad, which opens up German idealist philosophy, which was until recently the dominant approach until

the phenomenological school appeared on the scene, led by: Husserl, Schutz, of which developed numerous phenomenologies all aimed at the study of human consciousness and their categorical concepts such as meaning and meaning.

The second part of the monograph focuses on the process of scientific research, where the author links theoretical and empirical scientific research and emphasizes their mutual synergism. Just as theoretical research would not be possible without empirical research, so is the reverse postulate that empirical research is not possible without theoretical considerations.

Thus, in the sixth chapter, this interdependence is stated. In doing so, the author starts from the formulation of the ruling theoretical paradigm, which he develops through various research strategies related to certain theoretical and methodological directions that were the subject of the author's earlier reflections.

In the seventh chapter, the author develops a phased approach to the process of designing scientific research. The first part begins with the conceptualization and reconceptualization of the topic or problem that precedes the development of the research project, where some basic phases are stated such as: determining the title-topic of the research, formulating the research problem, determining the subject of the research, setting the research objectives as well as the hypothetical framework that follows as well as determining indicators that will be used to test or refute hypotheses. Special attention is directed to models of research projects that refer to models of complex design, some of which are related to quantitative and others to qualitative research, and end with their mutual combination or triangulation.

In the eighth chapter, the author states how data is collected in scientific research. In doing so, it defines what data, facts, variables and indicators are, and the most commonly applied methods of data collection are listed, such as: observation, examination, experiment, method of analysis (content) of documents, biographical method and case study methods. Furthermore, the interrelationships of the

applied methods of obtaining data in the research are stated.

In the ninth chapter, the author states some specific problems of obtaining factual, valuable and other data by various methods. Thus, the specifics of obtaining qualitative empirical material, quantitative data, as well as the problem of their mutual connection are stated. Qualitative methods of data collection and analysis are based on the hermeneutic and phenomenological tradition, which in further development is supported by interpretivist and constructivist paradigms, while quantitative methods rely on positivist and post-positivist paradigms and perspectives such as: functionalism and structuralism.

In the tenth chapter, the author lists measurement problems in the social sciences that contribute to quantitative formalism and the development of complex stochastic procedures, the richness of which can be seen in his famous study: "Statistical data processing in empirical social research" (2020). Here he states how the measurement is carried out during the actual realization of the research, and it is carried out based on the application of scales from which four measurement scales were developed: nominal, ordinal, interval and ratio, which further form the Likert, Bogardus, Thursten scale, to which certain statistical procedures are linked. depending on the type of scale, they can be: parametric and non-parametric.

In the eleventh chapter, the author presents how data processing is carried out, which can be manual mechanographic and computer based, depending on the complexity of the collected empirical material, which is processed by univariate, bivariate and multivariate analysis.

The author devotes the third part of the monograph to testing hypotheses and drawing conclusions based on data. Here he links the type of scale with the qualitative and quantitative characteristics to which they are linked with the application of certain parameters which, depending on the parameters, conditions the application of certain statistical procedures or tests. Of course, it is not possible to determine statistical procedures for all research in the



social sciences. Suffice it to say that within each discipline (economics, political science, law, social work, etc.) specific statistical techniques are applied (Lukić, R. "Methodology of Law", Blagojević, S. "Methodology of Law", Termiz, Dž. Basics of Social Work Science Methodology", Termiz, Dž. and Milosavljević, "Introduction to Political Science Methodology" and Practicum in Political Science Methodology, Milosavljević, S. and Radosavljević, I. "Basics of Political Science Methodology").

In the twelfth chapter, the author states how to test hypotheses and draw conclusions based on data. He states that in methodological literature there are two concepts of hypothesis testing: confirmation and derogation or refutation. The first concept is widely applied in the social sciences, but no less valuable is Popper's concept of refutation, which can be expressed in two positions: the hypothesis should be checked so that its position will be refuted according to the rules of the method of proof and refutation, and if the hypothesis is not successfully refuted, it is considered valid until its refutation. Of course, this point of view cannot be observed in isolation: firstly, from the aspect of formal logic, and secondly, the concept of refutation is much poorer compared to the traditional procedure of hypothesis testing (Ristić, Ž. "On research, method and knowledge". approaches: 1. traditional, 2. logical-positivist and logical-empirical (Hempelov, Carnapov), 3. Feyerabend's falsificationist, and 4. Lakatos' hypothetical-deductive point of view, and 5. Khun's understanding of the proliferation of knowledge based on the growth of hypotheses.

In the thirteenth chapter, the author lists modes of reasoning about research and research results. There are two important issues in the subject of research conclusions. They are distant from each other in time. The first period takes place in the course of research planning and it is used to select approaches, research methods and techniques and to extract them from the scientific and methodological corpus and apply them to the research subject. The second period of conclusion takes place after the end of the research and includes three

tests: material-organizational, operational and scientific-methodological and they can be conceptualized and dimensioned differently and require the procedure of explanation of the results reached in the research.

In the fourteenth chapter, the author gives an overview of the research report. There are several criteria for classifying research on research results: 1. preliminary, 2. phase - stage, and 3. final - final report. Preliminary refers to the entirety of the research results, but it can also refer to some parts of the research. Phased or staged - partial reports are all those whose subject is parts of the research. Termiz Dž and S. Milosavljević state and describe the following types of partial research: 1. phase-staged, 2. spatially defined, 3. problem-defined and 4. methodologically defined. It is customary to divide the subjects of research and the research itself into theoretical and empirical. Every empirical research begins with theoretical research and also ends with it. Research is thus divided into theoretical and empirical research activities. This practically means that they must be considered, as phased, theoretical and empirical reports according to the criteria of subject content and research methods.

In the final, fifteenth chapter, the author presents ways of using the results of scientific research and thus states the research results in their practical application. The application of research results in social practice is realized by the elaboration of study-analytical works, which later become scientific-research through their adequate application. Thus he states:

- Use of research results in the preparation of diploma theses,
- Using the results of research for the preparation of postgraduate theses,
- Using the results of research for the preparation of specialist works,
- Use of research results for the preparation of master's theses, i
- The use of research results for the preparation of doctoral dissertations, which represents the highest level of the final thesis in the hierarchy of the educational system.

The procedure for acquiring professional and scientific knowledge is prescribed by: a) state laws and by-laws; b) internal regulations of the institutions where certain qualifications and titles are acquired; and c) regulations of other authorized entities. Nevertheless, the basic flow of that process, with minor specific deviations, is essentially the same: selection of a topic for processing, selection of a mentor, submission of a request for processing a specific topic - preparation of a specific final paper consisting of: introduction, research subject, research results, discussion and conclusions. The candidate is asked to create the first version of the work and after consultation with the mentor, access to the final version of the work. Defense of the work before the expert commission. Of course, the greater the complexity of the essay, the greater the complexity of the defense itself. The defense procedure generally goes like this: a) the president of the commission opens a public defense, b) the following are read: information about the candidate and the commission's assessment of the work, c) the candidate presents the propositions of his introductory speech in which he states: the reasons that determined him to choose the topic, challenges and the difficulties he encountered, important contributions to science or scientific discipline with the solution of problems, questions and hypotheses that need to be processed, and which were reached by processing the mentioned topic, intentions for engagement in the future. All of the above should be a synthesized presentation of the essence of the published research and its results.

What to say about the author's conception? In the course of his research so far, as is the case with numerous other scientific workers, the author feels the need for comprehensive answers to the problems of methodology, which cannot be provided by each discipline individually, so he is looking for a new way out in interdisciplinarity and transdisciplinarity. In any case, the author should be supported in the search for new syntheses in science and syntheses of sciences in responding to problematic challenges in social research methodology. Through his previous research and studies, the author has proven himself to be

an excellent connoisseur of methodology in many aspects and areas (disciplines) where it is performed as a compulsory subject. Here, it is necessary to give an account of his previous studies that led to this integrative and capital work for science:

- Termiz, Dževad and Milosavljević, S. (1999). Introduction to political science methodology, DAX-Trade, Sarajevo.
- Termiz, Dževad, Milosavljević, S. (2000). Practicum in the methodology of political science. Sarajevo.
- Termiz, Dževad (2001). Basics of social work science methodology. NIK Grafit, Lukavac.
- Termiz, Dževad (2003). Methodology of social sciences. First edition. TKD Šahinpašić, Sarajevo.
- Termiz, Dževad (2009). Methodology of social sciences. Second amended and expanded edition, NIK Grafit, Lukavac.
- Termiz, Dževad (2013). Basics of social psychology methodology. Amos Graf, Sarajevo.
- Termiz, Dževad (2013). Criticism of the theory. Amosa Graf, Sarajevo.
- Termiz, Dževad (2016). Problems of meta methodology. Faculty of Political Sciences, University of Sarajevo, Sarajevo.
- Termiz, Dževad (2020). Statistical processing of data in empirical social research. Faculty of Political Sciences, University of Sarajevo, Sarajevo.
- Termiz, Dževad, Milosavljević, Slavomir (2018). Practicum in the methodology of political science. Second amended, supplemented and expanded edition, Faculty of Political Sciences, University of Sarajevo and International Association of Methodologists of Social Sciences, Sarajevo/Belgrade.

There are many more works and empirical research that the author published alone or in co-authorship with others during his many years of work. All that has been said so far qualifies him as one of the greatest methodologists in this region and beyond. It was a special honor and pleasure for me to present his latest work: Methodology of Social Sciences (2022).

**FINE APPLIED ARTS**  
**Presentation symposium**

## **RECOGNITION/2023.** **REGIONAL/INTERNATIONAL CONFERENCE**

**Milena MAKSIMOVIĆ KOVAČEVIĆ**

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The Recognition conference was held from 4 to 6 October 2023 in Čačak, and was organized as the final part of the realized five cycles of the Recognition project, which started in 2004, dedicated to establishing and promoting partnership cooperation between galleries,

museums, curators and artists in joint action on the recognition of local art scenes and the visibility of contemporary art practice in the region.

The conference was an opportunity to hear, in addition to presenting the project, very inspiring presentations, interesting announcements, experiences of artists of the project participants, exciting and instructive discussions, on topics that stem from the multi-layered character of the project Recognition, and concern, first of all, the place and role of museums / galleries, curators, artists, contemporary art and culture.

Participants Curators of the project, expert team: Biljana Grković, Milica Todorović, Ljubiša Simović, Ljiljana Karadžić, Julka Marinković.

Artists: Academy of Classical Painting, MB University, Milena Maksimović Kovačević and Ivan Petrović (Kruševac), Nenad Dimitrijević (Kraljevo), prof Perica Donkov and prof. Miljan Nedeljković (Niš), Katarina Alempijević and Rade Mutapović (Čačak), Darko Vučković (Podgorica).

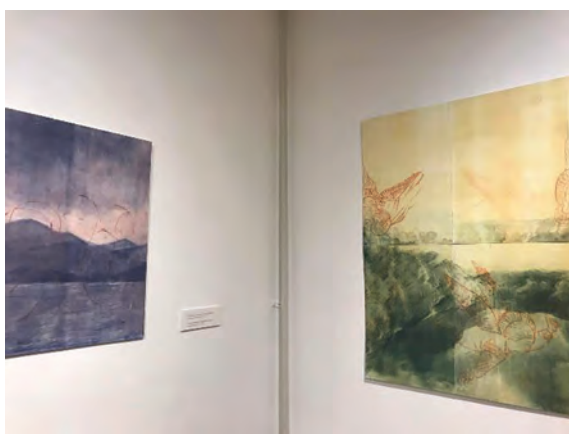
In addition to curators and artists (two artists from each participating city) on the project Recognition, participants art historians, art critics, art theorists, museology and heritology.



The guests of the project were Dr Irina Subotić, prof emeritus, prof. Dr Dragan Bulatović, Dr Zoran Erić, Institute of Philosophy and Social Theory, University of Belgrade, Dimitrije Tadić, Advisor for Visual Arts, Ministry of Culture of the Republic of Serbia, Una Popović, Museum of Contemporary Art and Milica Petronijević and Marija Radisavčević, curators.

At the 2023 Conference, the theme was the importance of connecting and networking of different participants, institutions and individuals was considered, as a way of engaging in the field of contemporary art.

Starting from the experience of working on this regional project that brings together museums/galleries, curators and artists from Serbia, Montenegro and Bulgaria, the importance of establishing a collaborative network and new forms of work, a place in valorizing and encouraging local art scenes, creating conditions for the development and promotion of contemporary fine art was summed up. Therefore, the emphasis of the conference was on new models of work of institutions and curators, mobility and connection, collaborative networks on achieving established common goals, but also on observing changes in contemporary fine art, from the beginning of the new century, when the project itself was created and lasted.



**Milena Maksimović Kovačević, MA, works from the project Recognition, collection of the National Museum Kruševac**

What does the cooperation of museums/galleries, curators and artists bring, as well as the recognition of local art scenes, adaptability and

willingness of curators to act in changed circumstances, but also what is the contribution to the recognition and familiarization of certain art scenes, openness to the confrontation of opinions, different poetics and specific themes through joint exhibitions and exhibitions, and what is the contribution, through the creation of new networks - institutional, curatorial and artistic, establishing new collaborations and a wider regional cultural scene, recognizing opinions and processes within the cultural environment in the circumstances of various social and cultural circumstances, and how much is the incentive for the development and promotion of contemporary fine art, and the creation of new and different collaborative networks directed towards the public and the artistic and curatorial community... some of the questions and topics that have arisen from the work on the project as part of the circumstances in which museums / galleries and curators work and in which contemporary art is created.

Recognition is a continuation of a long-term regional art project that was launched in 2004, and so far realized through five exhibition cycles: Recognition, 2005 – 2007, Kruševac, Čačak, Kraljevo, Niš and Podgorica (Montenegro); Recognition 2, 2010 – 2012, Podgorica, Čačak, Niš, Kruševac, Kraljevo, Kumanovo (Macedonia) and Sofia (Bulgaria); regional conference Recognition 2013, Kruševac, when an exhibition of Bulgarian artists was organized; Recognition 3, started with a residential program in Sicevo and Niš in 2014 and completed with the organizing of exhibitions in 2015-2016 in Niš, Kruševac, Kraljevo, Čačak, Plovdiv (Bulgaria) and Niksic (Montenegro); Recognition 4, started with a residential program in Ribarska Banja and Kruševac in 2017 and concluded with the organizing of exhibitions in 2018-2020 in Kruševac, Čačak, Kraljevo, Niš, Vidin (Bulgaria) and Bar (Montenegro), as well as Recognition 5, started with a residential program in Vrnjačka Banja and Kraljevo in 2020 and concluded with the organization of exhibitions 2021-2022 in Kraljevo, Kruševac, Čačak, Niš, Vidin (Bulgaria) and Podgorica (Montenegro).



Institutions, associates on the art project Recognition: Art Gallery-National Museum Kruševac /project holder/, Art Gallery "Nadežda Petrović", Čačak, National Museum Kraljevo, Gallery of Contemporary Fine Art, Niš. Institutions associates from Montenegro in previous cycles were: Center of Contemporary Art of Montenegro, Podgorica, National Museum of Montenegro in Cetinje, and from Bulgaria: National Art Academy, Sofia, Art Gallery "Nikola Petrov", Vidin.

Expert team: Biljana Grković, Julka Marinković, Ljubiša Simović, Milica Todorović, Ljiljana Karadžić, Svilen Stefanov.

Through five cycles, 13 galleries and museums cooperated on the project, and in addition to the permanent team of experts, more

than ten curators from different cities and institutions in which exhibitions were organized were involved in the realizations, while 64 artists from Serbia, Montenegro, Macedonia and Bulgaria participated in the project.

The conference was organized in cooperation with the institutions of collaborators on the project Recognition, and the holders of the organization are: Art Gallery - National Museum Kruševac and Art Gallery "Nadežda Petrović" in Čačak. The presentations at the conference were recorded and will be printed within the Proceedings. The conference was held with the support of the Ministry of Culture of the Republic of Serbia and the City of Čačak.

# THE (CON)TEMPORANIETY OF STONE

## ORGANIZED BY THE MUSEUM OF CONTEMPORARY ART, BELGRADE GALLERY-LEGACY OF MILICA ZORIĆ & RODOLJUB ČOLAKOVIĆ

4 NOVEMBER 2023

Organizer and moderator:  
Rajka BOŠKOVIĆ, PhD

Museum of Contemporary Art, Belgrade  
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Even today, in the age of growing electronic and digital possibilities and complexities, which can be measured not only from century to century, but on the scale of decades, stone offers an impetus and inspiration for creation, just like in all former historical periods. The fact that, in addition to all the new, industrially manufactured materials that are incomparably easier to work with, and despite the resistance of stone during processing, the risk involving the irreparability of a wrong gesture, the material attracts contemporary artists time and again to engage with it and to be challenged by it. There is also the incomparable drive to “take on” all challenges, as well as the inspiration that stone, as a millennia-old primal substance offers the artistic hand and mind. Stone as material, in all its primal integrity, offers extraordinary possibilities for artistic creation. The contemporary art scene bears witness to this because despite all the innovations in the design and conception of a work of art in the 20th and early 21st centuries, stone remains and survives as a constant stimulus for artistic expression. At present, with the “unbearable lightness” of creation – because it is very simple, interesting, likeable, easy to present and quickly accepted by the public – one returns to

stone as a very hard material, both literally and figuratively, because stone requires great effort and fortitude.

*The (Con)Temporaniety of Stone* symposium has been conceived on the basis of the research exhibition of the same title by Rajka Bošković, PhD, presented at the Gallery-Legacy of Milica Zorić & Rodoljub Čolaković in Belgrade, and conceptualised with the intent to offer expert and scientific consideration of the importance and significance of stone as matter and material used in different fields of human enterprise and life, offering a comprehensive understanding and insight into the profound symbolic meanings of stone. The symposium involved the participation of fine and applied arts artists, experts and scientists from various fields, primarily art history and art theory, as well as from the fields of archaeology, geology and conservation.

The symposium was opened with a lecture by geologist **Alena Zdravković, PhD**, professor at the Faculty of Mining and Geology in Belgrade, on the topic of *The Temporal Durability of Minerals and Rocks*. The lecture provided expert insight into the structure and characteristics of minerals, with a special focus on their



Figure 1. The presentation art theorist Rajka Bošković, PhD, curator of the Collection of Sculptures and Installations at the Museum of Contemporary Art in Belgrade and professor at the Academy of Classical Painting of “MB” University in Belgrade

Source: Personal archive, painter Ivana Dragutinović Sokolovski, D. F. A.

durability, which is crucial in choosing the type of stone for different purposes, both in sculpture, painting and architecture, as well as in our everyday environment. Considering *Stone in the Era of Transhumanism and New Media*, sculptor **Ivan Jeremić D. F. A.**, drew attention to the importance and role of stone as a material which acts as a protective shield for man from the “transhumanism” of the modern era.

The presentation of archaeologist **Ljubinka Babović** offered a valuable contribution to the symposium. For decades she has devoted herself to one of the most important archaeological sites not only in our country, but also the world – Lepenski vir and its stone sculptures which continue to captivate with their expressiveness to this day. With her research, published in numerous professional and scientific publications, Babović added to understanding and perceiving the importance of stone even today at the beginning of the 21st century. In her exposition themed *Lepenski vir – The Place of Divine Hierophany*, she presented the results of her decades-long research, which undoubtedly testifies to this site as a “hierophany of the divine.”

Art historian **Milan Popadić, PhD**, professor at the Faculty of Philosophy in Belgrade, based on his research work gave an overview and history of the creation of the Museum of Contemporary Art (MSU) building, with an extremely significant reference to the relationship between the first architectural plans and the final structure of this building, which differs greatly primarily in terms of the materials. With *The MSU Building: From Red ‘Sojenicas’ to White Crystals on the Banks of the Sava*, Popadić brilliantly sublimated the essential quality and value (use) of stone for this architectural structure. The sculptor **Đorđe Čpajak**, professor at the Faculty of Fine Arts in Belgrade, presented some of the most significant examples of stone sculpture in his presentation *Open Air Monumental Stone Sculptures*. Research into the materiality of stone in the broadest sense was presented by sculptor **Milan Kulić, D. F. A.**, in his presentation *The Materiality of Stone*. The exposition focused on the role of stone in general for man and its fire-making potentials, as well as the materiality of stone through a completely unexpected form of materiality – stone dust. The experience of working with stone and wood

was conveyed by sculptor **Kristina Ivić** in her presentation entitled *Stone and Wood*, wherein she offered a special overview of the specifics of working on and shaping sculpture in each of these materials.

In the lecture entitled *Stone as an Element in Ambient Artistic Settings*, the painter **Ivana Dragutinović Sokolovski, D. F. A.**, professor at the Faculty of Classical Painting at “MB” University in Belgrade, in addition to conveying her personal experience in working with stone as a material that she uses for her ambient artworks, offered insight into this specific aspect of artistic activity on the world’s contemporary art scene. The presentation dedicated to the collection of sculptures in the Bukovička banja Park in Aranđelovac, by art historian **Tanja Vićentić**, curator at the National Museum in Aranđelovac in charge of this collection of outdoor stone sculptures, offered a concise albeit layered insight into the value of this exceptional collection by placing special attention to the specificity of the maintenance, preservation and conservation of this type of artwork in public space. In her closing presentation, art theorist **Rajka**

**Bošković, PhD**, curator of the Collection of Sculptures and Installations at the Museum of Contemporary Art in Belgrade and professor at the Academy of Classical Painting of “MB” University in Belgrade, focused on the phenomenon of the *Irreplaceability of Stone*.

The idea behind the *(Con)Temporaneity of Stone* symposium was that, in addition to looking at the essence of the inspiration for creating in this material today at the beginning of the 21st century, the research, study and observation of the phenomenon of the contemporaneity of stone should be extended to professional and scientific fields that, from their point of view, complete the image of stone as exceptional and unique material, interpreted by different ranges of human spirit and work. In this sense, the symposium was organised with the aim of providing insight and facilitating an understanding of the contemporary nature of stone in the broadest sense of its role and significance, not only for contemporary artistic expression, but also for our existence – for the purpose of remembering the past as much as building the future, both literally and metaphorically.



Figure 2. The presentation painter Ivana Dragutinović Sokolovski, D. F. A., professor at the Faculty of Classical Painting at “MB” University in Belgrade entitled “Stone as an Element in Ambient Artistic Settings”

Source: Personal archive, Rajka Bošković, PhD



## CRITERIA AND RULES FOR SUBMISSION OF AUTHOR'S PAPERS IN THE PUBLISHING PLAN OF THE MAGAZINE MB UNIVERSITY INTERNATIONAL REVIEW (MBUIR)

### ARTICLE 1.

"MB University International Review - MBUIR" (further: Journal) is the journal of "MB" University.

The journal provides open access (Open Access) and applies Creative Commons (CC BY) copyright provisions. The magazine is of open type and its content is freely available to users and their institutions. Users may read, download, copy, distribute, print, search, or access the full text of the articles, as well as use them for any other legally permitted purposes without seeking prior permission from the publisher or author, provided that they cite scientifically correctly to the sources, which is in accordance with the definition of open access according to BOAI.

According to the classification of the Ministry of Science, Technological Development and Innovation of the Republic of Serbia, the magazine is classified in category M54 - a scientific magazine that is being categorized for the first time. It is referenced in the national database of scientific journals of the National Index and meets all the requirements of the conditions for editing scientific journals that are categorized for the first time.

### ARTICLE 2.

The journal publishes the results of analytical, experimental, basic and applied, diagnostic, prognostic and futurological research from various narrow scientific areas of the social studies and humanities:

- Management and business
- Economy
- Political and legal sciences
- Information society
- Theory of visual art.

### ARTICLE 3.

The journal is available in printed and electronic open access versions. It is published in English: two times a year according to the following dynamics:

- number 1 (January-May),
- number 2 (August-December).

### ARTICLE 4.

In the journal MB UNIVERSITY INTERNATIONAL REVIEW, the following author's papers (hereinafter referred to as works) are published:

1. Scientific works according to the categories of the Ministry of Science of the Republic of Serbia - original scientific work, review work, short or previous announcement, scientific criticism, i.e. polemic and work in the form of a monographic study, and a critical edition of scientific material previously unknown or insufficiently accessible for scientific research, which have not been published and have not been simultaneously submitted to other journals for publication;
2. Professional papers - professional papers, i.e. contributions in which experiences useful for the improvement of professional practice are offered, but which are not necessarily based on the scientific method; informational contribution (editorial, commentary, etc.); presentation (of books, scientific conferences, computer programs, case studies and other public scientific conferences), as expert criticism, that is, polemics and reviews.

### ARTICLE 5.

Papers from Article 1 are submitted to the Editorial Board of the Journal, written in English and proofread by a qualified person. References are cited in the original language and numbered in order of first appearance in the text. It is preferable that the references are not older than ten years, which depends on the subject of the work.

The text and graphics are prepared according to the Technical Instructions, which form an integral part of these Criteria and Rules.

### ARTICLE 6.

The following rules apply to the works listed in Article 1 under point 1.

Papers are submitted with an abstract at the beginning of the text, in the length of 100 to 250 words or 10-15 lines and with 5 to 8 keywords. The abstract is translated into Serbian and becomes a summary.

The volume of work should be up to one author's sheet (about 30,000 characters, with white spaces). Due to the peculiarities of the scientific field or discipline from which the paper is written, there may be deviations in the scope, provided that the number of letters with white spaces is not less than 20,000 nor more than 45,000, which is resolved in agreement with the Editorial Board of the Journal. For particularly justified reasons (social importance of the topic, co-authorship of internationally recognized scientists, scientific discovery, etc.), the editorial staff of the journal may exceptionally allow the publication of an article of a larger volume, but not larger than 2.5 pages (75,000 characters).

Papers of a theoretical nature should have one author, exceptionally two, and papers of an empirical nature a maximum of three.

## **ARTICLE 7.**

Papers from Article 1 under item 2 are submitted to the Editorial Board of the journal written in English in the length of 60 to 150 lines, with a description in Serbian of 100-250 words or 15 to 20 lines. These works are signed by one author.

## **ARTICLE 8.**

All works that are the subject of these Criteria and rules are submitted to the Editorial Board of the Journal electronically to the e-mail address: mbuir@ppf.edu.rs.

A brief biography of the author of up to 10 lines, a personal photo of the size for an identity card and the following information about the author (or authors) in English must be submitted with the paper:

1. first name, middle initial, last name,
2. academic title - in Serbian and English,
3. affiliation – name and address of the institution (company), and for pensioners the name and address of the previous workplace,
4. email address,
5. year and place of birth,
6. mobile and landline phone numbers,
7. residential address.

The data listed in Article 5, under serial numbers 1, 3 and 4, along with the photo, are printed in the Journal and represent an electronic database.

## **ARTICLE 9.**

Papers listed in Article 1 under item 1 of these Criteria and Rules are subject to review by two blind reviewers for a given scientific discipline.

The work is reviewed by two independent reviewers, to whom the text is submitted electronically without indicating the author's name. The reviewers submit their opinion to the Editorial Board of the Journal also electronically. The names of the reviewers are known exclusively to the Editorial Board of the Journal.

If the review is positive, the author is informed that the paper has been accepted for publication.

If, in the opinion of the reviewers, an intervention is needed in the work, the author is obliged to carry it out or to give up the request for publication of the work. This conclusion applies to all authors if the work is a joint work of authorship.

In the event that the reviewers do not agree on the assessment of the work, the Editorial Board of the Journal appoints a third reviewer (possibly several), whose opinion is delivered to the previous reviewers and the author without mentioning the names of the authors and reviewers. The final position is taken by the Editorial Board of the Journal based on the opinions of all reviewers.

Reviewers of the work are informed about the performed intervention.

In all cases from the previous paragraphs, the Editorial Board of the Journal is included.

## **ARTICLE 10.**

In the scientific presentation of the author's works, the Journal will act in relation to socially responsible behavior, which implies non-acceptance of:

- works that do not rely on recognized scientific methodologies, and which are used in research (improvisations of scientific thought),
- general information, political and scientifically unfounded announcements and other texts that are not based on scientific research and analysis and have a weak basis in science,
- texts that shock and amuse the public quasi-scientifically, speculations in science and the like,

- texts that encourage religious, national, racial intolerance and gender inequality,
- review texts of textbook and manual content,
- generally of all texts that cannot withstand scientific criticism,
- texts that contain plagiarism or auto-plagiarism,
- texts in which other authors are insulted or attacked.

The views presented in this article form the basis for the evaluation of papers by reviewers and the Editorial Board of the journal. They are also the basis for the actions of the Editorial Board and the Journal Council.

#### **ARTICLE 11.**

Under equal conditions, according to these Criteria and rules, authors of works who are members of the Publishing Council, editorial board and reviewers of works in the journal have priority.

In case the work is classified in the group of priority scientific information (rapid communication), the Editorial Board will act according to the opinion of the reviewers.

#### **ARTICLE 12**

In case of a dispute that is not resolved between the author - the Journal's Editorial Board - the Editorial Board, the decision is made by the Journal's Publishing Council on the basis of these Criteria and rules.

#### **ARTICLE 13.**

Papers accepted for print and electronic presentation become the property of the Journal and may not be reprinted without the consent of the Editorial Board of the Journal.

The Publishing Council and the Editorial Board of the Journal are interested in the works published in the Journal being used for further publication with the indication of the publisher, volume, number and year of publication of the Journal, for which the future publisher is given written consent.

#### **ARTICLE 14.**

The author is obliged to sign a declaration that the work is not plagiarized, or contains self-plagiarism. The works will be checked and the Editorial Board of the Journal will act in accordance with the Law on the Protection of Copyright and Related Rights ("Official Gazette" No. 104/2009, 99/2011 and 119/2012, 29/2016 - decision of the Constitutional court and 66/2019).

#### **ARTICLE 15**

These Criteria and rules are a public document, they are published at the end of each issue of the journal and are applied by the Editorial Board and Editorial Board of the Journal from the day of publication on the journal's website.

The editorial board of the journal is obliged to inform each author and reviewer of the papers with these Criteria and rules.

## INSTRUCTIONS FOR AUTHORS

### 1. MANUSCRIPT OF THE PAPER

The manuscript of the paper is submitted in electronic form (MS Word) in A4 format, font Times New Roman, size 12 pt for the text, including the abstract, without spacing. The paper is sent to the e-mail address: [mbuir@ppf.edu.rs](mailto:mbuir@ppf.edu.rs). A written statement by the author stating that the paper is an original paper (signed and scanned statement) is submitted with the paper. The condition for the paper to enter the review procedure is that it fully meets the technical criteria prescribed by this instruction. The paper must be proofread, i.e. must meet the spelling language standards of the English language.

### 2. NUMBER OF AUTHORS

The number of authors on one paper is limited to a maximum of three authors. Papers of a theoretical nature should have one author, exceptionally two, and papers of an empirical nature a maximum of three. Preference is given to articles written by only one or two authors (single author and co-authored paper).

### 3. READ LANGUAGE

The manuscript is submitted in English. If it is accepted, it will be published in the language in which it was submitted, with the obligation that the title and content of the summary at the end of the paper be in Serbian. Also, if the language of the paper is one of the world languages that is used in domestic or international communication in a given scientific field, and which is not English, the title and abstract must be in English.

### 4. SCOPE OF PAPER

The article should have approximately 30,000 characters, including white space (1 author's page). It can be shorter or longer, provided that the number of characters with white spaces is not less than 20,000 or more than 45,000. For particularly justified reasons (social importance of the topic, co-authorship of internationally recognized scientists, scientific discovery, etc.), the editors can exceptionally allow the publication of an article

of a larger volume, but not larger than 2.5 pages (75,000 characters).

### 5. TABLES AND FORMULAS

Create tables exclusively with the table tool in the MS Word program. Tables must have titles and be numbered in Arabic numerals. Paper with formulas using the formula editor in MS Word.

### 6. GRAPHICS AND PHOTOGRAPHS

Graphic representations (pictures, graphs, drawings, etc.) and their descriptions should be treated as a separate paragraph with an empty line above and below. Drawings and photographs must have signatures, and all illustrations must be numbered with Arabic numerals, according to the order of appearance in the text.

Graphics in electronic form should be in one of the following formats: EPS, AI, CDR, TIF or JPG. If the author does not know or uses a specific program, it is necessary to agree on the format of the record with the technical editor of the journal. Graphics should not be drawn in MS Word! Photographs must be clear, contrasting and undamaged. It is not recommended that the author scan the images himself, but to leave this sensitive paper to the editors. If drawings and photographs are not included in the electronic version, they must be clearly marked where they should be placed. Labels in the text must match those in the attached images (or files).

### 7. ORGANIZATION OF THE MANUSCRIPT

The paper must contain the following elements, in the following order:

7.1. The title of the paper should describe the content of the article as faithfully as possible. The title of the paper should use words suitable for indexing and searching. If there are no such words in the title of the paper, it is preferable to add a subtitle to the title.

The running title is printed in the header of each page of the article for easy identification, especially copies of articles in electronic form.



7.2. Information about the author(s) and affiliation are listed below the title of the paper with the full name and surname of (all) authors, without the function and title of the author, which are not listed. The names and surnames of local authors are always written in their original form (with Serbian diacritical marks, diacritical marks of letters of world languages or diacritical marks of letters of national minorities and ethnic groups), regardless of the language of the paper. Along with the author's first and last name, the full (official) name and headquarters of the institution where the author is employed, and possibly also the name of the institution where the author conducted the research, is indicated. In complex organizations, the overall hierarchy of that organization is indicated (from the full registered name to the internal organizational unit). If there are more than one author, and some of them come from the same institution, it must be indicated, with special marks or in another way, from which of the mentioned institutions each one comes from. The e-mail address of the author must be specified. If there are more than one author, as a rule, only the address of one author, responsible for communication on the occasion, is given. For example: Name and surname, name of the institution where the author is employed (affiliation), e-mail address of the author.

7.3. A summary or abstract is a short informative presentation of the content of the article, which contains the aim of the research, the methods used, the main results and the conclusion. It is in the interest of the author that the abstracts contain terms that are often used for indexing and searching articles.

The summary or abstract should be in English, the same language as the paper itself. In terms of length, it should be 100 to 250 words or 10-15 lines and should be between the title of the paper and the keywords, followed by the text of the article.

In the narrower scientific disciplines of the social sciences and humanities for which the main subject of the journal is the abstract, the summary traditionally contains other elements, in accordance with the scientific heritage that the journal nurtures (the scientific area(s) to which the paper belongs, the social meaning of the paper, the importance of the research itself, etc.)

7.4. Keywords, list the terms or phrases that best describe the content of the article. It is allowed to specify 5-8 words or phrases.

7.5. The text of the article is the central part of the paper and represents the elaboration of the article in which the author, with the use of appropriate scientific apparatus, deals with a certain problem and the subject of the scientific paper. For articles in English, it is necessary for the author to provide qualified proofreading, i.e. grammatical and spelling correctness.

7.6. References, i.e. the list of used literature, should contain all the necessary data and should be cited according to APA style. The literature is cited in the original language and numbered with Arabic numbers in square brackets, in the order of first appearance in the text, with the note that the year of publication is placed immediately after the author's name, and at the end of citing an article in a journal or paper in a collection, the pages on which finds the cited paper, according to the examples shown below for citing references.

In the instructions for authors, we provide several examples of citing sources according to the type of reference:

- Books: surname (comma), first name (period), year of publication in parentheses (period), title in italics (period), place of publication (colon), publisher (comma), page number if the author wishes to state (period).

- [1] Đorđević, S., Mitić, M. (2000). *Diplomatsko i konzularno pravo*. Beograd: Službeni list SRJ, 56-58.
- [2] Đurković, M. (ured.) (2007). *Srbija 2000-2006: država, društvo, privreda*. Beograd: Institut za evropske studije.
- [3] Lukić, R. (2010). *Revizija u bankama* (4. izd.). Beograd: Centar za izdavačku delatnost Ekonomskog fakulteta.
- [4] Danilović, N., et al. (2016). *Statistika u istraživanju društvenih pojava*. Beograd: Zavod za udžbenike (ako je u knjizi broj autora veći od tri).

Note: Papers by the same author are listed in chronological order, and if several papers by the same author published in the same year are listed, the letters "a", "b", "c" etc. are added to the year of publication.

- Articles: surname (comma), first name (period), year of publication in parentheses (period), title of the article (period), title of journal in italics (comma), volume number and journal number in parentheses (comma), pages on which it is found article (period).

[1] Kennedy, C., Michael, B., Stephen, B. (1970). Police in Disasters. *Survival*, 6(2), 58–68.

[2] Mišić, M. (1. feb. 2012). Ju-Es stil smanjio gubitke. *Politika*, 11.

[3] Kennedy, C., et al. (1970). Police in Disasters. *Survival*, 6(2), 58–68. (if the number of authors of the journal article is more than three)

- Articles from the anthology: last name (comma), first name initial (period), year of publication in parentheses (period), article title (period), U or In (colon), editor's last name (comma), editor's first name (period), in parentheses office. or ed. (dot), the title of the proceedings in italics and in parentheses the pages on which the article is located (dot), place of publication (colon), publisher (dot).

[1] Radović, Z. (2007). Donošenje ustava. U: Đurković, M. (ured.). *Srbija 2000–2006: država, društvo, privreda* (27–38). Beograd: Institut za evropske studije.

[2] Brubaker, R. (2006). Civic and Ethnic Nationalism. In: Brubaker, R. (ed.). *Ethnicity without Groups* (132–147). Cambridge: Harvard UP.

[3] Danilovic, N., et. al. (2016). The Role of General Scientific Statistical Method in Futurology Research. In: Termiz, Dž. et al. (eds.). *Nauka i budućnost* (199–217). Beograd: Međunarodno udruženje metodologa društvenih nauka (if the number of authors of the anthology article and the number of editors of the anthology is more than three).

- Internet sources: surname (comma), first name (period), year of publication in parentheses (period), article title (period), journal name in italics (comma), pages on which the article is located (period), Downloaded from or Then the http address and the download date in parentheses.

[1] Hall, S. (1992). The Question of Cultural Identity. *Modernity and Its Futures*, 274–316. On <http://www.library.auckland.ac.nz/ereserves/1224039b.pdf> (February 25, 2023).

It is recommended that the references not be older than 10 years, depending on the topic of the paper

**7.7. The summary (Summary)** is given at the very end of the paper in Serbian, which can be the same as the summary (abstract) at the beginning of the paper, and it can be somewhat longer, but no more than 1 page.

**7.8. The titles in the paper** have different levels depending on the specific text, with the following marking method being used:

**1. The first level of the title (centered, regular, bold, Arabic numerals)**

1.1. Second level heading (centered, regular, no bold, Arabic numerals)

1.1.1. *Third level heading (above the beginning of the paragraph, right-aligned, italics, Arabic numerals).*

In case of ambiguity in labeling, authors are advised to consult previous issues of the journal or to contact the secretary or technical editor of the journal. The editors reserve the right to, depending on the specifics of the text, and in order to make it more transparent, edit the titles in a slightly different way, staying within the basic framework of the presented division of titles.

**7.9. Citing, self-citing and referring** to parts of other authors' texts is done in such a way that at the end of the quoted text, the sequence number of the reference from the bibliography is indicated in square brackets with a comma and the page number on which the text to which the author refers is located. Example: [32, p. 58].

If quoting or referring to information from the same page of the same reference cited in the previous footnote, only the Latin abbreviation *Ibidem* is used in square brackets. Example: [*Ibidem*].

If information from the paper cited in the previous footnote is cited or referred to, but from a different page, *Ibid* is cited, followed by a comma and the page number. Example: [*Ibid*, 54].

**7.10. Acknowledgments** are listed in a separate note, after the conclusion, and before the literature. The thank you note presents: the name and number of the project financed from the budget, that is, the name of the program within which the article was created, as well as the name of the scientific research organization and the ministry that financed the project or program. The thank you note can also contain other elements.

**7.11. Editorial office address.** - Papers are sent in electronic form to the following

e-mail address: [mbuir@ppf.edu.rs](mailto:mbuir@ppf.edu.rs)

“MB University International Review”.

Editorial office: “MB” University,

Drajzerova 27, 11000 Belgrade.

Editorial office phone: +381 64 65 970 39.

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CIP - Каталогизација у публикацији  
Народна библиотека Србије, Београд

347.7

**MB University International Review : MBUIR**  
: journal of Theory and Practice / editor in chief  
Živanka Miladinović Bogavac. - [Štampano izd.]. -  
Vol. 1, no. 1 (2023)- . - Belgrade : Faculty of Business  
and Law, University of MB, 2023- (Belgrade : Planeta  
print). - 30 cm

Polugodišnje. - Drugo izdanje na drugom medijumu:  
MBUIR. MB University International Review (Online)  
= ISSN 2956-249X  
ISSN 2956-2406 = MBUIR. MB University  
International Review  
COBISS.SR-ID 118970633