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The Transition to a Market Economy in the Successor Countries of the Former Yugoslavia: Comparison between the Northern Republics and Southern Republics[1)]

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Introduction

An underlying cause of nationality conflicts in the former Yugoslavia is the economic crisis which came to surface in the 1980s and continued for more than 10 years. Economic performances of the northern and southern Republics were already different, although they were under the same system, that is, self-managed socialism. As a result of the breakup of the Federation, there emerged 5 countries, that is, Slovenia, Croatia, Bosnia and Herzegovina, the new Yugoslav Federation (composed of Serbia and Montenegro; Its exact name is Federal Republic of Yugoslavia) and Macedonia.

Since socialism has collapsed in the former Yugoslavia transition to market economies, more concretely, to capitalist economies is inevitable in the successor countries of the former Yugoslavia. I would like to add that in contrast to the Soviet type of socialism, the type in the former Yugoslavia was decentralized self-managed socialism. In this sense, the process now going on in these countries is transition from an incomplete market economy to a complete market economy.

It seems that most people in the West European countries and the US are not free from a bias when they view problems in the former Yugoslavia. Eastern Europe is very far from Japan. The cultural and economic ties between the both have been very weak. In this respect, Japanese researchers are handicapped. At the same time, however, we are privileged to keep an objective position. In this paper I would like to

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describe how changes proceeding in a corner of the Europe are reflected in the eyes of a researcher from the Far East. My approach to the problem combines economic history with international relations.

In my opinion, when we analyze economic performances of the north and south, it is important to take into consideration the following three factors: i) historical factors including differences in initial conditions, that is, fundamental societies, extent of maturity of civil society, extent of development of market economy before the socialist period, etc; ii) international environment; iii) orientation of the political elite in each country.

In this paper, firstly, I will briefly discuss historical factors and international environment. Secondly, I will discuss the reason for the disintegration of the former Yugoslav Federation. Thirdly, I will make comparison between the Northern Republics and Southern Republics, especially Slovenia and the new Yugoslavia. As for the rest of the former Federation, I give only an outline, due to a limit in space and time. Finally I will mention to the prospect for this region

Table 1. Outline of Successor Countries of the Former Yugoslavia

	Area(km²)	Population (million)	Currency	Per capita GDP(US$)	1997 level (1991＝100)
Slovenia	20,251	2.0	Tolar	9,899 ('98)	105
Croatia	56,538	4.8	Kuna	3,830 ('96)	84 ('98)*
Bosnia and Herzegovina	51,129	3.2	Convertible Mark	940 ('98)	47.5 ('98)
New Yugoslav Federation	102,173	10.4	Dinar	1,400 ('97)	59.0
Macedonia	25,713	1.94	Denar	1,586 ('97)	69.7

*The base year is 1990.

I Historical Factors and International Environment

A) Historical Factors

When we examine movements of the Eastern Europe after the collapse of Socialist regime I can not keep myself from feeling the importance of history afresh. East European countries experienced political changes ("Democratization") one after another. All of them aim the transition to market economies and capitalism. The East

European countries can be roughly classified into the Central East European countries in Central Europe and the Southeast European countries in Balkans. The former countries, which belong to the area culturally influenced by the Catholic Church and have strong historical, cultural and economic ties with Germany and Austria, returned to "Central Europe" simultaneously with the end of the cold war. Civil societies are underdeveloped in the latter countries which have belonged to the area culturally dominated by the Greek Orthodox Church[2]. Here we can still perceive a strong influence from the rule of the Ottoman Empire.

When I visited Budapest in May, 1991 Dr. Laszlo Lang, director of the Research Center of Central Europe, told me that Central European countries have a "common experience".

> The Central Europe is very cohesive. It coincided to the range of the Austro-Hungarian dual monarchy. Again there is a historical reason for this. Southern Poland, Bohemia, Hungary, Slovenia, and Croatia. These all regions reached the period of modernization of their countries at the time when they formed a part of the Austro-Hungarian Empire. Therefore, these countries were, in the last several decades of the Austro-Hungarian Empire, connected with the European or international trends in terms of transportation, cultural achievements and technological level. These countries share a historical experience that they lived together in an Empire. Even today, if we watch an industrial map of the Eastern Europe and mark with black various districts where industries were highly developed we can see a black bundle which runs from South Poland through Moravia, Bohemia, West Hungary and runs down to West Croatia and Slovenia. Even 60 to 70 years after the collapse of the Austro-Hungarian Empire there is still a visible line(Koyama, 1992, p.85).

Dr. Lang added that the difference between the Central Europe and the Balkans is historically ascribed to the difference between Catholic and Byzantine influences, and he explained as follows:

> Also politically the Central Europe is different from other regions. In this region Churches were not so closely connected with State powers. On the contrary, in Byzantine part of the Europe Churches were always entangled in States. Therefore, these situations caused a very big difference in subsequent development of societies in the both regions. In Central Europe, although civil societies were not developed yet, there was an opportunity that civil societies would emerge and develop. The difference in the relation between churches and States is the main reason to justify

the distinction between the Central Europe and the Balkans. In the western part and the southern part of the Eastern Europe political processes are different even today(Koyama, 1992, p.84).

Dr. Lang's opinion should be taken into consideration when we study processes of the transition to market economies in the Eastern Europe[3]. Professor Teruji Suzuki, a specialist of comparative law, attaches importance to whether or not the concerned countries inherited the Roman laws. According to him, the Roman laws were inherited by Central Europe through the education of jurisprudence at Universities in the medieval period. The Roman laws justified the right of ownership, consequently, became the foundation of the subsequent development of market economies. In contrast to this, the Roman laws were not inherited by countries influenced by the Orthodox Church, that is, Russia and Balkan countries, and consequently the conception of ownership had not rooted among people in these countries. Of course, we can not determine quantitatively, but I think that this circumstance had more or less influenced a relative delay in market economies in Balkan countries before the socialist period.

From ethnic point of view the former Yugoslav Federation was a country composed mainly of the Southern Slavs, but from historical and cultural point of view it lay across the Central Europe and the Balkans. In 1918, owing to the defeat of the Austro-Hungarian Empire, Slovenes and Croats became able to escape from its rule and founded a country together with Serbs. This was the first Yugoslavia, which later fell into utter confusion by nationality conflicts. After the World War II the second (former) Yugoslavia was founded as a socialist state by Tito.

B) Changes in the international environment

With the passage of nearly 50 years since World War II, which was a unifying experience for the nationalities of Yugoslavia who fought for the liberation of their country, the international environment has drastically changed. For example, Gorbachev, who promoted Perestroika, practically abandoned the principle of limited sovereignty in 1988, and subsequently from 1989 to 1990 socialism collapsed in East European countries one after another. Thus, the Yalta regime had collapsed and the cold war came to an end. Also disappearing was the menace of the Soviet Union, a factor which had united nationalities in the former Yugoslavia into a single country (Remember the expulsion of Yugoslavia from the Cominform in 1948, the Hungarian uprising in 1956, the suppression of reform in Czechoslovakia in 1968, etc.). In addition, the fear of German and Italian expansionism, which was traditionally a great menace to the

Slovene nation came to an end. And the EC was pursuing a further integration. "The end of the Cold war made the previous deep political, ideological and military gap along Slovenia's Western and Northern borders with Italy and Austria politically obsolete and economically harmful. The Slovenes were the most exposed and sensitive within the former Yugoslavia to the demonstration effect of the West's growing affluence, its economic liberalism and political democracy" (Bebler, 1997, p.138).

II Collapse of the Regime of the 1974 Constitution and Nationality Conflicts

One of Tito's biggest achievements was the integration of nationalities into a Federal State based on "fraternity and unity" in this region where they were constantly battling with each other. It is worthy of notice that according to every national census more than a million people declared themselves "Yugoslavs". The word "Yugoslav" did not mean citizen of Yugoslavia but was a definition of a nationality which reflected "a dream of communists who tried to create Yugoslavs which should have risen above nationalities" (Iwata, 1983, p.280). Unfortunately, however, Tito failed to spread the consciousness of "Yugoslavs" among the people more than that.

Reflecting a difference in the course of history as mentioned above, the North-South problem existed also within the former Yugoslavia. In spite of aid by the developed Republics through the Fund for Accelerated Development at the Federation level, the economic differences between the North and the South within the former Yugoslavia expanded further. For example, while the economic differences between Slovenia and Kosovo in terms of per capita GNP was 3.2 : 1 in 1947, this ratio became 6.9:1 in 1978(Ramet, 1984, p.183).

As to the relation between the Federation and Republics there were two options after World War II. One line, supported by the northern two Republics, was to encourage Republics' development along their own courses in the framework of the Federation. Another line was to have more powerful Federal Government. This position was supported by the less developed southern Republics, which insisted redistribution of resources by the Federal Government. With the benefit of hindsight, I would like to advocate a third option, with a powerful Federal Government but with the capital located outside of Belgrade or Zagreb. Instead, it should have been where the nationality problem could have been transcended, more concretely, in the Republic of Bosnia and Herzegovina. This newly created capital city would have mitigated traditional feelings of confrontation between Serbs and Croats and would have

contributed to fostering a consciousness of 'Yugoslavs'. Actually, however, the third line has never been discussed. After a centralist Aleksandar Rankovic, Vice-President, fell from power in mid-1960s, the Leadership of the League of Communists of Yugoslavia (LCY) put forward the process of decentralization and de-etatization.

In order to tackle negative phenomena of market economy and to appease a discontent of the developed Republics, in 1971 the LCY amended the Constitution. The idea of the Amendment of 1971 was systematized into the 1974 Constitution. The 1974 Constitution, firstly, determined that Yugoslavia should exist as a loose Federation. The new Constitution allocated to the Republics and Autonomous Provinces primary sovereignty and all powers except those explicitly granted to the Federation. The Federation's power were restricted almost entirely foreign policy, national defense, and measures necessary to ensure a unitary Yugoslav market, common monetary and foreign trade policies, the principles of the political system and ethnic and individual rights. The Presidency of Yugoslavia as a collective head of state was to be comprised of 9 members, that is, representative from each Republic and province plus a Party President. Although Vojvodina and Kosovo, which were Autonomous Provinces within the framework of the Republic of Serbia, had fewer delegates in the Federal Assembly, both Provinces enjoyed de facto the same position as a Republic in the sense that they had a veto in decision-making at the Federal level. Thus the Socialist Federal Republic of Yugoslavia became a Federation with a tinge of Confederation[4]. Secondly, the regime had pursued economic democracy through the elimination of technocracy and the realization of self-management in workplaces which had been smaller than "enterprises". The market mechanism was not completely denied, but instead, the so-called contractual mechanism became emphasized. Thirdly, in respect to the socio-political system the regime had pursued thorough democratization and "de-professionalization" of politics by making a great number of workers and citizens participate in politics through the delegate system. What is more, communists in Yugoslavia wanted to realize these goals within the framework of the one-party system.

Although Yugoslavia had a uniqueness in decentralization and de-etatization, it had a specific character in common with socialism of the Soviet type in respect that it denied the multi-party system. In the course of preparation for this Constitution the Croatian nationalistic movement evolved in 1971. Finally Tito suppressed this movement. Tito wanted to recentralize power, but he met with local leaders' resistance. They were reluctant to give up the power which they had obtained by the 1965 reform and subsequent amendment to the Constitution. As the decentralization became already

an unshakable line, Tito concentrated his energies on a struggle for recentralization of the party. A Slovenian political scientist argues that this Federation was 'centralist Federation'(Fink-Hafner, 1995), but my opinion is different. In my view, the former Yugoslavia had a weak Federal government which was supported by a strong and centralist party. In short, the regime which was instituted by the 1974 Constitution supposedly aimed at economic democracy in a utopian way but had, in fact, been sustained by the LCY which all along had bound this decentralized self-managed socialism into a country by mobilizing the masses. It meant that as long as the LCY could preserve its prestige the regime was on safe ground, but if the LCY lost its prestige among the people the regime could not be maintained.

In the former Yugoslavia self-managed enterprises had considerable power, and consequently, though incomplete, a mechanism of market economy functioned. The development of a market economy would necessarily require a multi-party system which would reflect diversified interests in the society. As for the multi-party system, Milovan Djilas brought up the problem as early as 1954, but he lost his position and was later imprisoned. This is a futile talk based on hindsight, but in my opinion, in order to avoid the disintegration of the Federation there should have been democratic parties organized across Republics and Provinces. However, Tito's view of socialism was rather Bolshevik, and therefore it was impossible in his regime.

Although the necessity of a unified Yugoslav market was always stressed in official documents, in fact the tendency of territorial closing was proceeding in the 1970s. In the case of Montenegro, for example, the ratio of commodities and services sold within the Republic increased from 48.7% in 1970 to 64.5% in 1970(Table 2). In parallel with this, the ratio of commodities supplied from outside the Republic also decreased from 51.3% to 32.2% in the same period(Table 3). This means that in contrast to the historical trend inter-Republican(Provincial) thresholds became higher in the former Yugoslavia. Some economists paying attention to this phenomenon, argued that 8 national economies had been created in the former Yugoslavia.

Table 2 Sales of goods and services within a same Republic (Province)

	1970	1972	1974	1976	1978
Slovenia	57.8	59.2	63.3	64.5	66.3
Croatia	62.8	63.7	64.4	68.8	70.4
Bosnia-Herzegovina	63.2	65.2	68.9	67.3	69.1
Montenegro	48.7	53.2	55.5	62.7	64.5
Macedonia	66.5	66.6	68.3	63.4	65.2
Serbia proper	60.0	60.7	62.5	65.2	67.0
Vojvodina	50.0	53.6	56.2	62.6	64.4
Kosovo	56.6	62.2	55.8	62.6	64.4
Yugoslavia as a whole (average)	59.6	61.3	63.4	65.7	67.5

Sources: Pavlovic and Stojanovic(1984), p.290.

Table 3 Supply and delivery of goods outside a same Republic (Province)

	Supply from outside		Delivery to outside	
	1970	1978	1970	1978
Slovenia	23.9	21.3	42.2	35.5
Croatia	27.4	20.3	37.2	28.9
Bosnia-Herzegovina	36.9	27.1	36.8	30.5
Montenegro	61.8	45.3	51.3	32.2
Macedonia	36.2	30.2	35.5	35.4
Serbia proper	32.6	26.1	40.4	30.8
Vojvodina	30.8	27.5	50.6	34.7
Kosovo	53.7	47.6	43.4	37.1
Yugoslavia as a whole (average)	38.0	31.0	40.0	32.0

Sources: Pavlovic and Stojanovic(1984), p.291.

The tendencies of territorial closing and autarchy had been further promoted by the law on foreign currency dealing and external credits of 1977. This law obliged each Republic and Autonomous Province to draw up its balance of international payments and to realize planned exports and foreign currencies revenue. It is seemingly

contradictory to these tendencies, but these territorial units became directly connected with world economy. There were many "cases in which same or similar goods were exported and other Republic imported those goods from foreign countries, in other words, inter-Republican trades were carried out through foreign countries" (Korosic, 1989, p.72). In this way, disintegration of the economy of the former Yugoslavia began already in 1970s.

The former Yugoslavia had been developing with a comparatively high growth rate until the late 1970s. As long as the Yugoslav economy was developing satisfactorily, the various nationalities within the former Yugoslavia lived together happily. The rapid economic development in the 1970s was based on loose economic operation which was inherent in the self-managed economy. The loose economic operation led to a sharp increase in the accumulated external debt. At the beginning of the 1980s the Yugoslav economy began to stagnate and was mired in crisis during the mid-1980s. The LCY has failed to produce any effective solutions for overcoming the economic crisis[5]. This is why the LCY, which had functioned to bind the various Republics and nationalities into a country, gradually lost its prestige. Conflicts of interests among the Republics became reflected in the LCY itself.

Among various factors, economic ones are most important in the Yugoslav case. In this respect, Ken'ichi Ohno's viewpoint is very suggestive:

> In the case when plural ethnic groups subjectively feel that they have positive benefits or negative damages in common, 'ethnic boundaries' of their groups would gradually become obscure, their fusion would proceed, and nationality conflicts would not occur. This is especially evident when two groups feel more benefits than proportional(the case of synergetic effects) by cooperation. On the contrary, in a situation where plural ethnic groups struggle for a limited pie hostile feelings would be generated between the both and 'ethnic boundaries' would be actualized. At this moment, they would have fallen into a self-sustaining feedback in which, on the one hand, internal consciousness of kind and hatred toward the other groups would be fortified through tension, and on the other hand, an intentionally formed asymmetric perception ('we' are good and peaceful, and 'they' are evil and militant, and so on) further heighten the tension. In this case, nationality conflicts would escalate at an increasing tempo(Ohno, 1996, p.256).

It is the Kosovo problem which triggered the conflict among the Republics first. After the suppression of revolts in 1981, the Albanian's discontent struck inwards.

Increasing violence toward Slavic minorities and plundering occurred. Scores of thousands of Slavic minorities were obliged to escape from this Province in the following years. Many people in Serbia proper became irritated by the fact that, although Kosovo was a part of the Republic of Serbia, the Serbian authorities could not protect their brethren within Kosovo. Then by inspiring people with an all-consuming Serbian nationalism Slobodan Milosevic distinguished himself in the League of Communists of Serbia and he became Party President of Serbia in 1987. The next year on his initiative the Republic of Serbia amended the Republican Constitution, reducing the power of the Autonomous Provinces. In July 1990, the Republic of Serbia dissolved the Assembly of the Autonomous Province of Kosovo and began to exercise direct rule over Kosovo. Thus Croatia and Slovenia became increasingly critical to Milosevic's political style and the comparative rise of Serbia's position in the Federation.

According to Table 4, which is based on the survey in spring of 1989, Slovenian communists showed the most positive attitude toward political pluralism. In respect of "striving for a multiparty system", for example, 36% of the Slovenia communists positively responded, being far ahead of Croatian communists(19%). In respect of "recognizing the existence and activity of new alliances" 44% of the Slovenia communists positively responded, followed by communists of Kosovo(24%) who had a very serious ethnic problem. "LCY members in Slovenia strove for the most radical change", while communists in Montenegro and Serbia were conservative in general.

Table 4 Republics/provinces affiliation and standpoint of LCY membership (according to republics) concerning political pluralism(in%)

	Striving for a multi-party System	Recognizing the existence and activity of new alliances	New alliances mass media
Montenegro	6	9	12
Serbia	9	8	10
Vojvodina	10	12	14
Bosnia and Herzegovina	12	14	18
Macedonia	14	14	16
Kosovo	16	24	24
Croatia	19	19	24
Slovenia	36	44	46

Sources: Siber I.(1989). Komunisti Jugoslavije o drustvenoj reformi, IC Komunist Beograd, p.29, quoted again from Fink-Hafner(1991), p.11.

Finally in January 1990, the LCY split. From April through December 1990 free elections based on multi-party system were carried out successively in each Republic. Slovenia conducted the first free election in April. As a result, a noncommunist government was formed, however, the newly elected President was the "Socio-Democratic Communist", Milan Kucan. In Croatia the newly elected President was an enthusiastic Croatian nationalist Franjo Tudjman, and a noncommunist government was formed.

In contrast to the northern Republics, in Serbia the Socialist Party of Serbia, which was created by a merger of the League of Communists of Serbia and its popular organization, won the election in December 1990. In Montenegro the League of Communists of Montenegro won the election. The reasons for their victories were that these parties took a nationalistic line and that many workers who were uneasy about their employment supported these parties' socialist policies.

Also in Macedonia noncommunist government formed. In the Republic of Bosnia and Herzegovina, where Muslims, Serbs and Croats lived in a symbiotic relationship, formed a coalition government which was composed of Muslim's Party, Serbs' Party and Croats' Party. This reflected a delicate balance between three nationalities.

In this way, the difference in goals which each Republic aimed at became too disparate. Finally in June 1991 Slovenia and Croatia declared independence, which led to the disintegration of the Federation and subsequent nationalities conflicts. Here I can not afford to discuss nationality conflicts in detail but I would like to confine myself to making a few short remarks[6]. Were tragic nationality conflicts inevitable? I do not think so. In my view, as the effort to foster a consciousness of "Yugoslavs" and maintain the Yugoslav Federation had turned out to be unsuccessful in 1991, the second best choice was remodeling the Federation into a Confederation. Alternatively, the disintegration of the former Yugoslav Federation might be inevitable. In this case, there might have been a possibility of a peaceful, longer, process of separation based on negotiations. If the international community intervened in the inter-Republican conflicts of the former Yugoslavia, it should have supported the process of remodeling or the peaceful separation based on negotiations. Nevertheless, the international community coped with the Yugoslav problem in a blundering way. Germany, in particular, applied in a mechanical way the right of national self-determination to the multi-national state of the former Yugoslavia, aggravating the conflicts. Besides, although the conflict between nationalities was complicated Western countries wanted to inquire about who was right and who was wrong. The US, in particular, was eager to solve the problem

by finding and attacking villains. In the early stage of the nationality conflicts Croatia won a victory over Serbia in a propaganda war[7]. At the same time, the US and West European countries tended to judge affairs lying across the Central Europe and Balkans on the West European standard. They found something congenial in Croatia which was brought up with the Catholic culture rather than Serbia, and neglected to focus on Tudjman's extremely nationalistic policy. Thus Serbia was made the villain in the international scene. Such an approach of the Western countries toward the nationality conflicts made the solution more difficult. In short, nationality conflicts in the former Yugoslavia were caused by collapse from within, but worsened by the fact that the international community had accelerated this process from without.

III Development Strategy of Slovenia and Transition to a Market Economy

Development Strategy

Slovenia is a small country with an area of 20,251 square kilometers and with population of less than 2 million. With 90.1% of its inhabitants being Slovene, the country was ethnically the most homogeneous among the Republics and Autonomous Provinces of the former Yugoslavia. Damages at the time of "independence war" was relatively small.

In mid-1993 the Government requested the Institute for Macro-economic Analysis and Development to create a long-term economic development strategy. In April 1995, the Institute produced an elaborate report titled "The Strategy for Economic Development: Approaching Europe, Growth, Competitiveness and Integration". The main goals of this strategy are:

i) Faster economic growth and catching-up with developed European countries;
ii) Higher competitiveness of the Slovene economy;
iii) Inclusion into European integration;
iv) Permanent sustenance of economic growth from the ecological, social and ethnic stand-point[8].

Next I would like to examine what considerations the strategy for survival and development is grounded on. In this regard, Svetlicic's paper "Small Countries in a Globalized World: Their Honeymoon or Twilight?" is very informative. His opinion can be summarized in the following two points: First, fundamental technological changes, the information revolution and related changes have made small countries (SCs) more viable

today than they were "yesterday", the external environment is enhancing smallness. In view of globalization tendencies and the increasing importance of economies of scale and scope, the thesis that SCs cannot survive should be rejected; Second, The viability of an SC in the globalized economy depends to a large extent on its ability to swiftly adapt to the changing external environment(Svetlicic, 1997, p.3).

In order to support these arguments, he compares and examines strengths and weaknesses of small countries. On the one hand, weaknesses of small countries such as Slovenia include: a weak position in international relations due to the lack of different kinds of power; lack of natural resources, labour and local factor conditions; an inability to realize economies of scale due to a small domestic markets; limited financial funds and R&D capacities, etc. On the other hand, strengths of small countries include: more easily achieved social(cultural and religious) cohesion, better implemented policies and more stable system; absence of responsibility for the international order which might be costly to large states; stronger and swifter adjustment capability; better possibilities for specialization; computerization and telecommunications which are relatively more powerful weapons for small firms and countries than for large ones, etc.

Similarly he compares and examines opportunities for small countries and threats for small countries. He stresses that despite the weaknesses and threats mentioned above small countries have now strengths and opportunities which surpasses their weaknesses and threats. In his opinion, smallness of domestic markets is not important. Access to the world markets is decisively important. Small countries like Slovenia need not have a whole set of industries. Instead, they should find good areas appropriate to them, that is, niches and specialize in the areas. For that purpose, they should thoroughly internationalize all kinds of activities.

Economic Performance: Costs and Benefits of Secession and Independence

Slovenia has experienced "double transition, from a socialist to a market economy and from a regional economy to a national economy" (Mencinger, 1996, p.417). Slovenia shared advantages of an early start in making market-oriented reforms in the former Yugoslavia(the first in mid-1960s), maintained some advantages of its own, and was therefore in a better position than other former socialist countries to implement economic reforms, to adapt to "European values", and to adhere to sound economic policies. A famous Hungarian economist Janos Kornai explains causes of serious depression in transitional countries, using what he calls a "transitional depression". In his opinion, a transitional depression is caused by the transformation from supply-

constrained economies to demand-constrained ones(Kornai, 1995, p.175). In the case of Slovenia, however, the transitional recession was not so serious. Because the coordination of the economy had been for many years decentralized, the impacts of insufficient demand had prevailed over those of supply shortages in the 1980s, and most of its exports had been oriented towards Western Europe. More serious were costs caused by its secession and independence(Mencinger, 1996, pp.416-417).

Mencinger points out the costs of secession and independence as follows: The Slovene economy has been badly hit by the secession itself and, even more so, by the subsequent political and economic developments in the remnants of the former Federation. The 'supply shock' added considerably to inflationary pressures in the first months after independence. Slovenia also suffered damage because of hostile actions against business units in other Republics, particularly because of asymmetry of ownership. In 1990, there were 2,710 business units and 62 companies owned by Slovene companies in other Republics compared to only 690 units and 9 companies owned by other Republics in Slovenia. The links with rest of the world have remained hindered by other unresolved issues such as responsibility for the Yugoslav foreign debt and foreign currency reserves, the non-financial assets, 2,500 different bi- and multi-lateral agreements on export quota, transport licenses, etc(Mencinger, 1997, p.209). However, these issues proved be relatively less important. It was the near disappearance of the Yugoslav market of 23 million people(in which the population of Slovenia was 2 million) that has been the most important and difficult to overcome. According to his estimates, Slovenia lost 74.1 percent of 'normal' exports to Yugoslavia, 18.8 percent of 'normal' exports proper, and 45.2 percent of 'normal' total exports (Mencinger, 1997, p.210).

Such a drastic reduction of trade with the former Yugoslav Republics was the principal cause of the depression. The GDP declined in 1991 and 1992 by 8.9 percent and 5.5 percent respectively. The unemployment rate, which was 2.6 percent in 1989, rose to 7.3 percent in 1991, and 9.1 percent in 1993. The most seriously affected groups were young job seekers and the unskilled. While the overall rate of unemployment in 1993 was 9.1 percent, it was 24.2 percent in the age group 15 to 24 years (Svetlik, 1997, p.218).

Slovene companies endeavored to increase their exports to West European markets in order to substitute for plummeting exports to the former Yugoslav markets. In 1992 exports increased by 33 percent and imports by 28 percent. The results in 1993 were far less impressive. Total exports decreased by 9 percent while total imports

increased by 5.9 percent. The drastic decline in total exports was caused mainly by the collapse of trade with the former Yugoslavia which plunged by 37 percent (from $1,508 million to $963 million). Particularly important in this difficult period was the relative openness of the German market(Mencinger, 1997, pp.211-214). The share of EU in the total exports of Slovenia increased from 60.9 percent in 1992 to 67.2 percent in 1995, and its share in the total imports increased from 59.6 percent to 68.9 percent in the same period. The driving force behind Slovene exports to the EU were those manufactures which were redirected from the former Yugoslav markets. Specifically, they were footwear, chemicals textile, matalworking, and paper. In the second quarter of 1993 the economy reached bottom and then production started to increase. In 1993 the GDP increased by 2.5 percent, and since then it has been growing(World Bank, 1999b, p.49).

Slovene economy seems to be competitive in spite of the previous pessimistic anticipation. What is the reason for it? When I visited this country in 1997 I asked several economists about this point. According to their explanations, the reason can be attributed to the following factors: First, Slovene companies have endeavored to modernize themselves under the pressure from market; Second, Slovenia succeeded in inheriting the whole quota of exports which the EC had assigned to the former Yugoslavia; Third, with Germany and Austria, this country has formed division of labor similar to those which exist between Southeast Asian countries and Japan. For example, some Slovene companies produce parts(i.e., car seats for BMW), and other companies produce and export textile products under foreign companies' brand names.

Table 5 Macro Economic Indicators, 1992-98

	1992	1993	1994	1995	1996	1997	1998
Real Economy(change in percent)							
Real GDP	-5.5	2.8	5.3	4.1	3.3	3.8	4.0
GDP(US$ billion)		12.52	14.39	18.74	18.86	18.82	19.63
Per Capita Income(US$)	6,275	6,366	7,233	9,431	9,471	9,161	9,899
CPI(period average)	201.3	32.3	19.8	12.6	9.7	9.1	7.9
Unemployment rate(%)	8.3	9.1	9.1	7.4	7.3	7.4	7.7
Gross National Saving(% of GDP)	24.9	21.5	24.8	23.3	23.6	23.8	24.3
Gross Domestic Investment(% of GDP)	17.6	19.3	20.9	23.4	23.4	23.7	24.3
Public Finance(% of GDP)							
Central Government Balance	-0.9	-0.3	0.4	1.0	0.6	-1.1	-0.9
General Government Balance	0.2	0.3	-0.2	0.0	0.3	-1.1	-1.0
Gross Public Debt		21.0	18.6	27.9	28.8	27.3	
Money and Credit(end of year, Percent change)							
Real Credit to the Private Sector	3.2	8.8	11.5	31.1	9.6	2.8	14.4
Broad Money(M3)	12.7	63.7	42.4	27.9	21.4	24.0	24.3
Interest Rate(percent)							
Real Lending Rates	18-24	19-20	16-17	13-14	11-12	10-11	5.9
Real Deposit Rates	6-10	8-11	8-11	7-11	5-7	3-5	0.9
External Performance(US$ million)							
Exports of Goods(FOB)	6,681	6,083	6,828	8,316	8,310	8,369	
Imports of Goods(FOB)	6,141	6,501	7,304	9,492	9,421	9,366	
External Balance(% of GDP)							
Trade Balance	6.3	-1.2	-2.3	-5.3	-4.7	-4.2	-3.7
Current Account Balance	7.4	1.5	4.2	-0.1	0.2	0.2	0.0
Capital and Financial Account	-2.3	-0.6	0.3	1.4	2.9	6.9	0.4

Source: World Bank(1999b), p.5.

Four years after the secession and independence, Mencinger concluded, "The benefits of secession appear to prevail over its costs. Namely, while the costs of re-orientating trade from protected to competitive markets were significant, the secession intensified economic restructuring, produced sound economic policy, and permitted the construction of a 'normal' economic system" (Mencinger,1997, p.213).

Restructuring of Economy

1) Privatization

Preparation for privatization had already begun at the end of period of the former Yugoslavia. The amendment to the 1974 Constitution in November 1988 and the enactment of related laws enabled gradual transformation of socially owned companies into mixed ones, and 'internal shares' enabled employee buy-outs through the purchase of shares at a discount. In 1990, responsibility for privatization was shifted to the republics. In Slovenia the first draft of privatization was announced in November 1990. It is said that there was a heated controversy between two approaches over the method of privatization. The first group proposed a gradual, decentralized, and commercial privatization. The term 'decentralized' implied that firms themselves initiate the process of transforming into private companies; the government's role was, consequently, limited to determining the rules and monitoring the process. The term 'gradual' implied the possibility that initial privatization (by the sale of existing equity or by raising additional equity) might be full or partial, while the term 'commercial' implied that there would be no free distribution of shares at the beginning of the process. Instead, the citizens of Slovenia would be entitled to discounts on the purchase of shares up to a certain value, and the employees would, as mentioned above, enjoy additional discounts. This approach was represented by Joze Mencinger. In his opinion, the experience of self-management had merits, and it would be useful for management of companies in future.

The second group proposed mass, centralized, and distributive privatization. This approach was represented by Jeffrey Sachs, who is famous for his 'achievements' of having eradicated vicious inflation in South America, and instructed the shock therapy to governments of Poland and Russia. In his opinion, the political, social, and economic legacies of the past should be destroyed. The term 'centralized' related to the big role of government in carrying out privatization procedures. The term 'mass' implied that enterprises were to be immediately converted into joint stock companies by the free distribution of shares to the population.

In November 1991 the second draft of privatization law was not adopted. In November 1992 the privatization bill: The Law on the Transformation of Social Ownership was finally passed. It was a compromise encompassing features of both methods of privatization: a decentralized and gradual approach from the first, and a predominantly distributive privatization using ownership certificates to all citizens from

the second(Mencinger, 1996, pp.418-419).

According to Stiblar, the content of the privatization law and the related laws can be summarized as follows: First, it regulates the transformation of enterprises in social ownership into enterprises with known(private) owners, as well as the role of the Agency for Privatization, the Reimbursement Fund and the Pension Fund. Second, certain legal entities are excluded from regulation with this law(public enterprises, banks, insurance companies, cooperatives, enterprises in bankruptcy procedure). Third, Social capital is defined in the law as the difference between assets and liabilities of social enterprises plus permanent investments and stocks belonging to the enterprise. Its value is established by the "opening balance", for which mothodology is prescribed by the Privatization Agency and Social Accounting Service. It is not a book value, because this value is usually far from reality. Fourth, the rights of previous private (natural and civil persons) owners and their heirs are also prescribed. The denationalization law prescribed the restitution of private property rights in kind(if possible) or value(shares) to those who were stripped of ownership with the nationalization procedure by the socialist regime after World War Ⅱ. Fifth, all agricultural land and forests in social ownership are transferred to the Fund for agricultural land from the day of enactment of this law. The company may continue to use and manage agricultural land and forest until an authorized body decides on denationalization (restitution) or concession(Stiblar,1993, p.185).

In 1993, in order to promote privatization process, an ownership certificate, a kind of voucher, was distributed to each Slovenian citizen. Unlike the voucher in Russia, the ownership certificates had different face values between SIT 200,000(DM 2,500) and SIT 400,000(DM 5,000) depending on the age of the citizen. The total amount of ownership certificates represented 40 percent of the book value of social capital as of December 31, 1992. The certificates were not transferable to other persons, but could be used to purchase shares of privatized companies. They were used in the internal distribution and buyouts, public sales, or were to transferred to the privatization investment funds (World Bank, 1999b, p.88).

From 1993 to 97 almost 1500 socially owned enterprises went through the process of ownership transformation. By November 1998, 1369 companies have registered in the Court Register, and have begun to operate as private companies. The World Bank report saw a strong self-management tradition in Slovenia in the way of privatization. A majority of companies are controlled by insiders. More than 90 percent of enterprises chose to transfer ownership via internal distribution/buyout. In terms of

value of capital, however, total value of capital held by insiders amounted to only 26% while 29% was held by state, and 31% by institutional owners (World Bank, 1999b, p.88).

Insider buyouts were, in most cases, implemented in labor intensive small- and medium-sized companies with a lower value capital. In 67 percent of approved programs, employees acquired more than half of the enterprise's ownership, although these enterprises accounted for 16 percent of value of total capital in Slovenia. In the case of more capital intensive enterprises, the shares were to be sold in public offerings for either cash or owner certificates after obtaining the approval from the Slovenian Security and Exchange Commission. Only 12 percent of companies used public sales as their preferred privatization method, although the share of their capital in total social capital amounted to almost 30 percent. At the time of purchase, Slovenian citizens had a pre-emptive right to purchase the companies. In this sense, public sales to foreign investors were limited(World Bank, 1999b, p.89).

We should pay attention to the big role which is still played by the state in the process of ownership transformation. For example, the agricultural lands and woods previously used by socially-owned companies were nationalized. Also nationalized were public utilities and three large banks and steelworks which have been rehabilitated under State guidance to avoid bankruptcy. The public services sectors in which the State retained its participation include: (a) energy supply and distribution; (b) transportation; (c) telecommunications and postal services; (d) water distribution and other municipal public services; and (e) urban and environmental infrastructure (World Bank, 1999b, p.90).

By 1996, private sector participation in GDP reached only about 40 percent, well below the levels observed in other Central European transition countries, which were already over 60 percent of GDP in 1996. Even in 1999 the private sector is estimated to generate only 50-55 percent of GDP and to employ about 50 percent of the labor force (World Bank, 1999b, p.3, p.90).

2) Restructuring of Financial System

Slovenia has inherited the banking system with its defects from the former Yugoslavia. In the period of the former Yugoslavia, especially in the regime of the 1974 Constitution, banks were given a character of financial institutions which ought to serve self-managed enterprises. Banks were established by these self-managed enterprises. Self-managed enterprises owed banks a large amount of debt, and local political circles were interested in financing the local self-managed enterprises for the purpose of

development of regional economies. Thus banks were actually managed by big debtors. Such a defect was one of the causes of the economic crisis which surfaced in 1980s. By the Constitutional Amendment in 1988 banks were redefined as independent self-managed financial institutions, and socio-political communities such as communes came to join founders of banks. After the independence of Slovenia, the financial system including banks was essentially restructured.

According to the World Bank report, at the time of independence, Slovenia's banking sector faced four major problems. First, some 30 to 40 percent of banks loans were non-performing. Second, there was practically no real competition in this sector. Third, the regulatory and supervisory regime was poor, lagging behind international standards. Fourth, Slovene banks lost assets in the rest of the former Yugoslavia(This point was already mentioned before). Nevertheless, Slovene banks retained liabilities, especially with those of the London Club creditors.

In order to tackle the most pressing problem of bad loans, the authorities nationalized three major banks that were close to bankruptcy. It is the newly created Bank Rehabilitation Agency(BRA) that has been playing the most important role in the rehabilitation of banking sector. The process began by writing off current bank losses against their capital and by replacing their non-performing assets for bonds issued by BRA. A total of DM 1.9 billion of bonds was issued for this program. This amount was equivalent to just under 10 percent of Slovenia's 1993 GDP. The swap removed two thirds of the bad assets of the banks. The World Bank report also finds it paradoxical that public ownership in the banking sector significantly increased during Slovenia's transition to a market economy(World Bank, 1999b, p.65).

Besides, the World Bank report pointed out some problems: weak competition among banks, high operational costs, and the necessity of encouraging competition. The banking rehabilitation has so far been successful, and it has contributed to the significantly improved financial position of the banking sector as whole. However, taking into account the country's smallness, it is inevitable that restructuring of this sector should further continue(World Bank, 1999b, pp.65-68).

Latest Tendency

Since 1993 the Slovene economy has been continuously developing, and in 1996 it exceeded its output level of 1990. In 1997 per capita income equaled US$ 9,161, which corresponded to about US$ 13,000 as measured in purchasing power parity(World Bank, 1999a, p.1). This figure surpassed the Czech Republic. Now Slovenia is the richest

country among transition countries.

Slovenia was already highly dependent on foreign trade, but the secession and independence from the former Yugoslavia made this dependency much higher. Its exports and imports of goods and non-factor services account jointly for over 100 percent of GDP. For example, in 1997 the share of exports of goods services in GDP was 57.1 percent, and the share of imports 58.3. Slovenia's small open economy is therefore, vulnerable to external economic fluctuations (World Bank, 1999b, p.5). At the same time, Slovenia has many problems to solve in the field of agriculture, social welfare, etc. These are associated with structural adjustment required by the process of harmonization with the EU standards.

IV. New Yugoslav Economy's Collapse and Difficulty of Its Rebirth

The civil war in Bosnia and Herzegovina, which broke out in April 1992, finally ended with the Dayton Accord in November 1995. In the course of this war the new Yugoslav Federation had economic sanctions imposed on it by the UN from May 1992 till November 1995. Journal "Business Europe" estimated the loss caused by both the civil war and the UN sanctions at between US$ 50 and US$ 60 billion. "Repairing this vast economic damage — or just returning to 1990 levels — is expected to take at least 10 to 15 years" (September/October, 1996, pp.7-8).

An inflation on astronomical scale occurred again, as it had been previously at the end of 1980s. The monthly inflation rate in January 1994, at its peak, was recorded as 310 million %. This hyperinflation was triggered by oversized public consumption. The main reasons for this were as follows: i) burden of some 700,000 refugees in Serbia and Montenegro, and various aid given to Serbs in Croatia and Bosnia; ii) an oversized federal apparatus inherited from the SFRY, and highly bureaucratic administration; iii) military expenditure which amounted to 10% of social product; iv) extremely high burden of pensions; v) budgetary support to the social sector of the economy that operated at a loss, etc(Mitrovic-Israel, 1997, pp.470-471).

Economic activity sharply declined in this period. The growth rate of the social product(category similar to GDP) compared with the previous year was -8.4% in 1990, -11.2% in 1991, -26.1% in 1992 and -30.3% in 1993. This drastic fall of supply of goods, led to widespread shortages, which also contributed to further increase in prices. In addition, the mechanisms of the gray money supply, which was peculiar to Yugoslavia,

also contributed to the hyperinflation. As the new Yugoslav Federation inherited the decentralized central banking system, there was more than one decision-making entity. Therefore, monetary policy was not clear, and its implementation was not well coordinated, which led to the excessive levels of money supply (Mitrovic-Israel, 1997, p.472).

The fall of output was primarily due to the UN sanctions, but this was also caused by the hyperinflation. Because industrial out stabilized after the ending of the hyperinflation, and well before the sanctions were lifted. Simultaneously with the decline in output, the living standards decreased too. In 1993 per capita GDP was reduced by half compared with 1991.

The hyperinflation was beaten by the implementation of the Avramovic programme ("Programme of Reconstruction of the Monetary System and the Strategy of Economic Recovery of Yugoslavia). The programme was a two-phase shock therapy. The programme 1 was quite similar to the shock therapy which was implemented by Ante Markovic Government from January 1, 1990. The programme 2 included a certain element of the drastic reform.

The programme 1 started on January 24, 1994, and its main objectives were stopping inflation and recovering output growth. As for reconstruction of monetary system, the programme 1 included: denomination of the Dinar; the new Dinar was pegged to the German Mark at a fixed exchange rate 1:1; the new Dinar became convertible for both firms and individuals; the money supply is backed by foreign exchange reserves. This monetary system was based on the so-called currency board system. It is said that as soon as the programme was implemented, hyperinflation stopped almost overnight (Mitrovic-Israel, 1997, pp.477-478).

The currency board system could be maintained for only 6 months. Before long strict financial discipline was loosened, and the emission of currency based on borrowing from the central bank was resumed. Prices began to increase again (the inflation rate in 1995 was 120%), and a gap between exchange rates on official market and black market has expanded. In November 1995 the Dinar was devalued, and the official exchange rate of Dinar and German Mark was fixed 1:3.3 (See table 6).

The programme 2 included the following contents: primary currency emission is to be correlated with foreign exchange reserves; interest rates will reflect market demand and the limited supply of currency; ending state monopolies in foreign trade and industry; privatizing the state enterprise sector; removing quotas on exports and imports with only a few exceptions; reducing custom duties. These radical reforms

proposed by Avramovic met with considerable resistance from much of the existing industrial and political power structure(Mitrovic-Israel p.479). Dragoslav Avramovic, the Governor of the National Bank of Yugoslavia at that time, had clashed with the Government over his unwillingness to ease monetary policy, his advocacy of speedy Yugoslav membership(without conditions) of the IMF and the World Bank, and his support for privatization. Finally he was dismissed by the Federal Parliament from the position on May 15, 1996. Thus the implementation of the programme 2 was neglected.

Privatization

In Serbia the process of privatization is very slow. In most cases shares were sold in a preferential way to employees and managers of the same companies. According to Kovacevic, during the period 1990-1994, even 2,035(or 45%) registered socially owned enterprises were privatized. Over half a million employees, or 75% of those employed in privatized enterprises, subscribed and got the shares of privatized capital. 44% of total socially-owned capital was privatized. In the meantime, an additional 42% of socially-owned capital was privatized, covering mostly public operations(energy, communications, transport, etc.). Judging from description up to here, it sounds as if privatization proceeded quickly in Serbia, but then a strange thing happened in connection with the hyperinflation. In 1994 the new law, which had to be enforced retroactively, stipulated the reevaluation of the amounts paid for privatizing capital. As a result, only 3% of total capital has been recognized as privatized. A higher percentage of privatized capital could be retained only after paying a substantial amount of money. Thus privatization was almost discontinued. The percentage structure of capital ownership turned out that in Serbia state ownership accounted for 42%, social ownership 45% and private ownership 3% while in Montenegro state ownership accounted for 86%, social ownership 0% and private ownership 14%(Kovacevic, 1997, p.246). As is well known, owing to the idea of "social ownership" officially the State was not an owner of means of production in the socialist period of the former Yugoslavia. Paradoxically, however, the State became the biggest owner after the system transformation. "Soft budget constraints" remain dominant in state and social enterprises.

Inconsistent Reform of the Banking System

Although banks were transformed into joint-stock companies by the banking system reform in 1989, they were not privatized. In the new Yugoslavia banks which were founded before 1989 are called "old" banks(44 banks), while banks which were

founded after 1989 are called "new" banks(67 banks). The ownership structure of the "new" banks varies. Some of them are entirely private while in others there are both socially-owned and private capital, both domestic and foreign. Although "new" banks account for less than 20% of the total assets in the banking sector, they account for 80% of the total profits in the banking sector. "Old" banks account for more than 80% of the total balance of the banking sector, and especially "big six" among "old" banks account for about 60%(Pitic, 1999,pp.341-342). A situation in which "debtors of a bank are actually its owners" can be perceived among "old" banks as before. Profit maximization is not the owners' motivation. Instead, enterprises buy the shares of a bank so as to be extended credit from this bank. Instead of initiating the bankruptcy proceedings against the enterprises which are known as having no prospects, banks were forced to keep them artificially alive for social and political reasons(Pitic, 1999, pp.343-344). It is said that bad loans constituted about 60 percent of the social product as of 1997(Labus, 1997, p.38). At the beginning of 1991 the Government froze the population's foreign currency deposits ("old foreign currency savings deposits") and left them unsettled. As of the beginning of 1997 the total liabilities of the state toward the population amounted to 6.4 billion DEM(Vukotic, 1997, p.8). This deepened the credibility crisis of the banking system.

A Delay in Reforms

Immediately after the Dayton Accord in November 1995 the UN sanctions was lifted, and foreign trade officially resumed. GDP increased by 5.8% in 1996 and by 7.4% in 1997. The performance was apparently not so bad. In fact, however, the Yugoslav economy has had serious structural problems. As the new Yugoslav Federation experienced successive nationalities conflicts and the UN embargo, but the Yugoslav economy maintains specific features of the self-managed socialism together with its defects.

The Yugoslav economy lacks international competitiveness. In 1997 its exports were less than a half of its imports, and the trade deficit amounted to US$ 2.4 billion, which corresponded to 16% of GDP. The price for covering such a huge deficit was an excessively high interest rate, which in turn raised the real exchange rate higher than its real power and thereby stimulated imports and restrained exports. High interest rate made it difficult for domestic companies to get credit. The share of investment in GDP was only 11%. As continuous increase of profit was not expected, companies were not able to increase employment but instead decreased the number of employed

workers. During the period 1989-1997 the number of employed decreased from 2.9 million to 2.33 million (in which social sector: 2.73 million→2 million; private sector: 58 thousand→320 thousand). In 1997 the number of unemployed was 816 thousand, and the unemployment rate was 26%. In addition, there were about 800 thousand hidden unemployed. In contrast to the decrease in number of employed, the number of persons who depend on them has increased (1.24 million pensioners and 700 thousand refugees). As mentioned above, there is no serious banking system reform. This is because there is no strong will to carry it out(Sevic and Zamberlin, 1999, p.366).

In 1997 the share of the State budget and its deficit accounted for 47.7% and 5.6% of GDP respectively. The State budget suffers chronic deficit due to numerous loss-making enterprises and a decrease in the number of employed. The Government has decided not to pay the wages of certain members of the public sector and delay paying pensions(MacWilliams, 1997, p.382). In order to cope with the budget deficit, the Government is always tempted to issue additional paper money and sell the state property by the piece. Its typical example is the case of Serbia Telecom, which was privatized at the end of June 1997. 29% of the total shares was sold to an Italian company, and 20% to a Greek company. Most of the proceeds were utilized to pay wages and pensions. In Serbia the new law on ownership transformation was adopted in July 1997 and came into effect in November 1997. According to the law, up to 60% of enterprise capital is to be distributed gratis, 30% is to be sold at a discount or without it, and 10% is to transferred to the Old Age Pension and Disability Insurance Fund. Therefore, this method is called the voucher approach without using the voucher method(Hadzic, 1999, p.97). A stock exchange exists, but the volume of business is very little.

A Way to Yugoslav Rebirth

The reconstruction of the Yugoslav economy needs more radical economic reform. The necessity for it is pointed out from abroad. Also within the country many people are conscious of it. I think that the biggest problem consists in domestic politics. The reasons why Milosevic has succeeded in maintaining his position as the top leader in spite of his repeated failures and criticism toward him from within and outside the country consist of the following points: firstly, opposition groups have been split; secondly, the Government and ruling parties have been controlling mass media; thirdly, Milosevic has been taking a nationalistic line and many people, especially the countryside have supported him. In March 1998 he appointed Seselj, an extreme-right

wing nationalist, to Vice Prime Minister. If Milosevic is still a communist we can say that an alliance of "red" and "black" was formed. It is said that, in fact, members of the leading parties have been appointed to managers of enterprises. As mentioned above, after the system transformation as a result of "privatization" the State became the biggest owner of the means of production. I think that the hypertrophied state sector has become a source of the ruling parties' power.

Table 6 Basic Economic Indicators

	1994	1995	1996	1997
POPULATION (middle of the year, in 000)	10,516	10,547	10,574	10,632
OUTPUT AND DEMAND				
GDP (growth rates in %, in constant prices)	4.3	6.2	5.8	7.4
GDP (in bill. Current USD on black market)	11.9	12.7	15.0	14.9
Per capita GDP (in current USD on black market)	1,131	1,207	1,421	1,404
Industrial Production (growth rates in %)	2.1	4.3	8.0	9.6
Utilization of industrial capacity in %	36.2	37.6	40.3	44.2
Personal consumption as % GDP	64	67	73	…
Government consumption as % GDP	21	21	22	…
Fixed investment as % GDP	13	12	12	…
JOBS, WAGES AND PRICES				
Number of employed (in 000)	2,413	2,379	2,367	2,333
Unemployment rate in %	23.1	24.6	25.8	25.9
Average salary in YUD	208	307	545	803
Inflation rate (in %, end period)	0.01	120.2	58.7	9.3
Exchange rate YUD:DEM (end period, black market)	1.5	3.4	3.9	5.0
Exchange rate YUD:DEM (end period, official market)	1.0	3.3	3.3	3.3
MONEY AND CREDIT (growth rate in %)				
M2		42.6	75.3	61.6
Dinar credits of the banking sector		68.4	100.6	44.8
FOREIGN TRADE AND CURRENT ACCOUNT				
Export of goods (in million USD)	1,481.8	1,531.1	1,842.0	2,368.0
Import of goods (in million USD)	1,898.1	2,666.3	4,102.0	4,799.0
Foreign trade deficit (in million USD)	-416.3	-1.135.0	-2,261.0	-2,431.0
(as % GDP)	3.5	8.9	15.1	16.3
Current Account balance (in million USD)	-288.3	-968.2	-1,318.4	-1,800.0
(as % GDP)	2.4	7.6	8.8	12.1
PUBLIC CONSUMPTION (as of GDP)				
Fiscal revenue	41.3	40.7	44.8	47.7

Source: CESMECON(1997), p.8.

The Programme of Radical Economic Reforms was announced in February 1997 by 17 economists(G17) who requested a new democratic government in Serbia and the new Yugoslav Federation. The G17 grasps the present regime as "socialist totalitarianism" which is supported by an alliance of politics, public enterprises and Mafia (the new oligarchy). The G17 proposed many policy measures. As for the banking system, in order to overcome the credibility crisis the G17 advocated solving the problem of Government's liabilities in foreign currency toward the population. Besides, it placed emphasis on establishing independence of the central bank, return to international financial markets and introduction of foreign capital.

But the new Yugoslav Federation has not succeeded in getting full-scale financial assistance because the recovery of its membership of the IMF has not been realized yet. In addition, in mid-1998 the US and the EU decided a ban on investment to the new Yugoslav Federation, a freeze on bank accounts of Yugoslavs abroad and a ban on arrival of Yugoslav aircraft on the grounds that the new Yugoslavia's approach to the Kosovo problem was not satisfactory.

Although Dinar was devalued(from DEM 1= YUD 3.3 to DEM1 1= YUD 6.0) in April 1998, Yugoslav exports did not increase at all. The trade balance did not improve due to Yugoslav producers' high import dependence(for example, of raw materials and capital goods). The growth rate of social product in 1998 was 2.6%. Already in the latter half of 1998 the Yugoslav economy came to a phase of recession, and the industrial production in January 1999 decreased by 9.6% compared with the same period of the previous year. According to a questionnaire survey to enterprises(Economska Politika, Broj 2441, 1. februar 99, str. 8), the top causes which limited production were a shortage of credit (41.8%), followed by a shortage of imported materials(20%), a shortage of demand(17.1%) and low prices(13.9%). In this way, by spring 1999 the Yugoslav economy came to a standstill.

Kosovo Crisis and NATO's Bombardment

Although there are groups which aim for democratic rebirth of the new Yugoslav Federation, they are not able to replace the Milosevic administration due to a split in the groups. Milosevic has not succeeded in a peaceful solution of the Kosovo problem. Since February 1998 armed clashes between "Kosovo Liberation Army" and Serbian security corps were repeated, and early 1999 many Albanian became refugees. Peace negotiations mediated by the US and others had a rough passage.

NATO began bombardment over the new Yugoslavia on March 24, 1999 on the

grounds that it rejected the final proposal for peace[9]. The US and West European countries on the humanitarian grounds intervened the Kosovo problem militarily in order to stop "ethnic cleansing" by Serbia, but it is difficult to say that the expected purpose was achieved. Once the military intervention has begun the number of Albanian refugees has rather increased sharply. The bombardment brought numerous victims among ordinary citizen on the side of the new Yugoslavia. People were obliged to support Milosevic government, no matter how non-democratic, amidst such a national crisis as the bombardment by NATO. Thus Milosevic rather reinforced its base for political power.

The damage on the Yugoslav side was estimated at about US$ 30 billion. More than 600 thousand workers lost their jobs, and 2.5 million citizen lost sources of earnings. It was reported that the unemployment rate reached 50%. Thousands industrial, commercial and public facilities were destroyed or damaged. 23 oil refineries were destroyed and serious pollution of the environment was incurred. Transportation and communication facilities including 61 bridges, railways, roads and airports were destroyed or seriously damaged. The social product was estimated to decrease by 40% in 1999 compared with the previous year.

As for the reconstruction of Kosovo, the first conference of donor countries was held on July 28, 1999 in Brussels. In order to consult on the economic reconstruction the conference on cooperation for stabilization in Southeastern Europe on July 29-30 in Sarajevo. Milosevic administration was not admitted to participate in the conference while delegations of the surrounding countries were invited. In spite of the fact that the new Yugoslavia suffered most from the bombardment, it has not been allowed to receive assistance other than humanitarian aid from the international community.

In recent years Montenegro headed by President Djukanovic began to pursue separate economic policies because of its dissatisfaction with Milosevic's line. In November 1999, for example, the Government of Montenegro decided to adopt German Mark as the second legal currency. A further delay in reform might lead to Montenegro's estrangement from the new Yugoslav Federation. We can not deny a possibility of Montenegro's independence.

V. Rest of the Former Yugoslav Federation

A) Croatia

In spite of Western countries' well-disposed treatment at the time of independence, Croatia's economic performance is not so good. One of the causes is big damages suffered during the independence war. Another cause is that Tudjman's course became deadlocked. Although Croatia was ostensibly democratized, the political style represented by the former President Franjo Tudjman was rather authoritarian. As Drazen Kalogjera said, "every privatization is carried out favorably to ruling parties". In the case of Croatia, where the Croatian Democratic Alliance (HDZ) headed by Tudjman occupied a majority of the seats in the Parliament and maintained the Government from the election in April 1990 till Autumn 1999, the evil is evident. As of 1997 it was said officially that 50% of all the enterprises were privatized. But Kalogjera was skeptical to such a viewpoint. He argued that as a matter of fact 80% of all the enterprises were in hands of the State or under the control of the State.

According to Nenad Zakosek, about 560,000 shareholders(which corresponded some 12% of Croatian population) in different companies, including both employees and managers, emerged out of the privatization process. There are unfavourable features: (a) ineffective capital markets,(b) negligible foreign investments, (c) lack of domestic capital, and(d) the fact that main privatization transaction are still controlled by the State instead of being channelled through stock markets. These features are limiting the privatization process(Zakosek, 1996, p.93).

The Government of Croatia has exerted a strong influence on Croats in the Federation of Bosnia and Herzegovina. Its continuous discrimination against Serbs, who were expelled from the Krajna district by the Croatian army's blitz tactics in August 1995, and the inducement of Bosnian Croats to settle in their places of residence were against the Dayton Accord. Due to this, the relation with the Western countries was not good. Under pressure from the US the World Bank cancelled a US$ 30 million loan for the reinforcement of banking system in Croatia, and the IMF also postponed a loan to Croatia. The negotiation for its membership in the WTO was suspended under pressure from the US and the EU. It became necessary for the Government of Croatia to observe the Dayton Accord and improve the relationship with the Western countries in order to reconstruct and develop its economy.

Although the economy began to recover in 1994, but its pace was so slow that even in 1998 it did not reach the 1990 level. The economic growth stopped in mid-1998,

leading into a recession in 1999. Croatian economy suffers a chronic trade deficit. For the above mentioned reasons, Croatia was internationally isolated. The economic difficulties show that Tudjman's methods have failed. Increasing dissatisfaction among people led to a victory of opposing parties at the general election in January 2000. At the Presidential election in January 2000, which took place after Tudjman's death in December 1999, Mr. Stipe Mesic won.

The new Prime Minister of the coalition Government is Ivica Racan, the leader of the Socio-Democratic Party and the last leader of League of Communists of Croatia. The program of the new Government, based on the public commitment of the coalition groups, is a program of change in the Republic of Croatia, aiming to build civil society and a democratic and market-oriented state integrated in the EU. One of the most important tasks is to change the political system primarily by reducing the powers of the President of the State and by strengthening the role of parliament and the government. In addition, the new Government is now obliged to aim to attain such very basic tasks as follows: the promotion of dialogue and tolerance for development of democracy and building of civil society; the establishment of an independent judiciary and the rule of law; the transformation of the Croatian Television from a state-controlled one to a public, independent and responsible medium, etc. The new Government aims to join the WTO and the CEFTA. As for the EU, for the time being it aims to be an associate member.

B) Bosnia and Herzegovina

The fierce civil war finally ended with the Dayton Accord in November 1995. The population in 1991 was about 4.4 million. During the civil war from 1992 to 1995 around 250 thousand people were killed and around 3 million people were forced to leave their own towns or villages. About 1.25 million people became refugees. As of June 1995 the population who actually lived in Bosnia and Herzegovina was 2.92 million. In recovery and reconstruction of its economy this country needs assistance from the international community. An international donor conference, attended by 50 countries and international organizations, decided to extend assistance equivalent to US$ 5.1 billion in for 5 years to secure reconstruction of Bosnia and Herzegovina.

The country is composed of two entities: Federation of Bosnia and Herzegovina, and Republic of Srpska. The Federation is formed of Muslims and Croats. As of 1999 the population of the Federation was about 2.2 million, and the population of Republic of Srpska was about one million. The most important authority is the Office of High

Representative(OHR)of Peace Implementation Council(PIC). The high representative has a strong power which reminds us the supreme commander of the general headquarter(GHQ) of the occupied forces, which ruled Japan immediately after the World War II. In August 1997 a single central bank was established, and a foreigner was appointed to its president. The central bank is operated on the currency board system.

This unified country Bosnia and Herzegovina is still a very fragile existence. On the one hand, the Republic of Srpska is closely connected with the new Yugoslav Federation. Yugoslav Dinar has circulated here. Its linkage in transportation and communication with rest of the country is still weak. On the other hand, the Government of Croatia headed by Tudjman was very enthusiastic in assisting Croats in the Federation while it was reluctant in implementation of the Dayton Accord. For example, Croats in the Federation were given passports of the Republic of Croatia and they are allowed to participate in elections in Croatia. The Croatian currency Kuna has circulated in Croats majority area in the Federation. Banks in this area were a part of the Croatian banking system. Such a hostile attitude of the Croatian Government toward the independent country Bosnia and Herzegovina incurred criticism from Western countries. Besides, between Muslims majority area and the Republic of Srpska there is an invisible wall. This is evident in obstacles to travel and transportation. Within the Federation there is also an invisible wall between Croats majority area and Muslims majority area.

According to a country profile, pursuant to the Dayton Accord, the convertible mark was introduced in mid 1998 as the only official currency throughout the country. The convertible mark is to supplant both Yugoslav Dinar and Kuna which have been circulating in this country. 1999 was expected to be "the year for return" by the international community, but it falls short of expectations. While 475,000 refugees and displaced persons had returned since the signing of the Dayton Peace Agreement, only about 15,000 were so-called "minority return". The total population of the country is still only 3.2 million(Regional B i H Task Force, 1999).

The country has not yet recovered from the effects of the civil war. Hostile feelings among nationalities still remain. The Government of Bosnia and Herzegovina has a lot of tasks to deal with. In this country the centripetal force is weak while the centrifugal force is strongly working. In near future in the worst case there might be a situation in which the Republic of Srpska would be absorbed into the new Yugoslavia, Croats majority area in the Federation would be absorbed into the Republic of Croatia

and only Muslims majority area would remain. It will be indispensable that OHR and SFOR stay here for the time being.

Here promotion of reconciliation of nationalities and the nation-building is a matter of the highest priority. In so doing the reconstruction of its economy should be promoted. As for privatization, in an informal way, it has been taking place in Bosnia and Herzegovina since the late 1980s, when the former Yugoslavia adopted ambiguous legislation permitting private ownership. Legal problems have held back the start of full-scale privatization in Bosnia and Herzegovina. It took until October 1997 for the Federation to agree on a privatization law and until June 1998 for a similar law to be passed by the Republic of Srpska National Assembly, replacing the earlier, defective law. Privatization slowly started in the Federation in July 1998 with the sale of state-owned apartments. Two sectors of the economy which have grown particularly rapidly since the end of the war: Trade has risen as life begins to revert to normal; Construction industry has been also revived by the large volume of reconstruction expenditure directed at rebuilding infrastructure and housing. In Bosnia and Herzegovina specialists are discussing the transition from humanitarian aid to the commercial stage, and the transition to a market-oriented economy, which would include privatization(Regional B i H Task Force, 1999).

C) Macedonia

After declaring its independence from the former Yugoslav Federation Macedonia came into conflict with its neighbor, Greece. The latter opposed the former's independence from a fear that the naming of "Macedonia" might mean an intention to build a greater Macedonia including Macedonians of Slavic origin who lived in Northern Greece. Its admission to the UN was not realized for a while due to Greece's opposition. After a compromise was reached in April 1993 that the name should be "The Former Yugoslavia Republic of Macedonia", Macedonia gained membership to the UN. Even later, however, Greece was reluctant to support Macedonia, and in December 1993 Greece vetoed Macedonia's admission to the OSCE. In March 1994 Greece one-sidedly imposed a blockade on Macedonia and made it impossible for Macedonia to trade through the port of Tessaloniki. The Albanian minority accounts for about 25% of the total population of Macedonia. Reflecting nationality conflicts in the former Yugoslavia, also in Macedonia tension between nationalities has mounted. Relation between Macedonian and Albanian has become especially threatening. Traditionally, Macedonia has had a strong economic connection with Serbia. The UN sanctions against the new

Yugoslav Federation had a negative impact on Macedonia too. In this way, Macedonia was willy-nilly embroiled in the serious conflict in the Southeastern Europe.

As the UN sanctions against the new Yugoslavia were lifted in November 1995 and then relations with Greece became normalized, Macedonia gained a possibility to increase foreign trade and receive inward foreign investment. In 1996 GNP increased by 0.8%. In 1997 per capita GNP was US$ 1,586. 6.5% of economic growth was expected for 1999, but the precondition for it had soon collapsed. In the latter half of 1998 tension has mounted in Kosovo. In this connection, the growth in industrial production has slowed down. The NATO's bombardment over the new Yugoslav Federation, which began on March 24, 1999 and lasted for 78 days, as well as the exodus of refugees from Kosovo severely affected Macedonian economy. In January-July 1999 exports had decreased by 19% and imports by 17.9% compared with the same period of the previous year. This was a result of the lost market in the former Yugoslavia due to the war, higher transportation costs due to using alternative routes, cancelled agreements with foreign partners, etc. Macedonia is still tormented with a high rate of unemployment, a number of potential unemployed and outflow of the population, especially of individuals with higher education. Now that the Kosovo war is over, it is expected that direct investment and assistance from abroad will increase.

Prospect

Although "the cost of re-orientating trade from protected to competitive markets were significant" (Mencinger, 1997, p.213) for Slovenia, it has so far succeeded in entering the EU markets. It seems that for the time being the small country's strategy to find good areas appropriate for it and to specialize in these areas has been successful. In addition, the tides in the world, such as end of the Cold War, globalization and regionalism are running in favor of Slovenia. It should be added that Slovenia had advantages when compared with other transition countries. Although imperfect, Slovenia as a part of the former Yugoslavia had decentralized market economy during the period of Socialism. It seems that the decentralized coordination mechanism, which Slovenia inherited from this period, facilitated transition to a successful market economy. Slovenia has also experienced a long period of self-management. The World Bank report negatively points out this tradition of self-management in the process of restructuring of enterprises. However, Mencinger thinks, and I also believe, that there must be advantages in the experience of self-management and that they will be helpful for

Slovenia's future economic development. Because of the experience of self-management, Slovene workers have strong sense of belonging to their enterprises as Japanese workers have. This point can be applied also to enterprises' management. In contrast to highly centralized planned economies, where state enterprises' management did not truly act as a manager but simply administrator, enterprises' management in Slovenia acted as a manager who accumulated experience and know-how of market economy. Slovenia has difficult challenges. Slovenia has to solve many problems which are associated with the structural adjustment required by the process of harmonization with the EU standards. Indeed, it is not easy. But I hope that the strengths of Slovenia as a small country, that is, one able to more easily achieve social cohesion, stronger and swifter adjustment capability, etc. will mitigate the pain of structural adjustment.

The new Yugoslav Federation does not have such strengths. Its economy was successively hurt by the breakup of the former Federation, nationality conflicts, the UN sanctions and NATO's bombardment. It was not able to make use of experiences from decentralized market economy during the self-managed socialism. The last decade was "a lost decade" for the new Yugoslav Federation. Apart from these external factors, however, the essential cause of the economic crisis consists in a delay in reforms. In order to avoid its deterioration and to rebuild it, Yugoslav people should not take cosmetic measures but carry out drastic reforms such as acceleration of privatization, deregulation of small and medium-sized enterprises, financial system reforms, encouragement of introduction of foreign capital, etc. The success of the reforms would require an active support from the international community. In order to escape from international isolation a big change would be required, as Croatian people have chosen recently. With a government supported by a majority of people, this country should set about a full-scale economic reform, at the same time, achieve its return to international organizations. However, there are unknown factors about the future of this country. Since we can not deny a possibility of Montenegro's independence and a concomitant civil war the fate of this country is unpredictable.

In spite of Western countries' well-disposed treatment at the time of independence, Croatia's economic performance has not been so good. This is because, in contrast to Slovenia, Croatia suffered big damages during the independence war. However, a more serious cause is that Tudjman's tactics have failed. Increasing dissatisfaction among people led to a change of government in January 2000. After Tudjman died in December 1999 a new President was elected. The new Government denied the extreme nationalistic line and announced democratic reforms. This will improve relations with

Western countries and enable the country to attract their active assistance. Now the country will be able to make use of its geopolitical advantage. As the country has economic potential its economy will soon begin to develop, and the transition to a market economy will proceed smoothly. If the country succeeds in finding its niche in the world markets it will be able to make use of "strengths of small country" and attain a dynamic economic development.

Bosnia and Herzegovina has not yet recovered from the effects of the civil war. Hostile feelings among nationalities still remain. It will be indispensable that OHR and SFOR stay here for the time being. Here promotion of reconciliation of nationalities and the nation-building is a matter of the highest priority. International assistance has been indispensable in this stage of economic recovery. Hereafter the emphasis should be shifted from humanitarian aid to commercial stage and movement toward a market-oriented economy including privatization process.

After its independence Macedonia has been negatively affected by the civil war in the former Yugoslav Federation, the UN sanctions, its conflict with Greece, NATO's bombardment over the new Yugoslavia, etc. At last in June 1999 when Kosovo war ended, Macedonia became able to regain a peaceful environment for its economic development. For the time being international assistance is necessary for recovery and reconstruction of its economy. At the same time, it is necessary to educate young people adaptable to market economy. I do not think that the "strength of small country" will soon surpass "weaknesses of small country" in this country. Together with the new Yugoslavia Macedonia should endeavor to develop regional cooperation with rest of the Balkan countries for a while in the hope that they will join the EU in the distant future.

Until recently the international community has extended less assistance to the Balkans than Central Eastern Europe. In order to bring everlasting peace in this region the international community should pay attention and extend a great amount of assistance for economic reconstruction and stabilization in this region than it has thus far been willing to provide[10].

Notes

1) This paper, based on my papers: Koyama(1999b)and Koyama(2000), was presented at the 6th World Congress of ICCEES (International Council for Central East European Studies), which was held in Tampere, Finland, on July 29-August 3, 2000. Its summary appeared in *Abstracts of the VI ICCEES World Congress* (pp.228-229). I would like to express my thanks to Dr. Bruce Brown, Associate Professor at Niigata University from 1997 to 2000, for his kind help in translation of the Japanese text.

2) For civil society see Bibic and Graziano(1994). The level of theoretical research in Japan on civil society is represented Hirata(1968).

3) The rule by Austro-Hungarian (Hapsburg) Empire had not only negative aspects but also positive aspects. A series of reforms including educational system reform was carried out during the reign of Maria Theresia (1741-80). The spirit of reform was inherited by her son Joseph II, who carried out abolition of serfdom and torture, promulgation of religious toleration and promotion of industrial development. When I asked the reason for economic success of Slovenia in my interview with Joze Mencinger, a prominent economist in Slovenia (April 1, 1997), he unexpectedly referred to the educational system reform during the reign of Maria Theresia.

4) For the emergence of the regime of the 1974 Constitution see Rusinow(1977), pp.284-285.

5) Causes of the economic crisis in the former Yugoslavia can be summarized as follows: Yugoslavia had been pursuing industrialization with emphasis on the heavy and chemical industries in the 1970s. At the enterprise level, workers were inclined to distribute a large part of the gross income to personal incomes(wages) and common consumption. Consequently, only a small part of the gross income was left for savings. Nevertheless, enterprises had a strong desire to invest and they continued borrowing from domestic and foreign banks. There were defects in the financial system and loosening of financial institutions that were designed to serve self-managed enterprises. Banks were established by self-managed enterprises. Local political circles which had a big influence in the election of bank directors, likewise, exerted an important influence on the bank management. Self-managed enterprises owed banks a large amount of funds and local political circles were interested in financing the local self-managed enterprises for the purpose of development of the regional economy. The facts support the proposition that banks were actually managed by big debtors. Because of the change in the credit system in 1972, self-managed enterprises could easily borrow funds from abroad. As a result, the accumulated external debt, which was US$ 4 billion in 1970, amounted to US$ 20 billion in the early 1980s. The more detailed explanation is provided in Koyama(1995) and Koyama(1996).

6) For more detailed explanation on nationality conflicts in the former Yugoslavia see Koyama (1997).

7) Kayoko Yamasaki referred to Serbia's defeat in the international propaganda in her book. In the former Yugoslavia there was only one international TV relay broadcasting center and it was located in Zagreb in the Republic of Croatia. At the initial stage of the civil war Serbia could not send a single news story to the rest of the world. It is not until three

months later that the Serbian broadcasting system contracted with a foreign relay station and could send news directly to the external world. Meanwhile, international public opinion already had strong anti-Serbian leanings. Kayoko(1993), p. 59.

8) "The Strategy" is briefly introduced by a Nakamura(1995) and Majcen(1999).

9) Immediately before the deadline of peace negotiations at Rambouillet the US made an additional proposal. The Appendix B of the Final Draft of the Peace Agreement requested that armed forces of the NATO would have strong extraterritorial rights and freely deploy themselves not only in Kosovo but also through the whole territory of the new Yugoslav Federation. This request was not acceptable to the new Yugoslavia at all. Appendix B(1999).

10) Dr. Tsuneo Morita, Economic Advisor at Nomura Research Institute Budapest, wrote as follows: "A gap between countries which have experienced culture and civilization of the exchange system [market economy] and countries which have no such experience is bigger than our estimate. Therefore, if the process of system transformation takes 20-30 years in the Central Europe it would be reasonable to view the process as a historical project which would take 40 years, or even more than a half century in the Balkans and more than a century in countries of the former Soviet Union. We should understand that such a system transformation is a long-sustained historical process". His opinion is very suggestive. Morita (2000), pp.196-197.

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