

# THE POLICY FRAMEWORK OF YUGOSLAVIA IN THE BALKAN REGION

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The Balkan region occupies a distinctive place in all aspects of FRY's general policy framework. Based on historical as well as economic grounds, cooperation among states of this region has become almost inevitable due to national and international reasons. However, turmoil and instability have prevailed with serious global repercussions. Peace, prosperity and stability in the Balkan region are high priority objectives for FRY, which attaches special importance to its relations with this region. However, history has shown that these goals require enhanced and diversified regional cooperation and there is no doubt that improving economic cooperation would also reduce the tensions we have all witnessed in the earlier months and previous years.

Political and economic transformation of the Balkan region will definitely be a complex and long term process, which will last for many generations although its foundations are being laid now. The main problem is the lack of a significant democratic tradition in the countries of SE Europe. There are many old and new conflicts between the countries of the region, especially territorial and ethnical, with animosities and deep distrust. The unique symbol and example of that is Kosovo. The break-up of former Yugoslavia and Yugoslavian wars have deepened that distrust and created new serious quarrels. All political, economic and other negative consequences of these are now hard to judge, but it is clear that the region will suffer because of them for a long time. Regional economic cooperation is on a very low level and even though these countries are oriented one to another, they are more economically connected to the markets outside of the region than within the region. It is true that the Balkans is above all a geographic, not an economic, region. Besides, in the economic aspect, it is lagging more and more behind Western Europe as time passes.

It is very indicative that almost all of the initiatives for regional economic and political cooperation are coming from outside of the Balkans. This fact shows that there is still a lack of consciousness and knowledge about the key significance of good neighbourhood relations, which is often proclaimed by officials of these countries, but more through words than by action. The syndrome of self-sufficiency is still strong in the Balkans and it is very much related to nationalism in these countries. Numerous international initiatives concerning this region are created to secure peace and stability in this part of Europe. Of course, for this to happen, many problems need to be solved, both economic and political. Without that, the region will remain a permanent threat to stability and peace in Europe. It is extremely important that the international community realises that Europe cannot live in peace and prosperity if the countries of the Balkan region are not integrating and are not connected to the network of European institutions. If that does not happen, it is very realistic to assume that the Balkans will continue to be a very risky and insecure place. The negative aspects of this will be hard to keep within the borders of this region.

In the last few years, economic globalisation has shown how countries have become interdependent and, furthermore, how cooperation among them is essential. For FRY as well as for other Balkan countries, a further step to this integration in the global economy is the aspiration to be part of the European integration process. It is a strategic interest of Yugoslavia to integrate in the EU. It is, from one side, a way to get easier access to one of the most important markets in the world, and from the other side, it is a basic precondition to solve the problems of economic development and stable democratic society. It is also the only way for all countries of South-Eastern Europe to fully liberalise flows of international trade and capital, reconstruct and develop their infrastructure and, by accepting European legal and institutional frameworks, to improve their competitiveness in the European and World economies. The European option will enable FRY to strengthen current relations and to re-establish broken connections with ex-Yugoslav republics. Cooperation with countries of Eastern and Central Europe, together with Mediterranean countries, is a natural way to prepare for the highly competitive West European and World markets.

But the starting point for Yugoslavia is very poor. Most quantitative indicators are the worst in the region. Special problems are the arrested process of transition, disbelief in state institutions and the

lack of independent market institutions. Also, around 35% of the population is officially or effectively unemployed, 70% live below or close to the regional poverty line, and around 600,000 refugees from Croatia, Bosnia and Kosovo lack basic necessities. People have to live with very low salaries by regional standards. Savings are extremely low and many segments of society have run out of reserves. Any further shock to the standard of living would be devastating for our citizens. Moreover, infrastructure is suffering from many years of decay, mismanagement and the consequences of the NATO 1999 bombing campaign. After being swindled several times by state and private banks in the 1990s, the population has lost trust in the banking sector. Real fiscal revenues and expenditures were much lower than planned because of tax exemptions, rate cuts and the development of the grey economy. Bad debts and inter-enterprise arrears are a permanent threat to macro stability as they represent, according to available estimates, around 80% of GDP. Finally, despite its willingness to honour again its international debts, the country is not in a position to do so, as the level of debt represents approximately 150% of GDP.

All in all, the FRY is facing both transition and post-conflict problems. After leading the transition process at the beginning of the last decade, the country is now lagging behind the most advanced transition economies. Its reform path has to recognise this peculiarity and be very dynamic and ambitious. This is also why the country requires significant external support, both in the form of humanitarian assistance but also technical assistance, training, budgetary support, grants and loans. We will mobilise all our internal resources to overcome this dire starting position and reform rapidly. The FRY certainly does not want to become dependent on foreign assistance. We want to be a self-sustaining country, benefiting mostly from foreign private investment flows and international trade. We recognise the need to restructure deeply our economy. However, given the enormous weight of the past, my country will require significant backing from the international community in the short term to succeed. We hope that the Donors conference, organised by the World Bank, will succeed in mobilising foreign capital that will be used to rehabilitate infrastructure and reduce the negative effects of the transition period.

Macroeconomic reforms and reconstruction of the country to facilitate its return into the international community are difficult jobs that the newly elected democratic government will not be able to finish

unless it gets strong support from both the domestic and international publics. To provide a permanent improvement in living standards and to fulfil the great expectations of citizens after the removal of the authoritarian regime, the new government has started immediately with the implementation of radical economic reforms.

So far, most of the work has been done in monetary and fiscal policy, but also in foreign trade regulation and structural price adjustments. The Central Bank of Yugoslavia has already done a great job in keeping the exchange rate of the dinar very stable during the last six months and our foreign exchange reserves are increasing. Regarding fiscal policy, new tax laws have been introduced to establish a transparent and fair system. This should be one of the greatest contributions to the overall economic performance of my country. The government of Serbia has introduced a Gross Budget Principle that should clear the fiscal situation. Also, for the first time, the government has announced an explicit budget deficit. The government of FRY has also accepted new laws concerning international trade. There were many non-tariff constraints to trade, such as licenses, quotas, compulsory applications etc. All of these will be abolished. Second, the government has managed to decrease the average tariff rate from 15% to 9.5% and to reduce the number of tariff rates to six. We feel that it will become much more transparent and that all of this will dramatically reduce corruption that was significant in this field. Also, we expect a great increase in foreign trade, especially with countries in the region.

One of the greatest problems of the new government is structural price adjustment. As I have mentioned before, the standard of living of our people is very low and the former government was "buying" social peace with low prices for the most important products and services. The greatest problems are with electricity, utilities, medicines and basic food products. So far, the prices of food have been liberalised whilst the price of electricity has been increased up by some 60%. They will be increased two more times this year. Concerning privatisation, a new law will encourage the sale of socially owned enterprises to outside core owners. Also, a new law on foreign direct investment is being prepared that will be very liberal. Another thing that is considered to be important is the development of the private sector that should increase employment in the difficult times to come. All of this work has been done to improve the lives of our citizens and to move towards European standards. We recognise the need that all countries in the region should work together towards the fulfilment of

European standards. We must take the lead in the whole course of integration by implementing the basic criteria and by re-shaping the economy.

The Balkans, constituting a bridge between two continents, has to assume a clearly defined and vital role in all aspects of international cooperation. As generally perceived, important developments are expected to happen in this new global millennium. All Balkan countries should contribute extensively to economic cooperation to ensure prosperity and welfare both in this region and in its neighbourhood. We believe that lasting peace and stability in the Balkans can be achieved through regional cooperation. We are convinced that an enhanced and diversified cooperation in this part of the continent will not only help to ease tensions and contribute to stability and peace, but will also reinforce the process of all-European integration. In this context, the Balkan cooperation process offers a very promising prospect to mould the common past of the region into a mutually shared destiny.