

3 The Upcoming Conflict in Bosnia and Herzegovina

In this chapter I examine more closely the specific situation in Bosnia and Herzegovina. Subchapter 3.1.1. presents the economic background, backed up with four empirical analyses of major local companies, whereas in subchapter 3.1.2. the general economic performance of Bosnia and Herzegovina and additional factors, which have a strong influence on the situation, are explained.

When both Slovenia and Croatia declared unilateral independence in June 1991, the wish of Alija Izetbegovic, the President of Bosnia and Herzegovina at that time, to hold Yugoslavia together in a loose federation became unrealistic. Although the Yugoslav National Army (YNA) attacked Slovenia on 28 June 1991, it gave it up only 10 days later, not because of the military strength of Slovenia but because of various other reasons, e.g. the lack of a Serbian minority in Slovenia and the increasing incidents in Croatia. But almost three months earlier, in March 1991, Franjo Tudjman and Slobodan Milošević had met in Karadjordjevo in a secret meeting to define their areas of interest; Bosnia and Herzegovina should be divided into a Serb and a Croatian part. Despite these secret talks, the two fought a more and more intensive war against each other, mainly on Croatian territory. On 10 September 1991, Bosnia and Herzegovina asked the EU to send observers to its territory. In light of increasing Serbian military activities in the Serb parts of Bosnia and Herzegovina, the Serbian territorial forces distributed weapons among the Serbian civilians and President Izetbegovic called for the establishment of a six-mile demilitarised zone along the Una and Sava rivers to separate the Republic of Bosnia and Herzegovina from Croatia.⁸³ On 15 October, the Parliament of Bosnia and Herzegovina declared the republic's sovereignty and, only a little more than a month later, on 20 November, did it request the deployment of United Nations troops. The 24 December request of Bosnia and

⁸³ Johnston, Russell 1993: „The Yugoslav conflict – Chronology of events from 30th May 1991 – 8th November 1993“, Information Document for the Defense Committee, Thirty-Ninth Session of the Assembly, A/WEU/DEF(93)14

Herzegovina for recognition from the EU was refused on 9 January 1992 because “the risk of ethnic conflict in Bosnia-Herzegovina was considered to be too great for that republic to qualify for EC recognition.”⁸⁴ On the same day, the Assembly representing Bosnia’s and Herzegovina’s Serbian population declared an autonomous Republic of the Serbian people of Bosnia and Herzegovina and announced that Bosnia’s and Herzegovina’s President and Foreign Minister would no longer represent the interests of Bosnia’s and Herzegovina’s Serbian people in international fora. The “Republika Srpska” was created, and its leadership then voted officially for a territorial separation of the country. Meanwhile, the radical Croatian forces in Herzegovina became stronger and stronger. When Mate Boban, a local businessman, became the leader of HDZ, the Tudjman-devoted Croats together with the Croatian Defense Minister Gojko Šušak formed the radical wing. The Croatian entity of “Herzeg-Bosna” covering all areas in Bosnia and Herzegovina which were settled by Croats was created. President Izetbegovic, who only later became more radical, tried to avoid a war in his country. Because of the multi-ethnic character of Bosnia and Herzegovina, explained in more details in chapter 3.1.4., the country would stay a safe haven for all the different entities according to the President. He further argued that an independent Bosnia and Herzegovina would remain a common state of all constituent ethnicities and citizens. Two thirds of the population opted for independence of the Republic in a referendum held on 29 February and 1 March 1992 with a 63 per cent turnout.⁸⁵ However, most of the Serbian population was denied the right to vote by their local authorities or did not vote for their own reasons. As a result, intense fighting erupted between Muslims and both Serb irregulars and Yugoslav National Army and Croatian irregulars. On 3 March, the Republic of Bosnia and Herzegovina declared its independence. Only 24 days later, on 27 March, the government asked the UN to send in military observers in order to monitor a cease-fire in Bosanski Brod, in the north of the country, where fighting had broken out between Croats and Muslims. When the United States and the European Union

⁸⁴ Johnston, Russell 1993: „The Yugoslav conflict – Chronology of events from 30th May 1991 – 8th November 1993“, Information Document for the Defense Committee, Thirty-Ninth Session of the Assembly, A/WEU/DEF(93)14

⁸⁵ Ibid

recognized the independence of Bosnia and Herzegovina on 6 April and 7 April 1992, respectively, the war began.

3.1 The Special Scenario of Bosnia and Herzegovina

With 51.130 sq. km Bosnia and Herzegovina is about ¼ larger than Switzerland and is located at 44°00' north and 18°00' east. Its traditional borders are the Una and Sava rivers in the north, the Drina river in the east, and the Dinara Alps in the west. According to the 1981 census⁸⁶, Bosnia and Herzegovina was the home of 4,124,000 people, mainly urban and employed in manufacturing, mining, technology, and service industries. They represented 18.4 per cent of the total Yugoslav population and produced 12.7 per cent of the total GNP. However, their GNP per capita was the second lowest behind Macedonia.⁸⁷

3.1.1 The Economic Background

Already the Hungarian Benjamin Kally, as the joint Austro-Hungarian Minister of Finance, discovered the immense potential of the territory of the former annexed area of Bosnia and Herzegovina. He not only introduced modern infrastructure in industry and traffic, and a secular education system, but also a European orientation to urban life and the political system, based on a multi-party-government. Often one can read that the Austrians left more traces during fifty years than the Turks during 500 years.

⁸⁶ The census in 1981 was the last one which delivered reliable data about the socialist republics and autonomous provinces of the SFRY. In 1991 state influences, such as immigration from thousands of Chinese into Serbian controlled but not dominated territory as "Serbs" and the proposed manipulation of figures causes the power of evidence to be called into question. Interview with Mr. Djirovic, Eskim Bank, Belgrade, 25 August 2001, and Mr. Oreškovic, Defense Academy, Vienna, 19 November 2001.

⁸⁷ Savezni Zavod Za Statistiku, "Razvoj Republika Prethodne SRF Yugoslavije 1947-1990", Studije, Analize, Prikazi, Beograd, 1996, 231-240

Figure 3.1. Bosnia and Herzegovina



Source: OSCE

However, it was during the time of the Austro-Hungarian Monarchy that the keystones for the later excellent economic performance of the country were laid. Railroads and new industries were built and public facilities such as schools, parks, and transport systems (the first streetcar was tested by Siemens in Sarajevo) were introduced. This development was suddenly halted by the assassination of the Habsburg Archduke Ferdinand in 1914 by a Serb nationalist, and the following World War I.

During the interwar period Bosnia and Herzegovina did not play an important role in the renamed state of Yugoslavia. As in World War I, Sarajevo somehow managed to escape the destruction of World War II, although the country and its people suffered a lot. With Josip Broz Tito as the leader of the new Yugoslavia, the country established itself in between NATO and the Warsaw Pact, resulting in millions of dollars of financial aid. The strategic importance of Yugoslavia for the West cannot be better explained than by a statement of Henry Kissinger, the U.S. Secretary of State at that time, declaring that the U.S. would risk a nuclear war to defend Yugoslavia.⁸⁸ However advantageous this situation might have been for Yugoslavia until the late 80's, with the unification of West and East Germany in 1990 and the beginning of the decay of the USSR, Yugoslavia found itself all of a sudden in a politically unimportant position. The policy of being neutral between two blocs was no longer needed; it had run out of legitimacy. Or as Feldhofer has stated, "A bloc-free system can only function between two blocs."⁸⁹

Although the self-management system of Tito was officially introduced in all republics of Yugoslavia, Bosnia and Herzegovina did not fully follow these guidelines, and therefore was able to create a "Bosnian economic miracle" at the beginning of the 70s.⁹⁰ Meanwhile all republics suffered from a – partly significant – decrease of the GNP average growth rate per year in the periods from 1961 to 1980, Bosnia and Herzegovina registered an increase of 0.1 per cent.

⁸⁸ Riedlmayer, Andreas 1993, Harvard University, status: 24 September 2001, URL: <http://www.kakarigi.net/manu/briefhis.htm>

⁸⁹ Interview with Mr. Feldhofer, OHR Sarajevo, Sarajevo, 15 August 2001

⁹⁰ Oschlies, Wolf 1999: „Desintegration der BR Jugoslawien. Der Vierfrontenkrieg des Slobodan Milošević“, in: Gustenau, Gustav 1999: „Konfliktentwicklung auf dem südlichen Balkan II“, Landesverteidigungsakademie Wien, Nr. 18, 51-52

Table 3.1. GNP average growth rate/year 1948-1990 (in per cent)

	Bosnia and Herzegovina	Montenegro	Croatia	Macedonia	Slovenia	Serbia
1948 - 1960	6.0	5.9	6.7	5.8	6.6	6.5
1961 - 1970	5.4	8.4	6.3	7.9	6.9	6.1
1971 - 1980	5.5	6.1	5.4	5.8	6.1	5.9
1981 - 1990	0.2	-1.1	-0.8	-0.3	-0.7	-0.3

Source: Savezni Zavod Za Statistiku, "Razvoj Republika Prethodne SRF Jugoslavije 1947-1990", Studije, Analize, Prikazi, Beograd, 1996, 14

More than that, due to its geo-strategic location, the centre of the country is a mountainous area and so the Yugoslav government decided to establish its main military industry in Bosnia and Herzegovina. In case of attack, this region should have been easily defended. Numerous ammunition bunkers, huge airfields in the mountains and widely ramified cave systems, large enough to shelter interceptors, still reflect this strategy. The military industry was the direct employer of thousands of people, e.g. in the tank and aircraft industry, but also created thousands of jobs in ancillary industries. On the civilian side, the heavy industry of Bosnia and Herzegovina was concentrated on the production of semi-finished products, which were sold to Slovenian companies for further production and later exported as part of a final product. Therefore the major profit from exported goods stayed in Slovenia. On the other, side finished products were exported via export agencies (see: chapter 2.8.); machines and transportation devices accounted for almost 50 per

cent.⁹¹ Huge forests served as the basis for a flourishing furniture and paper industry; ore, iron, and bauxite mines fed the steel and aluminum industry around Zenica and Mostar; salt mines in the area of Tuzla formed the basis for the salt and chemical industry; the Posavina-region was the centre for agriculture and poultry farming; and the food industry was located in the area of Brcko. Bosnia and Herzegovina was also the main producer of hydro-electric power within the SFRY.

A couple of important companies developed and grew to a significant size for the country.

3.1.1.1 Energoinvest d.d. Sarajevo⁹²

Energoinvest, founded in 1951 under the name of Electroproject as a design firm for hydro-, thermal, and electric power plants by Emerik Blum, was challenged from the very beginning by the export embargo of the Soviet block on the SFRY. This, and the higher degree of technical sophisticated equipment, made Blum turn to Western companies. Blum's vision was to integrate the erection and production facilities, which already existed in Sarajevo, into Electroproject. When this vision became reality, renamed Energoinvest became a company for the design and construction of power and industrial plants. Blum's further plans for Energoinvest were striking for the economy of the SFRY at that time. He took the risk of selling to the U.S. and other Western and Asian countries, e.g. Norway, Cyprus, Thailand, Malaysia, etc., rather than to sell more or less exclusively to the USSR. He was always eager to learn about innovations and, if suitable, to implement them. His successor, Dragutin Kosovac, guided the company into the fields of oil and aluminum in the late 70s. He acquired a number of unworked mines in Bosnia and Herzegovina bearing Europe's richest deposits of bauxite, and built a complex of mining, processing, and smelting installations by means of which Energoinvest was expected to become the biggest producer of aluminum in Europe by 1982.⁹³ The unique way of

⁹¹ Chamber of Economy of Bosnia and Herzegovina, 01 September 2000

⁹² Interview with Mr. Matic, Energoinvest d.d., Sarajevo, 14 September 2000

⁹³ "The red capitalist", in: Newsweek, 30 October 1972, 48-50

Energoinvest of dealing with payments was to accept oil in a kind of barter trade, process it in its own refineries, and monetise the refinery products in their own trade network; this made Energoinvest independent from the – for other smaller firms obligatory – export procedures via export-import agencies like GENEX, INEX, etc. Energoinvest registered continuous growth until the outbreak of the war in Bosnia and Herzegovina in 1991. It employed 0.8 per cent of the Yugoslav labor force and 5 per cent of the labor force in Bosnia and Herzegovina, respectively. Its share of overall domestic exports was 4 per cent; meanwhile it held 25 per cent of Bosnia's and Herzegovina's exports. 45,000 employees worked in the company in 1990, spread over 6 R&D centres, 44 factories, 4 design-engineering departments, 8 trade enterprises in the SFRY and 27 abroad, and 2 joint-venture companies in the SFRY and 5 abroad.

But when the idea of the separation of Slovenia and Croatia swept over to Bosnia and Herzegovina, trading difficulties began to be experienced. The restricted access to Croatian ports and the blocking of major transport roads, especially in the Krajina and Plitvicka Jezera area (corridor X⁹⁴) as well as through Herzegovina and Srpska (corridor V c⁹⁵), led to a decrease of trading activities. The number of Serbian employees who left the company was insignificant and as there was as yet no preparation for war, business continued on a normal basis except for the above-mentioned difficulties until the beginning of the war in spring 1992.

⁹⁴ Corridor X represents the shortest connection between northwest European countries with southeast Europe, running from London, via Salzburg, Ljubljana, Zagreb, Belgrade, Skopje to Thessaloniki. "Privredna infrastruktura jugoistocne Evrope – regionalni investicioni forum 2000", Regionalni centar za strateška planiranja i investicije, RIC, Sarajevo, March 2000.

⁹⁵ Corridor V c connects Płoc with Warsaw via Sarajevo, Osijek and Budapest and marks therefore the most important north south transportation line. Ibid.

Table 3.2. Energoinvest's oil processing and oil products export
(in 1000 t/y)

Year	Oil processing	Oil products export
1980	2076	-
1981	1914	-
1982	1936	-
1983	1895	8
1984	1826	24
1985	1616	34
1986	1824	82
1987	1627	37
1988	1962	30
1989	1810	72

Source: Energoinvest

3.1.1.2 Aluminij d. d. Mostar⁹⁶

Bauxite ore was found for the first time in Herzegovina in the early twentieth century, and in 1945, Boksitni rudnici Mostar was created for the exploration, mining, and transportation of the ore. In 1969 it merged with Energoinvest d.d., Sarajevo, which secured the concession for the development of the aluminum industry from the government of Bosnia and Herzegovina. Regular production in the aluminum plant, however, did not start before 1975, when Energoinvest joined with the French company Pechiney. Aluminij d.d. Mostar was established in 1977 with the merger of the aluminum plant and the bauxite mines. In 1981, an aluminum factory for the production of green, baked and rodded anodes, smelter with the rectifying station, foundry, fluorine gases treatment, and ancillary engineering and general-purpose facilities was constructed in Mostar. Due to political decisions the company changed its name⁹⁷

⁹⁶ Interview with Mr. Musa, Aluminij d. d. Mostar, Mostar, 17 August 2001

⁹⁷ In 1985 it joined into RO Energoinvest Aluminij and took the name OOUR Tvornica Aluminija Mostar. When the OOUR was suspended in 1989 the company was renamed

several times between 1981 and 1990 before it was finally transformed into DP Aluminij Mostar.

Between 1970 and 1980, the company consisted of several units, each with its own independent organization. Thus, redundancies caused low productivity, e.g. multiple posts for directors, deputy directors, secretaries, etc. As the success of a manager was evaluated by the number of employees who worked for him, and as the self-management system produced strong unions which only took care of their workers and forgot that the performance of the company defines the future living standard of the work force, the number of employees was exaggerated. Any attempt to layoff personnel was quashed by the courts. Despite these problems, the company produced 92,000 tons of hard aluminum per year after 1985 for further use, e.g. window-frames, car-structures, etc. It employed 3,500 workers in 1985 and had special conditions for its export regime granted by Belgrade. As the price was set at the aluminum stock exchange in London, the state had to subsidize the aluminum production via cheap or free energy and special duty regulations to compensate for the higher production costs of Yugoslav aluminum.

Although no business data was provided by the company to prove or disprove the economic decline, Mr. Musa stressed that until the end of 1991 the situation of the company could be described as good and no special precautionary measures were taken. Only when the mobilization of men started and energy blackouts became the rule did the company have to reduce its production. As about 60 per cent of Ploce Port's capacity was used for its services and as it was the main customer for local railway and road transport agencies, the overall situation in early 1992 can be seen as similar to that of Energoinvest. Raw materials and spare parts on one side were difficult to obtain, hard aluminum on the other side was difficult to ship and the quality level of goods hard to maintain. On 23 April 1992 the direct shelling of the electrical substation cut off the electrical power supply, with many more direct attacks in the following months.

Preduzece Aluminij Mostar. With the separation of Energoinvest Aluminij in 1990 the new name was DP Aluminij Mostar. By decision of the Higher Court in Mostar of 11 November 1997 the company got its actual name Aluminij d. d. Mostar.

3.1.1.3 Vitex d.d. Visoko⁹⁸

Vitex d.d. Visoko's roots lay back in 1946 when a conglomerate of small firms, situated on the Topuzovo field, near Visoko in central Bosnia and Herzegovina, started to produce boots. After reorganizing in 1955 and renaming in the early 60's, Vitex became the biggest textile factory in producing wool textiles in Bosnia and Herzegovina. It always had a significant share of exports, almost 40 per cent of which went to USSR, as well as to Iraq, Sweden, Italy, Germany, the U.S., and Canada. But because of its smaller size it did not enjoy the special export regulations which applied to companies like Energoinvest or Aluminij. Therefore Vitex had to deal via export/import agencies, such as GENEX (see: chapter 2.8.), and experienced major difficulties in this kind of export business. As there was no direct financial support from the state, Vitex had to ask local banks, so called Investment and Agricultural Banks⁹⁹, for money. These banks were secured by a few major banks in Yugoslavia which themselves were backed by the state, represented by the Investment Bank, administering the General Investment Fund.¹⁰⁰ The distribution of credits was to a high extent the result of political decisions. Being in a Moslem dominated area, with 80 per cent of its workforce Moslems, Vitex was not on the top of the priority list for the authorities in Belgrade. At the same time, as the situation between Iran and Iraq escalated, the USSR lost its economic battle against the U.S. because of the high cost of the armament race and the upcoming unification of the German Democratic Republic with the Federal Republic of Germany. Vitex suffered a significant loss of exports leading to a major lay-off of personnel. Additionally, the later formation of the European Monetary Union (EMU) and the declaration of accession to it of Italy, Spain, and Portugal led to further loss of customers.

⁹⁸ Interview with Mr. Mirsad Sirco, Vitex d.d., Visoko, 05 September 2000 and 13 August 2001

⁹⁹ Dyker, David A. 1990: "Yugoslavia-Socialism, Development and Debt", London, New York, Routledge, 31

¹⁰⁰ Ibid, 34

During the privatisation campaign of Premier Ante Markovic, Vitex had to adjust its structure to the new requirements. As the influence of the state decreased, job guarantees disappeared and working efficiency became more important, 800 workers had to be fired and new trading partners to be found. The biggest challenge, however, was the ideological change in every single worker. The reorientation from a highly socialized, non-efficiency oriented system to a private and competitive working environment was hard to achieve; in some cases it was impossible, and in others it is not yet completed.

The decentralization and the ensuing growth of independence of the republics was not in the interest of the leaders in Belgrade and their reaction was therefore predictable. Three options were taken under consideration:

1. A customs union with one strong military and police force
2. A centralized Yugoslavia
3. A split off from Slovenia and a following takeover by Serb and Croatian nationalists

Although a war was expected, the intensity, duration, and cruelty exceeded all imagination. Therefore no special preparation, at least in the mid and long term perspective, took place. There was neither additional stockpiling of raw materials nor any precautionary measures to replace the male workforce with women, or protect production sites. So when the war started in Visoko on 30 May 1992, the company suffered strongly from a lack of workforce as most of the men joined the territorial defence forces. On 29 August the site was bombed and heavily damaged. Within a very short period of time production shifted to war products and women took over a reduced production of both civilian and military goods.

3.1.1.4 RMK Zenica

Already in 1892 it was known that having coal mines, iron ore mines, railway tracks, and the major river Bosna in a very close vicinity to one another provided the perfect basic allocation for the production of steel. Three years later, 227 workers already were producing 3,700 tons of rolled steel products. After further investment, a peak production of 32,971 tons was recorded in 1912, during the Austro-Hungarian period. This level dropped significantly when World War I started and only the purchase of most of the shares of the former Iron Industry d.d. Zenica by the state of Yugoslavia just before World War II pushed up the production again. Between 1948 and 1958 the company was the largest building site in the SFRY. With the merger of the iron producing companies Željezara Zenica, Vareš, and Ilijaš, the mine companies in Ljubij and Vareš, and other companies dealing with steel and iron in 1969, RMK Zenica (Rudarsko Metalurški Kombinat) was founded. In 1978, stage II of construction was finished, providing the capacity for 2m tons of steel to be produced per year and 18,000 workers employed. Despite the trend of expansion, the state stopped investment in the company in the same year. The following struggle to finance the modernization of equipment was resolved in so far as the management decided to change from Russian technology to US technology and thereby open the credit lines of the WB and IMF. With the additional funds, more sophisticated equipment was imported, and high quality ore had to be shipped into the country, mainly from the USSR and Syria, as the local ore did not meet the specific requirements any longer. In 1986, production reached a peak of 1,720,000 tons of iron and 1,906,000 tons of crude steel, most of which went into export. Almost 60,000 employees were employed by the company. PROGRES, one of the import-export agencies in the SFRY, was the main trading partner for RMK at that time with its own department for RMK Zenica manned mainly by ex RMK personnel. The projected export demand was determined by a macro-economic plan for RMK based on a similar plan for the SFRY; PROGRES then organized the trading itself. It got an order from a customer and placed it itself with RMK. The payment was made in two different ways. First, in the case of a compensation trade, PROGRES was in charge of every single step of the deal and RMK got

the money directly from the state. This did not cause serious problems for RMK concerning the timeliness of the payment as the state just “printed” the money if it was not available. Second, if there was no compensation, trade RMK had to accept the price and conditions agreed between PROGRES and the customer.¹⁰¹

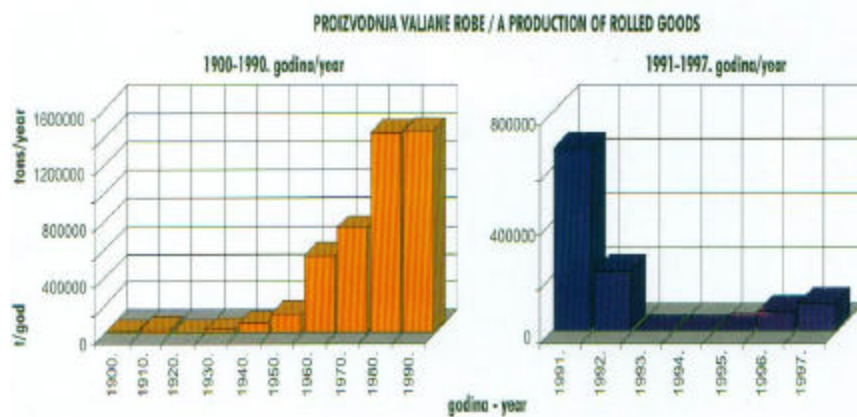
RMK, as one of the most successful sections of the Yugoslav industry at that time, was also the first winner of the “Edvard Kardelj”¹⁰² prize for successful development of socialist relationships.

The general economic situation was acceptable until 1990, when not only because of the world crisis in the steel sector but also because of the expected internal crisis in the SFRY business decreased significantly. Due to internal insecurity RMK was split into various parts, the most important ones being Željezara Zenica, which took over all the non-steel and non-iron businesses, such as hotels, motels, restaurants, sport facilities, etc., and Iron and Steel Works Zenica, the successor of the iron and steel business. Increasing interruptions in railway and river transportation, both for inbound and outbound goods, affected business noticeably towards the end of 1990. In 1991, the output was not more than half the average production of the former years. In April 1992, continuous production stopped completely and work was based on insignificant partial production and the workers’ commitment to maintenance and preservation of the equipment. In September, the company suffered severe air raids and the destruction of its vital plants.

¹⁰¹ Interview with Mr. Safet Vrndic, Belgrade, 29 August 2001

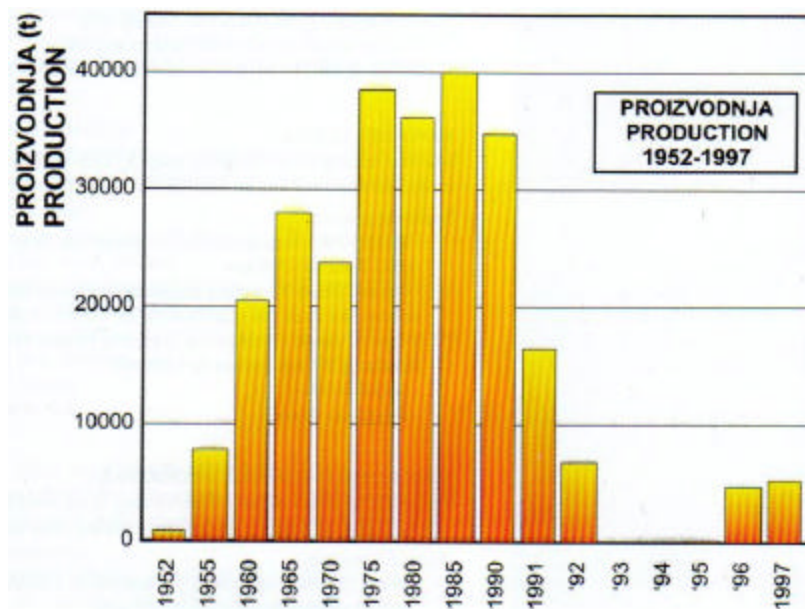
¹⁰² Edvard Kardelj, a Slovenian, was the architect of the 1974 constitution and father of the concept of associated labor. He was the most important theoretical adviser of Josip Broz Tito.

Table 3.3. BH Steel production of rolled goods



Source: BH Steel Company

Table 3.4. BH Steel production of forged goods



Source: BH Steel company

3.1.2 The Economic Performance

Despite Bosnia's and Herzegovina's well-developed industry, the living standard in the country was one of the lowest in the whole SFRY.

Table 3.5. Living standard indices

	SFRY	Bosnia and Herzegovina	Montenegro	Croatia	Macedonia	Slovenia	Serbia
Income/y/household (SFRY=100)							
1973	100	78	80	124	77	147	93
1990	100	72	89	109	65	171	100
Net Income/worker (SFRY=100)							
1950	100	95	97	108	92	113	100
1990	100	80	75	112	75	133	95
Illiteracy (>10 y) in per cent							
1948	25.4	44.9	26.4	15.6	40.3	2.4	26.8
1981	9.5	14.5	9.4	5.6	10.9	0.8	10.9

Source: Savezni Zavod Za Statistiku, "Razvoj Republika Prethodne SRF Jugoslavije 1947-1990", Studije, Analize, Prikazi, Beograd, 1996, 40

Bosnia and Herzegovina had the second lowest income of households per year both in 1973 and 1990, only slightly better than Macedonia. The same situation exists when examining the net income per worker; in 1990 Bosnia's and Herzegovina's workers received the second lowest net income, only behind Montenegro and Macedonia. The illiteracy in Bosnia and Herzegovina was the highest in 1981 with 14.5 per cent, followed by Macedonia with 10.9 per cent. In 1980, there was one doctor for 967 people in Bosnia and Herzegovina compared with 599 in Croatia. The situation did not change significantly, as even ten years later there was 642 and 461 persons per doctor, respectively. In Bosnia and Herzegovina lived 4.1 people per apartment in 1981 and 3.5 in 1991.

The corresponding figures for Slovenia are 3.2 and 2.8, respectively. The average income per household in Slovenia in 1991 was 2.3 times bigger than it was in Bosnia and Herzegovina.¹⁰³ The last regular figure for the Gross Domestic Product (GDP) of Bosnia and Herzegovina were in 1990, at USD 10.33bn. USD 5.92bn of that had been “exports” to other Yugoslav republics and USD 2.3bn were real exports outside the SFRY.

Bosnia’s and Herzegovina’s intra-Yugoslav “exports” went to

- Serbia with 21.96 per cent
- Croatia with 15.73 per cent
- Slovenia with 8.58 per cent
- AP Vojvodina with 4.56 per cent
- Macedonia with 2.80 per cent
- Montenegro with 2.45 per cent
- AP Kosovo with 1.25 per cent¹⁰⁴

These figures again underline the export dependency of Bosnia and Herzegovina.

Among the republics of Yugoslavia clear regional disparities can be seen. Whereas Slovenia’s development was approximately three-fourths above the national average by various indicators, Bosnia and Herzegovina was about one-third below the national average.¹⁰⁵ Although the elimination of those intrastate differences was a declared goal for the Yugoslav government, the north-south variations could never be balanced. Differences in the speed of growth among the republics, and the missing synchronization of the development dynamic, were central points for the diverse scenarios within the SFRY.¹⁰⁶ The combination of intrastate differences concerning the living standard and various growth rates of the republics boosted the divergence among the

¹⁰³ Savezni Zavod Za Statistiku, “Razvoj Republika Prethodne SRF Yugoslavije 1947-1990”, Studije, Analize, Prikazi, Beograd, 1996, 118

¹⁰⁴ Interview with Mr. Matic, Energoinvest d. d., Sarajevo, 14 September 2000

¹⁰⁵ Bookman, Milica Z. 1993: “The Economics of Secession”, St. Martin’s Press, New York, 58

¹⁰⁶ Savezni Zavod Za Statistiku, “Razvoj Republika Prethodne SRF Yugoslavije 1947-1990”, Studije, Analize, Prikazi, Beograd, 1996, 110

SFRY's republics. Despite those huge differences in living standards and productivity among the republics, all of them had to contribute to the Federal Fund for Underdeveloped Regions.¹⁰⁷ This fund was part of the federal spending, which also included military, administrative, and other expenditures, and was funded by the payments from the republics on one hand, and by federal sales taxes and import duties on the other hand.

Table 3.6. Sources of the Federal Fund for Underdeveloped Regions
(current prices, total=100, in per cent)

	Bosnia and Herzegovina	Montenegro	Croatia	Macedonia	Slovenia	Serbia
1971- 1975	12.3	1.9	27.2	5.5	17.7	35.5
1976- 1980	12.6	2.0	26.9	5.5	17.2	35.8
1981- 1985	13.4	2.1	25.6	6.3	15.8	36.8
1986- 1990	20.3	2.0	18.8	7.8	10.9	40.2

Source: Savezni Zavod Za Statistiku, "Razvoj Republika Prethodne SRF Jugoslavije 1947-1990", Studije, Analize, Prikazi, Beograd, 1996, 141

Although Bosnia's and Herzegovina's economic performance was much worse than that of Slovenia, its contribution to the fund per capita was only slightly below the contribution of Slovenia between 1986 and 1990. In absolute figures, on the other hand, it was the second highest after Serbia's contribution (see: table 3.6.). The distribution, however, shows a completely different picture. Although the more developed regions did not qualify for funds from the Federal Fund, as can be seen in table 3.7., they were eligible recipients of other investment funds from the federal

¹⁰⁷ The full name is the Federal Fund for Financing Faster Development of Economically Underdeveloped Republics and Autonomous Provinces. Slovenia was the first republic withdrawing their support from the fund in mid 1990 and thereby sending a new signal in the interregional crisis.

budget, including grants and credits. Bosnia's and Herzegovina's share was constantly decreasing from 30.7 per cent between 1966 and 1970 to 24.7 per cent between 1986 and 1990. For this period Bosnia and Herzegovina received only 3.9 times more than Montenegro, although having 7.1 times more inhabitants. Also interesting are the figures for Kosovo, which received 52.1 per cent of the Federal Fund in the last observed period, compared to the overall policy of the Yugoslav government at that time. The official information notwithstanding, Singleton and Carter analysed regional transfers in their study of Yugoslavia and came to the conclusion that the more developed regions had indeed received a greater quantity of investment funds from the central budget than the less developed ones. "During the period 1947 to 1963, ... with the exception of Montenegro, the less developed republics received a lower than average per capita investment than did the more developed. Slovenia, for example, received three times more per capita than did Kosovo."¹⁰⁸

¹⁰⁸ Singleton, Fred, Carter, Bernard 1982: "The Economy of Yugoslavia", London, Croom Helm, 220

Table 3.7. Distribution of the Federal Fund for Underdeveloped Regions
(current prices, total=100, in per cent)

	Bosnia and Herzegovina	Montenegro	Croatia	Macedonia	Slovenia	Serbia
1966- 1970	30.7	13.1	-	26.2	-	30.0
1971- 1975	32.4	11.4	-	22.9	-	33.3
1976- 1980	30.6	10.8	-	21.6	-	37.0
1981- 1985	26.1	9.5	-	22.3	-	42.1
1986- 1990	24.7	6.3	-	16.9	-	52.1

Source: Savezni Zavod Za Statistiku, "Razvoj Republika Prethodne SRF Jugoslavije 1947-1990", Studije, Analize, Prikazi, Beograd, 1996, 141

The situation of Bosnia and Herzegovina can also be explained on the basis of the Gross National Product (GNP) per capita, which is identified as a crucial indicator by the WB. Having three classifications – low income with a GNP per capita of USD 580 or less in 1989, middle income with a GNP per capita of more than USD 580 but less than USD 6,000, and high income with a GNP per capita of more than USD 6,000 – Bosnia and Herzegovina fell into the lower part of the middle class with USD 960 per capita.¹⁰⁹

These differences in the contribution and distribution of the Federal Fund among the republics and the various living standard indices play a significant role in the increasing divergence of the development of the republics of the SFRY.

¹⁰⁹ Calculated with the exchange rate of USD 1 = dinar 11,8160 for 1989, status: 31 December 1996, Source: Nationalbank of Yugoslavia, in: Savezni Zavod Za Statistiku, "Razvoj Republika Prethodne SRF Jugoslavije 1947-1990", Studije, Analize, Prikazi, Beograd, 1996, 274

Table 3.8. GNP per capita in dinar (prices 1972)

	SFRY	Bosnia and Herzegovina	Montenegro	Croatia	Macedonia	Slovenia	Serbia
1975	14102	9305	9621	17632	9677	28709	12686
1976	14513	9343	10030	18273	9994	29133	13190
1977	15529	10020	11016	19706	10511	31016	14102
1978	16458	10612	11526	20079	11249	33376	14764
1979	17468	11322	11431	22211	11924	35625	15760
1980	17764	11722	14034	22505	11946	35230	15915
1981	17891	12057	13933	22743	11964	34726	16088
1982	17841	12143	13531	22366	11959	34598	16198
1983	17534	12046	13391	21957	11554	34724	15811
1984	17759	12179	13771	22396	11771	35308	15932
1985	17723	12243	13748	22365	11539	35558	15865
1986	18233	12587	14100	22933	12205	36519	16343
1987	17917	12260	13364	22875	11908	36076	16003
1988	16815	11344	12423	21588	10798	33933	15183
1989	16820	11344	12389	21167	11137	33579	15398
1990	15311	10387	10989	19424	9762	30822	14052

Source: Savezni Zavod Za Statistiku, "Razvoj Republika Prethodne SRF Jugoslavije 1947-1990", Studije, Analize, Prikazi, Beograd, 1996, 237

3.1.3 Economic Inequalities and Secessionist Aspirations

It is beyond question that economic inequalities play a role in the aspirations of people to separate from those who are – from their point of view – responsible for the differences. The importance of that factor is, however, not clear and varies from case to case. Despite that, several other issues have emerged as imperatives.¹¹⁰

1. The share of the central budget and capital investment which are allocated to the regions
2. The proportion of input in the form of taxes that the region contributes to the centre
3. The degree of a region's autonomy in decision-making as pertains to economic issues
4. Central biases favouring a sector that is underrepresented in the region in question
5. The share of foreign exchange and external funding

The economic position of the region determines how it perceives the above-mentioned issues. Bookman stated that "... the regions that have relatively lower incomes tend to believe that their region receives an insufficient share of capital investment, enjoys insufficient autonomy in the decision-making over their resources or in their representation at the centre, is subject to biases in pricing policies and allocation of foreign exchange regulation, and receives a small share of foreign investment, aid, and other forms of foreign intervention."¹¹¹ The "we want out" option of the Slovenes was basically supported by the impression that they could do much better financially without the obligation to pay into the Federal Fund and thereby subsidize projects that were of little

¹¹⁰ Bookman, Milica Z. 1993: "The Economics of Secession", St. Martin's Press, New York, 94

¹¹¹ Bookman, Milica Z. 1993: "The Economics of Secession", St. Martin's Press, New York, 94

interest to them, without sending their own people into a “foreign” military¹¹² and without having export restrictions placed on their industry (although Slovenia enjoyed more political and economic rights than every other republic). Of course this “we want out” option also holds for Bosnia and Herzegovina, although it has to be pointed out that the situation there was slightly different because of the lack of a clear majority of one ethnic group. Serbs opted “out” towards Serbia, Croats towards Croatia, while Muslims tried to hold together the country in a loose federation at the beginning of the crisis. According to Horowitz, who defines secession as “an attempt by an ethnic group claiming a homeland to withdraw with its territory from the authority of a larger state of which it is a part”, and irredentism as “a movement by members of an ethnic group in one state to retrieve ethnically kindred people and their territory across borders”¹¹³, both secession and irredentism can be applied in the case of Bosnia and Herzegovina. The republic of Bosnia and Herzegovina, with its three main entities, wanted to withdraw from the SFRY and therefore fulfils the criteria for secession. However, the Bosnian Croats and Bosnian Serbs not only wished to withdraw but also to join with another, new and already existing state, corresponding to their ethnicity. Wood has identified five phases in secession:¹¹⁴

1. Creation and recognition of the preconditions of secession
2. Rise of secessionist movements
3. Response of central government
4. Occurrence of events directly precipitating secession
5. Resolution by armed conflict

¹¹² Slovenians were sent to the center and the south and Montenegrins and Serbs were sent to the northern border of the SFRY.

¹¹³ Horowitz, Donald: “Irredentas and Secessions: Adjacent Phenomena, Neglected Connections”, in: Chazan, Naomi, ed. 1991: “Irredentism and International Politics”, Boulder, Lynne Rienner, 9-10

¹¹⁴ Wood, John 1981: “Secession: A Comparative Analytic Framework”, Canadian Journal of Political Science 14, no. 1, March, in: Bookman, Milica Z. 1993: “The Economics of Secession”, St. Martin’s Press, New York, 37

It has to be said that Wood only overlooked economic issues in his study and that an armed conflict is the only possible way to a solution for him, thus implying that the secession has to fail. Bookman extended the model insd̄ar as she took the latest experiences coming from the separation of the Baltic republics from the USSR into consideration.¹¹⁵

The re-evaluation phase, containing the first four phases of Wood, describes the period before the actual secession, the time when the seeds for secession were planted. In the case of Bosnia and Herzegovina, this period can be clearly identified but less easily chronologically defined. When we consider the perception of economic injustice as the critical factor, then the phase might have started as early as in 1964 when the Federal Fund for Underdeveloped Regions was created. Another starting point could be seen as in the early 80s when the central government stopped any investment into the republics' industries. Whenever this phase is seen to have begun, the main point is that the high income of one region versus the low income of others, high living standard compared with relatively low contribution to a common fund versus low living standard and relatively high contribution, and questionable distribution of common resources created an atmosphere favourable for the seeds of secession to grow. Therefore an understanding of the re-evaluation phase can be considered as vital and contains the greatest long-term benefits.

The redefinition phase includes the process of breaking links to the former centre and the creation of new relations to both the former state and the international community. Although this phase can be accompanied by violent conflict, there is a general understanding that negotiations about the division of national and international debts, federal budgets, financial holdings and property, as well as the formation of a new monetary policy, a new tax system, a new army, and new trade agreements show a greater probability for a peaceful succession. The re-equilibration phase covers the period of the region as an independent economic and political entity, is characterized by the results

¹¹⁵ Bookman, Milica Z. 1993: "The Economics of Secession", St. Martin's Press, New York, 38-41

of the negotiations of the former phase, and determines the viability of the new state.

As the division of Bosnia and Herzegovina into entities shows a so-called “leopard” pattern, the role of the entities, or minorities, depending on the point of view, plays a vital role in the explanation of the conflict.

3.1.4 Ethnicity as a Trigger Factor

Three main ethnic groups can be identified in Bosnia and Herzegovina: Serbs, Croats, and Muslims. One special feature of the situation in Bosnia and Herzegovina is the division into entities. As opposed to other regions where minorities group together to form bigger communities, Bosnia’s and Herzegovina’s ethnic groups lived in small groups, or even mixed in less clearly defined areas.

As mentioned in the historical part of this paper, these three main groups cohabited relatively peacefully until 1991, when increasingly they began to feel that cohabitation was no longer possible. One immediate source for this development was fear. According to Djilas “Bosnian Serbs are undoubtedly greedy to keep as much territory as possible. But this is not the main reason for their obstinacy. The fear of living with Muslims and Croats in any form of a common state is a much more important reason.”¹¹⁶

Nationalism can be identified as another source. Smith defines nationalism as “a doctrine of autonomy, unity and identity for a group whose members conceive it to be an actual or potential nation”, describing a nation as “a body of citizens bound by shared memories and a common culture, occupying a compact territory with a unified economy and identical rights and duties.”¹¹⁷ As a matter of fact,

¹¹⁶ Djilas, Aleksa 1993: in: *The Economist*, 6 February, 53, in: Bookman, Milica Z. 1994: “Economic Decline and Nationalism in the Balkans”, Basingstoke, Macmillan, 33

¹¹⁷ Smith, Anthony 1992: “Chosen Peoples: Why ethnic groups survive?”, *Ethnic and Racial Studies* 15, no. 3, July, 450, in: Bookman, Milica Z. 1994: “Economic decline and nationalism in the Balkans”, Basingstoke, Macmillan, 4

ethnicity, culture, religion, and language are so interconnected that it is impossible to quantify in a scientific manner the influence of the single factors on nationalism. In order to understand the effect of nationalism on economic development, Gershenkron claimed that nationalism enables a society “to break through the barriers of stagnation in a backward country, to ignite the imaginations of men, and to place their energies in the service of economic development.”¹¹⁸

What happened in Bosnia and Herzegovina, the breakdown of law and order within the society and the inability of the government in Belgrade to control the situation, stands for “nationalist bankruptcy” – the condition of a society in which the nationalist policies and demands of an ethnic or religious group become destructive not only for the society it is a part of, but also for the group itself. The economic and political system becomes paralysed. “Nationalist bankruptcy occurs when ethnic groups, overwhelmed by economic hardship and frightened of their changing position relative to other ethnic groups, engage in pursuit of ethnic purity as the ultimate act of triumph and desperation.”¹¹⁹ The same happened in other areas, such as Angola and Somalia, with always similar backgrounds: a severe drop in living standards caused by internal and external factors, the appearance of a nationalistic leader with xenophobic goals fostering the fear of people, and an international environment unable to understand the situation and to react accordingly. Narroll defines an ethnic group as a biologically self-perpetuating group that shares fundamental cultural values and differentiates itself from other groups.¹²⁰ The Balkans have been always an area where such groups lived together, more or less mixed, more or less peacefully, but differentiated by religion, language, culture, history, and to some extent biological characteristics. The most complicated mixture existed in Bosnia and Herzegovina. Bosnian Muslims are racially identical to the

¹¹⁸ Gershenkron, Aleksander: “Economic backwardness in historical perspective”, Cambridge, Harvard University Press, 29, in: Bookman, Milica Z. 1994: “Economic Decline and Nationalism in the Balkans”, Basingstoke, Macmillan, 8

¹¹⁹ Bookman, Milica Z. 1994: “Economic Decline and Nationalism in the Balkans”, Basingstoke, Macmillan, 5

¹²⁰ Narroll, R. 1964: “Ethnic Unit Classification”, *Current Anthropology* 5, no. 4, in: Bookman, Milica Z. 1994: “Economic Decline and Nationalism in the Balkans”, Basingstoke, Macmillan, 36

Serbs and Croats and they use the same language. Meanwhile, Serbs and Croats have been considered “nations” since the foundation of the SFRY after World War II. Muslims, on the other hand, had to declare themselves as “musliman”, a Yugoslav ethnic minority, and to define themselves either as Slovenes, Croats, Serbs, Macedonians, or Montenegrins until the census of 1961. Later they obtained the right to identify themselves as Yugoslavs, and only with the census of 1971 were Bosnian Muslims considered as “Musliman”¹²¹ and granted the status of a Yugoslav “nation”, thereby equal with the other five “nations”.¹²²

Until the economic crisis of the 80s, the constituent ethnic groups in Bosnia and Herzegovina interacted with little friction and nationalist elements played a minor role. When economic stagnation stifled the growth to which regions had become accustomed, however, the various entities perceived it as an economic injustice against their “nation”. This development occurred along regional lines, or more precisely along ethnic lines. Very quickly leaders from the various groups harnessed feelings of deprivation and growing nationalism and turned the attention of the population away from the economic issues – away from the roots of the crisis – towards ethnic differences.

¹²¹ “muslim an”, with the small “m”, stands for a national minority. “Musliman”, with the big “M”, stands for the nation.

¹²² Interview with Mr. Oreškovic, Defense Academy, Vienna, 21 November 2001.

Table 3.9. Ethnic groups in the SFRY (in 1000)

	Yr	SFRY	BiH	Montenegro	Croatia	Macedonia	Slovenia	Serbia
Montenegrins	71	508.80	13.00	355.60	9.70	3.90	2.00	125.30
	91	-	-	380.50	9.70	-	4.20	139.30
Croats	71	4526.80	772.50	9.20	3513.60	3.90	42.70	184.90
	91	-	755.90	6.20	3736.40	-	53.70	105.40
Macedonians	71	1194.80	1.80	0.70	5.60	1142.40	1.60	42.70
	91	-	-	1.10	6.30	1314.30	4.40	46.00
Moslems	71	1729.90	1482.40	70.20	18.50	1.20	3.20	154.30
	91	-	1905.80	89.60	43.50	-	26.70	246.40
Slovenians	71	1678.00	4.10	0.70	32.50	0.80	1624.00	15.60
	91	-	-	0.40	22.40	-	1718.30	8.30
Serbs	71	8143.20	1393.20	39.50	626.80	46.50	20.50	6016.80
	91	8545.50	1369.30	57.50	581.70	44.20	47.10	6446.60
Hungarians	71	477.40	1.30	0.30	35.50	0.20	9.80	430.30
	91	-	-	0.20	22.40	-	8.50	343.90
Germans	71	12.80	0.30	0.11	2.79	0.08	0.42	9.09
	91	-	-	0.12	2.64	-	0.55	5.26
Rumanians	71	58.60	0.19	0.12	0.79	0.10	0.04	57.40
	91	-	-	0.03	0.81	-	0.09	42.30
Turks	71	127.90	0.48	0.40	0.22	108.60	0.05	18.20
	91	-	-	0.03	0.32	97.40	0.15	11.20
Yugoslavs	71	273.10	43.80	10.90	84.10	3.65	6.74	123.80
	91	-	239.80	26.20	106.00	-	12.20	323.60
Albanians	71	1309.50	3.80	35.70	4.20	279.90	1.30	984.80
	91	-	-	40.40	12.00	427.30	3.60	1674.40

Source: Savezni Zavod Za Statistiku, "Razvoj Republika Prethodne SFR Jugoslavije 1947-1990", Studije, Analize, Prikazi, Beograd, 1996, 92-93

