THE 1992–96 BULGARIAN TRADE DATA PUZZLE: A CASE OF SANCTIONS BREAKING?
Casimir Dadak

Economic sanctions have been used by various countries to achieve political ends with nonmilitary means. Galtung (1967: 379) characterized sanctions as actions designed to penalize one or more countires "by depriving them of some value" or by forcing them "to comply with certain norms." Pape (1997: 97) offered a set of standards to judge the effectiveness of sanctions. In his view, sanctions should be deemed a success if "(1) the target state conceded to a significant part of the coercer's demands; (2) economic sanctions were threatened or actually applied before the target changed its behavior; and (3) no more-credible explanation exists for the target's change of behavior."

The usefulness of this policy tool has been debated for years. Galtung (1967) and Doxey (1980, 1987) find sanctions to be ineffective. Hufbauer, Schott, and Elliott [HSE] find limited success but acknowledge that "the contribution of sanctions to the policy outcome is often murky" (HSE 1990: 41). Pape (1997, 1998) argues that the HSE study is skewed because many of the cases denoted a success were actually resolved with military force rather than with nonviolent means. In response to Pape's arguments, Elliott (1998) stated that the authors of the HSE study "were interested in finding out … under what circumstances economic leverage might be useful—not necessarily dominant—in achieving foreign policy goals" (p. 51), and conceded that "economic sanctions used independently of other policy tools typically achieve only relatively modest and limited goals" (p. 58). Similarly, Cortright and Lopez (2000) conclude that sanctions alone cannot radically alter the behavior of the receiving nation. Nev-

ertheless, they support the use of sanctions and deem sanctions a success "if they had a positive, enduring impact on bargaining dynamics or if they helped isolate or weaken the power of an abusive regime" (p. 204). The criteria proposed by Elliott and Cortright and Lopez are very broad and differ considerably from those found in Galtung and Pape.

Overall, research shows that sanctions are effective to the degree that they (1) inflict economic hardships on the target; (2) make the receiving country more vulnerable in case the conflict escalates into a war; (3) act as a means to bring a party to the negotiating table; and (4) serve as a "bargaining chip" if negotiations take place. Research does not support the notion that economic sanctions alone can, more often than not, succeed in altering substantially the receiving nation's behavior, or force it to adopt policies it persistently opposes; sanctions are seldom an effective alternative to a military conflict.

Various hypotheses have been put forth to explain the poor success rate of economic sanctions. Galtung (1967) points to three major factors. First, the sending nation may act to express its outrage, rather than to force the target to comply with a certain norm of political behavior.[1] Second, in the face of outside pressure, people in the receiving nation tend to "rally around the flag." Third, sanctions could be evaded. Green (1983) argues that this is indeed the most important factor that allows nations to survive economic sanctions. This point is also brought forward in numerous other studies, for instance in Renwick (1981), Anglin (1987), Leyton-Brown (1987), and Conlon (2000).

Evasion is possible because third parties, both governments and private businesses, put political and financial interests above international norms. In some cases, evasion is even tolerated by imposing nations. Although Great Britain initiated economic sanctions against Rhodesia (present-day Zimbabwe), the "Labour government's carefully concealed double-dealing was the most deceitful of all countries involved in sanctions violations" (Anglin 1987: 39). Another major

---

[1]Tsebelis (1990) argues in a similar fashion that in many cases sanctions are imposed to send a signal to other nations, especially smaller ones, that a certain behavior will not be tolerated, rather than to accomplish a particular policy goal. Kaempfer and Lowenberg (1988) argue that often the political situation in the sending country is unlikely to produce the type of sanctions required to inflict maximum economic pain in the target nation. Economic sanctions are also costly to the sanctioning country; hence, sanctions reflect a compromise in the sending nation between groups interested in imposing the most effective penalty and those who could lose as a result of sanctions. Seiglie (2001: 426) argues that the effectiveness of American sanctions on Cuba is "negligible" and that they have "continued primarily to appease domestic interests."

problem is the impact of sanctions on neighboring countries. Adverse consequences on them "may be no less severe than the impact on the target country" (Renwick 1981: 82). So far, no effective mechanism has been put in place to compensate neighboring countries, especially poor ones, for losses resulting from international sanctions.

U.N. Sanctions on Yugoslavia

From May of 1992 through November of 1995, the United Nations maintained economic sanctions on Yugoslavia. During and after the course of the war in Yugoslavia examples of serious violations of sanctions were officially noted and were reported in academic publications, for instance Woodward (1995), Owen (1995), and Cortright and Lopez (2000). Nevertheless, Cortright and Lopez consider them, together with the embargo on Iraq, to be "the most effectively implemented in history," and the authors believe that they "had devastating impacts on the target's economy and society" (p. 63). The Copenhagen Round Table goes even further. In its report, the group concludes that the sanctions were "remarkably effective" and that they "clearly modified the behavior of the Serbian party to the conflict … and may have been the single most important reason for" the Serbs accepting the Dayton agreement (United Nations Security Council 1996a: pars. 1, 67).

However, this article shows that throughout the duration of sanctions, especially in 1994 and 1995, very large quantities of goods destined for Yugoslavia went through Bulgaria. This discovery, based on data provided by the National Statistical Institute (NSI) and the Bulgarian National Bank (BNB), strongly indicates that the sanctions were actually very porous.

Bulgarian Trade Data Puzzle

Data on foreign trade in Bulgaria come from two sources, commercial banks and customs offices. Reports of Bulgarian commercial banks, authenticated by the BNB, show a huge rise in Bulgarian exports and imports of goods during the first half of the 1990s, especially in 1994 and 1995. However, the data supplied by the customs offices do not show this increase. The data discrepancy between the commercial banks and the customs offices will henceforth be referred to as the Bulgarian "trade data puzzle."

Prior to 1993, the BNB calculated the balance of payments (bop) tables using data derived from commercial bank reports. This procedure was inherited from the communist times. In that period, all data

concerning foreign trade were located in a single place, the Bulgarian Foreign Trade Bank, now known as Bulbank, because this institution was the only bank in charge of financing foreign trade. The state had a monopoly on international trade and central planners made all decisions regarding foreign economic relations. Customs duties were levied on individuals who could bring things in and out for their personal use only. Hence, for all practical purposes, individuals played no role in foreign trade. Thus, prior to 1990, there was little need to collect customs data. This is why in the past the BNB relied exclusively on bank data while preparing the bop tables.

The situation changed with the collapse of the communist regime and, consequently, beginning with 1993 and continuing in all subsequent years, the bop tables were calculated using data found in reports compiled by customs offices.[2] Fortunately, however, the BNB continued to report the commercial bank data in a footnote to the bop tables until 1998. Seldom has such important and revealing information been contained in a footnote. Table 1 presents the two different types of data (commercial bank reports and reports from customs offices) for the years 1991 through 1996.

TABLE 1

BULGARIAN FOREIGN MERCHANDISE TRADE, 1991–96
(Millions of Dollars)

	1991	1992	1993	1994	1995	1996
Customs Data						
Exports	3,737	3,956	3,727	3,935	5,345	4,890
Imports	3,769	4,169	4,612	3,952	5,224	4,703
Bank Data						
Exports	3,737	5,093	4,701	9,181	8,492	4,753
Imports	3,769	4,609	4,567	8,738	8,309	4,665

SOURCE: *Annual Report,* BNB (1991–97).

Table 1 shows that the customs and commercial bank data on imports and exports differ dramatically. The difference first becomes apparent in 1992 (on the export side), and then becomes a yawning chasm in 1994 and 1995. The difference for 1996 is significant only for the first quarter (Figure 1).

---

[2]Technically, customs offices forward the data to the NSI, which is the official source of this information.

FIGURE 1

BULGARIAN QUARTERLY EXPORTS AND IMPORTS
OF GOODS, 1993–97
(Millions of Dollars)
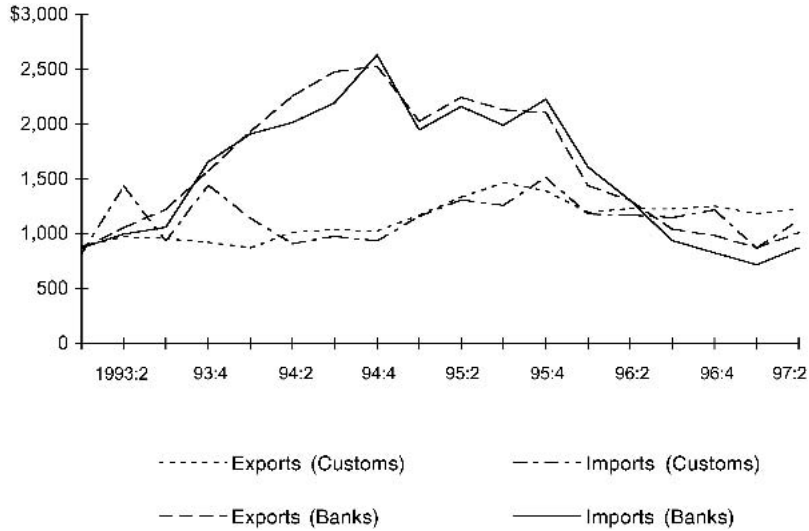
Source: *Annual Report,* BNB (1994–97).

Foreign Trade and the Macroeconomic Situation

For a small, developing, open economy like that of Bulgaria, international trade is vital. Except for transportation and tourism (travel), Bulgaria has no services marketable abroad. Therefore, changes in the magnitude of trade in goods should be readily reflected by macroeconomic variables. Table 2 presents the overall economic situation in the country from 1991 through 1996.

The data show that in 1994, that is, in the year when, according to bank records, Bulgaria almost doubled its international trade in goods, the Bulgarian economy was barely getting out of a very severe and long-lasting recession. The GDP, investment, retail sales, industrial and agricultural production rose moderately, but these gains were accompanied by a decline in consumption and government spending. It is also worth noting that energy consumption declined as well. However, the 95.3 percent and 91.3 percent growth in 1994 bank-reported exports and imports, respectively, should imply a robust growth in all of the macroeconomic variables.

The 1993 dollar value of Bulgaria's GDP was estimated to be

515

TABLE 2

BULGARIAN MICROECONOMIC INDICATORS, 1991–96
(Real Annual Percentage Changes)

	1991	1992	1993	1994	1995	1996
GDP	–11.7	–7.3	–1.5	1.8	2.1	–10.9
Consumption	–15.7	1.0	–0.7	–2.6	–1.8	–7.5
Investment	–15.6	–7.3	–17.5	1.1	8.8	–13.5
Industrial production	–22.2	–15.9	–10.9	8.5	5.0	0.1
Agricultural production	–0.3	–12.0	–18.3	6.8	16.4	–13.6
Consumption of energy	–21.3	–8.9	18.8	–3.2	8.4	0.9
Government expenditure	–10.3	–18.6	–15.0	–16.9	–13.8	–29.0
Retail sales	–47.2	–2.3	–1.5	2.8	2.6	–9.3

SOURCES: *Annual Report*, BNB (1991–96); *Energy Balances '95*, NSI (1997); *Statistical Reference Book of the Republic of Bulgaria*, NSI (1994–98); *Statistical Yearbook*, NSI (1994–98).

between $9.6 billion (World Bank 1996b) and $10.8 billion (NSI, *Statistical Yearbook 1994*). An increase in exports of about $4.5 billion in 1994 should in theory increase the Bulgarian GDP, calculated in dollars, by some 42–47 percent. But the *1995 Statistical Yearbook* shows a decline in Bulgaria's GDP, calculated at the current exchange rate, to $10.1 billion.[3]

In sum, the enormous increase in the volume of merchandise exports was not reflected in the macroeconomic picture of Bulgaria. Calculated in the local currency, the real rate of growth of the GDP in 1994 was only 1.8 percent (Table 2).

Macroeconomic theory tells us that a huge increase in imports, if looked at in isolation, would foster a change in consumption, or investment, or government spending, or a combination of the above. None of these is confirmed by the statistics for either 1994 or 1995 (Table 2). Both consumption and government expenditure continued to fall. The increases in investment in both years were modest, especially keeping in mind that they occurred after a dramatic drop between 1990 and 1993.

One theoretical way to reconcile the bank-based trade data with the macroeconomic picture is to assume that an unparalleled economic change took place in 1994, so that Bulgaria was able to find buyers for goods worth $4.5 billion. Given the limited range and low quality of goods produced in Bulgaria, it is difficult to imagine such a huge change in tastes abroad in favor of Bulgarian exports. At the same time, Bulgarian consumers would have to have substituted imported goods for those they managed to export. Even the most casual inspection of domestic spending would invalidate that hypothesis.

In 1994, about 71 percent of the Bulgarian national income was consumed by households. Of that amount, 49 percent was spent on food, liquor, and tobacco products, which are mostly made at home. Prices of Bulgarian foodstuffs are much lower than those of competing imports. An additional 24 percent of individual budgets was spent on other almost exclusively Bulgarian items like housing and energy, education and recreation, transport and communications, and household plots. Only a small part of outlays on all other items, including clothing, footwear, healthcare and hygiene, and furniture and house-

[3]This decrease is due to exchange rate fluctuations. The average weighted exchange rate rose to 55.184 BGL/$, from 27.810 BGL/$, while the average price index rose from 1,227.5 to 2,296.3 (1990=100), that is, in real terms the Bulgarian lev depreciated by about 6 percent in 1994. Had the 1994 Bulgarian GDP risen by $4.5 billion, or by at least 42 percent over the dollar-denominated 1993 level, the output increase would certainly more than offset the depreciation of the lev.

hold equipment, involves imports. The remainder of the national income was absorbed by the government (9 percent) and used for collective consumption (8 percent). These expenditures also involve local products and services. Only a fraction of gross fixed capital formation (12 percent of the GDP) is spent on imported machinery and equipment (NSI, *Main Macroeconomic Indicators '95* and *Statistical Reference Book 1996*).

Generally, macroeconomic data presented in Table 2 show that the bulk of the rise in exports of goods found in bank reports could not be a result of an increase in local production. In 1994 neither industrial nor agricultural production improved substantially. Similarly, most of the additional imports reported by commercial banks were neither consumed nor invested locally. The most plausible explanation of the Bulgarian foreign trade puzzle is that very large quantities of foreign goods transited through Bulgaria in the years 1994–95. Before we fully analyze this hypothesis, let us examine two other potential explanations of the foreign trade puzzle—in particular, avoidance of trade barriers and illegal capital flows.

Barriers to Foreign Trade

The difference between the bank data and the customs data for 1992 is sizable (see Table 1), but it might have reflected the evasion of custom duties and other fees and restrictions, which in Bulgaria apply not only to imports but to exports as well. In Bulgaria, exports of certain products are restricted or banned. For instance, exportation of raw tobacco, an important crop, is forbidden. Conceivably, firms could evade the restrictions by bribing customs officials. While exports would go unreported by border officials, they would still show up in local banks. In general, it is reasonable to expect a downward bias in customs data for both imports and exports. However, the difference in the reported value of exports is much larger than that for imports, 28.7 percent and 10.5 percent, respectively. If the only reason for the bank and customs data discrepancy were the evasion of obstacles to trade, this would imply that the avoidance of export barriers exceeded the circumvention of import barriers. But still, Bulgarian import barriers are more extensive than those affecting exports. Hence, already in 1992 there must have been an additional factor that resulted in greater underreporting of exports by customs than underreporting of imports. A similar pattern is also evident in the 1993 figures. In the latter case, imports reported by customs and banks were almost identical, but again bank-reported exports greatly outpaced the customs-reported exports. In sum, there is sufficient

reason to believe that in both years Bulgarian firms exported significant quantities of goods, which customs failed to detect.

However, the discrepancy between the numbers reported by banks and those recorded by customs for the years 1994 and 1995 is far greater. The 1994 bank-reported level of exports of goods is 2.3 times greater than the number found in customs data. Similarly, bank data show that the actual magnitude of imports is 2.2 times the amount reported by customs. Given the size of the Bulgarian economy and the economic situation in the country in the period of 1992 through 1996, it is impossible to account for this difference simply with the avoidance of export or import barriers.

Capital Flows and Trade Volume

According to bank reports, the increase in international trade volume between 1991 and 1992 was 36.3 percent in exports and 22.3 percent in imports, which is very impressive. However, it pales in comparison to the rate of growth of Bulgarian exports and imports reported by banks in 1994. Table 3 presents quarterly numbers found in bank reports and published by the BNB.[4] The dynamics of this rise is astounding, especially if the same quarters of 1993 and 1994 are compared. Such a unique rate of growth in foreign trade is only conceivable with the domestic and foreign economies growing at an exceptional pace. However, as noted above, this was not the case.

There should be little doubt that a huge quantity of goods actually arrived and left Bulgaria. Had only imports increased in 1994–95, this could possibly be explained with illegal capital outflows. Bulgaria has strict regulations pertaining to capital outflows, so inflated or fake import invoices could serve as a vehicle for the transfer of money abroad. However, capital outflows of $4.2 billion, or just a significant fraction of it, in a roughly $11 billion economy would surely result in a tremendous contraction in the money supply and, consequently, in an unprecedented monetary shock. At the end of 1993, the money supply, M1 and M2, was, respectively, the equivalent of $1.48 billion and $7.03 billion at the 1993 exchange rate (BNB 1994).[5]

Even if it were possible to show that the rise in imports was a result

---

[4]The BNB produced quarterly foreign trade data in the 1994 *Annual Report* for the first time. Until 1998, *Annual Reports* provided information on the current and the previous year trade volume. Hence, quarterly numbers are only available beginning with 1993.

[5]A very significant capital outflow took place in the first half of 1996. The BNB estimates its magnitude at well above $600 million (BNB, *Report January–June 1996*). This event was, most likely, a very important cause of the severe recession that followed.

TABLE 3

BANK-REPORTED TRADE IN GOODS, 1993–94
(Millions of Dollars)

Quarter	Exports 1993	1994	Change (%)	Imports 1993	1994	Change (%)
I	861.5	1,928.4	123.8	867.2	1,908.3	120.1
II	1,053.1	2,254.3	114.1	992.7	2,011.5	102.6
III	1,217.7	2,475.5	103.3	1,053.6	2,189.1	107.8
IV	1,568.3	2,522.9	60.9	1,653.6	2,628.7	59.0

SOURCE: *Annual Report*, BNB (1994–95).

of massive illegal financial operations (e.g., money laundering), there is no way that the rise in exports could be explained with illegal capital inflows. First, there are no investment opportunities that would justify such huge capital inflows to Bulgaria. To keep things in perspective, it is worth mentioning that the total volume of foreign investments in Bulgaria in 1994 and 1995 was only $105.4 million and $90.4 million, respectively (BNB 1995). Moreover, had very large illegal investments actually occurred, this capital inflow would show up in some way in macroeconomic variables presented in Table 2. Second, there are no excessive official barriers to investments in Bulgaria—that is, there is no reason to disguise capital inflows as export transactions. Finally, there is no trace of commercial banks reporting receipts from nonexistent export transactions. The BNB has never questioned the accuracy of commercial bank data concerning the flow of international trade in goods. The BNB did not blame the recording of payments for the discrepancy, but rather the reporting of "trade flows" (BNB, *Annual Report 1995*: 129, footnote 13).

Tonnage of Bulgarian Exports and Imports

There is yet another piece of information that authenticates the bank reports, data on the freight of exports and imports (NSI 1996a, *Foreign Trade of the Republic of Bulgaria*), presented in Table 4.

TABLE 4

BULGARIAN FOREIGN TRADE VOLUME, 1991–94
(Thousands of Metric Tons)

	1991	1992	1993	1994
Exports	5,191	4,682	10,667	13,859
Imports	5,708	4,121	18,806	15,742

NOTE: Figures exclude pipeline transport.
SOURCE: *Foreign Trade of the Republic of Bulgaria,* NSI (1996a).

These numbers clearly show a huge increase in the volume of Bulgarian foreign trade beginning in 1993. The change in the tonnage of Bulgarian foreign trade is not perfectly correlated with the changes in the bank data. However, the tremendous rise in the volume of merchandise crossing Bulgarian borders confirms bank reports on the nation's international trade. Also, the statistics on the volume of cargo crossing Bulgaria's borders make implausible any hypothesis that the trade data puzzle can be explained by assuming that no goods actually went through that country because some firms engaged in transfer

pricing or because outsiders were only channeling payments through Bulgaria. In sum, the evidence indicates that bank-reported foreign trade transactions indeed took place.

The above analysis of capital flows, potential avoidance of import and export barriers, the volume of cargo crossing Bulgarian borders, and the level of economic activity logically leads us to the conclusion that Bulgaria was a transit place for huge quantities of merchandise during the 1992–95 period. These goods entered and left the country without being reported by customs.

Conflict in Yugoslavia

What could have been the destination point? Of all the neighbors, Turkey, Greece, Romania, former Yugoslav Republic of Macedonia (FYROM), and Yugoslavia, only the last two are possible candidates.

In the first half of the 1990s, Yugoslavia underwent unprecedented political upheaval. This turmoil resulted in a succession of wars and, consequently, in economic sanctions. First, an arms embargo was imposed in September 1991. Then, on November 8, 1991, the European Union implemented partial economic sanctions. The United States joined the EU a month later. In May 1992, the United Nations declared total economic, cultural, and political isolation of Yugoslavia.

Interestingly, this sequence of political developments is reflected in Bulgarian quarterly merchandise trade numbers. As can be seen from Figure 1 and Table 1, in 1992 and 1993, the disparity between the bank and customs data was relatively small, but grew as sanctions were tightened, especially after smuggling across the Danube was closed down.[6] The disparity between the total trade volume (exports and imports) reported by customs and banks rose from 1.7 percent in the first quarter of 1993 to 163.6 percent in the last quarter of 1994. A huge gap existed in 1995 as well. However, in 1996 the bank and customs data converged and the difference virtually disappeared in the second quarter of that year. This convergence of data in 1996 should come as no surprise. The United Nations suspended sanctions against Yugoslavia on November 23, 1995, after the signing of the Dayton agreement. All sanctions were officially ended less than a year later.

It is important to note the cause of the disappearance of the foreign

---

[6]In 1992 and in 1993, bank records showed only a significant underreporting of exports by customs. This means that goods destined for Yugoslavia entered Bulgaria legally and that only their exit was concealed. But by 1994 such merchandise went undetected at the point of entry as well.

trade data puzzle in 1996. The customs-reported quarterly foreign trade volumes do not deviate significantly from analogous periods of previous years (see Figure 1). It is the bank data that changed. According to reports of commercial banks, the volume of Bulgarian international trade in goods declined dramatically. Because of the deep recession that started in late spring of 1996, it is reasonable to expect a significant decline in imports. Indeed, in the first six months of 1996 imports declined by 29.1 percent relative to the first half of 1995. But the real depreciation of the Bulgarian currency and a drop in domestic demand should have helped Bulgarian exports, not diminished them dramatically.[7] Nevertheless, the bank-based data for this period show an even greater drop in exports than in imports, both in absolute terms ($1.53 billion versus $1.19 billion) and in relative terms (35.8 percent versus 29.1 percent). Table 5 presents the dynamics of the Bulgarian foreign trade in goods in 1995 and 1996, as reported by commercial banks.

The data point to an enormous decline in Bulgarian trade volume, especially of exports, beginning with the first quarter of 1996. The 29.1 percent drop in the first-quarter merchandise exports over the same period of the previous year cannot be explained by seasonal or macroeconomic factors. The recession started only late in the second quarter. So, the macroeconomic situation followed the disturbance in international trade, particularly in exports, rather than the other way around. Finally, it is worth noting that the magnitude of the 1996 decline in the volume of foreign trade is as astonishing as was the rise in the volume of Bulgarian foreign trade recorded by banks in late 1993 and in 1994. This tremendous decline in the volume of both exports and imports of goods in 1996 found in Bulgarian bank reports can only be explained with the ending of sanctions against Serb-led Yugoslavia.

The above analysis is consistent with other academic research on the question of Yugoslav sanctions. Woodward (1995) noted that initially the main routes of contraband to Yugoslavia led through the Danube. But in late 1993 this link was effectively closed off when Sanctions Assistance Missions and Danube Patrols were implemented. As a result illegal shipments moved south to the border with Macedonia. This fact is confirmed in a letter to the United Nations

---

[7]In February 1991, Bulgarian currency drastically depreciated in real terms. After six months Bulgarian exports to the European Community rose considerably (BNB, *Annual Report* 1991). Another large real depreciation of the Bulgarian currency took place in early 1994, but the obvious influence of trade flows related to the sanctions against Serb-led Yugoslavia makes comparisons extremely difficult.

TABLE 5
Bank-Reported Trade in Goods, 1995–96
(Millions of Dollars)

Quarter	Exports			Imports		
	1995	1996	Change (%)	1995	1996	Change (%)
I	2,022.2	1,433.6	−29.1	1,943.4	1,605.8	−17.4
II	2,238.8	1,301.1	−41.9	2,156.1	1,301.2	−39.7
III	2,127.9	1,039.6	−51.1	1,987.5	934.8	−53.0
IV	2,102.5	978.5	−53.5	2,222.3	823.1	−63.0

SOURCE: *Annual Report*, BNB (1996–97).

Security Council (United Nations Security Council 1996b). This letter states that the volume of smuggling across the Yugoslav-Macedonian border increased greatly in 1994. The U.N. committee overseeing the implementation of sanctions requested the government of FYROM to "investigate the activities of more than 300 companies … documented to have been involved in sanctions violations … but was unable to receive a response about any findings or action taken" (United Nations Security Council 1996b: par. 19). In his book *Balkan Odyssey*, David Owen (1995: 363) observes that sanctions on Yugoslavia were "soon ineffective—in the main because Serbia had a virtually open border with Macedonia and Albania, both of which developed a thriving black market business, particularly, in breaking oil sanctions." In a letter to the European Union Foreign Ministers of July 22, 1994, reprinted in the book, Owen (1995: 288) estimates that in the summer of 1994 every week more than 1,000 trucks were going in each direction across the Yugoslav-Macedonian border.

The above observations are totally consistent with statistical data analyzed in this article. The Bulgarian trade data puzzle was most noticeable in the years 1994 and 1995. It existed, but to a smaller degree, in 1992 and 1993. In 1992 and 1993, illegal shipments went primarily through the northern route and only in 1994 were redirected to the south, to Bulgaria and FYROM.

Macedonia is a small, landlocked country. It borders on Albania, Greece, Bulgaria, and Yugoslavia. A bitter political dispute between Greece and Macedonia led the former to impose a total economic blockade on FYROM. This blockade lasted from February 16, 1994, until October 15, 1995. Macedonia and Albania are linked with a single, winding, mountainous road built in the 1930s. In 1994 and 1995, the merchandise that went to Yugoslavia through Macedonia could not have come from either Albania or Greece.[8]

After the sanctions were ended, in 1996 the volume of Bulgarian exports to Yugoslavia reached $231.5 million and in the following year it dropped to $124.8 million. In 1996 and 1997, Bulgaria imported from all Balkan countries (including Yugoslavia) goods worth $153.3

---

[8]As a result of the Greek blockade of Macedonia some of the trade to and from FYROM was rerouted through Bulgaria. The volume of official, customs-based Bulgarian exports to FYROM reached $436.2 million in 1995. Following the lifting of the blockade, the volume declined to $143.1 million in 1996 (BNB, *Annual Report* 1996). FYROM is a country of about 2 million people with an estimated 1995 GDP per capita of $840. Total officially reported exports and imports in 1995 stood, respectively, at $1.2 billion and $1.4 billion (World Bank 1996a). Therefore, it is impossible to explain the Bulgarian foreign trade data puzzle with the Greek blockade of FYROM.

and $95.8 million, respectively (BNB *Annual Report* 1997–98). Therefore, the trade data puzzle could not be explained with official, presanctions Bulgarian-Yugoslav trade going underground.

Effectiveness of Yugoslav Sanctions

This article shows that in 1994 and 1995, respectively, $5.25 billion and $3.15 billion of merchandise went covertly to Yugoslavia through Bulgaria. These numbers do not include the contraband that reached Yugoslavia through other routes.

It is important to put these numbers in a broad perspective. In 1989, the last year before the start of political upheaval, Yugoslavia had a population of almost 24 million and her exports of goods totaled $13.6 billion and imports $13.5 billion (IMF 1992). In the breakup, Yugoslavia lost more than half of her original residents. Yugoslavia's two most economically advanced republics, Slovenia and Croatia, seceded. In 1992, the first full year of their independent existence, these two nations alone had combined exports and imports of $10.6 billion and $10.1 billion, respectively (IMF 1998).

It is likely that the above numbers overestimate international transactions of the two former Yugoslav republics prior to 1992, because some of the exports and imports might reflect trade diverted away from other parts of pre-1991 Yugoslavia. But, there should be no question that rump-Yugoslavia's dependence on foreign economic relations declined more than the drop in population. The tremendous decline in the level of economic activity that occurred in the years 1990–93 greatly diminished demand for foreign goods and crippled the nation's ability to sell goods abroad. Table 6 presents the volume of Yugoslavia's foreign trade in goods in the period of 1996–2000, that is, after the lifting of sanctions in late 1995. This table shows that at the peak of more than $5 billion of smuggled goods per year, Bulgaria

TABLE 6

VOLUME OF YUGOSLAV EXPORTS AND IMPORTS OF GOODS
(Millions of Dollars)

	1996	1997	1998	1999	2000
Exports	1,842	2,368	2,856	1,498	1,723
Imports	4,102	4,799	4,849	3,296	3,711

SOURCE: *Annual Report,* National Bank of Yugoslavia (2000).

and FYROM satisfied a great deal of the Serb needs in the area of international trade.[9]

The magnitude of covert trade found in BNB reports also casts doubt on the ability of the international community to monitor capital flows and to seize financial assets. The sanctions included a ban on financial transactions with Yugoslavia and led to a freeze on the government's assets abroad. Engelberg (1993) suggested that of the roughly $5 billion of reserves that Yugoslavia had at the beginning of hostilities, about $2.8 billion were seized by early 1993. After financial sanctions were extended to private entities in April 1993, allegedly, large amounts were frozen, too. Consequently, according to some observers the amount of foreign exchange available to Yugoslavia fell below $1 billion, or even to as low as $268 million. Nevertheless, without access to official or private credit, Yugoslavia managed to finance the flow of illegal trade to the magnitude of well over $5 billion in 1994, not taking into account the contraband going through other countries.[10]

The evidence strongly suggests that the U.N.-imposed economic sanctions had, at best, a limited impact. Certainly, the military successes of the Serbs in 1992–95 show that the smuggling of goods satisfied their war-related needs. The sanctions not only failed to force Serbs into submission but also failed to stop ethnic cleansing in Bosnia. The NATO bombing campaign of the summer of 1995 was executed in response to an escalation of aggression (the Srebrenica massacre). It was this military effort on the part of NATO and the setbacks suffered by the Serbs on the battlefield that followed the bombing, rather than economic sanctions, that brought about the Dayton conference and the end to Serbian aggressions in Croatia and Bosnia.

It is true that the Yugoslav economy suffered a deep recession in the 1990–93 period (Table 7), but that event should have been expected given the overall shock to the system. Suddenly, suppliers and buyers in the former republics disappeared. Moreover, with Slovenia

---

[9]Obviously, because of the markups paid to intermediaries, one dollar of imports in 1994 does not represent the same amount of goods that were brought into the country in 1996 with one unit of the U.S. currency. However, there is absolutely no question that the volume of contraband was huge.

[10]Because of the hyperinflation that plagued Yugoslavia in the early 1990s, foreign currencies, especially the German mark, were commonly used in domestic transactions rather than the Yugoslav dinar. Therefore, the amount of hard currencies that entered Yugoslavia must have been much greater than the volume of contraband would suggest.

TABLE 7

ECONOMIC PERFORMANCE OF YUGOSLAVIA
(Constant Prices, 1989 = 100)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP	92.1	81.4	58.6	40.6	41.6	44.1	46.7	50.2	51.5
Industrial output	87.5	72.2	56.2	35.2	35.6	37.0	40.0	43.8	45.3

SOURCE: *Annual Report*, National Bank of Yugoslavia (2000).

and Croatia seceding and the conflict between rump-Yugoslavia and Croatia going on, the country lost major seaports and short land routes to Western Europe, hence the nation was cut off from alternative markets. Prior to 1991, Yugoslavia was a prime destination point for tourists from all over Europe and the war put an end to that. The war effort itself must have caused substantial stress as well. Consequently, the Yugoslav economy was rapidly shrinking already in 1990 and 1991—that is, before the imposition of sanctions.

As horrendous as the Yugoslav economic performance was in the 1990–93 period, it was by no means unique for an economy in transition. For instance, after the loss of markets in the former Soviet Union, in 1995 Latvia's manufacturing index declined to 28.8 (1990=100) (Bank of Latvia 1994, 1995; author's calculations). For similar reasons, in 1998, Ukraine's GDP was only 40.9 percent of the 1990 level (National Bank of Ukraine 2002; author's calculations). Both Latvia and Ukraine neither waged a war nor faced economic sanctions, but they fared as bad, if not worse, than Yugoslavia. Croatia, a former member of the Yugoslav Federation and a major opponent of the Serbs, also saw a huge drop in the level of industrial output. At the trough in 1994, industrial output amounted to only 49.8 percent of the 1989 level (IMF 2000; author's calculations).

In general, there were many factors that contributed to the terrible economic performance of Yugoslavia in 1990–93, but there is no indication that the sanctions played the primary role. The sanctions certainly compounded Yugoslav economic problems, however, in spite of them the nation's GDP (Social Product) rose by 2.5 and 6.1 percent, respectively, in 1994 and 1995 (National Bank of Yugoslavia 2000). Moreover, after the lifting of sanctions, the rate of growth failed to accelerate. In fact, Yugoslavia's economic growth was faster in 1995 (6.1 percent) than in 1996 (5.9 percent), the first post-sanctions period.

The sanctions failed to aid internal forces opposed to the policies of aggression and ethnic cleansing pursued by Slobodan Milosevic and his collaborators. The instinct to rally around the flag, a major reason for the failure of sanctions, was present in the Yugoslav conflict. Even though policies of Milosevic brought about the sanctions and back-fired in many other ways, he was elected the president of the Yugoslav Federation in 1997.

In sum, the sanctions failed to force the Serbs to respect the territorial integrity of their neighbors or to abandon the policy of ethnic cleansing, and they did not succeed in hurting political prospects of the perpetrators.

Conclusion

Annual Reports of the BNB provide information on the evasion of economic sanctions as direct and official as one could hope to get. The BNB sources reveal an extremely large difference between the data on international trade as calculated by commercial banks and as calculated by customs offices. The data from commercial banks show a tremendous increase in the volume of foreign trade, but the data from the customs offices do not. This trade data puzzle could not be successfully explained with illegal capital flows or with the circumvention of Bulgarian trade barriers. Moreover, the magnitude of the bank-reported upsurge in trade is completely incompatible with the general macroeconomic picture of Bulgaria.

Nevertheless, the bank figures rather than the customs data appear to be correct. The BNB confirmed the validity of bank reports on the volume of Bulgarian foreign trade. Statistics on the tonnage of cargo crossing Bulgarian borders also authenticate bank reports. So, the only logical explanation of the trade data puzzle is that the increase in the volume of Bulgarian exports and imports reflects the transit of goods to Serb-led Yugoslavia. The trade data puzzle emerged soon after economic sanctions against Yugoslavia were imposed and it disappeared soon after the sanctions were lifted.

The United Nations sanctions on Yugoslavia are proclaimed to be among the most efficiently implemented in history. Nevertheless, this article shows that in 1994 alone goods worth $5.25 billion were smuggled to Yugoslavia through Bulgaria. This "leakage" was apparently sufficient to sustain the Serb war effort and to keep the Yugoslav economy growing at a fast pace in 1995. In sum, the evidence presented in this article supports the opinion held by Woodward (1995) and Owen (1995) that the sanctions were very porous and, as such, not effective.

This study is yet another example of the limitations of economic sanctions. Sanctions supported by a large number of nations increase the cost of international transactions to the receiving country. But, certainly in the Yugoslav case, they failed to cripple the flow of trade to the target-nation, and the Yugoslav economy was rapidly recovering from the 1990–93 recession while the sanctions were still in effect. Consequently, the sanctions proved to be incapable of reaching the two fundamental goals identified by Galtung (1967)—namely, to punish and/or make the target comply with norms important to the senders. Although Yugoslavia eventually abandoned its policy of aggression and gross violation of human rights, one should not rush to the conclusion that the sanctions were a crucial factor in accomplishing

this. There is a more credible explanation of this change of heart. It was the bombing campaign of the summer of 1995 and the military setbacks that followed the NATO action rather then the sanctions that led to the Serbs' acceptance of the Dayton agreement. Sadly, the sanctions also failed to damage the political career of Slobodan Milosevic, the main force behind the attempt to build a "Greater Serbia."

The data pointing to sanctions breaking came to light because of a unique situation in Bulgaria. Bulgaria was in a process of rebuilding a democratic system after decades of repressive communist rule. The economy was in transition from communism to a market system. Economic agents lacked the sophistication to conceal immense underground economic activities, especially in the sphere of international trade. Political instability and corruption reduced the incentive for economic agents to conceal such activities. In addition, government officials had little experience at constraining underground activity. Moreover, as Renwick (1981) observed, economic sanctions could be painful to trading partners and neighbors of the receiving country. Bulgaria was already undergoing a severe recession as a result of the collapse of Comecon and compliance with the sanctions imposed on Yugoslavia would have made the situation unbearable.

References

Anglin, D. G. (1987) "United Nations Economic Sanctions against South Africa and Rhodesia." In D. Leyton-Brown (ed.) *The Utility of International Economic Sanctions*, 23–56. New York: St. Martin's Press.

Bank of Latvia (1994, 1995) *Annual Report* (www.bank.lv).

Bulgarian National Bank [BNB] (1991–98) *Annual Report*. Sofia: BNB.

———— (1996) *Report, January–June 1996*. Sofia: BNB.

Conlon, P. (2000) *United Nations Sanctions Management: A Case of the Iraq Sanctions Committee, 1990–1994*. Ardsley, N. Y.: Transnational.

Cortright, D., and Lopez, G. A. (2000) *The Sanctions Decade: Assessing UN Strategies in the 1990s*. Boulder, Colo.: Lynne Rienner.

Doxey, M. P. (1980) *Economic Sanctions and International Enforcement*. New York: Oxford University Press.

———— (1987) *International Sanctions in Contemporary Perspective*. New York: St. Martin's Press.

Elliott, K. A. (1998) "The Sanctions Glass: Half Full or Completely Empty?" *International Security* 23 (1): 50–65.

Engelberg, S. (1993) "Conflict in the Balkans; U.N. Steps Said to Dry Up Serbs' Cash." *New York Times*, 13 May: A8.

Galtung, J. (1967) "On the Effects of International Economic Sanctions." *World Politics* 19 (3): 378–416.

Green, J. D. (1983) "Strategies for Evading Economic Sanctions." In M. Nincic and P. Wallensteen (eds.) *Dilemmas of Economic Coercion: Sanctions in World Politics*, 61–85. New York: Praeger.

Hufbauer, G. C.; Schott, J. J.; and Elliott, K. A. (1990) *Economic Sanctions Reconsidered: History and Current Policy*. Washington: Institute for International Economics.

International Monetary Fund (1992, 1998, 2000) *International Financial Statistics, Yearbook*. Washington: IMF.

Kaempfer, W. H., and Lowenberg, A. D. (1988) "The Theory of International Economic Sanctions: A Public Choice Approach." *American Economic Review* 78 (4): 786–93.

Leyton-Brown, D., ed. (1987) "Lessons and Policy Considerations about Economic Sanctions." In *The Utility of International Economic Sanctions*, 303–310. New York: St. Martin's Press.

National Bank of Ukraine (2002) *Main Macroeconomic Indicators, 1991–1995, 1996–2000* (www.bank.gov.ua).

National Bank of Yugoslavia (2000) *Annual Report* (www.nbj.yu)

National Statistical Institute [NSI] (1994–98) *Statistical Reference Book of the Republic of Bulgaria*. Sofia: NSI.

_____ (1994–98) *Statistical Yearbook*. Sofia: NSI.

_____ (1996a) *Foreign Trade of the Republic of Bulgaria*. Sofia: NSI.

_____ (1996b) *Main Macroeconomic Indicators '95*. Sofia: NSI.

_____ (1997) *Energy Balances '95*. Sofia: NSI.

Owen, D. (1995) *Balkan Odyssey*. New York: Harcourt Brace.

Pape, R. A. (1997) "Why Economic Sanctions Do Not Work?" *International Security* 22 (2): 90–136.

_____ (1998) "Why Economic Sanctions *Still* Do Not Work?" *International Security* 23 (1): 66–77.

Renwick, R. (1981) *Economic Sanctions*. Cambridge: Center for International Affairs, Harvard University.

Seiglie, C. (2001) "Cuba's Road to Serfdom." *Cato Journal* 20 (3): 425–30.

Tsebelis, G. (1990) "Are Sanctions Effective? A Game-Theoretic Analysis." *Journal of Conflict Resolution* 34 (1): 3–28.

United Nations Security Council (1996a) Letter Dated 24 September 1996 from the Chairman of the Security Council Committee, Established Pursuant to Resolution 724 (1991) Concerning Yugoslavia, Addressed to the President of the Security Council (S/1996/776).

_____ (1996b) Letter Dated 15 November 1996 from the Chairman of the Security Council Committee, Established Pursuant to Resolution 724 (1991) Concerning Yugoslavia, Addressed to the President of the Security Council (S/1996/946).

Woodward, S. L. (1995) *Balkan Tragedy: Chaos and Dissolution after the Cold War*. Washington: Brookings Institution.

World Bank (1996a) *Trends in Developing Economies, 1996*. Washington: World Bank.

_____ (1996b) *World Development Report, 1996*. Washington: World Bank.