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"War is regarded as nothing but the continuation of state policy with [by] other means."

Karl Von Clausewitz

"In this part of the world it is difficult to find the true path between reason and emotion, myth and reality. This is the burden of the Balkans, which prevents us from becoming truly European."

Kiro Gligorov

"You – as an Austrian – have a moral responsibility regarding the situation here [in Bosnia and Herzegovina]. This country was part of the Austro-Hungarian Monarchy, your roots are also here. We are not – if you want – some kind of strangers but we are former brothers. Now it is on your side to help your brothers because they are in big problems."

Ismet Dedeic

CONTENTS

Introduction

In the following study, Peter Trost analyses the strong interdependencies between economic and security-political factors in a conflict region, specifically focusing on the influence of economical reasons for the break-up of Former Yugoslavia. This is especially interesting as most studies tend to focus on the political aspects rather than concentrating on questions of economy when dealing with the disintegration processes leading to the destruction of the Former Socialist Federal Republic of Yugoslavia.

In a nutshell, the analysis is based on the hypothesis that from a comprehensive perspective, economic factors were decisive in triggering the break-up of Yugoslavia. I must be pointed out, however, that these economic reasons could only become destructive under a framework of strong nationalistic feelings.

Following an introduction to the most important theories of modern conflict research with special focus on economic aspects, the author characterises the development of the Yugoslav economy between 1945 and 1991. One central cause for the break-up of the SFRY raised is that the start of the economic reform process collided with a growing political polarisation in the late eighties and early nineties.

One direct consequence of this development was the strong urge towards secession by the economically higher developed Northern Yugoslav republics of Slovenia and Croatia. These two entities saw their economic interests and prosperity endangered by a joint country and economy under Serb domination.

Other Yugoslav republics as Macedonia and Bosnia-Herzegovina were more reluctant in following the Croat and Slovenian path to independence as their individual economic development had not progressed so far at this moment. The political leadership in both republics lacked the confidence in autonomy out of economic reasons

and only took the final step towards independence as the political structures had followed the economic ones in disintegration.

The PfP Consortium Study Group on "Crisis Management in South East Europe" pursues an approach as comprehensive as possible in its evaluation of the conflict situation in the Balkans. The study by Peter Trost adds to these efforts by offering a viewpoint that helps to expand the field of roots and causes for the disintegration of the Former Socialist Federal Republic of Yugoslavia.

Predrag Jurekovic
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1 Security Contexture in General

Since the breakdown of the post World War II deterrence concept, the so-called cold war, traditional security definitions based on national sovereignty and territorial security have increasingly come under scrutiny. Already in the 70s security politics was twofold: security politics in a narrow sense included all political measures of a State or a State system with the goal to prevent, stem or end cross-border conflicts; security politics in a wider sense covered all measures on the national level to stabilize the internal security and on the international level to balance the interests of different countries and to adjust the living conditions between industrial and developing nations.[1] With the end of the cold war, however, the direct military threat for most European countries diminished and, with it, the horizon for possible threat theatres. As a consequence, those countries are lacking the ability to cover the wide spectrum of threats to security, as it exists nowadays. Therefore a broader definition of security that would incorporate non-traditional threats and their causes, such as social and political instability, economic decline, ethnic rivalries, territorial disputes, international terrorism, money laundering, drug trafficking, and environmental stress is needed. "Redefining security, it seems, is not the problem at stake but rather the question of *how* to define it adequately."[2] The challenge is not to be too broad and consequently too vague, and not to be too narrow and, hence, too exclusive. Therefore I analyse in the following chapters various security definitions, concepts, and systems of important international players in this field.

[1] Reiter, Erich 2000: "Sinn und Zweck einer sicherheits- und verteidigungspolitischen Doktrin", Eine Studie des militärwissenschaftlichen Büros, Bundesministerium für Landesverteidigung, 7

[2] Baechler, Guenther 1999: "Violence through Environmental Discrimination. Causes, Rwanda Arena and Conflict Model", Kluwer Academic Publishers, Dordrecht, Boston, London, Vol 2, 25

1.1 Organization for Security and Cooperation in Europe

Already in the Helsinki Final Act of 1975, the founding paper of what was then the Conference on Security and Cooperation in Europe (CSCE), security was understood as a multifaceted phenomenon[3]. In the Helsinki document of 1992, the CSCE states that "our approach is based on our comprehensive concept of security… This concept relates the maintenance of peace to the respect for human rights and fundamental freedoms. It links economic and environmental solidarity and cooperation with peaceful State relations."[4] What the CSCE, renamed the Organization for Security and Cooperation in Europe (OSCE) on 1 January 1995, therefore understands by security is not "… simply balances of military hardware or economic might; instead, it understands security to relate to many additional facets of national life: human rights, fundamental freedoms and satisfactory environmental conditions, to name just a few. In this understanding of security, internal political, social, and environmental realities of participating States are linked to external relations and regional stability. Stated differently, what goes on *inside* a State in all areas of life is of importance to the conduct of international relations *outside* a State. For security to be maintained, these multiple and varied areas of national life (e.g. economic, social, environmental, and political) must then be considered and acted upon internationally and cooperatively."[5]

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[3] Price, Thomas L., Lester, Ryan S.: "The OSCE's Economic Dimension on the Eve of the 21st Century", 2

[4] CSCE, Helsinki Document 1992: "The Challenges of Change", Paragraph 22 of the Helsinki Summit Declaration, 9

[5] Price, Thomas L., Lester, Ryan S.: "The OSCE's Economic Dimension on the Eve of the 21st Century", 3

Consequently the OSCE's operational approach to security comprises three baskets:

1. The military and territorial security basket, reaching from territorial integrity to disarmament in their relation to international security

2. The economic and environmental basket, reaching from economic development, science, technology, to environmental protection in their relation to international security

3. The human basket, reaching from human rights in general and inter-country travel to cultural tolerance in their relation to international security

1.2 European Centre for Security Studies

For the George C. Marshall European Centre for Security Studies[6] "traditional security concepts do not provide adequate solutions to the current challenges of intrastate conflict and regional instability."[7] The major schools of thought in international relations – realism and liberalism – and their main instrument of policy – war – belong to the past. The challenge of defending ones own territory stepped back in favour of preserving the overall stability of a region. It became clear that damaging the security of individuals in one country diminishes the security of another country. The term "Cooperative Security" was born. The difficulty in defining security lies more with the values and social units that need protecting, than with the concept itself. Arnold Wolfers has measured security as "the absence of threat to acquired values".[8] This definition raises the question about the application of social units (e.g. individuals, states, international institutions, and state systems) and values (e.g. physical safety, political independence, and economic well-being).[9] The answer is indefinite, depending on the time the question is asked and the current understanding of international relations. However, we have experienced a change from "hard" security (survival of the state) to "soft" security (economic well-being), which indicates a real decrease in the perceived level of threat after the cold war.

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[6] The George C. Marshall Center, a leading transatlantic defense educational and security studies institution, bilaterally supported by the US and German governments, is dedicated to the creation of a more stable security environment by advancing democratic defense institutions and relationships; promoting active, peaceful engagement; and enhancing enduing partnerships among the nations of North America, Europe, and Eurasia.

[7] Mihalka, Michael 2001: "Cooperative Security: From Theory to Practice", in: "Cooperative Security: New Horizons for International Order", George C. Marshall European Center for Security Studies, The Marshall Center Papers, No. 3, VIB, 33

[8] Wolfers, Arnold 1952: "National Security as an Ambiguous Symbol", in: Political Science Quarterly, Vol. 67, No. 4, December, 485, in: Cohen, Richard, Mihalka, Michael 2001: "Cooperative Security: New Horizons for International Order", George C. Marshall European Center for Security Studies, The Marshall Center Papers, No. 3, VIB, 34

[9] Baldwin, David 1997: "The concept of Security", in: Review of International Studies, Vol. 23, No. 1, January, 3-26

"Cooperative security is activity among states to lessen the likelihood of war, or its consequences should it occur, that is not directed at any specific state or group of states."[10] This concept is quite old and it was mentioned by Immanuel Kant in the late 18th century in his "Second Definite Article of Perpetual Peace."[11] It became a catch phrase for strategists as well as for politicians at the end of the 20th century. So the former Australian Foreign Minister Gareth Evans described Cooperative Security as tending "… to connote consultation rather than confrontation, reassurance rather than deterrence, transparency rather than secrecy, prevention rather than correction, and interdependence rather than unilateralism."[12] The optimistic view of the new situation, however, did not match the reality. The Balkans, Chechnya, and East Timor were asking for a more realistic concept.

1.2.1 Cooperative Security

"Cooperative Security is a strategic system which forms around a nucleus of liberal democratic states linked together in a network of formal or informal alliances and institutions characterized by shared values and practical and transparent economic, political, and defence cooperation."[13] Despite various voices arguing that the state as such is becoming weaker and weaker in its role as a major player for national and international security and that now sub-state and trans-state actors, e.g. non-governmental organizations, pressure groups, criminal and terrorist groups, are playing the leading role, there is no realistic

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[10] Mihalka, Michael 2001: "Cooperative Security: From Theory to Practice", in: "Cooperative Security: New Horizons for International Order", George C. Marshall European Center for Security Studies, The Marshall Center Papers, No. 3, VIB, 35

[11] Kant, Immanuel 1795: "Perpetual Peace", in: Cahn, Steven M., ed. 1996: "Classics of Modern Political Theory: Machiavelli to Mill", London/Oxford, Oxford University Press

[12] Evans, Gareth 1994: "Cooperative Security and Intra-State conflict", in: Foreign Policy, No. 96, in: Cohen, Richard 2001: "Cooperative Security: From Individual Security to International Stability", in: "Cooperative Security: New Horizons for International Order", George C. Marshall European Center for Security Studies, The Marshall Center Papers, No. 3, VIB, 4

[13] Cohen, Richard 2001: "Cooperative Security: From Individual Security to International Stability", in: "Cooperative Security: New Horizons for International Order", George C. Marshall European Center for Security Studies, The Marshall Center Papers, No. 3, VIB, 10

alternative to sovereign states, democratic institutions and their systems. Human rights, the backbone of the Cooperative Security system, were, are and will be best protected in liberal democratic states.

Another concept which is necessary to understand in relation to Cooperative Security, is the "Security Dilemma."[14] In order to increase the security of its citizens, a state takes appropriate actions which result in responsive actions of an adversary that may finally decrease everybody's security. The problem can be easily illustrated with military armament. When it is done by one country, regardless of its intentions, it is perceived as a threat to others. Therefore the Security Dilemma "cannot only create conflicts and tensions but also provide the dynamics triggering war."[15] The Security Dilemma, also called a Prisoner's Dilemma, illustrates that a unilateral improvement of security from state A causes a reaction of state B and consequently reduces the security of both. Another example of a Prisoner's Dilemma is the problem of arms control. Consider two strategies: to "deploy a new missile" and "do not deploy". Under the assumption that the payoffs are reasonable and that there is no communication between the two opponents possible, or an agreement cannot be reached, I will deploy if my opponent deploys, even though the best strategy for us both would be not to deploy. So together we end up with a scenario which makes us worse off.

[14] Glaser, Charles 1997: "The Security Dilemma Revisited", in: World Politics, Vol. 50, No. 1, October, 171-201

[15] Butfoy, Andrew 1997: "Common Security and Strategic Reform: A Critical Analysis", New York, St. Martin's Press, in: Mihalka, Michael 2001: "Cooperative Security: From Theory to Practice", in: "Cooperative Security: New Horizons for International Order", George C. Marshall European Center for Security Studies, The Marshall Center Papers, No. 3, VIB, 36

Figure 1.1. The Prisoners' Dilemma

	A deploys	A does not deploy
B deploys	Arms race 12/12[16]	B's unilateral advantage 15/8
B does not deploy	A's unilateral advantage 8/15	Arms control 20/20

[16] The figures indicate the utility level of the situation for the two countries in the order B/A.

In a Cooperative Security system, individual states' national security objectives are linked by four reinforcing rings of security:

1. Individual Security
2. Collective Security
3. Collective Defense
4. Promoting Stability

Figure 1.2. Cooperative Security – The four rings

Source: George C. Marshall European Centre for Security Studies, "Cooperative Security: New Horizons for International Order", 2001, 10

Individual Security forms the centre of any serious international security system. Its main goal is to further and protect the basic freedoms of the individual. It stands in the centre of interest surrounded by all other forms of security.

Collective Security is dealing with the internal challenges of a group of states, meaning that its most important goal is to maintain peace inside the group. The basic idea is that an aggression by one or more members against another will be countered by the other members. For this purpose the League of Nations, founded in the aftermath of World War I, was

created as the first Collective Security organization. Despite the positive intention, it failed mainly because the development of a security community never became more than a vision on a paper, its members did not share common values, and there was no agreement concerning the political organization of European countries. Therefore, it could not prevent World War II. In 1945 the United Nations (UN) was founded as the new Collective Security organization of the entire world. In the Euro-Atlantic region, the OSCE is also working in the same field.

Collective Defense is guaranteeing mutual protection of its members against threats from outside with "hard" security means. The only effectively working Collective Defense system in the world at the moment is the North Atlantic Treaty Organization (NATO); others – which mainly exist only on paper – are the Western European Union (WEU), the Central Treaty Organization (CENTO) and the South East Asia Treaty Organization (SEATO).

Promoting Stability is the last of the four elements of the Cooperative Security system and deals with the active promotion of stability outside the borders of the system. Deterioration of democratic life-styles, destabilization of inner-state structures, and a loss of control in neighbouring countries of the system, or even in countries further away, might be conceived as threats to the security of its members and therefore become matters of serious concern. The means of promoting stability are many, and range from diplomacy to the use of force. Both the UN and NATO have made use of these elements when they intervened in the Balkans. In the case of Bosnia and Herzegovina, and in the case of Kosovo, it was very clear to see how the Promoting Stability element was used, starting with intensive diplomacy, increasing pressure on the parties involved with sanctions and blockades, and finally with the show of force and use of force, in order to restore peace and stability. History has taught us that the process does not stop with the end of open violent actions but continues over a very long period of time to reach a sustainable stability in regions which were once unstable. This is the phase in which the international community finds itself right now in both Bosnia and Herzegovina and in Kosovo.

1.3 The Committee on the Challenges of Modern Society

The Committee on the Challenges of Modern Society[17] has presented another concept of security[18], which proceeds from a differentiation of levels of analysis. Security is traditionally understood as the absence of threats to national sovereignty. This version of security is based on three dimensions:

1. The integrity of the national territory

2. The protection of political independence and national sovereignty

3. Stability at the international level

Security is seen as the dependent variable. The inverse of these conditions can be described by the potential incidence or escalation of conflict. Conflict can be explained as a difference in positions or interests among actors with respect to a specific issue or goal. Conflicts are dynamic processes which exhibit different levels of intensity along a continuum. The conflict dynamic can be depicted as movement over time along a scale of conflict intensity (see: figure 1.3.).

The evolution of a conflict can range from highly cooperative to highly conflicted situations. Depending on numerous factors, a conflict situation can emerge in five levels of increasing intensity. [19]

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[17] The Committee, created in 1969, provides a unique forum for the sharing of knowledge and experience on technical, scientific and policy aspects of social and environmental matters both in the civilian and military sectors among NATO and EAPC Partner countries.

[18] Environment & security in an international context: final report March 1999; Ministry for the Environment, Nature Conservation and Nuclear Safety, Bonn; U.S. Department of Defense, Washington

[19] Lund, Michael S. 1996: Preventing Violent Conflicts: A Strategy for Preventive Diplomacy. Washington, D.C.: United States Institute of Peace

1. Durable Peace: Situations characterized by shared common purpose, harmony, and no incompatible interests.

2. Stable Peace: Situations of significant cooperation, but with the recognition of incompatible interests that are regulated by peaceful mechanisms that reduce, manage or resolve disputes, and prevent violence.

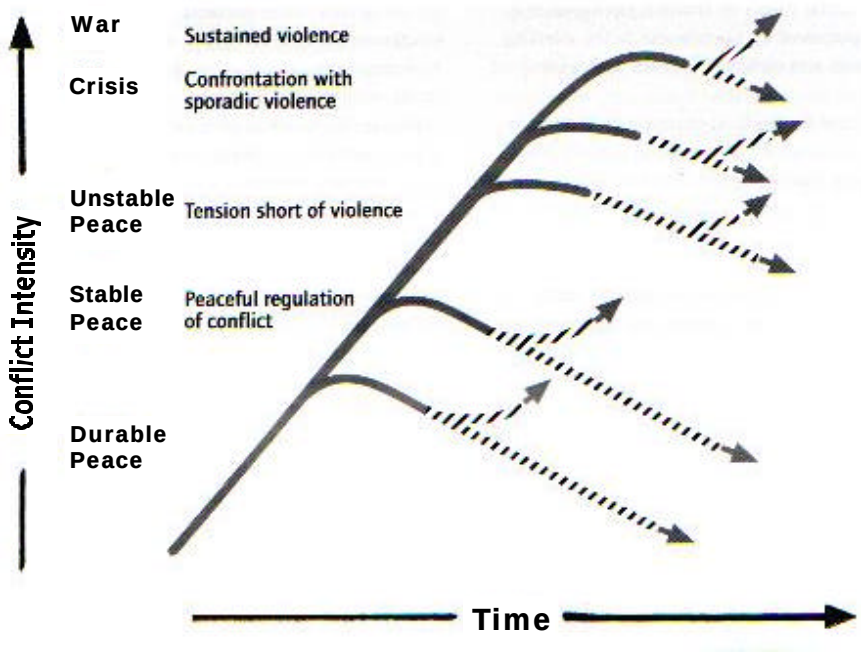
3. Unstable Peace: Situations of tension and suspicion that avoid violence by mutual deterrence, balance of power, or government repression.

4. Crisis: Situations of tense confrontation between armed forces, engaging in threats and possible skirmishes, but without significant and sustained force.

5. War: Situations of sustained and systematic use of armed force.

The model points out that issues can be resolved before conflict develops into a security threat (levels of durable peace and stable peace). Going up on the scale of conflict intensity conflict produces political, economic and social crisis, but not durable violent confrontations (unstable peace). Only at its top levels does conflict emerge into continuous violent confrontations.

Figure 1.3. Conflict Dynamic



Source: Committee on the Challenges of the Modern Society, "Environment & Security in an International Context", 1999, 40

As the figure shows, violence is not necessarily the automatic outcome of conflict. The process can be interrupted by de-escalation factors, e.g. international diplomacy, negotiations, political and economic pressure, boycotts, blockades or – at the end of the scale – military intervention in order to decrease the intensity of the conflict. Numerous conflicts, especially at the local or regional level, have been resolved cooperatively, and only a small number have reached higher intensity.

1.3.1 Environmental Stress[20] and Conflict

Environmental stress is understood as one of several factors that can produce conflict.[21] There is no direct mono-causal relationship between environmental stress and conflict. Inefficient economies, unjust social systems, and repressive governments can predispose a society to instability and make it especially susceptible to environmental problems.[22] Although environmental stress contains many factors which are likely to boost the outbreak of violence, the vast majority of cases exhibiting environmental stress are resolved peacefully and cooperatively.[23]

1.3.2 Multi-causality

Political, economic, and social factors almost always interact with environmental stress when it comes to the creation of conflict. It is not proven that environmental stress is necessarily present in the development or escalation of a conflict.

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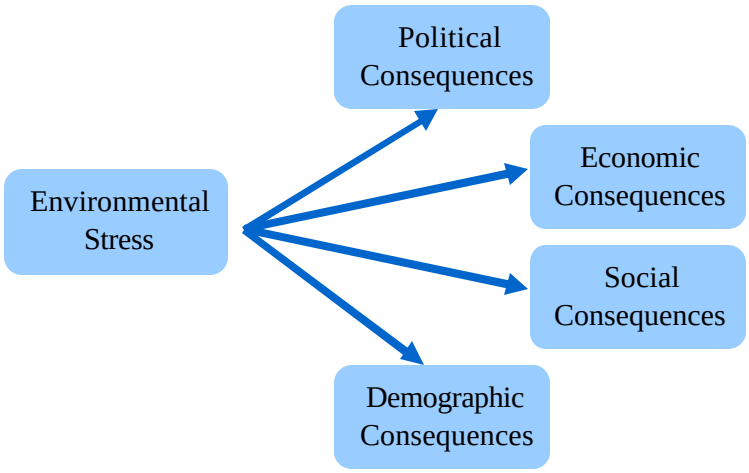
[20] Environmental stress in this context is not only based on natural factors, such as floods, bush fires, or droughts, but understands the environment as the general surrounding condition of the subject. Therefore the environment embodies all factors influencing the object of examination.

[21] Homer-Dixon, Thomas F. 1991: "On the Threshold. Environmental Changes as Causes of Acute Conflict", in: International Security, Vol. 16(2): 76-116

[22] Myers, Norman 1993: "Ultimate Security: The Environmental Basis of Political Stability", New York: Norton: 22

[23] Environment & security in an international context: final report March 1999; Ministry for the Environment, Nature Conservation and Nuclear Safety, Bonn; U.S. Department of Defense, Washington

Figure 1.4. Consequences of environmental stress



Source: Committee on the Challenges of the Modern Society, "Environment & Security in an International Context, 1999, 100

Environmental stress often leads to problems, which are socially and economically induced, such as migration, displacement, poverty, food insecurity, poor health conditions, and even political instability. Environmental decline has an impact on a nation's security in the downward pull on economic performance and, therefore, on political stability.[24] It follows that only when environmental degradation manifests itself in societal problems, such as socio-economic decline, might it lead to crisis, which can end in violence.[25]

[24] Mathews, Jessica Tuchman 1989: „Redefining Security", in: Foreign Affairs, Vol. 68(2): 162-177

[25] Baechler, Guenther 1997: "Violence through Environmental Discrimination. Causes, Rwanda Arena and Conflict Model", Dissertation, Cambridge, Berne: John F. Kennedy School

1.3.2.1 Interrelation of Factors and the Spiral of Violence

Environmental stress and conflict work in a way which is interrelated. As pointed out already, environmental stress can lead to conflict under certain unfavourable conditions; conflict can also cause environmental stress. This interdependency can easily lead to the so-called spiral of violence, meaning that both factors boost each other upward on the intensity scale. On the other hand, the relationship between environmental stress and conflict is non-linear[26], so that the socio-economic and political consequences of environmental stress may have an impact on the rate of reduction or on the observed degree of scarcity of resources.

1.3.2.2 Environmental Stress and its Consequences

The interdependency between environment and security is far more complex and less linear than has been commonly described. Environmental stress is one - but not the only – factor which contributes to the escalation of conflict. Political, economic, social, and demographic factors also play a major role in this relationship.

In reality, one can see how these factors interrelate when looking at areas where poverty, food insecurity, poor health conditions, social and political injustice, displacement, and the termination of social and political institutions lead to an increase of environmental stress and therefore push the possibility of a violent conflict up the scale. For example, the disruption of the running water system, the gas system, or the electrical system increases environmental stress for the people affected. Migration, refugee movements, and flight often result in hardship, food scarcity, and health problems among the displaced persons – not to mention the psychological effect of being forced to leave one's house, or to leave one's country, and thereby one's home. But as such it does not necessarily increase the potential for violence

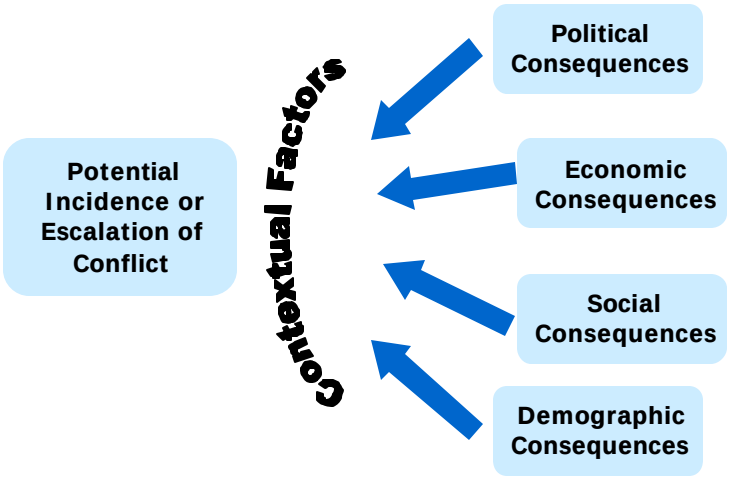
[26] Environment & security in an international context: final report March 1999; Ministry for the Environment, Nature Conservation and Nuclear Safety, Bonn; U.S. Department of Defense, Washington

because most often the displaced persons, the refugees, or the migrants are too weak to fight for their basic rights.

1.3.2.3 Structural Factors and Triggering Factors

Theories of conflict research deal with two main factors, namely structural factors and triggering factors, which influence the conflict dynamic. Structural factors can best be described as long-term, more static factors, e.g. distribution of wealth and land, certain patterns of economic organization, or ethnic stratification within a society.

Figure 1.5. Contextual Factors



Source: Committee on the Challen ges of the Modern Society, "Environment & Security in an International Context", 1999, 103

They can be understood as producers of a certain general climate within a society in which a certain kind of conflict behaviour is more likely to show up than another kind.

However, triggering factors are acute events which cause "an action or state of affairs to become the most favoured alternative in someone's feasibility set. In terms of violent conflict, a trigger causes an actor who previously preferred non-violent solutions to a problem to favour violent action instead. A trigger must always be seen near the outbreak of a violent conflict or war under consideration. It is part of the cause, whereas reasons are, by contrast, the causes actors fight for. Triggers are the outcome of decisions that led to violence – even though the latter is not necessarily intended."[27] For example, the killing of Hakija Turajlic, vice-president of the government of Bosnia and Herzegovina, in a UN armoured personnel carrier in Sarajevo 1993 could be seen as a trigger.

Baechler, head of COPRET (Conflict Prevention and Transformation), Swiss Development Cooperation, extends this concept and throws in four other terms which produce a total of five causal roles. Beside the trigger, the reason, "a combination of actions that are perceived by an actor as "historical problems" (traumata, history of oppression, injustice, former wars, etc.) which influence his preferences in a way he thinks, justify the resort to violence historically" plays an important role. As the reason is working on both the dynamic and the content of a conflict, it could be a strong factor in mechanisms leading to the outbreak of violence.

The second additional term Baechler mentions is the target, which is "an actor's objective, aim, or goal. The target is what the conflict is about, at least in the eyes of the parties to the conflict". If it is possible to define the target, the purpose of the conflict can be explained. This could lead to the motivation of an actor, why he prefers resort rather than violence. A target works more on the content of a conflict than on the dynamics.

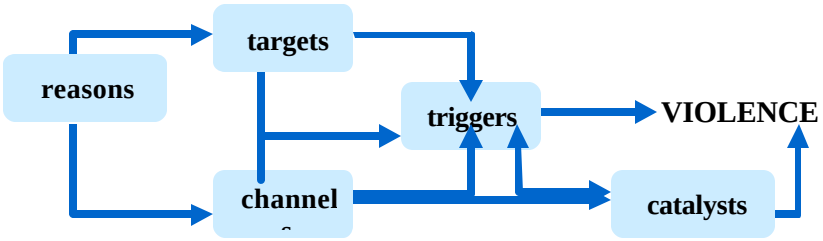
When Baechler talks about a channel as the third term he means "a line of political, social, economic, or national cleavage. To cite a channel is to explain the social, political, economic, and/or cultural structures that cause individuals to fall into the groups they do. Channels are designed

[27] Baechler, Guenther 1999: "Violence through Environmental Discrimination. Causes, Rwanda Arena and Conflict Model", Kluwer Academic Publishers, Dordrecht, Boston, London, Vol 2, 283-284

to form the group identity. They figure primarily in sub intentional explanations (why actors have certain beliefs and desires) and supra-intentional explanations (why individual actions have certain collective or cumulative effects), whereas triggers and targets figure in explanations of intentional action". This implies that a channel can be a strong motive for stress fault lines which can be traced back to either recent or ancient history, and it can be strong enough to exercise an influence on causal linkages with the result that new reasons come up during the genesis of a conflict. The channel covers both the dynamics and the content of a conflict.

The catalyst is the forth and last additional factor of Baechler. It is "any factor that controls the rate or intensity and the duration of a conflict, once initiated. A catalyst might serve to lengthen a conflict if it stabilizes opportunities and preferences for violence in a given conflict. It might cause a conflict to become extremely violent. Ethical deterioration in a conflict can itself be a catalyst inducing more violence". With the channel as a partner, a catalyst can change reasons. As can be seen later in this paper, ethnic groups that may have had an economic reason to fight each other may – as the situation worsens – perceive differing ethnicity more likely as the reason for the conflict than the lack of resources. A catalyst contains both the dynamic of a conflict and its content.

Figure 1.6. Multiple causal roles concept



Source: Baechler, "Violence through Environmental Discrimination", 1999, 114

1.3.2.4 Role of Perception

The occurrence as well as the intensity of the impacts of the above mentioned factors depend heavily upon the perceptions of the actors. Perception determines the position regarding environmental stress. Whether or not environmental stress, or the single factors influencing environmental stress, respectively, contributes to the potential incidence or escalation of conflict therefore pivots upon how the individual or the community perceives the impact. Let us suppose that it is scientifically determined that 60 litres of water per person per day is the minimum water demand for a certain region. Let us further assume that because of the high living standard the average water consumption is 180 litres per person per day. Now a drop to 80 litres, although still above the scientifically determined minimum, would have quite a strong impact and the perception of scarcity might be high, even if the scientific threshold has not been breached. However, if is assumed that the typical water consumption of a certain area is 65 litres per person per day with the same minimum level of 60 litres, a drop to 55 litres would clearly be below the minimum and the population may sense the change, but the impact may not be perceived as intense enough to influence or trigger a conflict.[28]

[28] Spector, Bertram 1998: „Negotiations to Avert Transboundary Environmental Security Threats“, in: William Zartman (ed.): “Preventive Diplomacy: Negotiating to Prevent Escalation and Violence”, Washington, D.C.: Carnegie Commission on Preventing Deadly Conflicts

The other relevant point, which affects the pattern of perception, is the accountability of the source. It is more likely that the impacted group will use force against others if the environmental change is the result of an unavoidable consequence of human activity and not of a natural disaster. The stakeholders can easily perceive another group as responsible for their impaired well-being, whereas the same assignment of guilt is difficult when there is no human being or group directly responsible for the change.[29]

1.3.2.5 Vulnerability of the Economy and Dependency of the Resource

Scarce resources in combination with vital natural resources, such as fresh running water, wood, or wheat are just made for a "planned decrease" and, as a result, this can enhance the probability of the incidence of conflict. The dependency of one group of the society on resources can be used by another group so that access to or supply of goods is denied or restricted, respectively. One possible consequence can be that the discriminated group organizes against other groups it perceives as responsible for the condition. Additionally, these kinds of pressures on a certain group of people, whether they are called a minority or not, in most cases enhance the identification of the individuals with their own group, which is then seen as an individual actor. Therefore, group cohesion triggers inter-group struggles over degrading resources along different fault lines such as inter-ethnic strife, immigrants versus residents, farmers versus nomads, and rural versus urban dwellers.[30] Migration or flight are often the result of a strong dependence on a diminishing resource. This can also cause socio-economic and political stress in the receiving nation or state.

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[29] Baechler, Guenther 1997: "Violence through Environmental Discrimination. Causes, Rwanda Arena and Conflict Model", Dissertation, Cambridge, Berne: John F. Kennedy School, 134

[30] Environment & security in an international context: final report March 1999; Ministry for the Environment, Nature Conservation and Nuclear Safety, Bonn; U.S. Department of Defense, Washington

The degree to which a nation or state will be affected by such an impact strongly depends on various factors, such as the dependence on natural resources, the level of economic activity, the modes of production, the productivity, the links to other societies or countries, etc. The weaker a group, a nation, or a state is in these fields, and the less it is linked with surrounding communities or countries, the bigger the impact will be. On the other hand, the strength of the impact is responsible for the reaction of the group; the more severe the impact the less likely the group will be to accept a peaceful alternative to resolve the problem.

1.3.2.6 The Importance of Institutional, Socio-economic and Technological Capacity

Institutions are commonly understood as generally acknowledged systems of rules. In this function, they are the backbone of every democratic system, enabling both the leaders and the population to live in predictable surroundings, with both duties and rights. Therefore, the institutional capacity of a government is another precondition for cooperative action on environmental stresses and their consequences. Four aspects should be considered:[31]

1. The capacity to establish a framework which guides the behaviour of the population and the government itself

2. The political system's capacity to establish rules for effective performance

3. The political system's capacity to enforce its decisions and policies

4. The political system's responsiveness and ability to listen to the concerns of the population and its ability to react accordingly

[31] Environment & security in an international context: final report March 1999; Ministry for the Environment, Nature Conservation and Nuclear Safety, Bonn; U.S. Department of Defense, Washington

Developed countries with a well-established democratic system tend to have proper working institutional means – not only on the state level as governmental, provincial, and local authorities, but also on the non-governmental level as interest groups or other organizations. The latter play an especially important role in providing policymakers and the public with "independent" information. Their role in this matter is clearly that of an "early warning station" and as such they contribute to a problem solution on a non-violent level.

A government's education policy is probably an underestimated factor when it comes to potential conflict prevention. Research, as well as the distribution and application of knowledge can be seen as preconditions for the improvement of the negative consequences of environmental stress and thus prevent potential conflicts. Both policy makers and the public should be the targets for this approach in order to foster support for a resolution to conflict. Specialists with experience in analysing environmental stress, policymakers who are willing and capable to develop, implement and enforce solutions, even during times of elections, as well as people who are open to such messages are required. [32]

Sustainability and productivity of land, access to markets, credit and cash availability, land property rights, subsidiary resource management mechanisms, etc. are instruments with which local self-government and sustainable resource management can be done effectively. There should be a wide array of economic, social, technological, and institutional instruments available for a government in order to strengthen its social-economic and technological capacities, with the goal of a reduction in the probability of a violent solution.

[32] Jänicke, Martin, Weidner, Helmut 1997: National Environmental Policies: A Comparative Study of Capacity Building. Berlin, Heidelberg, New York: Springer

1.3.2.7 Cultural and Ethno-political Factors

The simple existence of ethnic, cultural, or religious differences within a state can be seen neither as the single reason nor the single trigger leading to a conflict. History provides us with very good examples where not only two but up to six different cultures and/ or religions were living together in peace (e.g. Sarajevo). Nevertheless, these differences can contribute to the incidence or escalation of conflict when they escalate into a political problem. Social discrimination against a group, e.g. denying them access to natural resources, prohibiting them from speaking their own language, or from practicing their own religion, may reinforce social cleavages and generate civil unrest.[33] Migration can easily follow social discrimination. This can appear in two general ways: voluntary migration or forced migration. The latter is also called "ethnic cleansing", which will be discussed together with the problem of ethnic tensions later in this paper.

1.3.2.8 Internal Security Structures

The structure of internal security forces, their chain of command, their internal fields of operation, the acceptance of ethnic minorities in these forces, etc. play a major role in determining the violence potential. To create violence potential, three major prerequisites have to be met:

1. The actor has to be capable and willing to use violence

2. The actor has to find allies who share his position

3. The actor, together with his allies, has to develop a conflict strategy and to acquire the necessary means for violent conflict (the "hardware")

[33] Homer-Dixon, Thomas F. 1991: "On the Threshold. Environmental Changes as Causes of Acute Conflict", in: International Security, Vol. 16(2): 72

The lack of these preconditions explain why environmentally displaced people do not generally start violent actions against the hosting society, but are rather the object of violence. Their isolation is the reason they do not possess the necessary conflict potential, group cohesion, and determined capacity of action.[34] As a result they lack the capability to successfully withstand or deter the actions of the host society.

The internal security structure as such plays a major role when it comes to the violence potential of social groups as a precondition for conflict escalation. The degree of civilian control of law enforcement authorities, internal security services, and the military may to a certain extent determine the incidence of conflict or its escalation to violence. In developed countries, these democratic structures are usually in place and play their role in conflict management. Where they are missing the institutions mentioned above may be dominated and potentially used by a certain group in the society and as a consequence misused as a tool to resolve potential conflicts by force. (see: chapter 2.8.)

1.3.2.9 Political Stability

A politically unstable environment in general increases the potential incidence of conflict. "In South Africa – as in Mexico – political instability, poor state performance, and delegitimization of the central government indirectly accelerated the use of violence".[35] Political instability exists when the political system and the government are unable[36] or unwilling to effectively control or reconcile tensions between different groups in the society or between the government and the

[34] Suhrke, Astri 1993: "Pressure Points: Environmental Degradation, Migration and conflict", Occasional Paper Series of the Project on Environmental Change and Acute Conflict, No. 3, Cambridge, M.A.: American Academy of Arts and Science. Toronto: Peace and Conflict Studies Program, University College, University of Toronto

[35] Baechler, Guenther 1999: "Violence through Environmental Discrimination. Causes, Rwanda Arena and Conflict Model", Kluwer Academic Publishers, Dordrecht, Boston, London, Vol 2, 216

[36] The term „unable" is used in the final report March 1999 "Environment & security in an international context" but it can be doubt that the regime in the SFRY was really unable to control the situation. Therefore I have extended the definition by "unwilling" which might describe in a better way the conditions in the SFRY at that time.

opposition. Political instability has been used intentionally by various governments and groups in order to achieve their goals (Bosnia and Herzegovina, Kosovo, Chiapas area in Mexico). As political instability can cause social crisis, the breakdown of the law and order system and hence the deterioration in trust of the official authorities fosters the negative performance of the economy. On the other hand, social tensions or economic disturbances may cause political crises which, in their extreme stage, are able to bring down the political system.

Although established democracies are in a clearly advantageous position compared to new ones, mainly because their political system is well established and recognized, a lot still depends on how the legal system is accepted by the population and if access to legal redress is the same for every single citizen or group of the state. Of course, this also covers common practices for legal decisions of claims against state and local authorities.

Whether a country is an established or new democracy, however, as long as all individuals and groups are allowed to articulate their interests and to find mechanisms to balance these interests the preconditions for dealing with conflicting interests in a peaceful way are met. The importance of these procedures was discussed in the Seventh Meeting of the Economic Forum of the OSCE in Prague 1999: "Past experiences teach us that lack of democracy, transparency and due process in these matters undermine public confidence in public institutions and public decision making. The right of civil society to participate may prevent other conflicts where democratic rights are at stake, and thus be an essential and an important conflict prevention measure within and between States."[37] In order to establish such balancing mechanisms, every kind of support for democratisation, participation, and creation of a civil society is of great advantage. For countries which lack a minimum degree of information (due to restriction of media) citizen participation, and acceptance of a democratic system, it is not enough just to transfer or copy democratisation processes from an established

[37] OSCE, Seventh Meeting of the Economic Forum, Chairman's Summary, Prague, 25-28 May 1999, 8

western democracy. The democratic structures have to be carefully put into place and sustainable support given to their further development. Especially in those areas which are characterized by diverse ethnic minorities, it is extremely important to take cultural, historical, and human contextual factors into consideration.

The Organization for Economic Cooperation and Development (OECD) has listed two main mechanisms that strengthen civil society and institutional mechanisms:[38]

1. Mechanisms to promote civil society:
    a. Strengthen public institutions (e.g. non-governmental organizations (NGO))
    b. Strengthen the public's access to information
    c. Strengthen dialogue between and among groups at the local, national, and regional level
    d. Support marginalized and most vulnerable groups

2. Mechanisms to promote the development of institutional capacity:
    a. Support constitutional reforms, including providing advice to governments on constitutional and legislative issues
    b. Provide assistance to strengthen representative political institutions
    c. Support legislative systems and electoral processes, including educating the electorate about their rights, as well as election monitoring, analysis, and monitoring electoral processes
    d. Provide assistance for the organization of elections and referendums
    e. Provide assistance for the development of other democratic institutions (e.g. courts, legislative bodies, and the executive)

In most of the points mentioned above the legal environment plays a central role in the prevention of conflict. One keystone for the protection

[38] OECD DAC – Organisation for Economic Cooperation and Development Assistance Committee 1997: "Conflict, Peace and Development Cooperation on the Threshold of the 21st Century", Policy Statement by the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD), Paris, 40, 48

of human rights is an independent judiciary. It sounds logical – although it is not too often the reality (e.g. in Kosovo) – that the judiciary has to be accessible to all societal groups in the same manner. Only then it can avoid the misuse of power structures and fasten the reinforcement of stratification within a society. Additionally, government's and public authorities' support for an independent and accessible judiciary is needed for the proper functioning of the judiciary. Aid should be given to foster mechanisms that honour basic human rights, improve non-discriminatory access to legal and judicial services, and create an easy approach to non-violent conflict-settling instruments.

1.3.2.10 International Cooperation

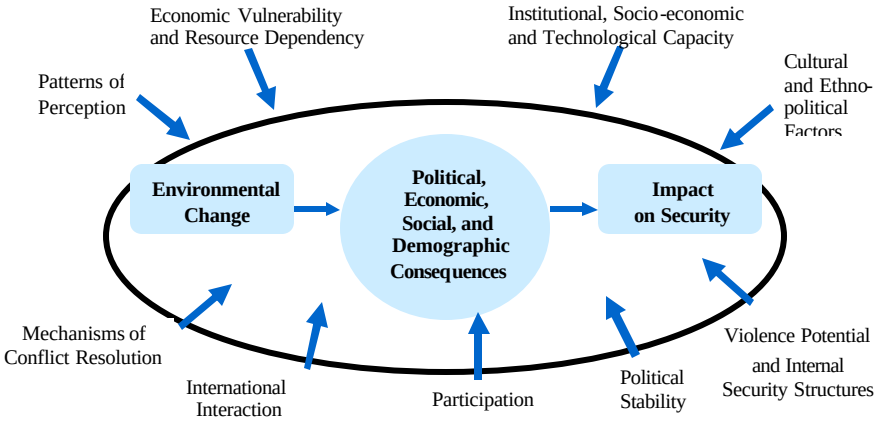
The stronger the links between regional or national authorities and the international community, the less likely it is for violent incidents to occur. Interregional as well as international cooperation based on treaties, agreements, approvals, or any other kinds of mutual understanding improve and strengthen the cooperative resolution of tensions. States are encouraged to stick to international norms and rules, to comply with international regimes, and to adjust to international standards. The fact that both Greece and Turkey are members of NATO, for example, may have played a role in preventing the two countries from going into war on several occasions. The international linkages have not only to be seen as additional rights and duties but also as a strong and long-lasting forum for discussion among the members. The importance of this point can be shown by the example of the negative effect that a disconnection of interstate linkages has on the internal situation. Whenever the international community cut off its communication lines to trouble-maker countries (Iran, Iraq, SFRY, Afghanistan) the situation in those areas got out of control and as a consequence the various regimes ruled with "power and terror", causing the internal situation to deteriorate. In each of the above mentioned examples the international community had to try to restore some kind of communication again in order to influence the regimes to provide a minimum of human standards.

1.3.3 Theoretical Solution Concepts

The relationship between environmental stress and security is reflected in the varying methodological frameworks that are used by different communities and institutions for case analysis.[39] As the economy is playing a role within the environmental stress component which is not to underestimate, the solution concepts for environmental stress have also to include the relation between economy and security. One might discuss now the importance and the role of the economy concerning security and whether it is influencing security as a structural, trigger, catalytic, channel, or target factor. However, it is clear that the economy almost never operates in isolation from other causal determinants as can be seen in figure 1.7. Therefore, the following analyses must be seen in a broader way.

[39] Deudney, Daniel 1991: „Environment and Security: Muddled Thinking“, in: Bulletin of the Atomic Scientist, Vol. 47(3): 16-22 and
Brock, Lothar 1992: “Security through defending the Environment: An Illusion?”, in: Boulding, Edward (ed.): “New Agendas for Peace Research: Conflict and Security Reexamined”, Boulder: Lynne Rienner

Figure 1.7. Conceptual environment-security model



Source: Committee on the Challenges of the Modern Society, "Environment & Security in an International Context", 1999, 104

In chapter 1.3.2.10., we discussed already the importance of communication among the various parties – be they governments, national or local groups. By enhancing cooperation among environmental, development, and foreign policy and security institutions, each gains access to the technical knowledge and mechanisms of the others and allows the institutions to provide their respective form and operational capabilities in support of activities along the conflict dynamic.[40] Confidence building measures, such as treaty monitoring, short-term stabilization programs, and impartial adjudication need close cooperation among environmental, development, and foreign policy and security institutions as a prerequisite to success. Nevertheless, environmental stress can be the beginning of both conflict and cooperation.

[40] Environment & security in an international context: final report March 1999; Ministry for the Environment, Nature Conservation and Nuclear Safety, Bonn; U.S. Department of Defense, Washington, 163

To construct foreign and security policy responses as the basis for further detailed analyses the seven following general principles can be identified:[41]

1. Account for the relevant environmental conditions in formulating security policies

2. Enhance cooperation and interaction among existing foreign and security organizations, based on their respective charters, missions, and capabilities

3. Promote cooperation among environmental, development, and security institutions and other stakeholders

4. Integrate each actor or institution according to its own competencies and on the basis of comparative advantage

5. Encourage communication among foreign and security policy actors and institutions and relevant stakeholders within civil society

6. Take a precautionary approach to the development of policy responses

7. Use an integrated methodology to develop risk assessments, ensuring that the analysis accounts for the full spectrum of factors and that responses give priority to future considerations

Based on these points, several actions can be identified to respond to the potential impact of environmental stress in the security context. It has to be pointed out again that it is of fundamental importance that not only security institutions but also representatives from various other fields, e.g. economy, environment, development, social affairs, etc. become actively involved in this process.

[41] Ibid, 163-164

First, information gathering, sharing, and cooperative development can be identified as key actions. Both national and international monitoring missions depend, on the one hand, on existing data from various kinds of local organizations (technical, environmental, scientific) during their start-up period, but, on the other hand, they later produce their own valuable information and data which they use to become fully operational. At this stage local, regional, national, and international organizations, both governmental and non-governmental, are contributing valuable information to a data pool. Therefore, a common information network can be created which helps to define the characteristics of the conditions in question in the mission area.

Second, an integrated threat assessment has to be developed under conditions of close cooperation among environmental, development, and security actors and institutions. As the modern threat theatres have shown, security institutions are strongly advised to pay more attention to environmental stress factors when dealing with a threat assessment. As such, an integrated assessment should address:[42]

1. Global and reciprocal interaction among environmental, political, social, economic, demographic, financial factors, and interventions

2. Information and expertise from civil society

3. Dialogue and cooperation between national and multilateral organizations

4. The establishment of regular interaction and consultation with different field organizations based on the concept of cooperative security and aimed at the promotion of information sharing and synergy.

[42] Environment & security in an international context: final report March 1999; Ministry for the Environment, Nature Conservation and Nuclear Safety, Bonn; U.S. Department of Defense, Washington, 165

Third, early warning systems should be developed. These systems can either work inside organizations, or among various security institutions, or between security organizations and other partners, respectively. Regular political consultation within security organizations, examination of the fulfilment of commitments taken in the framework of these organizations, and a search for significant underlying causes of tension are needed to get such a system working.[43]

Fourth, preventive diplomacy should be used as a means of solving potential conflict problems at a very early stage. This occurs not only through traditional channels, such as among heads of state, ministers, or diplomats in general, but also in less traditional fields, e.g. among aid agencies, militaries, or economic institutions. In this connection it has to be noted that preventive diplomacy is faced with a difficult problem. It can either work on targeting the environmental trigger, the political, economic, and social consequences, or the security implications. Diplomatic intervention can take place in those areas dealing directly with environmental stress factors, e.g. political, economic, social, and demographic issues as well as look for their impact on the security situation. But it can also deal with security issues directly as they influence environmental factors. The optimal approach has still to be found, but it seems quite logical that a multiple-track procedure could best meet the challenges. However, to be successful in one or the other approach, preventive diplomacy requires a strong and robust interaction among security, development, and environmental institutions and actors. A positive influence on the targeted party can only be reached when diplomatic efforts are carried out as a concerted action. Weakness, internal discrepancies on the policy, or on the means to use among the countries and organizations using preventive diplomacy have shown catastrophic results in history (Bosnia and Herzegovina 1992-1995, Croatia 1991-1995). Although the promise of large scale economic cooperation, technology transfer, and financial investment and cooperation has proven to be a strong motivator for many developing

[43] Broadhead, Lee-Anne 1997: „Security and the Environment: Taking the OSCE Approach Further?“, in: Nyholm, Lars (ed.): OSCE-A Need for Cooperation. Towards the OSCE's Common and Comprehensive Security Model for Europe for the Twenty-First Century. Tryk: Sangill

countries[44], when not carried out in a well planned, tightly structured way, strongly supported by all major players, and with the long-term goal of reaching sustainable improvements, these measures can easily be misused by the parties involved. In the end, they might even have a counter-productive effect. Support from international donors should be seen in the same light. Their financial support for stabilizing measures which may have a positive impact on regional security has to follow the same rules as mentioned above. Security institutions can contribute their information network, their intelligence capabilities, and their military specific knowledge to preventive diplomacy. With intensified cooperation among themselves, they can play a major role in the confidence building process as they foster the recognition and acceptance of a shared problem among the parties involved, create the understanding that solving such a problem transcends national capacity, and explain that these problems are best addressed in multilateral frameworks. Examples for preventive diplomacy can be found within the OSCE, NATO, and of course the UN, just to name the most important players in this field.

[44] Environment & security in an international context: final report March 1999; Ministry for the Environment, Nature Conservation and Nuclear Safety, Bonn; U.S. Department of Defense, Washington, 165

1.4 Conflict Background in Theory

Armed conflicts, low levels of development, and deterioration of the environment are among the most severe problems human beings are confronted with at the beginning of 21st century. The arena of actual regional conflicts consists of widespread poverty and misery in politically stressed countries, in sometimes highly militarised but nevertheless weak states with poor performance, and in societies split into fragments with competition between ethnic or religious groups. Fairly recently in the literature, natural resource scarcity and environmental degradation are acknowledged as reasons for inter-group violence and anti-regime struggles. Scarcity determines the "economy of nature". It indicates a conflictual relationship between those dependent on the use of natural capital available in a certain place at a certain time. The common interest of two or more actors in using the same land automatically includes the competing interests of whoever uses it, why, how, and probably when. Also, this situation seems to be a strong indicator for a violent conflict; history shows that only when the available natural capital was considered to be too scarce, or when the social and political regulations over access to resources had broken down, were the seeds of violence present.

Environmental degradation may be a result of poor state performance, which is a lack of state outputs regarding civil and political rights, welfare expenditure, livelihood security, resource management, income, and job creation – in short: the state is not producing good outputs. This might be caused by good state decisions but poor performance, so that the impact of the state is not strong enough to reach its goals. State authorities might also follow their goals instead of goals which are in the public interest.

However, it is not proven that factors like economy, environment, ethnicity, or contention for state power cause violent conflict as isolated

trigger pulses. The problem "in fact is that there is little ongoing empirical research that has led to testable hypotheses".[45]

Despite that, it would be unwise to neglect the present or future significance of economic factors, especially because conflicts tend to be more numerous and intense in regions and countries where systemic poverty is greatest.[46] Of course, research must not only focus on the military and economic performance of the object, but it must also throw light upon the deep motivations of the actors. Otherwise one would fail to explain the disasters which happened in Bosnia and Herzegovina, Kosovo, and other regions. Making it even more complicated, the parties involved in a conflict may not fully understand the causes of their own struggle. The reason lies in the "difference between the causes for which they fight and what it is that causes them to fight."[47]

[45] Lane, Jan-Erik, Errson, Svante 1994: „Comparative Politics. An Introduction and New Approach", Blackwell/Polity Press, Oxford, Cambridge, in: Baechler, Guenther 1999: "Violence through Environmental Discrimination. Causes, Rwanda Arena and Conflict Model", Kluwer Academic Publishers, Dordrecht, Boston, London, Vol 2, 29

[46] Gurr, Ted R. 1994: "Ethnic Conflict in World Politics", Westview Press, Boulder CO

[47] Smith, Dan 1994: „Dynamics of Contemporary Conflict: Consequences for Development Strategies", in: Graeger, Nina, Smith, Dan (eds.): "Environment, Poverty, Conflict, PRIO-Report No. 2, Oslo, 54

1.5 Conclusion

However, it is impossible to build a single valid model covering all relations between economy and security. Looking at the various definitions of security shows us that there are so many key factors involved affecting causation, triggering, and escalating a conflict that consequently several models have to be designed in order to explain the interdependency between economy and security. Most probably even the integration of different models and approaches is needed to give a reliable picture of this interrelation.

In principle, economic, political, cultural, ethnical, and environmental causes of conflict do not differ from each other. All of them are part of a multilayered pattern, or consist of a syndrome of factors leading to violent conflict and probably even to war. In some cases economic factors might be just a contributing condition to a given conflict; in others they are a necessary condition either co-causing or triggering a conflict.

Economic decline may be a major reason for most of the ongoing violent conflicts but it is certainly not grounds enough to understand the outbreak of violence between certain actors at a given time. The actors themselves have to be analysed, their preferences and opportunities explored. Their perceptions of the importance of a problem and their preferences concerning strategic group building are essential for the outbreak of violence. It is unnecessary to say that with the exclusive focus on actors' behaviour, the attempt to explain conflict dynamics in the light of determining structures and underlying forces may fail. These findings applied to the case of Bosnia and Herzegovina means that the research has to cover the economic as well as the political side, the strategic situation of Bosnia Herzegovina as a republic of the SFRY as well as the situation of the SFRY in the world, the role of the other republics, the influence of single key persons on the development, the interrelation of the different ethnic groups, and various other factors which contribute to the scenario. Further, this means that the period of investigation has to include not only the immediate pre-war time but also

historical key-parts which are necessary to know in order to understand the interrelation of the various factors.

Therefore, I have concentrated my research on as many fields as possible. The analysis made on the spot, namely in Bosnia and Herzegovina and in the Federal Republic of Yugoslavia, aims to cover every aspect which could have had an influence on the interrelation between economy and security in this region. In chapter 2 and 3, I will present the results, beginning with a general overview of the development of the Socialist Federative Republic of Yugoslavia (SFRY), followed by insights into the situation of Bosnia and Herzegovina during the period between 1975 and 1991.

2 The Development of the Socialist Federative Republic of Yugoslavia

Literally, Yugoslavia means Southslavia and that is what the South Slavs finally managed to create in 1918, in the aftermath of the Balkan Wars and World War I. What was this new country, which arose out of the ashes of the collapsed Ottoman and Austro-Hungarian Empires, all about?

2.1 A Dilemma from the Beginning

One must understand the peak periods in history of all the competing Balkan nations in order to appreciate why their territorial and power demands are mutually exclusive and why the region can be aptly described as numerous great nations trapped in a confining territory. Although this paper focuses on the interdependency between economy and security in the region of the former SFRY, I felt the need to briefly outline the history of the area concerned, mainly because it forms the basis for the struggle of the former SFRY.

In the pre-medieval period, Macedonia was the biggest territorial entity in the Balkans. After the death of Alexander III, the empire fell apart and numerous ethnic groups moved into the region. The Kingdom of Croatia under King Tomislav in the ninth century and King Kresimir in the eleventh century contained Croatia and Dalmatia. Later it fell to the Hungarian Kingdom, then it became a part of the Austrian Empire, and in 1867 it was taken over by Hungary again. As a loser of World War I, Croatia was united with winning Serbia to form the Kingdom of the Serbs, Croats, and Slovenes. During the interwar period, Croatia's historical links to Germany re-emerged. Separatist movements arose and the Croats opted for cooperation with Hitler and the establishment of an independent state. That is how it reached its territorial peak during World War II, encompassing Bosnia and Herzegovina and parts of Montenegro's and Serbia's territory. Serbia itself reached its greatest size under Tzar Dusan in 1355, stretching from the Adriatic to the

Aegean Sea to Constantinople, and including parts of Bulgaria and all of Albania, Montenegro, Bosnia and Herzegovina, and northern Greece. This glorious era ended with the victory of the Ottoman Army at the Battle of Kosovo Polje in 1389. It was not until 1878 that Serbia regained its full independence with the Treaty of Berlin. After World War I, Serbia got back Vojvodina from the Hungarian Empire.

The historical abstract would be incomplete without mentioning the Banovine System.[48] During the interwar period, the internal boundaries of Yugoslavia were drawn by two different administrative systems; the first one contained 33 administrative units, and the second one, after 1929, contained 9 units plus the City of Belgrade. The innovation in this Banovine System lies in the geographical division giving each Banovina the name of its main river. This non-ethnic division could have achieved the goal of decreasing the importance of ethnicity, but already in 1939, under the pressure of the Croats, the Banovina of Croatia was formed and after World War II the system was replaced by a federal system, which preferred some ethnic groups but discriminated others. So while Slovenes were concentrated in Slovenia, Montenegrins in Montenegro, and Macedonians in Macedonia, many Croats found themselves in Herzegovina and Montenegro, many Serbs in Croatia and Bosnia and Herzegovina. Kosovo, with over 50 per cent Albanians in 1951, and Vojvodina, with less than 20 per cent Hungarians, became autonomous republics. As neither the Croats in Herzegovina nor the Serbs in Croatia and Bosnia and Herzegovina received a similar status, the inconsistent system of federal internal boundaries of Yugoslavia presented a clear trouble area for the future of this country.

[48] Bookman, Milica Z. 1994: "Economic Decline and Nationalism in the Balkans", Basingstoke, Macmillan, 49

Figure 2.1. Internal Boundaries of Yugoslavia, 1929 (Banovine System)

Source: Bookman, "Economic Decline and Nationalism in the Balkans", 1994, 49

The wartime period from 1941 to 1945 was characterized both by the depths of atrocity and the heights of heroism. The Ustaše, the puppet fascist regime of Croatia, and the Serbian Chetniks, originally formed in 1941 to fight the Axis occupation, committed war crimes on both sides, although the Chetniks preferred to save their forces for the expected power struggle after the end of the war. The communist-led Partisan movement, with their Croatian leader Josip Broz Tito, fought a heroic guerrilla war against the German troops and they were finally recognized by Winston Churchill as the official resistance in Yugoslavia. As both the Chetniks and the Partisans were struggling for the leadership of the country after the war, civil war was layered upon civil war. In the end, the Chetnik leader was executed by the Partisans for alleged collaboration with the Germans. There was no longer any doubt that through the imposition of a Stalinist state the Serb dominated Partisans were heading for ruling the country with Belgrade as their capital.

Figure 2.2. The Socialist Federal Republic of Yugoslavia 1945-1990

Source: unknown

As the Red Army had already left Yugoslav soil in 1945, the pattern of communisation was quite different to the one in other parts of Eastern Europe, where the Soviet troops stood behind the establishment of communist regimes.

Yet, during the first years of the Federal People's Republic of Yugoslavia[49] (FPRY), its leaders tried to copy the Stalinist regime of the Soviet Union. Secret police, the UDB, repressed and dragooned the population like the Soviet KGB; industry was nationalized and run by the Federal Planning Commission according to a five-year plan. But the copy of a soviet-type territorial structure based on ethnic principle caused problems, as nationality in Yugoslavia is far less neatly defined by language than it is in the Soviet Union. Especially in Bosnia and Herzegovina, where there was no dominant single nationality, the Yugoslav leadership was confronted with quite a challenge. The census of 1948 showed the following picture: 44 per cent Serbs, 24 per cent Croats and the rest registered as undeclared Muslims. The government decided to build up a multi-national, separate republic without ethnic sub-divisions. Although the plan promised to keep Croats and Serbs satisfied, it completely neglected the Muslims. Therefore the policy of the Yugoslav government was to encourage Muslims to declare themselves as either Serbs or Croats. Only later they were given the choice of calling themselves Yugoslavs. In 1961, the Bosnian Muslims finally found themselves in a Serbo-Croat-speaking nation, with the name of Ethnic Muslims.

[49] On 31 January 1946 the first constitution of the FPRY described it in article 1 as "a people's union state of republican type, community of equal peoples who on the legal basis of self-determination, including the right of secession, testified their intention to live together in a federal state". Further article 2 says that FPRY "consists of six peoples' republics – Serbia, Croatia, Bosnia and Herzegovina, Macedonia, Slovenia, and Montenegro. Furthermore, the national republic of Serbia holds in its consistence the autonomous province of Vojvodina and the autonomous province Kosovo-Metohija". Concerning the border problem among the republics article 12 stressed that "the delimitation of territories of the peoples' republics is done by the National Assembly FPRY. The border of a national republic cannot be changed without its approval". Burnazovic, Tufik, Durakovic, Nijaz, Musa, Snjezana 2000: "The geopolitical role of Bosnia and Herzegovina in southeast Europe", Sarajevo, 3-4

2.2 Separation from the USSR and Yugoslav Market Socialism

As Tito, in his attempt to industrialize and modernize the Yugoslav industry, felt held back by the Soviets and as disputes about the foreign policy of Yugoslavia increased, the relations between Belgrade and Moscow cooled towards 1948, and it was in June of that year that Stalin expelled Yugoslavia from the Soviet commonwealth.

One might think that Tito was happy about the split and that now he would come up with his own program for the state. The surprising fact is that he increasingly tried to impress the Soviets – through political support for them at the Danube River Conference or with a new collectivisation wave in 1949, which almost destroyed the Yugoslav agricultural system. However, the system was still far away from what the Soviets would call a planned economy. In 1950, for example, more than 80 per cent of the agricultural land remained in private hands. So why did the mixture of planned and market economy never really work? The official Yugoslav line is that this model of administrative planning played its part in building up the national economy, but later became obsolete. The economist Milenkovitch calls this version into question. "It is not clear why Yugoslavia would have "outgrown" the advantages of a centralized economy so early, and so much earlier than other countries at broadly similar levels of development… There is no denying the severe economic situation by 1952, but the nature of the disaster is not clearly related to the economic system as such and it is not immediately obvious that a change from centralization to decentralization was the answer."[50] Another good reason for Yugoslavia to turn away from central planning was its dependency on international trade and finance. As Soviet-type planning had proven unsuited to the planning of foreign trade, the Yugoslav leadership had to opt for a more flexible system. This system, known as the Self-Management System, was introduced by the thinkers and close friends of Tito Djilas, Kardelj and Kidric in 1951. Its key point was the social ownership of a company. It can be best explained "in a parallel with a shareholding companies[y]

[50] Milenkovitch, D. 1971: „Plan and Market in Yugoslav Economic Thought", New Haven, London, Yale University Press

in capitalism. The employed are "shareholders", everyone with the same share in the compa ny. [The] Shareholders Assembly consists of all employed (Workers' Collective): it elects [a] Management Board (Workers' Council), which elects [a] Manager by a public advertisement. All the results of the work are at the shareholders disposal (profit after taxes), but the shares are not transferable. When an employee decides to go to [an]other company, he gives up his share in the former company but gets it in the new one. Shares are not an object of either selling or buying. This is "user's", not "owner's" right. The state has no rights in the company but tax collection. In the case of [a] negative balance, the company is consolidated from the reserve fund in which it is obliged to deposit a part of profit. If there is nothing in the fund, the company can agree [to] a loan or a stake with [an]other company giving it the right to participate in future profit." But if the company declares itself bankrupt, it has to undergo a legal process and the employed lose their jobs. Matic continues: "In addition to this case, … [a] job could be lost only if an employee was sentenced by court for [to] more than six months imprisonment, for any reason. The companies compete on the domestic and foreign market, make decisions on manufacturing and development programs by themselves."[51]

Despite great enthusiasm about the new model, reality forced Belgrade to adjust it in several waves. For example, the minimum capacity utilization requirement was dropped, the old wages fund tax replaced by taxes on enterprise income and a sales tax, the banking system was decentralized, and the monetary policy took a more active character relative to the rest of the socialist sector. "The role of the money was fundamentally changed and became very similar to that in a market economy, although earmarking diluted the "money ness" of the money supply and made the effects of its changes erratic and variable."[52] In 1954 price ceilings for basic materials were introduced and by the early

[51] Matic, Božidar 1997: "Competitive Advantage of Regions. Phase I: A Framework and best Practices. Energoinvest-Transmission Lines Co.", The Economic Development Institute of the World Bank in cooperation with Bank Operations and the Government of Austria, Vienna, November 1996 – February 1997, 3

[52] Dimitrijevic, D., Macesich, G. 1973: "Money and Finance in Contemporary Yugoslavia", New York, Washington, London, Praeger, 32-33 in: Dyker, David A. 1990: "Yugoslavia-Socialism, Development and Debt", London, New York, Routledge, 32

1960s the prices of almost all commodities were fixed by some kind of price control. It is important to note at this point that republics and even communes were granted a substantial degree of financial autonomy, reaching as far as the setting up of new plants, the temporary suspension of self-management, or the levying of extra taxes.

In the agricultural sector, the land reform of 1953 had little impact, as not more than 3.7 per cent of total arable land was redistributed. Peasants were not allowed to buy tractors or other larger equipment on their own, but had to do it through the General Agricultural Cooperatives. The authorities hoped to create the basis for developing an integrated association of socialized and private sectors. However, taking into consideration all the struggles of the Yugoslav economy, it showed a strong performance in the 1950s and early 1960s. The National Income doubled, and industrial output rose by more than two-and-a-half times. Although producing those impressive figures, the Yugoslav economy created steadily growing deficits. The doubling of the deficit between 1956 and 1961 did not cause anxiety in the government, mainly because of US aid. Yugoslavia saw itself as a strategic buffer between the east and the west blocs and understood the US payments as a refund for this function. Nevertheless, the impact of the aid on the Yugoslav's economy was strongly overvalued. As the SFRY was running a year by year higher balance of payments deficit, principally based on increasing imports from the US market but stagnant or even decreasing exports to it, the US payments and credits were mainly used to cover this deficit. The economic and political leaders in the SFRY believed that foreign capital would turn automatically into exports. Although any form of balance of payments support increases output and thereby investment in general, this process did not start automatically in the SFRY as expected. In the early 1960s, US financial help dried up (because of a Yugoslav deficit of USD 250m in 1961) and the balance of payments problem began to be serious.

Another area of concern was investment policy. The investment planners still suffered from the period of central planning and regional imbalances, as can be seen in table 2.1. The authorities felt forced, mainly for political reasons, to channel resources into the poor regions,

ignoring the return. Therefore, some improvements had been made, but there is no doubt that the effectiveness of the investment could have been much better, e.g. as Hamilton points out: "The Annual Plan, 1953, scheduled an integrated steelworks for construction in Macedonia to provide the heavy industrial basis for a "take-off" there in metal-fabricating industries. Delays in constructing the plant were lengthy… and economic problems of producing iron and sheet steel from the only local resources, low-grade phosphoric ores from West Macedonia and semi-coke from Kosovo lignite, were formidable. Undoubtedly Skopje is the best location for assembly and distribution in south-eastern Yugoslavia, … but costs of expanding steel production in Bosnia would have been far lower. These considerations were subordinated to the need of utilizing resources and providing employment locally in the one republic without a steel industry, to lengthen the life of Bosnian ore resources and to make more effective use of spare transport capacity on railways in south-eastern Yugoslavia rather than overburden already congested lines in Bosnia. Cost-benefit analysis was thus invoked to justify what was basically a political decision."[53]

[53] Hamilton, F.E.I. 1968: „Yugoslavia, Patterns of Economic Activity", London, Bell

Table 2.1. National Income per head of population by region
(Yugoslav average = 100, based on data in constant prices of 1960)

	1947	1952	1962	1964
Yugoslavia	100	100	100	100
Bosnia and Herzegovina	86	88	73	71
Montenegro	71	64	66	73
Croatia	107	117	121	120
Macedonia	62	59	57	69
Slovenia	175	188	198	195
Serbia proper	95	87	90	90
Vojvodina	110	89	103	105
Kosovo	52	50	34	37

Source: Jugoslavija 1945-64, 1965, 89, in: Dycker, "Yugoslavia", 1990, 55

The high degree of investment after World War II, 42.4 per cent in the period 1947-1951, decreased in the following periods and levelled at about 30 per cent of the GDP between 1952-1980. Due to the financial and economic crisis, investment plunged down to 19.5 per cent in the period 1981-1990. Investment had been strongly linked to the GDP, being responsible for 85-90 per cent of it. Between 1947-1990, GDP increased in Bosnia and Herzegovina by 4.3 per cent and the investment by 3.2 per cent. The dynamic of investment, however, was heavily influenced by periodical variations. Whereas it counted for some 31 per cent of GDP in the 40's, mainly due to post war reconstruction, it shrank to 11.2 per cent in the 50's, and further to some 6 per cent in the following two decades. In the 80's, the economy was faced with a de-investment, which reached 8.0 per cent in Bosnia and Herzegovina.[54]

Faced with frozen US aid and a growing deficit, the government reformed its foreign trade policy in 1961, the price control system in mid 1965, and finally the self-management system in the second half of the

[54] Savezni Zavod Za Statistiku, "Razvoj Republika Prethodne SRF Yugoslavije 1947-1990", Studije, Analize, Prikazi, Beograd, 1996, 29

60's. The latter should have had the biggest impact on Yugoslav society, handing education, health, welfare, cultural activities, etc. over to autonomous organizations, run on a self-managing basis involving representation by employees and citizens, and financed from earmarked tax revenues. The International Monetary Fund (IMF) and the World Bank (WB) became the new big spenders for Yugoslavia, but not without certain conditions, one of them being the liberalization of the trading regime. However, essentially because of poor project planning and poor costing, the WB only accepted 15 per cent of the proposed projects.

The early 1970s were marked by a steep increase of money supply, caused partly by the growing amount of inter-enterprise credits as near-money based on unpaid bills, the learning effect of the Yugoslav households in so far as they have learned how to economize on money holdings and, last but not least, the unplanned practices of the National Bank to increase the supply of primary money.

As the differences in the National Income of the regions allow us to assume that there were quite severe distinctions between the "centre", Serbia, and the other parts - so also did the contributions of their National Incomes to the Federation. The 30 per cent share of Croatia was like adding oil to a fire for the nationalists, and with their expression of dissatisfaction through the "Declaration on the Croatian Literary Language" in 1967, they again brought Belgrade under pressure. As a consequence, Yugoslavia was practically turned into a confederation in June 1971. In a sharp speech in front of the Croatian Communist Party Executive Bureau, President Tito criticized the nationalists and warned them that "I would rather use our army than allow others to interfere."[55] The Croatian Party leadership and the government were completely cleaned out in winter 1971/72 and new "party liners" were installed. This was the beginning of a new political-economic line of Tito, with its main goal to fight against the upcoming separatism. One of the first amendments to effect the economy was the replacement of the old

[55] Tito, Josip 1972: Speech to the Croatian Party leadership, published in "Vjesnik u Srijedu", 10 May, 4-5, in: Dyker, David A. 1990: "Yugoslavia - Socialism, Development and Debt", London, New York, Routledge, 78

management committee, formed from delegates from the workers' council, with a business committee, made up of professional managers. Many more changes followed, but all had one common feature: they took the form of a political campaign leaving aside economic realities and accounting problems. "Basic organizations of socialized labour are unable to plan their development because they lack clear criteria, a clear approach to primary distribution. They do not know what the general trading regime is going to be like, nor do they know how foreign exchange relationships will work out."[56]

[56] Rukavina-Šain, M., Ciric Z. 1975: "Nova pozicija udruženog rada u drustvu", Privredni Vjesnik, 24 February, 4, in: Dyker, David A. 1990: "Yugoslavia- Socialism, Development and Debt", London, New York, Routledge, 81

2.3 Attacks on the Private Sector

There is solid evidence that the incidence of corruption in business practices increased in the early 1970s. In 1973, police powers were strengthened and in 1974, commune commissions were set up to investigate the origin of individual property. Any property which was not acquired through work, gift, or inheritance, was subject to confiscation, even if it had been acquired without breaking the law.[57] These commissions were used as disciplinary means against those who went out of line. However, irregular earnings boomed, mainly because the private sector filled the gaps in the system – gaps that existed because of homemade market imperfections. The new constitution of 1974, praised to sky by the Western world, consisted of two major planning agreements: 1. The Social Compacts, linking government to business chambers and business chambers to production organizations, and 2. The Self-management Agreement, linking enterprises by contracts and covering distribution of income, investment, and employment matters. But the changes did not hold what they promised. The inflation rate went down in 1976, but rose again to reach a new record high of 30 per cent in 1980. Somehow the regulations were turned around and despite a clear provision in the constitution to ensure the unity of the Yugoslav market, regional autarky was fostered. Only one third of the total exchange of goods and services in Yugoslavia involved crossing republican or provincial boundaries, making the market highly fragmented and reducing the power of any general policy to a minimum. How important the interregional trade in general was, and how insignificant the export sector, can be seen in table 2.2.

[57] Dyker, David A. 1990: "Yugoslavia-Socialism, Development and Debt", London, New York, Routledge, 83

Table 2.2. Yugoslav Interregional Trade in 1987 (in per cent)

	Inflows from republic markets	Inflows from foreign markets	Outflows to republic markets	Outflows to foreign markets
Yugoslavia	-	9.6	-	10.4
Bosnia and Herzegovina	60.4	8.2	69.4	9.5
Montenegro	39.2	8.9	60.0	10.5
Croatia	64.8	9.8	68.6	10.8
Macedonia	59.5	11.7	66.5	9.2
Slovenia	61.9	12.1	62.9	13.5
Serbia	71.9	8.5	76.2	8.7

Source: Milojcic, Vrednost Nabavki i Isporuka Izmedu Republika i Pokrajina u 1987 Godini, no. 324, 1991, in: Bookman, “Economic Decline”, 1994, 189

2.4 External Influences

I want to mention two significant factors which contributed from outside to the Yugoslav situation at this time. First, the Gastarbeiter phenomenon, which influenced the Yugoslav economy in a positive sense, contributing over USD 2.1bn in 1972/73 and therefore "correcting" the current account balance. Second, the two oil shocks in 1973 and 1978 affected the current account in a very negative way, producing a new record deficit of USD 3.7bn in 1979. The positive influence of the Gastarbeiter phenomenon in the early 1970s turned out to be a big burden for the country. In response to the oil crisis, most European countries restricted their employment regulations for foreigners, forcing thousands of Yugoslavs to go back home and thereby increasing unemployment in the former SFRY.

2.5 The Preconditions for the Debt-service Crisis

In addition to what has been said above, there are some more points which form the basis for the debt-service crisis of 1982. The devaluation of the dinar got out of control. As a counter-measure in the fight against the negative balance of trade, at the beginning it turned out not to show the expected results because of various reasons. To explain them would be beyond the scope of this paper. Concerning investment strategies, it should be noted that despite the plan to focus investment on several fields, e.g. energy and fuel, ferrous and non-ferrous metals, base chemicals, extraction of non-metallic minerals, machine and ship building, transport, agro-industry, etc., the outcome was only satisfactory for the fuel, energy and primary extraction sectors, but completely unsatisfactory for the rest. Bad project planning, inflated management structures, internal competition for investment funding, too lengthy lead-times, cost over-running, etc. caused the plans to fail. The agricultural sector did not fare any better. "Reports from the early 1980s spoke of socialized sector organizations trying to stop peasants from crossing republican borders to seek better prices…, and of extreme delays in payment for agricultural deliveries, coupled with demands for cash on delivery, or even in advance, from fertilizer pr oducers."[58]

Cooperation with the European Union (EU), existing since 1980 when a trade and cooperation agreement was signed, turned out to have only a minor impact on the Yugoslav economy, not because of a half-hearted commitment on the side of the EU, but more because Yugoslavia was never able to meet the preconditions for getting the money stream flowing.

A burden of debt too heavy to carry, bad capital productivity, and significant capital imports in a still poor country formed the basis for the foreign debt service crisis.

[58] „Dvostruki život" 1983, Ekonomska Politika, 7 February, 7, in: Dyker, David A. 1990: "Yugoslavia-Socialism, Development and Debt", London, New York, Routledge, 111

2.6 The Debt Service Crisis of 1982

A USD 2.2m credit was approved for Yugoslavia by the IMF at the beginning of 1981. With the upcoming debt-service crisis of Poland, the situation on the international credit market became more and more difficult for Yugoslavia, parallel to a further increase in its national debts. Further loans and credits were granted by the IMF, of course under the condition of the imposition of restrictive monetary and fiscal policies, reduction of public expenditure and the like, but these were only "drops in the bucket". The situation further escalated in mid 1982 when the debts reached a new high of USD 5bn, leaving Yugoslav's economy almost unable to pay any bills. A member of the government's international financial negotiating team described the Yugoslav position as follows: "We still today do not have exact data with respect to our foreign obligations. Earlier in the month, at an international financial meeting, there had been various explosions about some earlier, unregistered loans. We could not establish in advance, before we went to the meeting, where these unpaid obligations are hiding [and] learned this from our foreign partners instead."[59] The situation was indeed chaotic. However, under the guidance of the WB, a rescheduling package was negotiated in 1983. Meanwhile, basic consumer goods, e.g. petrol, sugar, cooking oil, coffee, and detergent were rationed, imports of consumer goods were cut by some 18 per cent, and products like milk, butter, and meat were in shortage, while coal and tires were unavailable. How much this situation was the result of the malfunctioning of the bureaucratic system can be best described by the following example. As petrol was restricted, only public services were granted extra supply. Veterinary stations, however, were considered as belonging to the administrative sector and therefore were not given access to the additional fuel. So it happened that 200.000 pigs died in socialized farms in Vojvodina because they suffered from a deficiency of protein as a result of import restrictions and the veterinary surgeons were not able to get to the pigs in time to save their lives.

[59] Burg. S. L. 1986: „Elite Conflict in post-Tito Yugoslavia", Soviet Studies, (2), 38

It is not surprising that under such conditions barter trade increased and became more important for Yugoslavia; in 1987, 38 per cent of total trade turnover was done through barters. In the same year, the economist Dragana Gnjatovic warned that if this restrictive policy would continue to stop technology transfer altogether, Yugoslavia would be condemned to a long-term economic decline.[60] But also sectors of the economy having almost nothing to do with technology transfer produced big losses. The tourist industry, for example, because of geographical reasons a domain of Croatia, experienced a sharp fall in earnings beginning in 1983. Although because of the devalued dinar, foreign tourists could spend relatively cheap holidays on the coast, the system's regulations caused so many inconveniences that many tourists avoided Yugoslavia. Milk was only available on the shelves until 10 am, rooms had to be booked via socialized sector organizations, e.g. Yugotours, very often at world prices, and the infrastructure and standards were quite poor due to high taxes and oppressive legislation. For tourists, the Yugoslav situation was no longer predictable and therefore, as on the stock market, the demand decreased.[61] However, official figures from the Federal Institute for Statistics show a steady rise in overnight stays by tourists, both foreigners and Yugoslav nationals.[62] Nevertheless, the importance of the western tourists for Yugoslavia's economy should not be overvalued, especially as 60 per cent of the tourists were domestic in 1987.[63]

Another phenomenon of Yugoslavia's situation, from which it is still suffering, was low labour productivity. Despite all the international support for change, labour productivity became alarmingly low. The over manning in the socialized sectors still counted for 20-30 per cent in 1986, which must be seen in the light of a 4.5 per cent increase in unemployment between 1985 and 1986. A salt factory in Tuzla, Bosnia and Herzegovina, producing 200.000 tons of salt per year, employed

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[60] Gnjatovic, Dragana 1987: interview in Ekonomska Politika, 21 September, 27-29

[61] Dyker, David A. 1990: "Yugoslavia-Socialism, Development and Debt", London, New York, Routledge, 137

[62] Savezni Zavod Za Statistiku, "Razvoj Republika Prethodne SRF Yugoslavije 1947-1990", Studije, Analize, Prikazi, Beograd, 1996, 210

[63] Croatian Economic Trends, 1993, no. 1-2, 16

1.200 people; meanwhile, a comparable factory in the U.S. employed only 120. Actual productive work time of 3 hours per day and even less was not the exception but the rule. Because of a "guaranteed" job for at least one member of the family but no real work, not only due to a lack of demand but most often due to a lack of raw materials, these "workers just came together in their factories, drank some coffee, worked as long as there was material available, drank coffee again and went back home in the afternoon".[64]

Tensions increased among the provinces, since there was agreement on nothing[65], neither political nor economic, leading to always worse and worse situations for the people. Electricity shortfalls, for example, were homemade, because no agreement could be reached concerning the time-scale for energy resource use, investment allocation, and the base for compensation for exploitation of non-renewable resources. The burden of this mismanagement had to be carried by the person on the street in Ljubljana, Zagreb, Sarajevo, etc. Steadily rising inflation, 157 per cent in 1988 and 300 per cent in 1989 (see: table 2.3.), and growing unemployment also played their part in this game. Dissatisfaction among the republics grew, and with it their tendencies to rethink their relation to the centre. Slovenia experienced great success in cooperation of small Slovenian firms with large US and Japanese companies, despite the findings of Barbic describing the difficulties with joint-venture regimes:[66]

1. The foreign investor has very little property rights, not even over his share in the joint investment

2. He has almost no control over the composition or decision-taking of management in the joint venture

[64] Interview with Mr. Dedeic Ismet, Head of Urbanism, Real Estate Affairs, and Economic Development Department, Brcko District, Bosnia and Herzegovina, 06 Aug. 2001

[65] Dyker, David A. 1990: "Yugoslavia-Socialism, Development and Debt", London, New York, Routledge, 141

[66] Ibid, 165

3. He has no influence on decisions concerning the size and composition of the work-force

4. He is faced with great difficulties in the repatriation of profits

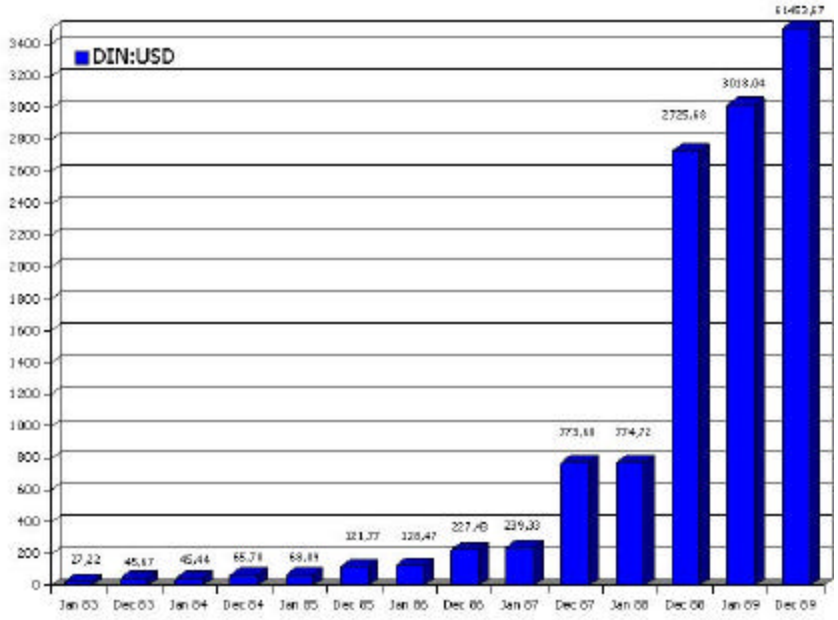
5. He has to take into account the unpredictability of the political system and the instability of the domestic market

6. He has to cope with the depreciation of the dinar

Motivated by the successes of their compatriots, the Slovenian peasants founded their own independent Peasants' Union in 1988. In the same year, Yugoslavia once again promised the IMF to liberalize and rationalize its economic system in favour of more credits. Although emergency management meetings, party committee assemblies, and restructuring conferences were held, it seemed to be too late. Meanwhile, party membership figures in the former SFRY dropped and the party became a policy-makers' club, losing contact with those without whose cooperation no policy could be implemented.[67]

[67] Dyker, David A. 1990: "Yugoslavia-Socialism, Development and Debt", London, New York, Routledge, 154

Table 2.3. Exchange rates dinar to dollar 1983-1989



Source: National Statistic Institute for Serbia

2.7 The Political Vacuum after Tito's Death

With Tito's death in 1980, the political situation became even more inefficient. Republican and provincial leaders with regional but not federal power-bases met from time to time trying to get generally acceptable compromises on problematic issues. Groups with certain political tendencies, such as the confederationalists, conservatives, and liberals, now formed the Yugoslav leadership. Although many Slovenes and Croats shared the opinions of the Serbian liberals, they aligned themselves with the confederationalists, mainly because there was no more confidence in Belgrade to run any policy; there was only fear about Serbian centralism and hegemonism. When Prime-Minister Mikulic, as the Bosnian representative in the rotation system for key positions, resigned in December 1988 because of lack of support among the political elites, he not only brought down the rotation system but also showed the enormous difficulties a Yugoslav leader faced in ruling the country during this period. His successor, Premier Ante Markovic, could be seen as the "light in the dark" for Yugoslavia at that time. Markovic recognized that the self-management system, as good as it had been compared to the central planning system, now represented an obstacle on Yugoslavia's way for privatisation. Social ownership implied the necessity of transferring ownership to the state before it could be privatised, therefore hampering if not damaging Markovic's plans. As success attracts critics, he was blamed for playing favouritism among the republics. This led to resistance to the federal plan, e.g. the introduction of internal tariffs by Serbia and Slovenia. Other sources, however called the same incident "economic warfare", carried out by Serbia in mid 1990 in order to punish those republics which desired to secede (Slovenia and Croatia). Slovenia retaliated with tariffs on Serbian products and, in part because of massive propaganda from all sides to boycott goods from the other republics, the internal Yugoslav market crashed. Despite these troubles, the assessment of the reforms in mid 1990 was quite positive, as stated by Zivko Pregl: "Yugoslavia has now passed the turning point. It is deep in an irreversible but smooth transformation or "soft-landing"

into market economy and multiparty democracy."[68] Only a year later, Slovenia was at war with Serbia.

One would think that after all the Yugoslav leadership had experienced it was time for a new multi-party system. But Stojanovic, a prominent Serbian liberal, made it clear in a conference organized by the Serbian Academy of Sciences, that "even if it were possible, it would not be [a] good political program, it would entail very undesirable consequences. The brief social experience of a multi-party set-up in pre-war Yugoslavia, the national conflicts within the League of Communists, particularly over the last fifteen years, show that parties in Yugoslavia… would most probably be formed on predominantly national and confessional lines, and with that kind of political pluralism much older and stronger political units than Yugoslavia would break up. Apart from that, Yugoslavia's geo-strategic situation is still such that a multi-party system would also legalize the operation of groups which at a moment of crisis could serve as a bridgehead for foreign intervention."[69] Two points in his speech are worth noting. First, it was very well known that one of the country's biggest challenges for the future would be the different national tendencies with all their consequences. Second, people still feared the danger, realistic or not, of invasion from the east or the west.

When talking about the SFRY's economy, there is no way to bypass the import- and export agencies, which have been so typical for the country's economy. Not having a centrally-planned economic system in the sense of the USSR, but still having a stronger state controlled system than in the Western economies, Yugoslavia's imports and exports were handled by special agencies, such as Generalexport (GENEX), INEX, PROGRES, ASTRA, INTERTRADE, and INTERIMPEX. YUGOIMPORT can be put into the same category as the above mentioned agencies but was specially authorized by the government to deal with defence goods, or as a Serb source quoted, "with special

[68] Pregl, Zivko 1991: „Program of Reforms in Yugoslavia", in: Simmie, James, Dekleva, Joze, eds., "Yugoslavia in Turmoil: After Self-Management?", London, Pinter Publishers

[69] Stojanovic, Svetozar 1986: „Sadašnja jugoslovenska kriza i neophodnost politickih reformi", Maksimovic (ed) Ekonomika i Politika

items".[70] In the following section, the import and export system of the SFRY will be explained on the basis of GENEX.

[70] Source does not want to be mentioned, 29 August 2001

2.8 Generalexport

In the 50's, GENEX was created by the government and was tasked with two main goals. First, to foster the exports of the SFRY as a re-exporter with a worldwide net of foreign departments. The basic idea, however, was to provide logistic support to Yugoslav companies when dealing with foreign customers. Second, as a result of the first point, to earn "hard currencies"[71] urgently needed for the national economy. The economic reform of the 60's, however, transformed the administrative departments into commercial operators. "And while it became easier during the 1960s for Yugoslav enterprises at large to participate in foreign trade, the big operators were able, *de facto*, to cling to many of their old privileges. It was easy and perfectly legal for organizations like GENEX to make big profits on the sale of imported goods, since continued administrative restrictions on imports meant that there was still often no direct link between world prices and domestic prices… The re-exporters also stood accused of breaking the law. Retention quotas for foreign exchange were bought and sold. Most important in the present context, re-exporters would use fake cooperation agreements and other ruses to invest their super profits – often on conditions which would have been against the law in the case of a straight loan – in sectors short of capital, but with good prospects of profitability. Frequently… that meant the Dalmatian tourist industry."[72]

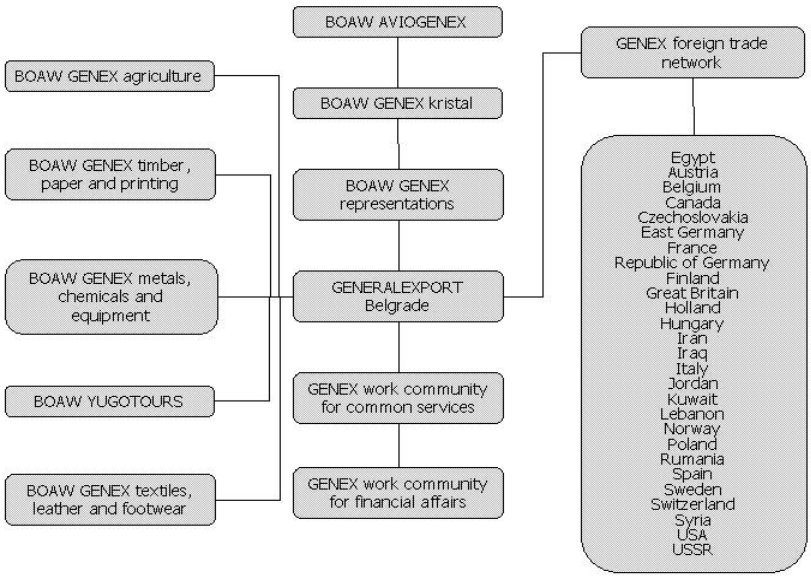
The company's headquarters were in Belgrade, with head offices in the capital cities of the republics and in the most strategic regions abroad, e.g. Frankfort, London, Toronto, as well as representative offices, branch offices, and joint stock companies with foreign partners all around the world. "Being present on [in] all important world markets and keeping constantly in touch with that network, this organisation [GENEX] is capable of providing domestic manufacturers, at the right time and in the quickest possible way, with full information on the kinds and quality of goods currently in demand, on price and demand trends on [in] various markets, as well as on the availability of goods which they might need.

[71] Interview with Mr. Radule Djirovic, Eskim Bank, Belgrade, 25 August 2001

[72] Dyker, David A. 1990: "Yugoslavia-Socialism, Development and Debt", London, New York, Routledge, 76

Thanks to its experience and established business connections, a foreign trade organisation thus organised proved capable of finding, even under the unstable conditions of the world monetary system and the unfavourable economic trends prevailing in 1974, the right buyers and through its numerous and manifold business transactions, it managed to mitigate the difficulties of the recession, import barriers and great fluctuations of the leading world currencies."[73] By 1974 GENEX showed the following structure:

Figure 2.3. Structure of Generalexport in 1974



Source: Generalexport, Annual Report 1974

The sustainable success of GENEX's management in its operations led to a decrease in influence of the government. Because of fear of losing control over GENEX, the Yugoslav government decided to take down

[73] Annual Report 1974, Generalexport, International Trade Company, Beograd

the agency and took away most of its property, e.g. hotels.[74] By that time, however, GENEX was already "infiltrated" by strong syndicates creating internal structures which were for a long time resistant to the attempts of the government to intervene in their business.[75]

1980 was one of the most successful business years for GENEX, with exports figuring USD 9bn and imports USD 15bn. One of the reasons for this success, according to the Annual Report of 1980, was that "five or six years ago efforts were initiated to transform GENEX from a traditional trading house and middleman into a system for foreign trade operations acting on behalf of the *manufacturers*. These efforts bore considerable fruit in 1980 and certain plans, specific to the Yugoslav self-management political-economic system, cleared the path for even closer collaboration between production and trade."[76] It is necessary to draw attention to the differences in the terminology used to describe the change from being an administrative department to a trading operator as described above.

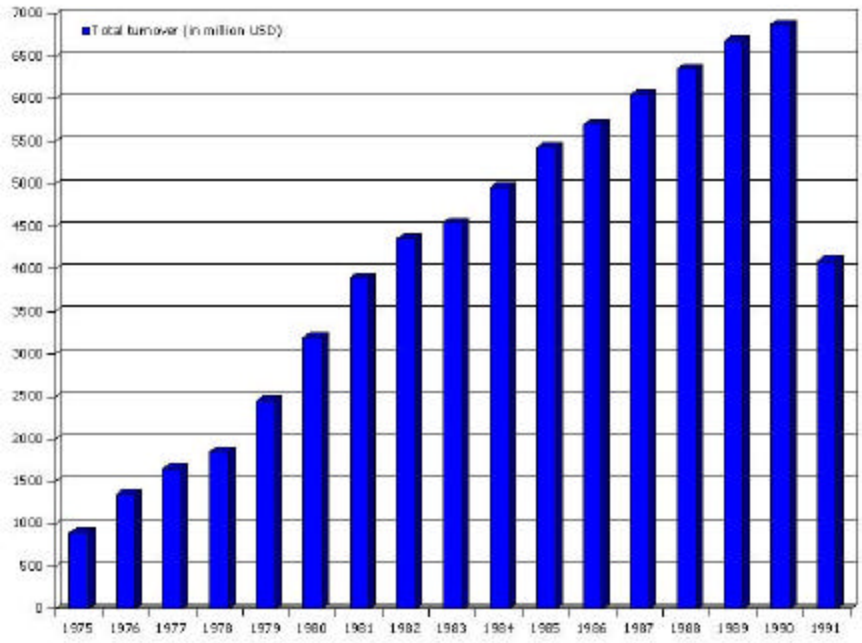
By 1981, GENEX handled 15 per cent of total Yugoslav exports with 64 companies, representative offices, agencies, and branch-offices in 34 countries. The mandate of the government to reduce the foreign trade deficit was fulfilled in so far as the exports rose by 22 per cent and the imports only by 5 per cent.[77] In the following years, the annual growth rate of the total turnover lay between 4 per cent in 1983, 9 per cent in 1984 and 1985, and 5 per cent in 1986.[78] Against the background of the debt crisis of 1982 and the following massive financial support of the WB and IMF, these growth rates have to be examined with great care. GENEX handled 14 per cent of the Yugoslav export and 11 per cent of its import in 1986. Due first to internal difficulties with a noticeable impact on the economy, namely a steadily rising deficit and hyperinflation, GENEX reduced its share of Yugoslav exports to 12 per cent and of imports to 10 per cent, respectively. The growth rate of the

[74] Interview with Mr. Radule Djirovic, Eskim Bank, Belgrade, 25 August 2001
[75] Ibid
[76] Annual Report 1980, Generalexport, International Trade Company, Beograd
[77] Annual Report 1981, Generalexport, International Trade Company, Beograd
[78] Annual Report 1986, Generalexport, International Trade Company, Beograd

total turnover decreased in 1990 and held barely in the positive. This trend gained speed in 1991 when the growth rate decreased by 40 per cent. GENEX was responsible for 9.3 per cent of Yugoslav exports and 5.7 per cent of its imports. It has to be stated that all figures concerning the year 1991 are only accurate for the first nine months. The last three months are based on provisional data for the republics of Slovenia and Croatia.[79]

[79] Annual Report 1991, Generalexport, International Trade Company, Beograd

Table 2.4. GENEX's total turnover from 1975 – 1991



Source: Generalexport, Annual Report 1981, 1986, 1991

GENEX employed 4.104 people in the SFRY and 233 in other countries within the GENEX Group network.

A typical business deal of GENEX consisted of two contracts: one with the producer of the goods located in any republic of Yugoslavia, and one with the customer situated somewhere abroad. These contracts were either initiated by the government, which "ordered" a producer to deliver specified goods to a certain customer, or – in most of the cases – created through a real demand for those goods recognized by one of the many overseas offices. GENEX then placed an order with one of the Yugoslav suppliers and organized the shipment of the goods. The Yugoslav company was paid in most cases in dinars just after it had handed over

the goods to GENEX and thus had fulfilled the contract. Companies with a huge turnover and a special contract with GENEX, such as the Iron and Steel Works in Zenica, were paid on a monthly basis. The customer, in his turn, paid GENEX the value of the business measured in US dollars relative to the customer's currency. In the case of deals with the USSR or Warsaw Pact countries, this payment happened most often against the delivery of crude oil, gas, turbines, or other goods. Delayed payments to the Yugoslav supplier were common due to temporary bankruptcy of the customer, problems with the money transfer among the banks, or only one-sided fulfilment of the contract as GENEX did not pre-pay the Yugoslav company in those cases.[80]

[80] Interview with Mr. Radule Djirovic, Eskim Bank, Belgrade, 25 August 2001

2.9 The Role of Slobodan Miloševic

In this political and economic chaos, the leader of the Serbian League of Communists, Slobodan Miloševic, grasped his chance. People had lost their confidence in the federal government and Miloševic had the kind of charisma which had not been seen since the death of Tito. Kosovo, the historical heartland of the Serbs, was his first target. Although some 85 per cent of the population was Albanian, they lived as a minority for centuries. Even the status of an autonomous republic, granted in 1966, did nothing to improve their situation. However, Miloševic managed to persuade the Serbs that they were living under a permanent danger from the Albanians and that the status of the republic had to be changed. With his famous inflammatory speech at Kosovo Polje on 24 April 1987, the same place where the Ottomans defeated the Serbs in 1389, he started a cruel process, which officially can be seen to have ended with his transfer to the War Crime Tribunal in The Hague, but the consequences of which will be visible for a long time to come.

In September 1987, Miloševic staged a coup in the Serbian party, eliminating one of his critics, Dragisa Pavlovic; only a few months later he purged his former mentor, Ivan Stambolic. With the help of the newly formed Committee for the Defense of Kosovo and the "rallies of solidarity", which shook Serbia and Vojvodina in the summer of 1988, Miloševic strengthened his position. Although these events reveal "the peculiar combination of extreme nationalism, populist adoration for the leader, frustrated aspirations for social justice and reform, and a nostalgia for the glorious days of Yugoslavism"[81], Miloševic did not find a serious counterpart in the political community during those days. With tremendous control over the police and security apparatus and the media, especially the Serbian television stations, he created a broad and quite secure basis for his doings. With a combination of simultaneous appeals – for Yugoslavia, for unity and Titoism for the party, for the orthodox, for army officers, for Serbia for the nationalists, for reform and rehabilitation for the intellectuals, for protection for the Kosovo Serbs,

[81] Vujacic, Veljko 1995: „Serbian Nationalism, Slobodan Miloševic and the Origins of the Yugoslav war", in: The Harriman Review, Vol. 8, No. 4

and for social justice for the workers and pensioners – Miloševic gathered more and more Serbs behind him. This was his equivalent to Lenin's "bread, peace and land" approach.

As neither the economic nor the political situation were improved by Miloševic, his public support can be traced back mainly to the lack of other charismatic leaders in Yugoslavia, causing people to turn away from the real problems of the day and retreat into an atavistic ethnic sectarianism.

However, the events of 1989, including the overthrow of the Montenegrin leadership in January, the purge of the Kosovar leadership and the proclamation of a new Serbian constitution in March, the 600th anniversary of the Kosovo battle in June and the confirmation of Miloševic as president of Serbia in a referendum-type election in November, marked on the one hand the highlights of Miloševic's career and on the other hand opened the eyes of the leaders of the country's other republics as they saw the writing on the wall and interpreted his Kosovo policy as a desire to build a "Greater Serbia", not a multinational and tolerant Yugoslavia.

That the "economic warfare", mentioned in chapter 2.7., had its roots, at least partially, in the formation of Ante Markovic's own party, the Union of Reform Forces in mid 1990, becomes clear when one understands the animosities between the Croat Markovic, an economic reformer and highly popular fighter for Yugoslavia, and Miloševic, a more and more radical Serbian "hero" who could not tolerate a second leader besides himself. The victory of Franjo Tudjman's extreme nationalists in the Croatian election of April 1990 was like "adding oil to the fire" for Miloševic. The Serbian Diaspora in Croatia and in Bosnia and Herzegovina was agitated by the strong nationalist rhetoric of Tudjman and his compatriots. Confirmed and fostered by the result of the first multi-party elections in almost fifty years in Slovenia and Croatia in March and April 1990, where the Communist reformers lost to parties favouring national sovereignty, and by more or less the same result in elections in Macedonia and Bosnia and Herzegovina in November and December 1990, Miloševic warned his voters during the election

campaign in the fall of that same year that "truly dark forces" were provoking conflicts which could even "lead to war". In fact there were Serbian insurgents in and around Knin organizing their own army and police forces in the newly generated autonomous province of Krajina in the winter of 1990. When in March 1991 riots broke out between supporters of the opposition and the police on the streets of Belgrade, Miloševic sent tanks to fight the "forces of chaos and destruction". Only a little later Miloševic spoke to local party and government leaders: "We have to insure unity in Serbia if we want, as the largest republic, and the most populous one, to dictate the course of even[t]s. These are questions of borders, therefore essential questions of state. And, borders, as you know, are always dictated by the strong, not by the weak … So, if we have to fight, we will fight. And I hope they are not so crazy to wish to fight with us. Because, if we do not know how to work and economize well, at least we will know how to fight…".[82]

[82] Vujacic, Veljko 1995: „Serbian Nationalism, Slobodan Miloševic and the Origins of the Yugoslav war", in: The Harriman Review, Vol. 8, No. 4

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 Miloševic 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 Croatians 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 census[86], 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, Wolf1999: „Desintegration der BR Jugoslawien. Der Vierfrontenkrieg des Slobodan Miloševic ", 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 Yugoslavije 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. Sarajevo[92]

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 X[94]) as well as through Herzegovina and Srpska (corridor V c[95]), 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 Ploce 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. Mostar[96]

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 name[97]

[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. Visoko[98]

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 Banks[99], 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.

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[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]

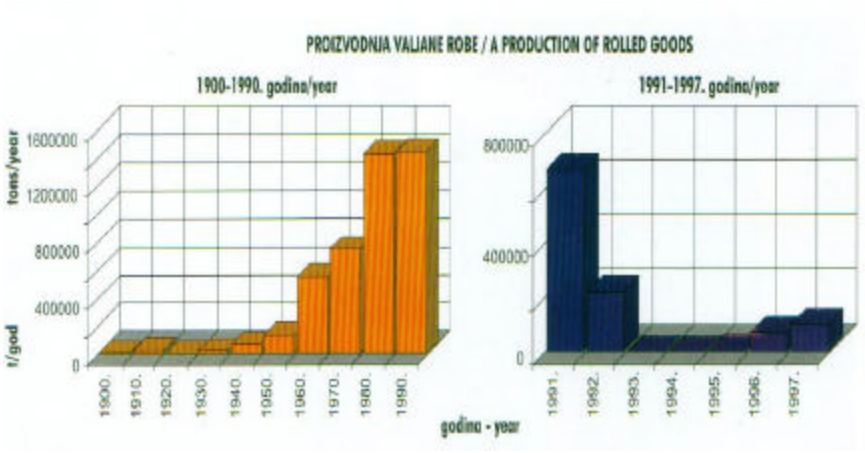
RMK, as one of the most successful sections of the Yugoslav industry at that time, was also the first winner of the "Edvard Kardelj"[102] prize for successful development of socialist relationships.

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

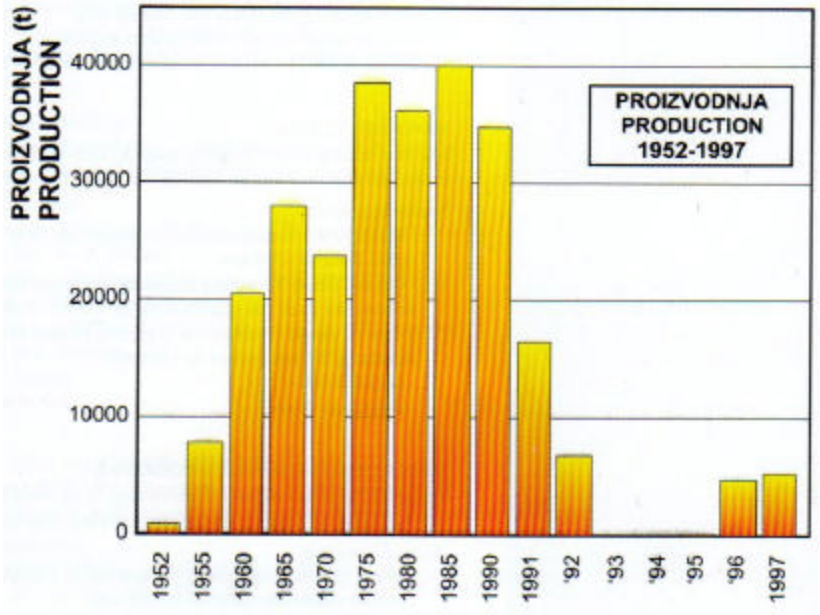
[102] Edvard Kardelj, a Slovenian, was the architect of the 1974 constitution and father of the concept of associated labor. He was the most important theoretical adviser of Josip Broz Tito.

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 Yugoslavije 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 cent[104]

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 Yugoslavije 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 Yugoslavije 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 Yugoslavije 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 Yugoslavije 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" military[112] 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 insofar 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

4 Conclusion and Outlook

There can be no doubt that the former Socialist Federal Republic of Yugoslavia underwent a unique process between its creation and its destruction. Political and economic highs and lows have been also observed in other nations, but the circumstances in which they appeared in the SFRY are unique. Therefore, all conclusions drawn from this case concerning the interdependency between economy and security cannot fully and without adjustments be applied in other regions. However, the basic findings are valuable for any type of conflict among any nation or sub-nation.

Yugoslavia found itself in a "double-bang" situation in mid 1991, when its economy was in transition from centrally planned to market economy and the destruction of its political and economic union started. As there are no guidelines for nations to follow either during secession or during transition, only marginal assistance from the international community was received. Despite that lack of knowledge, the case of the former SFRY affords some significant insights into the relationship between security and economy.

Historical experiences of nations influence to a certain degree the view of individuals and groups concerning constitutions, ethnic tolerance, political culture, and acceptance of differences due to topographic facts. Loose federal political structures alone cannot guarantee the lasting existence of a federation. Economic as well as political reforms as such do not pose a major risk to the unity of a nation, but in combination with variations in speed and intensity they can cause friction in interregional or interstate relations. The form of the ethnic composition influences the likelihood of a violent conflict. Homogeneous sub-nations, such as Slovenia, cause fewer problems for the central state than heterogeneous ones, such as Bosnia and Herzegovina. Strategic importance, whether in the form of military means or economic terms, do not create immunity from tension.

The economic status of a region relative to the state can be determined by its wealth, embodied by its capital, human, and natural resources and

living standard. Although it runs against logic, more developed nations do not show a lower probability for secession than less developed ones. In the case of the SFRY, both Slovenia and Bosnia and Herzegovina declared their independence, though under different conditions. Buchanan claims that the source of the development of the better off region has to be understood as a prerequisite to the discussion of secession, since it impacts on both how the region is perceived and what its viability is.[123] Although most of the natural resources of the SFRY can be found on the territory of Bosnia and Herzegovina, it was Slovenia, which was the most developed republic in the SFRY. Slovenia reached this position with few raw materials, strategic locations, and no other clear advantages other than to have benefited from the union from the very early beginning. Despite its significant advantage as compared to the other republics Slovenia turned away from the mother country first. In considering the different conditions under which independence could be proclaimed, regions which have already achieved a certain amount of autonomy but still feel injustice in the system tend to split with the centre before those which have less self-rule. A high degree of decentralization combined with inequality can thus lead more easily to secession movements, which in turn can result in more or less violent conflicts. Also, this argument can be proven by the example of Slovenia and Bosnia and Herzegovina. We have seen that economics is a key element for peaceful cohabitation and economic development a necessary but not sufficient condition[124] for the prevention of conflicts. The destruction of the SFRY had, after having taken into account the ethnic and religious differences, more to do with economics and the – although in some cases – subjectively experienced inequalities within the state. In the case of Bosnia and Herzegovina, however, the case for economic issues to be the main motivator for secession is difficult, since the minimum critical size for the ability of a new state to survive could neither be reached by the Bosnian Croats, nor the Bosnian Serbs, nor the Bosnian Muslims. Nevertheless, the first two could count on the support of their mother countries. Second, Bosnia and Herzegovina was clearly

[123] Buchanan, Allen 1991: „Secession“, Boulder, Westview Press, in: Bookman, Milica Z. 1993: “The Economics of Secession”, St. Martin’s Press, New York, 45

[124] As there are also conflicts in developed parts of the world, such as in Wales, Scotland, and Spain, the sufficiency is not given.

not in a position to improve its economic performance through secession, even if it could have been accomplished without massive destruction.

The interregional trade in the SFRY undoubtedly played an important role in the country's economy, although various sources differ as to its intensity which was between 60 per cent and 70 per cent of the overall Yugoslav trade. But as two different motivations exist to foster the internal exchange of resources and goods, namely to maximize economic growth and to alter regional disparities and equalize regional imbalances, the Yugoslav government was faced with a trade off in the choice between these two policies. The first favoured the support of already developed regions while the latter focused on less developed areas. The situation in this regard was somehow unclear in the SFRY. Independently of the government's policy, both factions, the Slovenes for the developed regions and the people of Kosovo and Bosnia and Herzegovina for the less developed regions, argued about too much contribution and too little distribution, respectively.

Nationalism caused the leaders to turn away from the interests of their country and to base political and economic decisions on their personal advantage instead. The Yugoslav nationalism was not a regular one. Djilas described it as "…not classical nationalism, but a more dangerous, bureaucratic nationalism built on economic self-interest. This is how the Yugoslav system will begin to collapse".[125] The hotbed for such a development was formed by the political vacuum emerging after the death of Josip Broz Tito against the backdrop a steady deterioration of the economic performance, the end of the cold war, and the breakdown of the Warsaw Pact.

Prosperity, in the case of Bosnia and Herzegovina and the SFRY, respectively, can be seen as a zero-sum game in which one group tried to improve its position at the expense of another. It can be shown that an increase in interethnic animosity is related to economic deprivation.

[125] Djilas, Milovan: in: Kaplan, Robert 1993: „Balkan Ghosts", New York, St. Martin's Press, in: Bookman, Milica Z. 1994: "Economic Decline and Nationalism in the Balkans", Basingstoke, Macmillan, 23

Where various ethnic groups lived together without major frictions for many years, tensions arose through an economic decline and an increasing feeling of economic injustice. Macro- and microeconomic problems created an atmosphere in which processes destroying security and stability proceeded. It seems clear that the general willingness to take up armed struggles exists among mankind all over the world. What differs is the trigger level, which is determined by factors such as political stability, social and personal security, economic justice, and cultural freedom.

What is most interesting and important for every security analyst as well as for economists is the predictability of a conflict. The basic theory underlying this study, that with a decrease in the perceived and observed security of a region, the economic performance will also decrease with a certain time-lag, had to be defeated in the case of Bosnia and Herzegovina. Neither the companies examined, the official institutions, or agencies of both Bosnia and Herzegovina and the former SFRY, nor the interviews with numerous representatives and witnesses on both sides and officials of international organizations working on the spot, such as OSCE, IFES, WB, EU, or NATO could give clear evidence for the theory. The most striking argument against it was trust in the system. People of Bosnia and Herzegovina could not believe that from inside a system, which guaranteed them a job and social security during the last 40 years, could emerge a threat against one part of the system. The possibility of getting involved in an armed conflict was just ignored. No immediate reaction of the local economy to the upcoming crisis could be detected and reactions were confined only to "hard facts", such as the blockade of transport routes, or the disconnection to the electric power system. The situation cannot be better described than with the following statement of an interviewed citizen of Bosnia and Herzegovina: "We have seen Slavonski Brod burning but we could not believe that it [the war] will jump over the river [Sava]."[126]

Modern peace and conflict research has to be seen in the light of human ecology or political ecology, respectively. It should basically be

[126] Interview with Mrs. Hadžiabdic, IFES, Sarajevo, 15 August 2001

concerned with violent transformation of society-nature relationships by focusing on power struggles, hierarchical structures, resource distribution, underdevelopment, and security issues. In such a scenario, the economy can play its role as a strategic tool, a strategic target, a strategic goal, and/or as the root of the conflict. Although the economy cannot be seen as a sufficient factor for the outbreak of violence, between certain actors at a given period of time it doubtless presents a necessity. Together with an analysis of the actors, their opportunities and preferences, their historical past and desired future, the understanding of the importance of the economy and the proper influence and use of it can enable leaders at every level to ensure stability and peace for their area of responsibility. A state's task in this includes not only the promotion of strategic and networked thinking, but also drawing attention to synergies existing between security and economy, so that all levels of government understand the importance of their interdependency.

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Abbreviations

AP	Autonomous Province
BOAW	Basic Organizations of Associated Work
CENTO	Central Treaty Organization
COPRET	Conflict Prevention and Transformation
CSCE	Conference on Security and Cooperation
d.d.	dionicko društvo (joint stock company)
EAPC	Euro-Atlantic Partnership Council
EC	European Community
EMU	European Monetary Union
EU	European Union
FPRY	Federal People's Republic of Yugoslavia
GDP	Gross Domestic Product
GENEX	Generalexport
GNP	Gross National Product
HDZ	(Croatian Democratic Union)
IFES	International Foundation for Election Systems
IMF	International Monetary Fund
INEX	International Export
INTERIMPEX	International Import Export
INTERTRADE	International Trade
KGB	Komitet Gossudarstwennoi Besopasnosti (Soviet secret police)
NATO	North Atlantic Treaty Organization
NGO	Non Governmental Organization
OECD	Organization for Economic Cooperation and Development
OOUR	Osnovna organizacija udruženog rada (basic organization of associated labor)
OSCE	Organization for Security and Cooperation in Europe
R&D	Research & Development
RMK	Rudarsko Metalurški Kombinat
RO	Radna organizacija (working organization)
SEATO	South East Asia Treaty Organization
SFRY	Socialist Federal Republic of Yugoslavia

UDB	Uprava državne bezbednosti (Yugoslav secret police)
UN	United Nations
US	United States
USSR	Union of Soviet Socialist Republics
WB	World Bank
WEU	Western European Union
YNA	Yugoslav National Army
YUGOIMPORT	Yugoslav Import

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