Fractured economy in need of healing

The country needs an overhaul, starting with military cuts, writes **Anthony Robinson**

YUGOSLAVIA used to be proud of its unique "self-management" socialism and the universal Yugoslav joke was "I wish I could afford to live as well as I do."

It was all an illusion, fed by the foreign loans which flowed in while Marshal Tito was able to override an unworkable constitution and rule by a communist version of divine right. Over the last 18 months the economy has contracted by more than 40 per cent and the current political and military crisis can only speed the decline as workers and managers are called up for military service and tourists flee in droves.

Even in the "good old days" of Tito, however, the reality was that the best enterprises were those run by a strong entrepreneurial individual. Failing that, self-management was a formula for low investment, inflationary pay increases and over-manning.

Behind the façade of Yugoslav unity each republic demanded its own power stations, steel mills and economic autonomy. The result: a fractured and fragmented economy which reflects the ethnic and other divisions of the country and which has disintegrated further with the imposition of internal customs and other barriers between republics.

In broad terms the economy gets weaker as one moves east. Slovenia is the richest and most export-oriented republic, although the main buyers for many of its products, especially household appliances, are often Yugoslav "gastarbeiter" working in Germany, Austria and elsewhere. It is the centre of the country's electronics and other light engineering industries. The trim little sub-Alpine republic also has a thriving tourist industry and efficient agriculture. It is where private enterprise is most advanced.

Croatia, in normal times, likewise benefits from its proximity to EC markets and the hard-currency income from a highly developed tourism industry along the fractured, island-studded Adriatic coast. It also has a substantial shipbuilding industry. Thus far however Croatia has not progressed far with privatisation of the still mainly "self-managed" enterprises.

The big exception is the tourist industry. Most of Yugoslavia's $2.8bn (£1.75bn) official tourist revenues last year were earned in Croatia. The real income is much higher when private letting and tourism-related activities are included. For tourism, the military intervention in Slovenia has been a disaster.

Serbia is where the "other Yugoslavia" starts, the Yugoslavia of high unemployment, state bureaucracy, small mountain farms, low-productivity, import-substitution industry – and most of Yugoslavia's military and heavy industry.

It contains some of the most notorious white elephants, such as like the Smederevo steel complex south of Belgrade, which has sucked up appropriately elephantine subsidies for decades.

But you cannot make tanks without steel, and possession of a smoking steel-mill retains its Stalinist-macho appeal to the old-style communists who still dominate the republic's politics and the army.

The trouble is that a steel plant in the Serbian mountains, far from the sea and far from cheap supplies of ore and coal, makes little economic sense. It would have been far better to build a plant on the coast, capable of supplying the entire Yugoslav market and beyond. But most of the potential sites are in Croatia.

Serbia, like Bosnia-Hercegovina, Macedonia and Kosovo, does have mineral resources. But deposits tend to be small and its mines are often old and under-capitalised. In Vojvodina, the autonomous republic now re-integrated into Serbia, the republic also possesses some of Yugoslavia's most fertile agricultural land. The wheat and maize fields stretch as far as the eye can see north of Belgrade and across the Sava river, where the plains of Vojvodina stretch out until they become part of the Hungarian Puszta.

The poorest of all the republics is Kosovo, the 90 per cent Albanian-populated region in Yugoslavia's deep south. For emotional reasons Serbs have sought to re-impose their control over a region which was the heartland of medieval Serbia. But it is a huge economic drain and in purely economic terms Serbia would gain if, as is almost inevitable in the long run, the republic splits off to become part of a future greater Albania.

Up to now the EC and other aid donors and creditors have more or less explicitly made preservation of the federation a condition for loans and assistance. But this has become increasingly difficult to sustain, as the International Monetary Fund found earlier this year when fundamental disagreement over the federal budget delayed a $1bn standby credit.

Significantly, the main point of issue was Slovenia's demand for deep cuts in the military budget, which consumes nearly half the federal budget.

Whatever happens to Yugoslavia the military sector must be cut. If it splits into its constituent parts Serbia alone will not be able to afford the present rate of military spending. If Slovenia and Croatia agree to remain in a form of confederal state they will make military cuts a principal condition of membership.

As in post-communist east and central Europe, the other ingredients for reconstructing the Yugoslav economy include closure of loss-making enterprises, rapid privatisation and clear control over central and republican budgets.

That means tackling the underlying problems whose neglect did so much to bring the country to its present impasse.