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Economic nationalism in Yugoslavia: Reflections on its impact 30 years later

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The paper analyses the contribution of economic factors to the break-up of the Yugoslav federation, particularly the role of "economic nationalism". Despite policies of the federal government to ensure income redistribution in order to accelerate economic development of the less developed parts of the country, the gap in GDP per capita between the more and the less developed republics and regions increased through the decades. Institutional reforms, especially those in the 1970s, have contributed to the strengthening of economic nationalism in Yugoslavia, to the fragmentation of the Yugoslav market and to tendencies of closing up within republican borders. Such developments led to a lively debate about the "unified Yugoslav market", as growing concerns were expressed about its fragmentation, particularly in the early 1980s when the political and economic crisis started developing. Economic problems after 1980 – negative GDP growth rates, high inflation, drop in real wages, increase in unemployment, shortages of goods – directly contributed to the rising dissatisfaction of the population. The topic of "exploitation" – unfavourable economic position of the single republics/regions in the Yugoslav federation – gained importance, additionally strengthening nationalistic sentiment and contributing to Yugoslavia's break-up. Nevertheless, the causes of Yugoslavia's break-up are to be sought primarily in the political frictions and the impossibility of finding a compromise solution on how to reform the Yugoslav federation. After the break-up, for most successor states of Yugoslavia, the economic costs have been much higher than initially anticipated and are likely not to have been fully compensated by expected benefits. During the post-1991 period, the successor states of Yugoslavia incurred a series of negative direct and indirect consequences of disintegration: the loss of a large protected market, of the monetary, customs and economic union, and of institutional and international advantages of the Yugoslav economy; the postponement of many transition-rela-

ted economic reforms; delayed entry into the European Union; and slow long-term economic development.

KEYWORDS: *Economic nationalism; fragmentation of common market; crisis and break-up of Yugoslav federation; transition; slow economic development*

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More[1] than thirty years since the disintegration of the Socialist Federal Republic of Yugoslavia (Yugoslavia, from here onwards), many questions remain controversial.[2] Among the debated issues is the role that economic factors have played in the break-up of the Yugoslav federation. Central for understanding the economic reasons behind mounting disagreements among the constituent parts of Yugoslavia is a form of "economic nationalism" that developed particularly during the last two decades of the country's history. In the case of Yugoslavia, economic nationalism can be defined as a tendency of each republic and autonomous region to protect and strengthen its own economy in line with local interests, by implementing policies that ensure greater economic self-sufficiency irrespective of their effects on the other republics/regions or the federal state. Such tendencies were partly determined by the political demands of some republics for greater autonomy, particularly at the time of the Mass Movement in Croatia (MASPOK) in 1970 — 71, demands that aimed at ensuring that financial resources generated in a given republic, including foreign exchange earnings from tourism, remain within the republic's territory (Milanović, 1983; Bartlett, 2003). The new constitutional arrangements introduced by the institutional and economic reforms in the 1970s indeed went in the direction of further abandoning centralised

1 I am grateful for comments received from participants of the International Academic Conference *The 1990s: Serbs and Croats in Regional and Global Context* held in Zagreb on 24 — 25 November 2023, where a draft of this paper was presented, as well as to Vojmir Franičević for his critical remarks and discussion that have helped sharpen the main messages and conclusions.

2 For an exhaustive account of the multiple reasons of Yugoslavia's break-up, see Jović (2009). Fresh evidence on many related issues from SFR Yugoslavia is offered in Jović's most recent book (Jović, 2023).

mechanisms and institutions in order to give more decision-making power to the single republics and regions.

In contrast with nationalism in the political sphere, that was considered a major threat to the unity of the Yugoslav federation and thus was continuously suppressed using authoritarian methods, there were apparently no deliberate policy measures to stop the affirmation of economic nationalism (Uvalić, 1995). On the contrary, economic nationalism was strengthened by the new institutional arrangements in the 1970s that were to respond more adequately to the interests of each republic/autonomous region in order to accommodate the requests for greater economic decentralisation, in this way compensating for the lack of more radical reforms of the political system. Economic nationalism has retained an important role during the post-independence period of the Yugoslav successor states, since many economic reforms implemented during the transition to a market economy were naturally influenced by national interests of the newly created states.[3]

This paper offers a new reading of economic nationalism in Yugoslavia and sheds light on the economic consequences of the federation's break-up. The main factors that were responsible for economic nationalism in Yugoslavia are first recalled: the wide regional economic disparities, the institutional reforms of the 1970s, and the long-lasting economic crisis in the 1980s (section 2). The consequences of Yugoslavia's break-up are then briefly analysed, illustrating how the economic costs of political disintegration were very high for most of its successor states (section 3). Some principal conclusions are drawn at the end (section 4). Among the main conclusions is that economic nationalism has undoubtedly played an important role in fuelling disagreements among the Yugoslav republics, but that its role was secondary in comparison to the more general political disputes nourished by the outburst of nationalism in the 1980s. Given that the Yugoslav republics/regions shared many common economic interests and were all dependent on the Yugoslav internal market, economic nationalism by itself would not have necessarily led to the disintegration of the federation.

3 On the distributional effects of nationalism and separation of the Yugoslav successor states, see Dallago and Uvalić (1998) or Kraft (2000).

The contribution of economic nationalism to Yugoslavia's break-up

The strengthening of economic nationalism in Yugoslavia was directly influenced by three groups of interrelated factors, that by the end of the 1980s contributed to the break-up of the federation: wide regional economic disparities, the ample decentralization of economic policies introduced by institutional reforms in the 1970s, and the severe economic crisis that developed in the 1980s (Uvalić, 1993).

Regional disparities

There were wide regional differences in economic development in Yugoslavia. The origins of regional disparities between the northern and the southern parts of the country are complex, deeply rooted in the history of the Balkans. Before the creation of the first Yugoslavia in 1918, the northern parts of the region – Slovenia, Croatia, Vojvodina and a large part of Bosnia and Herzegovina – were under the Austro-Hungarian Empire, while the southern parts were for several centuries under the Ottoman Empire. These historical legacies inevitably, throughout the centuries, left deep traces on economic development, the quality of infrastructure, legal and administrative systems and other features of the regions that would later become parts of Yugoslavia.

After World War II, the federal government of socialist Yugoslavia implemented various policies to reduce the inherited development gap between the more and the less developed parts of the country. However, these policies were not very successful. The Yugoslav model of market socialism did secure rapid economic growth, fast industrialization and a substantial increase in living standards at the aggregate level, but it did not succeed in diminishing regional differences. Market-oriented economic reforms, especially those implemented from the mid-1960s onwards, accentuated even more some of the problems typical of a market economy, including unemployment, inflation and uneven regional economic development.

Given that regional development was a key concern of policy-makers in Yugoslavia, specific policies of income redistribution were introduced to help economic development of the disadvantaged regions and reduce the gap between Social Product[4] per capita of the more and the less developed republics and regions. After the mid-1960s, Slovenia, Croatia, Serbia proper (without the two autonomous regions) and the autonomous region of Vojvodina were considered the more developed, while Bosnia and Herzegovina, Macedonia, Montenegro and the autonomous region of Kosovo were the less developed.[5]

The instruments of regional policy used in the 1950s were highly centralised and consisted of direct transfers of resources from the General investment fund and the budget of the federal government to the less developed regions. A more permanent mechanism was established in 1966, officially called "The Federal Fund for Crediting the Accelerated Development of Less Developed Republics and the Autonomous Region of Kosovo" (Federal Fund, from now onwards). All Yugoslav republics had to contribute to the Federal Fund a bit less than 2% of their income, that would then be allocated to the less developed beneficiaries (Uvalić, 1993). Financial assistance from the Federal Fund initially consisted of grants, but after 1971 it took the form of loans at highly preferential terms. With the economic reforms implemented in the 1970s, further changes in regional policy were implemented. In order to stimulate economic development of underdeveloped regions, enterprises were now expected to invest directly in firms located in the less developed republics/regions, on the basis of agreements between enterprises on the "pooling of labour and resources". After 1975, enterprises could invest about 20% of their republic's quota directly into enterprises located in the less developed parts of the country and this percentage was increased to 50% in 1981.

In addition to the Federal Fund, income redistribution in favour of the less-developed republics and the region of Kosovo also took place through other channels, including direct budgetary transfers; loans of the National Bank of Yugoslavia at highly preferential terms, extended to specific administrative entities or special recipients (such as exporting enterprises or farmers

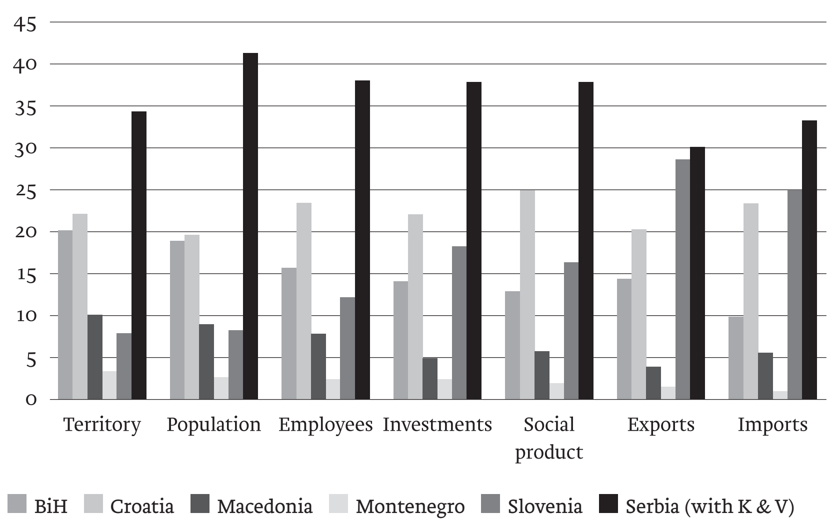
4 Social Product was the main macroeconomic aggregate used in SFR Yugoslavia. Social Product was comparable to Gross Domestic Product but it excluded all services, since they were considered "unproductive" sectors according to Marxist ideology. Social Product was similar to Net Material Product used in other East European countries, but it included depreciation (thus it was sometimes referred to as Gross Material Product). According to the OECD estimates in the late 1980s, Yugoslavia's Social Product was around 10% lower than its Gross Domestic Product.

5 The division into the "less developed" and the "more developed" republics and regions was somewhat different during the 1946 — 1966 period.

in agriculture); and the clearing system of payments in foreign trade with the Council of Mutual Economic Assistance (CMEA) countries, which favoured exporters and penalized importers (Uvalić, 1993).

These measures of regional policy, however, did not succeed in narrowing the gap in economic development in Yugoslavia. While the effects of the regional investment policy pursued until the early 1960s produced some positive results, thereafter, from 1965 to 1984, the regional inequality increased steadily, clearly showing the failure of the socialist market economy to be able to mount a serious challenge to the economic basis of regional inequality (Bartlett, 1990, p. 12). Throughout the whole period, the gap in Social Product per capita of the most developed republic, Slovenia, and the least developed region, Kosovo, increased, from 5 to 1 in 1955, to 8 to 1 in 1989 (according to official data of the Statistical Office of Yugoslavia; see Uvalić, 1993, 2010). Among the factors that contributed significantly to such trends were high growth rates of the population in Kosovo, much higher than those in the other parts of the country. There were also wide differences regarding other economic indicators of the Yugoslav republics and regions (see Figure 1).

Figure 1. Yugoslavia – Main regional indicators, 1990 (share of each republic/region, in % of total) / Source: Based on data of the Federal Office of Statistics of Yugoslavia (Savezni zavod za statistiku, Statistički godišnjak Jugoslavije 1991), also cited in Uvalić, 2010.



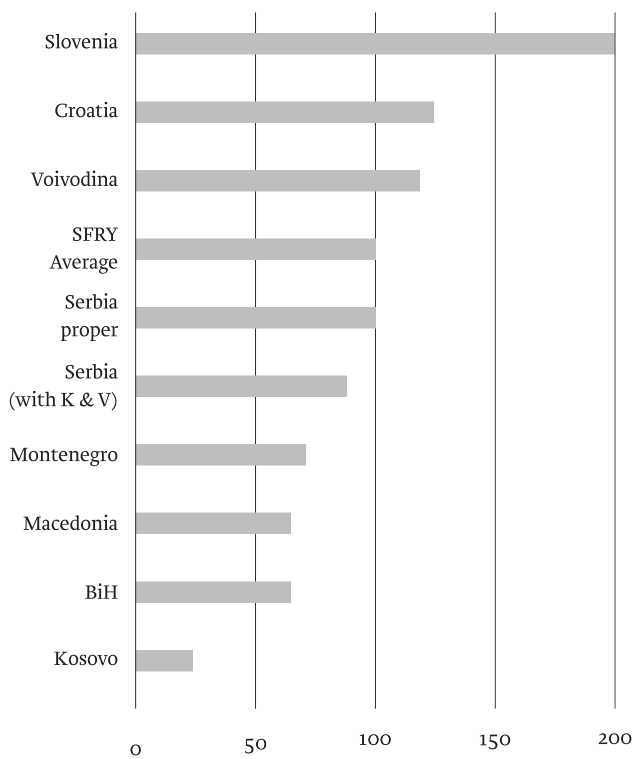
The Yugoslav republics clearly had a very different weight in Yugoslavia, judging from their contribution to the most important indicators. Serbia (with its two autonomous regions, Kosovo and Vojvodina), as the biggest and most populous of the six Yugoslav republics, also had the highest relative share in employment, Social Product, and even exports and imports. In 1990, Slovenia with 8% of Yugoslavia's population produced 16% of its Social Product and contributed almost 30% of exports (25% of imports), while Kosovo, also representing 8% of Yugoslavia's population, contributed only 2% of Yugoslav Social Product and around 1 — 2% of exports and imports (Uvalić, 2010). Serbia's dominant position regarding the most important indicators was one of the main concerns of the other republics and regions in Yugoslavia, contributing to frictions and mutual mistrust.

There were also large differences in the level of development, as measured by Social Product per capita in the Yugoslav republics/regions. In 1989, Social Product per capita in Slovenia was double the Yugoslav average, eight times higher than in Kosovo. Croatia was the second most developed republic, at a bit less than 2/3 of Slovenia's Social Product per capita, followed by Vojvodina, while Serbia (without its two regions) had a Social Product per capita corresponding to the Yugoslav average (see Figure 2).

The wide gap in economic development within Yugoslavia can also be illustrated by international statistics. Just before Yugoslavia's break-up, in 1989, GDP per capita in Kosovo was US$ 1,592 (in Purchasing Power Parities), thus more than 7.7 times lower than in Slovenia where it was US$ 12,383 (see Figure 3).

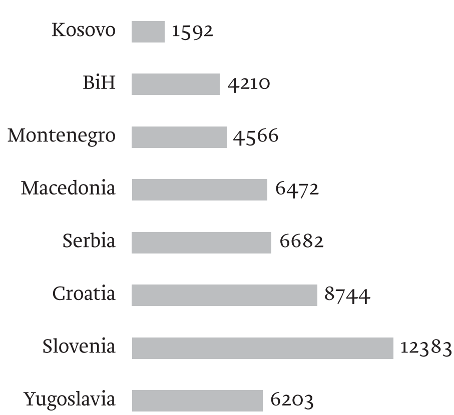
At the basis of problems of regional development in Yugoslavia was a long-lasting controversy about who was "exploiting" whom. The more developed northern republics – Slovenia and Croatia – felt exploited because of the obligatory transfer of resources to the less developed parts of the country that remained outside their direct control and were often used in unproductive sectors in an inefficient way. They felt additionally disadvantaged by other policies that were considered against their interests, including the retention of foreign currency earnings from exports and tourism, given that they were among the republics that were more export-oriented and attracted the largest number of tourists. The less developed republics also felt exploited, and thus considered to have the right to development aid, because of the unfavourable terms of trade deriving from the structure of their economies. In contrast with the developed republics, that had a major share in processing industries (manufacturing), the less developed were more present in basic industries (energy, raw materials) characterised by lower efficiency, which in combination with distortions in relative prices, due to more widespread price controls in basic industries (compared to manufacturing), implied lower prices of products of the less developed republics (Uvalić, 1993). The debate on "exploitation" in Yugoslavia had lasted for years, without clear evidence in favour of either of the two views.

Figure 2. Social product per capita (Yugoslavia = 100), 1989 / Source: Based on data of the Federal Office of Statistics of Yugoslavia (Savezni zavod za statistiku, Statistički godišnjak Jugoslavije 1991).



There was a revival of the debate about "exploitation" during the 1980s, when Yugoslavia was hit by a profound economic crisis. In particular, economic exploitation of Serbia was highlighted in a document prepared in 1986 (initially kept secret) by a group of intellectuals of the Serbian Academy of Sciences and Arts – the "Memorandum on the position of Serbia in Yugoslavia". The Memorandum sustained that Serbia has continuously been discriminated against within Yugoslavia, both economically and politically (see Uvalić, 2010). According to the Memorandum, economic policies implemented in Yugoslavia had "intentionally plunged Serbia into economic backwardness", while existing constitutional arrangements which created two autonomous provinces within Serbia had made it the only republic unable to exercise full sovereignty over its whole territory. The Memorandum strongly contributed to the revival of nationalism in Serbia, provoking at the same time highly critical reactions on the part of the other Yugoslav republics, thus adding further impetus to the already serious political crisis that developed after President Tito's death in May 1980.

Figure 3. GDP per capita in 1989 (in US$, PPP) in Yugoslavia and its republics / Source: Based on data of the Maddison-Project, http://www.ggdc.net/maddison/maddison-project/home.htm, 2013 version; GDP per capita is expressed in Geary-Khamis (GK) dollars, equivalent to the international 1990 dollar (PPP).



/ The 1974 Constitution

The institutional reforms implemented in Yugoslavia in the 1970s have also greatly contributed to the fragmentation of the Yugoslav economy and to the strengthening of economic nationalism. The constitutional amendments adopted in 1971 prepared the changes that in 1974 were sanctioned in the new Constitution, which brought substantial decentralization of the Yugoslav economic system and the devolution of powers from the federation to the republics and regions (Uvalić, 1992). These constitutional changes cemented the already existing tendency toward a confederation (Dimitrijević, 1994). In addition, the Law on Associated Labour adopted in 1976 introduced important institutional changes that were meant to improve the system of self-management and strengthen the planning instrument. At the microeconomic level, enterprises were divided into smaller units, so-called “basic organisations of associated labour” in order to make workers' participation in decision-making more effective. At the macroeconomic level, so-called “social compacts” and “self-management agreements” were to be concluded by firms, representatives of political organs, trade unions, banks and other economic agents through a bargaining process, on policies regarding prices, employment, distribution of income, foreign trade and other. These reforms strengthened the economic competences of the single republics and regions in most areas, effectively enabling major democratisation in decision-making. The responsibilities for monetary and exchange rate policies remained in the hands of the National Bank of Yugoslavia, but decisions even in these areas had to be based on an agreement between the republican governments, effectively giving them veto power. There were also important changes in the financial sector, since banks were transformed into service agencies of enterprises, created and controlled by founding enterprises (Uvalić, 1992). These financial reforms additionally contributed to the regional fragmentation of the Yugoslav economy, since banks were not free of political interference and tended to invest primarily in the region where they were located (Milanović, 1987).

Extensive decentralization introduced by these economic reforms has strongly reinforced forms of economic nationalism in Yugoslavia. The economic interests of the republics/regions were often given precedence over those of the Yugoslav federation, as political authorities pursued primarily the local interests of their own republic. After the mid-1970s, when the regionalization of the banking system was completed, a vast majority of investment decisions was taken by a coalition of political authorities and large industrial enterprises from the same region (Milanović, 1987). This led to uncoordinated investment strategies and the unnecessary duplication of factories in many sectors, which was clearly inefficient from the point of view of the whole country. The strive towards greater self-sufficiency of each republic contributed to the fragmentation of the unified Yugoslav market (Uvalić, 1983; Milanović, 1987). The Yugoslav economy was also characterised by low mobility of factors of production across republican borders, both capital and labour, which additionally contributed to the fragmentation of the Yugoslav market.

Despite such tendencies, the degree of economic interdependence among the Yugoslav republics/regions was higher than what was usually sustained on the basis of purely political arguments. As will be shown below, throughout most of the last two decades of Yugoslavia's history, from the early 1970 to the late 1980s, the republics/regions' deliveries ("exports") of products to the other Yugoslav republics/regions were usually higher than exports outside the country, confirming the generally high dependence of the republics/regions on the internal Yugoslav market. Instead of a continuous increase in local autarchy, the trends varied substantially over the years, suggesting interdependence among the Yugoslav republics/regions and the importance of other factors – not only local politically-motivated interests – in determining the direction of republics' sales (see further below).

Unfortunately, we no longer dispose of statistics reporting annual data on internal trade of the Yugoslav republics and regions. The only available statistics on internal trade – deliveries and purchases of products of each republic/region to/from the other republics/regions – as well as their exports abroad, that have been published by the Federal Office of Statistics of Yugoslavia, are for 1976 and 1980 (Savezni zavod za statistiku, 1986). However, a longer time series is available in an OECD publication that contains data on internal and external trade of Yugoslavia and its republics/regions for 1970, 1976, 1983 and 1987 (based on statistics of the Republican Statistical Office of Serbia). The OECD data will be used to analyse the trends in the 1970s and the 1980s in deliveries of the republics/regions to the local market, to markets of the other republics/regions and abroad (see Table 1).

Table 1. Trade by destination of Yugoslav republics and regions (as a share of GDP, in %) / Source: OECD (1992), based on Republican Statistical Office of Serbia. The arrows indicate the observed changes (increase, decline, no change) in the shares with respect to the earlier year.

	Deliveries to the local market				Deliveries to other republics/regions			
	1970.	**1976.**	**1983.**	**1987.**	**1970.**	**1976.**	**1983.**	**1987.**
SFRY	58,6	63,0 ↑	53,4 ↓	62,2 ↑	26,3	21,9 ↓	16,6 ↓	19,9 ↑
BiH	50,5	61,4 ↑	49,1 ↓	56,1 ↑	36,6	22,7 ↓	18,6 ↓	24,2 ↑
Croatia	62,6	66,1 ↑	59,7 ↓	67,0 ↑	21,8	19,0 ↓	14,8 ↓	18,7 ↑
Macedonia	63,2	61,9 ↓	55,3 ↓	60,8 ↑	23,1	23,1 =	18,1 ↓	21,4 ↑
Montenegro	50,8	59,9 ↑	54,4 ↓	57,5 ↑	40,6	22,6 ↓	21,0 ↓	25,0 ↑
Serbia (with K & V)	67	71,3 ↑	60,9 ↓	69 ↑	18	14,8 ↓	10,9 ↓	13,4 ↑
Serbia proper	58,9	64,0 ↑	52,1 ↓	62,3 ↑	23,7	21,1 ↓	16,5 ↓	17,4 ↑
Kosovo	57,6	56,8 ↓	58,2 ↑	64,6 ↑	34,7	25,7 ↓	19,2 ↓	24,0 ↑
Voivodina	49	58,8 ↑	54,8 ↓	58,1 ↑	40,1	30,1 ↓	22,5 ↓	28,8 ↑
Slovenia	53,6	60,9 ↑	42,4 ↓	57,5 ↑	28,7	22,0 ↓	15,7 ↓	20,3 ↑

	Exports			
	1970.	**1976.**	**1983.**	**1987.**
SFRY	15,1	15,1 =	30,0 ↑	17,9 ↓
BiH	12,9	15,9 ↑	32,3 ↑	19,8 ↓
Croatia	15,6	14,9 ↓	25,5 ↑	14,3 ↓
Macedonia	13,7	15,0 ↑	26,6 ↑	17,8 ↓
Montenegro	8,6	17,5 ↑	24,6 ↑	17,5 ↓

	Exports			
	1970.	1976.	1983.	1987.
Serbia (with K & V)	15	13,9 ↓	28,2 ↑	17,6 ↓
Serbia proper	17,4	14,9 ↓	31,4 ↑	20,3 ↓
Kosovo	7,7	17,5 ↑	22,6 ↑	11,4 ↓
Voivodina	10,9	11,1 ↑	22,7 ↑	13,1 ↓
Slovenia	17,7	17,1 ↓	41,9 ↑	22,2 ↓

The data reported in Table 1 illustrate the changes in the destination of deliveries of the Yugoslav republics/regions in three pairs of years: 1970/1976; 1976/1983; and 1983/1987. Comparing deliveries to the local market in 1970 and 1976, all the republics/regions have increased their relative share of local deliveries (except Kosovo and Macedonia, that registered a minor decline). This suggests that there were indeed increasing autarchic tendencies during the 1970 — 1976 period in the majority of Yugoslavia's republics/regions. However, the trend took the opposite direction during the next period. Comparing 1976 with 1983, almost all republics/regions have reduced deliveries to the local market (except Kosovo, that registered a very small increase), confirming that the tendency towards local autarchy had been reversed. Finally, comparing 1983 and 1987, there was again a change in the opposite direction, as all the republics/regions have increased deliveries to the local market, in most cases quite substantially.

If we now consider deliveries of Yugoslav republics/regions to other parts of the country (also reported in Table 1) and compare 1970 and 1976, the shares of deliveries to markets of other republics/regions declined in all republics. Interestingly, this is equally true for the next period: comparing 1976 and 1983, there was a further decline in deliveries of republics/regions to the markets of other republics/regions. However, the opposite trend is registered in the last period: comparing 1983 and 1987, deliveries of all the republics/regions to markets of the other republics/regions increased without exception.

As to the trends in republics/regions' exports to international markets, they have varied considerably. Comparing 1970 and 1976, half of the Yugoslav republics/regions have increased the share of exports in GDP, but the other republics registered a decline. However, comparing 1976 and 1983, all the republics/regions increased the share of exports in GDP and rather substantially. During the last period, comparing 1983 and 1987, all the republics/regions registered a very strong decline in the share of exports in GDP, that seems to have been compensated by an increase in deliveries to both the local market and markets of other republics.

The ongoing analysis leads to several conclusions. First, throughout the examined period, the *local market was more important* for all the Yugoslav republics/regions than the markets in other parts of the country, corresponding to 42,4 — 71,3 percent of GDP (as compared to deliveries to the other republics/regions that ranged from 11 to 41 percent). The primary destination of sales of all the Yugoslav republics/regions was the local market of their own republic, although there were notable differences between the observed trends in the 1970s and in the 1980s. Second, all the Yugoslav republics and regions were *more dependent on the internal Yugoslav market* – of their own republic, as well as those of neighbouring republics – *than on international markets* for sales of their products and purchases of necessary inputs. This is not surprising, since Yugoslavia in the 1970s and the 1980s was not a very open economy. Montenegro and Kosovo were the republics that were most dependent on purchases for production purposes from the other parts of the country (see Savezni zavod za statistiku, 1986, p. 185). During these two decades, the shares of internal trade, as measured by deliveries to the local market and to markets of neighbouring republics/regions, were substantially higher than the shares of foreign trade. Thus in 1987, the last year of available statistics, the Yugoslav economy exhibited a relatively high level of trade integration, since 77,8 — 88,6 percent of republics/regions' deliveries was taking place on the internal market – the Yugoslav republics/regions were more integrated among themselves than with the outside world. Third, the *trend in deliveries* – to the local market and to the markets of other republics/regions – *was not unidirectional*, but was subject to substantial variations. The fact that the republics' deliveries to the local market did not increase continuously during the observed period runs counter to the hypothesis of increasing autarchy. In fact, during the period between 1976 and 1983, the trend of increasing deliveries to the local market was reversed.

How can we interpret these variable trends in the destination of Yugoslav republics' deliveries? A plausible interpretation can be offered by relating them to the performance of the Yugoslav economy during those two decades. During the 1970s, the Yugoslav economy had experienced an expansionary phase characterised by strong economic growth, high investment rates and increasing foreign trade. Recalling that this was the decade when Yugoslavia had also implemented institutional reforms that led to substantial decentralization of the economy (as explained earlier), it is not surprising that the republics, in line with the new institutional arrangements, became more oriented towards their own local markets. Starting from the early 1980s, when the Yugoslav economy entered a deep crisis characterised by negative growth rates, declining investments, and deteriorating performance on international markets, the internal Yugoslav market was a welcome destination of products that could not be sold abroad. Limited competitiveness on foreign markets was compensated by an increase in sales on both the local market and on markets of other Yugoslav republics.

Therefore, the analysis of intra-republican trade shows that the internal market was an important destination of products of all the Yugoslav republics/regions, and that the actual trends were not determined primarily by narrow political interests of each republic, economic nationalism and deliberate policies towards greater self-sufficiency. The markets of other republics/regions were welcome in times of worsened conditions on international markets. When competitiveness on foreign markets was falling, like in the 1980s, deliveries to other republics/regions and to the local market tended to increase. The large variations in each republic's deliveries to the local market, markets of other republics and international markets were driven by specific economic conditions of the Yugoslav economy and its constituent parts. The observed trends should be interpreted in the context of expansionary and recessionary phases of development of the Yugoslav economy during those two decades, and not primarily by political factors.

/ The economic crisis in the 1980s

The economic crisis from 1980 onwards additionally fuelled nationalistic sentiment and contributed to Yugoslavia's break-up. After 1979, Yugoslavia entered a serious economic crisis that would last throughout the 1980s. The model of economic development increasingly relied on capital inflows from abroad, that led to a rapid increase in Yugoslavia's external debt, from less than US$ 2 billion in 1970 to US$ 14 billion in 1979 and to US$ 18 billion in 1980 and a record current account deficit in 1979 (Uvalić, 1992). With the worsening of general conditions on international financial markets, Yugoslavia was no longer able to finance its external debt obligations. After 1981, the Yugoslav government concluded several stand-by arrangements with the IMF, which led to the implementation of restrictive macroeconomic stabilisation policies. The Yugoslav economy entered a deep and long-lasting recession: from 1981 onwards, it registered a fall or stagnation of output, negative investment rates, rising unemployment, a drop in real wages, shortages of some basic goods and a progressive increase in prices that culminated in hyperinflation in 1989.

The deterioration of the general economic and political situation after 1980 brought increasing popular dissatisfaction and revived discussions about Yugoslavia's economic system. Among the debated issues was the loss of a "unified" or "common" Yugoslav market,[6] due to the fragmentation of the Yugoslav economy. The "Documents of the Commission of the Federal Social Councils for Problems of Economic Stabilisation" prepared in 1982 (Commission, 1982) emphasized the problem of increasing closure of the republican economies within territorial borders, expressing concerns about the weakening of the unified Yugoslav market. At that time, the Yugoslav economy was no longer considered to have the features of a unified market, and not even of a common market (Uvalić, 1983).

In 1989, the last federal government of Yugoslavia led by Ante Marković launched a bold macroeconomic stabilization program aimed at stopping hyperinflation and facilitating economic recovery, along with the adoption of important laws that were to introduce radical systemic changes in the direction of a fully-fledged market economy (diversification of property forms, privatisation of enterprises, incentives for foreign direct investment, etc.). Already in the second half of 1990, however, the government's program was undermined by the general lack of willingness to implement it, since all the republics/regions, for different reasons, considered the programme against their interests (Uvalić, 1992). There was a progressive abuse of federal obliga-

6 In the discussions of those times, the following terms were used: "jedinstveno", and "zajedničko jugoslovensko tržište"; while the second term translates well into "common Yugoslav market", the first is probably best translated as "unified market".

tions, as Slovenia and Croatia stopped transferring taxes to the federal budget, while Serbia introduced special taxes on Slovenian and Croatian products. Increasing withdrawals of foreign currency from bank accounts by citizens and firms caused a general shortage of foreign exchange throughout the country. Finally, there was a raid on the monetary system, as the central banks of the republics surpassed the limits on credit expansion set by the National Bank of Yugoslavia. The deep economic crisis thus additionally fuelled the heated political disputes within the Yugoslav federation, contributing to the disintegration of Yugoslavia.

/ Economic consequences of Yugoslavia's disintegration

The economic consequences of Yugoslavia's disintegration need to be considered within the historical context of those times, recalling the radical systemic changes that were taking place in the late 1980s in Eastern Europe. After the fall of the Berlin Wall in 1989, most East European countries established a multiparty democratic system through free elections and embarked on bold economic and institutional reforms that were considered necessary for the transition to a market economy. In the Yugoslav successor states, several specific features distinguished the transition to a market economy from similar processes in other former communist countries.

As a starting point, the Yugoslav successor states inherited unique initial conditions from the previous economic system: self-management, a decentralised market-oriented economy and privileged international relations. The good initial conditions suggested that the transition would consist of a shorter reform agenda than in other countries in Eastern Europe, that had a less reformed and more centralised economy and, as members of the CMEA, traded more among themselves than with the Western world. From 1991 onwards, however, the region was inflicted by continuous political instability due to military conflicts – in Slovenia (1991), Croatia (1991 — 1995), Bosnia and Herzegovina (1992 — 1995) and the Federal Republic (FR) of Yugoslavia (1998 — 1999). In addition, a large part of the region remained isolated due to international sanctions imposed against FR Yugoslavia, in 1992 — 1996 because of its involvement in the Bosnian war and in 1997 — 1998 because of the crisis in Kosovo which also led to the 11-weeks NATO intervention. These political events had many direct and indirect consequences for the transition process of the successor states of former Yugoslavia, to a large extent cancelling the institutional and international advantages that Yugoslavia had before the break-up.

Reflecting today, more than thirty years later, on the costs and benefits of Yugoslavia's disintegration, the main benefit was clearly political. Yugoslavia's successor states were to gain political independence from the former federal state, obtaining the freedom to implement policies in all fields according to their own national interests. At that time, this major benefit – political independence – was considered important enough to justify the economic costs of separation from the former federal state, since it was hoped that the eventual costs would be compensated by future benefits of independence. In reality, the expectations regarding the benefits and costs of political sovereignty diverged remarkably from actual outcomes. The expected benefits accrued to most Yugoslav successor states with substantial delay, while the costs were much higher, and their effects lasted much longer, than initially anticipated.

Four main groups of economic costs of Yugoslavia's disintegration can be pointed out: (1) general costs of the break-up of the Yugoslav economy; (2) slower pace of transition to a market economy; (3) delayed entry into the European Union; and (4) slow long-term economic development.

/ General costs of disintegration

The Yugoslav successor states faced various negative effects of the break-up of the Yugoslav economy deriving from the loss of some advantages of a larger economic union and of Yugoslavia's privileged international relations. After disintegration, Yugoslavia's successor states lost access to a relatively large protected internal market of over 22 million consumers. Yugoslavia's break-up brought an end to the customs union and a common foreign trade policy, replaced by new customs and trade laws that introduced tariffs and other trade restrictions for products from the neighbouring newly-created states, leading to a substantial reduction in the volume of trade among the Yugoslav successor states. The very strong trade disruption effects of Yugoslavia's break-up are well illustrated on the case of Slovenia, as its sales to the other Yugoslav republics fell from US$ 6.7 billion in 1990 to US$ 1.5 billion in 1992 (Damjan, 2004, p. 336). The federation's break-up also brought an end of the Yugoslav monetary union and the loss of a common currency, requiring the establishment of an independent central bank, the introduction of a new national currency, the choice of an adequate exchange rate regime and building of foreign exchange reserves from scratch (in most cases). After political independence, all the sovereign states had to establish many entirely new institutions and to drastically reform those inherited from Yugoslavia, which required the preparation and adoption of numerous new laws. Due to fragmentation, smaller economic size, loss of economies of scale and permanence of political risk in the region, during the 1990s most Yugoslav successor states attracted very limited foreign direct investment (Estrin and Uvalić, 2004).

Moreover, the successor states of Yugoslavia lost, virtually overnight, other advantages of their former country, including membership in international financial institutions (International Monetary Fund, World Bank) and privileged relations with other international organisations (European Community, European Investment Bank, OECD, OSCE, Council of Europe) (Uvalić, 2010; Mrak, Rojec and Silva-Jauregui, eds. 2004). The reestablishment of political relations with countries worldwide and numerous international organisations required substantial diplomatic efforts and time. This was particularly true for those countries that had been politically isolated during the 1990s, as was the case with FR Yugoslavia, that reestablished relations with most of the outside world only in late 2000 (Uvalić, 2010). The division of Yugoslavia's external debt and foreign exchange reserves, necessary for regulating membership of its successor states in the IMF and other international financial institutions, has been a long and burdensome process. The division of Yugoslavia's property abroad (e.g. embassy buildings) has still not been terminated, after more than thirty years since the federation's break-up.

/ Slower pace of transition to a market economy

The break-up of Yugoslavia was also the main cause, in most countries, of a slower pace of transition to a market economy. The transition-related economic reforms initiated by the Federal government in 1988 — 1990 were interrupted in 1991, while the related legislation had to be replaced by national laws. The Yugoslav successor states had to relaunch economic and institutional reforms on new foundations, in line with their national interests, often requiring long policy discussions and consultations (also with foreign advisors), in order to choose the best possible solutions. These processes naturally delayed the transition process. The transition to a market economy thereafter took very different directions in Yugoslavia's successor states (Uvalić, 2020), but the solutions adopted were not always conducive to a fast implementation of market-oriented reforms.

Most successor states of former Yugoslavia experienced a deeper recession and much higher inflation than the other East European countries, since the transitional recession was amplified by the break-up of the Yugoslav economy, the military conflicts that accompanied it, and specific priorities of countries after independence, such as war-driven expansionary monetary and fiscal policies (Uvalić, 2012). Macroeconomic stabilisation – a one-digit inflation rate – was achieved relatively quickly in Slovenia, Croatia and North Macedonia, but in the other successor states inflationary pressures were more permanently reduced much later – in FR Yugoslavia only in 2001, after the overthrow of the Milošević political regime. The Yugoslav successor states registered a much stronger cumulative fall of production than most other countries in Eastern Europe.

Due to the unfavourable conditions caused by political instability, most countries of former Yugoslavia have postponed or delayed many important economic reforms of the transition to a market economy. In several instances, political priorities were given priority over economic objectives of the transition – in Bosnia and Herzegovina until after peace was restored after 1996, while in FR Yugoslavia during a whole decade. In the area of radical property reforms, the country's break-up rendered privatisation even more complex (Uvalić, 1994, 1995). The new privatisation laws adopted by the Yugoslav successor states were usually based on more restrictive conditions for sales of shares than the previous Federal law, something that additionally slowed down the privatisation process. Moreover, the Yugoslav successor states again introduced state property, a category of ownership that had been long forgotten in their former country. In order to facilitate privatisation, the new privatisation legislation in most countries envisaged the initial re-nationalisation of "social property" (considered an ambiguous property form) through the creation of state-owned funds. This also delayed privatisation, since at a later stage there were difficulties in selling state property.

/ Postponed entry into the European Union

A major expectation of most Yugoslav successor states was that they would be able to become members of the European Union (EU) relatively quickly. This expectation was based on Yugoslavia's good initial conditions that in 1991 were inherited by all its successor states. The main institutional features of Yugoslavia (market-oriented system, workers' self-management, decentralisation, good economic relations with the Western, Eastern and non-aligned countries) placed it ahead of other East European countries. Moreover, after having established official relations with the European Economic Community (EEC) in 1967, Yugoslavia concluded its first preferential trade agreement in 1970 and a broad Trade and Economic Cooperation Agreement in 1980, which have greatly facilitated its foreign trade orientation towards primarily EEC/Western countries. A common and widespread belief in 1989 was that Yugoslavia could be the first country from Eastern Europe to join the EEC, which created high expectations that its successor states could also have a privileged position in their future relations with the EU (see Uvalić, 2023).

At that time, however, many important political issues had precedence on the European agenda (disintegration of the Soviet Union, re-unification of Germany, the Maastricht Treaty), drawing European Community's attention away from the unstable situation in Yugoslavia (Woodward, 1995). The European Union's prudent, even hesitant, approach towards Eastern Europe led to the formulation of its policy of enlargement only in 1994, at the Copenhagen European Council, when the membership criteria were formulated. Slovenia was the only Yugoslav successor state that was included in the group of countries that were offered EU support through financial assistance, privileged access to EU markets, an Association Agreement signed in 1996 and various other programs in the second half of the 1990s. Despite all measures of support, even Slovenia had to wait for 13 years after political independence (until 2004) to become an EU member state (though similar to the countries in Central and Eastern Europe – CEE).

EU policies towards the other countries of former Yugoslavia were different, primarily because of the break-up, military conflicts in the region and continued political instability. Despite ad-hoc measures of support that the EU occasionally offered to most Balkan countries, particularly after the signing of the Dayton Peace Accords in December 1995 (humanitarian and financial assistance, autonomous trade preferences, a few economic cooperation agreements), it is only after the end of the Kosovo war in June 1999 that a long-term EU strategy for the Western Balkans was announced, with the launch of the Stabilization and Association Process for the Western Balkans (including all the countries of former Yugoslavia except Slovenia, and Albania). The new strategy for the Western Balkans was similar to the one towards the CEE countries in the 1990s, but was based on stricter conditionality, since two additional groups of criteria to evaluate countries' progress were introduced: regional cooperation and respect of all international obligations.

As a consequence, Croatia had to wait for EU membership much longer than Slovenia, for 22 years after independence. Although Croatia was among the first countries, right after Macedonia, to sign a Stabilisation and Association Agreement (already in 2001), it joined the EU only in 2013. However, for the other successor states of former Yugoslavia the EU accession process has been delayed even longer. By early 2024, almost 33 years since Yugoslavia's break-up, most countries have obtained candidate status and are negotiating EU accession (all except Kosovo), but it is still uncertain when even the frontrunners (e.g. Montenegro) could become EU member states. For most successor states of Yugoslavia, EU membership remains a distant and uncertain objective (Jović and Uvalić, 2023).

The economic consequences of such variable dynamics of entry into the EU have been quite profound. The countries from Central and Eastern Europe (including Slovenia) that joined the EU in 2004 — 2007 have benefitted from EU membership in many ways, primarily by receiving substantial funds from the EU budget allocated for the Common Agricultural Policy and and Cohesion Policy. Increasing economic integration of the CEE countries with Western EU member states – through trade, foreign direct investments, financial and banking sector links, enterprise networks – has sustained, to a great extent, economic development of the new EU member states, both before and after their entry into the EU. These benefits of EU membership, including substantial transfers from the EU budget after 2013, have also greatly helped Croatia's economic recovery from the global economic crisis.

For the Yugoslav successor states that are not yet members of the EU, the process of economic integration with the EU economy has been much slower. Most countries have intensified their economic relations with the EU only after 2000, thanks to the new EU strategy for the region. Although today the EU has become the most important economic partner of most Western Balkan countries, thanks to increasing trade, FDI, financial and banking integration, the process of economic development, catching up and convergence with the EU has been slow. This is the last negative effect of Yugoslavia's break-up that we now turn to.

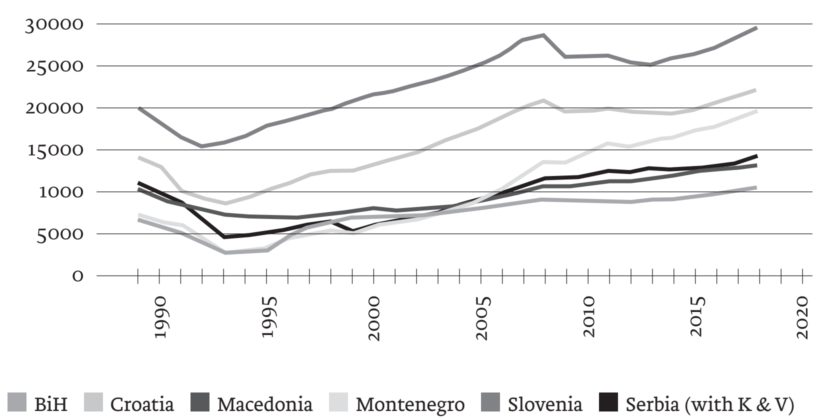
/ Slow economic development

Probably the most long-lasting effect of Yugoslavia's disintegration for most of its successor states has been the slow pace of economic development. During the first decade, extreme political and economic instability led to deep and multi-annual recessions in most countries, so the 1990s have often been referred to as "the lost decade". After 2000, the gradual integration of the Western Balkans with the EU and global economy has undoubtedly helped economic recovery, but it has also increased the vulnerability of their economies to external shocks, including the multiple crises in the EU from 2008 onwards. As a consequence, the growth performance of most countries during the past 15 years (2008 — 2023) has been disappointing. Given that during the past three decades the only period of fast economic growth was from 2001 to 2008, most countries of former Yugoslavia have not had a favourable growth record.

We do not dispose of comparative statistics that could provide a fully accurate assessment of long-term development of all the Yugoslav successor states, for various reasons. First, only estimates exist on GDP growth during wartime conditions, as in Bosnia and Herzegovina during the 1992 — 1995 period. Second, statistics on the countries' populations in the region of former Yugoslavia have continuously been changing, due to continuous emigration and the difficulties in organising reliable population censuses in some countries. Third, the region has further disintegrated in the meantime – Montenegro and Serbia split in 2006 and Kosovo unilaterally declared independence from Serbia in 2008 – so in the main international statistical sources (IMF, World Bank), statistics for some countries are available only since they have become independent states. The change in countries' names and territories also renders long-term comparisons between countries' statistical indicators rather complicated, if not impossible. Consequently, comparative statistics during the last 30 years on the main indicator of economic development – GDP per capita – are inevitably approximative.

One source of statistics on GDP per capita of the Yugoslav republics and its successor states is found in the Maddison database provided by estimates of Branko Milanović (see Figure 2). These statistics suggest that Slovenia was the first country to have surpassed its pre-transition (1989) level of GDP per capita, in 1998, followed by Bosnia and Herzegovina (1999), Croatia (2002), Montenegro (2003), North Macedonia (2008) and Serbia (2008).[7] Interestingly, the wide economic differences among the Yugoslav republics that existed in 1989 seem to have been roughly maintained, with one main exception. After becoming an independent state, Montenegro has been converging towards the more developed countries (Slovenia and Croatia) and thus has become the third most developed country in the region (in terms of GDP per capita).

Figure 2. Real GDP per capita of the Yugoslav republics/Successor states (in 2011 US$), 1989 — 2018 / Source: Maddison project (2020). The latest available statistics are for 2018.



7 These statistics should not be confused with those published by the EBRD on the estimated level of real GDP, taking 1989=100 as the starting point. The EBRD has for years been reporting the estimated level of real GDP, calculated as a percentage change of real GDP with respect to the previous year, taking 1989 as the base (1989=100), equal for all countries in transition.

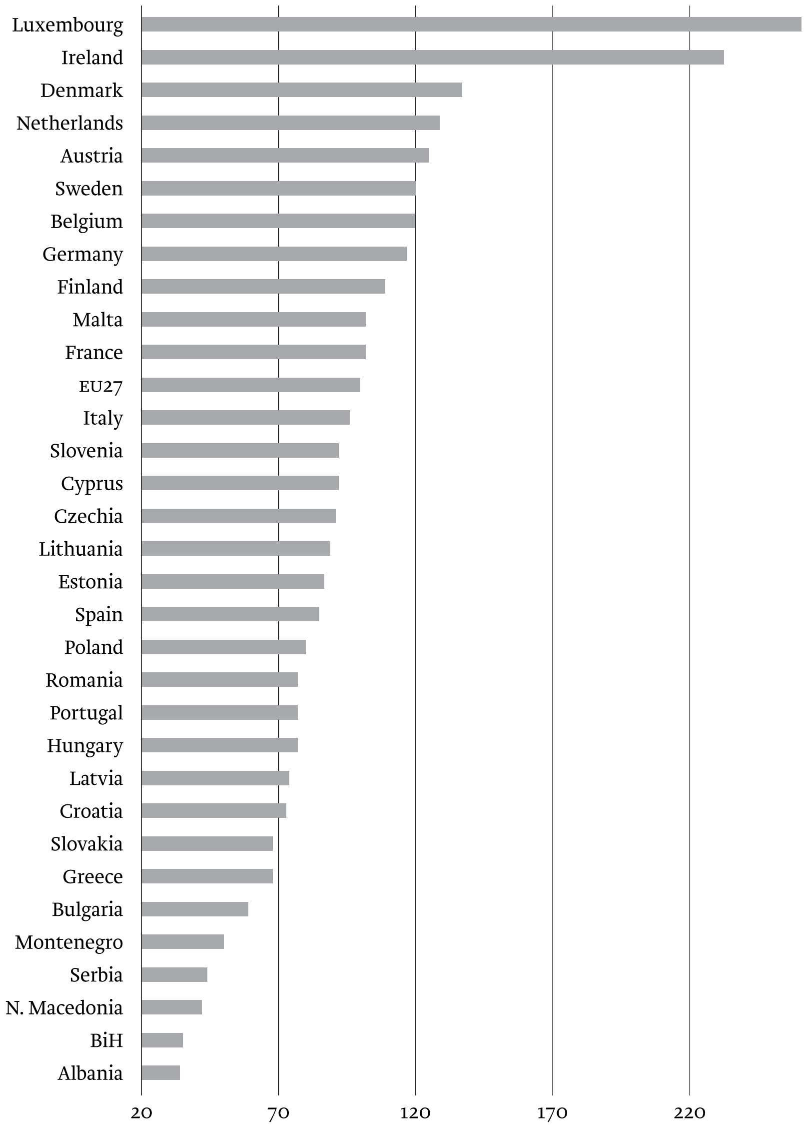
Additional conclusions can be drawn by comparing the current GDP per capita of the Yugoslav successor states with the EU27 average (in Purchasing Power Standards, see Figure 3). Slovenia has done remarkably well compared not only to the other successor states of former Yugoslavia, but also the new member states from Central Eastern Europe, as in 2022 it was at 92% of the average EU27 GDP per capita, ahead of all the other CEE countries. Croatia has experienced much slower convergence with EU income levels, since it has reached 73% of the EU27 average GDP per capita in 2022, representing the fourth least developed EU member state (followed only by Slovakia, Greece and Bulgaria). However, the EU convergence record of all the other countries of former Yugoslavia has been far less satisfactory. In 2022, Montenegro was at 50%, Serbia at 44%, North Macedonia at 42%, Bosnia and Herzegovina at 35%, while Kosovo probably at around 25% of the average EU27 GDP per capita (no official data are provided by Eurostat). Therefore, catching up with the more developed parts of Europe has been an extremely slow process for most countries of former Yugoslavia.

According to a recent analysis of long-term growth and convergence of Yugoslavia's successor states by Bićanić et al. (2021), none of the countries have ever had episodes of sufficiently high growth that were long enough for them to experience “modern economic growth”. The transformation that started in the 1990s has still not led to a lasting acceleration in growth and to convergence with the European core, so from the growth perspective, regime change was a disappointment. The results seem to indicate that this also holds true of the most developed successor state, Slovenia, which is often viewed as an exception and statistical outlier (Bićanić et al., 2021, p. 28).

/ Concluding remarks

Economic theory suggests some of the necessary conditions that need to be fulfilled for countries to create an economic, monetary and currency union. The benefits are likely to be greater than the costs, if the countries forming the union are economically integrated: if they have a high share of intra-regional trade, similarity in production structures, high mobility of factors of production and common economic policies in various areas.

Figure 3. GDP **per capita in European Union and Yugoslav successor states, 2022 (in Purchasing Power Standards),** EU27=100 **/ Source: Author's elaboration based on Eurostat on-line statistics (extracted in June 2023).**



Yugoslavia does not seem to have been an "optimal" economic, monetary and currency union if we consider the republics' relatively high orientation towards local markets, highly imperfect capital and labour markets (very low mobility of labour and capital) and uncoordinated economic policies of its republics and regions in various policy areas. However, as seen earlier, the Yugoslav republics had a relatively high share of intra-regional trade in GDP, as they were trading more among themselves than with their foreign partners. This suggests that at least one of the main conditions for the creation of an economic union has been fulfilled. The trade and other interlinkages on the Yugoslav internal market were based on common interests and mutual interdependence among the republics and regions. At the same time, regional policies intended to accelerate development of the less developed regions did not lead to income convergence, since regional disparities actually widened during the 45 years of Yugoslavia's history.

The widening income gap, however, would not have necessarily led to the disintegration of Yugoslavia (Uvalić, 1993). There are many countries that have not been successful in substantially reducing the North-South divide, yet have not disintegrated because of regional inequalities – the best example is probably Italy. In Yugoslavia, it was the political conflicts that were the primary cause of disintegration, rather than intentional economic policies promoting greater self-sufficiency and autarchy. The re-emergence of nationalist sentiment was fed by the short-sightedness of political leaders that believed that the key national objectives could be more successfully pursued through the disintegration of the Yugoslav federation.

The Yugoslav experience illustrates how the costs of disintegration of larger political and economic entities can be extremely high and unpredictable. Although most former Yugoslav republics expected that state sovereignty would facilitate the attainment of important political objectives, enable quicker implementation of transition-related reforms, ensure faster entry into the European Union and accelerated economic development, these objectives have in most cases been achieved only partially or with substantial delays.

The main benefit of Yugoslavia's disintegration, for its successor states – political independence – led to the attainment of international recognition of five sovereign states relatively quickly, by late 1991 or early 1992: Bosnia and Herzegovina, Croatia, FR Yugoslavia, Macedonia and Slovenia. However, Montenegro became a fully independent state only in 2006, after its referendum on independence and separation from Serbia. Kosovo unilaterally declared its independence from Serbia in 2008, yet it is still waiting for official recognition by some 40% of UN members. Moreover, Bosnia and Herzegovina and Kosovo are often regarded as quasi-protectorates: they have limited freedom to implement policies according to their country's national interests because of the continued international policy of "supervised independence" (Woodward, 2017, p. 90). In Bosnia and Herzegovina, the established system after the Dayton Accords did not end in stable democratic rule, but in "a challenging dependency on the international community" (Merdžanović, 2015, p. 5). A revealing assessment is given by Susan Woodward: "...external actors intervening in countries they call failed, fragile or conflict-affected are focused on achieving the mandates and goals of their organizations; despite their rhetoric, they are not aiming at state-building" (Woodward, 2017, p. 218). North Macedonia, after political independence, has continuously been penalised by unjustified policies of internationally stronger countries (initially Greece, today Bulgaria) and by general regional instability. FR Yugoslavia's political independence has not secured the fulfilment of Serbia's initial aspirations to unite all Serbs in one national state, but on the contrary, it has led to the loss of parts of its territory and further dispersion of its Serb co-nationals. Therefore, even the main benefit of Yugoslavia's disintegration – political sovereignty – has been attained with delay, only partially, or at a high cost, by most of its successor states (Slovenia is possibly the only exception).

As to the economic costs, in addition to the immediate negative effects of the dissolution of a relatively large economic, monetary and customs union, many transition-related reforms have been postponed or delayed by Yugoslavia's break-up. Only Slovenia and Croatia were able to become members of the EU (but many years after independence), while the possible year of entry of the other countries remains uncertain. The record regarding economic development has probably been most disappointing, since the non-EU successor states of former Yugoslavia are today among the poorest countries in Europe. The economic costs have been extremely high for most successor states of former Yugoslavia and have been compensated only marginally by the main political goals pursued through political independence.

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