The World Bank

FOREIGN TRADE INSTITUTIONS AND POLICIES

- The Case of FR Yugoslavia -

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OUTLINE

The purpose of this study is to demonstrate the current status of Yugoslav reforms in trade policies and institutions. The transition to democracy is ten years late as compared to other transition economies and the starting point is extremely low. After a 60% GDP drop in ten years, per capita GDP is below $1.000 and unemployment rate went well above 30%, One third of the population is below regional poverty, wage rate in 2000 was below $45 per month and almost 1 million refugees resided in Yugoslavia. In the meantime, relatively well-developed foreign trade and institutions virtually collapsed. Most foreign trading was shifted to a gray zone, and instead of the laws, corruption and cronyism became ruling forces of the society.

Upon taking the office, the new Federal and Serbian authorities immediately started with re-integration with the international community, which was a fundamental prerequisite for enacting any more fundamental reforms. Soon after, foreign trade deregulation and liberalization have been initiated. The reform of the custom administration has also started. The Federal authorities declared a long-term priority to establishing regional cooperation and free trade, speeding up the accession process to the WTO and integration into European Union, and cooperation within Stabilization and Association Agreement.

This study is divided in ten sections. *The first three sections* are devoted to macroeconomic performance of the economy in the 1990s, followed by the analysis of contemporary foreign trade performance and institutions. The overall and dramatic decay starting from 1990 is registered in all topics abovementioned. *The next three sections* are devoted to foreign trade policies toward imports, exports and domestic competition. A significant improvement in foreign trade policies is registered, but a need for further liberalization is also stressed upon, particularly regarding the abolition of statistical fee, and further reduction and simplification of tariffs. The implementation of safeguards and antidumping policies has not started as yet, mostly for the lack of professional skills in the area. The highly monopolized structures of Yugoslav economy will presumably stay at least while the privatization procedure is not completed in a substantial degree. As far as regulations of entry and domestic competition are concerned, no serious formal impediments can be traced. Since corruption and cronyism are still widespread (not only in foreign trading but in judicary system etc) informal impediments to competing on domestic market are still present. *The last three sections* are focused on the political economy of trade policy, problems of market access on the EU and other markets. Since initial reforms started only several months ago, no substantial changes can be traced so far. The vast majority (over 30%) of population which are below the poverty line cannot expect much from reforms in a near future. Thus donations from June this year will at least help the Government to enact reforms and still prevent health, pension and education systems from total collapse.

The overall estimate is that no serious mistakes have been made in reform process so far, but that most steps lie just ahead. Recommendation for further action inevitably comprises speeding up in fighting corruption in government administration, and upgrading and harmonizing legislation in compliance with the WTO and EU. Still, the success of the reforms will heavily depend on the support and assistance from the international financial community.

1. MACROECONOMIC PERFORMANCE OF THE ECONOMY IN THE 1990s

1.1. Recession and growth of GDP

The inheritance. It has been almost 10 years (starting in 1990) since Yugoslav economy has been recording poor economic performance. Starting with the disintegration of former Yugoslavia, followed by wars in Croatia and Bosnia and Hercegovina, greatest fall (amounting to - 27.3%) was registered in 1993, accompanied by huge hyperinflation, which ended at monthly rate of 313.000.000% (recorded in January 1993). The drastic fall of economic activity had reduced GDP to only 41% of its 1989 level. Per capita GDP dropped from USD 2,600 in 1989 to USD 920 by the end of 1993. After introducing a stabilization program in 1994, only a moderate recovery emerged.

Table 1.1. GDP at market prices

	1989	1990	1991	1992	1993	1994
GDP, mil. USD	27.5	26.6	24.7	17.8	10	11.8
Growth rate (%)		-8,4	-11,2	-26,1	-27,7	3,5
GDP p.c., USD	2630	2530	2370	1620	920	1120
GDP p.c., PPP**	4960	4750	4470	…	…	2970

Source: Federal Statistical Office (FSO), 1995

	1995	1996	1997	1998	1999	2000**	2001*
GDP, mil. USD	12.7	13.5	14.5	14.89	12.02	12.7	13.4
Growth rate (%)	6.20	5.80	7.40	2.70	-19.30	6.0	5
GDP p.c., USD	1210	1286	1381	1418	1145	1200	…
GDP p.c., PPP**	2616	2828	3108	3261	2561	2753	…

Source: Federal Statistical Office (FSO), 2000
* FSO estimate
** EIU estimate

Recovery lasted until 1998, when GDP per capita reached USD 1400. After a 19% fall in 1999, GDP p.c. amounted to only USD 1,145. Primarily due to severe price controls (food and utilities), per capita GDP in 1999 at the purchasing power parity was much higher, and almost reached USD 2,600. The preliminary estimates for 2000 suggest a 6% GDP growth, which obviously could not countervail a 19% drop from 1999, which was dominantly caused by the NATO bombing.

The share of technologically simpler and less import-dependent activities (agriculture, food industry, electric power industry) in GDP structure has increased, while the share of import-dependent and technologically more complex activities (processing chemical industry, machine building industry, electrical manufacturing industry, automobile industry) has decreased. As to aggregate demand (See Table 1 of the Annex), a drop in the share of investments and a growth of the share of current expenditures (personal and public) were two major changes. Moreover, as to personal expenditures, an increase in the share of subsistence goods was recorded.

Recent developments. From the start of 2001 until May 2001, the fall of **industrial production** of -1.2% was recorded primarily due to the fall of textiles (-21.6%), rubber and plastics (-16.4), chemical processing (-13.8%), and electrical appliances (-13.8%). Industrial production is still 13% lower then its 1986-1998 average. Most of these sectors recorded a

fall not only due to severe microeconomic imbalances (in the social sector), but also due to appreciation of the exchange rate and a consequent stagnation and fall in most sectors during. Industrial output of the private sector recorded a 6.5% growth. An overall estimate is that capital shortages, credit constraints and fragile domestic final demand still act as a principal impediment to restoring a self-sustained industrial production growth path.

Until the end of May 2001, Yugoslavia had not yet established macroeconomic stability. As of December 2000, capacity utilisation slighty increased, from 47.5% to only 50.5%. After the success of the Donors Conferrence, which resulted in donnations worth $1,280 million, preceeded by establishment the EBRD micro-credit lines and followed by the NBY announcement of the near entry of several foreign banks, the surveys[1] indicate that the pessimisme amongst company leaders shifted to mild optimistic expectations for July 2001 and ahead.

1.2. Inflation

The inheritance. Inflation has always accompanied any macroeconomic policies implemented in the Yugoslav economy. No stabilization program proved to be viable for more than a year, simply because no structural reforms have been enacted. Despite severe price controls, the outcome was as presented in table 1.2.1.

Table 1.2.1. Yugoslav inflation rates 1989-2001

CPI, previous year =100

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001*
1369	693	221	9337	$116*10^{12}$	100	174	193	118	129.8	142.4	175.7	135

Source: Statistical Yearbook 1999, FSO
*) NBY forecast

Recent developments. After October 5th 2000, the inflation pattern has been significantly changed. Monetization of fiscal deficits has been halted, but price increases occurred due to an overall price liberalization from October 2000, followed by an equal rise in average net wages, aimed at preserving the living standard of population.

Table 1.2.2. Prices, exchange rates and salaries (%)

	April 2001/December 2000	**April 2001/April 2000**
1. CPI	16.5	123.7
2. PPI	13.1	116.4
3. Nominal exchange rate	0.8	33.2
4. Average net wage	16.3	133.3

Source: FSO monthly reports and NBY.

By the end of 2000, the National Bank of Yugoslavia forecasted an inflation rate of 35% In late May 2001, the estimates have been corrected to 45%.

[1] Markting Research Institute, Belgrade, June 2001.

1.3. Budget deficits

The inheritance. Excessive public consumption and monetization of both fiscal and quasi-fiscal deficits lasted until end 1993. As of 1994, the government halted excessive onetizations of the deficit but opted for not servicing its arrears towards the employed and beneficiaries, and halted payments to its suppliers. This has resulted in significant lowering of cash budget deficits. At the same time, the share of public consumption in output rose, regardless of the developments in the real sector.

Table 1.3.1. Consolidated Public consumption and fiscal revenues, 1990-2000

- % GMP

	Fiscal revenues	Public consumption	Deficit
1990	46	49	-3,0
1991	39	54	-15,0
1992	23	47	-24,0
1993	13	45	-32,0
1994	48	51.5	-3.5
1995	47.3	50	-2.7
1996	51.3	50	-5,0
1997	52.9	54.6	-1.9
1998	54.6	55.6	-1,2
1999	55.8	57.3	-1.8
2000	…	…	-1,3

Source: Economic Developments in FR Yugoslavia (1990-1995), FSO estimates onwards

Using various loans, the government managed to cover cash deficit amounting to 1.2-1.8% GMP (1-1.5% of GDP) in 1998-2000 period.

Recent developments. Throughout 2001, the primary objective of the Federal government seems to be fighting corruption and increasing customs revenues, thus improving the income side of the budget. The current level of consolidated public consumption is extremely high as compared to the GDP (GMP), and partly relies on donations.

1.4. Liberalization of prices

The inheritance. Throughout the period 1990-2000, most prices were under control. Several types of controls were implemented: direct state control was applied to subsistence articles, the consequence of which were permanent shortages of numerous products. The supply of most firms (even the ones owned or run by state officials) was moved to the black-market, where demand met much higher prices. Most other articles (over 90% of all commodities) were also under obligation to make prior announcing of price raises, and the Chamber of Commerce and the Ministry of Trade gave final approvals. The price of energy had been kept on a very low level. All these measures, aimed at creating social piece neither curbed inflation nor stabilized the market. Most sectors devastated their capital due to undercapitalization, which primarily came as a consequence of price controls.

Recent developments. The initial price liberalization was performed in October 2000, which corresponds to the last days of the previous (Milošević) government, when almost all prices were liberalized. The exemptions remained in the cases of energy prices, wheat, bread, milk, and flour. A 36% rise in prices can be attributed to this measure. In spite of the fact that it was primarily focused on harming the incoming government, this move was necessary anyway and "freed" new republican government from responsibility for price increases.

Major further price liberalization of electricity prices is expected in June and October 2001, which will sum up to its 100% increase. The estimate is that this move will increase the annual inflation rate by 6.3%. In order to fulfill the projection of 30-35% annual inflation rate, the "room" for further price increases shrinked monthly rate less then 0.8%.

1.5. The Exchange rate regime

The inheritance. After curbing hyperinflation in 1994, the fixed exchange-rate regime was introduced, pegging the Dinar to the Deutsche Mark by 1:1. Although a currency board arrangement had been adopted, the black-market exchange rate augmented by 50% by the end of the year. The monetization of the fiscal and quasi-fiscal deficit remained throughout the period and exchange rate corrections emerged in January 1995, when the official DEM to Dinar ratio was shifted to 3,3:1. In April 1998 the ratio was corrected to 6:1, while in early 2000 a semi-official devaluation emerged, rising the exchange rate on state transactions (customs payments etc) to 20:1, which fairly corresponded to the developments on the black market. The privileged firms could buy hard currency from the state using the 6:1 ratio (which made grounds for the new government to pass the Law on extra-profit, intending to tax all beneficiaries by 90-95% of the profits made through the difference of the official and the black market exchange rate. The law was enacted in summer 2001, and some firms were already taxed). Multiple exchange rates, shortages of official supply of hard currency and an excessive black market of hard currency had prevailed. At the same time, firms were obliged to record hard currency transactions using the official exchange rate, thus totally devastating their capital accounts and income statements. Immediately after the opposition won the elections, the discrepancy between the official (6 DIN/DEM) and the black market exchange rate (40 DIN/DEM) went well over 600%.

Recent developments. In late October 2000, the exchange rate was unified and a current account convertibility was established. The National Bank declared a dirty float exchange rate regime. Initially, the Dinar/Deutsche Mark exchange rate of 40:1 was reduced to 30:1, which remained until these days. The National Bank issued licenses for official exchange offices, and thus practically eliminated the black market. The growth of hard currency reserves from $300 million to over $650 million in May 2000 is closely related to these developments in the foreign exchange regime. Still, due to the significant rise in prices since October 2000, the Dinar severely appreciated and seems to act as a primary macroeconomic obstacle to exports. Still, the Governor of the Central Bank announced that there will be no depreciation of the Dinar is near future. The estimates are that at least a 50% depreciation would restore the position of exporters to the one of October 5th.

1.6. Privatization

The inheritance. As of 1992, the two republics initially formulated the concept of privatization through workers shares, but the process was never completed. One of the obstacles was the discrepancy between the official and black market exchange rate, accompanied by hyperinflation which practically froze all activities on privatization. By the end of 1994, the new privatization scheme was adopted, following basically the same pattern. The Serbian Privatization law form 1998 envisaged distribution of workers shares, but the trade in shares was banned for two years (in order to prevent buy-outs by individuals until capital market becomes more effective). No time limit for completing privatization had been envisaged. The three phases of privatization were: the first one, when workers divide part of the shares themselves, and in the other two phases the remaining capital is then offered for sale to workers themselves, and to the public. Only 5% of social capital had been privatized until the opposition took over. Still, over 90% of the firms "entered" privatization procedure, which meant only that part of the shares had been distributed. In the meantime, the "black privatization" took over: the directors of socially-owned firms have been selling their underpriced goods to private firms owned by their relatives, which made huge profits on the black market. In the meantime, the Montenegrin privatization was also on a standstill until 2001.

Recent developments. The two republics of the Federal Republic of Yugoslavia adopted two different privatization models. The Republic of Montenegro enacted a voucher privatization, while Serbia passed (but still has not enacted) the Privatization Law which is based on the model of tender sales of majority of the Serbian companies. The Serbian Privatization Law is due to pass the Parliament by August July 2001.In parallel, it has begun to develop a new framework which will allow 70 percent of enterprise equity to be offered to strategic investors with a view to establishing clearly defined and dominant owners.

1.7. Other structural reforms

Comprehensive market-based reforms were announced in FR Yugoslavia and in the Republic of Serbia.[2] After an overall isolation from the international economy, FR Yugoslavia restored its membership in the UN, WB and IMF, finalized negotiations with the Paris Club and EBRD and settled its problems of the succesion of the property of the Socialistic Federal Republc of Yugoslavia with former member states.

Most market-based reforms are under preparation and some of them have already been enacted. Three most important laws have been in final stages of preparation – The Tax Law was adopted in early May 2001, the Customs Tariff Law (federal level) and The Privatization Law (Sebian level) are expected to pass the Parliament by early June this year.

The Federal government declared priority of implementing foreign trade reforms. Immediately after the overthrow of Milošević most prohibiting foreign trade laws were suspended. Central bank deposits of 5% and 10% on foreign trade transactions were abolished, and the same implied to the obligatory sale of 10% of earnings in hard currency.

[2] The government of the second Yugoslav Republic (Montenegro) does not recognize the present Federal Government and does not participate in the reforms which are described in the following text.

Minimal company capital requirements of DEM 10,000 as well as the annual registration tax of DEM 1000 (for trading companies) were reduced to zero. In addition, all obligations for trading companies to report and pay a tax over imports/exports transacions to the Federal Ministry of Foreign Trade were abolished.

In addition, the Serbian government addopted a hard budget constraint rule and declared an uncovered cash budget deficit of DEM 0.7 bilion, i.e. Din 22 bilion (see Appendix). The deficit is expected to be covered by revenues from privatization, donations and reducing gray economy. At the same time, Serbian authorities declared and enacted first steps in fighting two important smuggling points – the cigarettes and oil-importing mafias. The first results in this respect are positive, still rather controversial.[3] Still, so far there is no reason to doubt the commitment of both federal and Sebian authorities to enact true market reforms.

In Montenegro, where reforms and institutional development had generally progressed further over recent years, the authorities continued to move forward on several fronts. In late-2000, the prices of key consumer staples were partially freed, with the full liberalization of milk and bread prices planned for August 2001. The republican parliament passed new laws on the Central bank, Commercial banks, Foreign investment, securities, and Telecommunications.

[3] This issue is explained later in Section VI, see par. Delays, Corruptions and Other Problems)

2. FOREIGN TRADE PERFORMANCE

2.1. The degree of openness

Figures indicate that both in the 1980s and in the 1990s, Serbia and Montenegro had been rather closed economies. During the 1980s, foreign trade of Serbia and Montenegro amounted to only 36% GDP, while in the 1990s foreign trade share varied, but it never rose above 42%. Still, the market for Serbian/Montenegrin products and services significantly shrinked with the disintegration of former Yugoslavia, since the trade share of interrepublican trade amounted to more than 50% GDP. Thus the total trade share in 1989 was 90% GDP, which is quite common for countries of similar size.[4]

Table 2.1.1. Trade share*) in GDP

	Actual trade in 1989			Trade shares (% GDP) in small open economies	Actual Trade shares	
		Foreign	Inter-republican		1998	1999**
Import content	48	19	29	40-60	26.2	21.8
Export share	42	17	25	40-60	15.5	9.9
Total trade share	90	36	54	80-120	41.7	31.7

Source: Economic Developments in FR Yugoslavia, for 1989; own calculus based on FSE data onwards

*) *comprises goods and non-factor services;*

**) *including trade with former Yugoslav republics; figures are comparable with the sum of first two columns of the Table.*

Thus the drop of export shares from 42% in 1989. to 15.5 in 1998 (only 9.9% GDP in 1999), virtually presents the key summary indicator of the effects if the internal (bad economic policies) and external destruction (sanctions) of the Yugoslav economy.

The sanctions on trading with the Yugoslav economy lasted from 1992 until late 2000. In May 1992, the European Union prohibited their firms to trade with Yugoslavia. Later that year Yugoslavia was expelled from the international payments system. The most prohibitive embargo was imposed by the UN, which lasted from 1992 until end 1995. Afterwards, there were no obstacles to trading with Yugoslavia, but the ban on making international payments remained. Namely, the US administration imposed the so called "outer wall of the sanctions" which again prohibited Yugoslavia to join the UN, the World Bank and the IMF. Thus Yugoslavia could not reintegrate in the international payments system. These measures remained effective until end 2000. As presented in the table 2.2.1.1, the UN embargo (May 1992-end 1995) reduced exports by 66% o its 1989 level, while imports fell by 60%. The fall in exports and imports prior to the UN embargo can be attributed to the disintegration of the former Yugoslavia, which started in mid 1991.

[4] Comparable data for Serbia and Montenegro's trade shares can be found in WDR 2000/2001, table 13: Structure of demand. Total trade shares in 1999 were: Hungary (103%), Czech Republic (129%), Portugal (79%) and other countries of similar size are well above 80%.

Table 2.1.2 DEGREE OF OPENNESS
(export and import of goods divided by GDP)

%

	EXPORT SHARE	IMPORT SHARE	EX&IM
1995	10.0	17.4	27.5
1996	12.2	25.0	37.2
1997	14.8	26.6	41.3
1998	15.5	26.2	41.7
1999*	9.9	21.8	31.7

* FSO, estimated; without data for Kosovo and Metohia.

2.2. Merchandise trade

2.2.1. *An export led growth?*

The variability of growth rates of both GDP and foreign trade flows is impressive. Still, the greatest growth in foreign trade flows followed the incidence of lifting the outer wall of the sanctions (end 1995), and UN sanctions and NATO bombing in 1999.

Table 2.2.1.1 GDP AND FOREIGN TRADE TRENDS

	GDP	%	EXPORTS	%	IMPORTS	%
1989	27,5		4210		4930	
1990	26,6	-8,4	4440	5,54	5600	13,64
1991	24,7	-11,2	4530	2,03	5200	-7,11
1992	17,8	-26,1	2400	-47,13	3450	-33,66
1993	10	-27,7	760	-68,41	1060	-69,28
1994	11,8	3,5	630	-16,91	1320	24,06
1995	12,7	6,2	810	27,19	1400	6,46
1996	14,5	7,4	2018	149.8	4119	194.2
1997	14,89	2,7	2677	32.7	4826	17.2
1998	12,02	-19,3	2858	6.8	4849	0.5
1999*	12,07	6	1498	-47.6	3296	-32
2000	13,4	5	1923	28.4	3711	12.6

Since a very low level of foreign trading has been already discussed, the question whether Yugoslavia has an export-led growth or not has to be based on following premises: (i) impressive growth rates of 8 and 10% in 1996-1997 came after much larger negative growth rates recorded from 1992 onwards, thus indicating only that some recovery took place but that there was no genuine growth at all; (ii) impressive fall from 1999 was also caused by non-economic factors; (iii) the correlation coefficient between GDP and exports 89,9 and the corresponding GDP/import correlation amounted to 68,9, indicating the existence of intensive influence of export developments on GDP. Still, when taking in consideration that exports make no more than 15% GDP, the thesis of an export-led growth cannot be confirmed. Still, this leaves no doubt at all that an export-led strategy is the only sound way out for Yugoslavia.

No significant shift in exports has been recorded since new administration took over. Average monthly exports amount to $140-160 million, while imports vary between $300-340 million. In April 2001, a fall was registered both in exports ($138 million) and in imports ($285 million), which obviously confirms the fragility of foreign trade flows established so far.

2.2.2. Direction of trade.

Regardless from the variability in volume of trade by years, Yugoslav foreign trade partners remained the same, while only the scope of trade changed. The share of trade with neighboring countries rose in periods when sanctions were strengthened.

Regarding trade by country, Germany, Italy and Russia remain the most important partners. The estimates are that in the near future, along with overall growth and the re-establishment of trade with other former Yugoslav republics, the EU will still remain Yugoslavia's most important trade partner.

2.2.2.1. *Trade with European Union*. FRY exports to European Union countries were characterized by work-intensive products, while exports to neighboring countries and to transition countries, were characterized by industrial products that could not compete in quality on the markets of developed Western countries.

Table 2.2.2.1a FRY Trade with the European Union

(in millions of USD, and in % of total exchange)

	1991	1992	1996	1997	1998	1999
Exports	2484.2	1113.9	586.4	838.6	1103.0	549.4
Imports	2704.6	1689.5	1725.1	1976.6	2065.2	1379.7
Trade balance	-220.4	-575.6	-1138.7	-1138.0	-962.3	-830.3
% of total export	52.8	43.7	31.9	35.4	38.7	36.6
% of total import	48.6	43.8	42.1	41.2	38.3	41.9

Source: Statistical Yearbooks of FRY Foreign Trade, 1991-1999.

The FRY export's orientation to these countries was less in periods when business conditions were stricter and greater in periods when limitations on trade with these same developed countries were lifted (see Table 1 in Annex to section 2).

Despite the weakening trend, export activity to EU countries, as the most important foreign trade partners in the nineties, did not affect their dominant position in the regional structure of Yugoslav trade, even under economic sanctions. The weakening trends were registered on the side of imports from the EU, but of far lesser intensity. This is why the deficit in the foreign trade balance with the EU was so marked. The importance of EU countries was virtually equal, both in terms of export and import.

The importance of the EU in the FRY's total trade was quite even in the beginning of the nineties, in terms of SITC commodity groups, with the exception of beverages and tobacco and various manufactured goods. The greatest part of various manufactured goods

intended for export was marketed in the EU, so the aberration in the export share of these products in the EU from the FRY's average export share in the EU was greatest

The EU countries were very important for FRY imports, particularly for the import of various finished products and beverages and tobacco, compared to other commodity groups. Over 50% of imports of beverages and tobacco, various manufactured goods, chemicals, vegetable and animal fats and oils, machinery and transport equipment, commodities and transactions not included elsewhere originated from EU countries in that period. The picture was quite different at the end of the nineties: the FRY imported least beverages and tobacco, commodities and transactions not included elsewhere, mineral fuels and grease from the EU compared to the total share of these commodity groups in the FRY. At the same time, over 60% of imported manufactured goods and machinery and transport equipment originated from the EU.

The EU was very important as a market for food, crude materials excluding fuels, and for chemicals. It was of lesser importance for beverages and tobacco, vegetable and animal oils, commodities and transactions not included elsewhere. Three commodity groups were dominant in the FRY's export structure to the EU in the nineties: food and live animals, manufactured goods classed according to materials, and various manufactured goods. The greatest part of FRY exports to the EU (around 70%) pertained to these commodity groups. Machinery and transport equipment, chemicals, manufactured goods classed according to materials, and various manufactured goods were most represented in imports from the European Union (around 80% in total imports from the EU).

Table 2.2.2.1b Ten Most Significant Trade Commodity groups in Trade With EU, 1998

	Exports	%	Imports	%
1	Garments	19.4	General purpose industrial machines	7.1
2	Fruits and vegetables	12.4	Special machines for individual branches of the industry	6.0
3	Iron and steel	8.6	Road vehicles	5.5
4	Non-ferrous metals	8.3	Electric machines, equipment and appliances	3.9
5	Rubber products	4.7	Oil and oil products	3.7
6	Organic chemicals	4.0	Medical and pharmaceutical products	3.4
7	Footwear	3.8	Chemicals and commodities, not included elsewhere	3.3
8	Plastics in primary form	3.7	Garments	3.2
9	Cork and wood	3.4	Organic chemicals	3.1
10	Oil and oil products	3.3	Telecommunications equipment and machinery	3.1
	Total	71.6	Total	42.3

Source: Statistical Yearbooks of FRY Foreign Trade, 1991-1999.

Regarding FRY trade with EU countries individually, trade concentrated a great deal on Germany and Italy (around 60% of exports and around 53% of imports), i.e. Germany, Italy, Greece and France (around 80% of exports and around 70% of imports). Exports to Germany and Italy, as the FRY's most important foreign trading partners, in 1998 accounted for only 30% of the export level in 1991, and imports for 43%. The FRY's exports to Greece and France in 1998 accounted for 82% and imports for 72% of the 1991 level. FRY exports to these four EU countries concentrated on several trade commodity groups, as shown in Table 14. In 1998, seven commodity groups with the highest export value to these countries accounted for more than 70% of total exports, with the exception of Greece. Exports to other

countries were trivial in terms of trade commodity groups, with considerably lower export values compared to these four countries.

2.2.2.2. *Trade with Central European transition countries*, which are members of the Central European Free Trade Area (CEFTA: the Czech Republic, Hungary, Poland, Slovenia and Slovakia) was in 1998 down by 18.4% compared to 1991, so that with the decreased total value of trade by 24.8% their share in total trade increased insignificantly (from 6.3% in 1991 to 6.8% in 1998).

Table 2.2.2.2a FRY Trade In Goods With CEFTA
(in millions of USD, and in % of total exchange)

	1991	**1992**	**1996**	**1997**	**1998**	**1999**
Exports	217.1	93.3	101.4	156.2	167.5	130.5
Imports	424.5	324.1	415.5	360.6	356.2	310.8
Trade balance	-207.4	-230.8	-314.1	-204.4	-188.8	-180.3
% of total export	4.6	3.7	5.5	6.6	5.9	8.7
% of total import	7.7	8.4	10.1	7.5	7.3	9.4

Source: Statistical Yearbooks of FRY Foreign Trade, 1991-1999.

Only 5% of exports targeted this region in the beginning of the nineties, and almost 9% of Yugoslavia's total exports at the end of the nineties. The general conclusion is that CEFTA countries rank far behind EU countries in terms of importance for the FRY's foreign trade, which is testified to by these countries' share in the FRY's exports and imports, which does not exceed 10%.

In terms of commodity groups, it may be concluded that the importance of CEFTA countries in the FRY's total exports was modest and uneven in the nineties. Aberrations of the share of commodity groups from the average share of CEFTA in the FRY's exports and imports indicate that the following commodity groups had a much greater share in the FRY's total exports than the average share of exports to CEFTA countries: vegetable and animal oils and fats, machinery and transport equipment, and crude materials excluding fuels, while the share of various manufactured goods and commodities and transactions not included elsewhere was less than average. CEFTA countries absorbed less than 10% of Yugoslavia's total export by commodity groups in the nineties, with the exception of vegetable and animal oils and fats, chemicals and crude materials excluding fuels, in certain years. At the end of the nineties, one observes a tendency toward the increased sale of machinery and transport equipment, vegetable and animal oils and fats, chemicals and beverages from the FRY to CEFTA countries. As far as imports from CEFTA countries are concerned, the import of chemicals, machinery and transport equipment and manufactured products originating from these countries increased.

2.2.2.3. During the UN sanctions and the NATO air strikes, the *trade with former Yugoslav republics* and other neighboring countries were used to bypass the obstacles to foreign trade. Thus numerous firms (in textiles, pharmaceuticals, food industry, furniture, banking, etc) moved their businesses to Republika Srpska and Macedonia, the primary motive being to establish more profitable trade channels for Yugoslav goods abroad. Re-exporting of theese countries has been treated as their genuine exports. Many big domestic firms operated via private firms they founded in these countries. Payments system of these countries was also

used to bypass international sanctions. In addition, this also eased imports to Yugoslavia and enabled regular payments to the suppliers. This was yet another factor that affected the unreliable quality of official data on foreign trade, doing business via neighboring countries increased the cost of trade, which also aggravated trade relations and conditioned the outflow of the national income to foreign countries through such channels.

FRY exports by country are highly concentrated on a small number of trade commodity groups. Five commodity groups with the highest value of exports to each of the former Yugoslav republics accounted for more than 50% of total exports in 1998. There was very little overlapping in the export supply, which means that import demand for products from the FRY different considerably in these countries.

Table 2.2.2.3a FRY Trade In Goods With The Former Yugoslav Republics, 1996-1999
(in millions of USD, and in % of total exchange)

	1996	**1997**	**1998**	**1999**
Export	622.1	764.3	808.9	526.9
Import	509.5	673.6	530.6	351.4
Trade balance	112.6	90.7	278.4	175.5
% of total export	33.8	32.3	28.3	35.2
% of total import	12.4	14.0	10.9	10.7

Source: Statistical Yearbooks of FRY Foreign Trade, 1991-1999.

The former Yugoslav republics were much more important for exporting than for importing. This is the only group of countries with which the FRY registered a surplus in trade during the nineties, at the time when the cover of import by export was very low. This pertained to trade with Macedonia and Bosnia-Herzegovina, specifically the Republika Srpska.

The importance of the former Yugoslav republics for the FRY's trade in the past ten years was reflected in the fact that the FRY was able to market its goods in the world and purchase intermediate goods and consumer goods even during the strictest UN sanctions. When the EU tightened its sanctions, particularly during the bombing campaign, the FRY was forced to trade via intermediaries in neighboring countries. Because of the frequent changes in business restrictions with the world (imposed by the international community) information on trade with the former Yugoslav republics in not entirely reliable, because such information also included trade with other regions. Unregistered trade among the former Yugoslav republics, which was carried out in the gray zone, represents a particular problem.

Viewed by commodity groups, the importance of the former Yugoslav republics varies. The former Yugoslav republics are particularly important for FRY exports as markets for agricultural products, beverages and tobacco and chemicals. They are of lesser importance for intermediate goods and various manufactured goods. As far as imports are concerned, the former republics were particularly important for importing industrial raw materials and beverages and tobacco. Agricultural products, machinery and transport equipment and various manufactured goods have much less import value.

The increased export of various manufactured goods and machinery and transport equipment to these countries at the end of the nineties was a consequence of tighter EU

sanctions in 1999, as the absolute value of exports in these commodity groups increased while the value of total exports to these countries decreased significantly. It may thus be concluded that these countries were used to bypass sanctions. On the imports side, the former republics were less important for the food and live animal class, while the share of other commodity groups was highly variable, thus a more significant structural change cannot be determined.

2.2.2.4 *Trade with countries in the region – Southeast European countries*[5], unlike the former Yugoslav republic, enjoyed more intensive trade with the FRY even before the UN imposed sanctions against the FRY. The absolute value of trade with Southeast European countries in 1998 was down by 33% compared to 1991, so that their share in total trade (which dropped by 24.8%) decreased from 10.4% to 9.2%, respectively. The value of exports to these countries dropped by 55.6% and imports by 7.4% in the same period.

This group of countries was very important to the FRY's foreign trade before the imposition of UN sanctions, during the enforcement of the UN sanctions and directly after their lifting. As a result, its share in total exports increased suddenly in 1992, only to drop by virtually one half by 1998. Its share in the FRY's trade and in both imports and exports increased again in 1999.

In terms of commodity groups, the countries in the region were particularly important for the export of mineral fuels and grease, and in all years for which data on FRY trade were kept their share in crude materials excluding fuels and manufactured goods classed according to materials exceeded 10%. In other commodity groups, countries in the region do not represent a particularly important export market. On the import side, this group of countries had a share in excess of 10% in all three mentioned FRY export commodity groups. Thus, like the former Yugoslav republics, FRY's trade with countries in the region included predominantly primary products. The existing trade structure does not include a potential for increasing its value, without regional stabilization and a more significant mutual opening up for investment and trade.

2.2.2.5. *Results in 2000* .The total value of FRY exports in 2000 was USD 1,723 million, which was higher by 15% compared to 1999, and lower by 39% compared to 1998. The cumulative value of imports was USD 3,711 million, which was higher by 13% compared to 1999 and lower by 21.6% compared to 1998. The foreign trade deficit in 2000 was USD 1,988 million, which was higher by 4% compared to 1998. Exports in 2000 were down by 70% and imports by 50% compared to 1990.

Based on information on exports and imports according to the Standard International Trade Classification (see Tables 3 and 10), it may be concluded that 2000 gave no intimation of improvement in the FRY's export structure. The existing class orientation was maintained in 2000 as well. Commodity groups that were of the greatest significance in the past decade continued to have the greatest share in FRY exports. These are non-ferrous metals, garments, fruits and vegetables, iron and steel, rubber products, non-metal mineral products, cork and wood.

[5] Albania, Bulgaria, Romania, Hungary, Turkey.

Another unfavorable element is that in 2000 the export increased of crude materials excluding fuels and manufactured goods classed according to materials, which chiefly include semi-manufactured products[6]. There were no significant changes on the import side according to the SITC structure: like in previous years oil and oil products, road vehicles, textile products, and iron and steel continued to have a major share in FRY imports.

Table 2.2.2.5 Foreign trade of FRY by SITC in 2000

- in millions of USD

	Exports		Imports	
	2000	Change in % (2000/1999)	2000	Change in % (2000/1999)
TOTAL	1,722.7	15.0	3,710.6	12.6
Food	255.2	-12.4	279.2	0.1
Beverages and tobacco	15.4	-29.4	52.6	29.7
Crude materials	122.5	50.0	220.7	-4.3
Fuel and grease	4.4	-87.8	745.2	26.8
Animal and vegetable fat	16.6	100.0	9.0	15.9
Chemicals	145.4	0.1	556.0	7.1
Manufactured goods	632.2	36.0	771.8	14.1
Machinery and transport equipment	214.8	16.9	819.7	14.8
Various manufactured goods	270.0	22.1	237.1	11.5
Other	46.2	5.8	19.3	-30.3

Source: Federal Bureau of Statistics (SZS)

Neither did regional orientation record any significant change in 2000. Export to European Union countries grew in 2000, so that export to these countries accounted for 38% of the FRY's total exports (the same as in 1998). Export to transition countries was higher in 2000 by 3% compared to 1999. As far as the former Yugoslav republics are concerned, the FRY exported most to Bosnia-Herzegovina in 2000, as was the case previously. However, this export was down by 16% compared to 1999. Export to Macedonia increased by 20% compared to 1999. Italy and Germany were the FRY's leading foreign trade partners among developed countries in 2000. On the import side, import from transition countries was higher in 2000 by 22% compared to the preceding year, and accounted for almost 44% of the FRY's total imports. Imports from developed EU countries also increased by 9% and in 2000 accounted for almost a half of total imports.

The structure of imports in 2000 deteriorated to the detriment of intermediate goods and equipment, and in favor of consumer goods, compared to 1999. The import of consumer goods increased by 30% in 2000, and its share in total imports grew from 40% in 1999 to 45% in 2000. The share of intermediate goods and raw materials in imports dropped in the same period from almost 50% to 44%, while the import of equipment dropped from 9% in 1999 to 8% in 2000.

It may be expected that compared to the surveyed period less FRY exports will in the coming period be directed to countries in the region (particularly Macedonia, Bosnia-Herzegovina, Romania and Bulgaria) and more to developed countries. This is based on the marked regularities in the trend and structure of foreign trade in the nineties and 2000 that depend on changes in external trade conditions. Namely, foreign trade was carried out to an excessive degree through countries in the region as the only way to export goods to other markets that were otherwise banned. This primarily referred to Bosnia-Herzegovina, with the

[6] Manufactured goods classed according to materials include leather and fur products, rubber products, cork and wood products, cellulose products, yarns, fabrics and textile products, non-metal mineral products, iron and steel, non-ferrous metals.

Serb Republic, and Macedonia. The FRY still has available potential to increase trade with Croatia and Slovenia, which means that trade with these countries may increase manifold. Such trends would be a natural result of the latest positive changes in the FRY's foreign trade conditions (the lifting of economic sanctions, the approval of a general preferential treatment system, etc.). In other words the full normalization of the FRY's business conditions with developed countries will also offer the possibility of increasing FRY exports to these countries (EU, CEFTA).

Such trends are logical and to be expected in the FRY in the transition period, as has been testified to by certain research on the regional orientation of trade of transition countries in the nineties[7]. On the basis of this one may conclude that during the transition period, there was a tendency to significantly reduce mutual trade among transition countries and with developing countries, while focusing more on trade with developed countries (EU).

Last available data (April 2001) show that the direction of trade remained practically the same. Yugoslavia's most important export partners were Italy ($97 million), Germany ($74 million), and Switzerland ($61 million). Main regional destinations were Bosnia and Herzegovina ($71 million) and Macedonia ($527 million).

Latest data on imports show that Russia ($188 million), Germany ($178 million) and Italy ($129 million) are still most important suppliers of the Yugoslav economy. As for the region, Bulgaria ($83 million), Romania ($74 million) and Hungary ($63 million) take the lead.

2.2.3. Composition of trade.

An analysis of the structure of Yugoslav trade, particularly exports, shows a growing discrepancy compared to world trade trends in the nineties. While world trade trends were moving toward high-technologically intensive commodity groups, the FRY's export structure retained as dominant primary products and industrial products of a lower processing phase. Hence traditional exporting commodity groups in the FRY were unable to secure more favorable positions in the changed world trade environment. Since domestic exports were not adapted to international import demands, the process of structurally adapting the FRY's exports to products of a higher processing phase is necessary.

The trend and structure of imports were determined by the domestic production's, particularly the industry's high dependence on imports. In the period 1991-1998, when industrial output dropped by 36% and industrial exports were halved, the FRY industry's import dropped by only 10%. The country imported raw materials and intermediate goods most. [8]

In terms of the Uniform Classification of FRY Activities, the positions of certain branches of activity changed in the period 1991-1998 according to their share in total exports and imports (Table 18). Changes in structure went parallel with the drop in overall FRY

[7] Marta Bazler-Madzar (editor), Economic Integration on the Territory of the Former Yugoslavia, Economics Institute, 2000.

[8] The import of equipment at the end of the nineties accounted for around 9% of total imports, the import of intermediate goods and raw materials for around 50%, and the import of consumer goods for around 40%.

exports. The export of the metal industry, the chemical industry and paper processing, the food industry, agriculture and the fishing industry, and other activities in total exports increased, while the export of the textile industry, the electrical equipment industry and the electric power industry dropped.

It is also evident that in addition to the electric power industry and oil production, branches of the industry that suffered the greatest drop in production were branches that registered a greater drop in exports (the electrical equipment industry, the machine building industry, transportation facilities, the metal processing branch, the production of garments and leather footwear). Imports intended for the production of garments, leather and furs, iron ore and coal processing decreased most.

Changes in the import structure, which were more moderate, did not substantially change the position of individual branches in terms of their share in imports. The share of the electric power industry, the electrical equipment industry and metal processing and other activities in the FRY's total imports dropped, while imports by the chemical, textile and food industry, agriculture and the fishing industry increased.

Even apart from the said changes in the share of individual branches in the FRY's total export, the order of branches by scope of export did not change significantly in the past decade. The most important branches in terms of their share in FRY exports were the garment industry, the basic chemical industry, non-ferrous metals, the iron and steel industry and transport equipment. The order of branches on the side of imports did not change significantly either: the production of oil and oil products, yarns and fabrics, basic chemical industry and processing of chemicals, machine building, the electric power industry, transport equipment, food industry.

Exports by certain branches decreased at a slower pace compared to the FRY's gross domestic product, which caused these branches to increase their export share in the GDP. This refers primarily to the food industry, the iron and steel industry and the production of non-ferrous metals. The export share of five branches: the food industry, the garment industry, the iron and steel industry, the production of non-ferrous metals and the basic chemical industry, in the GDP at the end of the surveyed period was close to 10%. The share of total exports in the FRY's GDP on the import side increased from 25% in 1991 to 40% in 1998, while imports by the industry increased from 22% to 37%, respectively, thanks to the higher import share of the electrical equipment industry, oil production, the basic chemical industry, and the textile and food industries.

Analyzing the structure of goods export by SITC commodity groups and sections, it becomes even more evident that Yugoslav exports are established on products that are of declining importance in international trade (food products, garments and textile, agricultural raw materials, non-ferrous metals, etc.)

Table 2.2.3.1 FRY Export and Import Structure According to the Uniform Classification of Activities, (in %)

	Exports		Imports	
	1991	1998	1991	1998
Generation, transmission and distribution of electricity	4.3	2.6	18.0	15.8
Metal basic industries	15.1	18.1	4.8	5.5
Non-metal mineral products and construction materials	2.0	1.7	2.4	2.8
Manufacture of electrical machinery and fabricated metal products	24.0	13.1	27.2	24.2
Manufacture of chemicals and paper	11.5	12.0	17.5	19.5
Wooden furniture and fixtures, containers	2.9	3.9	0.5	1.9
Yarns and fabrics, textile products, leather and fur	25.7	17.4	10.1	13.9
Manufacture of food products, tobacco, beverages	9.4	10.5	5.6	6.4
Other industries	1.3	1.1	1.6	1.4
Agriculture and fishing	3.4	4.0	5.0	5.8
Other	0.3	15.6	7.0	2.7
Total	100.0	100.0	100.0	100.0

Source: Federal Statistical Office, FRY Statistical Yearbook 1991-1998.

The class structure of FRY exports in the nineties was characterized by a high share of food and live animals and manufactured goods classed according to materials, which chiefly include semi-manufactured products (Table 3). A large and growing share of these products in Yugoslav exports deteriorated the export picture of our economy. The export share of machinery and transport equipment decreased significantly, because the processing industry's competitive export edge decreased. The non-competitive character and unfavorable divisional structure of Yugoslavia's foreign trade in the past decade were reflected in the dominant share of raw materials and intermediate goods, as well as products in lower production phases.

Table 2.2.3.2 FRY Foreign Trade by SITC

(in %)

	Exports			Imports		
	1991	1998	1999	1991	1998	1999
Food and live animals	11.0	11.7	19.4	7.7	10.1	8.5
Beverages and tobacco	1.4	1.5	1.5	0.8	1.1	1.2
Crude materials, inedible, except fuels	3.2	4.4	5.5	5.0	6.4	7.0
Mineral fuels, grease and related materials	4.4	2.7	2.4	18.4	15.8	17.8
Animal and vegetables oils and fats	0.1	0.8	0.5	0.2	0.2	0.2
Chemicals	9.2	10.0	9.7	13.4	14.0	15.7
Manufactured goods	27.2	29.9	31.0	14.2	21.5	20.5
Machinery and transport equipment	19.9	10.1	12.3	23.3	20.6	21.7
Various manufactured goods	23.2	13.4	14.8	10.5	7.9	6.5
Other[9]	0.4	15.4	2.9	6.5	2.5	0.8

Source: Statistical Yearbooks of FRY Foreign Trade, 1991-1999.

[9] Commodities and transactions not included elsewhere include mail shipments, special product transactions, metal coins, non-monetary gold.

As for the composition of merchandise imports and exports, a substantial change has been registered in export flows. Before the embargo, 70% of total exports consisted of machines, parts, transport equipment and various finished goods. In the period January-August 2000, their share fell to 23% of total exports. The share of primary commodities consequently rose, especially due to exports of food (grain, fruit and vegetables) and live animals. Regarding imports, the share of fuels, machines and transport equipment fell due to poor domestic investments. On the other hand, the imports of food and crude materials rose.

3. Trade in services

Over the past ten years, FRY has been creating a considerable trade deficit, accompanied by a slight surplus on the services balance. Thus an excessive current account deficit emerged (from 8% in 1995 to 12.5% GDP in 2000). From 1992-2000 Yugoslavia was not the member of international financial institutions and the bulk of the created deficit was paid in cash.

Dramatic variations in the volume of trade in services came as a consequence of turbulent changes in foreign policies towards Yugoslavia. Thus only in 1998 there was a relatively moderate external pressure, which almost doubled the volume of services exports and imports as compared to other years, especially when considering dramatic falls in 1995 (UN sanctions) and 1999 (NATO bombing).

Table 3.1. Current account and trade deficit, 1995-2000

% GDP

	1995	1996	1997	1998	1999	2000
Trade balance (%GDP)	-8.20	-14.46	-12.14	-13.48	-13.04	-14.20
Services balance	0	6.07	3.39	5.53	4.2	1.7
Current account (%GDP)	-8.19	-8.39	-8.75	-7.95	-8.84	-12.50

Source: Federal Statistical Bureau

Yugoslavia has traditionally been a net exporter of services, Construction and Transport being the leading exporters.

According to the data from Table III.3.1b, the largest exporters of services (making up to 70% of earnings in 2000) are classified as ***"Other services"***, which include exporters described in Footnote to the Table. Still, the origin of almost half of these receipts virtually does not belong to the services trade account. Namely, since most foreign trade was performed in cash (due to outer wall of the sanctions, which lasted until end 2000) most exporters used to keep their earnings abroad (in Bosnia, Macedonia, Bulgaria, etc). In order to repatriate these earnings, the Federal Government allowed firms to use their domestic bank accounts with no official documents required which would verify the origin of the money. Thus as of 1996, domestic firms started to keep a part of their hard currency earnings on their domestic accounts, and the NBY registered these receipts under the title "Other services". Still, most of these earnings come from merchandise exports, and should be transferred to the merchandise trade account. The other items amongst "Other services" mostly comprise foreign aid, gifts, receipts from insurance etc.

Table 3.2. Trade in services, 1995-2000.

Millions USD

	1995		1996		1997		1998		1999		2000	
	$	%	$	%	$	%	$	%	$	%	$	%
Balance	118		411		456		493		228		331	
o.w. Balance without deposits	66		156		206		157		43		161	
Exports	259	100.0	688	100.0	818	100.0	914	100.0	471	100.0	624	100.0
Tourism	42	16.2	43	6.3	41	5.0	35	3.8	16	3.4	25	4.0
Transportation	119	45.9	283	41.1	312	38.1	320	35.0	130	27.6	160	25.6
Construction (net)	6	2.3	9	1.3	28	3.4	22	2.4	7	1.5	4	0.6
Other	92	35.5	353	51.3	437	53.4	537	58.8	318	67.5	435	69.7
o.w. deposits	52	20.1	255	37.1	250	30.6	336	36.8	185	39.3	170	27.2
Imports	141	100.0	277	100.0	362	100.0	421	100.0	243	100.0	293	100.0
Transportation	60	42.6	80	28.9	120	33.1	175	41.6	70	28.8	80	27.3
Business trips	54	38.3	69	24.9	78	21.5	74	17.6	45	18.5	55	18.8
Other	27	19.1	128	46.2	164	45.3	172	40.9	128	52.7	158	53.9

*Including transportation services, agency commission, insurance, fairs, advertising, licenses and patents, projects, software, foreign correspondents expenditures, scholarships, health services, consular taxes, membership fees, leasing equipment expenditures, film an TV co production, aid and gifts to citizens. As of 1996, this item includes foreign currency earnings of domestic firms on their bank accounts.

Source: NBY, Annual Reports on Current Account Realization, 1995-2000

The share of *Transportation* in exports varied from almost 46% of total services exports in 1995 to 26 in 2000. When correction is made (see previous paragraph) by extracting hard currency deposits of domestic firms) the fall in share is less and amounts to 36%, and thus transportation certainly acts as a major service exporter. The supply of transport has been deeply affected both by domestic and international misguided policies. In general, the quality of infrastructure and equipment is now significantly lower than in neighboring countries. Still, the potential of this sector is strong since it has good human resources, knowledge and a tradition of market relationships, strong organizational capacity, and links to the outside world. Transport demand is also much lower now than in the 1980s. In 2000, aggregate transport volumes were only about one third of those in the 1985-1990 period. This reduction is even higher than that in most former socialist countries. In addition, because of past and foreseeable changes in the economy, the structure of demand has changed, and will continue to do so, giving more importance in particular to road rather than rail transport.

Air transport has significantly risen after April 2000, when the EU lifted the ban on Yugoslav airlines flights. In 2000 air transport made almost 40% of export earnings. The air transportation still suffers from high losses (obsolete fleet, high spare parts replacement costs etc). *Telecom services* are the second greatest exporter in the transportation sector, making almost as much as the air transporters in 2000. Imports of air transporters amount to 25% of their export earnings while imports of telecom services make more than half of the earnings. Still, the stability in trade in telecom services was not much affected by the sanctions. The road transport also suffered less from the sanctions then other transporters. Still, due to poor maintenance, this sector presents a virtual bottleneck in Yugoslav foreign trade. The slow-downs also emerge from the fact that many countries do not recognize the green card issued by Yugoslav authorities. The *maritime transport* used to have a significant share in export earnings but the fleet was halved by sales of the ships in order to pay debt arrears in foreign harbors were these ships stayed during sanctions. The *river transport* has additional problems due to the need to clean the Danube and the Save after damages caused by the NATO bombing. In addition, Yugoslav tankers do not meet EU transport requirements due to significant obsolesce. *Railway transport* also suffers from obsolence by all criteria: insufficient speed capacity, severe bottlenecks, etc), which create major operational problems, as well as compromising safety. About two thirds of the wagons and three quarters of the coaches are over twenty years old. Only about one third of the locomotives and wagons and half of the coaches are regularly available for service, although there is also a reduced need for motive power and rolling stock due to the current reduced demand for railway transport.

Trade in Finance. Previously, FRY's banking system had considerable experience in trade finance, both for exports and imports, with established international networks of correspondent banks. The overall deterioration of the banking sector however, has also had adverse repercussions on trade finance, with banks finding it difficult to provide short term finance for customers, except in the context of cash based or matching export/import transactions

The structure of FRY current balance of payment is as follows Apart from export and import of goods and services, quantitatively relevant items of current balance of payment are related to income and expenditures of population. Interest and transfer of profit are practically marginal. The most significant items are: households foreign currency income: transfers of Yugoslav citizens working abroad, foreign currency pensions, income from the sale of property held abroad (particularly in Croatia). Drawn foreign currency funds from banks are recorded as expenditures. As compared to the previous period, one can remark considerable shift in the pattern of financing the merchandise trade deficit. During the 1990s, the surplus in trade in services almost matched the deficit in merchandise trade. Since services suffered most from the embargo, their share in total receipts fell dramatically. The flow in transfers also show considerable decay. Still, most transfers continued, but since the Yugoslavia was cut from international payments system, most remaining transfers continued in a gray zone.

The estimates of the Institute for Foreign trade (White Bulletin, various numbers) are that actual deficit in current balance of payment was considerably lower than officially recorded.

It is estimated that FRY current balance of payment deficit in the 1996-99 period amounts to app. USD 750 million per annum (about USD 3 billion cumulatively), i.e. about 5-6 of GDP.

Table 3.3. Current Balance of Payment

million USD

	1990	1996	1997	1998	1999	2000
1. Merchandise trade balance	-1224	-2260	-2161	-1912	-1798	-1988
Exports	5576	1,842	2,638	2,820	1,498	1723
Imports	6800	4102	4799	4732	3296	3711
2. Services	1146	411	456	493	43	161
Exports	1886	688	818	914	286	454
Imports	740	277	362	421	243	293
3. Remittances	-423	156	105	252	190	228
Inflow	3471	442	457	630	470	512
Outflow	3894	286	352	378	280	284
4.Net drawn currency from individual accounts	…	353	8	58	31	120
5. Income from increment on firms deposits	…	52	255	250	185	170
6. Interest	…	23	25	8	8	11
Inflow	…	46	59	57	43	53
Serviced interest	…	23	34	49	35	42
7. Total income	…	3371	3710	4479	2513	3032
8. Total expenditure	…	4688	5547	5580	3854	4330
9 Current account balance (7-8)	-501	-1,317	-1,837	-1,101	-1,341	-1,298

Note: the data for 1990 referred to Serbia and Montenegro within former Yugoslavia, and items 4-9 are not reliably divided by the republics.

A difference between the recorded and actual current balance of payment deficit is primarily a consequence of unrecorded foreign currency earnings of population (foreign currency transfers, pensions, income from the sale of services) and overestimated deficit of trade of goods and services. Due to prevailing mistrust in the banking system and government institutions individuals carry out majority of foreign currency operations (especially their earnings) disregarding legal flows.[10]

[10] Indirect confirmation of the fact that current balance deficit did not exceed the stated one can also be based on the estimate of the source of its financing. It is estimated that the structure of financing current balance deficit is as follows: about USD 1.5 billion was financed by foreign capital inflow (of this amount the earnings from the sale of a part of Telecom Serbia were app. USD 1 billion), about USD 1 billion was financed by decreasing the domestic sector reserves (namely of population, companies, banks), about USD 500 million was financed using new foreign loans (Russia, etc.).

3. FOREIGN TRADE INSTITUTIONS

3.1. Participation in the WTO

On February 9, 2001, the General Council of the WTO established The Working Party for the accession of the FR of Yugoslavia (FRY) to the WTO with the following, so called, "standard terms of reference" - "To examine the application of the FR of Yugoslavia to accede to the WTO Agreement under Article XII, and to submit to the General Council recommendations which may include a draft protocol of Accession". Accordingly, by the same decision, while the Working Party is carrying out its work, the FR of Yugoslavia will have an observer status in the WTO.

The former Socialist Federal Republic of Yugoslavia (SFRY) was a Contracting party of the GATT 1947 until 1993, when the GATT General Council, in the wake of UN General Assembly Resolution 47/1, stated that the FRY could not continue automatically the contracting party status of the former SFRY in the GATT, and therefore decided that the FRY should apply for accession to the GATT and that it should not participate in the work of the GATT Council.

Bearing in mind that the former SFRY and not the FRY was a contracting party to the GATT 1947 and that the FRY did not participate in the Uruguay Round and thus did not have a GATT 1994 or a General Agreement on Trade in Services Schedule, it was not possible for the FRY to become an original member of the WTO. In addition, it could not complete the acceptance procedures in conformity with the relevant WTO article, i.e. until 1 January 1997.

This was recognized by the FRY itself in 1996 in the communication to the Director General of the WTO in which it expressed the request "to regulate its membership in the WTO in view of the provision of Article XII of the WTO Agreement", but proposing in the same time "an accession with retroactive effect". As from the legal point of view it would represent a precedent in the WTO and thus was strongly contested by some of the members of the WTO, in addition to the general contentious legal status of the FRY in the UN, General Council did not consider the mentioned request of the FRY.

As well as in the case of all of the countries in transition, the integration into the world trade and economic systems is viewed by the FRY as an integral part of its strategy to develop market economy, in which, the accession to the WTO is considered as a logical prerequisite for such integration. However, since it represents very complex and difficult task that requires that country embrace stringent and detailed rules and disciplines covering trade in goods, services as well as the protection of intellectual property rights, the accession process will represent one of the major challenge to the Yugoslav authorities. In addition to the bringing its trade regime into conformity with the multilateral disciplines, every acceding country is also required to negotiate concessions on reduction and bindings of tariffs, specific commitments on agricultural subsidies and commitments on trade in various services sectors. Since the entirety of the process means that the terms of the accession of each of the individual country are subject to negotiations between the WTO members and the acceding country, the FRY will thus be faced with important economic and institutional challenges.

In addition to this, the immediate big issue is to define what represents the territory of the FR of Yugoslavia, bearing in mind that due to the current political circumstances relating to the status of Kosovo and Montenegro within the Yugoslav federation, most of the federal laws and regulations as well as of those enacted by the Republic of Serbia, are not enforceable in the territory of the FRY. As an important illustration of such peculiar situation that concerns the territorial applications of the mentioned legislation, Montenegro has been operating for some time a separate customs regime and has introduced the Deutsche Mark as currency.

The next big issue and again one of the major challenge to the Yugoslav authorities is the co-ordination of the activities that concerns the negotiation for the accession to the WTO, with the negotiations towards establishment of the free trade agreements with the neighboring countries (i.e. republics of the former SFRY) as well as with those that concern the trade liberalization within the Stability Pact.

The Yugoslav authorities have already begun to introduce some major changes in the existing economic laws and regulations, but there is impression that it is not done in a coherent manner as to include the adjustments that are consistent with the WTO rules. In addition to this there is also a substantial lack of knowledge among the Yugoslav officials and the private sector of the detailed implications of the WTO commitments, as well as of the fact that it is very likely that Yugoslavia will be required to enforce its WTO commitments as of the first day of its accession to the WTO, or, if not, for some of them, even before it accedes.

3.2. Foreign trade institutions

According to the Constitution of the FRY, there is a distribution of powers between the legislative, executive and judiciary authorities. The *legislative authority* comes within the competence of the Federal Assembly, the *executive authority* is within the Federal Government and the *judiciary authority* comes within the competence of the federal judiciary authorities - Federal Constitutional Court, Federal Court and the Federal Public Prosecutor. In line with such a distribution of powers, the Federal Government is responsible, among others:

- To formulate and conduct domestic and foreign policy and to enforce federal statutes, other laws and general enactment;
- To foster relations between the FRY and other states and international organizations;
- To introduce bills for federal statutes, other laws and general enactment;
- To adopts decrees, resolutions and other legislation for the enforcement of federal statutes and other laws and general enactment of the Federal Assembly.

At the federal level, the respective laws regulate the key issues of the functioning of the economy. However, in some fields like taxes, labor relations and some issues related to the social policy, federal laws contain only basic provisions while their elaboration is conveyed to republican authorities.

The Federal Assembly ratifies international treaties falling within the jurisdiction of the FRY. In accordance with the procedure, a relevant federal ministry presents a proposal for the ratification to the Federal Government that includes a detailed survey of the rights and obligations that the FRY should assume. It also specifies the list of legislative changes that have to be introduced into the relevant domestic legislation. If the Federal Government seconds the draft bill, than the Federal Government introduces a bill for adoption by the Federal Assembly (both the Citizens and the Republican Chambers).

The Federal Ministry for Foreign Economic Relations (FMFER) is responsible for making and implementing policies affecting foreign trade in goods and trade in services. Accordingly, it performs activities that relate to:

- foreign-trade regime;
- export incentives;
- co-operation between domestic and foreign economic entities in specific economic activities;
- foreign investments;
- establishment and operation of representative offices for foreign firms; capital projects performed abroad by the domestic enterprises or in the FRY by foreign companies.
- involvement in the projection of the current account
- registering the representative offices of domestic firms abroad

The Federal Ministry for Economy and Internal trade is, among other things, responsible for:

- monitoring over the state supplies of the domestic market;
- prevention of the monopolistic position and unfair competition;
- stockpiles;
- monitoring over the prices of goods and food;
- special tax for import of agricultural and food products
- protection of consumers
- single economic market for goods and services

The decisions that affect access to domestic market is within the jurisdictions of the following authorities: Federal Ministry for Foreign Economic Relations; Federal Ministry for Finance; Federal Ministry for Agriculture; Federal Ministry for Health and Social Policy; Federal Ministry for Economy.

At the federal level the legal protection to the economic entities involved in the foreign trade operations is ensured through the following federal inspectorates and bureaus: Federal Market Inspectorate; Federal Foreign Exchange Inspectorate; Federal Sanitary Inspectorate; Federal Customs Administration and Federal Bureau for Standardization.

The customs policy is within the responsibility Federal Ministry for Finance, that sets up tariff rates and grants tariff exemptions. The basic laws that regulate Yugoslav customs regime are the Customs Law and the Law on Customs Tariffs. The Federal Assembly has a jurisdiction to enact, change or/and amend both of the mentioned laws. However, Federal

Government is entitled to pass the changes and amendments to the tariff nomenclature at the level over six digits.

The Federal Ministry for Foreign Economic Relations is authorised to issue import licenses. Additionally, imports of certain goods are also subject to accordance by the following ministries, that depends of the products in question: FM for Agriculture, FM for Health and Social Policy, Federal Bureau for Measures and Precious Metals, Federal Bureau for Standardization, Federal Ministry for Defense.

Regarding the issue of the authorities of the Federal Government in Montenegro, factual situation is that the Government of Montenegro has taken all responsibilities regarding foreign trade. The only responsibility of Federal Government is to issue the certificate of origin for products that will be exported to EU. Federal Government has no responsibilities in foreign trade regarding Kosovo.

The Government of the Republic of Serbia has also taken some authorities in foreign trade, especially in import of fuel. The import is allowed only to manufacturers of fuel, that is, only raw oil is eligible for importing. Also, Ministry of agriculture of the Republic of Serbia has restricted export of some agricultural products. Moreover, the Government of Serbia has the right to apply excise to certain products, so some foreign good could have higher excise than domestic goods, so it has basically the same effect as customs duties. duties.

The Government of Serbia also has the authority to apply excise tax to certain products like fuel, cigarettes, liquors, some luxury goods, salt, non-alcoholic drinks etc. The excise regime is defined through The Excise Law, which was declared a couple of months ago. This law has to be in order with federal Law on Basis of Taxation System. However, this law hasn't been declared yet. The Federal Government has accepted new law, but it has been withdrawn from the procedure before the Federal Assembly accepted it. The Excise Law does not mention domestic or foreign goods, but it can be used as means of discrimination.

The main threat is that these measures could be used to protect some foreign investor who would produce quality cigarettes in the country, but would pay excise like for low quality domestic cigarettes. That would practically give him the monopoly position, especially if the Government of Serbia increases excise taxes for high quality cigarettes.

These measures are illegal under the Article 8 of the GATT, and hence there can be no negotiations in the process of accession. Thus the Federal Government must initiate serious revisions prior to (or during negotiations) with the WTO. This point will present an additional challenge facing the Federal Ministry in the near future, since republican authorities practically can act independently of the decisions of the Federal government. Both the Serbian and the Montenegrin Constitutions have the clause that gives them the right to bypass any Federal legislation if it is in collision with the interest of the Republics. Thus the harmonization process with the GATT has to involve serious political pressure of the federal towards republican authorities.

4. POLICIES TOWARD MERCHANDISE IMPORTS

4.1. Tariffs and related charges

4.1.1. The assessment of the new legislation

The new Federal Government (in office since November 2000) almost immediately started a reform of foreign trade institutions and policy. Initial measures were implemented in December 2000, aiming to eliminate most impeding foreign trade regulations. Thus the exchange rate was unified and current account convertibility was established. In addition, the obligation to sell a share of hard currency revenues to the National Bank of Yugoslavia has also been abolished. Minimum requirements related to company capital (10,000 DM), assets (size of premises, office and telecom terminal equipment), and employment were abolished, the annual registration tax of 1000 DM for trading companies was canceled, and the same happened to the obligation to report and to pay a tax over imports/exports transactions to the Federal Ministry of Foreign Economic Relations.

A new Customs Tariff Law was enacted in June 2001, which envisaged significant liberalization of the tariff regime and elimination of quantitative restrictions and licensing for both imports and exports. The streamlining and simplification of the tariff structure includes lower rates and a reduced variance of rates. At present, no preferential tariff rates exist, but the legal authority for their introduction does exist. The tradition of implementation of infant industry argumentation for protection was thus abolished, although some changes (see section 9) emerged in the final version of the Law.

The previous tariff regime had an unweighted simple average tariff rate of 14.3 percent, while the new tariff rate is 9.48%. But, the tariff structure was highly dispersed and biased in favor of protection of domestic producers of agriculture products, food and consumer goods. There were 37 custom tariff rates within a range of 0 to 40 percent. The average tariff applied for consumer goods in 2000 was 22.4 percent, but for many agricultural products and durable consumer goods the maximum rate of 40 percent was applied, resulting in substantial escalation. There was also a special additional tariff on agricultural products of 20 percent, which was added to the regular tariff rate. In creating a new tariff structure the authorities aimed to preserve the effective rate of protection unchanged for sectors with significant domestic production, but nevertheless to reduce the overall rate of protection. Still, sectors in which quantitative restrictions and licenses were eliminated were treated with care, getting higher rates of tariff protection.

Table 4.1.1. The degree of tariff protection

Non-weighted tariff rates			Weighted tariff rate		
New	Previous	Difference	New	Previous	Difference
9.48	14.43	-5.05	8.09	9.71	-1.62

Source: Federal Statistical Office, mimeo.

The new tariff schedule has 6 different rates - of 1, 5, 10, 15, 20 and 30 percent. The overall simple average tariff rate is reduced from around 14 percent to 9.2 percent. Weighted average (weighted by 2000 imports) will decline from about 10 percent to

about 8 percent with major reductions in most manufacturing sectors, and smaller reductions in agriculture and textiles.

Table 4.1.2. The methodology of tariff protection

Tariff rates %	Products
1	Raw material and equipment not domestically produced
5	Raw materials domestically produced
10	Equipment domestically produced, consumers goods not domestically produced
20	Consumers articles domestically produced
30	Consumers articles domestically produced and luxurious articles

Source: Federal Government mimeo files

A detailed list of tariffs in Agriculture, Food and Textiles, Leather and Footwear is presented in the Annex to this section.

Largest tariff increments. The new Law generally tended to lower simple average tariff rates (presented in Column 6 of the Table 4.1.1.3). Thus only Tobacco experienced a 4.3% rise in tariff rate. Still, when weighted tariff rates are taken into consideration (column 3 of the following Table), increments of 1-6.5% are registered in Food, Coffee, Vehicles, Mineral fuels, etc. On average, the first ten sectors with largest tariff increments comprise almost 40% of total merchandise imports. The average rise in weighted tariff rates amounts to 2%, while the simple average tariff rates reduced by almost the same amount.

Table 4.1.3. Sectors with largest tariff rates increments

No.	Description	Weighted tarriff rates			Simple average tarriff rates			Imports (USD) 2000.
		New rate	Old rate	Diffe-rence	New rate	Old rate	Diffe-rence	
		1	2	3	4	5	6	7
21	Various food products	23.87	17.42	6.46	21.03	24.86	-3.83	24,026,226
94	Furniture, madraces	18.64	12.99	5.65	19.34	25.57	-6.23	17,789,327
9	Coffee, tea and spices	5.12	0.39	4.73	10.71	15.97	-5.26	77,097,773
10	Grains	19.57	18.07	1.50	20.19	21.74	-1.56	3,281,845
87	Vehicles except trains and trams	14.85	13.50	1.35	7.79	12.35	-4.56	284,824,835
27	Mineral fuels, mineral oils and products	7.11	6.11	1.00	4.38	4.99	-0.60	805,883,610
88	Airplanes	1.00	0.08	0.92	1.13	4.23	-3.10	16,185,251
26	Ores	1.00	0.29	0.71	1.00	1.89	-0.89	3,645,355
42	Simple leather products	29.65	29.20	0.45	26.08	25.50	0.58	3,516,035
24	Tobacco and substitutes	25.99	25.79	0.19	17.00	12.70	4.30	22,079,360
	Average	13.88	11.78	2.10	12.14	14.02	-1.89	

Source: Federal Government mimeo files

Largest reductions of customs tariffs emerged in primary products (sugar, meat, zinc, wood, allumnium, etc). Measured both by simple average (-8.27%) and weighted tariff rates (7.29%), the reductions remained practically the same.

Table 4.1.4. Ten sectors with largest tariff reductions

No.	Description	Weighted tariff rates			Simple average tariff rates			Imports (USD) 2000.
		New rate	Old rate	Difference	New rate	Old rate	Difference	
		1	2	3	4	5	6	7
9	Raw and processed sugar	19.55	29.34	-9.79	14.07	23.19	-9.11	11,272,776
10	Meat and other products	30.00	39.64	-9.64	30.00	37.48	-7.48	12,745,163
87	Ceramics	17.59	27.13	-9.54	12.65	17.32	-4.68	12,539,514
26	Mill industry	21.90	30.49	-8.59	19.49	26.23	-6.74	8,395,753
42	Live trees and other plants	18.14	26.32	-8.17	17.35	24.12	-6.76	2,790,846
13	Zinc and products from zinc	1.81	9.79	-7.98	3.77	12.85	-9.08	1,374,781
3	Other finished textiles-worn out clothes	20.11	27.81	-7.70	19.44	27.23	-7.79	1,455,786
22	Stone, plaster, cement, concrete, etc.	9.46	16.77	-7.31	9.66	17.04	-7.39	12,258,925
57	Aluminium and products from aluminium	5.67	12.98	-7.31	6.97	15.36	-8.39	37,807,663
58	Tree and wooden products	4.36	11.05	-6.69	4.91	10.36	-5.45	23,650,592
	Average	14.86	23.13	-8.27	13.83	21.12	-7.29	

Source: Federal Government mimeo files

In the short term, this might be unfavorable for majority of domestic producers, since primary products make most of both domestic production and exports. Generally, their prices are higher than the world prices, and increasing of the import share of these products would inevitably harm the position of domestic firms on the domestic market. The usual pattern of overpricing on the domestic market and underpricing in exports will have to be discontinued. At present, imports of these 10 sectors made only less than 4% of total imports in 2000, but this proportion will change. First of all, capacity utilization is no more than 51%. Thus in the medium term an increase in industrial output will necessarily augment raw material imports, and only then this measure of lowering import tariffs on primary products will prove to be in line with the necessity to increase competitiveness of domestic producers of finished goods.

The outcome of Tariff Law on 15 largest importing sectors, which make 75% of total imports, is that new tariffs decreased by 4.6 in terms of simple average tariff rates are considered, but only half as much (2.4 percentage points) when weighted tariff rates are considered.

Four events are likely to change the presented estimates of possible outcomes of the new Law. First, the rise in industrial production will necessarily change the list of largest importing sectors, which might seriously alter the weighted tariff rates. Second, Yugoslavia is preparing for the negotiations with the WTO which gives room for further reductions in tariff rates, thus changing the overall (still rather protectionist) environment. Third, the process of enlarging the numbers of FTA with neighboring countries will also affect the line of reasoning that the state is responsible for protection of domestic industry. Finally, the expected inflow of foreign direct investment might put pressure on lowering tariffs on inputs, but also might create lobbies, which would tend to raise protection of their own businesses.

Although an overall assessment of the new Law definitely brings us to a conclusion that a radical change has been made, further steps have to be taken in order to harmonise Yugoslav legislation with the EU and WTO standards. The major steps in this line comprise further lowering of tariff rates, as well as further simplification of customs procedures and eliminating (or at least reducing) corruption at the border crossings. Transparent system of safeguard measures should also be implemented.

Table 4.1.5. The outcome of new Tariff Law on largest importers

No.	Description	Weighted tariff rates			Simple average tariff rates			Imports (USD) 2000.
		New rate	Old rate	Difference	New rate	Old rate	Difference	
		1	2	3	4	5	6	7
27	Mineral fuels, oil and products	7.11	6.11	1.00	4.38	4.99	-0.60	805,883,610
84	Nuclear reactors. ,machines, equipment	6.34	9.28	-2.94	6.16	9.44	-3.28	306,129,888
87	Vehicles except trains and trams	14.85	13.50	1.35	7.79	12.35	-4.56	284,824,835
39	Plastic masses and products	5.78	9.70	-3.91	7.22	12.45	-5.23	161,071,655
85	Electrical machines, equipment, radio , TV	7.54	12.52	-4.98	8.13	13.90	-5.77	159,897,940
48	Paper and cardboard	6.46	8.58	-2.12	9.43	14.54	-5.11	92,405,326
72	Iron and steel	2.28	8.10	-5.82	3.11	10.83	-7.72	91,190,830
29	Organic chemical products	1.35	2.99	-1.64	2.11	4.88	-2.77	84,251,292
9	Coffee, tea and spices	5.12	0.39	4.73	10.71	15.97	-5.26	77,097,773
73	Products from iron and steel	6.21	9.73	-3.52	7.11	12.39	-5.27	56,622,522
38	Various products grouped in chemical industry	3.94	8.80	-4.86	4.30	9.55	-5.25	55,741,322
40	India-rubber and products from rubber and gum	5.75	7.83	-2.08	9.24	13.77	-4.54	52,390,157
30	Pharmaceuticals	2.99	7.16	-4.17	2.47	6.28	-3.81	49,820,609
28	Non-organic chemicals	2.63	5.86	-3.22	3.54	8.11	-4.57	49,617,014
90	Instruments (optical, photo, measurement, surgical, etc.)	1.77	5.63	-3.86	2.60	8.11	-5.51	47,019,470
	Average	5.34	7.75	-2.40	5.89	10.50	-4.62	

Source: Federal Government mimeo files

4.1.2. The definitions and calculations of tariffs and related charges

The customs base is the **value of product.** The customs base is the value of commodity listed in sellers` invoice if it meets the listed conditions. If the value of commodity listed in the invoice is expressed in foreign currency, it is converted to Dinars on the basis of the exchange rate applied to customs duty and other import dues calculations, i.e. the average exchange rate determined by the inter banking currency market on the last work day in the week preceding the week in which the calculation of customs duties and other import dues is being done.

A Value of a product is the contracted price (transaction value), regardless of the time entered into the sales contract. The contracted price is the price paid or the price to be paid for commodities purchased for imports in Yugoslavia. The contracted price will be accepted as the customs base under following conditions:

if it *includes* all costs and other expenses concerning the sale and delivery of commodities in the port of entry, or the location of entry in the customs territory of Yugoslavia

if it *excludes* all costs, duties and taxes which are charged within the customs territory of Yugoslavia;

if *there are no limitations for the buyer in connection with handling of commodities* or use of commodities, except for restrictions defined by domestic regulations pertaining to the ban on the resale to third countries, or limitations which do not influence in significant manner the value of commodities. These restrictions comprise the time limitation under which the buyer can advertise, exhibit, or sell the goods, and others;

if the sale contract does not include conditions or responsibilities the value of which cannot be determined relative to the value of commodities undergoing customs clearance. These conditions or responsibilities can exist in following cases: (a) if the foreign seller determines the price of the commodities under the condition that the importer purchases other commodities in set quantities, (b) if the price of the imported commodities depends on the price or prices of other commodities which the importer sells to his foreign supplier of commodities which are being imported, and (c) if the price of commodities being imported is determined under certain conditions, for example when the seller sells a semi-product, with an agreement that he receives from the buyer a certain quantity of the finished product;

if *no profit* from reselling or other handling or use will be created directly or indirectly for the seller, except in the case foreseen by the contract, where the additional amount in this case will be separately declared to the customs station. In that case the customs base will be increased for the declared;

if the buyer and seller are *not mutually associated*, and if they are associated that the contracted price was not influenced by the trade, financial, or other relations established between the buyer and the seller .

The actually paid price or the price to be paid for commodity being imported includes all payments carried out by the buyer or that will be carried out by the buyer to the seller directly or indirectly in money or in other manner. Therefore, the customs base is the actually paid price or the price that has to be paid for commodity being imported in Yugoslavia.

Contracted price that makes up the customs base includes all expenses and other expenditures related to the sale and delivery of commodity in the customs port, or the point of entry of commodity in the customs territory of Yugoslavia.[11] The list of costs included in the customs base and the costs not included in the customs base are presented in Tables 4.1.2.1. and 4.1.2.2. in the Appendix to this Section.

[11] Therefore, if commodity is imported by sea or air, the point of entry of commodity in the customs territory of Yugoslavia is the point of embarkment in the port or airport open for international traffic, and if commodity is imported in another way then it is the border crossing open for international traffic.

4.1.3. Other mandatory payments

Besides the *customs duty,* which is paid as a percentage of the customs base, payment is mandatory for
(i) Statistical fee (customs record fee),
(ii) Tax per mass of commodity, for certain agricultural products
(iii) Seasonal tariff, and for import of certain agricultural and foodstuff products and
(iv) Special duties for the import of these products.

The customs record fee and the seasonal tariff are paid *ad valorem,* while the tax per mass of commodities and special dues for import of agricultural and foodstuff products are paid in an absolute amount per unit of measure.

The *ad valorem* method of calculation of the statistical fee is illegal under the GATT, and has to defined in absolute terms. The recommendation to the Federal authorities might be to implement the cost of labor and multiply it by the number of hours necessary for completing the statistical operation. If there are high inflationary expectations (in January this year this was the argument for rejecting the abolition of the ad valorem method) one might calculate the labor cost in foreign currency. Nevertheless, since this measure is horizontal, there are no possibilities to negotiate any kind of ad valorem method.

(i) For imports, a statistical fee, i.e. *customs record fee* is paid in the amount of 1% of the *customs base*. For import in a free customs zone the customs record fee is 0,5% of the customs base. According to the proposal for changes of the Customs Law which the Federal Government forwarded to the Federal Parliament of FR Yugoslavia, the customs record fee will be 0,5% of the customs base. *This fee is not paid* for import of commodity exempt from payment of customs duties and other import dues.

(ii) For import of products a *tax per mass of products* is paid. This tax is paid for clearance per the Unified Customs Document regardless if the clearance is for import or export. The following table reviews the tax rate amounts calculated for gross mass of packaged commodities or commodities in bulk:

Table 4.3.1. The tax amounts calculated for gross mass of commodities

No.	Mass of commodity	Amount of tax in Dinars
1	2	3
1)	Up to 100 kilograms	50,00
2)	From 100 to 10.000 kilograms	20,00
3)	For every additional 1.000 kg over 10.000 kg	10,00
4)	For commodities whose quantity cannot be expressed in kilograms tax is paid per unit of measure (per MWh – for electricity, per hectoliter – for commodities in liquid state, per ton – for oil and oil derivates	6,00

This tax is not paid for imports of commodities exempt from paying customs duties and other import dues, not is it paid for temporary imports and in the case of return of

temporary imported commodities, except for temporary import and export of commodities for outward processing, and for import and export of commodities in activities of mediation in foreign trade.

(iii) According to article 45. of the *Customs law* if customs rates for agricultural products do not secure stability in a given period of time of domestic production and domestic market, the Federal Government is authorized to implement a *seasonal tariff*, with a time limitation of their use. The seasonal tariff cannot exceed 20%.

The Federal Government has determined agricultural and foodstuff products for which during import a seasonal tariff is calculated at a rate of 20% of the *customs base*, in accordance to periods of time during a year when seasonal tariff is implemented. (It is expected that after the May session of the Federal Parliament and passing of the law regulating foreign trade, Federal Government will pass a new regulation on payment of seasonal tariff drastically decreasing the rate of seasonal tariff). A detailed overview of agricultural products for which seasonal tariff is paid are listed in the Table 4.1.2.3. of the Annex to this section. A seasonal tariff is calculated on the same base for which the regular customs duty rate is used, if clearance takes part in the year listed in the table abovementioned.

(iv) For protection of production of agricultural and foodstuff products, securing of the stability of the market, and the influence of import prices on domestic manufacturing and domestic market prices, the *Law on Special Duty for Import of Agricultural and Foodstuff Products* ("The Official Gazette of the FRY", No. 90/94) prescribes that all importers (companies and individuals) pay *special duties* for imports. The Federal Government is authorised to determine agricultural products and foodstuff products for imports for which special dues are paid and to determine the amount of these duties.

The Federal Government has determined agricultural and foodstuff products for which for import a special duties are paid. Duties are determined in absolute amounts in Dinars per unit of measure. These special duties, as other import duties are included in the price base (and before Appril 1, 2001, were included in the base for calculating of the excise tax – because then the excise tax for all excise produts was paid *ad valorem).*

In Table 4.1.2.4. of the Annex to this Section, the amounts of special duties collected are listed, including their tariff numbers and the names from the nomenclature of the customs tariff, and for import of these products. Please note that the list of products for which special dues are paid is not closed, which means that the list can be changed by a decision of the Federal Government, as can the amounts of special duties.

Statistical fee, tax per mass of commodities, seasonal tariff and special duties on imports of agricultural products are paid together with the customs duty (and possibly the excise tax and transaction tax) in 8 days from issuing of the invoice. Invoice is issued by the authorized customs authority. In that invoice are listed amounts of all dues to be paid by the importer. All dues are paid on the same payment account listed in the invoice of the customs authority. Relieves from payment of customs dues are directly connected with exemption from payment of customs duty and we will cover this topic in one of the following paragraphs.

Payments for licensing, statistical services, documentation, certification, inspection, quarantine, fumigation and sanitation. Taxes and duties have to be paid if the imports of certain product if the import regime or the nature of products require additional documents (license, certificate, quality certificate, certificate on meeting of metrologic and other conditions, attest, certificates of homologation) or if a sanitary, phyto-sanitary, veterinary or other inspection is prescribed. This kind of taxes and dues as a rule are not calculated *ad valorem,* but they are prescribed in absolute amounts in Dinars. Table 4.1.2. 5. lists the amounts for taxes to be paid for certain foreign trade transactions. Amounts are prescribed by law.

4.1.4. Tariff exemptions.

The *Customs law* prescribes the following kinds of exemptions and relieves:

Table 4.1.4.1. Tariff exemptions and relieves

1. Commodities that do not succumb to payment of customs tariffs
2.Exemptions from payment of customs tariffs
3. Payment of customs tariffs per preferential tariff rates
4. Customs contingents (this is kept in the Customs law, but institutional conditions do not exist for implementation of this kind of customs relief for import of equipment, because it is not covered any more in the Law on Customs Tariffs), This measure is redundant if the safeguard mechanisms are well developed. It is not illegal under the GATT, but would require serious work on legislation of allocation of contingents, to transparently establish the rights of importers to sue the state for misalignment of contingents, etc. Thus the best option is to concentrate on developing the infrastructure, human capital and experience in safeguard mechanisms rather than to make one step back and re-develop customs contingents.
5. Implementation of international agreements,
6. Duty drawback and not paying duties (covered in Section 5)**.**

The *Customs law* prescribes 14 kinds of exemptions from paying customs duties for *companies, state organs and other legal entities* during import of particular commodities. Further regulations specify the procedure for realizing rights for exemption, and for certain kinds of exemptions the census value is determined for exemption from payment of customs duties.

Exemptions from customs duties cover five groups of subjects:

Group one – chiefs of foreign states and their emissaries while in a special mission, international organizations, international and foreign humanitarian organizations, and chiefs of foreign diplomatic missions and members of their immediate families;

Group two – diplomatic and consular staff of foreign diplomatic and consular missions and members of their immediate families;

Group three– the Yugoslav Army, organs of internal affairs, and correctional institutions;
Group four – Yugoslav citizens, foreign citizens who have received Yugoslav citizenship, foreign citizens permanently residing in Yugoslavia, and foreign citizens living in Yugoslavia;
Group five – companies, state organs, and other legal entities.

For the each group of subjects articles are prescribed for which customs exemptions are implemented, conditions for use of those exemptions, the procedure, and in certain cases the value of article are proscribed. (Having in mind the use of this text, we will focus on certain customs exemptions implemented on the last two groups of subjects).

In the process of realizing of customs relief there are several participants who have different roles. They are:

1) relief beneficiaries who forward applications for duty exemption and forward proof demonstrating the conditions are met for relief;

2) the Yugoslav Chamber of Commerce which is authorized to issue certificates that certain commodities are not manufactured in the country – a frequent condition for exemption;

3) authorized federal ministries which issue certificates that certain commodities are to be used for the purpose foreseen by regulations which make relief possible;

4) customs offices which enact decisions on exemption form customs duties.

Federal Customs Service registers the value of commodities imported by legal entities based on relief, and a competent customs offices on the value of commodities for which relief is used by foreign citizens who were granted Yugoslav citizenship and foreign citizens granted asylum and permanent residence in Yugoslavia and Yugoslav citizens who are returning after a longer stay abroad.

Yugoslavia is a signatory of the Protocol with the Agreement on Import of Articles of Educational, Scientific and Cultural Character adopted at the Fifth UNESCO Assembly in 1950. in Florence, Italy. Signatory states accepted obligation not to collect customs duties and other import dues on the import of books, publications, and articles of educational, scientific, and cultural character imported from other countries signatories of the Protocol.

A temporary suspension of import duties. According to the provisions of the Law on Customs the Federal Government can in prescribed cases increase, decrease, or annul the current customs rates, and the length of this measure has to be limited in duration.

Judging that legal reasons for annulment of customs rates have occurred because after NATO bombing of 1999 oil refineries were damaged, the Federal Government passed the *Decision on Annulment of Customs Rates for Import of Oil Derivatives in 1999* ("The Official gazette of the FRY ", No. 55/99) which became effective on August 28, 1999 and lasted until the end of 1999. The Decision annulled customs rates for import of various types of gas and oil. This was a measure passed by the federal Government. However, from April 7, 1993 to June 27, 1997 the *Law on Customs* prescribed the possibility of import of raw materials, reproduction materials, equipment, spare parts and ships not manufactured in FR Yugoslavia without payment of customs duties, or that is manufactured domestically in inadequate quantities and customs duties was paid according to a rate decreased for 50%.

Under the old foreign trade regime this measure did not exist. However, the policy package, which will become effective on The first June 2001, includes such possibility. Moreover Customs law gives the power to the government to reduce or increase tariff rates. Procedure is as follows (Article 49. - The Customs Law):

Following the suggestion of Ministry of Finance, and after receiving an opinion from Ministry of Foreign Economic Relations and Ministry of Trade, Federal Government can increase, decrease or suspend current tariff rates, and can set tariff rate from 0 to 10% if:

1. The price of the good is increased or reduced on foreign market by 15% compared to regular prices of the good. That change has to last for at least 3 months and there has to be a danger to domestic market.
2. There is a firm on the domestic market that has the monopoly position.
3. The price of the good on domestic market has increased or decreased by 15% and it can cause harm to domestic market.

The length of this measure has to be limited. There is also a possibility in Article 49 of The Customs Law that Minister of Finance can allow import at zero tariff rate for parts, raw materials, semi products if those are used under the contract of long term production cooperation with foreign partner. Also, Minister of Finance can reduce tariff rate to 50% of its original value for parts, raw materials, and semi products if those are used under the contract of long-term production cooperation with foreign partner.

The justification for the first measure is that Yugoslavia is going through liberalisation of the foreign trade regime and that all of quantitative restrictions are abolished, so the government want to keep trade under some kind of control. It really seems necessary, at least for some period of time. Still, in the process of accession this measure will have to be modified in line with the GATT rules. Instead of giving an excessive authority to the Federal government, reasonable ceiling bounds should be negotiated with the WTO, thus achieving two goals. First, if the ceiling bounds are negotiated favorably, the Government will retain certain instrument of countervailing any “danger to domestic market”. Secondly, if ceiling bounds are negotiated on a low level, any rise in bound rates would involve waivers and compensations, which will be hardly handled well, considering the level of infrastructure, human capital and experience in these matters that the Federal government currently has in hand.

4.1.5. Excises

Excise tax is paid during manufacturing and import of following products:

No	**Kind and name of product**	**Amount of excise tax per unit of measure or % of excise tax**
1	***2***	***3***
I	OIL DERIVATIVES	
1.	All kinds of motor gasoline	10,00 Din/lit
2.	All kinds of diesel fuel	7,00 Din/lit

3.	Heating oil special (L) and heating oil Light special (LS) [12]	5,40 Din/lit
4.	Jet fuel and aviation gasoline	2,70 Din/lit
5.	Motor oils and lubricants [13]	50,00 Din/kg
6.	Liquid oil gas	1,90 Din/kg
7.	Petroleum for lighting	2,50 Din/kg
II	TOBACCO PRODUCTS	
1.	Cigarettes group A	12,00 Din/pack
2.	Cigarettes group B	5,00 Din/pack
3.	Cigarettes group C	2,00 Din/pack
4.	Cigars and cigarillos	0,50 Din/piece
5.	Cut tobacco, pipe tobacco ad chewing tobacco and snuff	9,80 Din/kg
III	ETHYL-ALCOHOL (ETHANOL)[14]	
1.	Denaturated alcohol for fuel	7,00 Dinars
2.	Alcohol used for manufacturing of alcoholic beverages and cosmetic products	20,00 Dinars
3.	Alcohol sold in pharmacies, hospitals, stores and to other end-users	13,00 Dinars
IV	ALCOHOLIC BEVERAGES[15]	
1.	Natural wine, medicinal wines and mead	12,00 Din/lit
2.	Beer	5,00 Din/lit
3.	Natural brandy and cognac	30,00 Din/lit
4.	Spirits and other alcoholic beverages, except whisky, gin and cognac	40,00 Din/lit
5.	whisky, gin and cognac	60,00 Din/lit
V	REFRESHMENT NON-ALCOHOLIC BEVERAGES[16]	
1.	Refreshment non-alcoholic beverages	1,50 Din/lit
VI	COFFEE	
1.	Coffee (raw, roasted, grounded and coffee extract)	10,00 Din/kg
VII	SALT EATABLE	
1.	Salt eatable	2,00 Din/kg
VIII	LUXURY PRODUCTS[17]	
1.	Luxury products of all kinds and shapes manufactured with more then 2% of gold and other precious metals and products manufactured with more of 50% of silver	20%
2.	Natural precious stones and natural pearls and products of all kinds and shapes manufactured from natural	

[12] Heating oils before entering the market, or before being imported must be colored in a clearly **red color**. If this condition is not met, excise tax is paid for heating oils same as for diesel fuel.

[13] Including motor oils and aviation oils, other lubricant oils and grease, hipoid oils and grease, ans oils manufactured from synthetic raw materials. For motor oils and lubricants manufactured with use of at least 25% of base oil attained by rerefining of used morot and industrial ouls, amount of excise tax is decreased for 50%, under condition that packaging or the label is marked by clear **green color**.

[14] For ethyl-alcohol (etanol) excise tax is paid per hectoliter power.

[15] Alcoholic beverages are beverages with alcohol content above 2%, and are placed on teh marked in accord with the regulation governing manufacturing and trade of alcoholic beveradges. Beer is an alcoholic beveradge regardless of alcohol content and packiging.

[16] Refreshment non-alcoholic beverages are considered refreshment non-alcoholic beverages from fruit base, plant extracts and cereals, artificial refreshment non-alcoholic beverages, syrups, powders and pastes for manufacture of refreshment non-alcoholic beverages, which in accord with regulations on manufacture and trade of non-alcoholic beverages is placed on the market.

[17] For luxury products, or products of higher standard excise tax is paid per percentage of the sales price.

	precious stones and natural pearls	20%
3.	Reptile skins and all products manufactured from those skins, and natural fur and products from that fur, if skins and fur are represented with at least 50%, except of skin and fur of domestic animals	30%

Listed Dinar amounts of excise tax went into effect on April 1, 2001, and are adjusted every three months with the increase of retail prices. As can be seen from the table, excise tax is paid for eight kinds of products, and a total of 26 groups of products. In future, excisable products should (but still are not) be limited to alcohol, tobacco and petroleum products. Rates for gasoline, beer, wine, and domestic cigarettes should (are not at the present) raise in line with regional levels of excise taxation.

Bases for calculation of excise tax is the unit of measure (liter, kilogram, piece, pack, hectoliter power and other), and for luxury products the base is the sales price of those product. The sales price is the total compensation which the buyer pays to the seller for purchased products including all dependent costs which the seller calculates.

For import of products – the base for calculating of the excise tax is made up of the value of the product determined by customs regulations, increased for the amount of customs duties and other import dues. This means that for calculating of excise tax (when it is calculated *ad valorem)* the *customs base* is calculated first ant on that base is calculated the prescribed customs duty and other customs dues. The sum of the customs base, customs duties and import dues represents the base for calculating of the excise tax.

Obligation to pay the excise tax is incurred on the day of incurrence of the obligation to pay customs duties and other import dues. During import of excise products the excise tax is *calculated* by the competent customs authority in the timeframe and manner prescribed for calculation of customs duties and other import dues. This means that the customs authorities calculate the excise tax, while the excise taxpayer is under obligation to pay the excise tax into the prescribed account. Before the customs authority receives proof of excise tax payment, commodities cannot be retrieved from customs monitoring.

Excise tax payer is the entity importing the commodities for which excise tax is paid. If excise products are imported in one's name, and for another entity, the excise tax payer is the entity for which import is being carried out. Calculation of the excise tax for raw, roasted, and ground coffee, and for its extract, is done during import. The calculated excise tax for import the excise tax payer is under obligation to pay in the timeframe and in the manner foreseen for payment of customs duties and other import dues. Since the *Law on Customs* prescribes that the customs duty payer is under obligation to pay customs duties and other import dues within eight days from the receiving of the calculation, it follows that in that timeframe excise tax has to be paid.

4.1.6. Customs revenue

An increasing share of customs revenue in total budget revenue is obvious. Still, the data are rather unreliable. A significant difference emerges between the data collected form the Customs office and from the Reports on the Federal Budget

Table 4.1.6.1 Report on share of customs revenue in total budget of FRY

Year	Customs revenue (din)	Total budget revenue (din)	Share	Value of imports (USD)
1995	694,932,222	2,454,608,383	**28.31%**	**2,551,282,544.68**
1996	2,201,019,301		**35.00%**	**3,978,059,572.15**
1997	2,991,362,951	7,460,938,869	**40.09%**	**4,154,351,010.72**
1998	3,564,897,778	9,424,456,338	**37.83%**	**4,388,780,401.03**
1999	4,349,620,528	11,900,982,943	**36.55%**	**2,819,758,347.96**
2000	9,923,000,636	22,000,000,000	**45.10%**	**3,564,276,567.01**
Data from Customs office .				
Data from the Budget Reports				

Table 4.1.6.2. Report on collected customs revenue

	Custom charges	Excises	Turnover tax 24%	Turnover tax 7%	Turnover tax 2%	Total
1995	903,585,742	40,752,694	98,984,194	521,459	7,533,506	1,051,377,595
1996	2,201,019,301	4,657,953	128,349,227	3,777,878	13,309,945	2,351,114,304
1997	2,249,721,607	760,683	144,988,091	9,172,633	23,851,131	2,428,494,145
1998	3,383,263,284	305,573	95,900,737	5,661,666	5,661,666	3,490,792,926
1999	4,153,086,457	9,661,422	65,783,819	1,545,335	11,526,967	4,241,604,001
2000	9,923,000,636	2,125,925	130,901,773	3,771,654	24,714,005	10,084,513,993
Data from Customs office .						
Data from the Budget Reports						

Custom charges compared to the Dinar value of imports amount to 10,5% in 1997 and 7,5% in 1998. The estimates for different years vary significantly and the Federal Statistical Office released only the dinar values of imports for 1997 and 1998. When these results are compared to the average weighted rate of 9,71, a reasonable resemblance occurs.

One has to bare in mind that the inflation rate in 2000 exceeded 100%, thus bringing the customs revenues to the same real level as in 1999, when both foreign trade and customs revenues decreased as compared to 1998.

The reliability of the data presented above is rather low. The differences between the data published by the Federal government and the ones published by the Federal Customs office drastically differ. Presumably, the Office included payments from previous years. An efficient and transparent customs administration is critical to the conduct of international

trade. Modernization of customs legislation and its organizational structure at the customs acts as a prerequisite for creating a professional Customs service.

4.2. Preferential trade agreements

FRY has signed Free trade agreements with Macedonia and Russian Federation. So far, these agreements cover only merchandise trade. There are no special agreements for services or investments. However, FTA with Macedonia will be changed in the near future. It will cover services and investments. The negotiations with Slovenia, Croatia and Bosnia and Herzegovina regarding free trade are in preparation. Negotiations are near end with Bosnia and Croatia. Also, the Government of FRY is planning to enter this kind of negotiations with Hungary, Bulgaria and Romania. Also, FRY has started negotiations with Ukraine, Belorussia and Tadjikistan on free trade agreement, but these negotiations didn't go too far.

4.2.1. FTA with Macedonia.

The first Free trade agreement was signed with *Macedonia* on September, 4th 1996. This Agreement is applied to all products except used vehicles. Both sides have agreed to fully remove customs duties, special duties for agricultural and food products and seasonal customs duty. Also, no new quantitative restrictions will be introduced both for exports and imports. However, there are some exceptions when limitations of imports, exports or transit can be introduced. These exceptions include protection of life of the people, plants and animals, protection of intellectual property, public safety, protection of archeological, historical and other values etc. All payments are made in convertible currencies. Also, both sides have agreed not to use subsidies that are not allowed by the WTO standards. If one of the countries claims that there is a dumping, it can take measures against it within the standards of WTO. Also, tariff rates can be raised if country has current account difficulties. The number of tariff lines that are on those lists, for the year 2001. is as presented in the Annex to Section 3. These products are on quantitative quotas. When the quota is filled, regular tariff rates are applied. The amount of quota is negotiated every year. Regarding the schedule of zeroing tariff rates, both sides have agreed to gradually liberalize trade by January, 1st 1999. This hasn't been fulfilled, but there is a tendency to remove barriers every year. Since the lists of products on quotas are agreed every year it is up to the both sides to decide and agree, so there is no real scheduling.

4.2.2. FTA with *Russian Federation*.

This agreement is applied to all products with some exceptions. This agreement gives right to both sides to restrict imports, exports or transit if there is a threat to public safety, environment, national values, protection of intellectual rights etc. However, these measures can be used as a means of discrimination. All payments are to be made according to the article 4 of the Agreement between Federal government of FRY and Government of Russian Federation on trade and economic co-operation, signed on August, 24th 1994.

The Agreement with Russian federation also includes the lists of products which are excluded from free trade regime. On these list there are 499 products not duty free for imports in Russian Federation and 195 products that are not duty free for imports in Yugoslavia

Thus 94% of the tariff lines are free to imports to Russia and that 97.7% of the tariff lines are duty-free for imports in Yugoslavia. However, these figures are drastically different if we take into account value of duty free imports. According to the data for 2001. only 76% of the FRY exports to Russian Federation was duty free. According to the same data, 98,2% of the Russian exports to Yugoslavia was duty free, but it is necessary to say that 86% of the total imports from Russia was fuel.

The products that dominate on Russian list are actually the most important exports products for FRY, such as agricultural products, food, wine, cigarettes, medicines, products for cleaning, cloth, pumps, compressors, appliances, TV, car, furniture etc. There is also the special list for medicines and medical equipment that can be imported to Russia without paying duties or duties are reduced for some of those products.

On FRY list are next products: mineral fertilizers, pumps and compressors, valves, electric transformators, batteries, tractors, vehicles.

Regarding the scheduling of zeroing tariff rates, both sides have agreed to try to take measures to gradually remove custom duties and all other barriers that have the same effect. All exceptions from the free trade agreement are agreed every year.

4.2.3. Trade relations with the EU

At its meeting in Lisbon on 23 and 24 March 2000, the European Council concluded that Stabilisation and Association Agreements (SAA) with Western Balkans countries should be preceded by asymmetric trade liberalisation. This decision was based on the fact that only 0.6 of Community Imports come from Western Balkan countries. Moreover members of the union shared the view that market opening will contribute to the political and economic stabilisation in the region. Following recent democratic changes FRY is eligible for negotiation of a SAA . Parallel to this issue, FRY was granted autonomous trade preferences (ATP) .

Trade relations with the European Union are extremely important to FRY since these countries account for over 40 % of its total trade. Therefore the ATP that provides access to EU markets free of tariffs and quantitative restrictions for a very large list of products (around 95% of all tariff lines) with very few exceptions, as of January 1, 2001 is very important. Implementation of this very generous market access offer was delayed somewhat over issues regarding rules of origin for products of Montenegro. Resolution of this issue in March 2001 has provided FRY with very good opportunities for expanding exports to EU markets.

Indeed it may be difficult to improve under an SAA the market access provided under the ATP. Nonetheless, the conclusion of an SAA is an important step that the FRY authorities

need to pursue actively for two other reasons: (a) the SAA is a contractual arrangement providing more security of market access than the ATP which involve a unilateral EU action; (b) eligibility for the SAA would require commitments that would start the alignment and implementation of harmonization of FRY legislation and regulation to those of the EU, which would be helpful to the long run integration of FRY into the European structures.

The conclusion of an SAA with the EU depends on progress along a wide range of political and economic issues. But on the economic front, the commitments for harmonisation of legislation and regulations, as well as for liberalisation of markets and increased competition will be compatible with and, in many cases, identical to what the government would have to do to secure WTO accession. Thus, while participation in two concurrent but separate negotiations is undoubtedly going to be a challenge for the government, the actual economic reforms it would need to undertake would be converging.

4.3. Quantitative restrictions and licensing

Prior to enacting the new Customs Tariff Law, quotas and licensing were frequently implemented. Quotas were implemented on approximately 12% of imported products (by tariff line) and 7.1% by value were subject to quotas. After the quota was fulfilled the importer was due to pay a 250% of the proscribed tariff rate. Besides quotas, import licenses were another form protection. Approximately 4.5% of imported goods were licenced. The main problem arising from this kind of protection was that the procedures were highly untransparent. Export quotas comprised less than 5% of total exports, but were implemented on most profitable export products.

The new Law abolished a significant number of the distortions resulting from the use of licenses and quantitative restrictions for both exports and imports. When creating the new law, the idea of the authorities was to reduce all QRs but to leave these sectors with higher protection in terms of tariffs. The exemptions were made in cases when meeting requirements defined by international agreements (safeguards of national security, environment protection, regulation of traffic in illegal substances, national health and safety standards). In particular, export controls will continue to apply to about 30 tariff lines of basic agricultural goods to ensure domestic food supplies. At present, no mechanism for allocating these quotas has been determined. If no competitive mechanism in the allocation of quotas is introduced, export taxes will be superior solution to quotas.

In addition to those required by international agreements, import licenses will continue to apply to about 40 tariff lines covering steel products. These measures are introduced for the simple reason that present safeguard mechanisms are not operational, which again opens the question of modernising both Customs administration and improving (and implementing) the legislation in this field.

4.4. Trade Remedies: Safeguards and Antidumping

Existing laws formed the legal bases for activating protection measures against the dumping. The following are the possible measures (the complete survey of measures, the legal base for their activation, with comments on whether those measures were implemented in practice is presented in Table 4.1. in the Annex to this Section).

1. Increased customs duty for 70% for import from states which do not implement the maximum preferential clause
2. Additional customs duty
3. Seasonal customs duty up to 20%
4. Measures for eliminating of damages caused by unforeseen circumstances when in a short period of time there is a significant increase in import of certain product or the import of that product is carried out under conditions which lead to disturbances on the domestic market and inflict, or threaten to inflict significant damage to domestic manufacturing of similar products
5. Antidumping duty
6. Countervailing duty
7. Special measures of customs protection by which regular custom duty rates can be increased, decreased, or cancelled
8. Special duty for import of agricultural and foodstuff products

For nine years of the existence of FR Yugoslavia special protective measures were not implemented even in cases when conditions were met for their issuing, because practically from its founding in 1992 up to the end of year 2000 FR Yugoslavia was under economic sanctions.

Sectoral safeguards. From the eight possible protective measures which the Yugoslav system can proscribe, only two (described in lines 1 and 8) are being implemented and both are linked to the protection of agricultural and foodstuff industries.Special protective measures are implemented only for agricultural and foodstuff products by (line 1) prescribing of seasonal customs duties, and (line 8) introducing of special duties for import of agricultural and foodstuff products .

(i) Seasonal customs duties are prescribed if customs duties for agricultural products in a given period do not provide stability of domestic manufacturing and market. The Federal Government on the proposal by the Federal Minister of Finance, and after previously acquired views of the Federal Ministers of Agriculture and the Federal Minister of Industry and Internal Trade, besides the existing customs rates can prescribe a seasonal customs duty which cannot be more then 20%, with a time restriction in their implementation. Seasonal custom duty rates were prescribed from the inauguration of FR Yugoslavia, i.e. from 1992.

(ii) For protection of manufacturing of agricultural and foodstuff products, securing market stability, and the influence of prices of imported agricultural and foodstuff products on domestic market prices, companies and other legal and private entities pay a special duty for import of agricultural and foodstuff products. Federal Government is authorised to determine agricultural and foodstuff products for which a special duty is paid and the amount of that duty. This duty is collected during the execution of customs procedure on products,

according to rules prescribed for collecting of customs duties. And funds collected from this duty are transferred into the federal budget. The special duty was prescribed during former SFRY, and it has been prescribed since the inauguration of FR Yugoslavia.

There have been no surcharges on imports due to the deterioration in external position. In the period 1995-2000, balance of payments deficit amounted to 10-15% GDP, which would be a reasonable argument for rising surcharges du to deterioration of the balance of payments. Still, due to the huge corruption on the border, no such measures seemed to be effective in the start, and hence they were not implemented.

*Antidumping (AD).*In the Yugoslav system of foreign trade conditions and procedures are prescribed for the implementation of antidumping (AD) procedures. However, *the prescribed antidumping procedures have never been initiated in FR Yugoslavia.*

Provisions of article 60 of the *Law on Foreign Trade Operation* focuses in full on antidumping procedures. This procedure is fully based on implementation of provisions of the *Agreement on Implementing of Article VI of the General Agreement in Customs Duties and Trade from 1994 with annexes* which FR Yugoslavia ratified by a special law which was passed in December of 1998.

It is considered that dumping exists when a certain product is imported at a price lower from its normal value and thus causes or threatens to cause serious damage to the existing domestic manufacturing or if such import would significantly slow down implementing of certain domestic manufacturing processes. A proposal for initiating of an antidumping procedure is initiated by interested companies, other legal entities, or entrepreneurs to the *Yugoslav Chamber of Commerce*.

The Yugoslav Chamber of Commerce examines proof of the existence of dumping and the caused damage, which warrens the initiation of procedure. After examining of proof the Yugoslav Chamber of Commerce within 30 days from receiving of the proposal for initiating of antidumping procedure, with its justification position, forwards a proposal for initiating of antidumping procedure to the *Federal Ministry for Foreign Economic Relations.*

The Federal Ministry for Foreign Economic Relations examines the proposal for initiating of antidumping procedure, conducts the procedure and passes measures in line with provisions of the *Law on Certifying of the Law on Implementation of Article VI of GATT of 1994.* The decision on initiating, or ending of the procedure, and taken measures are published in "The Official Gazette of the FRY". Against this decision an appeal cannot be voiced, but an administrative litigation can be initiated before the Supreme Court.

If it is concluded, in a specially conducted procedure, that import causes damage or there exists a danger of harm for domestic manufacture (dumping) the Federal Ministry for Foreign Economic Trade prescribes an antidumping duty.

5. POLICIES TOWARD MERCHANDISE EXPORTS

5.1. Export controls

According to the new Tariff Customs Law, quotas on exports of goods are implemented in 30 tariff lines of basic agricultural goods, including wheat, corn, live animals, edible oil, and sugar. While the number of tariff lines affected is small, the quotas in some sectors would appear to be quite restrictive. Since they cover some of the main agricultural products in the economy, the line of reasoning was to protect domestic supply of theese products.

This measure is legal under The GATT, leaving the right to the negotiating partner to take care of the sufficiency of the supply of basic commodities on the domestic market. Still, in the case of Yugoslavia most of these products are more expensive at home then abroad, one of the reasons being that Yugoslavia cannot afford subsidizing the production of basic goods. Instead, Yugoslavia still implements price controls in bread, wheat, corn and milk production, and also implements some other measures (intreventionary sales from Government reserves, public campaigns and other kinds of informal pressures) in cases when the estimates are that prices went too high. In this case, the best way out for producers is to create shortages on domestic market and make profitable business in exporting. Since this method of "protection" of domestic consumers lasts for decades, and never resulted in any benefit neither for domestic producers nor for consumers, all prices must be liberalized. Depressing domestic prices for all consumers cannot solve the problem of poverty anyway, and frequently made things even harder for the poor, since shortages always created an even more expensive supply offered on the gray market.

Another problem might rise if export controls remain in future. If foreign investors enter the businesses in commodities which are under export controls, their output will also be restricted for exports. Under the GATT this would be an inconsistent measure which could easily aggravate the accession efforts of the Government.

5.2. Other impediments to exports

Although there are some legal provisions for export loans, these provisions are not effective, which is a serious impediment to exporting. Prior to introducing convertible exchange rate, most foreign trade firms allowed advanced payments to producers, since the rise in the black market exchange rate enabled them to earn great profit in price difference which emerged in the time span. With the elimination of black market exchange rate, and the Dinar depreciation of at least 50% since October 2000 (when exchange rate was stabilized), foreign traders refuse to finance producers and shift to importing.

Furthermore, JUBMES (Yugoslav Bank for Foreign Economic Collaboration) is not operational and exports face serious financial and credit constraints.

5.2. Export promotion

Drawback mechanism. There are two kinds of mechanisms which financially promote export. The first is the reimbursement of customs duties and other import dues paid for import of raw materials and reproduction materials used for manufacturing of goods which are exported. The second mechanism are financial incentives for export regardless of if manufacturing of export goods use imported raw materials and reproduction material. These mechanisms are mutually exclusive, that is both institutes of export promotion cannot be used. We will describe both mechanisms of export promotion.

If imported goods (raw materials and reproduction material) are used for manufacturing of goods which is exported abroad, in period of **six months from the date of import** a application can be forwarded for **reimbursement** of the paid customs duties and other import dues.

The request for reimbursement is forwarded to the customs office that carried out the customs procedure for imported goods, and the procedure of this request and the reimbursement of paid customs duty and other import dues must be concluded in a period of eight days from the application data. Amount of customs duty and other import dues is calculated by the use of the Dinar exchange rate in force on the date of import and based on the value of goods expressed in foreign currency.

Raw materials and reproduction materials used in manufacturing of the exported goods are considered the following: raw materials, materials, half-products, parts and supporting material which by refining, finishing, building into, application onto or in another manner are used in the production process and are part of the substance of the export product or are used in the production process, are not included in its substance (materials for dissolving, abrading, grease removal, cooling and the like), packaging and other pacing material and other.

The request for reimbursement of the customs duty and other import dues is forwarded to the customs office that carried out the import customs procedures, and the request can be forwarded to the customs office that has carried out the export customs procedure of goods, in a period of six months from the date of import of goods.

Based on accurately submitted request and documentation, the customs office calculates the amount of customs duty and other customs dues that are reimbursed. Previously the customs base is determined for imported raw materials and repro-materials used in manufacturing of the exerted goods, by using the Dinar exchange rate in force on the day of export customs procedure and based on the value of imported goods expressed in foreign currency. For that base are used customs duty rates and rates of other import dues for imported raw materials according to regulations in force on the day of the import customs procedure.

The second group of export promotion mechanisms pertains practically to the export of goods and services, regardless if in the manufacturing of those goods and services imported raw materials and repro-materials were used.

Right to export promotion is acquired by companies and other legal entities if they comply with following conditions: (1) export goods of domestic manufacture, (2) export services, (3) collect payment for exported goods (where "collect payment" means collection in hard currency, import of goods based on compensation, and settling of debts and claims towards foreign companies; (4) collect payment for services, where payment means same forms of payment as in (3).

Products of domestic manufacture are considered products manufactured in FR Yugoslavia, except scrap iron, old rags, old paper and broken glass. Services are: carrying out investment activities abroad and relinquishing investment activities to foreign entities in the country, services of international transport of goods and passengers, sea fairing and technical services on the sea and under the sea and other services connected with international transport (international shipping, storage and airport services, agency services in transport and similar), hotel/restaurant and tourist services, mediation and representation in the transfer of goods and services, post-telephone-telegraph and other telecommunication services, quality and quantity control services in the export and import of goods, scientific research, research-development and providing and using of information and knowledge in economy and science, testing services and other services in line with accepted classification and nomenclature. Export of al listed services, except for representation of foreign companies and mediation is encouraged.

For this form of export promotion three modalities are used and they, in contrast with reimbursement of customs duties and import dues described in paragraph I, can be added together. They are:

(i) *Reimbursement of customs duties and other import duties*; The base for reimbursement of customs duties and other import duties is the Dinar equivalent of the contracted price for exported goods, brought down to the fco Yugoslav border parity. For services it is the Dinar equivalent of foreign currency collected for provided services, decreased for foreign costs (commission of foreign agencies, bank commissions abroad, insurance costs and other). For the export of both goods and services the bases for reimbursement is calculated by using of the mean foreign currency exchange rate determined by the inter-banking currency for the day of the calculation, that is the day of application for reimbursement. Companies which carry out activities listed in the table have the right to reimbursement of the Dinar value of foreign currency for exported goods or paid services; this means that the right to reimbursement has the company whose products are exported, or the company which provided services. The reimbursement is applicable only for listed activities, meaning that for export of goods and services not listed in the table this form of export promotion is not applied.

(ii) *Reimbursement of one part of the paid transport cost for transport* of goods from the Yugoslav border to the location of the buyer. In addition to the right to reimbursement according to rates from the given table, companies which collect payment on exported goods has the right to reimbursement of one part of paid costs in rail, sea, river, sea-river, and air transport. Paid transport costs is pertains to transport of goods from the Yugoslav border to the location of the buyer.

Conditions for reimbursement of one part of the transport costs are:

– that export of goods is at hand,
– that dues on exported goods are collected,
– that one of the listed modes of transport was used, and
–that authentic documentation exists about paid transport expenses abroad.

(iii) *Additional export incentive* programs for agricultural and foodstuff products. Companies which export and collect payment on products in line with export programs passed by manufacturers and exporters for certain product groups as part of adequate funds from the agricultural and foodstuff industry, have the right to additional export incentive according to rules of these funds**.** These programs for the next calendar year are forwarded to the Federal Ministry for Agriculture by November 30 of the previous year; the ministry proposes those programs to the Federal Government for approval. Approved programs are forwarded to the appropriate funds.

Conditions for additional incentive for export and collection of payment of listed products are:

a) that the exported product is in line with export programs,
b) that payment is collected for the exported products,
c) that the export program was approved by the Federal Government,
d) that fund rules determining the rate of additional incentive are forwarded to the Federal ministry for Foreign Economic Relations and the Federal Ministry for Agriculture for their approval, and
e) that funds i 30 days from the end of each quarter forward to the listed federal ministries reports containing: (1) review of calculated monies for additional export incentive, (2) review of exported and paid for products with the average realized reimbursement rate and additional incentive, and (3) review of companies which carried out export and collected the additional incentive.

Funds realised on bases of additional export incentive are paid to manufacturers, or exporters in accordance with fund rules.

Funds for export promotion according to the three listed foundations are secured in the federal budget every year under auspices of the Federal Ministry for Foreign Economic Relations, while the incentive request with appropriate documentation is forwarded to the appropriate branch of the National Bank of Yugoslavia, according to the location of the company which exported the goods, or provided services. Request for additional incentive is forwarded through the appropriate fund. In the 2001 federal budget for this use is planned 50,000.000 Dinars (nearly 753.000 USD).

When it is determined that conditions are met for realising the right to export incentive, the appropriate branch of the National Bank of Yugoslavia gives a payment order from a special account of the Federal Ministry for Foreign Economic Relations managed by the Payment and Accounting Agency Payment of the National Bank of Yugoslavia – Head Office Belgrade, in favour of the giro account of the manufacturer, or owner of goods, or provider of services, or upon their approval – in favour of the giro account of the exporter.

Considering the common fact that export subsidizing has a long tradition of failures in Yugoslavia, and also proved to be an intrinsic source of corruption and cronyism in the past, no genuine export promotion can be expected from implementing these measures. Thus

before disintegration of former Yugoslavia (in 1991), the top three beneficiaries from the export promotion funds were producers of: broomsticks, bee houses and parts for fireworks. In addition, the original lists, of course, did not match the list of priorities. Although similar anecdotes cannot be traced yet (since the measures apply to 2001), it seems likely that export promotion mechanism will presumably only preserve the tradition of rent-seeking, rather then promote exporters. An appropriate policy of keeping the real exchange rate on a competitive level would benefit exporters much more than funding.

6. REGULATION OF ENTRY AND DOMESTIC COMPETITION

Procedures will be described here which have to be followed by firms which are founded in Yugoslavia with foreign investments in capital. They are Yugoslav companies with investment by a foreign entity and they fully abide by Yugoslav regulations, but as foreign investment companies they have appropriate benefits.

For a company with foreign investment of capital, the period from applying for registration of a foreign investment to the beginning of work approximately 90 days is needed. For a concession, this period for understandable reasons can be several times longer. The period can also be significantly longer, if the business has a specific activity which demands meeting of numerous specific conditions. A possible overrun of the above time frame is often caused by ignorance of prescribed procedures and by late submission of all needed documents. Founding and initiating of operation of a company in FR Yugoslavia costs 10.000 USD for a limited stock company, where the amount of 5.000 USD available for company use immediately after opening of the gyro account.

For founding a company with investment of a foreign entity there are *two phases.* After a foreign entity makes a decision on founding of a company, or after it enters into a contract with a Yugoslav legal or private entity on founding of a company, or investing in an existing company the *first phase* of registration is launched. In this phase the foreign entity alone or together with partners from Yugoslavia ratifies appropriate documents, which have prescribed content, and present those documents to the Federal Ministry for Foreign Economic Relations for *registration.*

The authentic text of documents on foreign investment in Serbian language is forwarded to the Federal Ministry for Foreign Economic Relations within 30 days from its signing or from passing of these documents. The same obligation is prescribed for changes or amendments of documents on foreign investment. If a foreign entity invests funds in a socially-owned company, that company is under obligation to, in addition to the registration with the Federal Ministry for Foreign Economic Relations, forwards a report by the authorised auditor on the appraisal of the value of the investment and an appraisal of the value of socially-owned capital.

By forwarding documents on foreign investment to the Federal Ministry for Foreign Economic Relations the first phase begins, the phase of *registration of documents on foreign investment*. The Federal Ministry:

- determines the existence of reciprocity;
- judges the compatibility of the investment contract, contract on concession, contract on purchase of stock, founding contract, decision on founding with the Law on Foreign Investment and other federal laws, and
- passes a decision on registration of the document on foreign investment.

The Federal Ministry for Foreign Economic Relations is under obligation to pass the decision on registration within 30 days from receiving of the document on foreign investment. If the decision is not passed before this deadline (and a decision is not passed on rejection of registration), it is considered that the document on foreign investment is

registered. If the Federal Ministry for Foreign Economic Relations passes a decision to reject the registration, an appeal can be forwarded to the Federal Government within 15 days from receiving of the decision, and the decision of the Federal Government is final.

Before purchasing stock a foreign entity submits to the Federal Ministry for Foreign Economic Relations a written request on the intent to purchase stock with the listed kind and value and conditions of payment.

All changes and amendments of the document on foreign investment (reinvestment of profit, additional investment of foreign entity, transfer of foreign investment from one person to another and other), as the termination of the contract, or decision, also succumbs to the obligation of notification within 30 days from the day the changes occur.

Documents on foreign investments are kept in a special register with the Federal Ministry for Foreign Economic Relations. In the register is written:

- the date of entering into the contract on investment, or founding, or of making of the founding decision;
- names of domestic and foreign persons;
- names of authorised persons;
- investments of domestic and foreign entities;
- name and location of company in which a foreign entity is investing, or the name and location of company being founded;
- activity of the company;
- duration of the document on foreign investment;

possibility of transfer of foreign investment.

For a concession contract, the register entry includes: contractual sides, date of entering into contract, object of concession, duration of subject activities, duration of the concession, and compensation for the use.

Securing the decision on registration of the document on foreign investment concludes phase one – the phase of registration of the document on foreign investment.

Along with submitting of the request for registration of the document on foreign investment a federal administrative tax is paid in the following amounts: for a contract on investment by a foreign entity 3.310 Dinars (around 50 USD) and for the decision by which a foreign entity establishes its own company 5.510 Dinars (around 70 USD). Same amount of tax is paid for registration of a contract on concession, while for the registration of a contract for purchase of stock of a Yugoslav company by a foreign entity the amount is 2.210 Dinars (around 30 USD).

After the completed phase of *registration of a document on foreign investment* and after receiving of a decision by the Federal Ministry for Foreign Economic Relations the second phase is initiated – the phase of *registration of the company* with the status of legal entity. In this phase all regulations and procedures are applied which pertain to Yugoslav companies. This means that in accordance with the Law on Companies an adequate form of company is chosen, necessary documentation is prepared in accordance with the *Law on Procedure on Inclusion in the Court register* by applying practices and procedures prescribed

by the *Ordinance on the Inclusion in the Court Register* and registration of the company is carried out.

In the *court register* is written the data on founding, organizing, linking and termination of the work of a company, and changes of status and changes the organizational form of the company. In the court register is written data of importance for legal transactions as follows:

-name and a short version of the name,
-master identity number,
-location,
-activities or nature of business,
-form of company,
-founding investments and basic capital (signed in and paid),
-authority in legal transactions,
-names of persons authorised to represent and limits of their authorization,
- name and business locations of parts of the company being registered,
- company name and location with the register sign and the number of the registry entry of the founder,
-name and address with personal number and the number of the identity card of the founder, for Yugoslav citizens, or data from a valid travel document for foreign persons,
-number and date of the document of incorporation,
-and other data determined by law for certain kinds of companies.

If case that for registration of a company it is prescribed that issuing of a license, agreement, certificate, authorization, verification, approval or other appropriate document is needed, with the application for inclusion in the court register those documents are to be attached. For an application for inclusion in the court register of a company with investment by a foreign entity, along with the application the decision on registration of the foreign investment is attached.

If the founder of the company is a foreign legal entity, along with the application for inclusion in the court register for founding of a company proof is submitted that the foreign legal entity is included in the appropriate register of the state to which it belongs. A foreign person submits proof of identity. As proof of inclusion in register of a state is used a certified transcript or a photocopy of the document on inclusion in the register by the authorised authority and a translation into the Serbian language certified by the authorised court interpreter.

During the registration of a company with an investment by a foreign entity there are three kinds of expenses:

(i) court taxes in the amount of 2.620 Dinars (around 40 USD) to be paid with the application for inclusion of the company in the court register;
(ii) compensation to be paid for determining if premises in which business activity will take place meet the regulations on (a) minimal technical conditions, (b) sanitary conditions, and (c) conditions regarding work safety protection. For determining if prescribed conditions are met a compensation fee is paid and the amount depends on the size and use of premises; it is estimated that the

amount of these compensations is never less then 7.000 Dinars (around 100 USD);

(iii) a monetary deposit to be paid to the account of the registration court if a stock company is founded; the amount of this deposit depends on the form of the company: for a company with limited liability the deposit is paid in the amount of the Dinar value of 5.000 USD, and for a stock company founded by simultaneous founding it cannot be less then 10.000 USD in the Dinar amount according to the exchange rate on the day of payment, while for a stock company founded by successive founding the deposit cannot be less then 20.000 USD in the Dinar amount according to the exchange rate on the day of payment. The amount of the monetary deposit is paid on the gyro account of the company which is opened with the National Bank of Yugoslavia – Bureau for Accounting and Payment after the registration of the company in the commercial court, the company has those funds on its disposal after the transfer of funds from the court deposit to the business account of the company.

Safety and health procedures. For a company to start operation it is necessary that the premises in which activities will take place meet the prescribed conditions as follows:

- minimal of *technical conditions* prescribed for that kind of activity. They are for example conditions regarding the area, height, and appearance of business premises, then in regard to technical equipment (for example: for trade in perishable commodities, they are conditions for adequate cooling equipment, weighing equipment, etc.). Meeting of those conditions is determined by organs of the market inspection;
- *sanitary conditions* which are prescribed for a certain activity. Meeting of those conditions is determined by organs of the sanitary inspection;
- meeting of conditions of *work safety* prescribed for a certain activity. Meeting of those conditions is determined by the work safety inspection.

Taxes. As it was said in the previous paragraph, for a company to start operation it is necessary that it meets the prescribed conditions, and for determining if conditions are met the state inspection is authorised. A prescribed compensation is paid for the work of the inspection. After the registration a company must contact the appropriate municipal office of the Republican Public Income Service (tax organ) where it can receive a tax statement for tax exemption and register the manner of calculation and payment of transaction tax. This tax must be paid:

- in the amount of calculated transaction tax – for all quantities and kinds of products delivered to the store or to other business unit for sale to the end users;
- based on data on sold products by implementing of recalculated average tax rates which are determined monthly;
- based on data on sold products classified according to transaction tax rates.

If the company engages in manufacture or import of excise products which during market transactions have to have an affixed excise stamps (alcoholic beverages, except beer and cigarettes), that company before it initiates manufacturing, or import has to acquire excise stamps from the Ministry of Finance without which cigarettes and alcoholic beverages cannot enter the market.

The company has to pay a tax for displaying a of the company name, the amount of which is determined by the municipality and depends on the activity company is engaged in and form the location of the company in the city, or the municipality. For example in Belgrade for the I A zone the annual amount of tax for displaying of company name is 79.600 Dinars (around 1.145 USD)

Labor-related administrative procedures. According to current regulations Yugoslav companies have to have at least two employed workers. The company needs, regarding the number and qualifications of workers, are determined by the general documents passed by the executive council or the director of the company. In the general documents work positions can be listed which have to be filled by foreign citizens (which is a rule for companies with foreign investment). For each position conditions are listed for candidates to be employed in that position.

Work force requirements are filled by public competition or advertisement, and the company is under obligation to register the need for new workers with the Labor Market Agency in the municipality where the company headquarters are located. Election of the candidate who will be employed is carried out by the director, who enters into an employment contract with employed workers.

After entering in an employment contract employees are under obligation to bring along with other documents a work record booklet which is kept by the company during the period of their employment. The company is under obligation to register the employed worked in eight days with the competent organizational unit of the Republican Fund of Pension and Disability Insurance.

Screening procedures. If a company is registered for specific activities (for example: manufacturing of medicine, poisons, explosive materials, and other) it needs to meet prescribed specific conditions and to acquire specific licenses and approvals before initiating manufacturing.

If a company is registered for foreign trade besides opening of a foreign currency account at a business bank it needs to undertake two more steps: (1) to apply to the Federal Customs Service for inclusion in the register of customs duty payees in accordance with the Law on Customs, and (2) to forward appropriate documents to the office of the National Bank of Yugoslavia for control of foreign currency documents in line with regulations on foreign currency operation.

According to the Federal and republican officials, the value census and prescribed procedures for founding of a company in FR Yugoslavia do not represent a barrier to strengthening of competition.

7. RULES AND PROCEDURES

7.1. Customs and Rules of Origin

7.1.1. The Customs

Due to the lack of funding and numerous inherited weaknesses, Yugoslav customs administration remained obsolete and ineffective. Problems of smuggling and corruption have been tackled, but far from being solved. The previous leadership was sacked and imprisoned, but serious problems of obsolesce of both infrastructure and procedures remained. The new leadership is committed to reforming the customs service, but modernization of the customs clearance process is still ahead. Apart from the most costly operation of modernizing the existing computer network, serious administration problems have to be solved in order to speed up customs clearance and still retain the capacity to charge tariffs according to the prescribed Laws.

Customs administration. If an importer does not pay customs duties or does not pay the full amount of customs duties, that makes it possible for him to make a profit. Other importers are paying customs duties and the equilibrium price of imported commodities is formed according to thus defined total costs (purchase price is increased for customs duties). Since his costs are lower (decreased for the amount of the customs duties which he did not pay), the difference between those costs and the equilibrium price of commodities represent profit. For this reason every importer has an incentive to avoid payment of customs duties, or to resort to corruption, to free his commodities from payment of customs duties. Unpaid customs duties (in full or partially) directly lead to forming of, or making of a profit.

Public opinion poll results, and surveys of experiences of entrepreneurs demonstrate that the Customs Service is seen as the most corrupt state service. The analysis presented below are based on the findings of the project “Corruption in Serbia”, CLDS, 2001.The multi-year inheritance of the Federal Customs Service under the leadership of Mihalj Kertez (imprisoned at present)obviously produced results that cannot be easily annulled. During the past ten years a union was formed between people, or clans form the Customs Service and people from the police, both from the Public Security Service and from the State Security Service. On all border crossings besides customs officers there are police officers, both in uniform and in plain clothes. Police carries out the passport control and provides physical security of the border at the border crossing. Therefore, for carrying out of practically any kind of corruption of the customs service, participation of policemen is needed. If they did not participate, they could have easily prevented the majority of customs offences. Additionally, impartial and effective police force at the border would have been a sure signal for customs officers not to engage in corruption, or intentional irregularities of customs procedures.

The above named union of customs and police in corruption was amplified by the fact that two services did not have clearly differentiated spheres of competence at the border. That meddling of competencies was increased by naming of Mihalj Kertez for director of Federal

Customs Service. Kertez was a confidant of State Security, so with his arrival meddling of the police in customs procedure was increased, and especially by the State Security Service. Additionally, a large number of newly employed customs officers were either transferred directly from the State Security, or were indirectly linked with the State Security (for example wives of State Security officers).

Corruption of customs officers (together with the corruption of their colleagues from the police), or mechanisms of corruption, aimed at not paying of full customs duties, i.e. making of a profit, can have several varieties.

First - lack of import records (commodity bypass) which represents the best solution for the importer (full exemption from customs duties), but this method is most difficult for implementation, since a number of customs officers have to be corrupted, or a network of corrupted officers has to be formed (police and customs) and the division of labor among them has to be accomplished. In Serbia a commodity bypass, or practically bypassing of customs by trucks with commodities, occurred most often on the border crossing Horgoš, because of the specific configuration of the border crossing. The mechanism was based on corruption of the customs officer who first meets the truck at the border crossing and instead of sending it to the parking for customs clearance the officer sends it directly to the highway. Since there were a large number of witnesses (officials), it is necessary to achieve their cooperation, i.e. include them in the chain of corruption. Since the bypassing of vehicles implies that the driver does not have all the necessary documents in case of later control on the highway, it is justified to assume that in this corruption chain the traffic police was very probably included, or those patrols which stop and check trucks, and their documents. Often for the purpose of avoiding control license plates were replaced, and falsified transport orders were used.

Discussed reasons mean that this kind of corruption of customs officers, even thought most advantageous for the importer, was used relatively seldom compared to other kinds of corruption which we will discuss later. It seems that it was implemented in cases when the importer had great political weight, a very close relationship with the State Security Service and the police, since in those cases trucks passed thought the customs crossing at high speed and under police escort. Therefore, without any customs records of commodities, and without customs clearance.

Another, rather effective, and less risky way of bypassing commodities is the so-called false transit. Of course, all commodities in transit do not succumb to payment of customs duties. After entering the country the truck is registered, or its load is registered and appropriate documents are issued, i.e. documents that confirm the intent of the shipper to deliver commodities in another country. One copy of the document is given to the driver of the truck, and the other copy goes into the customs documentation. Additionally, depending of the announced point of exit from the country, the driver and the truck are given an amount of time to leave the country. At the point of exit, documents from the truck are compared with documents that are exchanged between customs offices and after departing the country all obligations to pay customs duties cease to exist. Corruption uses transit for import of commodities without payment of customs duties. It is needed to corrupt customs officers in at least two customs offices, or border crossings. At the first customs office, or border crossing, the truck driver meets the corrupt customs officer, which fabricates documents not according

to real conditions but according to wishes of the exporter. Even thought the truck is full of cigarettes for the domestic market, the corrupt customs officer enters that soybean shot is transiting, for example for Macedonia. The truck enters the country with no payment of customs duties and cigarettes are sold on the domestic market, with a large profit for the importer. On the border crossing towards Macedonia, another corrupt customs officer simulates the exit procedure for the truck and constructs full documentation as if the truck has really left for Macedonia.

Second method of evasion of customs duties is unpaid duties for recorder imported commodities, which means finding a false base for exemption from paying customs duties. This method of corruption is somewhat simpler, although for its implementation is often needed to include in the corruption chain a person outside of the customs service, to provide false bases for exemption. This method is used most often in cases when there is a large number of different bases for exemption from payment of customs duties. Complicated foreign trade regulations in FR Yugoslavia and a large number of exemptions have increased the possibility for this kind of corruption, specially in conditions where a significant part of import consisted of humanitarian aid, which is exempt from customs duties. Therefore, it was important to prove that import consists of humanitarian aid and it would be exempt from payment of customs duties. Consequences of such exemptions are significant differences between the nominal and actually calculated customs duty. According to data for year 2000, that difference was around 1.400 million Dinars or around 30% from the total nominal customs duties. Even thought one part of such exemption is legitimate, if exemptions reach almost one third of nominal customs duties, it is certain that many of those exemptions are caused by corruption, not necessarily of customs officers, although they are a unavoidable part of this chain.

Additionally, this method of corruption is often used during customs clearance and collection of customs duties from citizens who carry commodities across the border. A collective customs control is carried out for 5-6 vehicles, and for all except one customs duties are calculated and collected, and the person who has paid a bribe on time and to the right person, crosses the border with commodities he did not pay customs duties for. Since inspection is executed for several vehicles simultaneously, potential witnesses have a hard time determining who actually paid customs duties, and who did not, which makes corruption of this sort easier.

Still the basic problem in this and similar case is the payment of the bribe, since payment at the border crossing is technically difficult and it takes a long time. Because of this payment is most often carried out through an intermediary, with the existence of economy of scale. The intermediary pays amounts for several transactions, or for more corruptors. In such operations it is necessary to very precisely determine a number of details, like shifts of customs officers, when each corruptor crosses the border crossing, etc. Because of this it is most often necessary to include in such operations top officials of one border crossing. It is specially important to ensure corresponding control mechanisms, i.e. mechanisms by which corruptors will be able to follow the implementation of the informal agreement, or the providing of services they have paid for.

Problems in implementing of informal agreements on corruption came into existence after staff changes late last year in the Federal Customs Service. Certain customs officers who

were dismissed for corruption, were not in a position any more to provide services for which they have received monies in advance. Corrupted officers have already spent the monies (or so they say), and the service they could no longer provide, and corruptors do not know how to solve the problem.

Third, effective customs duties can be lowered by biased valuation of commodities, or by effective lowering of customs base, which is most often initiated by issuing of a falsified invoice, or an invoice for a smaller amount then the real cost of commodities. Additionally, this lowering of the customs base can be achieved by reclassification of commodities. According to Customs data, over 95% of sneakers imported into Serbia are cloth sneakers of Chinese manufacture. Of course, the supply of sneakers on the domestic market clearly demonstrates that this is a case of incorrect registering of imported commodities – over 95% of offered sneakers in domestic stores are sneakers of different kinds. Falsifying of commodity lists has a goal of lowering of the value of commodities, since cloth sneakers are worth 12 DEM, and therefore the paid customs duties are much less, then if an unbiased valuation of the real value of sneakers being imported, which is near 100 DEM. In this case one part of customs duties is collected, and the importer is rather content, since this corruption mechanism is rather simple and does not need forming of a network of corrupt civil servants – one right man at the right time is enough, which is relatively easily achieved.

Finally, effective lowering of customs duties can be achieved by reclassification of commodities, or by false identification of commodities which enables the use of a lower customs tariff rate. This method is especially appreciative for countries, like Serbia, which have a large number, or great spans of customs tariffs. Namely, up to the passing of the new Law on Customs Tariffs in May 2001, customs tariffs had an extremely wide span (0-40%) and there was a large number of customs tariffs (even 37). At the same time similar products had customs tariffs with very different rates. For example, ribbed reinforced concrete steel used to have a tariff rate of 3%, while smooth reinforced concrete steel used to have a tariff rate of 21%. The reason for this difference is the supposed intention to protect the domestic manufacturer of smooth reinforced concrete steel (Sartid), while the ribbed reinforced concrete steel was not manufactured domestically. The consequence of the named difference and corruption of the Customs Service was that the complete import of concrete steel up to October of last year was classified as ribbed concrete steel, regardless if the steel was ribbed or smooth. So, a large number of tariff rates and significant differences between them in cases of similar products lead to this form of corruption. There is no excuse for such customs policy. Domestic manufacturer was not protected, since the effective tariff rate was 3%, and not 21%, the customs procedure is not transparent and it enables corruption. There are no winners, all are losers, – except, of course, the corrupt customs officers who found another way to take bribes.

According to unofficial, but trustworthy estimates from the Federal Customs Service itself, a very large number of customs officers, or state servants in this service were party of corruption. According to estimates of the Customs service itself (published findings can be found in the project "Corruption in Serbia", CLDS, 2001), even around 50% of customs officers had contact with corruption. Only by their dismissal, employment and training of new people, implementation of new rules (from the law to the Charter), defining of new

procedures and introducing of technologies conditions will be formed for the Federal Customs Service ceases being the most corrupt service as perceived by citizens.

Permissions and licensing. Until the changes of federal foreign trade laws in early May 2001, a very large number of products was on the permission import regime. On that regime were 482 products, or tariff lines according to standard international classification of products. That makes up around 4,5% of the total number of products, and roughly the same participation in the overall import.

From that number for around 100 products permission had to be sought because of international conventions – for products like explosives, poisons, and similar products on permission which are on the permission regime in countries with most liberal foreign trade regimes. Next 203 permissions deal with iron and steel, or products form iron and steel, and 90 more for supposed protection of some other domestic branches (trucks, tractors, and the like). There are 47 positions on the permission regime, which deal with agricultural and foodstuff products. Additionally, there are products on the permission regime which are there for totally unknown reasons, like old clothes, certain medical equipment (EKG), compressors and others whose total number is around 40.

The biggest problem in assigning permissions was subjectivity and lack of transparency in decision making. Civil servants assign permissions to individual companies which requested the permission and assign a permission for a clearly specified commodity and with a limited value of transaction, measured either by quantity or value of commodity. Additionally, civil servants have a discretionary right to issue or to reject issuing of a permission based on a subjective judgment regarding the protection of general interests, which means domestic manufacturers, or the protection of country's payment balance. These very general guidelines make it possible for civil servants to easily offer their services for issuing of permissions, or to be corrupted.

The largest number of permissions for import of foodstuff products (chewing gum, sugarless chewing gum, sugar, bananas, chocolate, etc.), or products with an extremely high profit margin, had been reserved for large importers, often close to authorities. For example, Delta M, Genex (and companies which are part of Genex), Nelt, Stankom trgovina, Deljug. In addition, often smaller companies were present, often with two or three employees which received permissions for import of certain products, for example Food Industry Dunja, registered in Belgrade, Bulevar Revolucije 276 (no factory or industry exists on that address) which in year 2000 received permission for import of chocolate in the value of 1.000.000 USD.

The next interesting phenomena was the unrealistically low price under which import was reported, and in this manner corruption was covered. Namely, in this way the nominal amount of allowed import is relatively small, so that doubt would not be raised in regularity of awarding of permissions. According to the findings of the Project "Corruption in Serbia", CLDS, 2001), in regard to unrealistic prices presented on permissions, the leader is the company named International CG which is a part of Genex, and which received permission for import of 6.100 tons of bananas, and the reported price is on the average less then 10 cents per kilogram. Also, companies under control of Genex received permission for import

of additional 1.500 tons. Other importers received permissions for the import of 900 tons of bananas. Average price for them was from 40 to 50 cents per kilogram.

It is interesting that a rather significant discrepancy exists between amounts of issued permissions and realised import. In certain cases the realised import is several times greater from issued permissions. This indirectly demonstrates significant corruption of the customs service, or of the institution, which should implement foreign trade regulations. For example, total issued permissions for import of trailers and tractors during 2000 are in the value of 9.000.000 USD, and the total import of these products exceeds 20.000.000 USD. Also, for buses, the value of issued permissions is 2.100.000 USD, and imports amount to 5.100.000 USD. For trucks the value of permissions was 7.000.000 USD, and import exceeded 18.000.000 USD, and for sidecars were issued permissions for import of 1.120.000 USD, an imported is over 10.000.000 USD.

Having in mind that a large quantity of bananas was sold on green markets and other locations where payment is in cash, it was noticed that International CG (Genex) imported bananas in the quantity of 3.400 tons for a company Neretva Fruit from Novi Sad (city where Radoman Božović grew up) which does not exist in the register of the Federal Statistical Administration. Several things can be concluded from this. Before all, that through this company Genex introduced the bananas on the cash market by which it could have avoided payment of sales tax, and also it could have taken all the income off the account of this company. Next, Federal Ministry of Foreign Trade had certain criteria for issuing import permissions. Among others, according to this criteria, small private, and even socially-owned companies were denied a chance to import freely, and specially to import such significant quantities. Obviously in this case this criteria were not followed.

It can also be noticed that at the time of the collapse of the old regime an inproportionally large number of permissions was issued. For example, from October 6 to October 10, 2000, 16 out of 18 permissions for import of sugar in the year 2000 were issued.

***Rules of origin*.** Determining the origin of a product is solved in the Yugoslav foreign economic system in two ways: (i) by definitions about the origin of products which in principle regulate this issue, and those definitions are included in regulations passed by competent state organ, and (ii) in specific bilateral trade agreements, especially with the Russian Federation and the Republic of Macedonia.

Principal definition of product origins are to be found in the *Decision on Issuing of Certificates and Certifying of Documents for Products During Export and Import* (The Official Gazette of the FRY", No. 51/92, 26/94 and 49/96) which is based on the authority of *The Law on Foreign Trade Operation* and passed by the Federal Government. According to this Decision a product of Yugoslav origin is considered a product manufactured in full in Yugoslavia, as follows:

raw materials and minerals extracted from land, water, or from the sea floor, including mineral fuels and similar material, and also metal ore;

2) plant products and forestry products manufactured in Yugoslavia;

3) live cattle bread and raised in Yugoslavia;

4) products obtained from live cattle from point 3);

5) hunting and fishing products obtained in Yugoslavia;

6) products of sea fishing and other sea products extracted by Yugoslav ships or which are manufactured on those ships;

7) products used for regeneration or raw materials collected in Yugoslavia;

8) waste of industrial manufacturing in Yugoslavia;

9) products manufactured in Yugoslavia, apart from products from points 1) to 8).

A product of Yugoslav origin is also considered as a product manufactured in Yugoslavia from imported products, if in that process original characteristics are significantly modified, or if the domestic value added amounts to at least 50%. Operations like packaging, sorting, affixing labels, storage of foreign commodities is not not considered as domestic production.

(ii) Precise definitions of origin of products are given in international agreements entered into by FR Yugoslavia. Thus, by article 7 of the *Agreement Between Federal Republic of Yugoslavia and Government of the Russian Federation On Free Trade Between Federal Republic of Yugoslavia and the Russian Federation* signed on August 28, 2000, in Belgrade, it is foreseen that product origin be determined based on rules provided by laws of the state of import. These rules on product origin were exchanged on the same day of the signing of the Agreement.

Rules on the origin of products were listed in great detail in the *Agreement on Trade Between the Federal Government of the Federal Republic of Yugoslavia and Government of the Republic of Macedonia,* signed on September 4, 1996, in Skopje. A significant clause of the Agreement is that relieves which it provides are implemented on products originating from FR Yugoslavia, that is Republic of Macedonia. This is why it is understandable that *Annex II* of the Agreement, dealing with rues for determining of product origin, makes up almost three fourths of the text of the Agreement and appendixes.

In line with provisions of Annex II products which have an origin in FR Yugoslavia , that is Republic of Macedonia, are considered the products that are fully procured in one of the states signatories of agreement, or procured in one of signatories, and in whose manufacture besides products from (1) were used other products which were object of sufficient refinement or finish. It is stated that the refining and finishing are always considered insufficient for attaining of the status of product with an origin, regardless of the tariff number changes after the operation. In addition of the listed elements, in Annex II of the Agreement are listed a number of additional definitions and rules implemented for evaluating if a certain product has an origin and if relieves from the Agreement can be implemented on it.

In accord with the Agreement on trade with the Republic of Macedonia, customs authorities issue an *Certificate of Circulation of Products EUR.1* based on a written request by the exporter or on his responsibility by his authorised representative. This written request is forwarded on a prescribed form and in prescribed manner. Customs authorities are responsible for checking the origin of products and other data in the certificate. Exporter or his representative who are requesting certificate EUR.1, have to provide an adequate document proving that products that are being exported meet criteria for certification. Exporter or his representative are under obligation to, if asked by customs organ, provide all additional proof for determining the real origin of the product, and also are under obligation

to agree to any examination of their business books and with any examination of the manufacturing procedure of those products, which are carried out by customs authorities.

(ii) In accord with provisions of the Agreement on free trade with the Russian Federation for attaining of the preferential regime in accord with conditions of the Agreement, products among other conditions should conform to rules on product origin. As proof of product origin a Declaration-certificate of origin on the Form "A" is used. In a separate column of this form criteria of the origin of product is listed:

"P" – product in full manufactured in the country of export;

"Y" – product is sufficiently treated/refined.

In the same column is listed the value of raw materials, semi-product or completed products, originating from another country, or of unknown origin, used in manufacture of the product, and expressed in percentages, based on the price franco factory of the manufacturer of the exported product (e.g. "Y20%").

7.2. Technical regulations, standards and conformity assessment procedures

Product standards and technical regulations are defined as government-mandated rules that must be met in order to sell a product on a particular market. They are considered technical barriers to trade to the extent that they raise unit costs of production and/or transportation.

From June 1, 2001, commodities imported into Yugoslavia are classified into free import (LB) and permission import (D). The permission exists for commodities necessary for meeting international agreements, regulating the foreign trade of armaments (weapons, ammunition, explosives, raw materials for explosive manufacture, as for sport and hunting weapons and ammunition), military equipment, historic and art objects, individual precious metals and certain strategic products of black metallurgy, while the import of dangerous or waste materials is forbidden.

For the free import regime, the imported commodities during customs clearance do have to undergo a mandatory examination of condition for entering the Yugoslav market. Depending on the kind of product, conditions are prescribed which have to be met by those products for entering into the market. Special conditions are prescribed for food, technology, waste, endangered species and genetic species and genetically modified organisms, motor veichles, measuring instruments, etc.

Conditions for entering the Yugoslav market are the same for imported products as for products manufactured in FR Yugoslavia. From this follows that the mandatory attest, certificates, credentials and other documents which have to accompany imported commodities do not represent a barrier for foreign competition in entering of the Yugoslav market.

Tehnical standard. Banning of quantitative limitations for imports in FR Yugoslavia and liberalisation of import based on that does not free the importer from the obligation to

provide proof that imported products meet conditions for entering of the Yugoslav market. This paragraph covers obligations to acquire certain attests, certificates, and credentials regarding certain kinds of technical products.

For import of certain *technical products*, before the customs clearance it is necessary to attain an *attest of conformity*. This attest confirms that the product meets technical conditions for sale on the Yugoslav market. The importer forwards a request for the attest of conformity to the *Federal Standardisation Authority* which, based on received documents, passes a decision if the technical product has to be attested; if not, the authority issues a certificate which is used for customs clearance. If the product has to be attested, the federal authority will inform the requester which *authorised laboratory* to contact for testing and issuing of the attest of conformity. After testing, if the product meets the prescribed conditions for the Yugoslav market, the attest of conformity is issued and based on this attest customs clearance is carried out and the product enters the Yugoslav market.

A request for homologation of vehicles, equipment and parts is forwarded to the Federal Standardisation Authority, by the importer or representative of a foreign company for sale from consignment storehouses. The Federal Standardisation Authority can entrust to a laboratory which meets the conditions of Yugoslav standards regulating general criteria for operation of a laboratory and testing. When based on all test results included in the test report for that type of vehicle, equipment or parts which meet the prescribed conditions, a decision on homologation is passed, and based on that decision the Federal Standardisation Authority issues a statement on homologation and issues a homologation number.

The Federal Standardisation Authority will accept a foreign document on homologation of a vehicle, equipment or part issued in accordance with rule books which are, as an annex of the *Agreement on passing of unified technical regulations for vehicles with wheels, equipment and parts which can be built in and/or used on vehicles with wheels and conditions for mutual recognition of granted homologations in accordance with those regulations – Geneva, October, 16, 1995,* used in FR Yugoslavia, by issuing of a statement on homologation.

Products which must obtain corresponding technical attests and certificates before import are classified in three groups:
(i) *Attest on conformity* needs to be acquired for machines, electrical appliances, veichles, and telecommunication equipment.
(ii) *Certificate on meeting of metrologic and other conditions* are acquired for various apparatus and instruments, medical equipment, measuring equipment, etc.
(iii) *Statement on homologation* needs to be acquired for the import of passanger veichles, drive engines, visual signalling, tractors, busses, trailers, etc.

The quality control of imported products, and the control if imported products meet the Yugoslav technical regulations are carried out by authorised federal authorities as follows:

Federal Market Inspectorate which is part of the *Federal Ministry of Economy and Internal Trade* - carries out *quality control of agricultural and foodstuff products* to be imported and exported. For certain products quality control can be carried out by legal entities which meet certain conditions.

Quality control of products being imported determine if those products meet the prescribed quality for their sale on the Yugoslav market. Quality control of products being imported, and for which quality is not prescribed for the sale on the domestic market, determines if those products in regard to organoleptic quality and composition meet the quality and composition particular for those, or similar products. This quality control is carried out in the location of customs crossing, immediately before the customs clearance. After the completed quality control of the product a quality certificate is issued for product which meet the quality for sale on the Yugoslav market. A request for issuing of the certificate with correct data about the product being imported is forwarded by the imported. Products for which quality control is prescribed cannot be imported without a certificate.A request for issuing of a certificate for products intended for import includes: kind and name of product, country of export, name of foreign provider, country of origin of product, kind and number of means of transport, point of loading and in-route stop, value of product, payee of fee, number of pieces and unit of packing, gross and net mass and basic data on quality of the product. In addition to the request accompanied documents are submitted, and serve as proof of truthfulness of data listed in the request.

The Federal Standardisation Authority which is part of the *Federal Ministry o Economy and Internal Trade* carries out tasks relating to: Yugoslav standards, technical formatives, quality formatives and technical recommendations for products, commodities and services; attesting of products, rating and recognising the quality system of the manufacturer, or provider; executing of international testing systems. During import of products which require the *Attest on conformity* and the *Statement on homologation* a written request for issuing of these documents is forwarded to the Federal Standardisation Authority. If testing of products is needed for issuing of these documents, the Authority informs the requester which authorised laboratory to contact for testing. In Yugoslavia there is a large number of authorised laboratories on which the Authority maintains a register. They are most often laboratories at faculties or research institutes, and there are companies which perform these activities. An important role in accreditation of legal entities for these activities is performed by the *Yugoslav Accreditation Body* which is a federal and a collegial organ, and performs activities pertaining to: determining of ability and competence of companies and other legal entities for performing of jobs and tasks of certification of processes, products and services, systems of quality, systems of protection of the environment; product testing, control of conformity, execution of technical surveying, and other jobs connected to accreditation;

The *Federal Authority for Measures and Precious Metals* which is part of the *Federal Ministry of Economy and Internal Trade* carries out jobs pertaining to the system of measuring units and control of measures and precious metals. A request for issuing of a certificate on meeting of metrologic and other conditions during import of products which represent measures is forwarded to this Authority, and in the case that testing of measures is needed that job can be carried out in an authorised laboratory. Control of the work of the laboratory is carried out by this Authority.

Conformity assessment procedures. Every imported product for which Yugoslav regulations prescribe conditions regarding standards, homologation and metrology, before clearing customs must have appropriate documents confirming that the said product meets

prescribed technical conditions for sale on the Yugoslav market. These documents are issued by Yugoslav state authorities, or authorised and accredited laboratories.

All technical documentation available to the importer, including documentation on testing done by the foreign manufacturer, is required to be forwarded to the competent federal authorities with the request for issuing of the Attest on conformity, Certificate on meeting of metrologic conditions, or Statement on homologation. The competent authority in Yugoslavia in every individual case decides if the need exists for additional laboratory testing of technical products being imported.

State agencies are authorised for issuing the attest on conformity, certificate on meeting of metrologic conditions, or statement on homologation. For testing of technical products there are authorised laboratories which have certificates issued to them by state agencies and they do this job on commercial bases. Regulations determine conditions to be met by these laboratories so they could carry out testing. Therefore, testing is done by independent laboratories which can be privately owned.

The length of time for testing technical characteristics of certain products depends on the kind of product and kind of testing. If it is testing for issuing of the RSO attest, testing takes from two to seven days, but when testing for issuing of an attest of safety such testing lasts up to three weeks. For technical testing as a rule one piece of the technical product is enough. Costs of technical testing are insignificant. For example, testing for issuing of the RSO attest costs around 165 USD, from which administrative tax is around 15 USD, and the remainder are costs of the laboratory, which performs testing. For issuing of a safety attest costs are around 600 USD.

All these institutions work well, in line with the EU standards. Standard problems of obsolesce of technology and emigration of professionals due to low salaries apply here as well.

7.3. Sanitary and Phytosanitary Measures

SPMs are measures applied to protect human, animal, or planet health. SPMs may be trade restrictive and therefore are subject to international standards, guidelines or recommendations, if they exist. The purpose of this section is to identify the extent to which SPMs in your country differ from those in other SEE economies and the EU and constitute barrier to trade.

Quality control of certain products during import and measures of sanitary, veterinary, and phytosanitary control and of the control of implementation of measures for protection of the environment in FR Yugoslavia does not deviate from customary control measures in EU countries. Having this in mind it is concluded that measures in these fields do not represent a barrier for international trade.

Main regulations.

Foodstuff products and consumer goods imported for sale on the Yugoslav market must meet certain conditions concerning *health standards.* Foodstuff products are all that is

used for food or drink in a processed or unprocessed state, as is water used for drinking water in the public supply or for manufacturing or products intended for sale.

Hygienically unsound are considered foodstuff, or objects of general use whose date of use marked on the declaration has expired, or do not have a declaration, or date of use cannot be determined from the declaration, if they are being sold in original packaging. Hygienically unsound are foodstuff, or objects for general use which are not in original packaging, or sold in diffuse if on packaging there is no data from the declaration.

Unsound regarding the make up are considered foodstuff which do not contain nutrients in quantities determined by regulations on quality of such foodstuff or do not conform to user specification regarding nutrients, and because of that have a lower biological value. Parcel of foodstuff and objects of general use being imported must have a document issued by the competent authority of the exporting country that they are sound regarding health.

Besides health inspections of foodstuffs, or objects of general use during import they undergo veterinary control, phytosanitary control, quality control, customs clearance, in accordance with regulations from corresponding fields.

Health control of foodstuff and objects of general use being imported is carried out on the border of FR Yugoslavia, and can be carried out in other places where customs clearance is undertaken on bases of a special decision. The importer of foodstuff or objects of general use is under obligation to, before customs procedure, forward to the *federal sanitary inspector* (who works for the *Federal Sanitary Inspectorate* an organizational unit of the *Federal Ministry of health and Social Policy*) a request for the inspection of the parcel being imported for determining of soundness regarding health, in a place where health inspection is carried out. These products cannot pass customs clearance before receiving a decision from the inspector that product regarding health soundness meet the conditions which for such foodstuff or objects of general use are prescribed in Yugoslavia;

Technologies, products, semi products and raw materials, waste, endangered species and genetic species of wild flora and fauna, biotechnologies and genetic modified organisms, at the customs crossing inspection is carried out regarding the *protection of the environment*.

In carrying out of inspection the *federal Inspector for the Environment* has the right to forbid imports or to order other measures for eliminating of dangers of endangering of the environment in the border belt.

Imports of animals, products, raw materials, and waste of animal origin, and other objects which can carry an infectious disease is allowed only on certain border crossings and on bases of the decision of the federal minister for agriculture. Parcels of listed products succumb to a mandatory *veterinarian-sanitary inspection by the federal border veterinary inspector in* border veterinary stations. These parcels must be accompanied by the prescribed certificates on health condition, and if not differently stated by an international agreement, and the mandatory veterinary-sanitary inspection is carried out during unloading and overloading.

In the decision on import the federal minister prescribes veterinary-sanitary conditions for import of parcels of animals, products, raw materials, and waste of animal

origin, seed for artificial insemination, inseminated egg cells for insemination of animals and other objects which can carry an infectious disease. Import is not allowed for listed products if in the country of export or countries of transit there are infectious diseases, or if there is danger that infectious disease is brought in FR Yugoslavia. A decision of the federal minister can order the importer to undergo a later inspection or hold in quarantine a parcel of products, raw materials, waste of animal origin, seed for artificial insemination, inseminated egg cells for insemination of animals and other objects which can carry an infectious, or can order other safety measures;

Plants can be imported, or brought in through customs crossings on which is present the federal inspection for protection of plants. Parcels of plants and other products in which harmful organisms can be carried can be imported only if accompanied by the *international certificate on the health condition (phytocertificate)*, which is issued by the competent authority for plant protection of the exporting country, in accord with the *International Convention on Plant Protection.* Those parcels on the border crossing undergo a health inspection by the *federal plant protection inspector.*

If by chemical, thermal or other means of processing of the plant possibilities are removed for carrying of harmful organisms the listed products are not considered a parcel of plants and do not undergo a health inspection (steamed parquet, plywood, laminated wood, processed cork, impregnated wood, carpentry, conserved and frozen fruits and vegetables, roasted coffee, roasted almonds and pistachios, spun and chemically processed plant fiber and similar).

Phytocertificate accompanying a parcel of plants being imported in FR Yugoslavia must be printed according to a form defined by the International convention on protection of plants and be in English or French of German or Russian language. Phytocertificate is kept after the inspection for two years in the archives of the border station for plant protection, and the phytocertificate for seed and sadni material – for five years.

Inspections and procedures

(i) The importer of foodstuff, or objects of general use is under obligation to submit before the customs clearance to the *Federal Sanitary Inspectorate* which is an organizational unit of the *Federal Ministry of Health and Social Policy* a request for inspection of the parcel being imported for determining of soundnes regarding health, in the place in which health control is being carried out. During the health control for import of foodstuff and objects of general use, the *federal sanitary inspector* must have an identity card and a sign confirming his official capacity. These products cannot undergo customs clearance before receiving from the inspector and decision that products meet the health conditions which for such foodstuff or objects of general use are prescribed in Yugoslavia;

(ii) During the import of technologies, products, semi-products, and raw materials, waste, endangered species and genetic species of wild flora and fauna, biotechnology and genetically modified organisms control is carried out by the *federal inspector for environmental protection* who works for the *Federal Ministry of Health and Social Policy;*

(iii) During the import of animals, products, raw materials, and waste of animal origin, seed for artificial insemination, inseminated egg cells for insemination of animals and

other objects which can carry an infectious deices products a *veterinarian-sanitary control* is mandatory. These controls in the border veterinary station are carried out by the *federal border veterinary inspectors* who work for the *Federal Ministry of Agriculture;*

(iv) parcels of plants and other product and objects which can carry harmful organisms can be imported only if accompanied by the *international certificate on the health status (phytocertificate)*, which is issued by the competent authority for plant protection of the exporting country, in accord with the *International Convention on Plant Protection.* Parcels of plants and other products and objects, which can carry harmful organisms, undergo health inspection on the border crossing by the *federal inspector for plant protection.* Federal inspectors for plant protection work for the *Federal Ministry of Agriculture*, and carry out tasks on border crossings where import of plants in allowed.

Yugoslavia is a signatory of all international conventions, as well as 25 billateral convetions in veterinary and 23 conventions in plant protection.

Yugoslav sanitary and phytosanitary measures are harmonized with the EU regulations and practices. Still, the first problem in this field is that the EU regulations are not harmonized with the WTO rules and procedures, and thus considerable work is required in the process of standardizing them with the WTO. The second problem is that domestic organizations that implement these measures suffer heavily from obsolence of their infrastructure and the lack of a modern network. The third and most important problem is that, in spite of the fact that the staff in these intstitutions is competent and professional, low salaries and poor technology already forced considerable number of professionals to emigrate. Thus serious improvement of these institutions would require considerable funding of labor costs, improving infrastructure and connection to the customs information network (which also needs considerable modernization efforts).

7.4. State Trading

In FR Yugoslavia there are no state companies which have exclusive rights to export certain merchandise. In individual years the Government of the Republic of Serbia has authorised the Commodity Reserves Directorate of the Republic of Serbia to, based on a competition, through export companies carry out the export of wheat from commodity reserves. Also, for payment of the debt for importer crude oil from Peoples Republic of China, the Oil Industry of Serbia was authorised to export certain merchandise.

In FR Yugoslavia there are no state companies which have exclusive rights to import certain products. However, in certain periods, based on special regulations, certain companies do have a monopoly on the import of certain products. Hence, from mid March 2001 the import of crude oil can be carried out only by the Oil Industry of Serbia (NIS) and companies which have a contract for refinement of crude oil with the Oil Industry of Serbia. Oil derivates can be imported by companies which after submitting a written demand are authorised by the Government of the Republic of Serbia. The matter is regulated by the *Decision on Special Conditions and Method of Import, Refinement, Distribution and Sale of Oil, or Oil Derivatives* ("The Official Gazette of the RS", No. 16/2001 and 23/2001) passed before all for more efficient combat against the gray economy and repressing of tax evasion.

7.5. Government Procurement

Estimated amount of government procurement in the year 2001. is around 50 bil. Dinars, that is around US$ 780 mil. It is around 8,3% of the GNP, which is estimated around US$ 9,5 bil. This amount includes procurements from the budgets of the Republic of Serbia and Federal Republic of Yugoslavia.

Procedures. Foreign firms are allowed to bid for government contracts. Investment works contract can be given to foreign firm based on auction or collection of offers according to the law. Investment work can be given to foreign firm if foreign firm:

1. gives the bank guarantee for the damage that could be done to the investor
2. accepts the application of Yugoslav standards, technical and quality norms or application of international standards, technical and quality norms if they are not included in Yugoslav laws
3. hires domestic work force, but supervisors and experts can be foreigners

Practice is somewhat different. Very few foreign companies have had any business operations in Yugoslavia. Practically, only a few firms (especially in the last 10 years) have won any government contracts. There are various reasons for that. Government prefers to pay in local currency and foreign companies could very hardly facilitate such transaction. On the other hand, domestic companies could only receive government procurement in dinars. Also, foreign companies were not prepared to wait for Government to pay arrears which were the results of the contract. In addition, foreign direct investment law is very simulative and there are very few barriers to enter Yugoslav market. Therefore, instead of applying for the government contract as a foreign company, companies could have decided to open up a business in Yugoslavia and to apply as a domestic company. Furthermore, the government, same as most of the other governments, preferred to give contracts to domestic instead of foreign companies. Finally, during the past 10 years, Yugoslavia was characterised as a country with very high level of corruption. This was the case with government procurements, too. It was much easier for domestic entrepreneurs to find a way to reach decision makers in the government.

8. POLITICAL ECONOMY OF TRADE POLICY

Trade policy and lobbying. Nine months after the overthrow of Milošević, dozens of the leaders of old lobbies are either in prison or are being prosecuted. Still the press reports show that numerous lobbyists joined the new ruling coalition, both for the reason of protecting themselves from prosecution and for the reason of continuing with previous activities. New lobbies are also in sight.

During the preparation of the Customs Tariff Law, federal officials received hundreds of suggestions and comments. A minor number of suggestions were adopted, and most political pressures remained unfulfilled. When the draft of the Law entered Government adoption procedures, almost 150 amendments were submitted, all of them aiming at augmenting the actual tariff rate. These amendments come from five sectors: agriculture, ferrous metallurgy, textiles, cars and electrical household appliances. The government accepted approx. 20 amendments. Some of the lobbying was done by owners or officials which were member of leading coalitions.

(i) Following sectors (and lobbyists) received higher tariffs than originally planned: Agriculture;
(ii) White tin packing producers, amongst which is the firm FMP Železnik,
(iii) Industry of Motors and Tractors from Rakovica,
(iv) Zastava Kragujevac Car Factory,

Another compromise was made in ferrous metallurgy. Still, is a case of implementing licenses on imports of steel from Russia the primary reason for their re-implementation comes more from the intention of the Government to protect domestic production than from the lobbyist part. Namely, since there is a free trade agreement with Russia, and thus there was no way to implement customs tariffs, the negotiations were made with the Russian Government on the possibilities of introduction of voluntary export restrictions (VER) since there is a reasonable doubt that Russian (and Ukrainian) steel are sold under dumping prices. After Russian government rejected that proposal, Yugoslav authorities were left with two alternatives: (1) to implement safeguards or antidumping regulation or to (ii) propose licensing of steel in the new Customs Law. Since domestic antidumping and safeguard practice is very poor (as described earlier), the importance of this sector seemed to be the primary reason for the Government to decide to continue protecting this sector. Of course, the influence of the domestic steel lobby cannot be forgotten either.

Sensitive sectors of the economy. Having in mind the circumstances under which the Yugoslav economy has been operating since 1992 (sanctions, hyperinflation, the outer wall of the sanctions, a totally inward oriented domestic economic policies), there is virtually no sector in the Yugoslav economy which remained competitive in European terms. Highest profits were usually recorded in import businesses and gray economy; no productive sector turned out to be profitable. All major sectors, which will obviously be struck by foreign competition face the following internal problems.

Table 8.1. Problems in Yugoslav economy by sectors

SECTOR	STRUCTURAL (MAL)ADJUSTMENT	MARKET
AGRICULTURE	deterioration of land decreased use of fertilizers decreased returns physical deterioration of equipment	decreased domestic market (lack of demand) lost markets in ex-Yugoslavia, in the EU and in the Third World countries.
TEXTILE & LEATHER	obsolete technology physically devastated real assets high unit costs (low productivity) moderate labor surplus accumulated losses	inappropriate marketing lack of domestic demand lost market in the CIS and EU.
MACHINERY: A CASE OF A CAR FACTORY	obsolete technology bad basic design and poor quality of product high unit costs huge inventories broken chain of subcontractors huge labor surplus.	bad marketing lost ex-Yugoslavia and foreign markets (for the resins of poor quality and marketing).
PUBLIC UTILITIES	partly physically devastated real assets poor maintenance significant losses	Excess demand due to the price depreciation

Apart from the tariff policy, no specific measures have been envisaged to protect these sectors from external competition. Still, their best protection will come in path of reforms. Besides liberalizing the trade policy, most sectors will need modernization of foreign investment legislation and creation of incentives for foreign investors. Introduction of modern monopoly regulation and price control, and creation of an operative social safety net is required.

The populistic policy of the past will remain to act as a principle obstacle to succesful reforming. Public mind still remained that the state is responsible for the employees, rather than for the welfare of the population. Massive protests in the car factory of Kragujevac in July this year came as a result of the (mis)calculation of the syndicates that the state will revise its policies in fear of mass protests.

Table 8.2. Problems in Yugoslav economy by sectors

	ACTIONS FOR	
	FIRMS	GOVERNMENT
AGRICULTURE	increased investments in new equipment improved know-how,	Appropriate price policy improving relations with the EU new trade agreement with the EU.
TEXTILE & LEATHER	production and labour restructuring equipment modernisation JV with Western companies new marketing	liberal foreign trade policy social safety net.
MACHINERY: A CASE OF A CAR FACTORY	take-over by a major league car producer incorporation in its system heavy restructuring high labour shedding	modernisation of foreign investment legislation further benefits (incentives) for foreign investors social safety net.
PUBLIC UTILITIES	restructuring via fragmentation partial privatisation	Introduction of modern monopoly regulation and price control, incentives for foreign investors.

Welfare impacts. Since major reforms are just to be enacted (the Foreign trade law has been enacted on June 1st, and the Serbian Privatisation Law is still in preparation (envisioning tender sales), no policy reforms affected the population so far. As far as the Republic of Montenegro is concerned, the voucher privatisation has been almost completed, and no results can even be expected, since most firms are loss makers and the share market is not effective. Even if it were, the population does not seem interested in trading shares with zero value. The possible outcome in Montenegro is that mafia leaders from that republic will buy the workers shares out, but the problem remains that one should start thinking about structural reforms over there, which has not been the case so far.

Public awareness of the benefits of reforms. The living standard of the population is very low. In addition, the fear of loosing jobs, primarily by enactment of the Privatization Law comes first. No public campaigns are made in this respect, and thus one might not expect population to be aware of the benefits of the interdependence of the openness and the poverty reduction. So far, new governments mostly announce on the matters of donations, which will obviously do the best short-term job on reducing poverty in Yugoslavia.

Poverty. According to the new Foreign trade law, there will be no protected sectors in terms of high tariffs, licenses, permissions, quotas etc. Even the 20% customs tariff on imports of cars is too low to protect domestic industry. Thus all sectors will face severe foreign competition. In the tradable sector, most of them will have to be sold to foreign firms in order to survive. The results are yet to bee seen, since the new Privatisation law has not

been enacted yet. Real appreciation, which the Dinar experiences since October 2000, only aggravates the position of exporters and encourages importers, making the problem of poverty even stronger. Since NBY rejects ideas of depreciation until some rise in output is achieved (presumably until Q2 of 2002), there will be no immediate benefits of opening the country to strong foreign competition. In addition, most firms will have to reduce labor force prior to tender sales, which will further aggravate the problem of poverty. Since these are necessary measures for the fresh start, poverty will have to be handled by donations in the meantime. Thus this country will heavily depend on foreign aid in order to pursue its transition path.

As for the poverty itself, one might add that a third of the Yugoslav population lives below the poverty line, which is six times the European average. To live below the poverty line means to live with less than one dollar per day. The explosion of poverty which Yugoslavia faced in the past decade led to the fact that another third of the socially vulnerable households live with three to five dollars per day. In September of 1999, as many as 75 percent of the polled citizens said they had no means of support, while 85 percent said their economic situation had deteriorated. The latest research conducted by the UN Agency for development shows that in Central Serbia and Vojvodina, which have the largest concentration of refugees and expellees, the citizens spend only one dollar a day.

It is possible to establish with certainty only the number of employees in the social sector (1.2 million), but the exact number of all the employed (employed in the gray economy), i.e. those without jobs, is not known. The gray economy makes it possible for 2.4 million households in Serbia to survive. According to professor Srdjan Bogosavljevic of "Strategic Marketing" (the round table discussion entitled "Poverty in the FRY Today", organized by the European Movement in Serbia), the most important sources of cash are pension remittances from abroad and money from sold real estate in Bosnia, Croatia and Slovenia. One of the mechanisms for survival is also the non-payment of bills (electricity, housing). Out of 2.4 million households, approx. 700 thousand families are poverty-stricken, while 400,000 live decently. According to this calculation, there are around a million households in Serbia that do not rank among the category of the poor, but they have no chance of entering even the lower middle class.

Major further price liberalisation of electricity prices is expected in June and October this year, will sum up to a 100% increase, which would augment the annual inflation rate by 6.3%. Under the old regime, the outcome for population in similar situations was simply not to pay their bills, which was largely tolerated. The question remains - what can the new regime do in order to motivate the population for reforms. Thus the Donation Conference in June this year seems to be the only real answer to this problem.

Social safety net is in preparation. According to the public statement of the Minister of Social affairs of Republic of Serbia, the restructuring of the existing (non-functional) social safety net will be finished by September this year. It will consist of re-qualification of workers who loose their jobs, and also will provide unemployment benefits and aid.

One of the problems regarding public safety nets is that they play a relatively minor role compared to informal coping mechanisms. It is estimated that 15-20 percent of adults are engaged in some form of gainful activity that does not imply a regular employment contract

or registration, and as much as 40 percent of households receive income from such activities. The second type of informal activity is subsistence farming. Over half of the households in Serbia are reporting to produce themselves at least part of their food supply (26 percent in Montenegro). These coping strategies prevented the worst cases of deprivation and no major signs of malnutrition are apparent. Nevertheless, some of the very poor have only limited access to both subsistence farming and informal employment activities. In many of these cases, poverty is an outcome of failing to find a place in the informal economy.

9. ACCESS TO EU AND OTHER MARKETS

For years Serbia enjoyed no preferential treatment regarding tariff protection of the main trading partners. Only in 1997 and 1998 the EU endorsed autonomous trade preferences, cancelled in springtime 1998 as a part of sanctions against Serbia due to the Kosovo crisis. All regular prelevements of the EU in the agriculture have been applied.

After change of Government in Belgrade Serbia already has got specific ATPs, i.e. no tariff protection for 95% of export industrial commodities to the EU countries. This is the arrangement already applied for the countries of Southeast Europe. It is now clear that this arrangement has not been a part of Stabilisation and association agreement of the Yugoslav Government with the EU, but rather this measure has been implemented independently of SAA process.

Crucial functional barrier to Serbian export is a lack of competitiveness of domestic industry. Even before the sanctions Serbian industry was rather non-competitive. Vast segment of consumer goods went to the former Soviet Union and other COMECON markets, which were not open for mass import from market economies. Total factor productivity, i.e. economic efficiency of Serbian industries was rather low, and per unit costs was high.

During the Sanctions already low export competitiveness of Serbian economy deteriorated. Foe a decade there were no new investments in capital assets, so there is no modern, up to date technology that have been introduced in other countries during last ten years. Furthermore, there was no investment in replacing and proper maintenance of existing equipment, so technological basis for competitiveness virtually vanished. The only rather competitive sector of Serbian economy is one of the private grass roots SMEs, but that sector is much more focused to domestic market than export. From the technological aspect, the only rather competitive industries are agriculture, some extractive industries (copper mining and production, for example), and some services.

Years of economic isolation of the country due to various sanctions proved to be the most devastating in the field of relevant information. There is no regular exchange of information with international business community, so local business people information about developments in the world market are very limited. Commercial sections of Yugoslav embassies to the trading partners and trading partners embassies to Belgrade were either closed or involved in going slow operations. Serbian telecommunication network and services are underdeveloped, and there is no widespread Internet using culture in Serbian

business community. In late 1990s, Deimler-Benz attempted to restore business co-operation with local subcontractors that supplied components to the company. It was a lack of information of these companies and their management about recent developments in technology, marketing and financial management that prevent future collaboration with the German Company.

The lack o modern know-how in business operations is another major factor of insufficient competitiveness of Serbian industries. This is particularly significant in modern method of market research, marketing and financial management. International marketing of Serbian companies is rather bad with lost markets during the sanctions (already taken by competitors), poor sales networks, and lack of trained people.

Specific constraints. A specific form of the barrier to trade is very strict visa regime for Serbian citizens, i.e. Serbian business people involved in import activities. It is rather difficult and costly (both in terns of fees and time) Serbian business people to obtain visas to visit major trading partners. Since the reasons for visa regime are not only political, it should not be expected that recent political changes in Serbia would clear the way for abolishing the visa regime.

Constraints in accessing EU market. Any sustained recovery thus depends on rapid growth of export to the EU. Given that the combined exports of the entire region amount to less than 1 % of overall EU imports this would not have any appreciable impact on the EU market.

The free trade should not be limited to industrial products because the only sector in the region that still works is agriculture. The Common Agricultural Policy (CAP) consists of a jungle of distortions, which could not, and should be exported. However, the EU should grant generous tariff free quotas. In order to illustrate to politicians and the farmers lobby that the countries like FRY (and indeed all of SEE) do not represent a serious threat to farming in the EU one could put the duty free import quota at 1 % of EU production. As the combined imports from all SEE countries amounted to about 0.01 (one hundreds of one percent!) of EU production in such a quota would allow for a very substantial expansion of SEE exports to the EU without any appreciable impact on the EU market.

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10. CONCLUDING COMMENTS

Most impediments to a smooth integration into the international economy come from structural maladjustment of the Yugoslav economy. In addition to that, institutional impediments are rather large. In this respect, main problems that Yugoslavia is facing today can be summarized as follows:

Path of reforms seems not to be fast enough. It has already been eight months since the opposition won on the elections, and overall results are somewhat ambiguous. On the one hand, re-establishing contacts with international political and financial institutions have been going rather smoothly. On the other hand, when enactment of new laws is concerned, huge delays can be traced both on federal and republican (Serbian) side. Only several most important laws have been passed so far. In addition, neither Serbian nor Yugoslav government performed a transparent and coherent media announcements of the paths of reforms.

The political constellation in Serbia (18 parties of very different commitment to reforms) is highly unfavorable. It seems that in most cases it turned out to be easier to cope with international community than within the ruling coalition. Except 3-4 leading parties, the rest of the coalition is rather inward oriented and exhibits obvious lack of any substantial knowledge about transition reforms that are ahead. Thus their statements (about avoiding shock therapies, preserving domestic ownership over loss-makers etc. *The same goes for the federal coalition of an anti-reformist Montenegrin block and the (previously mentioned) incoherent Serbian coalition.*

Reforms of judiciary and executive government have been only vaguely announced. Again the public is not convinced that major changes have been done in these sectors. Since foreign investors' attitude will significantly depend on the security of their investments, these reforms should indeed be more significant and more transparent. According to the answers of 96% of the pooled foreign companies, the main condition they are setting to domestic businessmen in this regard is the creation of a stable political environment, i.e. legal security.

Table 10.1. Foreign partners' conditions for entering the Yugoslav market
-in %-

Conditions	Considerably	Moderately	No conditions
Creation of political stability	93,8	2,3	3,9
Ensuring legal security	55,9	40,2	3,9
Production program	8,5	70,8	20,7
Staff reduction	27,8	11,2	61,0

Source: "Additional Business Conditions Test" of ZIT, March 2001

Still, major impediment to implement reforms comes from the lack of resources and know-how. No reforms can be enacted in a devastated country like Serbia without – at least – getting a stand-by arrangement from the IMF, allowing generous writing off of Yugoslav arrears, assessing in recuperating vital damages done by NATO bombing, etc. Commercial

credits will turn out to be essential to boost expires (via boosting domestic output of both goods and services). In addition, a lack of qualified professionals is registered in all sectors, including all three Governments, implying a vast need for technical assistance. On its own, Yugoslavia could acquire some of these via fast privatisation, but that would be far from what it really needs.

Conditionality of the US policy towards Yugoslavia. Despite a committed support of the reforms, the US Government imposes severe conditions for any international reintegration (even the IMF arrangements) by the co-operation with the Hague tribunal. So far, their requests have been fulfilled only up to a point. Domestic opinion on the Tribunal is repulsive (the same goes for President Koštunica). The sound argument that Yugoslav authorities are trying to make is that domestic judicary system should be the first one to deal with war criminals, if any rule of the law is to be introduced into the legal practice of this country. In addition to that, the following argument is that is the US Government pushes too hard, the Yugoslav government will soon lose the support of the population, and then no reforms can be widely accepted.

What should be done? The scope of the measures that are to be implemented is significant. Still, there can be no support to reforms prior to installing (and finding international aid for co-financing) the creation of a sound social safety net. Privatisation and banking rehabilitation (including privatisation) are top priorities. Except sound proposals from the Serbian government, their enactment is still ahead.

Social and interest groups that are likely to be opposed to trade liberalization. ***Former interest groups*** (including oil importing and cigarette mafia) will try to re-establish their positions. According to the police reports, most of them (excluding the top officials which are imprisoned or prosecuted) are both in business and hold important places in government, judicary system or the police itself. The most important industries which will oppose liberalisation are likely to be the following: car and steel industry, agriculture, telecommunications (due to a private monopoly part of which is owned Italian and Greek companies), as well as chemical and textile industry.

Poverty and inequality. The clustering of households around the poverty line implies that even small changes in household income will directly affect the poverty status of a considerable number of people. With the liberalisation of economic activities, inequality is likely to be pushed up. This increase in inequality could undermine the trickling down of growth benefits to the poor. As there are many working poor, improvements in the real wage and employment restructuring are prerequisites to rapidly lift them out of poverty.

Sectors with the potential for export development. Under what conditions they will be able to During the 1980s, Yugoslavia (Serbia and Montenegro) used to have a very developed export structure. Almost all SITC categories were represented both in production and exports. This partly comes as a consequence of the socialist heritage of keeping the soft budget constraint on the production side, and non-profit exporting in order to acquire hard currency for imports. In addition, Yugoslav exports were always too small in scope, and imports as well. Contrary to that, the thesis of huge import dependence dominated, and all policies were focused to substitute imports. As a consequence, main earnings were created on highly protected domestic market, never in export businesses. Still, the situation nowadays is

dramatically changed. Since at present capacity utilization does not exceed 50%, the question remains what economic structure will this country have in future at all. Profitable export structure should dominate in further restructuring. With a hard budget constraint within the country, this path seems feasible.

Some sectors still have potential for export development. Apart from raw materials (dominating export structure nowadays), some parts of agriculture (baby beef, berries, etc.) and food industry might be one of the greatest potentials. Textiles and footwear used to be a significant export potential and it remains to be seen whether former foreign partners would be still interested in co-operation they used to have. Machines and parts used to operate on modern (mostly German) technology and used to show significant comparative advantages. Household appliances could also regain competitiveness on less developed markets if supported (or bought out) by foreign co-operation. Construction used to be very competitive and developed and used to be a significant part of export earnings. Still, most export orientation is expected from grassroots investments, which proved to be the case in Hungary and Poland.

The initial condition for boosting exports lies on the financial side. With no sound banking system no export crediting can be obtained. At present, this is a major impediment for both existing and for potential exporters. Structural problems that exporters are facing will only aggravate during reforms. The results are yet to be seen.

What should be done? A long-term foreign trade liberalization should be created, based on well-balanced strategy. Thus the reform path includes all of the following.

Reforms	**Legislation/activities required**	**Status**
Basic reforms	Company legislation	Privatisation Law enacted
	Bankruptcy legislation	in preparation
	Antitrust (competition) legislation	in preparation
Capital markets	Securities regulation	in preparation
	Stock Exchange regulation	in preparation
	Investment funds regulation	in preparation
Labour market	Industrial relations legislation	in preparation
	Collective bargaining	in preparation
	Instruments of Government intervention	pending
International economics	Tariff and non tariff protection	Foreign Trade Law enacted
	Deregulation of capital flaws	not initiated
	Foreign direct investments	not initiated
	Regional integration, WTO and EU association	initiated
Monetary and banking system	Central bank	reform initiated
	Regulation of commercial banks	reform initiated
Taxation reform	Corporate taxation	Tax Law enacted
	Households income taxation	
	Transactions taxation	
	Property taxation	
Development of private sector	Small and medium enterprises legislation	not modernised
	Business support schemas	pending
Privatisation	Commercial economic sector	in preparation
	Infrastructure (public utilities)	standstill
	Financial sector	foreign banks received licences
Social sector	Pensions, health issuance, unemployment ins.	in preparation
	Protection of the poor and children protection	in preparation

Reforms in foreign trade institutions and policies. Taking into account that FR Yugoslavia applied for the WTO membership in January 2001, the liberalization strategy must be consistent with the negation strategy for the WTO membership. Thus a complex arrangement on custom tariff rates, non-tariff trade barriers, temporary trade barriers for balance of payment improvements, invisible trade barriers and export subsidies must be mutually agreed upon. A substantial part of these negotiations is bilateral; an i.e. negotiation with the main trading partners. A clear and coherent strategy is a prerequisite for a success in these negotiations. A full membership in the WTO will eventually provide a framework for thorough integration of FR Yugoslavia into the international business community.

The list of priorities thus must include the following objectives:

1. Quantification and evaluation of both nominal and effective tariff protection of Yugoslav economy;
2. Assessment of existing non-tariff protection of Yugoslav economy;
3. Evaluation of the strategic position of FR Yugoslavia regarding the WTO membership and to formulate a strategy of the WTO membership negotiations;
4. To formulate a foreign trade liberalisation strategy;
5. To provide professional assistance to the Federal Government negotiating team, especially implementing reforms in financial services

Recognising the primacy of the multilateral trading system as compared with regional initiatives, the compliance with WTO rules as well as the importance of liberal trade regimes in order to foster economic development; and the relevance of the EU Stabilisation and Association process, trade liberalisation and facilitation is essential. Thus the list of objectives can be summarised as follows.

1. Quantitative restrictions and measures with equivalent effect on trade should be reviewed and eliminated, in particular those which are not compatible with WTO provisions.
2. An efficient antidumping, countervailing and safeguard measures, consistent with WTO rules should be enacted.
3. Customs procedures should be simplified and modernised, and successful means of combating corruption in the customs administration should be enacted.
4. Legislation on company law, company accounts and taxes and banking law should be harmonised with that of the EU.
5. Legislation in trade in services and in the field of intellectual property protection should be upgraded in compliance with the WTO and other related international agreements.
6. The government should appeal to WTO members to support, assist and facilitate early accession to the WTO of the Federal Republic of Yugoslavia
7. The government should appeal to the international community to provide technical and financial assistance to facilitate the achievement of these objectives.

In the first phase, the shortage of funding and human capital and experience in the field will be the key obstacles in this process, and the overall success will much depend on the benevolence of the international community to provide sufficient amount of technical and financial aid. Alongside with improving international position, overall success of reforms will depend on eliminating numerous microeconomic obstacles, which is completely dependent on domestic authorities.