

Russian Academy of Sciences' Institute of Economy
Moscow, May 21th, 2021

Was Socialist Yugoslavia an Economic Failure?

Goran Nikolić

gorandrnikolic@gmail.com

Senior Research Associate, Institute of European Studies, Belgrade, Serbia

How much benefits or harms Broz's 'autonomous' policy actually bring to Yugoslavia, that is its citizens?

After very harsh relations with the West 1945-46, came the unwilling separation from the Soviets indicating the nature of the Yugoslav regime that could not really deal with anyone. After that, the cooperation with the West is practically conditioned by the Soviet initiated 'split' in 1948.

The risk of conflict with the West, especially during 1946, and with the USSR in 1948-53, is completely unjustified, because an escalation would bring enormous human casualties and economic damage. The military defence against the attack was practically impossible (the Soviets would quickly enter Belgrade). In essence, the regime was ready to defend itself at any cost (huge human casualties and material losses), and the construction of numerous (underground) military shelters shows it.

Economic consequences of self-isolation

Staying out of the alliance (when the vast majority of Europe is in two blocs) made defence and development more expensive. It means that economic costs of the autarchic system was higher than it could have been in an alternative scenario.

The Non-Aligned Movement was not an adequate substitute for economic integration into the (Western) European space, which would have been a rational choice from the economic aspect (and the continuation of the country's economic orientation until 1941). The naive enthusiasm for cooperation with these countries has never materialized.

Citizens "voted with their own feet" for the West. To legitimize a one-party dictatorship, Yugoslavia had to "invent" a new socio-economic model (self-governing socialism) with its particular vision of economic development, which proved unsustainable. The legitimisation of a one-party dictatorship was also served by non-alignment movement - presenting the government as an avant-garde group that is more humane and more just than the "white" world. In the end, Yugoslavia come to the end of the Cold War as an ideological loser and without friends, left to itself and to centrifugal external influences and internal conflicting interests.

Intensified cooperation with marginal “Third World” countries was very expensive, i.e. economically irrational

Even in times of "expansion of friendship" with the countries of the "third world", it did not exceed 1/7 of the total trade. For example, in 1987, 14.5% of exports went to developing countries, while 12.4% of imports came from the same countries, half of which were in fact necessary imports of energy, primarily from Iran, Iraq and Libya.

Africa's share of merchandise exports and imports generally did not exceed 5% (1969 3.9% of exports and 3.4% of imports; 1987: 5.7% of exports and 3.8% of Yugoslav imports). The share of Asia's largest partner among developing countries, India, was generally between 1% and 2% (in 1969 as much as 2.7% of exports and 1.6% of imports, but as early as 1987 only 0.5% of imports and 1, 2% of SFRY merchandise exports).

The share of other developing countries, with the exception of oil exporters, was marginal. If we look at the situation in 2019 and 2020, the picture is completely different. African countries account for only 1% of Serbia's trade, while India, no developing country (outside Europe, except Kazakhstan occasionally), is not among the top 30 foreign trade partners of our country (which means that they are far below 1% exchange).

There should be no doubt that today's geographical pattern of our exchange is economically rational, and a de facto return to the geographical structure of trade before WWII.

An additional problem with this orientation is the half-century of lack of FDI and the subsequent transfer of modern technologies from rich countries

...although so-called joint ventures have been allowed since 1967, which had a limited positive effect in a closed Yugoslav economic system.

The country often had unnecessarily bad political relations due to the conduct of global politics, which exhausted the country economically. Namely, the Broz regime in fact unnecessarily quarrelled with many countries such as Israel (sanctions in 1967) or W. Germany (severance of diplomatic relations).

Probably the somewhat higher standard of living that the people of Yugoslavia had during the 1970s and partly in the 1980s compared to the countries of Eastern Europe is a consequence of the economically irrational enormous indebtedness of the country after the First Oil Shock

...at least half of the investments from these loans can be characterized as 'failed'.

In addition, the illusion of a much better life than in the East was created by the availability of certain goods, that is consumer habits from the West, such as jeans, Coca-Cola or modern cars, and the availability of pop culture (notably rock music and movies), especially from Britain and the US. What is a fact is that at the rate of Yugoslav economic growth in the period 1951-1990 (with 4.4% on average per year) was better only than Hungary (4.3%) and worse than all other Eastern European countries.

The companies were formally social but really state-owned, and their inefficiency and international non-competitiveness

- due to inadequate allocation of resources, lack of motivation of workers, poor business organization, lack of modern technologies - was roughly equal to companies from Eastern Europe.

In essence, the "Yugoslav economic model" was just as irrational as in other socialist countries, simply because it was practically the same, statist or non-market, system.

It is paradoxical that the relatively high level of foreign trade of Yugoslavia in relation to the present is primarily a consequence of preferential treatment on the market of the COMECON countries

...which accounted for about 2/5 of exports and imports. Namely, goods that did not pass through the demanding market of Western European countries went to those countries by clearing. Internationally practically isolated, the countries of Eastern Europe nevertheless joined the *Council for Mutual Economic Assistance*, which to some extent alleviated their economic problems.

On the other hand, Yugoslavia cooperated with poor third world countries, of which it never collected a good part of its claims.

True, Yugoslavia had a slightly better treatment than the East in importing technology from Western countries

Yugoslavia also achieved a significant influx of donations, soft loans, and remittances (since the late 1960s) from the West, which compensated for the advantages enjoyed by the countries of the East, which achieved a drastic discount when buying oil and gas from the USSR.

The Yugoslav economy spent at least twenty years, ending in 1980, at a rate of debt growth of over 17% per year

...which indicates that the structure of that economy was formed in such a way that its sustainability depended on the future debt growth. This is primarily due to the fact that trade deficit during 1970s grew tremendously, even faster than external debt.

- As mostly raw materials (and to a lesser extent modern equipment) were imported, this indicates that no increase in productivity could be expected in the future to cover the trade deficit. Moreover, productivity per unit of invested resources in most Yugoslav industries declined during the 1960s and 1970s.

The unemployment rate, despite the departure of over a million Yugoslavs for temporary work abroad (which is about 20% of the workforce), was in the period 1970-1980 climbed from 7% to 12%!

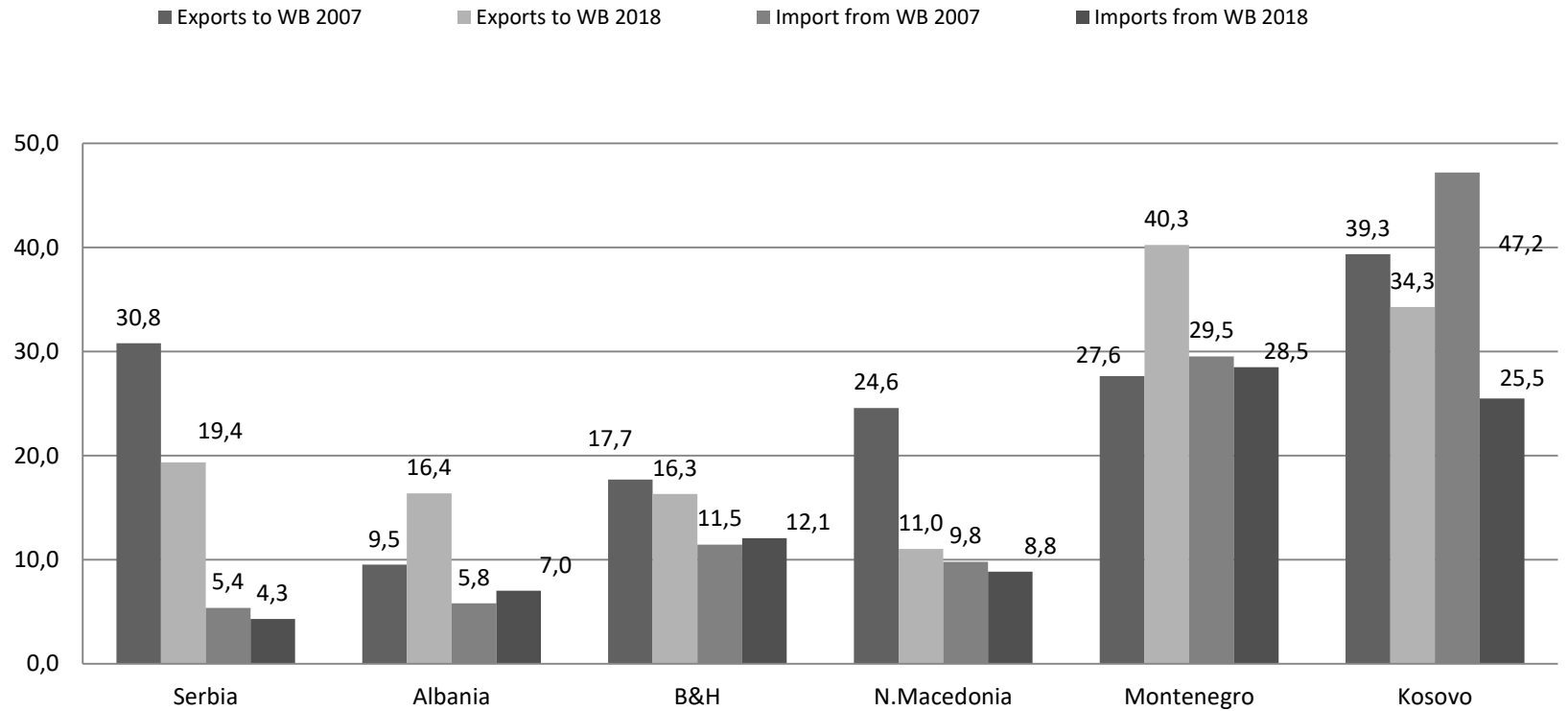
- Thus, despite the steady increase in foreign inflows in the form of loans, foreign exchange remittances of millions of people in diasporas and politically motivated (primarily American), economic aid (there is strong evidence that the role of American interests, and thus aid, in the post-WWII period, especially until in the early 1960s was similar to that in W. Europe), the Yugoslav economy grew modestly.
- **The crisis of the 1980s, when the GDP per capita growth rate became zero, showed non sustainability of the one such growth model.**

What to do today or does it Make Sense to Deepen the Economic Cooperation of the Western Balkan Economies?

In order to give response to this issue, I have analyzed structural changes in bilateral trade flows between Western Balkan countries in 2007-2018. The basic idea was to address whether there is a justification for the often proposed deepening of economic cooperation among WB states. After analyzing the dynamics of mutual trade, I have computed the value of intra-industry trade, whose potential decrease could indicate a divergence between observed trade structures.

To detect a possible structural change in WB trade sectors, qualitative changes in those countries' exports were calculated through the tendencies of a share of products at higher levels of processing. After calculating the export concentration coefficients, all the results were compared with those achieved by these countries in trade with the EU and in total.

Decreasing shares of merchandise trade between the WB states 2007-18



From 2007 to 2018 the shares of merchandise trade of the WB 6's economies with each other have decreased in most observed cases, as well as cumulatively

... indicating the decreasing significance of trade cooperation in the region, expressed mostly through CEFTA. In that context, significantly slower than the average growth of their mutual trade in the observed period is only a sign of these processes. In fact, the results clearly indicate that cumulative exports (and imports) between WB countries relative to their total exports (and imports) decreased significantly in the 2007-2018 period. This is especially pronounced in exports (with share falling from slightly more than 1/4 to 17.6%), while the opposite pattern was detected for the export of those 6 states to the EU 28.

Standard Grubel-Lloyd index 2007 and 2018

for merchandise trade between WB economies

trade partners:		2007	2018
Serbia	N. Macedonia	0.345	0.284
Serbia	B&H	0.260	0.244
N. Macedonia	B&H	0.192	0.264
N. Macedonia	Albania	0.125	0.144
N. Macedonia	Montenegro	0.067	0.065
Serbia	Montenegro	0.111	0.096
Serbia	Albania	0.133	0.096

Sources: Author's own calculation based on the UN COMTRADE database.

In 2007-18 INTRA-INDUSTRY TRADE has mostly decreased

Relatively low values of obtained indices, as well as their falling dynamics, indicate to the divergence between the observed trade structures, creating in this way no conditions for quality improvement of bilateral merchandise trade and indicating a further slowdown in export and import flows between these economies.

Declining trade pattern between WB states indicates that there is not a lot of space for any other kind of economic integration

As the empirical experience of developed countries, including economies in Central Europe, showed, intra-industry trade has opened up new areas of cooperation leading to the development of GVCs. Overall, the countries in the region are attracting FDI, mainly from the EU, thus creating value chains and dominant trade flows. But, the major problem for WB states is that they are not well integrated into Europe's developed GVCs, while trade within the region is limited and tends to be bilateral and not cluster-like.

Also, there are market complementarities, such as in tourism where, e.g., Montenegro and Albania might sell bundled travel packages for tourist destinations. These sectors can further pull local manufacturing or services and strengthen WB states' links. Likewise, Serbia's growing ICT market can source human resources from N. Macedonia or B&H

Shares of (Medium- and) High-Tech products, Skill-intensive manufactures, and High-skill and technology-intensive manufacture products in merchandise trade flows between WB economies in 2007 and 2018

	2007	2018	2007	2018
	Serbia-N. Macedonia		N. Macedonia-Serbia	
Medium + High products	21.5	27.9	18.1	17.4
Skill-intensive manufacture products	20.5	26.5	16.4	16.4
High-Skill & technology-intensive	14.5	18.2	11.2	14.1
HIGH-TECH	3.4	4.2	7.9	9.7
	N. Macedonia- Monten.		Montenegro- N. Maced.	
Medium + High products	27.9	22.7	35.1	4.9
Skill-intensive manufacture products	20.5	20.9	30.2	4.5
High-Skill & technology-intensive	12.5	16.3	5.7	1.7
HIGH-TECH	9.0	12.7	3.9	1.3
	Serbia - Montenegro		Montenegro - Serbia	
Medium + High products	29.4	34.2	15.5	13.5
Skill-intensive manufacture products	27.2	31.5	13.0	15.0
High-Skill & technology-intensive	16.6	19.7	10.5	14.3
HIGH-TECH	7.8	8.5	8.7	9.1
	N. Macedonia - B&H		B&H - N. Macedonia	
Medium + High products	24.1	27.8	21.3	14.7
Skill-intensive manufacture products	22.2	26.5	22.0	11.2
High-Skill & technology-intensive	14.2	22.3	11.0	6.2
HIGH-TECH	13.2	17.4	2.8	2.2
	Serbia - B&H		B&H - Serbia	
Medium + High products	24.4	26.9	17.2	9.4
Skill-intensive manufacture products	23.2	24.7	16.8	9.1
High-Skill & technology-intensive	16.8	15.2	9.1	7.0
HIGH-TECH	6.3	4.1	3.7	2.6
	N. Macedonia - Albania		Albania - N. Macedonia	
Medium + High products	17.6	22.9	18.4	4.4
Skill-intensive manufacture products	16.7	24.0	7.6	4.3
High-Skill & technology-intensive	14.8	21.6	12.3	2.7
HIGH-TECH	4.3	7.7	4.3	1.8
	Serbia - Albania		Albania-Serbia	
Medium + High	11.4	26.3	1.2	1.7
Skill-intensive manufacture products	11.3	25.2	1.2	1.4
High-Skill & technology-intensive	10.2	17.8	1.3	1.0
HIGH-TECH	5.6	5.6	0.0	0.1

Notes: Medium + High products = (Combined) Medium- and high-tech products; High Skill & technology-intensive = High-skill and technology-intensive manufactures; HIGH-TECH= High-Tech products.

Source: Author's own calculation based on the UN COMTRADE database.

However, the change in the structure of bilateral export and import are inconclusive...

Yet, it can be assumed, especially having in mind tendencies of WB exports both total and to the EU, which recorded significant improvement in the period under review, that basic assumption of the article can be accepted with some dose of reservation.

Namely, the trade structure among WB countries, even not conclusively deteriorating, can be also regarded as unfavorable. That includes both looking at its dynamics and especially at the achieved level of export sophistication, given the improvement of the export structure of these states to the EU or of their total export, but also the worldwide export structure.

CONCLUDING REMARKS: There is no reason to pursue policies for strengthening mutual economic ties in the WB!

On the basis of obtained results I could argue that there is no solid reason to pursue policies for strengthening mutual economic ties particularly toward a customs union, especially given the more attractive prospect of EU integration.