

# **INTERNATIONAL POLITICAL ECONOMY: THE EVENTS IN KOSOVO AND THEIR SOCIAL AND ECONOMIC CONSEQUENCES ON SERBIA**

**GEORGE HATZIKONSTANTINOU**

*Department of International Economic Relations and Development, Democritus University of Thrace, Greece*

**PANTELIS SKLIAS**

*Department of International Economic Relations and Development, Democritus University of Thrace, Greece*

## **Introduction**

The main objective of this paper is the analysis and the assessment of the social and economic consequences of the events in Kosovo on the population of Serbia and, more specifically, the vulnerable segments.

In contrast to the majority of Central and South East European countries, in which the transition towards a market economy began with the collapse of their communist regimes, the case of the Former Republic of Yugoslavia (FRY) - Serbia and Montenegro – is different. This transition has been more or less blocked to date because of a variety of political reasons which have had a decisive impact on the overall economic and social system in Yugoslavia. The following processes are involved:

- secession of the former Yugoslav republics (Slovenia, Croatia, Bosnia and Herzegovina and FYROM) have broken the unique economic and market systems and segregated Serbian economy from the rest of them;
- disintegration of the FRY has been implemented by armed clashes and civil war that involved and affected a large number of population;
- subsequent international community sanctions against Yugoslavia have demolished all sectors of Yugoslav economy and society;
- Kosovo conflict and NATO bombardment campaign have further crippled the economy and society of Yugoslavia.

This paper is focused on Serbia proper only, excluding the territory of Kosovo.<sup>1</sup> It is important to point out that it is not possible to make a clear-cut distinction when assessing the direct and the indirect consequences on the economy and on the society of Serbia as a result of the multiple negative effects of the international sanctions<sup>2</sup>. Additionally, it is quite a complicated task to define the direct and

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<sup>1</sup> This remark is not of methodological importance solely but of political importance as well. It is based on the official approach adopted by the Federal Government of the FRY, that is excluding the territory of the Autonomous Province Kosovo and Metohija from its competencies when adopting the official Statement on economic policy to be implemented in 2001. As was explained in its official Statement that was addressed to the IMF, expressed "policy commitments for Serbia do not include Kosovo" since the later "remains under the temporary administration of the United Nations Mission in Kosovo". Cf. "Statement of the Federal Government on Economic Policy", *Yugoslav Survey*, No. 4, 2000, p. 127. ft. 1.

<sup>2</sup> For a comparative review of economic, social, humanitarian, ecological and other consequences and partially political aspects of international sanctions and NATO bombardment camping see the following concise and comprehensive sources:

indirect negative effects of the civil war in Croatia and Bosnia and Herzegovina and what exactly their negative impact during the crisis in Kosovo was. Nevertheless, the precise line for the sake of analysis could be drawn under the presumption that the Kosovo conflict could be divided, roughly, into the following phases:

- 1) firstly, from the beginning of 1998 when the so-called Kosovo Liberation Army launched its operations thus provoking escalation of armed conflicts between them and the Yugoslav Army and police forces in the Kosovo and Metohija Provinces;
- 2) secondly - during the eleven weeks (or 78 days) of the NATO bombardment campaign (March 24 - June 9, 1999);
- 3) after the NATO air strikes had been suspended and the first KFOR forces had entered into the Kosovo Province (from June 10, 1999) onwards;
- 4) from November, 2000 till today, when the first low-intensity operations of the so-called Liberation Army of Presevo, Bujanovac and Medvedja were launched and armed incidents started at the South Serbia/Kosovo Province administrative border, up to now.

The analysis of the economic and social consequences of the Kosovo conflict on Serbia is focused to track and highlight more precisely what exactly, at this point, are the perspectives and obstacles to post-conflict reconstruction of Serbia. It should be noted, at the beginning of this paper that, during the period of long isolation of Yugoslavia and Serbia, the quality of economic and statistical data has deteriorated considerably.<sup>3</sup> That is why this paper takes into consideration a series of primary sources which have been developed during the last two-three years, including the policy papers and other informative data derived from the civil society and NGOs in Serbia. This seems to be a credible source. The end of the Milosevic regime has earmarked the beginning of a new era, where the ex-opposition has a serious role to play. Notably, experts coming from the ex-opposition G17 Plus who are now in very important government positions and are faced with the challenge of implementing their own policy positions.

The International Political Economy (IPE) approach is adopted for the purposes of this paper. This is an open-minded way to deal with complicated issues. Coming out of a system analysis, it gives us the opportunity not to restrict ourselves in the midst of a problem – solving analysis without taking care of different variations which directly or indirectly affect the issues. In this way, the interior issues cannot be separated from the exterior ones and the politics from economics. They are considered as being integrated and interconnected the one to each other. In this frame the social consequences of the events in Kosovo have an important role in the analysis that follows.

Eventually, in order to analyse the IPE of the consequences of the events in Kosovo on Serbia and assess the social and economic impact of these events on the most vulnerable segments of the population, the following six issues are being discussed:

1. the immediate post-conflict reconstruction of Serbia;
2. the economic imbalance;
3. the key obstacles to economic reforms : further social exclusion;
4. the social consequences of the Kosovo crisis – vulnerability of human resources;
5. the new formula of Kosovo crisis management: security and economic action plan;
6. the perspectives and prerequisites of international economic assistance.

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- OCHA's Humanitarian Risk Analysis, No. 11, Federal Republic of Yugoslavia, Belgrade, November 13, 2000 (available at: <http://www.reliefweb.int/w/rwb.nsf/s/>)
  - "Economic, Humanitarian and Ecological Consequences of NATO Aggression against Yugoslavia - Basic Facts and Appraisals", *Yugoslav Survey*, No. 1-2, 1999, pp. 9-26.
  - G 17's Balance Sheet - Economic Consequences of the NATO Bombing, Stubovi kulture, Belgrade, 1999.

<sup>3</sup> Taking into account the fact that the economic sanctions forced international financial transactions to take place through irregular channels, and that the extensive grey economy sector has been formed, the conclusion that all monetary statistics is highly dubious can be drawn.

## **Immediate Post-Conflict Reconstruction of Serbia**

Paradoxically, although the NATO bombardment campaign had very destructive social, economic and ecological effects on Serbia and its population, at the same time this war affair produced an unexpected impetus to post-conflict socio-economic reconstruction of Serbia. In parallel with the NATO bombardment campaign, the former Milosevic's regime launched an (un)expected propaganda and economic campaign to reconstruct all damage made by NATO air-strikes. A special institution was founded – the Agency for the Reconstruction of the Country - which was very successful in fund-raising, less successful in rebuilding and reconstruction of damaged facilities, bridges and roads and, as it became evident in the 2000 elections, not successful at all in the related political propaganda campaign. It should be pointed out that significant assistance to this reconstruction campaign was given to Milosevic's regime from external sources - China made a decision in December, 1999 to give Yugoslavia a 300 million USD credit to finance its reconstruction campaign.<sup>4</sup>

Still, according to G17 estimates, results achieved during this reconstruction campaign were at the bottom level - what was reconstructed one year after the NATO campaign - infrastructure (traffic and electric transmission networks). Reconstructed (non)industrial and civil facilities, represented overall only 5% of the total estimated damage that was made by NATO. According to the G17 estimations, overall damage made by NATO counted about 29.6 billion USD<sup>5</sup> and the total value of the reconstructed facilities was evaluated by G17 at the amount of 191,2 million USD.<sup>6</sup> That is why the result of Milosevic's reconstruction campaign could not have been visible for the majority of the population in Serbia – who finally expressed their dissatisfaction on October 5, 2000 in the so called "revolution" when this regime was finally crushed by the people of Serbia.

Anyhow, no matter whether the above-mentioned estimations made by G17 are more/less accurate, the economic and social situation of Serbia and its population is still suffering a lot from the consequences of the NATO bombardment. Namely, Serbia and its population is still in emergency need of reconstruction of both of economic and social systems - the great gap and lack of structural reforms have severely damaged Serbia's economy and produced far-reaching adverse consequences for the population.

While, on the one hand, the newly elected Serbian Government was able to distance itself from the previous Milosevic politics, it is not possible to disassociate its course of economic reforms from the negative trends that are inherited by the economy. In its endeavor to recover economy, state and society, the Serbian Government should have made their starting point clear in public.

## **Economic Unbalances**

Since the end of the Kosovo conflict - in June, 1999, when the NATO bombing campaign ceased, monetary developments in Serbia were affected by spurred inflation and intensified pressures on the exchange rate; the parallel black market exchange rate depreciated by about 100 percent over the 12 month period ending in October, 2000.

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<sup>4</sup> It is noteworthy to remember the fact that the Chinese Embassy in Belgrade was directly hit by NATO aircraft missiles (in May 8, 1999). In January, 2001, China received from the USA the sum of 28 million USD as a compensation for this unprecedented bombardment attack.

<sup>5</sup> See: G 17's Balance Sheet - Economic Consequences of the NATO Bombing, Stubovi kulture, Belgrade, 1999.

<sup>6</sup> See: G 17's: "Serbia 2000 - One Year After the Bombardment", Belgrade, 2000.

Accordingly, the level of gross official reserves remained at a very low level and the use of the dinar for transaction purposes experienced a marked decline. The pressures were partly relieved when, in late May, 2000, the government introduced a foreign exchange premium that effectively devalued the exchange rate for most transactions from 6 dinars per DM to 20 dinars per DM, and thereafter in October, 2000, to the parallel market rate of 30 dinars per DM.<sup>7</sup> Until recently, the exchange system was characterised by restrictions and multiple exchange rates, all of which were grossly overvalued. That is why the Serbian population still has a fragile confidence in the local currency - dinar. The modest level of sales of foreign exchange to the National Bank of Yugoslavia (NBY) and the low level of reserve money to GDP (3 percent), are not good indicators for the non-inflationary monetary financing of the Yugoslav/Serbian economy by the NBY.<sup>8</sup>

In Serbia today, real GDP is only 40 percent of its level in 1989. Industrial production has yet to recover from the economic devastation caused by the recent NATO bombing campaign. Political crises and armed conflicts resulted in a big decline in output,<sup>9</sup> exports and imports. The loss of business contacts during the economic isolation, outdated machinery and severe infrastructural bottlenecks have halted economic production in Serbia. Furthermore, a severe drought in the region has caused widespread deprivation and exacerbated the existing food shortages - agricultural output in 2000 declined by some 17 percent. In this situation, the outgoing Serbian Government liberalised most prices in October, 2000, and the severe shortages were immediately manifested in a sharp acceleration of the 12-month inflation rate to nearly 100 percent by the end of the month.<sup>10</sup> This decision resulted in a hyper-inflationary increase of prices in October, 2000. Cumulated price disparities were being sharply eliminated in that month, so that prices went up by 26.4% in relation to September. From the beginning of the year to the end of October, 2000, retail prices increased by 77.8% (84.6% in the case of goods and 48.1% in the case of services).<sup>11</sup>

With virtually no savings to fall back upon, the bulk of which had been wiped out by the hyperinflation of 1993,<sup>12</sup> the recent upsurge of inflation considerably deepened the impoverishment of the population. The wages paid out in September, 2000, in Serbia averaged 2,575 dinars (approximately 86 DEM). In Montenegro at the same time the average net salary amounted up to 6,335 dinars (approx. 21 DEM). Compared with the same nine months period of the previous year, wages were higher by 78% in nominal terms in Serbia (1,261 dinars) and by 157 % in nominal terms in Montenegro (1,929).<sup>13</sup>

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<sup>7</sup> On October 14, 2000, the Yugoslav Federal Government decided to effectively depreciate the exchange rate to the level of the prevailing grey market rate (30 dinars per DM). From the beginning of 2001, the NBY has adopted a managed floating exchange rate regime with current account convertibility, subject to a minimum target for net foreign reserves of the NBY. Source: "Statement of the Federal Government on Economic Policy", *Yugoslav Survey*, No. 4, 2000, pp. 128/129.

<sup>8</sup> Source: "Statement of the Federal Government on Economic Policy", *Yugoslav Survey*, No. 4, 2000, pp. 129.

<sup>9</sup> In the January-October 2000 period, the industrial output in Serbia was 16% higher than in the same period of the previous year, but its level has been declining since June 2000. Source: "Economic Trends January-October 2000", *Yugoslav Survey*, No. 3, 2000, p. 137.

<sup>10</sup> Source: "Statement of the Federal Government on Economic Policy", *Yugoslav Survey*, No. 4, 2000, pp. 127/128.

<sup>11</sup> "Economic Trends January-October 2000", *Yugoslav Survey*, No. 3, 2000, p. 138.

<sup>12</sup> G 17 have registered that in the year of hyperinflation (1993/1994), Yugoslavia was in the top place in the world – in January of 1994, the inflation rate was so high that the daily increase of prices was at the 60% level (per each hour during a day products were becoming more expensive by 2% more than the previous hour). The highest nominal level on the Yugoslav bill (bank-note) was 500,000,000,000 dinars. Hyperinflation lasted 24 months (although not entirely at this extremely high level). Source: G 17, *Bela knjiga Miloseviceve vladavine* (White book of Milosevic's rule), Belgrade, July, 2000, p. 50.

<sup>13</sup> Source: Federal Statistic Office, in "Economic Trends January-October 2000", *Yugoslav Survey*, No. 3, 2000, p. 142.

## **Key Obstacles to Economic Reforms: Further Social Exclusion**

The most immediate action response of the newly appointed Serbian government was, as was the case during the last two years of the Kosovo crisis, to address the acute shortages of energy and food during the winter months of 2000/2001. A framework of the general economy puts the emphasis on policies which promote market-oriented reforms while protecting the most vulnerable groups of the population, especially through external humanitarian aid, such as the case of the European Community Humanitarian Office, the European Agency for Reconstruction and a series of US agencies and organisations. Thereafter, while advancing the transition to a market economy, the Serbian Government should in parallel be addressing the urgent social needs because impoverishment of the population in recent months has increased considerably. The following are enumerated key obstacles that exist in relation to this course of economic reforms:

### ***Industrial production rate in Serbia continues with negative trends***

According to the latest Economics Institute's Market Conditions Barometer (March, 2001) the following economic trends prevail in the Serbian economy:

- high increase in prices, registered in December, 2000, and January, 2001, and continuing in February also - at the level of 3,2% (meaning that prices of goods have increased in total by 6.6 percent from the beginning of 2001, and retail prices will reach the figure of 10 percent in the first three months of 2001);
- if the government does not want to endanger its commitment to the annual inflation rate that was planned for the 2001 at the 30 % level, monthly inflation rate in the forthcoming April-December period should not overcome the figure of 2 percent;
- although the exchange rate of the dinar was stable for the last few months, due to the price increases the real exchange rate was decreased by 3,1 % and that is why the export of goods is not as profitable for producers as it was;
- from February, 2001, onwards the public expenditure rate was significantly increased by 12.1%, as well as personal income by 13.8%. Average monthly salary has reached the sum of 145 DM;
- industrial production increased by 2.8%, but in comparison to the February, 2000, level it has decreased.<sup>14</sup>

These findings are consistent with the most recent data established by the Federal Statistics Office that the industrial production rate in February, 2001, in comparison with the previous month – January, 2001, – increased in Serbia only by 2,1%. It should be pointed out that at the same time in Montenegro this increase is much higher - 13,3%).<sup>15</sup>

### ***Corruption and the Grey Economy***

Amongst the most long-standing problems in Yugoslav/Serbian society is the problem of corruption. The *Transparency International* has registered in its 1999 survey (that was conducted in 99 countries throughout the world) that the Federal Republic of Yugoslavia is the one of the most corrupt countries in the world (alongside Paraguay and Kenya). With the registered 2.0 index of corruption, FRY is the most corrupt country in Europe, as it is presented in the Table 1.

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<sup>14</sup> Source: *Danas* daily, March 23, 2001, p. 11.

<sup>15</sup> Source: *Politika* daily, March 20, 2001, p. 10.

Table 1. Index of corruption

Position on the list	Country	Corruption Perceptions Index (CPI) *
1	Denmark	10.0
25-26	Slovenia	6.0
31	Hungary	5.2
63-67	Bulgaria	
	FYROM	3.3
74	Croatia	2.7
90-92	Kenya	2.0
	Paraguay	
	FR Yugoslavia	
93	Tanzania	1.9
94-95	Honduras	1.8
	Uzbekistan	
96-97	Azerbaijan	1.7
	Indonesia	
98	Nigeria	1.6
99	Cameroon	1.5

\* CPI ranges from 0 (extremely corrupted society) to 10 (extremely uncorrupted society)

Source: Transparency International - The 1999 Transparency International Corruption Perceptions Index (CPI)<sup>16</sup>

According to another survey on the phenomena of corruption and bribery, that was conducted in Serbia only (excluding Kosovo) in March, 2000,<sup>17</sup> 20% of those who responded confirmed that they had previously been asked for a bribe in exchange for some service. Taking into account these findings, researchers calculated that approximately 1.3 million citizens of Serbia have had a similar experience - that they have been approached for a bribe. This leads to the conclusion that corruption is systematically instituted into the concept of the Serbian state and society.

We could say that the best possible environment for the proliferation of a grey economy exists in Yugoslavia and Serbia. A very high tax burden and, until recently, pervasive price controls, a decline in the capacity of custom administration and multiple exchange rates, have created a strong incentive to bypass official channels in favour of the parallel market. The large shadow of the grey economy has covered all sectors of the economy in Serbia - as well as in the entire Yugoslav society.<sup>18</sup> The prevailing form of grey economy under the international sanctions regime was associated with foreign trade, which largely went through informal channels, thus avoiding the obstructions set against it by the foreign blockade and Yugoslav customs authorities. The government had a tolerant attitude to such occurrences because of the necessity to break the blockade, but that resulted in a decline in public revenue from customs duty, excise tax and sales tax. The great impetus to the grey economy sector is also given by the high unemployment rate, causing the affected people to engage in the grey economy sector.<sup>19</sup> According to official estimates, there are around 617,000 people in Serbia working in the grey economy sector.<sup>20</sup> The favourable factors of grey economy in Serbia still persist – they include a heavy

<sup>16</sup> Quoted in: G 17, *Bela knjiga Miloseviceve vladavine* (White Book of Milosevic's regime), Belgrade, July, 2000, p. 40.

<sup>17</sup> This extensive survey was implemented on the sample of 60 municipalities in Serbia (excluding Kosovo) by the Belgrade NGO - Centre for Study of Alternatives. Source: *Glas javnosti* (daily), 7-9 July, 2000. p. 5.

<sup>18</sup> The grey economy expanded in the whole of Yugoslavia, mostly in 1993, during the country's most intensive international blockade. The grey economies' share in the social product's value was upwards of 50%. More details on the grey economy in Yugoslavia, see: *Yugoslav Review*, 1993, Vol. 2, pp. 47-78; 1995, Vol. 1, pp. 85-92.

<sup>19</sup> Filipovic, Milorad and Bosnjak, Marinko, "Small and Medium Enterprises", *Yugoslav Survey*, No. 2, 2000, pp. 83/84.

<sup>20</sup> This figure is presented by the Serbian Minister of Labour and Employment. The Minister explained that those working in the grey market are not officially registered as labour force and employers are not paying due contributions for them. Source: *Politika* daily, February 9, 2001, p. 14.

recession, high decline in household receipts, hidden unemployment rate and rigid and inefficient legislation and taxation system in particular. The high taxes on wages and social security contributions imposed on private companies and firms tend to increase the operating costs and discourage employment and new investments. As long as the private sector is still largely discriminated against in relation to the social and state ones, the grey economy zone will be extended further, not in the opposite direction.

### ***Risks of strategic change in taxation policy***

The Serbian government intends to make their key strategic move. The Serbian Parliament plans to adopt a new "tax package"<sup>21</sup> that enables the development of a policy of equal taxation of different products. However, this will impoverish further the less privileged segments of the population.

In practice, it means that all products that were, up to now, excluded from taxation (such as bread and milk, revenue taxes or military armaments) or that were charged with half/lower-level taxes, would be, from now on, charged on an equal level taxation rate of 20%. If this tax package were to be adopted, the expectation is that the sky-high increase of prices will affect the already impoverished population of Serbia. Approximately 20 % increase in prices of water supply, fats, drugs, orthopaedic equipment, gas and coal, school books and stationery, public transport, public utilities – practically the entire range of product and services, that citizens of Serbia need on everyday basis – was introduced in April 1, 2001. A slightly lower percentage increase in prices is expected for all other products – such as hygiene and body care products, clothing, footwear made by domestic firms, non-alcoholic beverages, salt, daily newspapers and books; and there is great likelihood that similar increase will be made in the prices of coffee and cigarettes. Furthermore, an extensive range of professional services would also be more expensive - from shoe repairs to advocates' services. On the other hand, various duties and charges that were used as subsidies for railways, social welfare system, financing of Belgrade capital and farmers' pensions would be suspended. Calculations made by the Serbian government representatives are more optimistic – according to them, the price of the "shopping basket" would be higher by only 400-500 dinars (13,3 - 16,6 DEM) and the first wave of price-jumps will bring an increase of no more than 4% to the existing prices, which in the end was not true.<sup>22</sup> The official explanation is that the empty Republic Treasury should be loaded with revenues collected by this "equal burden" taxation system, but the fact is that the majority of population would not benefit at all from the decrease in taxation on various luxury products from 31% to 20 % level, since they don't have enough money to purchase them at all. This taxation system could further deteriorate the standard of living of the majority of the population and thus increase the number of vulnerable social cases.<sup>23</sup>

### ***Dissatisfaction and distrust of employees***

Although there is a great likelihood that the Serbian Parliament will adopt this law (thanks to the fact that the ruling democratic coalition – DOS – has the majority of MPs), threats were currently made by some leading independent trade-unions that a wave of general strikes would overwhelm Serbia. In fact, in many cities and companies in Serbia, massive strikes have already started – the most significant, up

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<sup>21</sup> This package consists of the *Draft Law on taxes on the usage, keeping and carrying of certain goods*, that would change the existing system of paying due fees. This means that existing due fees for usage of motorcars, personal weapons and cellular telephones would be suspended and those products will be charged with appropriate taxes (that will be also introduced for the usage of boats and yachts, as well as of aircraft and similar products).

<sup>22</sup> To see the content of the monthly "shopping baskets" in Serbia see Appendix 1 of this paper.

<sup>23</sup> Source: *Politika* daily, March 26, 2001, p. 1. and 11.

to now, was the long-lasting strike of school teachers. The leading independent association of trade-unions in Serbia - *Nezavisnost* (Independence) - has initiated a series of massive strikes throughout Serbia against the recent and future economic moves of the new Serbian government, thus challenging tremendously its political position. In this way the citizens of Serbia publicly expressed their fear of the consequence of lifting price control (and liberalisation of prices) since it is already causing a higher (than they have expected) inflationary rate and further deterioration of the standard of living. At the same time, the citizens of Serbia are demanding an increase in their payments, no matter to what extent a parallel production growth could be achieved. Thus a vicious circle is provoking a wave of social unrest and threatens to eventually crush down the entire programme of monetary stabilisation.

### ***Expected electricity shortcuts in summer and winter season 2001***

According to the estimated balance of generation and consumption of electricity, the electric power system in Serbia would be short of 3.6 billion GWh of electricity during 2001. During the first three months, the deficit in electricity ranged up to 1.76 billion GWh, and it is expected that during the summer months the electricity deficit would be 1.17 billion GWh. From October to December, 2001, according to the programmed balance of generation and consumption of electricity, the deficit would be decreased to the 590 billion GWh level, but only on the condition that all planned rehabilitation be finalised and that the new electricity tariff system be imposed from April, 2001 onwards. If not, the electricity power deficit will be increased by approximately 25 % and the system would be short of 4.5 billion GWh. This means that electricity power shortcuts should be introduced again – even more sharply. According to this plan (that is the most extensive one in the last 15 years), the rehabilitation of the electricity transmission system (i.e., transformer stations, switchyards and long-distance transmission lines) that is due to be done this summer will cost 42 million DEM. Renovation of power plants would require an additional investment of 134 million DEM. It is expected that these costs would be covered, in large extent, by EU donations as well as by individual European countries' donations. Still, 44 to 62 million DEM should be ensured from domestic sources.<sup>24</sup>

During the last winter season, the Electricity Power System of Serbia (EPS) has received total aid of 195 million of DEM which enabled them to purchase electricity from foreign sources, fuel and spare-parts (equipment). At the end of February, the European Commission's Conference was held in Thessaloniki (Greece) where a donation of approximately 85 million EURO (approx. 160 million DEM) for the purpose of renovating the power system in Serbia was adopted. First delivery in equipment is expected by the end of April, 2001. Table 2. shows the breakdown of donations that were already provided for the power supply system in Serbia, by the EU and its individual member-states:

The Serbian Minister of Mine and Energy has already announced what would be the "survival strategy" in the forthcoming period of severe shortcuts in the electricity supply: the Serbian Government is currently preparing arrangements for delivering consumers with credits for purchasing coal and fuel-wood during this summer in order to re-orientate the citizens of Serbia to alternative sources of energy and heating. At the same time, as the Minister has explained, this would be a parallel strategy for the establishment of market prices in electricity helping the most vulnerable social cases.<sup>25</sup>

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<sup>24</sup> Source: *Politika* daily, March 20, 2001, p. 10.

<sup>25</sup> Source: *Politika* daily, March 23, 2001, p. 11.



Table 2. Foreign Donations to the Power system in Serbia (2000/2001 winter season)

Donations in electric power energy		Type / unit / currency
• European Union donation		1,246,310 GWh
• Germany Government donation		365,153 GWh
• USA Government donation		276,000 GWh
Total		1,887,463,000 GWh
Total value of electric power energy		approx. 130 million DEM
Donations in oil refining		
• I phase		
- mazout		19,383 t.
- diesel		7,400 t.
• II phase		
- mazout		approx. 10,000 t.
Total value of oil refining		approx. 20 million DEM
Spare-parts (equipment)		
• Germany	6,678,623.12	DEM
• Sweden	19,800,000	Swedish Kronors
• European Union	approx. 7,000,000	EURO
• Denmark	approx. 3,800,000	DEM
• France	approx. 4,300,000	EURO
• Switzerland	5,000,000	Swiss Francs
• Austria	approx. 660,000	EURO
Total value of spare-parts (equipment)	approx. 45 million	DEM
• European Union donation	approx. 85,000,000	EURO
Financing of renovation		
• Italy Government donation	approx. 20,000,000	DEM
Delivery of oil refining		

Source: Politika daily, March 18, 2001, p. 11.

## Social Consequences of Kosovo Crisis - Vulnerability of Human Resources

For the purpose of measuring the social consequences of the Kosovo crisis on the Serbian population, we should assess further one figure established by the Serbian Red Cross - a few months after the NATO bombardment campaign. According to this figure, some three million people in Serbia were in need of humanitarian assistance!<sup>26</sup> If NATO air strikes were the apex of the Kosovo crisis so far, this figure was also the apex of the humanitarian catastrophe for the people living in Serbia. Although all those people in Serbia who were living below the poverty line could be marked as vulnerable groups, the most vulnerable groups amongst the Serbian population should be identified as those who remain unemployed, the retired (pensioners) and disabled – and, of course, IDPs who fled from Kosovo to Serbia. Not only the economic and social positions of these groups of people have been at the bottom level, but their health condition is also endangered the most.

<sup>26</sup> The Serbian Red Cross calculated this number in a practical way: 190 local Red Cross offices across Serbia have received personal applications, or company applications for their workers, for humanitarian assistance. On the basis of these applications and already registered caseload refugees, IDPs and previously reported social cases, this figure of 3 million people is established. According to the UN and other sources, international assistance was already delivered to over 912,000 of the above mentioned individuals (by October 1999). Source: OCHA's Humanitarian Risk Analysis, No. 4. October 1, 1999 (available: <http://www.reliefweb.int/w/rwb.nsf/s/>)

### ***Vulnerable labour force - jobless, pensioners and disabled***

By some estimates, nearly half of the labour force is unemployed - there are approximately 600,000 to 800,000 jobless people, in addition to 340,000 who are on compulsory leave.<sup>27</sup> More precise official data state that by the end of November, 2000, there were 730,513 people registered as unemployed. The number of jobless people who were registered one year before (in November, 1999) was approximately 697,000.<sup>28</sup>

According to the official sources of the Serbian Fund of Pension and Disability Insurance of Employees, more than 10,000 employed people in Serbia per year in the recent past, have maintained the right to become a beneficiary of the disability pension. Presently 404,000 people in Serbia are beneficiaries of the so-called disability pensions.<sup>29</sup> The most common reason for cessation of employee status and receiving a premature pension are: in the first place - cardiovascular and diseases of the circulatory system, then, in the second place are diseases caused by injuries of the spine, followed by psychosomatic and malignant diseases.<sup>30</sup> All these diseases are to a great extent caused by the deteriorating working conditions in the last ten years, and especially after the NATO bombardment.

When comparing different categories of pension beneficiaries, disability pensions are at a lower level (2,475 dinars, or 83 DEM) than those who were retired due to their age (on the average, this pension was 3,184 dinars at the beginning of 2001 - or approx. 106 DEM). At the bottom level are those who are beneficiary of dependants' (survivors') pensions (2,000 dinars, or 67 DEM per month).

In order to prevent an increase in the disability rate, the Pension's Fund has invested approximately 30 million dinars (1 million of DEM) during the 2000 - thus enabling around 37,000 workers to spend ten-day long rehabilitation treatment periods in the specialised centres in Serbia. In this case, 40% of the treatment costs (per day) is paid by the Serbian Pension Fund and the rest of the total sum should be paid by the employee's company/enterprise, or, when this source is not available, costs are to be paid by the employee himself/herself. According to the regulations, every employee is entitled to the recuperation (rehabilitation) treatment once in a three-year period, but it is noticeable that many of

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<sup>27</sup> Data on unemployment are presented by the Serbian Minister of Labour and Employment. The Minister also explained that many of those who are currently on compulsory leave are not motivated to return to their original work since they have some extra jobs, while receiving 60% of their regular salary. Source: *Politika* daily, February 9, 2001, p. 14.

<sup>28</sup> On the labour market recently, employers are increasing their demand for school teachers (especially for professors of Serbian, English and German language, but also for teachers of mathematics and computer sciences), physicians and dentists (who would like to go to the countryside). Employers are also seeking graduated pharmacists, physiotherapists, construction workers, security staff, bakers, butchers and waiters. Nurses are also requested in the labour market (but mostly for limited working period). Data are presented by the representative of the Federal Office of Labour Market. Source: *Danas* daily, January 12, 2001, p. 10.

<sup>29</sup> For additional data on disabled employees in the period 1996-1998, see also: Belgrade OCHA's Humanitarian Risk Analysis No. 14., Federal Republic of Yugoslavia, p. 5, Belgrade, November 13, 2000 (available at: <http://www.reliefweb.int/w/rwb.nsf/s/>)

<sup>30</sup> As in many other sectors of the Serbian society and economy, there are reported cases of manipulations of the right to disability pension status. Although this fact should have been faced by the Pension's Fund, the later has no appropriate institutional capacity to make double checks on the suspicious cases (except for the cases of cardiovascular and circular system disorders). In all other cases, the commission which makes the final approval of disability pensions is made on a decision based on the medical findings of physicians from the given company/enterprise and relevant documentation brought by the individual employee - which provides a lot of space for manipulation.

them are using this opportunity every single year – especially those employees from Voivodina Province, since they are able to pay costs to a greater extent from their personal sources.<sup>31</sup>

The economic position of the pensioners in Serbia continues to deteriorate. After an initial increase in monthly pensions, a government decision reduced pensions by 5.09 %. Additionally, delays in payment are still a very common phenomenon (retired people are receiving their pensions with a two-three month delay). Characteristically, pensions that were due in January, 2001 were not made available in full before the first half of April.

### ***Internally displaced people (IDPs) - obstacles to integration into the local communities***

Not only the local population of Serbia lives below the poverty line, but there are a significant number of IDPs who are even more vulnerable. Firstly, it should be mentioned that the number of Serbs, Montenegrins and other non-Albanians who fled from Kosovo to Serbia and/or Montenegro ranges from 360,000 to 250,000 – according to different official sources. The majority of them – approximately 90% – found accommodation with their relatives and friends, or in rented private accommodation, while the remaining 10% are accommodated in 650 collective accommodation centres throughout Serbia and Montenegro.<sup>32</sup> The living conditions of those people are at a low level, contrary to their initial expectations.<sup>33</sup>

Although IDPs come from the same "native soil", and belong to the same nation and religion, people who come from Kosovo and Metohija cannot integrate so easily into their "new" local communities in Serbia. In the perception of the local population in Serbia, IDPs from Kosovo are treated not as vulnerable but, quite the contrary, as privileged groups of people. The findings of an extensive-range public opinion survey (that was conducted in eight towns from the north to the south of Serbia) are striking. Serbs consider IDPs from Kosovo and Metohija, as well as refugees from Croatia and Bosnia and Herzegovina, as the most privileged group of people living in those towns.<sup>34</sup> This finding is surprising, at first sight, since the fact is that refugees and IDPs are usually perceived as the extremely vulnerable, deprived and marginalised groups of population. But, analysing this attitude further, it is quite a disappointing fact that, for the majority of the impoverished local population in Serbia, when someone receives parcels consisting of food, clothing, drugs and hygiene products – and all of that "free of charge" – it is seen as a tremendous privilege which the majority of the local population does not have. Eventually, this perception can be explained because of the fact that the majority of international humanitarian assistance in the country is directed towards IDPs and refugees.

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<sup>31</sup> Data are presented by one of the Directors of the Serbian Fund of Pension and Disability Insurance of Employees: *Politika* daily, January 21, 2001, p. 10.

<sup>32</sup> The smaller figure of IDPs was mentioned by the Deputy Federal Minister of refugees, IDPs and humanitarian aid, in October, 1999 (Source: *NVO Glasnik*, October-November, 1999, p. 6).

<sup>33</sup> For a more comprehensive survey on the living conditions of IDPs, as well as that of the refugees in Serbia, see: "Living conditions of refugees and internally displaced persons", *Yugoslav Survey*, No. 2, 2000, pp. 53-66.

<sup>34</sup> This public opinion survey was conducted by the Belgrade based NGO Centre for Democratic Culture (in cooperation with seven partner NGOs). The survey targeted 4,000 respondents from eight key cities in Serbia: Belgrade, Subotica, Novi Sad, Pancevo, Cacak, Kragujevac, Novi Pazar and Nis (from August 29, to September 5, 2000 - on the eve of local and federal elections). From the list of 17 different groups of people (described in terms of their economic status, their national and religious affiliation, or gender – as "poor", "rich", "Serbs", "Hungarians", "women", etc.) the majority of those who responded (in all targeted towns except in Novi Pazar in Sandjak region) were of the opinion that the most privileged groups were refugees and/or IDPs. Overall, 19.7% of the respondents stated that the refugees from Croatia and Bosnia and Herzegovina are the most privileged groups of people locally communities and 18.4% of respondents said that those are the IDPs from Kosovo. Source: *Recimaju gradjani* (Citizens have the voice), ed. by Dijana Vukomanovic, Centar za demokratsku kulturu, Belgrade, 2001, p. 131.

### **"Balkan syndrome" - health condition vulnerability**

Not only are the majority of the Serbian people extremely impoverished, but there is a certain likelihood that their health condition could be extremely endangered. The so-called "Balkan syndrome" has been registered to exist amongst the members of KFOR in Kosovo – the first cases of seriously sick soldiers have induced an international investigation. There are ample reliable indicators that NATO forces were using special ammunition containing depleted uranium (U-238) and that both the domestic population and foreign soldiers could experience fatal consequences during their lives. Although there is not any public and reliable study yet presented to the Serbian public proving the (non)existence of the "Balkan syndrome" in FRY, there are some alarming data available which point towards that direction.

According to the Belgrade Office for Health Protection, during the last year (2000), there were in Belgrade only 5,000 new cases of people registered with malignant diseases. Approximately 1.5 % of the total Belgrade population is suffering from deadly diseases, and 80% of those people are more than 50 years of age. Experts of this Institution have not confirmed any connection of these findings with the NATO bombing.<sup>35</sup> The Deputy Director of the Belgrade Oncologist Clinic also stated recently that this institution had not registered an increase in the number of people with leukemia or other malignant diseases in FRY. The number of those suffering from leukemia is at the same level as it is in Sweden, for example (250 to 300 cases in the group of 100.000 people). Nevertheless the danger of direct consequences of the NATO bombardment to human health could be more precisely measured, according to this explanation, in the course of the next three to eight years since that is the usual time span for the developing and registering of malignant diseases.<sup>36</sup>

The Yugoslav Army is also conducting their own investigation, and although the military is keeping this issue at a low-profile level, the first case has already been reported. A former soldier of the Yugoslav Army (who was deployed in Kosovo during the NATO bombardment) has issued a public appeal to collect a large sum of money that is urgently needed for the treatment of his malignant disease.<sup>37</sup> The very important question arises in regard to the humanitarian consequences of the Kosovo crisis – from what sources should expenditure for such expensive treatments could be met? Especially if there is a significant increase in similar cases in the near future. And who would have the legal and moral responsibility for the "Balkan syndrome" if it is proved that it really exists?

In contrast to the human cases, a more precise measurement of the destruction that was made by the NATO air-strikes on the natural environment is already made in regard to the following:

- water and soil pollution;
- air pollution;
- destruction of protected nature parks and biodiversity;
- radioactive contamination caused by inhumane weapons;
- effect on food and "food chain";
- pollution by hazardous and other waste.<sup>38</sup>

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<sup>35</sup> Source: *Politika* daily, March 4, 2001.

<sup>36</sup> Source: *Danas* daily, January 6-8, 2001. p. 12.

<sup>37</sup> Appeal is publicly announced by N.V. from Brus who needs medical treatment worth of 28,000 DEM. Source: *Politika* daily, March 29, 2001, p. 12.

<sup>38</sup> For more details also see: "The consequences of NATO Bombing on the Environment", *Yugoslav Survey*, No. 2, 2000, pp. 27-52.

## **New Formula of Kosovo Crisis Management: Security & Economic Action Plan**

Taking into account all the facts and figures presented above, it could be concluded that Serbia has already paid an extremely high cost coming from the Kosovo crisis. However, although the economic and human resources of Serbia are extremely exhausted, the Kosovo crisis is not finalised yet. It should also be pointed out that the most serious and long-lasting negative consequences on the Serbian economy and society were, in fact, made by the NATO air-strikes – not by the Albanian forces (i.e. the so-called Kosovo Liberation Army). Contrary to the expectations of the Serbian people and politicians, immediately after the democratic change in Serbian Government had been made, the Kosovo crisis spilled-over the Serbia/Kosovo administration border (in the so called "safety zone") and escalated in the region of Presevo-Bujanovac-Medvedja<sup>39</sup> as well as in FYROM.

The new conflict zone in Southern Serbia asks for a new conflict management strategy from the side of the newly elected Serbian Government. Firstly, they have taken into account that this is still a "low intensity" armed conflict (provoked by extremists).<sup>40</sup> Domestic and international actors have been introduced to the concept of the Serbian Government's plan for the management of the conflict crisis in Southern Serbia (the so-called - Covic's plan). Briefly, this crisis management plan will be implemented in three phases:

- gradual reintegration of the Albanian population into the Serbian society and political system;
- demilitarisation of some parts of this conflict zone;
- parallel economic, political and social revitalisation of this region.<sup>41</sup>

Some positive moves in these directions could be evidenced in the fact that the Yugoslav Parliament has recently passed the Law on Amnesty. This Law enables the massive release of Kosovo Albanians who were kept in the prisons in Serbia on the grounds of charges for terrorist activities and different political or criminal offences.<sup>42</sup> The commitment to a confidence-building strategy by the Serbian Government is also confirmed by the draft of the Republic of Serbia 2001 budget, in which a total sum of 500 million dinars (almost 17 million DEM) is envisaged from state sources for the development of the three above-mentioned municipalities in this conflict region (Presevo, Bujanovac, Medvedja). The approval of this budget is still pending – debate amongst Serbian MPs in the Serbian Parliament is not finished yet. Opposition parties (especially representatives of the extreme right-wing Serbian Radical Party, led by Voislav Seselj) are disputing this 500 million dinars' worth of budget item. More specifically, they compare it to the six-times smaller budget item worth 80 million dinars that are dedicated for Serbian enclaves in Kosovo (municipalities and villages where significant numbers of Serbs are still living). According to those Serbian politicians, the figure of the remaining Serbs in Kosovo ranges up to 100,000 people who are, in fact, dispersed throughout the Kosovo and Metohia Province composing thus small non-Albanian enclaves surrounded with large Albanian communities.<sup>43</sup>

That is why it is important to establish what the majority of citizens of Serbia might think of the new model of Kosovo crisis management. The most recent public opinion findings established that in a group of four citizens of Serbia, only one is against this policy. More precisely, 63 % of respondents support

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<sup>39</sup> Those three municipalities are highly populated by citizens of Albanian/Muslim origin.

<sup>40</sup> Representatives of those Albanian forces are introducing themselves as the "Liberation Army of Presevo, Bujanovac and Medvedja".

<sup>41</sup> The Plan was publicly presented by the head of the Coordination team for Kosovo and Metohija, Mr. Nebojsa Covic (who is also one of the Vice-Presidents of the Serbian Government). Source: *Danas*, 5. February, 2001. p. 3.

<sup>42</sup> On March 27, 2001, a group of 25 Kosovo Albanians who were imprisoned in Serbia were released. There was a total number of 1,593 registered Kosovo Albanians who were, up to recently, staying in Serbian prisons, out of whom a group of 436 still remains imprisoned.

<sup>43</sup> Those Serbian enclaves are municipalities - Kosovska Mitrovica (southern part of it), Zvecane, Leposavic, etc.) and villages (Grace, Babin Most, Milosevo, Plemetina, Obilic, Svinjare, etc.).

the actions undertaken by the Serbian government, 16 % are against them, and 21 % are not able to make up their mind.<sup>44</sup> It should be pointed out that, at the same time, the public opinion perception of the Kosovo conflict in Serbia was, up to recently, dominated by the reports of "ethnic cleansing" conducted by Kosovo Albanians to Serbs, Montenegrins and other non-Albanians. Official documents were, up to the recent change in government, overloaded with the facts and figures on the "ethnic cleansing" of Serbs and other non-Albanians from Kosovo.<sup>45</sup>

Following the shift that was made, decision-makers and public opinion-makers in Serbia have also made a similar shift in their presentations of the Kosovo crisis, Serbian-Albanian relations and possible solutions to inter-ethnic conflicts. According to the media monitoring (implemented by the Belgrade Media Centre and Strategic Marketing Agency), in the period between January 26 and February 1, 2001, the dominant topic mostly reported by the leading electronic and printed media in Serbia was that of conflicts in the Southern part of Serbia and Kosovo. Researchers who conducted monitoring have concluded that government controlled and pro-government media have significantly sustained the public's interest with regard to these topics. An attitude which is quite contrary to the previous practice of the Serbian media, which avoided "pouring oil on the fire". In this way journalists have also contributed to the promotion of the Government's policy for peaceful conflict management through diplomatic solutions – researchers have concluded in their monitoring.<sup>46</sup>

### ***Perspectives of economic (re)connection of Serbia and Kosovo Province***

There are some positive initiatives in the field of economy that increase the likelihood of economic cooperation between the two politically segregated entities – Serbia (including Voivodina's Province only) with the "other" part of its territory – Kosovo (and Metohija) Province.

There is still a great likelihood that economic relations between Serbian firms and their counterparts in Kosovo are not completely ceased. However, there is no reliable data on the profile of these economic unbroken connections and transactions (especially if they are established between Serbian and Kosovo Albanian entrepreneurs).

The fact is that, from the point of view of the Serbian firms, Kosovo and the Metohija Province are treated, for the time being, not as a domestic but as an international market. An additional obstacle to

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<sup>44</sup> This public opinion research was conducted by the Belgrade based NGO Centre for Studying Alternatives in the period of March 9-12, 2001 in 60 local communities throughout Serbia. The aforementioned question was: "Do you personally support or not the policy and actions made by the Serbian and Yugoslav Governments in regard to the integration of Albanians into the Presevo's valley?"

<sup>45</sup> In the Memorandum of the former Government of the FR of Yugoslavia that was addressed to the UN Security Council (on June 7, 2000) the numerous "massive violations of human rights" in Kosovo have been enumerated such as: "Albanian terror and violence, the ethnic cleansing of, and genocide against, non-Albanians, primarily Serbs and Montenegrins, but also the Roma, Muslims, Turks, Goranci and other non-Albanians, the destruction of their homes, destruction of private and State property and rampant crime and chaos in Kosovo and Metohia continue unabated despite the presence of about 50,000 well-armed members of KFOR and UNMIK policemen". Since the deployment of KFOR and UNMIK, "more than 360,000" of the non-Albanian population have been "forcibly driven out of the Province" - the Yugoslav Government stated. The so-called Kosovo Liberation Army is also accused of detaining of Serb civilians in the "labour camps" in Kosovo and Metohija. Furthermore, this Memorandum stated that "destruction of Serbian cultural monuments, the symbols of the centuries' old roots of Serbian statehood and spirituality in the region of Kosovo and Metohija continues ... 86 churches and medieval monasteries have been destroyed, burned or seriously damaged."

Source: "Memorandum of the Government of the FR of Yugoslavia on the Implementation of UN Security Council Resolution 1244", *Yugoslav Survey*, No. 2, 2000, pp. 125/126.

<sup>46</sup> Source: *Danas* daily, February 7, 2001.

initiate or expand Serbia-Kosovo economic transactions is the fact that, for the time being, all economic transactions in dinar currency between Serbia and Kosovo Province were suspended, as well as all other (Serbian) republic and (Yugoslav) federal regulations – by the Kosovo interim international administration mission. Custom duty offices are in force on the administrative Serbian-Kosovo border and that is an additional reason why major economic transaction between Kosovo and Serbia were, up to recently, finalised through intermediaries in FYROM. This channel is frozen, for the time being, due to the extremely unfavourable security situation there. Even on the assumption that the Serbian producers of construction materials, textile, food and chemicals would be successful in contracting and delivering their products into the Kosovo market, under the present Serbian/Yugoslav regulations they should pay a high tax rate on the delivery of their products (28%) and thus would be much less competitive in comparison to the foreign producers of the same goods who are not charged so highly for the export of their products.

Some prominent managers of Serbian companies are currently very active in lobbying amongst the representatives of the Commercial Chamber of Serbia to introduce some kind of interim law on the economic relations with Kosovo and the Metohija Province in order to facilitate broken economic ties. According to this initiative, if Kosovo were officially treated as a foreign market, both the export rate and foreign currency revenue of the Serbian economy would be increased, on the condition that tax charges for export to this market would be decreased.<sup>47</sup>

An optimistic conclusion would be that there are ample chances for peaceful management of the Kosovo crisis issues. Confidence-building measures, both political and economical ones, if successfully implemented, would increase the chances for opening the ties between the Kosovo and Serbian economy and society towards each other and possibly contribute towards the reconnection (if not reintegration) of the two regions. The moderate strategy of the Serbian government has already achieved significant positive results. Insisting on negotiations and collaboration with representatives of the international community has resulted in returning the Yugoslav Army forces into the "safety zone" and the cessation of fire. For the time being.

## **Perspectives and Prerequisites of International Economic Assistance**

The fact is that an economically weak country cannot be strong in any kind of conflict management. That is why it is more than urgent and a necessary precondition for a successful conflict management of Kosovo crisis to make Serbia economically strong enough. Otherwise there is no likelihood that Serbia will be able to move forward from its bottom level position – in December, 1998, the Federal Republic of Yugoslavia was ranked as the most risky European country for foreign investments. Yugoslavia's position actually deteriorated from December, 1997, and has reached the 21<sup>st</sup> place in the list (on a list of 180 countries/levels).<sup>48</sup> Taking into consideration the fact that in Southern Serbia a new conflict zone already exists, the possibility is that Yugoslavia, i.e. Serbia will become more risky for any kind of economic investment than it is now.

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<sup>47</sup> The Director General of Voivodina's very successful enterprise for the production of ceramic products ("Toza Markovic" from Kikinda) has launched this initiative and gave an illustrative example: the total "export" of this enterprise to the Kosovo market is worth 5 million DEM per year, but since there is a high 28% tax rate for this transaction, ceramic products of Serbian companies are less competitive than those of Italian or Greek producers who are also delivering their products to Kosovo, but without being charged with high export rate by their home-country authorities. (Source: *Politika* daily, March 23, 2001, p. 11)

<sup>48</sup> This rank-list was made by one of the leading world financing journals "Euro-Money". In December, 1998, FRY was number 168 out of 180 countries. Comparing to the other countries in transition, only Tajikistan had a worse position than that of FRY. (Source: *Vreme* (Belgrade weekly), No.427, December 26, 1998, p. 1.)

In order to be successful in its economical and political reforms, the Serbian Government remains in emergency need of post-conflict financial and technical assistance from the European Union and other bilateral donors and international financial institutions. The package of economic reforms prepared by the Yugoslav and Serbian Governments will also enable the Serbian economy to complete all membership requirements asked by the international financial institutions and potential donors. The Yugoslav Government expects that the largest possible external creditors of the FRY/Serbia will be the World Bank and Paris and London Club creditors.<sup>49</sup> The standing-by arrangement with IMF is expected to be concluded by the end of April, 2001, (with an approximate amount of 200 million USD). The Serbian Government expects to conclude an agreement for additional loans (ranging from 60-65 million USD). The greatest expectations of Serbian officials are focused on the forthcoming Donator's Conference to be held in June, 2001, (already postponed for one month since it was initially planned for May, 2001,) – where the total amount of funds to be collected from this source is estimated to be 1 billion USD. For the second part of 2001, it is possible that the World Bank could also be included in financing projects for Serbia.<sup>50</sup>

As was pointed out at the beginning of this paper, data and statistics also require technical assistance to help in the monitoring of the progress in the implementation of economic reforms. External technical assistance will be also needed in the design and implementation of many aspects of macroeconomic policy and structural reform. It is expected that the IMF will take over a lead role in the development of technical assistance strategies in the core areas of fiscal and monetary policy, banking sector reform, and the strengthening of economic statistics. The World Bank is also expected to become one of the key providers of technical assistance, once the membership process has been completed.<sup>51</sup>

It should be pointed out that the first emergency aid package was already donated to Serbia and Yugoslavia. After the change in government had been made in Serbia and Yugoslavia, in the period between November, 2000, and February, 2001, the FR of Yugoslavia received a total sum of 274.27 million USD of aid. Most of this sum was donated by the European Union – 121.66 million USD, and its member states. An indicative list of donations provided by foreign governments is the following:

- Italy (34.55 million USD);
- Germany (25.17 million USD);
- Greece (with 16.19 million USD);
- Switzerland (16.02 million USD);
- Holland (12.89 million USD);
- Norway (12.28 million USD);
- Japan (10.04 million USD);
- Great Britain (9.02 million USD);
- Canada (2.48 million USD).

The total sum of aid donated by all other foreign countries is worth 3.99 million USD. This would be just the first part of the future aid that has been promised from different foreign countries totalling approximately 10 billion USD over a longer time frame.<sup>52</sup>

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<sup>49</sup> It should be pointed out that Yugoslavia has debts to foreign governments - Paris Club amounts to 4.5 billion USD, and to commercial creditors - London Club approximately 3 billion USD. Total foreign debt of Yugoslavia, according to the Yugoslav Government estimation, ranges up to 12 billion USD, and according to the register of the World Bank the total amount of Yugoslav debt has already reached this figure. Source: "Statement of the Federal Government on Economic Policy", *Yugoslav Survey*, No. 4, 2000, p. 131.

<sup>50</sup> Statements given by the Serbian Minister of Finance. Source: *Danas* daily, March 26, 2001.

<sup>51</sup> Source: "Statement of the Federal Government on Economic Policy", *Yugoslav Survey*, No. 4, 2000, pp. 131/132.

<sup>52</sup> This data was presented by the Federal Government's Vice-President's office (Mr. Miroljub Labus). Source: *Politika* daily, March 11, 2001, p. 13.



Taking into consideration the fact that the estimated economic damage caused by the NATO bombardment campaign was calculated (by Group17) at 29.6 billion USD, it could be calculated further that Serbia has recovered, due to the above-mentioned donor's injection of 274 million USD, by 9%. If Milosevic's regime has provided an amount equivalent to 5% of the total damage made by NATO air-strikes – Serbia is still in need of 25 billion USD, in foreign donations or from its own sources. Neither of these two sources is able to inject into Serbia so much – not now nor in the future.

There is also a strong belief among politicians and people in Serbia that the European Union officials will implement their own decisions. According to Kris Patten's statement last December, the European Union is ready to provide aid worth 2.3 billion EURO to the FR of Yugoslavia in the future long-run period (which is half of the sum promised to the countries of the Western Balkans by the year 2006). This assistance would be provided to Serbia and FRY both in the form of an integrative international community aid package as well as in the form of transnational cooperation and inter-state projects.

The more precisely formulated prerequisites for delivering assistance into Serbia are set by the USA Government. Namely, the USA Administration has also announced its readiness to deliver its first-aid package worth 150 million USD to Yugoslavia. Out of this package, Serbia would receive 87.6 million USD and Montenegro 70.4 USD. The first 10 million have been already delivered (last December), and the rest of it has not reached FRY up to day. Namely, the USA Government has established the deadline for the Serbian Government (March 31, 2001) to confirm its strong commitments to its obligations towards the Hague Tribunal, Dayton accord, respecting national minority rights and the rule of law. The arrest of Slobodan Milosevic has been an event that "helped" the USA government to release some further funds.

Currently, Serbia is in some kind of deadlock. On the one hand, the Western World offers Serbia the great perspective of economic recovery and (re)integration into the international community, and on the other hand, the same Western countries would not allow Serbia to integrate itself into the world community as long as it is not able to prevent and manage peacefully political or inter-ethnic conflicts on its own territory.

## **Conclusions**

Serbia is now in deadlock. People's high expectations after the political changes, due to promises by the international community, have not been fulfilled yet, which puts in danger the whole reform process. Social exclusion is accentuated further because of those reforms, which tend to integrate Serbia into a market economy without taking into consideration the social implications of such a process. A process which has been earmarked in the midst of an environment which does not have the necessary background expertise, as well as basis, to deal with it. Eventually, people will suffer further and the so-called economic and political integration into the Western structures will never materialise. Additionally, the human rights and democracy conditions set, especially by the USA, in order to release further aid assistance strengthen the ties of the vicious circle and in any case put one further question: who is to blame for the NATO bombing and the social and economic consequences?

Taking into account overall economic, social, political and security situation in Serbia, all relevant domestic and international actors should jointly compose an "exit strategy" for Serbia to escape from this deadlock. Action response to the Kosovo crisis should be focused on the achievement of three key objectives:

- In the economy – assistance should range from the emergency humanitarian aid to more generous financial injections that would help the launching of reforms which should have a clear human face

reaching the poor segments of the population and give them equal chances in a sustainable economic and social environment;

- in society – facilitation and promotion of democratic changes and multiethnic and multicultural dialogue and tolerance should be maintained;
- in politics – strengthening of the democratically-oriented political actors and civil society operators.

As far as the achievement of this objective is successful and swift, the chances for Serbia and the surrounding countries to make an exit from the viscous circle of the Kosovo crisis would be increased.

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- www.reliefweb.int. This is web-site hosted by the OCHA (Organisation for the Coordination of Humanitarian Affairs) and presents UN Agency Briefings including UNMIK and UNHCR in Kosovo, other INGO Briefings, Reuters and AFP News, Maps etc. There are also links to other organisations' web-sites available.
- www.crisisweb.org. Web-site hosted by the International Crisis Group that provides analysis and current issues in the Balkans including policy recommendations. Timely reports are also produced. It is possible to subscribe to receive reports.
- www.g17.org.yu/english/index.htm. There one can find reliable economic analyses on FR of Yugoslavia that were done by the group of Yugoslav experts who are gathered as the NGO – G17. For example – there are **Basic economic indicators of the FRY** and comprehensive electronic version of their expert study – **Economic Consequences of NATO Bombing: Estimate of Damage and Finances Required for Economic Recovery of Yugoslavia** (June 1999)
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## Appendix 1. Average "shopping basket" and monthly salary

"Shopping basket" consists of 65 food and beverage items that are needed for monthly consumption for an average four-member family. According to the Federal Statistics Office, the nominal value of this "shopping basket" in December, 2000, was 9,123 dinars (approx. 304 DEM), as it is presented in the following table:

Shopping Basket

Product / Item	Unit of measure	Quantity	Price in dinars	Total value
1. Potatoes	Kg	14.5	20.63	299.13
2. Beans	Kg	1.5	134.46	210.69
3. Onions (old)	Kg	3.5	22.02	77.07
4. Carrots	Kg	1.0	23.48	23.48
5. Beet	Kg	1.0	17.59	17.59
6. Spinach	Kg	1.0	30.24	30.24
7. Green salad	Kg	3.0	53.94	161.82
8. Sweet cabbage	Kg	5.0	6.73	33.65
9. Fresh cucumber	Kg	4.0	-	-
10. Fresh Peas	Kg	1.0	-	-
11. String (green) bean	Kg	4.5	-	-
12. Fresh tomatoes	Kg	4.0	-	-
13. Fresh pepper	Kg	4.0	-	-
14. Cauliflower	Kg	4.0	20.29	81.16
15. Walnuts	Kg	0.2	219.99	44.00
16. Apples	Kg	8.0	23.09	184.72
17. Pears	Kg	2.0	29.00	58.00
18. Peaches	Kg	3.0	-	-
19. Grapes	Kg	2.0	50.56	101.12
20. Lemons	Kg	1.0	55.58	55.58
21. Oranges	Kg	2.0	48.49	96.98
22. Raisins	Kg	0.5	105.28	52.64
23. Fresh trout	Kg	1.0	229.13	229.13
24. Chicken eggs	Peace	90.0	5.09	458.10
25. Cow milk	Litre	31.0	15.59	483.29
26. White curd cheese (home-made)	Kg	2.5	111.66	279.15
27. Natural honey	Kg	0.5	180.66	90.33
28. Chicken meat (fresh)	Kg	4.0	119.57	478.28
29. Rice	Kg	1.0	63.41	63.41
30. Wheat flour	Kg	4.0	19.73	78.92
31. Wheat bread	Kg	26.0	13.69	355.94
32. Macaroni (made of white flour with eggs)	Kg	1.5	47.04	70.56
33. Cookies	Kg	1.0	101.82	101.82
34. Frozen flaky dough (pastry)	Kg	0.5	74.42	37.21
35. Frozen peas	Kg	1.0	92.15	92.15
36. Tomato puree (in tube)	Kg	0.3	140.55	42.17
37. String beans in can	Kg	1.0	57.28	57.28
38. Cucumber in can	Kg	1.5	86.40	129.60
39. Marmalade (made of apricots, rose hip, etc. )	Kg	1.0	105.64	106.54
40. Raspberry juice (with bottle)	Litre	1.5	84.15	126.23
41. Beef meat	kg	1.5	232.26	348.39

(without bones)				
42. Pork meat (with bones)	kg	2.0	200.74	401.48
43. Pork meat	kg	1.5	232.32	348.48
(without bones)				
44. Beef liver	kg	0.5	102.26	51.13
45. Smoked pork ribs	kg	0.5	145.36	72.68
46. Smoked pork bacon	kg	0.5	216.22	108.11
47. Hot dog	kg	0.5	182.28	91.14
48. Bologna salami	kg	1.0	171.99	171.99
49. Smoked sausage	kg	1.0	374.24	374.24
50. Pig fats (home-made)	kg	1.5	61.59	92.39
51. Vegetable oil (without bottle)	litre	2.5	47.00	117.50
52. Yogurt	litre	15.0	34.41	516.15
53. Cheese (Cheddar type)	kg	2.0	303.16	606.32
54. Butter (250 g package)	kg	0.5	299.23	149.62
55. Sugar	kg	4.0	36.81	147.24
56. Milk chocolate	kg	0.3	324.52	97.36
(100 g package)				
57. Candies (100 g package)	kg	0.2	171.62	34.32
58. Coffee (roasted)	kg	1.0	282.43	282.43
59. Tea (in filter bags)	box	1.0	29.07	29.07
60. Kitchen salt	kg	0.5	23.00	11.50
61. Vinegar (alcoholic)	litre	0.2	38.10	7.62
62. Red pepper (100 g)	kg	0.2	416.51	83.30
63. Mustard	kg	0.3	103.42	31.03
64. Cooking additives	kg	0.2	109.92	21.98
65. Mineral water	litre	15.0	14.57	218.55
(without bottle)				
Total value*				9,213.00

\* Total value in DEM equals to 307 DEM (according to official rate stabilised at 30 dinars per one DEM)

Source: Federal Statistics Office (*Politika* daily, January 21, 2001, p. 10.)

It should be noted that the this composition of the "shopping basket" was made, for statistical purposes, more than a decade ago – in 1987, before the disintegration of Yugoslavia and multiple armed conflicts and wars took place. It is still in use, although the majority of the Yugoslav population cannot afford many of the above-mentioned items, on regular monthly basis – nor the stated types or quantities.

A more appropriate methodology of measurement of the content of the "shopping basket" is provided by Belgrade OCHA (UN Office for the Coordination of Humanitarian Affairs) that consist only of basic food and beverages and personal and household hygiene items (available at state-controlled and free market prices). According to OCHA analysis, the cost of the "shopping basket" ranges from 1.663 dinars in August, 1999, (or 136 DEM, according to the black market exchange rate at 12.2 dinars) to 6.093 dinars in November, 2000, (or 203 DEM). OCHA has also established that the average monthly salary ranged from 1.258 dinars in August, 1999, (or 103 DEM) to 2,576 dinars in September, 2000, (or 85 DEM – the black market rate of DEM was 30.3 dinars)<sup>53</sup>

## Appendix 2. Economic trends in FRY (2000)

<sup>53</sup> To compare costs of the "shopping baskets", from August, 1999, to November, 2000, see: OCHA's Humanitarian Risk Analysis No. 214 (separately), Federal Republic of Yugoslavia, Belgrade (available at: <http://www.reliefweb.int/w/rwb.nsf/s/>).

According to the Federal Statistics Office, GDP for the year 2000 is at 1,500 USD - this represents a 7% increase in comparison with the 1999 level. The rest of key socio-economic indicators registered by official statistics are the following:

- the average salary in FRY in the year 2000 was 2,576 dinars (approx. 86 DEM). The average salary in December, 2000, was 4,200 dinars (or 140 DEM);
- nominal wages have been increased for 96,8 % and in real value - 6%;
- living costs have been increased per 85.7 %;
- official statistics say that there are two million unemployed in FRY and that 836,000 people are currently searching for a job. Compared with the year 1999, it could be concluded that the number of unemployed is 2.7% lower but the number of those who are applying for a job has increased by 5.7%;
- external (foreign) trade deficit is calculated to be 2 billion USD. FRY exported 1.7 billion USD worth of goods, whilst the value of import is at 3.3 billion level;
- the top five foreign trade partners – where FRY exports most of its products are: Russian Federation, Italy, Germany, Bosnia and Herzegovina (with Republic of Serbska), FYROM and Bulgaria;
- the main export products are: intermediate goods (raw materials and semi-finished and manufactured goods). Oil refining, natural gas and electric power energy are the main products imported by FRY;
- agricultural production has decreased by 19.7%, crop farming, corn production (52%), sugar beet (56%) and sunflower (18%);
- on the other had, official statistics registered a 12.2% increase in the level of industrial production.<sup>54</sup>

### **Appendix 3. Population of FR of Yugoslavia - Serbia / Montenegro / Kosovo**

The Federal Statistics Office's estimation is that the population of FRY has reached the figure of 10.23 million of people.<sup>55</sup> Due to the latest deterioration of the security situation, there is a great likelihood that the Yugoslav census of population will be postponed, for the time being.

Nevertheless, the most recent analysis made by the Federal Statistic Office found out the following demographic figures and trends in the Federal Republic of Yugoslavia:

- the population of FRY, at the beginning of the year 2000, is estimated at 10.637 million (due to a boycott of the 1991 census by Kosovo Albanians it was not possible to establish the exact figure of the total number of the population of Serbia and of FRY – without the Kosovo Province in Serbia and Montenegro there was in total 8.374.606 inhabitants);
- the population of Montenegro is estimated at 654.000 (in 1991 615.035 of people were registered);
- in Serbia proper (without Voivodina and Kosovo Province) the population is estimated to be 5.744 million (in 1991 there were 5.745.682);
- the population of Voivodina Province is estimated at 1.945 million (in 1991 there were 2.013.889);
- the estimation for Kosovo is 2.291 million people (data for 1991 were not registered by Yugoslav statistics, due to the boycott by the Albanian majority population in Kosovo - but in 1981 in Kosovo Province there were 1.584.440 people)<sup>56</sup>.

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<sup>54</sup> Data presented by the Director of the Federal Statistics Office (at a press conference). Source: *Danas* daily, December 28, 2000.

<sup>55</sup> Data presented by the Director of the Federal Statistics Office (at a press conference). Source: *Danas* daily, December 28, 2000.

<sup>56</sup> Source for 1991 census: Federal Statistics Office, 1999 Statistical Yearbook of Yugoslavia, Belgrade, 1999, p. 65

Taking into account the decreasing trends in number of population, it could be concluded that the population of Serbia proper and Voivodina is quite old, while the similar "greying" tendency is observed for the population of Montenegro. On the contrary, the population of Kosovo and Metohija is of a young age. Average life expectancy age in FRY is estimated to be 72 years (compared to the world average life expectancy age of 66 years).<sup>57</sup>

#### Appendix 4. Loss in human lives

Above all, the most important measurement of the direct consequences of the Kosovo events should be made with regard to costs paid in human lives. Besides the figures provided by the Yugoslav Army, there is no precise evidence of how many civilians have been killed during the Kosovo conflict.

According to official Yugoslav sources, in the period from January 1 to December 26, 1998, in the territory of Kosovo and Metohija there have been over 1,854 "terrorist attacks" in which 284 persons were killed and 556 wounded. In the period from October 13, 1998, after the signing of Milosevic-Holbruke (US Special Envoy) Agreement, until December 26, 1998 alone, 470 terrorist attacks were carried out.<sup>58</sup> Independent sources have registered that during this period, according to both Serbian and Albanian sources, 78 people were killed and 27 more wounded.<sup>59</sup>

During the 11 weeks of NATO air strikes, 462 members of the Yugoslav Army were killed. However, the so-called Kosovo Liberation Army (KLA) continued its activity after the termination of war, so that 62 more members of the Yugoslav Army were killed before its complete withdrawal from the Kosovo and Metohija Province. Thus, the total number of killed military personnel increased to 524, while 37 are listed missing.<sup>60</sup>

According to the Yugoslav Government, from June 10, 1999 (when the NATO bombardment campaign was suspended) until June 4, 2000, the following loss in human life was registered in Kosovo:

- 4,878 terrorist attacks: 4,590 committed against Serbs and Montenegrins, 110 against Albanians and 178 against Roma, Muslims, Goranci, Turks and others;
- 1,027 killed persons: 902 Serbs and Montenegrins, 76 Albanians and 49 members of other ethnic communities;
- 945 abducted and missing persons: 869 Serbs and Montenegrins, 42 Albanians and 34 members of other ethnic communities;
- the destiny of 782 persons is still unknown: 102 abducted persons were killed, 7 persons escaped, while 48 were released;
- 955 persons were wounded: 898 Serbs and Montenegrins, 20 Albanians and 37 members of other ethnic communities.<sup>61</sup>

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<sup>57</sup> Estimations of the Federal Statistics Office have been published in *Danas* daily, March 19, 2001, p. 12. To compare, more detail see: OCHA's Humanitarian Risk Analysis No. 13, Belgrade, September 6, 2000 (available at: <http://www.reliefweb.int/w/rwb.nsf/s/>)

<sup>58</sup> Source: "Aide Memoire on the Situation in Kosovo and Metohija, from December 28, 1989" (that was the then Federal Minister of Foreign Affairs, Zivadin Jovanovic, addressed the UN Secretary General, Kofi Annan), *Yugoslav Survey*, No. 4, 1998, p. 22.

<sup>59</sup> Source: *Vreme* weekly, No. 427, December 26, 1998, p. 4.

<sup>60</sup> This figures were presented at the session of the Federal Government of 21 July 1999, by General of the Army Dragomir Ojdanic, Chief of Staff of the Yugoslav Army (source: Economic, Humanitarian and Ecological Consequences of NATO Aggression against Yugoslavia - Basic Facts and Appraisals, *Yugoslav Survey*, No. 1-2, 1999, p. 19)

<sup>61</sup> Source: "Memorandum of the Government of the FR of Yugoslavia on the Implementation of UN Security Council Resolution 1244", *Yugoslav Survey*, No. 2, 2000, p. 130.



The list is not exhaustive and final since there are many people who have been killed, wounded or missing on all conflicting sides and who are not counted yet – and not all of them will ever be registered in any more/less reliable evidence.