

Schmidt, Fred

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# Topical Problems of Yugoslav Foreign Trade

By Fred Schmidt, Munich

As will be recalled, Yugoslavia had been the first of the socialist countries which modified its originally rigid system of a planned economy, which had been run mainly by physical, administrative controls, through adopting certain elements of a free market, and thus achieved a higher degree of flexibility in overall economic management. Changes of this kind, naturally, also had their repercussions on foreign trade practices, lest the economic system became illogical and inconsistent. However, if it was intended to manage, not only home markets, but also foreign trade activities in accordance with market requirements, which meant production for effective demand, all the enterprises producing for export had to be granted more independence and individual responsibility. It was also necessary to create new material incentives for making them interested in rising exports through granting them export bonuses and letting them retain part of their foreign currency earnings. Admittedly, decentralised foreign trade also implied the risk that stronger dependence on world market developments might cause disturbances in home markets. And such disturbances were indeed clearly visible in Yugoslavia, often leading to delay in carrying out the planned reforms, but in spite of this, the trend towards decentralisation of Yugoslav foreign trade remained victorious, through several ups and downs, as has most recently been proved by the latest set of reforms during July, 1965.

## Relaxation of the Foreign Trade Monopoly

The first attempt to make a breach in the rigid foreign trade monopoly of the State had been undertaken as early as 1952, when the Foreign Trade Ministry was abolished and export and import trade were entrusted to decentralised export/import agencies. However, through drawing up a complicated system of foreign currency dealings—which the Yugoslavs called the "system of coefficients"<sup>1</sup>—the foreign trade monopoly remained virtually intact. Thus, the "system of coefficients" and of multiple exchange rates provided the framework for Yugoslav foreign trade transactions all through the fifties. Incidentally, the volume of exports rose vigorously after 1955, after having stagnated before that date, not even attaining pre-war levels. This was mainly due to the first results of forced industrialization since the last war, as well as to the resumption of trade with the other East-bloc countries, which were especially eager to accept deliveries of the output produced by the new industries.

<sup>1</sup> The "coefficients" were in fact multipliers, or factors, with which foreign prices, quoted in US-\$, were multiplied at the official rate of 632 Dinar : \$, to arrive at the home market price, which the National Bank paid the exporting firm for its foreign currency income, or for which it sold foreign currency to importers. Import "coefficients" lay between 1.0 and 2.5, export coefficients between 0.8 and 2.0 (cf. K. Wessely, "Grundzüge und Eigenständigkeit des jugoslawischen Wirtschaftssystems", Berlin 1962, p. 423).

Rising industrialisation has left its deep marks upon the changing composition of Yugoslav foreign trade: during the last ten years before the war, the share of industrial products in overall Yugoslav exports had been, on average, 25%, but in 1956, it had already grown to more than 50%, and to 78.4% in 1964.<sup>2</sup>

Further foreign trade decentralisation measures were taken in 1961, through the abolition of the system of coefficients. Currency reform followed, and the Dinar was devalued by 18%, settling it at a new rate of 750 D. for the \$. Import commodities were, however, still grouped according to four quotas. The first quota, consisting mainly of raw materials, was fully liberalised. Scant encouragement could, nevertheless, be gained from the effects of the 1961 reform. Instead of the planned growth of 14%, Yugoslav exports rose only by 2%, compared with 1960, whereas imports expanded by 14%, thus increasing the adverse balance of the country's external trade. Consequently, the country had to return, in 1962, to stricter regimentation, adopting incisive import restrictions. Import duties were raised, and the quota system was made more rigid. This increased exports, as against 1961, by 20%, and led to a decline of imports by 3%. But in 1963, the same well-known difficulties were again besetting Yugoslav foreign trade: imports grew more rapidly than exports, and the chronic adversity of the country's balance of trade grew even more. The difficulties became worse in 1964, when exports, though rising swiftly by 13%, could not keep in step with imports, which expanded by no less than 23%. Only 67.5% of imports could thus be paid for in 1964 by income from imports. The adverse balance of Yugoslav external trade had swollen in 1964 to the all-time high of \$ 430.7 million, whilst the total volume of the country's foreign trade had reached \$ 2,200 million.<sup>3</sup>

Development of Yugoslav Foreign Trade  
from 1947 onwards \*  
(In million US-\$)

Year	Imports	Exports	Adverse Balance	Exports in % of Imports
1947	163.69	166.07	2.38	98.6
1952	246.52	373.08	126.56	60.1
1955	256.58	440.96	184.38	58.2
1959	476.65	687.18	210.53	69.2
1960	566.16	826.38	260.22	68.5
1961	569.90	910.29	341.39	62.5
1962	690.48	887.72	197.24	77.7
1963	790.34	1,056.62	266.28	74.8
1964	892.44	1,323.17	430.73	67.5
1965 *	1,091.30	1,288.60	197.30	84.6

\* Based in "Indeks", Beograd, and "Yugoslavia Export", Beograd, No. 171, March 1, 1966.

<sup>2</sup> Cf. Miša Kapetančić, Secretary of the Foreign Trade Division in the Federal Chamber of Economics; in "Internationale Politik", Nr. 358, March 5, 1965, p. 23.

<sup>3</sup> Estimates based on "Statistički go išnjak SFRJ" (Statistical Year Book of the Federal Yugoslav Republic), 1964.

As the adverse balance of Yugoslav trade originates mainly from deliveries of western industrialised countries, a brief discussion of the regional breakdown, and its development, of this trade will be useful. In former years, economic relations between Yugoslavia and the West had made good progress, but more recently stagnation has begun to creep in, which, in some cases, has even led to a reduction of foreign trade income.

### Retrograde Tendencies in Trade with Western Countries

Trade with the countries of European Economic Community is growingly hampered by advancing integration of the Common Market countries, so that Yugoslavia's position in the markets of the "Six" and its interests are adversely affected. Thus, Yugoslav exports to the Common Market area, in 1964, represented no more than 27.5 % of the country's total exports, as against 36.6 % in 1963.<sup>4</sup> The foremost obstacle barring Yugoslav exports to this area is to be seen in the new "Agricultural Market Orders" for a number of farm products entering the EEC—Yugoslav agricultural deliveries to the Common Market area had still contributed 44 % of total Yugoslav exports to the EEC in 1964. This has prompted the Yugoslav authorities to enter upon negotiations, some time ago, with the EEC, with a view to improving trade relations. However, the EEC Commission has not yet pronounced officially upon this subject. Trade with the EFTA countries is showing a similar trend. The exchange of goods with these countries which, in 1964, had still contributed 13 % of the whole to overall Yugoslav foreign trade, has also resulted in an adverse balance of trade, and exports to this area have dropped, by 19 % in 1965. This is the reason for Yugoslavia's attempts to make new contacts with the EFTA association. Negotiations with EFTA aim mainly at liberalising Yugoslav deliveries of agricultural products to the countries of the Small Free Trade Area.

It is also necessary to make reference to trade with the US, whose balance, likewise, is highly adverse, due to high food imports into Yugoslavia—mainly of wheat—caused by the violent crop fluctuations of Yugoslav farming. For example, under the "Food-for-Peace-Program", a new agreement was signed in November last, which provides for supplies of 700,000 tons of American wheat for \$ 45 million. This sum will be repayable in twelve years, and the debt carries 3½ % annual interest.

The difficulties arising from shrinking exports to the West, and of the high trade deficit resulting from these relations, is worsened by Yugoslavia's high indebtedness arising from earlier credits granted by the same western countries. According to the Federal Secretary of Finance, Kiro Gligorov, net indebtedness to foreign countries had reached, in the spring of 1965, the sum of \$ 1,028 million, of which \$ 868 million will fall due for repayment until 1968, and \$ 251.7 million of these alone during 1966.<sup>5</sup> In order to redeem its debts,

which had been used for financing its foreign trade deficit, Yugoslavia would have to increase its exports especially to these countries.

### Expansion in East Trade

It is striking to what large extent Yugoslav foreign trade has turned to East European markets during recent years, and this way was chosen especially in order to find compensation for the unfavourable trend of the country's western trade. Exports to the East are particularly important for Yugoslav industrial production, as its output, through low quality and keen competition, is difficult to sell in Western countries. Last year the COMECON area replaced West Europe as the biggest market for Yugoslav goods. The main trading partners of Yugoslavia in the East are the Soviet Union (1965: \$ 300 million), Czechoslovakia (\$ 160 million), and the German Soviet Zone (\$ 138 million). New agreements provide for a considerable increase in exchanges during the next five years: Soviet Union \$ 2,600 million, German Soviet Zone and Czechoslovakia each \$ 1,000 million.

Yugoslav trading with communist countries is bilateral and is based upon long-term (five to seven years) agreements, under which annual lists of goods to be exchanged and the composition of the trade are being negotiated. On average, exports and imports have been largely in balance over the last few years.

Growth of Yugoslav eastern trade has been accompanied by Yugoslavia moving much closer to the COMECON. As from April 25, 1955, Yugoslavia has become an associate member of the East European Foreign Trade Association (through a decision made already on Sept. 17, 1964). Yugoslavia, by its association, has promised to cooperate actively in the fields of foreign trade, of currency and financial problems, of iron and non-iron metal smelting and processing, engineering, chemical industry, and scientific and technical research. Yugoslav quarters believe that the internal development of COMECON has favourable prospects, and an article of the Yugoslav newspaper, "Politika" (of Sept. 21, 1965), expressed satisfaction about increasing frankness in discussions, economic reforms carried out by most COMECON countries, and increased contacts between the countries of Eastern and Western Europe and the whole West spreading throughout the Communist World.

Regional Breakdown of Yugoslav Foreign Trade  
in % of Total Volume \*

Region	Exports in %			Imports in %		
	1963	1964	1965	1963	1964	1965
Western Europe	49.0	43.5	36.8	41.5	41.0	38.9
Eastern Europe	26.7	34.6	42.0	22.7	28.5	28.7
America	8.1	8.5	7.4	22.2	17.4	18.6
(of which: US)	—	(5.7)	(5.8)	—	(13.0)	(15.1)
Africa	8.5	4.7	4.7	4.1	4.4	4.9
Asia	7.6	8.7	8.9	7.9	6.7	7.2
Oceania	0.1	0.0	0.2	1.6	2.0	1.7
	100.0	100.0	100.0	100.0	100.0	100.0

<sup>4</sup> "Economic Review", Beograd, No. 59, April 1965, p. 8; and "Neue Zürcher Zeitung", No. 348, Dec. 18, 1964.

<sup>5</sup> "Ekonomika politika", Beograd, No. 681, April 17, 1965; quoted from Vladimir Murko, "Außenhandelspolitik und Zahlungsbilanzgestaltung in Jugoslawien (Yugoslav Foreign Trade Policies and Development of the Balance of Payments)", in "Ost-Europa-Wirtschaft", No. 3, Sept. 1965, p. 190.

\* Based on "Petit Manuel Statistique de la Yougoslavie", 1965, and "Yugoslavia Export", Beograd, No. 165, Sept. 1, 1965 and No. 171, March 1, 1966.

To sum up, development trends in Yugoslav foreign trade, with their perennial foreign trade deficits, are caused, inter alia, by stagnating exports to

western countries, which are one of the effects of growing West European integration. However, in order to arrive at a full understanding of Yugoslavia's trading difficulties it will be necessary to include the problems of its internal economy in our examination.

### Internal Obstacles

Yugoslav exports claim only 9% of the country's Gross National Product, which is very little, and it shows that Yugoslavia has hardly succeeded in achieving a major part in the international division of labour. This unsatisfactory picture is largely due to the leaning of the Yugoslav Federation towards autarky, which has never been fully abandoned. In addition, there is insufficient economic coordination and division of labour between individual republics of Yugoslavia, so that production remains widely split up and unprofitable.

Growth of Yugoslav industrial production, furthermore, has not been accompanied by a corresponding growth of labour productivity, as many plants use obsolete machinery and facilities and employ much too many unskilled hands. Coupled with persistent price rises, this has led to product qualities remaining below and unit costs above the international average. This development has been even more accentuated by the country's foreign trade system and policy. The methods used for boosting exports have led to an indiscriminate rise of any sort of exports, no matter whether they were beneficial to the national economy, so that exports had to be highly subsidised. Gligorov mentions that this has led to the importation of raw materials at a dollar exchange rate of between 800 and 900 Dinar, whilst every dollar earned has cost, in 1965, the country no less than Dinar 1,055, tantamount to a subsidy for raw material imports of between Dinar 150 and 250 per dollar.<sup>6</sup> The annual average of export subsidies, in recent years, amounted to about \$ 400 million. A sound growth of Yugoslavia's foreign trade will be possible only on condition that output productivity rises and its costs are reduced. But this is only possible through doing away with autarkic economic policies, and through merging the many tiny factories in large units. Industry, which works for export, ought also to specialise in specified products in regard of which Yugoslavia is comparatively at an advantage as against other countries. As a model case, it is possible to describe shipbuilding, 80 % of whose products are for export, and whose production would be unprofitable if the shipyards would work only for home demand. Other Yugoslav possibilities are in the fields of non-iron metal smelting and processing, general and electrical, engineering, wood processing and processing of agricultural products.

### Recent Reforms in Foreign Trade

For doing away with these economic shortcomings, Yugoslavia proclaimed a new economic reform on July 24, 1965, which also affects deeply the system of foreign trade. The first step of this reform was another devaluation of the Dinar by 67 %, abolishing the completely imaginary rate of exchange which had been in operation until then, as it did not provide a reliable economic yardstick for the benefits derived from ex-

<sup>6</sup> Cf. Kiro Gligorov, Federal Secretary of Finance, in "Internationale Politik", No. 365, June 20, 1965, p. 21.

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ports. Most export bonuses were also abolished, and the new single rate of D. 1,250 : \$ (which was followed in 1966 by the issue of new dinars, equal in value to 100 old dinars) will therefore operate selectively upon the various exporters, as they can in future export only those goods whose costs, converted into dollars at the new rate of exchange, are below world market prices.

Imports will now be regulated by an efficient system of new customs duties. Up to now, the duties charged were ineffective for the purpose of protecting home production, because imports were regulated mainly by the different import rates of exchange and by rationing of foreign currency. Therefore, duty rates were mainly of a purely fiscal nature, providing an important part of the federal budget. From now on, the main significance of duty rates is to be protective, but only such products are to be protected by them which may, by their intrinsic character, be able to reach international standards of quality and costs within a relatively short period. It is also intended to use imports as an instrument of economic pressure towards specialisation and modernisation of industry. For this purpose, however, customs tariffs and long-term economic planning will have to be coordinated, so as to clarify beforehand the direction and possibilities of evolving the one or other branches of industry. Under the new tariff, which has already been enacted, all imports of raw materials will, on principle, be duty-free, and this principle is to serve the improvement of costs and competitiveness of Yugoslav industry. Actually, average duties on raw materials are now

5.11 %, as against 10.26 % before the reform. The total burden of tariff duties, calculated on the total volume of 1964 imports and its composition, has been cut by about one half to an average of 11.7 %. There are large differences of duties imposed upon the different types of imported goods.

**Average Tariff Rates**  
(all figures in %)

Groups of goods	percentage share in 1964 imports	former tariff rates	new tariff rates
(1) Raw materials	35	12.14	5.11
(2) Replacement goods	36	17.19	9.26
(3) Equipment	24	42.79	20.39
(4) Consumption goods	5	43.96	21.06
TOTAL or Average, respectively	100	23.29	11.70

Source: Ante Domandžić, *Der neue Zolltarif* (The new tariff), in: "Internationale Politik", No. 371, Sept. 20, 1965, p. 22.

The new regulations, it is true, exempt the exportation and importation of all goods and services from duties, on principle, but import restrictions may be introduced by federal law, and to a limited extent and for certain goods by decree of the Federal Foreign Trade Secretary. Thus, importation of equipment and goods for personal consumption is still subject to an overall quota system, at least for a transitional period. By the end of 1967 appr. 50 % of all imports shall be liberalised, in comparison with appr. 30 % at present.

Full convertibility of the dinar is also not anticipated in the near future. In the first instance, convertibility is dependent on a lasting structural improvement in the balance of payments. Though the trend of income from tourist traffic (US \$ 93 million in 1964, and 100 million in 1965) and through remittances of Yugoslav citizens working abroad (\$ 60 million in 1964) was upward, this income was hitherto not sufficient to bridge the gap in the balance of trade. To support the present dinar exchange rate, a foreign currency reserve of \$ 140 million has been formed, which is to be increased during the ensuing months.

#### Organisation Improvements by a New Foreign Trade Law

A new Foreign Trade Act is to serve as the coping stone of the edifice of reforms; it is to be introduced very soon. Its main purpose will be the setting-up of a new foreign trade organisation. As was the case up to now, imports and exports will be handled by autonomous foreign trade houses which are to be organised on the same principles as all other enterprises. One condition, however, for their activities is that they have themselves entered upon a Foreign Trade Register, which they will be allowed to do subject to certain qualifications—e. g. the recruitment of

sufficient expert staff, adequate office accommodation, suitable technical equipment, and a certain minimum turnover. Apart from this, production plants are to build up more direct contacts with foreign sales outlets, for looking after the export of their products themselves. For this purpose, they are to be permitted to form agencies abroad for establishing new connections. In exchange for this, foreign companies, for the first time, are to be allowed to open their own sales agencies on Yugoslav territory. Special concession agreements will be made and accorded to them by the Federal Foreign Trade Secretariat, which will incorporate the conditions for their activities.<sup>7</sup> Finally in future also investments of foreign firms in Yugoslavia shall be permitted—first of all it is thought of cooperative establishments—in connexion with which the transfer of earned profits shall also be allowed.

Though a number of currency controls and physical restrictions will continue to be in operation for a transition period, these reforms make it highly likely that Yugoslavia may become a full member of GATT, as the General Agreement on Tariffs and Trade considers a fixed tariff to be one of the essential conditions for attaining its objectives. Until recently, GATT members were of opinion that Yugoslavia did not meet this condition, and this was the reason why the country was accorded only Associate membership on May 25, 1959. In October, 1965, Yugoslavia submitted its formal application for full membership. Its government is highly interested in joining GATT, as about 50 % of its exports are reaching markets in highly industrialised countries, which are negotiating about tariff cuts during the Kennedy Round. Yugoslavia's accession to GATT might give it the chance to revive its flagging foreign trade.

#### Effects of the New Course

When investigating the practical effects of the recent reforms it will be observed that exports have risen comparatively strongly during the last few months, whereas imports could slightly be checked. Nevertheless, it is still too early to predict, from this trend, a fundamental improvement of the foreign trade situation, as the period under review is too short for permitting a definite assessment.

In examining the concept of the new foreign trade system, it cannot be gainsaid that imports have not yet been liberalised to the same extent as in the countries of Western Europe. The acute paucity of currency reserves, caused by a chronic import surplus, causes the authorities to restrict currency allocations more or less sharply, for different import goods. In spite of all this, it may be stated that, provided all the reforms are carried out in their published forms

<sup>7</sup> Cf. "Economic Review", Beograd, No. 64, Sept. 1965, p. 6.



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for any length of time, centralised physical controls and administrative restrictions of foreign trade transactions have largely been dismantled. Thus, Yugoslavia demonstrates that even a socialist country may be able to achieve a high degree of decentralisation and elasticity in its external economic relations without being forced to abandon its notions of socialised property. All the difficulties which for many years have prevented the breakthrough to a flexible system of foreign trade were generated less by the peculiar social system of Yugoslavia rather than by the low level of Yugoslav economic development. Yugoslavia's difficulties are typical for any semi-industrialised country, which intends to stand up to competition by highly evolved national economies whilst, at the same time, striving for maximal economic and political in-

dependence. The economy of such countries cannot secure for itself a large share in the world's markets without higher productivity, but conversely, a larger volume of their foreign trade is a *sine qua non* for higher productivity and higher standards of their production. This difficulty can only be overcome by concentrating—as already stated—production on such goods which bring in the highest amount of foreign currency, in relation to production effort. Such type of production management can, under given circumstances, be achieved by the operation of market forces alone very slowly, and with great difficulty. For this reason, the State will have to continue its intervention in economic affairs through planning the direction in which the national economy is to develop, and the desired economic structure of the country.

*Department for Business Trends Research,  
The Hamburg Institute for International Economics*

## **World Business Trends**

### ***Western Europe: Strong Rise of Consumer Expenditure***

Private consumer expenditure in the individual West European countries reflects the present regional differentiation of the economic trend much less than do for instance capital expenditure or the net position on goods and services. First the different development—particularly the acceleration in Italy and France as well as the slowing down in the Federal Republic of Germany—is leading towards a close approximation of growth rates of private consumer expenditure at 7 to 8 % as expected for 1966 in most countries. The most important exception is Britain where in the current year and after the measures taken recently the growth rate should hardly be higher than 5 %. The whole of Western Europe will thus experience a slight slowing down of the nominal increase in consumption.

In the first half of 1966 the differences have obviously been still greater. This is indicated anyway by the available data of retail trade turnovers. True, only part—although a major one—of private consumer expenditure (in Federal Germany e.g. about 50 %) fall to the share of this sector and, moreover, in some countries only various groups of retail shops are recorded statistically. During the first four to five months of 1966,

according to data available, consumer expenditure in this field rose most in Federal Germany, Italy and Austria (+8 to +9 %, comparison with the previous year). Smaller was the increase in Switzerland, Britain and France (+5 to +6 %) while in the latter an acceleration of growth could be observed in the course of spring.

The tendencies of West European private consumer expenditure are being governed above all by the differentiated development of mass incomes. In Italy and France the economic recovery is effecting a normalisation of working hours and also gradually increasing the numbers of persons employed. Vice versa in the Federal Republic of Germany the fall in the rate of expansion has started to brake the increase in wages and salaries already at the end of 1965, while, on the other hand, in Britain up to the recent restrictive measures the contraction of growth had no influence on earned incomes. In future, incomes from wages and salaries should more clearly reflect the differentiated cyclical tensions in Western Europe. Corresponding tendencies in the incomes of the selfemployed will have similar effects on private consumer expenditure.

In some countries the changes of the saving ratio played a con-

siderable role at least temporarily. Thus e.g. in the Federal Republic its decline had been decisive for the constantly strong expansion of private consumer expenditure during the first quarter of 1966. Also in France and Italy less had been saved, obviously in connection with stimulated purchases of high-grade consumer goods (cars). So far the declining propensity to save had been a reflection of optimistic expectations of income. On the other hand, in the Netherlands and in Belgium the rate of saving increased at the beginning of 1966, and that was a reaction to the surge of purchases preceding the tax increases at the end of 1965. In the meantime here a normalisation should have taken place.

The increase of private consumption expenditure by about 7 % in Western Europe in 1966 means a rise of real consumption by about 4 %. A slight decrease of the margin between nominal and real development results from the fact that in some major economies the upward trend in prices has obviously somewhat declined—besides Italy finally also in Federal Germany and Britain—while in a few smaller economies it has increased. Early this summer in the most important economies consumer prices were by 2 to 4 % above those in the previous year's corresponding period. In Belgium and Switzerland the rate of price increase has reached 5 % and in Spain, the Netherlands, Sweden,