ECONOMIC SANCTIONS AS A FOREIGN POLICY TOOL: THE CASE OF YUGOSLAVIA

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The practice of economic sanctions is hardly new in international relations, but the twentieth century is especially rich in sanction episodes. The use of sanctions increased from two cases in the 1920s to more than 20 in the 1980s. Despite their widespread use, traditional scholarly perception is that sanctions are remarkably unsuccessful in achieving their stated policy objectives. Nevertheless, the number of disputes in which they were employed during the first half of the 1990's contributes to the conclusion about the ever-growing popularity of sanctions. It also demonstrates clear differences from previous decades. While the majority of the sanctions employed previously were unilateral and originated by the United States, today they are predominantly multilateral and imposed by the United Nations. This reflects a belief that a new, inexpensive and potentially potent weapon against small and medium size troublemakers has been found (Mueller, 1994: 363). This study will argue against this view. To this end, basic concepts of sanctions will be defined, the post-Cold War environment will be discussed in view of changes that led to the recent proliferation of multilateral economic sanctions, and finally, the case of Yugoslavia will be analyzed. It will be argued that the sanctions, helped to a great extent by pre-existing economic difficulties and macroeconomic mismanagement, had a devastating effect on the Yugoslav economy, thus helping make Serbian President Milosevic more cooperative, but were of no decisive importance for stopping the war in Bosnia. Moreover, poverty, which increased as a result of the sanctions, made people more receptive to authoritarian and totalitarian regimes, making democratization ever more difficult to achieve.

A Study of Economics as an Instrument of Politics

1. Basic Concepts

In defining relevant terms, this study will mostly rely on Baldwin's (1985) definitions. Baldwin's takes a more general and theoretical approach, as opposed to focusing on particular cases, that is more conducive to this study.

Offering economic rewards or withholding economic advantages in order to make other international actor(s) do what they would not otherwise do means using economics as an instrument of politics and is, according to Baldwin, best labeled as "economic statecraft." The economic techniques of statecraft are defined as governmental influence attempts that have three basic components. Economic policy instrument, as opposed to other means of statecraft relying primarily on negotiation (diplomacy) or force (military statecraft), economic statecraft relies on instruments primarily aimed at affecting other actor's production and consumption of wealth, for example, denying or promising aid or trade boycott. A case can be made that, insofar as the "going market price" for such transactions exists, they should be labeled as an economic statecraft. There are, however, borderline cases, such as the sale or gift of military hardware, that can be classified either as economic or as military statecraft, depending on the particular case in question.

Secondly, there is the domain of the influence attempt where other international actors upon which influence attempt is targeted and is often referred to as the "target." Finally, the scope of the influence attempt applies to some dimension of target's behavior that the sender(s) country(ies) perceives as objectionable and wants to change. It can be named also as "goal." It is worth noting that any dimension of the target's behavior can be selected. Since the political quality of the act is a function of the total influence relation, it is not a function of scope. This implies that attempts at influencing another state's attitude towards foreign direct investments or tariff levels are no less "political" than attempts at influencing its respect for human rights.

Economic statecraft is usually deployed to exercise economic power. It is used to threaten or damage the wealth of the target, leading to compliance by making the objectionable policy more expensive and/or provoking political disintegration. However, the sanctions need not bite in order to work (Baldwin, 1985: 372), implying that they might work through noneconomic power bases. Trade restrictions can successfully convey a threat of invasion even if their economic impact is negligible, while human rights offenders might care more about their moral standing in the international community than the effects of sanctions on their economic welfare.

Economic techniques of statecraft are often accused of not working, which raises the question of how their usefulness is measured. This can be done by employing one of two alternative criteria—effectiveness and efficiency. The first step in assessing effectiveness is establishing the intended goals and targets (scope and domain). However, as Baldwin correctly notes, the evaluation of effectiveness can be diluted with the importance of secondary, implicit or unstated goals, as well as third parties. Therefore, instead of considering economic statecraft strictly in terms of securing compliance with explicit and publicly stated demands, the approach which recognizes that there are usually a multitude of targets and goals is likely to bear more fruit. Another problem, as identified by Baldwin, is that some of the best known applications of economic statecraft involve extraordinary levels of difficulty. One example of this is promoting economic development and democracy in countries that have never known either (Baldwin, 1985: 133). Moreover, not all effects of statecraft are easy to observe. Less glamorous than diplomacy and less decisive than war, the effects of economic statecraft tend to be underestimated since they are seldom sudden or dramatic. All this implies the need to be careful when judging influence attempts into simple dichotomies, such as "success" or "failure" because the outcome is much more likely to be "mixed" or "ambiguous."

Given that the concept of effectiveness involves only the achieved benefits while ignoring the cost sustained by the sender, a more appropriate criterion would be efficiency, in Baldwin's view. Efficiency implies that economic statecraft is always chosen among alternative courses of action, such as negotiations or military action, depending on the basis of their cost and benefits.

However, this concept is not without its problems, for Baldwin warns that analytical pitfalls frequently occur, such as completely ignoring cost or misleading cost comparisons.

Economic statecraft, as defined here, is intentionally broad, since it has to include all economic forms of influence. However, the distinction can be made between negative sanctions (withholding economic advantages) and positive sanctions (offering economic benefits), as well as trade and financial sanctions. For the purposes of this study, using the case of Yugoslavia, economic sanctions will be used to describe the technique of economic statecraft that withholds economic advantages through either trade or financial restrictions.

2. Sanctions After the Cold War

This section will analyze different patterns in the use of sanctions during the 1990s, focusing on factors that gave rise to the recent proliferation of multilateral economic sanctions.

Since the first documented sanctions episode, Pericle's Megarian decree enacted in 432 BC[1], sanctions have remained an important foreign policy tool, especially for great powers. However, only after World War I was extensive attention given to the opinion that economic sanctions might substitute for armed hostilities as a stand-alone policy (Hufbauer, Schott and Elliott, 1990: 5). President Wilson viewed economic means as suitable for pursuing foreign policy goals, as he was the leading advocate of building a capacity to use the "economic weapon" in the League of Nation's. Out of the eight cases Hufbauer, Schott and Elliott identified between 1918 and 1940, four involved League of Nations attempts to apply economic sanctions to settle disputes. Sanctions were usually imposed to disrupt military adventures or to complement a broader war effort (League of Nations v. Yugoslavia, League of Nations v. Greece). In the period after the World War II, the imposition of sanctions occurred against the background of the rivalry between the superpower, thus making other policy motives increasingly prevalent. The sanctions were used for strategic reasons—to deny strategic materials and/or impair military potential (COCOM), destabilize foreign governments in the context of containment (Cuba, Chile), or overthrow a rebellious government inside the block (Yugoslavia, Albania). Apart from the episodes with a dominant Cold War flavor, sanctions were still occasionally used to force a target country to withdraw its troops from border conflicts, to abandon plans of territorial acquisition, or to cease other military adventures (as was the case of Egypt that was forced to withdraw from Yemen and the Congo as a result of withholding development and food aid) (Hufbauer, Schott and Elliott, 1990: 5). Finally, sanctions were also used on behalf of efforts to protect human rights (as was the case in Chile, where the United States imposed sanctions after General Pinochet was charged with widespread violations of human rights), to halt nuclear proliferation (evidenced by sanctions imposed on Pakistan in 1979 by the United States), to settle expropriation claims (as demonstrated by sanctions imposed on Ceylon 1961-65 by the United States after expropriating assets of US and UK oil companies), and to combat international terrorism (as in the case of Syria, where sanctions were imposed in 1976 after Syria, among others, was listed by the Carter administration as a country supporting international terrorism).

Of the 116 cases documented by Hufbauer, Schott and Elliott, the United States, either alone or in cooperation with its allies, have deployed sanctions 77 times (1990: 7). This reflected the US role as an economic hegemon and a political and military superpower. However, both the economic and the political situation have changed. Beginning with the 1970s, trade and financial patterns have become far more diversified, new technology has spread faster, and new competitive economic superpowers have emerged. These trends resulted in the declining average trade linkage between the United States and its targets—from 24% of GNP prior to 1973 to 17% since, as well as lower costs imposed on targets—1.7% of GNP v. 0.9% of GNP (1990: 107). The overall outcome was a diminishing effectiveness of US sanctions due to the reduced vulnerability of the potential targets to unilateral economic coercion.

As the Cold War came to an end, the strategic reasons for imposing sanctions, which existed due to superpower rivalry, disappeared. Coupled with severe economic problems at home, Russia became far less likely to assist the countries hit by the US sanctions as it used to do with Cuba. Not less important, the termination of the Cold War seemed to have opened the door for an unprecedented degree of international cooperation. As far as the United Nations was concerned, this cooperation raised the expectations that it would finally be able to act in the true spirit of the UN Charter and that the broad use of veto, that had made the Security Council impotent to act during the Cold War, would be abandoned (Higgins, 1994: 174) This was apparent in the use of multilateral economic sanctions that were, in fact, collective enforcement measures (Article 41, Chapter VII of the UN Charter). Article 41 was applied for the first time in UN history in December 1966, when comprehensive economic, financial, and diplomatic measures were adopted against the racist regime of Southern Rhodesia. In the absence of a similar consensus in the Council, only a mandatory arms embargo could be decreed against South Africa in 1977. Since the invasion of Kuwait on August 2, 1990, however, sanctions have been instituted against Iraq (1990), the Federal Republic of Yugoslavia (1992, lifted in 1996), and Libya (1992). They were also imposed on Somalia in 1992 and Haiti in 1993, but were abolished after the unsuccessful military intervention (Somalia) and when the democratically elected president came back to power (Haiti).

Nonetheless, as expectations rose to new heights, disappointments lurked just around the corner, for the improved East-West climate was only one of the preconditions for the improved prospects of the United Nations. Additional concerns included the need for reform that would address shortcomings in form of inefficiency and too much bureaucracy, as well as the financial problems due to failure of the member states to pay budgetary dues (Higgins, 1994: 180).[2] However, the euphoria that followed the enforcement measures authorized by the United Nations against Iraq in 1990-1991 gave way to a new and disturbing reality (ibid: 180). After the relatively straightforward two-alliance confrontation of the cold war, the world has turned back to the riskier maneuverings of a multipower system (*The International Order*, 1994: 17). The world's chief powers remembered how different they were from each other and started acting accordingly (ibid: 20). This came to a head in the case of Yugoslavia.

The Case of Yugoslavia

The sanctions on the Federal Republic of Yugoslavia were imposed in May 1992. One year later, the Serbian President Slobodan Milosevic, in the wake of a deteriorating economic situation in Yugoslavia and threats of a tighter regiment of sanctions, urged acceptance of the Vance-Owen peace plan[3] as opposed to the Bosnian Serbs, who rejected it. In August 1994 he responded with an imposition of sanctions on the Bosnian Serbs when they refused to accept the Contact Group peace plan, thus illustrating a clear U-turn from his previous support for the Bosnian Serbs' war effort. In November 1995, a peace agreement, negotiated by the US, was reached in Dayton, Ohio. All this suggests the conclusion that the sanctions were successful. However, the essence of the peace plan that envisioned two separate entities within the Republics of Bosnia and Herzegovina (the Muslim-Croat Federation and the Republics of Srpska) as well as the decisive use of NATO's air-power in August 1995 cast doubt on the importance of sanctions for stopping the war in Bosnia.

The following section will address the question of usefulness of sanctions with reference to the framework discussed previously. To make the domain and scope (target and goals) of UN action more comprehensible, a historical overview of the crisis in former Yugoslavia will be discussed, while the relevant economic data will describe the impact of the instrument used. Finally, the sanctions will be assessed with respect to their contribution in achieving the stated goals (effectiveness) as well as in comparison with other policy alternatives (efficiency).

1. Situation

Since defining the intended scope and domain of sanctions is, according to Baldwin, the basic step in assessing their effectiveness, this section hopes to contribute to this end through presenting a chronology of the main events in the crisis in former Yugoslavia,[4] as well as a brief historical overview of the involvement of the international community.

The Socialist Federal Republic of Yugoslavia (SFRY) was a second attempt of the Yugoslav peoples to live together in one state. The first Yugoslavia, set up in 1918, brought together peoples of different historical backgrounds: Serbia and Montenegro were sovereign states that had gained independence at the 1878 Berlin Congress after centuries of Ottoman dominance; Slovenia and Croatia were parts of the Austro-Hungarian Monarchy; Bosnia and Herzegovina were under Ottoman rule until 1908, when they were annexed by the Austria-Hungary; and Macedonia, as a component part of Serbia, had been under Ottoman rule. This resulted in a plural society, divided by several lines of cleavages—nationality, religion, language—and further aggravated by an uneven level of economic and cultural development. The SFRY tried to address those cleavages in a number of ways. One way was the 1974 constitution, the adoption of which many take as the point of departure in the disintegration of Yugoslavia. The 1974 constitution established a loose form of federation and a rather impotent federal government , with the constituent parts of the federation (six republics and two autonomous provinces, Kosovo and Vojvodina, that were parts of Serbia) autonomous to a great extent.

Moreover, the communism that existed in Yugoslavia differed from the Communism in other Central and Eastern European countries due to the Tito-Stalin rift of the late 1940s. Being independent of Moscow brought Yugoslavia a special relationship with the US, which included the implicit guarantee of special access to Western credits in exchange for Yugoslav neutrality and its military capacity to deter Warsaw Pact forces from invading Western Europe (Woodward, 1995: 104).

In 1980, Marshall Tito died. His death left a void of charismatic leadership in Yugoslavia—he was a symbol of the independent policy Yugoslavia had been pursuing. The outbreak of the debt crisis, triggered by the defaulting of Mexico and Poland, made it more difficult to get new credits, while increasing in interest rates aggravated by repaying the old. After a relatively dynamic growth rate, Yugoslavia entered a decade of economic stagnation (Stamenkovic, Posarac, 1994: 33). Handling the situation required a federal government more in charge of things, yet constitutional reform could deliver a more powerful central government could not be agreed on among the republics. As a result, the 1980s passed against the background of steadily deteriorating economic conditions and numerous attempts to create economic policy able to serve the foreign debt while reviving economic growth at home (Woodward, 1995: 114).

In 1987, the leadership of the League of Communists of Serbia, a branch of the so-called leading political force of Yugoslav society, the League of Communists of Yugoslavia, changed and Slobodan Milosevic came to the forefront. Soon he became very popular, capitalizing on the people's will to see Serbia united, since autonomous provinces were perceived to be "states within a state" that paralyzed the decision making process. On the other hand, the situation in Kosovo, Serbia's southern province with an Albanian majority, was becoming more complicated and tense. Milosevic's visit to Kosovo and his famous statement that he would make sure that no one harmed the Serbs in Kosovo any more, made him almost a national hero.

As the federal state increasingly malfunctioned, the governments of the republics became ever more powerful. The poor economic performance in the 1980s caused republics to begin blaming all the problems on the others, contributing to an awakening of ethnic tensions. Slovenia and Croatia, as the wealthier parts of Yugoslavia, complained that helping the poorer members of the Federation slowed their progress, while Serbia protested against being treated as the chief supplier of raw materials and the market where the final expensive products could be sold.

The last attempt to save and reform the SFRY was Ante Markovic's government that took office in January 1989. As soon as he took office, Ante Markovic announced he was going to launch comprehensive economic reforms as well as reforms designed to transform Yugoslavia into a multiparty parliamentary democracy which would integrate the country into European institutions. However, apart from having to compete for power with regional authorities, a problem that his predecessors also had to face, Markovic also had to deal with the dramatically changed international environment. By 1989 the Cold War was over, so Yugoslavia no longer had the geopolitical importance the United States had previously given it (Zimmerman, 1995: 2). With the disintegration of the country well under way, and international financial institutions unwilling to back up the reform with new financial arrangements, the collapse of Markovic's government came as no surprise.

The degeneration of the political system, as well as growing nationalism, affected the League of Communists of Yugoslavia, and it fell apart at the 14th Congress in 1990, marking the end of party monolithism. Like Serbia, nationalism proved to be the winning card in other republics, but the communists understood this only too late, losing power everywhere but in Serbia and Montenegro. The fact that ethnic parties won power in all of the republics apart from Macedonia (Zimmerman, 1995: 6) represented a serious setback for those who had hoped that Yugoslavia could stay together in a democratic framework. The only all-Yugoslav party was the Alliance of Reformist Forces of Yugoslavia (SRSJ) led by Ante Markovic. Only created in July 1990 after the parliamentary elections were held in Slovenia and Croatia, SRSJ took part in the elections in the remaining four republics. Hopes were high for successful performances in ethnically mixed settings of Bosnia and Macedonia. In Bosnia, however, the three national parties gained votes and seats almost directly proportional to individuals' choices of national identity in the 1981 census[5], while in Macedonia SRSJ was one of the three best placed parties. In Serbia and Montenegro, the last republics to hold multiparty elections, poor electoral results came as no surprise, given the support that Milosevic's Socialist Party enjoyed.

Almost all of 1991 passed against the background of increasingly aggravated inter-republic and inter-national relations. The turn for the worse occurred at the end of June 1991, when both the Slovenian and the Croatian Parliaments declared independence and sovereignty. The Yugoslav government responded by manning all frontier crossings along Slovenia's borders with Italy, Austria and Hungary, as well as all airports on that republic's territory. This resulted in a short war that included the involvement of the European Community (EC), who decided to send a peace mission (so-called Troika) to Yugoslavia.[6] The crisis was temporarily solved with the so-called Brioni Declaration on Yugoslavia, under the auspices of the European Community, by which the decisions of Slovenia and Croatia to declare sovereignty and independence were suspended for a duration of three months. Within the context of its ever broader involvement in resolving the Yugoslav crisis, the European Community decided, in agreement with all interested parties in Yugoslavia, to convene a Peace Conference on Yugoslavia at The Hague (later to be continued in Brussels) that was aimed at brokering a cessation of the conflict in the former Yugoslavia and at reaching a comprehensive solution of the Yugoslav crisis. Lord Carrington was appointed its chairman. It was also decided to set up an Arbitration Commission, consisting of five Presidents of Constitutional Courts of five EC member-states. The Commission was often referred to as the Badinter Commission after its chairman Robert Badinter, President of the Constitutional Court of France.

The crisis occurred after the Badinter Commission Report of November 29, 1991. in which it was stated that Yugoslavia was being dissolved into six republics as its successors (as opposed to the Serbian view that Slovenia and Croatia seceded from Yugoslavia, so they could not be its successors). The second report of the Commission of January 15, 1992 contained the opinion on whether the Serbian population in Croatia and Bosnia-Herzegovina, as a constituent people of Yugoslavia, enjoyed the right to self-determination and whether the internal borders could be considered as borders in the sense of international law. This report also contained the opinion of the Arbitration Commission on the recognition of Bosnia and Herzegovina, Croatia, Macedonia and Slovenia.

With respect to the first question, the Arbitration Commission replied that the Serbian population in Bosnia-Herzegovina and Croatia was entitled to enjoy all rights recognized to minorities and ethnic groups—that those republics had an obligation to ensure the members of these minorities and these ethnic groups were given all human rights and fundamental freedoms recognized by international law, including, in case of need, the right to national determination. As for the second question, the Arbitration Commission replied that, first, external borders would have to be recognized in all cases in accordance with the international law; second, demarcation lines between Croatia and Serbia or Serbia and Bosnia-Herzegovina or possibly between other neighboring States would be possible to change only by free and mutual agreement and third, if nothing happened to the contrary, the former borders would assume the character of borders protected by international law.[7] Regarding the recognition of Bosnia-Herzegovina, Croatia, Macedonia and Slovenia, the Arbitration Commission replied that Slovenia and Macedonia had fulfilled the necessary conditions for recognition of new states, while Croatia had not met, at the time, the European standards on individual and minority rights or free speech. As far as Bosnia-Herzegovina was concerned, the answer was that the expression of the desire for sovereignty by the population of Bosnia-Herzegovina could not be considered fully justified untill an internationally controlled referendum was held in which **all** of the citizens of Bosnia-Herzegovina would be invited to participate.

Faced with the escalating violence in Croatia that had began at the end of spring 1991, and the increasingly tense situation in Bosnia-Herzegovina, the European Community decided to apply economic pressure.[8] Slovenia, as a nationally homogenous state, remained intact and began to return to normality.[9] The next instrument available to the Community included diplomatic recognition or nonrecognition of the warring parties. Paradoxically, though the Badinter Commission had suggested Slovenia and Macedonia for recognition, the first to be recognized were Slovenia and Croatia in January 1992, with Bosnia and Herzegovina to follow in April 1992. The unilateral recognition of Slovenia and Croatia and the subsequent recognition of Bosnia-Herzegovina, coupled with the Serbian's persistent rejection of the Carrington proposals, finally brought about the failure of the EC mediation centered on its peace conference.

Posing a "direct threat to international peace and security" the Yugoslav crisis was put on the Security Council agenda on September 25, 1991. In October 1991, Secretary General Perez de Cuellar named former US Secretary of State Cyrus Vance as his special envoy for Yugoslavia. Vance continued his duties after the arrival of Boutros Boutros Ghali. The Vance plan, which formed an annex to the report of the Secretary General to the Security Council on December 11, 1991, represented the plan of the United Nations for a peace keeping operation in Yugoslavia (UNPROFOR). This temporarily ended hostilities in Croatia and caused the first rift between Slobodan Milosevic and the Serbian leaders in Croatia and/or Bosnia, since he was ready to accept the Vance plan, unlike the Serbian leader in Croatia.

On the other hand, the situation in Bosnia-Herzegovina was deteriorating steadily. The conflicts, that first occurred in the beginning of March, escalated after the recognition of Bosnia-Herzegovina on April 6, 1992, leading to the adoption of the Security Council Resolution 752 on May 15, 1992. The Resolution demanded adherence to the cease-fire agreement signed on May 12, that all forms of interference by military forces outside Bosnia-Herzegovina, including the Yugoslav People's Army units and elements of the Croatian army cease immediately, and that all irregular military forces in Bosnia-Herzegovina be disbanded and disarmed. After Resolution 752 had not been complied with, Resolution 757, imposing sanctions on FR Yugoslavia, was adopted on May 30, 1992. Noting that in the complex context of events in the former Socialist Federal Republic of Yugoslavia all parties bore some responsibility for the situation, the Security Council condemned the failure of official bodies in the Federal Republic of Yugoslavia to take effective measures to fulfill the requirements of Resolution 752. The Security Council also stressed the unacceptability of territorial gains or changes brought about by violence, condemned violations of human rights and fundamental freedoms, including the practice of "ethnic cleansing" and the deliberate impeding of delivery of food and medical supplies to the civilian population. The Security Council decided all states should adopt the following measures: prohibition of imports originating in FRY, and prohibition of the sale and supply of commodities and products to FRY, excluding supplies intended strictly for medical purposes and foodstuffs. It also decided that all states should not make available to the authorities in FRY, or to any commercial, industrial or publicly utility undertaking in FRY, any funds or any other financial or economic resources. Air-traffic was also prohibited, as well as participation of persons and groups representing FRY in sporting events. Finally, scientific and technical cooperation and cultural exchanges and visits were suspended and the level of the staff at diplomatic missions and consular posts of FRY reduced.

To sum up, the Yugoslav loose federation, built with the predominate concern to promote "brotherhood and unity" of the post-war Yugoslavia (Cviic, 1995: 823) failed to resolve economic problems and political antagonisms polarized around national issues. The crisis came to a head after the Cold War when Yugoslavia lost much of its geopolitical importance to the United States. In a process of dissolution, the independent states of Slovenia, Croatia, Bosnia and Herzegovina and Macedonia were created. Given the significant percentage of the Serbian population in Croatia and Bosnia (12% and 33%, respectively) as well as Milosevic's rise to power based on Serbian nationalism, the outbreak of the war was unavoidable. Nationalism proved to be winning card in the newly independent states as well. In such a setting, sanctions were viewed as a tool for stopping the war by containing Milosevic's pan-Serbian policy. To put it in Baldwin's terminology, putting an end to fighting, violations of humanitarian law and to all forms of interference in the territorial integrity of the state was the primary goal of the sanctions. However, the fact that the measures were applied only against FRY, although the Council had noted that "in the very complex context of events in the former SFRY all parties bear some responsibility for the situation" could be explained with the importance of implicit or unstated goals—a pan-Serbian policy, pursued by the Serbian president Milosevic, was perceived as a major threat to peace, so the sanctions were aimed at either changing his policy or at removing him from power. The domain could be broadly defined as the Federal Republic of Yugoslavia (Serbia and Montenegro) although the sanctions were meant to convey different signals to different groups in the Yugoslav society. As for the ruling elite, the sanctions were intended to communicate strong moral disapproval and to put economic constraints on further assistance to the Bosnian Serbs' war effort. With respect to the ordinary people, whose lives were to be the most affected by sanctions, it was expected that both isolation and worsening living conditions would lead to dissatisfaction, which in turn would, through electoral behavior, result in compliance with the international community's demands.

2. Economic Impact of Sanctions

While establishing the intended scope and the domain merely explains who is being influenced with respect to what, the most important element of economic statecraft is the economic policy instrument that is relied on to accomplish this. To be labeled as economic, the instrument has to have its price and that is, in case of Yugoslavia, the damage caused to the Yugoslav economy. However, the sanctions were only one of the acute factors that aggravated the chronic state of crisis in the Yugoslav economy and hence cannot be analyzed separately. Therefore, this section will present the economic data relevant for assessing the impact of sanctions with regard to pre-existing economic difficulties and macroeconomic mismanagement.

The crisis in the Yugoslav economy is a cumulative result of both chronic and acute factors (Stamenkovic, Posarac, et al., 1994: 17). The chronic factors were the result of system endemic characteristics that resulted in the lack of proper economic environment and, hence, inadequate economic policy. As opposed to the other socialist states characterized by state ownership, the Yugoslav economy was based on "social ownership" and "self-management", a complicated system where factories were owned and managed by workers and their councils. This resulted in a situation where it was very difficult to determine who owns what and who is responsible for taking decisions.

The 1974 Constitution has to be mentioned here again, since it not only reversed the existing trends towards a market economy (established by 1965 reform), but also, through promoting greater autonomy for the constituent parts of the Federation, contributed to disintegration of the Yugoslav economy. The flow of goods and services between the republics thereafter declined, and a common fiscal policy was abandoned resulting in a public spending "explosion" between 1974 and 1978 (Stamenkovic, Posarac, et al., 1994: 18). The resulting deficit was closed with heavy borrowing. Loans, received from the international financial institutions as well as commercial banks, were also used for investments that were meant to promote economic development, but resulted in a number of so-called "socialist giants," that were too big to be flexible to adjust to market conditions.

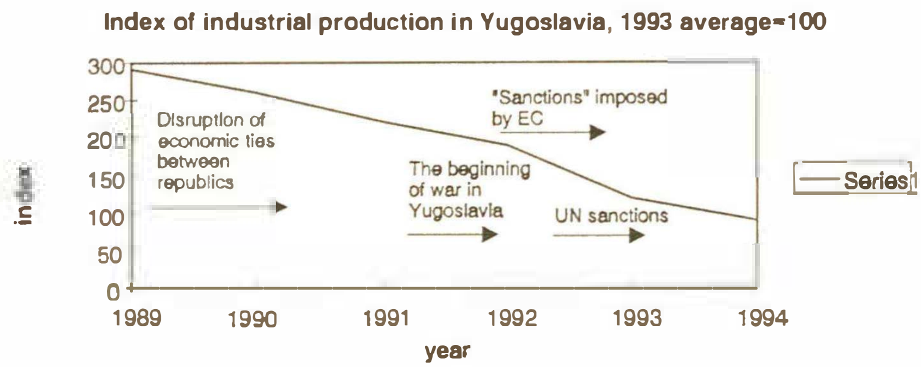
The impossibility to get new loans due to the outbreak of the debt crisis in Eastern Europe and Mexico, coupled with the necessity to repay the old ones, made the problems visible. The partial reforms, that tried to keep system going rather than to change it fundamentally, failed. Reforming the economic system was impossible without a fundamental reform of the political system, since the two were intertwined (Posarac, forthcoming). The old communist elite was reluctant to undertake such reforms, being aware that they might end party monolithism and, hence, their absolute power. Postponing the reforms in order to save the power fueled the process in which the Yugoslav communists lost not only their power, but also the state they ruled (Posarac, forthcoming). The last and the most comprehensive attempt to reform the system was undertaken in 1990, by the Markovic government. However, with the process of disintegration of the country well under way and the unwillingness of the international financial institutions to back up the reform with new financial arrangements, the failure of Markovic's government came as no surprise.

As a result of the long-term structural factors, the relatively dynamic rates of growth in the sixties and seventies were replaced with the decade of stagnation and, in the first half of 1989, with negative rates of growth. This was further aggravated by the acute factors, including the disintegration and war in Yugoslavia as well as UN sanctions (Stamenkovic, Posarac, et al., 1994: 21). Throughout 1989 the flow of goods between the Yugoslav republics were disturbed, to mention only the Serbian boycott of the Slovenian goods and the retaliation from Slovenia. In 1990 the republics adopted the practice of unauthorized printing of money (the so-called intrusions in the monetary system), thus trying to make their own position more favorable in view of the possible dissolution of the country. The closing of the markets of the republics intensified throughout the first half of 1991, while the outbreak of war and the independence of Slovenia and Croatia contributed to a complete severance of economic ties.

The Federal Republic of Yugoslavia was established on April 27, 1992, as a federation of the former federal units, Serbia and Montenegro. The fact that the internal market was reduced by 60% (FRY accounts for roughly 40% of SFRY's territory) and that the number of consumers fell from 24 million (SFRY) to 10.5 million (FRY), had an enormous effect on the economy. In 1989, Serbia "imported" from other republics 47% of GDP (compared to imports from the other countries, that accounted for 27%) and "exported" 49% (compared to 20.4% export to other countries). Conversely, the share of Serbia's "exports" to other republics accounted for 44.7% of their GDP, while "exports" to Serbia accounted for 49.9% of GDP (Stamenkovic, Posarac et al., 1994: 118). The structure of the consumers changed, not only because Slovenia and Croatia were the wealthier parts of Yugoslavia, but also because the inhabitants of Serbia and Montenegro became poorer (GDP per capita fell from $2083 in 1989 to $1302 in 1992—Stamenkovic, Posarac et al., 1994: 106). On the other hand, the Yugoslav producers were deprived of suppliers that were left outside the "new" Yugoslavia, while the substitution of missing materials and energy was expensive and, hence, inefficient. This resulted in a sharp decline in the standard of living, aggravated by the costs of fighting a war in other parts of former Yugoslavia.

Shattered with the economic consequences of disintegration of the country, FR Yugoslavia was badly poised to take severance of economic ties with the outer world. At the end of 1991, the European Community suspended the Trade and Cooperation Agreement with Yugoslavia, restored the quantitative limits for textiles, removed Yugoslavia from the list of beneficiaries of the GSP and suspended the PHARE program. Finally, on 30 May 1992, the UN sanctions were imposed. Both the general public and the Yugoslav politicians were very optimistic about the duration of the sanctions and their effectiveness. However, three months after their imposition the industrial production fell by 40% (Stamenkovic, Posarac, et al., 1994: 21).

Surprisingly, no serious adjustments to constraints resulting from acute factors were made. Even when those facts were finally taken into consideration, the political will to take appropriate measures was still lacking. This primarily means unwillingness to reduce the budget deficit to the level sustainable by the economy. According to Stamenkovic, Posarac, et al. (1994, p. 28), public spending as a percentage of GDP in FRY in 1990 was 49, while the revenues accounted for 46% of GDP (calculated out of SFRY budget). In 1991, revenues remained the same, while the spending increased to 63% of GDP, producing a deficit of 17% of GDP. The estimates for 1992 and 1993 were even higher—total public spending (with transfers to the Serbs in Bosnia and Croatia) amounted to 65-70% of GDP, while the revenues fell to 24% in 1992 and not more than 10-11% in 1993, thus making the enormous deficit of more than 50% of GDP (Stamenkovic, Posarac, et al., 1994: 28).

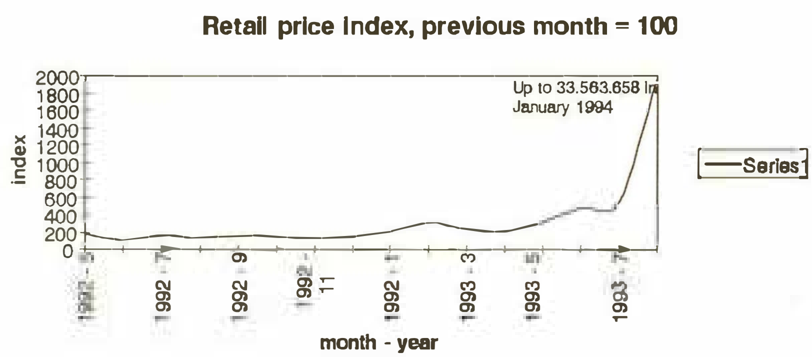


source: Federal Bureau for Statistics, quoted in Stamenkovic, Posarac, et al., 1994, p. 105

Figure 1: Industrial production in FR Yugoslavia, 1989-1994 (1993 average=100)

Those gaps were closed by printing money, that was in effect indirect taxation through inflation tax. The inflation tax refers to a revenue a government raises when it decides to finance its deficit through printing money. The money is absorbed by the public that tries to maintain the real value of its money balances constant in view of the decreasing purchasing power due to an increase in prices. By making people spend less than their income and pay the difference to the government in exchange for extra money (Dornbusch and Fisher, 1990: 657), inflation acts just like a tax. In developed economies, the amount of money that can be raised through inflation tax is constrained by the fact that the public increases its holdings of both bank deposits and currency, and thus a part of the increase in the public's holdings of money does not go to the government to finance the deficit[10]. However, in countries in which the banking system is less developed and in which people therefore hold large amounts of currency, the government obtains more revenue from inflation and is more likely to give high weight to the revenue aspects of inflation in setting policy. However, whenever the inflation tax is used on a large scale, inflation invariably becomes extreme. As the inflation rate rises, the expectation of the public changes—people reduce their real holdings of the money base, because the base is becoming increasingly costly to hold. Eventually the real monetary base drops so much that the total amount of inflation tax revenue received by the government falls. This point was reached by the Yugoslav government by the middle of 1993 with the monthly rate of inflation was 4667% (Stamenkovic, Posarac, et al., 1994: 28), thereafter becoming the loser in the hyperinflation game.

However, it is well worth noting that the Yugoslav government did not rely only on the inflation tax for raising the capital to close the budget deficit. The foreign currency savings, deposited with the state banks, and impossible to get since late 1990, amounts to $4 billion. Since the public did not trust state banks any more, the savings were deposited with the so-called "private"[11] banks, whose owners maintained close relationships with the ruling party. Those banks offered a monthly interest rate for foreign currency savings of 15%, so an enormous number of people were attracted to invest their money. The gamble lasted until the elections in December 1993. After the elections were over, the owner of the "Jugoskandik" left the country, causing the run on the other big bank, Dafiment. Soon thereafter, they declared insolvency. The amount of money owed to the public by these "phantom" banks is unknown, since the data were denied even to the experts that were supposed to "rehabilitate" them. This suggests the conclusion that those funds had served as a "buffer" in view of the slowing down of economic activity due to sanctions and other problems—they postponed the necessary macroeconomic adjustments and reduced the mounting social tensions, since a number of people were living on the interest their foreign currency deposits yielded.



source: Stamenkovic, Posarac, et al., 1994, p. 114

Figure 2: Retail prices in FR Yugoslavia, 1992-1994 (previous month=100)

As a result of both chronic and acute factors, GDP in 1993 fell by 30%—from $13.60 to $9.52 billion (Stamenkovic, Posarac, et al., 1994: 29). It was produced with only 35% of the existing capacities. Industrial plants were either closed or worked with minimum capacities. By the end of 1993, 1.3 million workers were on "paid leave of absence"—not working, but receiving salaries, while 750,000 were unemployed (Stamenkovic, Posarac, et al., 1994: 29). Together with sending the money to the Serbs in Bosnia and Croatia and additional payments for import-export transactions because of the UN sanctions (the estimates are that the licenses were paid additional 15-100% of the transaction—Stamenkovic, Posarac, et al., 1994: 29), those 2 million people that were dependent on public spending contributed to an increasing budget deficit. On the other hand, the government revenues were diminishing. Sharp declines in inflation tax revenues occurred in the middle of 1993, while the other revenues rapidly decreased due to the Tanzi-Oliviera effect[12] (in the first half of 1993 fiscal income accounted for 16% of GDP, in November only 3%, while in December they were negligible (Stamenkovic, Posarac, et al, 1994: 30). This resulted in extremely low salaries and pensions—the average monthly salary at the end of 1993 amounted to $15 (Stamenkovic, Posarac, et al., 1994: 29). By the end of 1993, with the highest monthly inflation rate in the world (313 million percent), the whole system was at a breaking point. To avoid the collapse that would have had inevitably occurred had the money continued to be printed with no limits, the Program for Reconstruction of Monetary System and Strategy for Economic Recovery of Yugoslavia was launched.

Table 1: GDP and GDP *per capita* in FR Yugoslavia, 1989-1993

Year	GDP in billion USD	GDP *per capita* in USD
1989	21.81	2083
1990	19.98	1898
1991	18.38	1766
1992	13.60	1302
1993	9.53	908

source: *Statistic Yearbook of Yugoslavia 1993*, quoted in Stamenkovic, Posarac, et al., 1994, p. 106

The Program for Reconstruction of Monetary System and Strategy for Economic Recovery of Yugoslavia (hereafter the Program) relied upon three basic pillars: cutting the hyperinflation by discontinuing the practice of uncontrolled money printing, significant reduction of the budget deficit accompanied by the reconstruction of tax collection system and, making enterprises free to set the prices according to the costs of production by making the state responsible for the social policy. The new dinar (often referred to as "super" dinar) was introduced and was linked to the German mark with the parity 1:1. The internal convertibility was declared—the new dinar was supposed to be printed to the level of foreign currency reserves and gold. This reintroduced the national currency, brought about the stability of prices and established a shaky balance. The fact that money was functioning again and that the stability of prices had been achieved, were the most important results. Production increased by 41% in the first three months after the Program had been introduced (19% if the season is taken out, MAP 1, 1994, p. 4). The most significant growth occurred in the parts of industry that experienced the worst decline. The average salary was approximately 50 dinars (50 DEM). The psychological effects were great—people were enjoying normal life, reflected by the fact that the price of food was not changing by the day.

However, the limits for recovery were soon reached. The average monthly rate of industrial production growth in 1994 was 2.6% (Opste tendencije, 1995: 11). This figure hides differences between the first and the second half of 1994—while the industrial production in the first half of the year increased by an average monthly rate of 4.1%, in the second half of the year the average rate of growth was only 0.7%. On the other hand, wages grew faster than the growth of production, resulting in 326.1% increase in nominal, and 255.7% in real wages between February 1994 and February 1995. Prices "exploded" by the end of 1994. Their monthly growth in November was 7.3% and in December 2.5%. The internal convertibility functioned till the middle of 1994, while later on it was administratively restricted and, in fact, informally suspended. The price of the German mark started increasing in the second half of the year, resulting in the exchange rate 2:1 in the beginning of 1995. This trend continued in 1995 as well, resulting in increase of retail prices by 26.5% in the first four months of 1995, which corresponds to the average rate of growth of 102% at an annual level (Opste tendencije, 1995: 8). The estimated share of public spending in GDP in 1994 was 60%, implying that no serious fiscal adjustments were made. Moreover, the projections for 1995 show that they were not planned for this year either-the share of public spending in GDP in 1995 was projected at 68.4%. The situation is further aggravated by the fact that the institutional framework has never been thoroughly reformed, resulting in additional constraints on the economic policy. The attitude towards privatization and changing ownership structure is ambiguous. The uncertainty is great, due to frequent changes in laws as well as possibilities to pass the laws with retroactive force. Finally, the system, as envisioned in the Program, is frequently suspended by the regulations and directives brought by the government (Suspenzija privrednog sistema, 1994: 36).

All this invites the conclusion that the economic recovery of the Yugoslav economy depends on a number of factors, the majority of which come from politics, not economics (Posarac, forthcoming). Such factors include the decision to open the process of restructuring the economy, that will address the chronic component in the Yugoslav economic crisis, while stopping the war, reestablishing cooperation with the former Yugoslav republics and lifting of the sanctions will eliminate acute factors. The Dayton agreement changed the situation inasmuch as it ended the war, established the very basic preconditions for cooperation with the former Yugoslav republics and suspended the UN sanctions. Even though the trade embargo was fully lifted after the September 14th elections in Bosnia, an "outer wall" of sanctions (membership in international financial institutions) remained and is linked with cooperation with the Tribunal for War Crimes and problem of human rights in Kosovo. As far as privatization is concerned, plans are on the way to sell 30% of Serbia's telecoms system, while the state oil and electricity companies are likely to be next. However, no overall strategy towards privatization is adopted yet.

3. They Bite, But do They Work?

This section will examine both effectiveness and efficiency of the UN sanctions in view of theoretical framework discussed in the previous chapter, with effectiveness defined as a degree of success in achieving stated policy objectives and efficiency assessed in comparison with costs and benefits of other policy alternatives that might have been pursued instead of sanctions.

As previously discussed, the sanctions aimed at changing a pan-Serbian policy pursued by Yugoslavia, both by putting economic constraints to further assistance to the Bosnian Serbs and by electoral behavior of dissatisfied citizens. However, the war in Bosnia fully exploded only after Security Council Resolution 757 was passed. For a long time thereafter coercion seemed to have little effect on Yugoslav/Serbian government efforts to aid the Bosnian Serbs (Pejic, 1994: 21). May 1993 can be taken as a turning point. The Geneva negotiations, set by the London conference on Yugoslavia and co-chaired by Cyrus Vance, on behalf of UN and Lord

David Owen, on behalf of the European Community, resulted in the Vance-Owen plan for cease-fire agreement, military disengagement and the demilitarization of Bosnia-Herzegovina. It also created a plan for a constitutional system of Bosnia-Herzegovina as a decentralized State consisting of ten provinces based on ethnic, geographic, economic, traffic, cultural and other relevant criteria. The Plan was accepted and signed in Athens, under the mediation of Greece, by representatives of Bosnian Muslims, Croats and Serbs, while Karadzic's "yes" had to be confirmed by the Assembly of the Republics of Srpska. Despite Milosevic's persuasion, the Assembly voted "no."

This resulted in tightening the sanctions against FR Yugoslavia (the Security Council Resolution 820 entered into force automatically after the Bosnian Serbs rejected the Peace plan and prohibited transport and transshipment of goods through FRY) and prolonging the war in Bosnia-Herzegovina. Although Yugoslavia continued to support the Bosnian Serbs for one more year, this was the first serious attempt by the Yugoslav officials to end the war in Bosnia by trying to make the Bosnian Serbs comply with the international community's demands. The reason behind this was an increasing inability to provide the Bosnian Serbs with the means necessary for fighting the war in view of the near collapsed state of the Yugoslav economy, where exploding hyperinflation eliminated inflation tax revenue and dwarfed other government revenues used previously for this purpose.

Throughout the second half of 1993, the economic situation continued to deteriorate, while the limits of recovery, brought about by the 1994 Program, were soon reached. In the long run, stabilization seemed possible only with the lifting of sanctions and this action was conditioned with the achievement of the peace in Bosnia-Herzegovina. This is why the Yugoslav officials started applying pressure on the Bosnian Serbs to accept the peace plan, this time proposed by the Contact Group[13]. After the Bosnian Serbs had rejected the plan, Milosevic imposed sanctions on them (August 1994), confirming that he was a man driven by power rather than nationalism (Zimmerman, 1995, p. 5). Welcoming the evolvement of FR Yugoslavia towards a more cooperative position, the Security Council (Resolution 943) suspended the restrictions for air traffic from the Belgrade airport, restrictions regarding the ferry service between Bar (FRY) and Bari (Italy) and the measures concerning participation in sporting events and cultural exchanges.

With the escalation of violence in spring of 1995, that certainly accounts for the most tragic parts of the war, the situation in Bosnia seemed to be in a deadlock. The situation in Croatia, however, started changing. Adoption of the Vance plan of 1991 froze the then existing situation, with almost one third of Croatia's territory controlled by the Serbs. In the beginning of May 1995 in an operation "Lightning" the Croatian forces regained Western Slavonia—Serb held territory in former UN sector West. Operation "Storm" followed in the beginning of August, when the Croatian forces reintegrated a big part of the self-proclaimed Serb state with its capital Knin. The majority of the Serbs fled the region, resulting in a solution, albeit in a nasty way, of the Serbian question in Croatia (Puhovski, 1995: 2)—before the war there were 600,000 Serbs in Croatia, while now there would be 100,000—150,000. The speed of the Croatian victory as well as lack of intervention from Belgrade came as a surprise to many, inviting the conclusion that Krajina has just opened the way for the partition of Bosnia between Milosevic and Tudjman (Puhovski, 1995: 2). Not even the intervention of Croatian government troops on behalf of Bosnian government after the Serb assaults against the UN safe areas of Srebrenica and Zepa in July could reverse this opinion because the areas captured by the Croatian forces ended up under their control.

Meanwhile, NATO was preparing its own response to the assaults on the safe areas. In September, after the Serb shelling of Sarajevo, NATO bombers deprived the Bosnian Serb Army of its command and control links and forced it to withdraw heavy weapons from around Sarajevo. The moment was seized by the Army of Bosnia and Herzegovina. Aided by the Bosnian Croats and the Croatian government troops they captured an enormous swathe of territory in western Bosnia ending up with at least 52% of the territory. Then the US administration demanded they halt. The time had come for Pax Americana (Lagumdzija, 1995: 3).

After intensive mediatory effects of the US envoy by Richard Holbrooke, Assistant Secretary of State, Milosevic announced that he was taking charge of the Bosnian Serb delegation. Peace talks in Dayton, Ohio were soon to follow. It was agreed that B-H would continue to exist within internationally recognized borders. It would consist of two entities, the Federation of B-H and the Republics of Srpska on a 51%—49% basis. Elections would be held under international control and they would have to adopt and observe common "international standard of human rights." Sarajevo was to be reunified within the Muslim-Croat federation, Gorazde (the eastern Muslim enclave) was to be linked with the federation by a secure land corridor, and Mrkonjic Grad was to be relinquished to the Serb entity. The final status of Brcko, a Serb held town on a narrow stretch of land connecting Serb territories in west and east Bosnia would be determined by arbitration within one year. There would be a NATO implementation force, to be called IFOR, authorized to use military force to prevent interference with free movement of and violence against civilians and refugees, with freedom of movement throughout Bosnia and Herzegovina. The parties were obliged to cooperate fully with an international investigation and prosecution of war crimes. The UN Security Council would lift the arms embargo against Bosnia (Resolution 1021) and sanctions against FRY (Resolution 1022), though the latter would be re-imposed if any Serb authorities failed to meet their obligations under the peace agreement.[14] Agreed to on November 21 in Dayton, the peace was signed in Paris in December.

A parallel between the economic deterioration in Yugoslavia and Milosevic's evolvement towards a more cooperative position suggests that the sanctions, though helped to a great extent with the pre-existing economic difficulties and other acute factors, succeeded in making the Serbian president Milosevic abandon the pan-Serbian policy he had been pursuing. As far as their contribution to ending the war in Bosnia is concerned, they seem to have been less convincing. Between August 1994, when Milosevic imposed sanctions on Bosnian Serbs, and August 1995, the peace process was in a deadlock. This changed after the use of NATO air force and, more importantly, the US determination not to have the war in Bosnia on the agenda any more. This was illustrated with diplomatic initiative, persistent negotiation efforts and, finally, a plan for "united" Bosnia with two separate political entities formed on ethnical basis. All of this could have been employed even without the sanctions. True, as Baldwin notes, it is easier to prevent the war than to stop it, so the task attached to sanctions involved a high level of difficulty. Still, after four years of war, with 2,702,000 of 3,689,000 people in Bosnia either displaced or affected by war in some other way (War Report, 1995: 51), the contribution of sanctions can hardly be considered successful.

With respect to the expectations that the sanctions would create an electorate more critical about the government, the international community made two mistakes. The first refers to the lack of democratic tradition after 50 years of party monolithism. Firmly in control of the media, the Yugoslav officials have managed to blame the sanctions on the world's hatred for the Serbs.

Having helped divert dissatisfaction to growing xenophobia, the sanctions provided a convenient excuse for whatever was wrong in the country. The second mistake was that the sanctions, rather than creating a more critical electorate, made people more receptive to authoritarian and totalitarian regimes by increasing poverty[15]. More than one third of the population cannot satisfy their basic needs, while another third is very close to the poverty line (Posarac, forthcoming). In view of the unwillingness to open the process of privatization as well as the small percentage of employees in existing privately owned firms, those people are highly dependent on the state for jobs and salaries. Given the fact that the necessary preconditions for the establishment and development of civil society and democracy should be citizens economically independent from the state, these trends will result in postponing the emergence of the civil society in Yugoslavia (Posarac, forthcoming). The people are likely to support the status quo, since changes will be too costly. With these facts in mind, the change of policy pursued towards the Bosnian Serbs does not seem like a remarkable achievement at all, since everything seems to be predicated on the belief that Milosevic will remain cooperative. However, if he is replaced by somebody more nationally oriented or if he decides to adopt any kind of an objectionable policy, the citizens of Yugoslavia will have no choice but to follow, since the extent to which they are dependent on the state leaves them little choice.

This brings us to the problem of efficiency or what policy alternative would have fared better. To answer this question, the crisis has to be examined from the very beginning because numerous possibilities for alternative action appeared along the way.

The first possibility for alternative policy course came in sight as early as 1990, when the federal government of Prime Minister Ante Markovic was trying to transform the country to a liberal market democracy on the basis of the program compliant with IMF's demands. As the reform was taking place against the background of political disintegration, the federal government increasingly relied on external factors to legitimize its efforts. Evidence for political support was abundant—Bush, Baker, Delors and other leading Western politicians strongly backed up the economic reform as a means of maintaining the unity and the territorial integrity of the country, but no new financial agreements were forthcoming. This seems even more puzzling given the increased assistance provided by international financial institutions for the process of transition in Central and Eastern European countries. Whether the reason for this was the loss of geopolitical importance (Zimmerman, 1995: 2), or distrust regarding the unity of the country, still remains to be investigated, but some conflicts would have certainly been attenuated this way. Instead, Ante Markovic resigned in December 1991, with hardly anybody noticing his resignation, so powerless had Yugoslavia's last prime minister become (Zimmerman, 1995: 17).

In June 1991, a couple of days before the crisis came to a head, the American Secretary of State James Baker visited Belgrade where he expressed the American hope that Yugoslavia would remain together behind the reformist Markovic. He also stressed that the United States would not encourage or support unilateral secession and would strongly oppose any use of force. Opinions about his message range from the belief that this was an extremely skillful and reasonable presentation (Zimmerman, 1995, p. 11) to the approach that this was a very ambiguous statement that allowed for different interpretations—Slovenia and Croatia emphasized the part about not using force, while the Army attached the greatest importance on support to unity and discouragement of secession (Klarin, 1996: 3). In any case, just a few days after Baker's departure from Belgrade, the Yugoslav crisis erupted and Slovenia and the Federal Army were at war, thus illustrating that the moment that the international community could have used to demonstrate commitment to a negotiated agreement on whatever governing structure to be found, was not seized. The decisiveness shown in the Dayton peace talks, with the Americans firmly committed to having Milosevic, Tudjman and Izetbegovic agree on the peace plan before they left Dayton, is an exemplification of what was lacking, by way of international commitment to a negotiated agreement, in 1991.

As the crisis continued to deepen, the European Community was given a chance to deal with what it called a "European problem." This reflected the belief that "the hour of Europe" (Jacques Poos, 1991, quoted in Dinan 1994: 490) has come and suited in the context of emerging common foreign and security policy (intergovernmental conference on common foreign and security policy was in progress when the crisis broke out in Yugoslavia). The highest point of the involvement of the European Community in solving the Yugoslav crisis was the establishment of the Conference on Yugoslavia at The Hague and in Brussels, with the so-called Badinter Arbitration commission. The most glaring Community weakness, that affected the application and effectiveness of other policy instruments, involved diplomatic recognition of secessionist republics (Dinan, 1994: 486). Of the three Yugoslav republics the European Community had recognized, the Badinter Commission Report supported only the claim of Slovenia. The claim of Macedonia also supported by the Badinter Commission, but was blocked by Greece. The determination to achieve closer cooperation on foreign and security policy accounted for the Community's inconsistency. Due to an increasing domestic pressure, Germany began to press for the Community's recognition of Croatia and Slovenia. Fearing a damaging split immediately after the Maastricht summit (Dinan, 1994: 486), the other member states agreed and the Slovenia and Croatia were recognized on January 15, 1992.

In between the recognition of Slovenia and Croatia and the recognition of Bosnia and Herzegovina that was soon to follow, there was a brief moment when all three sides agreed on the future of Bosnia. On March 18 a document was signed in Lisbon, outlining the political principles of a republic composed of three constituent nations, each with the right to self-determination and of the regional cantonization along ethnonational lines (laid out on a compromise map proposed by the EC). In view of Baker's intensive efforts for the recognition of Bosnia (Woodward, 1995: 196), Izetbegovic reversed his position a week after signing the Lisbon document. On April 6, Bosnia was recognized, triggering the bloodiest part of the Yugoslav wars. The Lisbon plan is referred to by many (Pajic, 1995: 18, Woodward, 1995: 304) as an encouragement for the ethnic partition of Bosnia. However, in an explosive situation, with the population of Bosnia already nationally split about political issues, with neighboring Serbia and Croatia eagerly waiting to step in and each take a slice of Bosnia, the plan addressed the most immediate concern—to prevent the war that would further alienate national communities in Bosnia and possibly endanger the whole region.

As the war grew more violent, the number of the dead, raped and displaced rapidly increased. Shelling of civilians, ethnic cleansing and concentration camps became the reality of Bosnia. However, there was no Western military resolve. Countries contributing troops to UN peacekeeping operation—especially France and Britain, that had initiated UN involvement and lobbied for more humanitarian action—objected to greater use of military power fearing that their soldiers on the ground might be at risk as opposed to the United States, whose fundamental policy was against sending soldiers. The hostage crisis of June 1995, when the UN peacekeepers were taken hostage as a response to shelling Serb military positions, seemed to prove this point.

However, the use of NATO air power in August 1995 confirmed that this was not so and that a similar action if used before would have yielded similarly successful results.

Even this short consideration of alternative policies that could have been applied in the former Yugoslavia results in four solutions, three of which might have, arguably, prevented the war. Given the small share of Yugoslavia in the world economy (less than 1% of world's exports and imports), costs of sanctions sustained by the international community seem negligible, inviting the conclusion that all of the mentioned alternatives fare worse when compared to sanctions on the basis of costs. Nevertheless, this appears to be so only at first sight, for enforcing the sanctions was not inexpensive at all, thus making other alternatives increasingly competitive. When benefits are compared, however, the fact that tough negotiations and military action had to be applied anyway to reach peace speaks about the benefits of sanctions loudly enough. So why have not any of the alternatives been tried earlier? Part of the answer stems from the fragmented and often contradictory approach to the Yugoslav crisis, best illustrated by the UN's Secretary General Boutros Boutros Ghali comment that UN peacekeepers were sent in the during the war, while NATO soldiers are expected to guard peace. This came as no surprise, as institutions and organizations involved in solving the crisis were themselves undergoing a process of transition to the post-Cold War era, with the UN constrained with various configurations of power and State interests, EC shaping it's political identity and NATO transforming from an anti Russian alliance to the central security pillar of the new security architecture. The war in Bosnia not only revealed, but also underscored the urgency to build a new comprehensive structure of relationships to form a new security architecture (Holbrooke 1995, p. 38). However, the fact that the peace was initiated, negotiated and delivered by the Americans, demonstrates that this is still far from assured.

Now it remains to be seen to what extent will the efforts to stabilize Bosnia succeed, for the tensions between the Croats and the Muslims in Mostar as well as majority of the Serbs fleeing Sarajevo after its incorporation into B-H Federation demonstrate how little of the multiethnic fabric of Bosnia, the existence of which is essential to differentiate peace from merely a cease-fire, is left behind. The elections of September 1996, aimed at creating common institutions that will integrate distinct ethnic enclaves, further demonstrated how alienated three national communities feel. With politicians who have made careers out of hating each other (Not all bad, 1996: 32) now in charge of establishing confidence and trust between people, an option of Bosnia being partitioned by nationalist forces will remain open for quite some time, thus inviting the conclusion that efforts to keep the country united might increasingly look as squaring circles. The creation of a new way of thinking and a more tolerant society is going to be a long process that might turn out to be even more difficult for the international community then stopping the war that was going on two years ago.

Conclusion

The belief that the new, credible, inexpensive and potentially potent weapon against small and medium size troublemakers has been discovered (Mueller, 1994: 363), reflected by the recent proliferation of the multilateral economic sanctions, certainly calls for critical review. Sanctions are mostly imposed on the countries with little or no democratic tradition (Yugoslavia, Iraq, Libya, Somalia), and that strengthens rather than weakens the existing authoritarian regimes. As a State is less democratic, the punishment is more unfair, since there is no possibility for the majority to influence the acts of government (Dimitrijevic, 1993: 12). Moreover, even if this possibility existed, it is unlikely that the citizens of those states would translate the economic signals in their electoral behavior. Misperceptions of this kind can be compared only with the US action in Somalia, when an extremely powerful TV signal transmitter was installed to inform the people what was really going on. Only afterwards was it realized that a number of privately owned TV sets was very small, thus necessitating the installment of a radio-signal transmitter. The same can be said about the economic sanctions applied against undemocratic countries—their population is not used to judge and change governments according to their economic performance. Finally, the poverty that inevitably increases due to sanctions, makes the citizens of the state in question ever more dependent on the state and hence receptive to totalitarian regimes. This invites the conclusion that, even if the stated policy objectives are achieved, the solution of the problem is temporary at best. Therefore, the international community should address the cause rather than cure the consequences—helping democratization in those countries can be of greater use to foreign policy goals than the imposition of economic sanctions.

Notes

1. In response to the kidnapping of three Aspasian women, Athens imposed a trade boycott on Megara, a Spartan ally, excluding her from access to ports in the Athenian empire and the market of Athens.

2. In August 1985 the US Congress approved an amendment to the Foreign Relations Act—the Kassebaum amendment—which provided that the United States should pay no more than 20 per cent of the assessed contributions to the budgets of the United Nations and its specialized agencies until those organizations adopted weighted voting based on the amount of a member's contribution on budgetary questions. The violation by the United States of its legal obligation under article 17 of the Charter to pay its assessed contributions has encouraged other states to follow this lead.

3. Both the Vance-Owen and the Contact Group plan will be referred to in the following chapter.

4. For the detailed chronology of events in the former Yugoslavia, see Facts on Crisis in the Former Yugoslavia, special issue of Review of International Affairs, March 1st 1993.

5. SDA, the Muslim party, won 33,8% votes, SDS, the Serbian party 29,6% and Croatian HDZ 18,3%. Remaining 17% were distributed among two parties formed out of the republic's communist party and SRSJ (Woodward 1995, p. 122).

6. The mission included Jacques Pos, Gianni de Michelis and Hans van den Broek (as the "troika" included foreign ministers from the current, immediately preceding and immediately succeeding presidencies, its composition was changing relatively fast, so later on "troika" was joined by Pinheiro, Hurd and Jensen).

7. The Badinter Commission found a precedent in international law relating to border conflict between Burkina Faso and Mali, resulting from the colonial rule, which declared the colonial border to be inviolable on a principle of uti possidetis or "keep what you have."

8. At an extraordinary Ministerial meeting in Rome, the member States of the European Community agreed on the following measures: immediate suspension of the application of the Trade and Cooperation Agreement with Yugoslavia, with a decision to terminate the same Agreement; restoration of the quantitative limits for textiles; removal of Yugoslavia from the list of beneficiaries of the General System of Preferences; formal suspension of benefits under the PHARE program. On 2 December 1991, the European Community adopted a decision on the so-called positive measures in favor of some Yugoslav republics after the termination of the Trade and Cooperation Agreement with Yugoslavia. Bosnia-Herzegovina, Macedonia, Slovenia and Croatia were to have the preferential trade provisions contained in the previous Agreement restored, as well as other benefits and credits it envisaged.

9. As for Croatia, the Serbs made up 12% of the population, while Bosnia had a strong multiethnic character and the highest percentage of ethnically mixed marriages of any republic (Zimmerman, 1995: 10).

10. The amount that is received by the government is the increase in the stock of high-powered money, that consists of the currency and banks' deposits and the Central bank.

11. Dafiment, Jugoskandik and many other smaller banks.

12. This effect was named after two economists who independently documented it—Vito Tanzi and Julio Oliviera—and refers to the phenomenon of the declining real revenue raised from taxation in the hyperinflatory economies, due to lags in both the calculation and payment of taxes.

13. The Contact Group, that consisted of the representatives of the United States, Russia, Germany, Great Britain and France, offered the plan that divided Bosnia and Herzegovina in two parts—the federation of Moslems and Croats that should account for 51% of the territory, while the remaining 49% should be controlled by the Bosnian Serbs.

14. For more data, see the Dayton Agreement or Summary of the Dayton Agreement as in War Report. *Bulletin of the Institute for War & Peace Reporting*, Number 38, November/December 1995.

15. Poverty especially increased among the urban population - while the number of the people under the poverty line in 1990 was 360,000, 205,000 of which in rural and 155,000 in urban areas, in the first half of 1994 it increased to 2.1 million, 1.6 million of which from the urban areas (Posarac, forthcoming).

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