

**NEGOTIATION AND CAPACITY BUILDING  
IN MONTENEGRO**

Florian Bieber

WORKSHOP 3:  
ECONOMIC DEVELOPMENT AND COOPERATION,  
KOTOR, 22 MARCH 2002

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## **I. Introduction**

The ECMI project “Negotiation and Capacity Building in Montenegro” was launched with the aim to establish a Track II informal negotiation process providing a forum for interethnic dialogue between the Serbian and Montenegrin communities which include minority communities from the Sandžak border region. Through a series of workshops, the project aims to help promote dialogue, identify issues of common concern and assist in delivering concrete benefits as well as building confidence between the communities involved. By focusing the debate on the concrete needs of these communities, the project seeks to facilitate discussions about future interethnic relations in a less charged atmosphere, irrespective of the deeper political questions on the future constitutional arrangements of the two republics.

The project engages political party representatives, government officials and civil society groups (NGOs) in dialogue, while placing particular emphasis on establishing a Track II process with broader civil society involvement across all communities. In this way, the process broadens public debate and can function even when official government-to-government contacts prove difficult or impossible. Through engaging international and local experts, the project also seeks to provide the participants with external guidance on policy options in relation to each of the issues under review.

In a preparatory phase during the summer of 2001, field trip missions to Belgrade and Podgorica were carried out in order to conduct discussions with politicians, scholars and minority representatives to enlist their support and help identify issues of particular concern to all communities. Three issues – Education, Freedom of Movement and Regional Economic Development – were eventually chosen to be dealt with in three separate workshops. The third workshop on “Economic Cooperation and Development” was held in Kotor (Montenegro) on 22 March 2002.

## **II. Background to the Workshop**

In both Serbia and Montenegro, economic reform has been closely tied to democratization. The first steps towards greater autonomy undertaken by Montenegrin President Milo Djukanović in 1998 were as much directed at political

liberalization as to engage in some economic reforms which had not taken place in Yugoslavia/Serbia. Until the fall of Milošević, the difference between a reform-oriented government in Montenegro and the authoritarian regime in Serbia increased the gap in economic reforms and consequently also in economic cooperation. The different development was accelerated with the adoption of the German Mark first as second and later as only currency in Montenegro in 1999/2000. Economic relations between the two republics had been very much reduced and Montenegro sought to compensate isolation from Serbia through imports and economic links with other neighbouring countries (especially Croatia) and the European Union.

With the beginning of the reform process after 5 October 2000 and the formation of a new Serbian government in January 2001, the general direction of economic policy in both republics pointed towards reform. The pace of reform differed between both republics, with most analysts suggesting that Serbia has overtaken Montenegro in terms of reform of the legal system and of engaging in privatization and other types of economic reform. Despite the general similarities in economic policy, economic cooperation did not increase after the fall of Milošević. This has been largely the result of the uncertainty concerning the future status of Yugoslavia and the policy of the Montenegrin authorities in pursuing independence. It needs to be noted that at the same time, international organizations, especially European and international financial institutions, encouraged regional cooperation, both between the two countries and between the successor republics to the former Yugoslavia. The absence of economic cooperation resulted in different customs and tariffs systems which led to the establishment of an internal 'border' between the two republics, which in turn affected inter-republican freedom of movement of goods (and people) adversely (see *Negotiation and Capacity Building in Montenegro, Workshop 2: Freedom of Movement, ECMI Report 26, March 2002*).

In addition to the overall lack in economic cooperation, the region of Sandžak was particularly affected by the absence of reformist economic policy in Yugoslavia in the 1990s. Sandžak as a region between Serbia and Montenegro has been historically peripheral and marginalized by political centres in either republic or beyond. The geographical location at new borders provided some economic development in the 1990s through trade, often in breach of the sanctions against Yugoslavia. At the same time, the textile industry adopted itself relatively successfully to the new circumstances. Nevertheless, Sandžak remains one of the economically and socially

most depressed regions in both Serbia and Montenegro, affecting both the Bosniak/Muslim, Serbian and Montenegrin populations (see background paper by Kosovka Ognjenović and Jelena Momčilović, A Review of Selected Indicators of Economic Development in Sandžak).

Against this backdrop, the agreement on the future relations between Serbia and Montenegro was reached a week prior to the workshop in Belgrade on 14 March 2002. The agreement, although not containing a detailed description of future relations, maintains the common state under the name of Serbia-Montenegro with limited joint competences (see Annex C). In the economic sphere, the agreement spells out the commitment to harmonization, but largely recognizes the differences in economic policy and foresees the establishment of a ministry for internal economic relations.

### **III. Aim and Format of the Workshop**

The workshop, held in Kotor on 22 March 2002, sought to address two separate topics. Firstly, it aimed at highlighting the most pressing concerns in the economic development of Sandžak on both sides of the border. Here, problems which affect both minority and majority populations in the region stood in the foreground. In addition to identifying key problems, the workshop aimed at working out some causes for the current situation and at developing policy recommendations on how these problems of economic underdevelopment can be addressed.

Secondly, the workshop sought to identify impediments and incentives for economic cooperation between the two republics. Here, the recent agreement between both republics played a key role in the discussions. Due to the variety of perspectives, the workshop sought to highlight some of the controversies surrounding economic cooperation as part of the larger framework of cooperation between the two republics and to establish agreement on some forms of cooperation which might be to the benefit of both republics and their citizens.

As participants included both supporters and opponents of Montenegrin independence from both republics, the framework in which the workshop took place did not seek to

take a position on the final status of Montenegro, as is the case with the overall project.

The workshop was held in a small group with participants from the Montenegrin and Serbian parts of the Sandžak, as well as politicians, scholars, and NGO activists from both republics.

#### **IV. Discussions of the Workshop**

The discussions during the workshop were introduced by three background papers on the different aspects under discussion. The first paper provided a detailed analysis of the socio-economic situation in some municipalities in Sandžak, thus pointing to the main problems further elaborated during the discussion. The two other background papers addressed the current and future Serb-Montenegrin Economic relations, taking into account the agreement of 14 March 2002 (see VIII for full text of the background papers).

There was a broad consensus in the discussion that the economic situation in Sandžak is particularly dire, affecting both minority and majority populations adversely. It was agreed upon by the participants that an improvement in the region could only occur through decentralization and greater independence of communes and regions to conduct their own economic policy.

The identification of possibilities for economic cooperation and the assessment of the Serb-Montenegrin agreement in this light did not lead to a consensus among participants. While some strongly rejected the agreement and saw in it an impediment to economic reform, others supported the agreement and advocated increased harmonization of economic policy between the republics.

##### **A. Economic Development in Sandžak**

As shown in the background paper, the economic situation in Sandžak is distinctly worse than the Serbia average. The participants from Sandžak corroborated this fact. It was noted that while other parts of Yugoslavia find themselves in a comparable economic position, especially in South Eastern Serbia, the fact that Sandžak is a

multiethnic region and particularly exposed to future Serb-Montenegrin relations adds to the potential impact of the economic situation. In addition to unemployment, with 41.5 per cent slightly higher than the Serbian average, a number of other economic problems were identified in the course of the discussion. Here, one can distinguish between medium- and long-term factors, as well as between factors which disproportionately affect the minority population in Sandžak.

In the medium-term, the border status of Sandžak was voiced as a concern by participants. In addition to the international borders to Bosnia and Albania, the existence of an internal border, each of them dividing the region between Serbia, Montenegro and Kosovo, provides a serious impediment to economic development. While the internal border between Serbia and Montenegro might diminish in significance in the course of the implementation of the new agreement between the two republics, the border to Kosovo is likely to remain a hurdle in the long-term. The new borders within the former Yugoslav republic disrupted traditional trade flows and economic relations, from which the region, according to the participants, still has not recovered. The borders constitute a barrier in terms of cost (customs and bribes) and time. As the border regimes were subject to the often difficult political relations between Serbia, Montenegro, Bosnia and Kosovo, the nature of the internal border had more adverse affects than the others. As a new border, the crossing points often lack the capacity to handle increased regional trade, constraining economic development. Closely connected to the internal border is the double uncertainty concerning the status issue of both Montenegro and Kosovo. This uncertainty has rendered economic development more difficult and reduces the likelihood of foreign investment in the region. As a result of the different economic development of the two republics in recent years, differences have emerged in the economic development of the two parts of Sandžak. These inequalities and differences in economic orientation might present themselves as a regional problem in the future.

The legacy of the previous regime still influences the region strongly in a number of aspects. Large monopolistic companies established in, but based outside of the region often dominate the economic sector. As profits are invested in the headquarters of the companies, the economic benefit besides employment is limited. In general, the policy of centralization adversely affects the region. The communes have only little leeway in conducting their economic policies, thus making economic development largely dependent on the centres of both republics.



Among the long-term problems mentioned, infrastructure was identified by participants as being the most critical issue. The region is suffering from severe underdevelopment in terms of roads, railways, telecommunication systems and other basic services required for economic development (e.g. electricity shortages). Sandžak is connected only through one railway line to Belgrade and Podgorica with limited services. The condition of the roads renders travel within the region and towards the centres of both republics difficult and slow.

In addition to these problems, which affect the whole population of the region equally, some factors particularly touched the Bosniak/Muslim minority. The uncertainty and hostility of the previous regime led to a significant brain drain from the region, as happened in other parts of former Yugoslavia. In addition, a number of Bosniaks/Muslims had to flee from the region during the Bosnian wars as refugees, many of which have not been able to return due to the adverse economic situation. Finally, some participants noted that some instances of discrimination against the minority population persist in the region.

Participants from Sandžak remarked that despite the aforementioned problems concerning the economic development in the region, economic activities expanded in some domains. The discussions brought forth that this was largely confined to the grey and black economy, which has made the extent of these activities hard to estimate. While some types of economic activities associated with organized crime are clearly undesirable, it was noted by some participants that some illegal and semi-legal activities, such as the production of textiles under false brand name labels, could be transformed into legal business to the advantage of both the region and the state, due to increased tax revenue.

In addition to finding ways to transform the illegal textile industry, similar suggestions were made for the trade, which has been of great significant even beyond the region of Sandžak itself.

Discussing recommendations for overcoming some of the reasons for the economic underdevelopment of the region, there was a broad consensus among participants that decentralization has to be accorded priority. Decentralization was favoured as it can help to overcome some of the disadvantages associated with the peripheral status of Sandžak. While there was no agreement on the nature of future economic relations between Serbia and Montenegro, consensus was expressed that some degree of cross-border regional cooperation was needed in the Sandžak region. Whereas both parts of

Sandžak display differences in their economic situation, they share some key similarities, especially in regard to their peripheral status towards the respective economic and political centres of the republics.

Some participants underlined the need for international economic aid, but also warned of the dangers of aid dependency, which has not only been an international problem, but also occurred in the region itself, especially in neighbouring Bosnia and Kosovo. It was noted that the legacy of the Socialist Yugoslavia, its policy of redistributing funds for underdeveloped regions, is still prevalent and few other strategies for addressing underdevelopment have been employed.

## **B. Economic Cooperation between Serbia and Montenegro**

The potential for economic cooperation was met with considerable controversy and difference of opinion among the participants. Particularly the different assessments of the agreement on future relations between Serbia and Montenegro were reflected in the discussion.

Due to the different economic developments both republics have taken in recent years and to the weakness of the economic component of the agreement between both republics, it was estimated by most participants that economic cooperation was unlikely to increase significantly in the near future.

Some participants from Montenegro argued that the differences in the economic interests of both republics suggested that a continuation of different policies was in the interest of the respective republics. Other participants from both Montenegro and Serbia, however, saw room for considerably enhanced economic relations between the two republics.

Despite these differences, most participants suggested that there are some fields of possible cooperation. In particular, coordination of efforts towards international financial institutions, donors and the Stability Pact was mentioned. It was noted that this type of cooperation would lead to greater financial benefits for both republics.

In addition, cooperation in the fields of infrastructure and communication was deemed appropriate, especially when these forms of cooperation yield 'regional public goods', i.e. a tangible benefit for not only one of the republics, but both Serbia and Montenegro as well as possibly other countries and territories of the region.

In addition to these forms of cooperation, which are concerned with providing the foundation for the economic development in both republics, cooperation in liberalizing the trade between the republics was suggested as an important aim. As the countries of the region are signing free-trade agreements, it would be illogical, it was remarked, for Serbia and Montenegro to maintain hurdles in free trade when such obstacles are reduced in the inter-regional trade with other countries.

In recent years, economic cooperation has been subjugated to political considerations. Such a policy, as some participants noted, has to be reduced as the dire economic straights of both republics do not allow for excessive politicization of economic relations at the expense of reforms and increased economic development.

It was noted during the discussions that the goal of EU accession, which both republics share, is an insufficient engine for economic cooperation as the achievement of this goal is a rather long-term incentive and does not provide for sufficient motivation to cooperate. Instead, more short- and medium-term incentives need to be developed. As some participants noted, the current agreement between the two republics makes no mention of business cooperation or joint efforts in the field of communication. As such, the agreement is essentially political, neglecting the economic development as a driving force for future bilateral cooperation in both republics' interest. A number of participants noted that the issue of economic cooperation needs to be divorced from political cooperation and to develop its own dynamics according to need and potential rather than political necessity (or the lack thereof).

Participants more critical of the agreement and sceptical towards the possibility of economic cooperation expressed their concern that the newly structured relations between both republics might serve as a pretext for delaying economic and political reforms in Montenegro and at the level of the joint state.

## V. Recommendations

### *Regional Economic Development in Sandžak*

- In order to achieve economic improvements in Sandžak, the peripheral situation of the region towards Serbia and Montenegro in political and administrative terms has to be readdressed.
- A key component of improving the economic status of Sandžak lies in enhanced local self-government. Communes need to have a degree of independence which would allow them to actively pursue their economic development.
- In addition to enhanced local self-government, the creation of regions, especially in Serbia, would allow for a more focused economic policy which can compensate the peripheral location of the region in the republics. Such devolution of power in the sphere of economics would empower regional stake-holders with greater interest in the economic well-being of the region than representatives at the republics capitals.
- Steps should be undertaken to help transform the current grey and black market of small and medium size enterprises engaged in the production of textiles and other products into legal producers which might be an engine for the economic development of the region on both sides of the border.
- Sandžak is a border region, confined by borders with Kosovo and Bosnia, as well as the Serb-Montenegrin border. These borders, a result of the disintegration of Yugoslavia in the past decade, constitute a novelty for the region and severely constrain economic development beyond smuggling. In order to legalize and expand trade within Sandžak and with traditional trading partners in neighbouring states and entities, border regimes should be facilitated and simplified to reduce costs and hurdles associated with these borders (on the Serb-Montenegrin border, see the recommendations of Workshop 2 on the Freedom of Movement).
- International donors should direct greater attention on financing and supporting regional projects, with partners in these regions, rather than national projects, which are centred on the capital cities.

### *Economic Cooperation between Serbia and Montenegro*

- The recent agreement between Serbia and Montenegro foresees some degree of economic cooperation, but remains vague and unspecific on details. It has to be attempted to formulate concrete goals and areas of economic cooperation, which are for the mutual benefit of both republics.
- A key aspect of economic cooperation between the two republics should focus on establishing basic preconditions for economic development and foreign investment in both republics. Such cooperation pertains to areas where transnational forms of integration and coordination are economically necessary and sound, such as communication and infrastructure.
- In light of the fact that international financial assistance in recent years has been implicitly and explicitly tied to both regional cooperation and projects with benefits for more than one state or entity in the region, cooperation between Serbia and Montenegro in relation to the international donor community and financial institutions can be a key asset to both republics. The pursuit of 'regional public good' through cooperation between Serbia and Montenegro and possibly other states or entities is likely to attract greater international financial support than purely national projects.

## **VI. Follow-up Activities**

The participants in the workshop expressed the need to maintain the inclusion of economic concerns in the agenda of both interethnic relations and relations between Serbia and Montenegro. Without economic recovery and development, interethnic and interrepublican relations are likely to remain more volatile. It was noted in the context of the sessions that especially monitoring the developments in the sphere of decentralization and the enhancement of local self-government is of crucial importance for both the region of Sandžak and the minority community.

### *Follow-up Workshops*

Some participants suggested that it would be desirable to identify strategies for both decentralization and cross-border cooperation in respect to economic issues, possibly through workshops. Especially at the local level, seminars could bring together local government officials and business representatives from both sides of the border to map out some priorities for cooperation and support beyond the region.

### *Bringing Economic Development in Sandžak to the International Agenda*

Participants noted that Sandžak has been marginalized by both the respective governments and the international community. It was thus suggested to raise international awareness of the dire economic situation in the region.

### *Studying the Situation*

Both the authors of the background papers and some participants noted that the exact problems of the economic development and its interlinkages with the political status remain to be studied and that very little information is available helping to identify the problems of the region and outline solutions. Thus, a more concerted effort to study the problems of the region, combined with a set of policy recommendations, was suggested as a strategy for follow-up activities.

### *Monitoring the Implementation of the Agreement*

In the light of the agreement between Serbia and Montenegro and its lack of detail in regard to both interethnic relations and economic development and cooperation, it was suggested to monitor the implementation of the agreement and identify possible sources of contention for interethnic relations and the impact the operationalization will have on the region of Sandžak.

## **VII. Annexes**

### **Annex A: Programme of the Workshop**

**10.00-10.15 Opening Words and Welcome**

Florian Bieber, ECMI

**10.15-11.30 Session 1: Economic Development in the Border Region (Part I)**

Kosovka Ognjenović, Jelena Momčilović (G17 Institute)

Presentation of the background paper

Discussion

**11.30-12.00 Coffee Break**

**12.00-13.00 Session 1: Economic Development in the Border Region (Part II)**

Discussion

Recommendations

**13.00-14.30 Lunch**

**14.30-15.45 Session 2: Options for Serb-Montenegrin Economic Cooperation (Part I)**

Milica Uvalić (University of Perugia)

Vladimir Gligorov (Vienna Institute for International Economic Studies), paper introduced by an ECMI staff member

Presentation of the background paper

Discussions

**15.45-16.15 Coffee Break**

**16.15-17.15 Session 2: Options for Serb-Montenegrin Economic Cooperation (Part II)**

Discussion

Recommendations

**17.15-17.45 Closing Session: Conclusions**

Summary of the Sessions and Recommendations

Planning follow-up events

**19.00- Closing Dinner**

## Annex B: List of Participants

	<b>Name</b>	<b>Organization</b>
1	Dakić, Biljana	Pax Chrsi Holandija
2	Džudžević, Esad	Bosnjacka Demokratska Stranka Sandžaka
3	Janjić, Dušan	Forum on Ethnic Relations
4	Kačar, Semiha	Sandžak Committee for Human Rights
5	Kentera, Marko	People's Party (Narodna Stranka)
6	Krijestorac, Emil	People's Party (Narodna Stranka)
7	Kučević, Šemsudin	Mayor of Tutin
8	Momčilović, Jelena	G17 Institute
9	Ognjenović, Kosovka	G17 Institute
10	Omeragić, Bajram	Coalition List for Sandžak
11	Perović, Džemal	"Pax" Ulcinj; Liberal Alliance (LSCG)
12	Sadiković, Sead	Radio Free Europe
13	Tičić, Aleksandar	Democratic Party of Socialists (DPS)
14	Uvalić, Milica	University of Perugia

## ECMI Staff

1	Bieber, Florian	Regional Representative, Belgrade
2	Perry, Valery	Regional Representative, Sarajevo
3	Stojanovic, Ana	Local Project Assistant



## **Annex C: Proceeding Points for the Restructuring of Relations Between Serbia and Montenegro**

*The below document was signed by representatives of Serbia, Montenegro and Yugoslavia on the future relations between the two republics on 14 March 2002.<sup>1</sup>*

***Agreement on Principles.*** The Agreement on Principles of relations between Serbia and Montenegro within the state union shall be signed by participants in the talks: the President of the Federal Republic of Yugoslavia, the Deputy Federal Prime Minister, the President of the Republic of Montenegro, the Serbian and Montenegrin Premiers and, as a witness, the EU High Representative for Common Foreign and Security Policy. The document shall be submitted for debate to the Parliaments of member states and the Federal Parliament.

***Constitutional Charter.*** On the basis of opinions put forward in parliamentary debates, that is, parliamentary conclusions, a constitutional commission, whose members shall be delegated by the Parliaments of the Federal Republic of Yugoslavia (FRY), Serbia and Montenegro, shall draft the Constitutional Charter, the highest legal act of the state union of Serbia and Montenegro. The text of this act shall be adopted by the republican parliaments first, and then submitted to the Federal Parliament. Such procedure would reaffirm the elements of Serbian and Montenegrin statehood, stemming from the present-day factual situation and the historic rights of the two member states.

***Provision on Reconsideration.*** Upon the expiration of a three-year period, the member states shall be entitled to instituting proceedings for a change of the state status, that is, withdrawal from the state union. If Montenegro withdraws from the state union, international documents related to the FRY, the U.N. Security Council Resolution 1244 in particular, shall relate to and fully apply on Serbia as its successor. A member state that uses this right, shall not inherit the right to international and legal status, and all debatable issues shall be regulated specifically between the state successor and the newly established state. If in a referendum process both member states declare themselves in favour of a change of the state status (independence), all

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<sup>1</sup> Source: Council of Europe, Venice Commission, [http://www.venice.coe.int/site/main/Texts/Serbia\\_and\\_Montenegro.htm](http://www.venice.coe.int/site/main/Texts/Serbia_and_Montenegro.htm).

debatable issues shall be resolved in succession proceedings, as was done in the case of former Yugoslavia.

The Laws on Referendum shall be adopted by the member states, taking full account of internationally recognised democratic standards.

***The Name of the State.*** Serbia and Montenegro.

***Institutions of Serbia and Montenegro.*** the Parliament, the President, the Council of Ministers and the Court.

***Parliament.*** A unicameral parliament providing certain positive discrimination for Montenegrin representatives. The Laws on the Election of Representatives to the Parliament of Serbia and Montenegro shall be adopted by the member states, in compliance with the principles defined by the Constitutional Charter. Mechanisms to protect against outvoting of member states shall be provided for.

***President of Serbia and Montenegro.*** The President, elected by the Parliament of Serbia and Montenegro, shall propose the composition of the Council of Ministers and direct its work.

***Council of Ministers.*** The Council of Ministers shall be composed of five departments: foreign affairs, defence, international economic relations, internal economic relations and protection of human and minority rights. The competences of the ministries shall be defined in detail subsequently.

***The Court of Serbia and Montenegro.*** The Court shall have constitutional-court and administrative court functions, and shall deal with harmonisation of court practice. The administrative court function shall be exercised in relation with administrative acts of the ministries of the Council of Ministers. The Court shall take legal views and give opinions related to the harmonisation of court practice. The Court is not an appellate court and has an equal number of judges from the member states.

***The Army.*** The Army of Serbia and Montenegro shall be under the command of the Supreme Defence Council, composed of three presidents. The Supreme Defence Council shall make decisions by consensus. Conscripts shall serve the army on the territory of their respective member states, with the possibility of serving on the territory of the other member state, if they wish so.

***Elections and Appointments.*** Upon the promulgation of the Constitutional Charter under the specified procedure, elections shall take place, the Parliament of Serbia and Montenegro shall be constituted, the President of Serbia and Montenegro shall be elected, as well as members of the Council of Ministers and judges of the Court of Serbia and Montenegro. It shall also be possible to provide for rotating during a term in office. (In the Ministry of Foreign Affairs and the Ministry of Defence, the minister and his/her deputy from different member states shall take turns when one half of the term in office expires).

In representing the member states in international organisations (UN, OSCE, EU and the Council of Europe), parity shall be provided for through rotation, whereas special models for representation shall be defined for international financial organisations. In diplomatic and consular representative offices of Serbia and Montenegro abroad, a special agreement shall be made on proportionate representation of the member states. The Constitutional Charter shall be submitted to the Parliaments for deliberation by the end of June 2002 at the latest.

***Dislocation of Federal Institutions.*** Some federal institutions can be headquartered in Podgorica.

***Constitutional Reconstruction of the Member States.*** Within the activities aimed at the promulgation of the Constitutional Charter of Serbia and Montenegro, the member states shall amend their respective constitutions in compliance with the Constitutional Charter of Serbia and Montenegro or promulgate new constitutions by the end of 2002 at the latest.

***Economic Sphere.*** The level of economic reforms reached in Serbia and Montenegro shall be a proceeding point for regulating mutual economic relations.

The member states shall be responsible for unhindered operation of a common market, including the free flow of people, goods, services and capital.

Harmonisation of the economic systems of the member states with the EU economic system shall overcome the existing differences, primarily in the spheres of trade and customs policies.

In both regards, economic reforms that have already been carried out in the member states shall be taken into full account, while solutions that would provide for the quickest integration into the European Union shall be accepted. Transitional solutions

in harmonising trade and customs policies should take into account the interests of the member states.

The European Union shall assist in the accomplishment of these objectives and monitor the process on a regular basis.

The modalities for the achievement of these objectives shall be elaborated in parallel with the Constitutional Charter.

If one of the member states believes that the other does not live up with commitments under this agreement concerning the operation of a common market and the harmonisation of trade and customs policies, it shall reserve the right to raise the matter with the EU in the context of the Stabilisation and Association Process with the view to the adoption of appropriate measures.

The EU shall guarantee that, if other conditions and criteria for the Stabilisation and Association Process are fulfilled, the agreed principles of constitutional organisation shall not be an obstacle to a rapid conclusion of the Agreement on Association and Stabilisation.

President of the Federal Republic Yugoslavia  
Vojislav Kostunica

Deputy Federal Prime Minister  
Miroslav Labus

President of the Republic of Montenegro  
Milo Djukanovic

Premier of the Republic of Serbia  
Zoran Djindjic

Premier of the Republic of Montenegro  
Filip Vujanovic

Witnessed by  
EU High Representative for Foreign and Security Policy  
Javier Solana

Belgrade, March 14, 2002

## VIII. Background Papers

Vladimir Gligorov<sup>2</sup>

### Serbia and Montenegro: New Beginning

#### *Introduction*

The agreement on the future relations between Serbia and Montenegro signed in Belgrade in mid-March opens up a process of both integration and disintegration of these two states or political entities. The outcome of the process will be determined by the existing situation, by the development of the political and economic interests of the two states and by the influence of international factors, of which the European Union is the most important one. These three factors will be analysed here. The stress will be on the position of Montenegro. Conclusions about the possible future relations are drawn at the end.

#### *Political and economic status quo*

The description of the current political and economic situation in Montenegro would have to include the following observations.

Politically, Montenegro is *de facto* an independent state. However, *de jure*, i.e., in law, it is part of the Yugoslav federation.

This inconsistency leads to an internal political conflict within Montenegro with some parties representing the Montenegrin bloc and others the Yugoslav one. The population is more or less evenly split between the two options.

Economically, Montenegro is independent, *de jure*: it sets its own tariffs, it has a central bank and it is fiscally sovereign. However, *de facto*, Montenegro depends on foreign aid and assistance. In addition, it relies on implicit fiscal transfers from Serbia when it comes to health and education as well as on the price of utilities to the extent that it uses services in Serbia which are, for the most part, subsidized.

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<sup>2</sup> Staff Economist, Vienna Institute for International Economic Studies.

As a consequence, the process that is ahead of Montenegro consists of both a legal and factual separation from Serbia. This is irrespective of whether Montenegro and Serbia may decide to eventually integrate in whichever of the many possible ways.

Although the political rhetoric often hides this fact, there is no doubt that the current situation is unsustainable. It is also clear that even if the pro-Yugoslav parties were to take over in Montenegro, this situation would not change. It would still be necessary to adopt a new constitution and to make the fiscal and economic relations as transparent as they can possibly be. In other words, it would be necessary to determine who has which authority and who pays which bills.

Let me give an example. Currently, there are probably some significant transfers from the Serbian budget to the Montenegrin one via the health care and education systems. Citizens of Montenegro can enrol in Serbian schools and universities and can use Serbian health services free of charge. The same is true for the citizens of Serbia, but only few of them use the Montenegrin services. There is no doubt, however, that the health and education reforms, which will have to be implemented quite soon, will have to reduce if not altogether eliminate these transfers. This will be irrespective of the level of integration between Serbia and Montenegro for two reasons: first, because basic education and health services will be financed locally and, second, there will be a growing reliance on private supply of both health and education.

The same can be said for other types of subsidies. For instance, the price for energy in Serbia is subsidized. This will have to change if the supply of energy is not to be rationed, especially during the periods with the biggest demands. Thus, Montenegro will have to pay the market price of energy as will everybody in Serbia. The same goes for all other subsidized prices and products.

Finally, budgets will have to be balanced or the deficits will result in debts. Currently, there is significant aid and there are donations, but this is only temporary. After three years at the latest, the various budgets will have to borrow money from the domestic or foreign banks if they incur deficits. Not many cross-budget transfers can be expected. Thus, fiscal separation is inevitable, even if eventually the two fiscal authorities might help each other in one way or another.

If this is correct, then current *de jure* economic independence will have to be supplemented with *de facto* independence.

Fiscal issues may look less important than those that may go with customs and currency integration. However, these cannot be discussed without keeping in mind the

fiscal implications. There are other implications that will be discussed later. Concerning foreign trade, it has to be just noted that, currently, Montenegro has its own foreign trade regime and uses the euro as its official currency. Therefore, irrespective of whether the two states are to integrate or completely disintegrate, they will have to discuss the customs and currency regimes they want to share between the two of them.

Political relations are perhaps even more complicated than economic ones. Political authorities in Montenegro do not recognize the existing constitution of the federation. Still, there is some *de facto* political cooperation, especially when it comes to the issues of security and of international representation. Thus, the President of Montenegro takes part in the supreme defence council that oversees the federal army. There is also cooperation when agreements with international financial institutions are being negotiated and when contacting foreign creditors.

Still, politically the most important cooperation is the presence of the representatives of the Montenegrin opposition in the federal parliament, government and in the other federal institutions. This split in the Montenegrin relations with the federal state has created problems for the federal state, the Serbian state and for Montenegro. None of these institutions are fully legal and legitimate. This makes the introduction of the rule of law all but impossible. Indeed, rather than institutionalizing responsibility, this arrangement has turned into a system of institutionalized irresponsibility. It leaves too much room to discretion not only to the respective governments but also to security services, especially to the army, which is a federal organization.

The problems with this system can easily be seen if its working under Milošević is considered. The system has not been changed at all. There are, however, some differences. For instance, previously, the army posed a serious threat to Montenegro. It has now become a threat to Serbia. The same is probably true for security services. Clearly, a federal state could control Serbia, while Serbia is unable to control the federal state.

Thus, these political and economic inconsistencies have to be resolved one way or the other. This need is underscored by the fact that neither Serbia nor Montenegro are doing well both economically and politically.

Several indicators will suffice to show this.<sup>3</sup> The GDP *per capita* currently is between USD 1 and 2000, depending on how it is calculated. On average, growth has been highly negative in the last 10 years or so. It has been accompanied by significant macroeconomic imbalances. For example, the unemployment rate has been close to thirty per cent for the last few years. Exports usually cover fifty per cent of the imports in Serbia and even less in Montenegro. The current account is also significantly negative and has to be covered by aid or credits, though the latter are hard to get. Finally, budgets run deficits which are also financed either from aid or inflation tax or are defaulted. If obligations are fully paid, budgets tend to amount to a deficit between six and ten per cent of the GDP.

Part of the description of the current situation is the fact that transition is only just beginning in both Serbia and Montenegro. Therefore, it is illusory to expect that there will soon be significant improvements. Indeed, the developments of last year and the beginning of this year are hardly encouraging. Last year, Montenegro posted a negative growth of its GDP and of its industrial production. Serbia's GDP grew positively, but this was the consequence of the rebound of agriculture after the severe draught in the year 2000. However, the industrial production stagnated and this trend is continuing in 2002.

As already noted, this is happening with the transition reforms being at the initial stage. Clearly, aggregate demand will not grow fast and will indeed shrink to the extent that budgets may be brought closer to balance. Aggregate supply cannot recover before a significant restructuring which depends on changes in the ownership and legal structure. Both are changing slowly and are yet to attract either domestic or foreign investors.

Political developments are not supportive of speedy improvements either. New constitutions are yet to be adopted. They will lead to new elections and those in turn will lead to further negotiations about the future of the two states. Thus, political uncertainties, which are also high for other reasons, will keep the risks high and will thus continue to discourage longer-term economic and even political commitments.

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<sup>3</sup> The attached table gives some economic indicators for Montenegro.



### *Interests*

Looking at the agreement, the question that arises is whether it represents the interests of Serbia and Montenegro. Initially, there were general arguments that one state is better for everybody. As the debate progressed, however, it became apparent that things are not so simple. Why not?

Same or similar interests are only likely when the interested parties are similar in the first place. If, however, there is a distinct divergence, it is to be expected that their interests will differ. For instance, if one state is 20 times as large as the other (for instance, in population), there is no doubt that the interests of the two will not be the same. In the current Yugoslav Constitution and in the current distribution of ministries in the federal government, both states have equal representation. This will be in the interest of the smaller state, but not necessarily of the larger one. Indeed, it can be predicted that if the principle of equality is to be preserved, the level of integration has to be low as the larger state will be less ready to devolve power. In general, this difference between the real and the symbolic power determines the political and economic problems both Serbia and Montenegro may have with the common state. As long as real power is translated into political authority, Montenegro will be at a disadvantage. In the opposite case, where there is equal authority, Serbia may feel that the common state is run at its expense.

Another heterogeneity can be expected to appear due to the difference in size between the two states. It has been argued that smaller states will be more specialised than larger states.<sup>4</sup> This may be the case for a number of reasons and will lead to so-called asymmetric shocks (i.e. an adverse development in sectors specific to the smaller state will have much larger effects on this state than on the larger and more diversified state). As a consequence, the business cycles of the two states will not be similar and that will imply that common economic policy may not be a good idea.

For the same reason, the optimal level of protection may not be the same for the two states. This will be even truer if the structure of trade protection is taken into account. Clearly, a more diversified economy will have more reasons to levy tariffs on various imports, while a more specialized economy will have much fewer products to protect. This, of course, changes if the two states have very open economies. But even in this

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<sup>4</sup> An argument often made in the context of EU integration and due initially probably to Paul Krugman, "Fluctuations, Instability, and Agglomeration". *NBER Working Paper* 4616, 1994.

case, the degree of openness a small economy can achieve is very often beyond the reach of the larger economy. Thus, the level of protection optimal for a small economy will be, as a rule, lower than that for the larger one.

It has also been argued that, from an economic point of view, smaller countries need larger states.<sup>5</sup> This is also a consequence of the higher specialization argument: if a country is more specialized, it will suffer more frequently from asymmetric shocks, which will lead to its need to have higher public expenditures in order to buffer the variability in the external sector and stabilize the development of its GDP.

These conclusions have been disputed for the case of a very small economy, as Montenegro certainly is. However, this does not change the fact that there is significant heterogeneity; it only pushes the influence of the inevitable heterogeneity into another direction. For so-called microstates, perhaps the best arrangement is that with very low tariffs and with a very small state. A large state, i.e. a large share of public expenditures in the GDP, would certainly be a bad idea for a microstate as its comparative advantage is exactly that it is a microstate. When becoming part of a larger state, it loses exactly its comparative advantage.<sup>6</sup>

These are theoretical considerations, what is the actual structure of interests in Montenegro and Serbia? Several contentious issues will be reviewed in order to assess them.

One issue has to do with external economic relations. In the agreement, these are to be harmonized trilaterally – between Serbia, Montenegro and the EU. This is a sensible solution. It would be even better if free trade between the three partners were to be implemented immediately. But there are strong protectionist interests in Serbia while these are mostly lacking or should be lacking in Montenegro and, in a certain sense, also in the EU. Thus, a three-way asymmetric trade liberalization process is probably the best possible solution.

The other issue has to do with monetary policy. It seems to be taken for granted that Montenegro should not have its own currency but that it should adopt either the dinar or the euro. Which is the better of the two for Montenegro? There are several criteria to look at in order to arrive at a judgement.

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<sup>5</sup> See D. Rodrik, “Why Do More Open Economies Have Bigger Governments?” *Journal of Political Economy*, NBER Working Paper No. w5537 (April 1996).

<sup>6</sup> On micro-states see W. Easterly and A. Kraay, “Small States, Small Problems?” *The World Bank Working Paper* No. 2139, 1999.

One criterion is that even if the dinar is not a Montenegrin currency, Montenegro might still influence the monetary policy of the common central bank. Whether this is true depends on the level of independence of the central bank. If the central bank were instrument-independent, it would be important to know who would set the goals or the targets of monetary policy. Assuming that the central bank would have an inflation target, the influence of the political institution of the federal state would be non-existent. The central bank would have to achieve the set target, and the fact that, for instance, Montenegro would be represented at the central bank should be immaterial.

Another criterion has to do with the cost of monetary policy. This is an area in which it is not all that easy to come up with a definite solution. In general, the more credible currency should be preferred on cost grounds. Specifically, it is to be expected that lending and borrowing in euros should lead to lower real interest rates than in dinars. Of course, there are a number of reasons why the interest rates could still be higher in Montenegro than in Serbia although the former uses euros. But, *ceteris paribus*, as long as one's own currency cannot be used, the more credible one should be the better option.

Still another criterion has to do with the policy of competitiveness. This raises similar issues, such as foreign trade regime and policy. One of the reasons for having a domestic currency is the ability to have an exchange rate policy. This policy, in normal circumstances, should be concerned with the competitiveness of the economy. So, from the point of view of Montenegro, the issue is whether its competitiveness would be preserved more if it uses the dinar rather than the euro. The answer is not a straightforward one.

To see why, one can consider the developments of the last year or so. In 2001, the dinar appreciated significantly so that the average wages in Serbia converted to euros more than doubled and practically caught up with the wages in Montenegro. So, had Montenegro been on the dinar rather than on the euro, it would have been, at the end of the period, as competitive in terms of its wages as it is now. Obviously, if the dinar devalued, that would change. At least as long as wages are not indicated in euros, a possible dinar devaluation could restore competitiveness in case it was to have eroded. This, however, cannot happen if the exchange rate policy is used to fight inflation as then it is to be expected that the dinar will continue to appreciate in real terms in order to serve as an anchor for disinflation. In that case, relying on the euro would be better from the point of view of competitiveness.

In Montenegro, it has to be noticed, inflation is significant. This is the consequence of the growth of public expenditures that are financed from donations or from public borrowing. It could be argued that it would be better for Montenegro to use the dinar because the government could borrow money from the central bank. With the euro, this is not possible because the introduction of the euro was unilateral. This possibility, however, would imply a higher expected inflation or, if not, it should not really make too much a difference.

There are other issues connected with the choice between the dinar and the euro, one of which being the location of the banking supervision authority. It is to be noticed, however, that the fact that there is a common currency does not necessarily imply that the central bank would be entrusted with the supervision of the banking sector. The same argument goes for the central bank being the lender of last resort. This may or may not come true. All of these questions would have to be resolved separately according to the particular interests of the two states.

As already mentioned several times, the fiscal relations are clearly the crucial ones. In the end, from an economic point of view, a common state means a common budget. Within that budget, the common financing of common functions is not really enough. The power to tax and to transfer public resources are what the common state is all about. This has not featured prominently in the current discussions. However, this is unavoidable. It makes sense that a more developed region should pay more taxes than a less developed one. Indeed, some net transfer of public resources from Serbia to Montenegro would be the normal state of affairs. It does not seem to be in Serbia's interest to do that. As long as this is so, there is really very little in terms of economics that justifies the need for a common state.

All in all, the structure of interests is quite complex. It also has to be noted that it is only the economic interests that are being discussed here. The relations become even more complex once political and security issues are added which cannot be discussed here in any detail. It is enough to mention that the political problems, in a democratic set-up, boil down to fair representation. Here, perhaps, a law could be implemented.

If the two states are very unequal, then the more equal the representation, the fewer the functions that will be in common interest.

The issue of security is a very important one, but in the context of the Balkans it will have to be tackled regionally. Thus, the argument that common threats require the

existence of a common strong army does not really apply, not as the threats are not significant but precisely as those are in fact high and diversified.

### *The international dimension*

The negotiations between Serbia and Montenegro have been mediated by the EU and by other international factors. The agreement reached enables two things that have important international implications.

One is the possibility of a democratic resolution of the problems in the relationship of Serbia and Montenegro. Clearly, the final status of this relationship has been left open. Given the conflict of political interests in Montenegro and the development of political institutions in Serbia, the final outcome will depend on the will of the citizens of Serbia and Montenegro expressed this time, hopefully, through a democratic process. For instance, the citizens of Montenegro can use the opportunity of the parliamentary elections (both federal and local) to elect parties that will work for the level of integration with Serbia that is in accordance with their interest. The same is true for Serbia, though it is difficult to see this issue dominating the Serbian elections.

The second issue is the role that the regional and the EU integration may play in this process. It is important for the citizens of both Serbia and Montenegro to see the formation of their relations within the processes of both Balkan integration and EU enlargement. This would rationalize both the political and the economic interests they may have and the institutions they may choose to express them.

The interest of the EU is obviously to show that it can play a useful international role in the regions that are on its periphery. Stability in the Balkans and the reliance on political and legal means to solve problems are very much in the interest of the EU. The democratic resolution of a difficult problem in the Balkans would contribute a lot to this.

### *Conclusion*

Given the current situation, the fundamental interests and the EU dimension, there are three relevant options for Montenegro.

One is to integrate with Serbia into a unitary or a federal state. The interest that Montenegro would have in this option is that of fiscal transfers. There is certainly strong support for this option as the political segmentation in Montenegro shows.

The second option is to form a separate state that would rely on the advantages that a small, open, maritime state could have. There is no doubt that there are strong interests in that direction, too.

The third option is to integrate within the region and with the EU. The support for this option is strong academically, but not necessarily politically. Clearly, the EU could influence the development of this interest if it decided to get more involved financially and politically.

All the three options are open at the moment and will probably remain so in the future. It has been argued here that whichever of the three options is eventually chosen, there are economic and political issues that will have to be solved irrespective of the “final status”. If these two states are to prosper, the following economic questions will have to be answered:

First, the level of trade and business liberalisation especially when it comes to the level of protection.

Second, the level of fiscal independence especially when it comes to the power to tax and the role of fiscal transfers, both explicit and implicit.

Third, the appropriate monetary regime and the adequate exchange rate policy with the view to support for investment and competitiveness.

If the interests that drive the choices made on these three issues are very heterogeneous, the two states could and will be independent irrespective of the political relations they may choose to have.

<b>Montenegro: Selected Economic Indicators<sup>1)</sup></b>												
	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Population, in 1,000s, mid-year		616.6	624.0	631.9	635.3	638.6	642.9	646.7	650.6	654.5	658.5	662.5
Gross domestic product, in million YUM nom.	1778	3490	270819	.	1021	1916	3992	5209	7604	12920	34200	47762
annual change in % (real)		-10.8	-23.5	-36.5	1.6	14.1	27.7	6.6	5.9	-9.3		
Gross industrial production												
annual change in % (real)		-13.2	-19.9	-34.0	-8.3	-2.6	52.0	1.3	-0.3	-7.9	11.6	-1.0
Transport activity <sup>2)</sup>												
annual change in % (real)		3.5	-24.1	-40.7	-38.4	3.1	118.2	-15.5	2.0	-19.2	13.3	
Employment total, in 1,000s, official		144.0	134.2	130.9	128.8	125.1	124.3	120.6	117.7	115.3	113.8	114.1
annual change in %			-6.8	-2.5	-1.6	-2.9	-0.6	-3.0	-2.4	-2.0	-1.3	0.2
Empl. in unrecorded sectors, in 1,000s, estimates		66.4	75.2	86.6	80.5	81.6	90.9	87.6	79.8	84.9	88.3	89.2
Unemployed registered, in 1,000s		58.1	64.6	62.8	58.2	59.0	60.2	64.0	68.4	75.3	83.6	81.8
Unemployment rate in %		21.6	23.6	22.4	21.8	22.2	21.9	23.5	25.7	27.3	29.3	28.7
Average disposable wage, YUM					138.6	307.0	659.3	878.9	1227.7	1932.1	4945.8	6337.9
Average disposable wage, DEM <sup>3)</sup>					108.3	126.5	187.8	225.7	194.2	152.0	188.0	208.3
Consumer prices, % p.a., annual average						171.0	47.2	18.0	44.8	146.0	22.5	13.1
Producer prices in industry, % p.a.						97.0	88.8	28.2	28.9	63.6		
General government budget, in million DEM												
Total revenues						205.6	314.9	513.4	387.1	292.8	347.5	412.8
Total expenditures						202.2	306.7	497.4	369.9	301.6	457.2	497.6
Budget excl. extrabudgetary						3.4	8.2	16.0	17.2	-8.8	-109.7	-84.8

funds, net												
Extrabudgetary funds, net <sup>4)</sup>						-36.9	-55.2	-41.4	-44.7	-14.9	8.8	-4.5
Budget incl. extrabudgetary funds, net <sup>4)</sup>						-33.5	-47.0	-25.4	-27.5	-23.7	-100.9	-89.3
Exports of goods, in million USD <sup>5)</sup>	259	158	106	146	73	70	94	140	129	123	243	194
Imports of goods, in million USD <sup>5)</sup>	221	190	185	159	79	123	259	301	335	303	430	545
Trade balance, in million USD <sup>5)</sup>	38	-33	-79	-13	-6	-54	-164	-161	-206	-180	-187	-351
Current account, in million USD <sup>5)</sup>	165	-17	-70	-14	7	-47	-89	-60	-84	-75	76	-162
Street exchange rate YUM/DEM <sup>6)</sup>					1.2798	2.4269	3.5106	3.8941	6.3218	12.7112	26.308	30.4
Average exchange rate DEM/USD <sup>7)</sup>	1.6161	1.6612	1.5595	1.6544	1.6218	1.4338	1.5037	1.7348	1.7592	1.8351	2.1176	2.1838

Notes:

<sup>1</sup> WIIW estimates.

<sup>2</sup> Railway, public transport, road, air, sea, and port activity aggregated using value weights of transport output structure in 1997.

<sup>3</sup> Converted at the street exchange rate.

<sup>4</sup> Extrabudgetary Funds for 2000: Pension and Health Funds, excl. Employment and Development Funds.

<sup>5</sup> As of 2000 including trade with Serbia (according to Yugoslav Statistical Office, trade in 2000, excluding Serbia, in million USD: Exports 161, Imports 355).

<sup>6</sup> As of 2001 official exchange rate.

<sup>7</sup> Deutsche Bundesbank.

Source: Montenegro Economic Trends, available at: [www.monetonline.org](http://www.monetonline.org).



## **Economic Cooperation between Serbia and Montenegro**

### *1. Framework*

The disintegration of the former Yugoslavia in 1991 and the events which followed deferred the process of integration of the newly formed states with the rest of Europe,<sup>2</sup> while the establishment of new nations on its territory and the introduction of barriers to the free movement of goods, services, labour, and capital reduced the level of these nations' mutual integration within the region. Today, we are witnesses of a process of speedy renewal of political, economic and other ties among the nations of the former Yugoslavia, although at the same time, we are faced with the possibility of further disintegration, primarily due to existing internal problems within certain nations. In the case of Yugoslavia, the uncertainty resulting from an undefined national status, both with respect to Kosovo and Montenegro, results in continued political instability which entails adverse economic implications, both domestically and internationally. With the signing of the agreement between Serbia and Montenegro on 14 March, a basic agreement has finally been reached on a unified state, which could mark the first significant step towards greater stability.

Although the remaining issues pertaining to the formation of a Serb-Montenegrin state, including the definition of their mutual economic relations, are political issues *par excellence*, an attempt will be made to approach the question of economic cooperation between Serbia and Montenegro independent of the future status of their union. There is no doubt, in any case, that economic cooperation between Serbia and Montenegro will remain an important indicator of their economic development. Regardless of the train of events, Serbia and Montenegro will have to cooperate in the future as neighbours, be it in a single state or as independent countries.

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<sup>2</sup> With the exception of Slovenia, political instability resulting from armed conflict, the difficult economic situation and drop in the standard of living, international sanctions against the SR Yugoslavia and its years-long isolation, the slow process of transition towards democratic pluralism and a market economy in the majority of countries, and the lack of a consistent and long-term strategy from the European Union towards this region are only some of the most significant factors which contributed to this.

In order to better understand the role and perspective of economic cooperation between Montenegro and Serbia, we will briefly examine several groups of interrelated issues:

- the current status of economic relations between Serbia and Montenegro;
- the potential benefits of economic integration and cooperation;
- the economic consequences of disintegration; and
- possibilities for developing new forms of economic cooperation.

## *2. The current status of economic relations between Serbia and Montenegro*

The degree of economic cooperation between Serbia and Montenegro today is probably at its lowest point in the last decade. Since 1997, the changing political scene in Montenegro, its attempt to avoid the negative consequences of Milošević's regime and to begin the process of transition and democratization quickly, as well as the support received by President Djukanović from the international community, have been key factors in influencing the Montenegrin leadership to move in the direction of establishing an ever greater degree of economic sovereignty by adopting a series of laws and measures which distanced them from the federal republic. Since then, Montenegro has achieved complete independence in virtually all political and economic realms (in certain areas, such as privatization, this was done in 1992), and it is therefore today considered to be an "integrated state region". With its most recent policies, Montenegro has achieved (1) an *independent monetary and banking system*, following the introduction of the German mark first as a parallel and soon after as the solitary currency which was then replaced by the euro in the beginning of 2002; (2) *fiscal independence*, which enabled Montenegro to establish full control over state revenues and granted it the right to implement independent tax reforms; and (3) *independence in foreign trade*, which led to the establishment of a significantly more liberal foreign trade system (the average import tax rate is three per cent in Montenegro and ten per cent in Serbia), as well as to the severing of trade relations within the country (since mid-February 2001, five border crossings were established between the two republics).

There remain, however, several very important areas in the economic sphere in which Serbia and Montenegro must cooperate even today: in the realm of international economic relations, i.e. in negotiations with the International Monetary Fund, the

World Bank, the Paris and London Clubs, the European Union, and the European Investment Bank, as well as on issues that remain under the jurisdiction of the federal government and federal ministries (primarily the ministries of finance and international economic relations).

With regard to the nature and degree of integration, it follows that the existing union between Serbia and Montenegro is very unusual and probably the sole such example in history: although it remains one country which exhibits some characteristics of a single market (free movement of labour, but not of goods, services and capital) and even of an economic union (coordination of certain economic policies at the federal level), it represents neither a monetary nor customs union, not even a free trade zone.

Although there currently exists a great discrepancy between the economic laws and economic policies being implemented in Montenegro and Serbia, their economies are interdependent. For Montenegro, Serbia has traditionally been a very important trade partner; that their economies are complementary to one another has been emphasized for many years. Today there is much less emphasis placed on trade than it was the case ten years ago,<sup>3</sup> although it is difficult to determine the *actual* degree of mutual exchange as much of it takes place via illegal channels, owing to administrative hurdles to free trade. Despite the tendency for decreased trade, the differences in climate, natural resources and economic structure remain significant enough to serve as a good foundation for economic cooperation, i.e. for a division of labour and specialization in accordance with the principles of competitive advantage. Montenegro's focus is on developing services, tourism, certain branches of agriculture and its access to the sea, while Serbia is focused on agriculture and certain major areas of industry.

### *3. The potential benefits of economic integration and cooperation*

Economic theory assumes a number of advantages of economic integration. These advantages stem from: (1) an international division of labour and specialization in accordance with competitive advantages, whether in terms of long-term differences in the relative availability of production factors or more short-term factors such as the

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<sup>3</sup> According to unofficial figures, Serbia's participation in Montenegro's imports is only 10.6%, with a continual tendency to drop, while Montenegro's exports to Serbia constitute only 4.4% of total export, *Economist* (18 February 2002).

complementarity of unexploited production capacities or sudden changes in supply; (2) better allocation and better use of resources within each country and among the members; (3) use of large-scale economies in production and on the markets; (4) an increase in direct foreign investment driven by the existence of a larger market which attracts not only capital but managerial resources and modern technologies, thus stimulating better mechanisms for corporate management and restructuring. Consequently, it is reasonable to expect that all of the above factors would contribute to speedier economic growth and development.

The post-war experience clearly points to the conclusion that those countries which did not embrace the liberalization of foreign trade and open markets were only initially able to protect their economies, but in the long run suffered a net loss when compared to those countries which did embrace trade liberalization and integration. Higher forms of integration, such as an economic union, further stimulate economic integration by allowing access to a larger market, greater competition and a higher mobility factor in production. Membership in a monetary union should result in a series of benefits: in addition to establishing shared value standards and increasing the efficiency of a particular currency, it significantly decreases transaction costs, eliminates risks in currency exchanges, and lowers the inflation and interest rates, resulting in direct and indirect benefits for economic growth.

The above-listed advantages of economic integration also hold true in the event of economic cooperation between sovereign states, as is the case with the member states of the European Union. The European Union is comprised exclusively of independent states which have, over the past fifty years, slowly engaged in ever-greater levels of economic integration – from the establishment of the first shared institutions, such as the European Community for Coal and Steel in 1951, to the establishment of a free trade zone, a customs union, and the European monetary system – through the realization of a single, internal market achieved by eliminating all remaining trade and non-trade related barriers, the ever-greater concordance on the member states' economic policies, and the completion of the European Monetary Union project, marked by the introduction of the euro.

The example of the European Union clearly illustrates the possibility of attaining a high level of economic integration and cooperation while maintaining political sovereignty. Membership in the European Union has led to decreased autonomy for the member states with respect to macroeconomic policy, to greater interdependence

of economic policies to a higher sensitivity of individual economies to the conditions in other member states, and to a decrease in the capacity for exploiting certain economic instruments, but all this was done with the belief that the net results would be positive. The member states of the European Union sacrificed a portion of their national sovereignty in the area of economic policy in order to benefit from the advantages of economic integration. It is useful to add here that in the European Union even the concept of political sovereignty is changing of late, through an increasingly intense political cooperation among the member states and the establishment of the basis for a shared foreign policy (the so called *finalité politique*), while the borders among the countries have also lost the significance they once held. What follows from the previous arguments is that there is a large discrepancy between Serb-Montenegrin (until recently Yugoslav) and European practice. The processes taking place of late in Serbia and Montenegro are precisely opposite to the historical experience of integration in Western Europe. While the member states of the European Union, driven by economic (and political) interests, gradually moved toward an ever-greater degree of integration, in the SR Yugoslavia (Serbia and Montenegro) an opposite tendency has been observed over the past few years: a movement towards disintegration of a shared economic territory and a separation of economic policies. Instead of taking advantage of the benefits offered by economic integration, political priorities seem to be dictating precisely the opposite solution.

#### *4. The Consequences of Economic Disintegration*

In order to better understand the economic consequences of disintegration and the gradual separation of Serbia and Montenegro, one must look at the reasons that have led to this development. Montenegro's decision to move in the direction of building its own economic system and increasing its economic independence was motivated by the need to protect Montenegro from the negative consequences of Milosevic's poor economic policy and the resulting delays in the process of transition. Independence in terms of monetary, fiscal and foreign trade policies would lead Montenegro to speedier economic reforms, in accordance with its own priorities and interests. With regard to the achieved results, there is no doubt that the majority of the important goals has been accomplished, although the results in certain sectors did not meet expectations and bore further negative consequences.

In the domain of *monetary policy*, the introduction of the mark/euro as the domestic currency led to a drastic reduction of inflation, but inflation nevertheless remained relatively high in 2000-2001 (double digits) in terms of the standard set forth for countries in transition, and it is estimated that only in 2002 will inflation fall to eight per cent. The introduction of a strong and convertible currency also failed to build confidence in the banking system among the populace, as the majority of cash funds are still held outside of the banks; it is estimated that approximately two thirds of the money currently in use in Montenegro lie in the hands of private citizens, and that fifty per cent of all transactions in Montenegro take place in cash and not via the official financial institutions.

In the realm of *fiscal policy*, Montenegrin independence made possible the implementation of basic tax reforms and certainly ensured greater state revenues, but the problem of an extremely high deficit still remains – sixteen per cent of the GNP in 2000, followed by an unsuccessful deficit reduction in 2001. Mutual restrictions between Serbia and Montenegro in the domain of payments – including blocking all transfers from Montenegro to the federal budget, restrictions on payments to companies that do not regularly pay federal taxes, blocked pension payments, and restrictions imposed by the National Bank of Yugoslavia on transfers of funds between Serbian and Montenegrin companies – had all pointedly negative consequences as they usually led to even greater problems which left companies insolvent and highly in debt, or they led to a further drop in the standard of living for a certain portion of the population.

*Trade measures* gave Montenegro a significantly more liberal foreign trade system, but leaving the customs union with Serbia led to the fragmentation of the common market. Mutual limits set on domestic trade, which led to the complete blockade of trade towards the end of 1999, directly hurt consumers as import taxes and other fees led to a rise in consumer goods prices. In the meantime, Montenegro was able to find substitutes for the products it traditionally imported from Serbia, but the new products were often more expensive, in part due to higher transportation costs, with the result that the cost of essential consumer goods is higher today in Montenegro than in Serbia. The newly erected border crossings on the Serb-Montenegrin border have also led to unnecessarily long lines of trucks and cars, thus impeding travel. Restrictions on domestic trade have also contributed to the development of grey economies, so that a significant portion of the exchange between Serbia and Montenegro now occurs

outside of formal channels<sup>4</sup>. While the development of grey economies has ensured better supply, it has also contributed to the rise of numerous negative phenomena, including a rise in drug trafficking, organized crime and corruption, which today leads to enormous amounts of illegally earned money. All of these phenomena certainly do not aid in the realization of the basic goals of transition, such as a more efficient government and the establishment of the rule of law.

Finally, it is necessary to examine the indirect effects of such tendencies, as these might be the most harmful. The gradual economic separation of Serbia and Montenegro has led to a rise in mutual distrust and significantly contributed to political instability, via constant internal disputes and disagreements. The unsettled economic and political relations between Serbia and Montenegro, coupled with delays in finding mutually beneficial solutions, have generated enormous costs for the entire country. Since October 2000, the tangled inter-republic relations have delayed negotiations with international financial institutions, and thus also delayed much-needed foreign capital investments. Initial negotiations with the European Union (the establishment of special teams for the Stabilization and Association Process) were hampered. The uncertainty in relations between Serbia and Montenegro has led to delayed implementation of trade preferences with the European Union, due to the inability of the two customs offices to reach a timely agreement on the stamp used to mark Yugoslav products (at enormous losses for exporters). Private investment capital from abroad was discouraged due to political risk and uncertainty. They hampered the transition process, and both Serbia and Montenegro failed to benefit from existing sources of international aid by failing to submit joint project proposals for projects of mutual benefit. All of these factors have directly slowed economic development, the results of which are felt especially strongly today when both republics' degree of development is half of what it was in 1989 and when the SR Yugoslavia has become the second-poorest nation in Europe (immediately following Albania) based on per capita income.

There is no doubt that the aforementioned consequences of gradual economic disintegration are especially felt by the residents of Sandžak, a border region between Serbia and Montenegro, which is home to circa 350,000 people, fifty per cent of

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<sup>4</sup> Some estimates indicate that 30-50% of Montenegro's economy functions outside of the official channels and that every fifth citizen of age earns a portion of his salary from the grey economy.

whom are Muslim. The situation in this border region will not improve significantly without speedy economic growth and political stability.

##### *5. Possible New Forms of Economic Cooperation*

It is in the interest of both Serbia and Montenegro to renew and expand their existing forms of economic cooperation. There is no doubt that there currently exist untapped possibilities for developing Serb-Montenegrin economic ties based on mutual interest and in accordance with the principles of regional cooperation. For all nations of South East Europe, regional cooperation has become a key criterion for improving their relations with the European Union. Although the Stabilization and Association Process presupposes a bilateral approach to the EU with agreements “made to measure” for each nation individually, today all of these countries are expected to renew their mutual cooperation in order to be considered for future admission to the EU. This, of course, applies also to Serbia and Montenegro; even if the union is to be dissolved, establishing good neighbourly relations and improving bilateral economic cooperation will remain necessary.

To this end, it is advisable to make use of existing sources of international financing. Following the changes in international policy toward South Eastern Europe in 1999 and toward Yugoslavia in the end of 2000, significant financial resources were set aside for the countries of South Eastern Europe via various channels (EU’s CARDS programme, the Stability Pact, SECI, the Adriatic-Ionic Initiative, etc.), especially for various programmes involving bilateral and multilateral cooperation in the region. For Serbia and Montenegro it is important to take advantage of these favourable conditions, especially because they are late in joining these processes (especially Serbia). During the past three years, intensified political and economic cooperation among the countries of South Eastern Europe has led to the establishment of a thick network of intra-regional cooperation in most areas, which Serbia and Montenegro should join as soon as possible, not with independent (Serbian or Montenegrin) projects as was often the case to date, but with comprehensive projects of mutual interest.

The most attractive sectors for cooperation are those which produce “externalia”, i.e. so-called regional public goods, in which all would benefit from joint action and cooperation (or, inversely, in which all would suffer losses in the absence of



collaboration), such as the development of infrastructure, energy sources, waterworks, environmental protection, telecommunications, and postal and financial services. Joint projects in the area of transportation (modernization of the Belgrade – Bar railway, highway and road construction, and tunnels) are particularly significant.

Apart from infrastructure, which is in any case an agreed-upon priority of the Stability Pact and other programmes of the European Union, it would also be beneficial to extend cooperation to many other sectors. Organizing meetings among representatives of chambers of commerce, within the framework of certain economic sectors or various business unions (private business owners, small and medium size enterprises, etc.) could facilitate the economic cooperation between Serbia and Montenegro. Such local initiatives would be very fruitful as they could lead to the creation of joint projects in those areas in which there genuinely exists a need. Some of the existing economic problems, even in the border region, could be mitigated by joint local projects in the areas of corruption control, employment, transportation, and exchange of information regarding small and medium size enterprises and local self-governance, for example. In order to secure the funding for such local initiatives, it is necessary to ensure an adequate flow of information regarding international financing resources which might potentially be sought for this purpose. I.e. the engagement of international relief agencies has to be ensured on a decentralized level so that the effects of international aid could be distributed more evenly than has been the case to date, and so that peripheral regions (such as Sandžak) could enjoy greater benefits. In the border region between Serbia and Montenegro, it would be useful to implement some of the international projects that are already in progress and which are devoted to the modernization of border crossings (such as the World Bank project on liberalizing and easing trade in South Eastern Europe or a similar project sponsored by the European Union via its CARDS programme). By initiating and implementing joint Serb-Montenegrin projects of mutual benefit on a local level, the population of the border region could contribute to the realization of an often cited goal of certain international organizations – i.e. they could have ownership in the policies being implemented on their territory.

Finally, it should be noted that cooperation will also be necessary in the area of liberalizing trade. As all countries of South Eastern Europe have recently taken on the responsibility of liberalizing and easing trade with the signing of the Memorandum on Liberalization and Trade Facilitation of the Stability Pact, whereby they agree to sign

bilateral agreements on free trade with other countries in the region by the end of 2002, Serbia and Montenegro will also have to implement the principles of liberalization. This especially holds true today, following the signing of the Belgrade Agreement on 14 March 2002, as the member states have accepted the responsibility of maintaining unimpeded functioning of a common market, including the free movement of people, goods, services, and capital.

## *6. Conclusion*

It is very difficult to analyze the economic aspects of Serb-Montenegrin relations satisfactorily without taking into account other relevant factors, primarily of a political nature. Certain aspects cannot be quantified, nor even objectively identified; value systems are not identical, and it is thus natural that political aims may be of greater value for a nation, a country or even an individual than economic ones.

Nonetheless, purely economic interests today indicate that maintaining some form of union between Serbia and Montenegro is desirable. However, even if the union does not survive, there will have to be a higher level of market integration by way of liberalizing trade and removing the existing barriers which today impede inter-republic exchange and other forms of economic cooperation and thereby also impede the broader processes of European integration. It is certainly preferable and in the interest of all involved for such processes to be realized sooner rather than later. It is therefore of crucial significance that the dispute on the future of the Serb-Montenegrin union is finally close to being resolved, for political stability is imperative in order to achieve economic growth. It would not be superfluous to remember that the disintegration of the former Yugoslavia had catastrophic economic consequences for virtually all of the newly formed nations, but it appears that this has been forgotten as political processes in this region continue not to follow the principle of reason. The example of Bosnia and Herzegovina clearly demonstrates that it is very difficult, even with extensive aid from the international community, to achieve positive results in the economic field without establishing a reasonable framework for political cooperation and democratic institutions within the country. Today, the same holds true for Serbia and Montenegro.

The prosperity of the citizens of both Serbia and Montenegro will depend on economic growth and development, on open markets, on further inter-republic trade

liberalization and free movement of economic factors, on securing international funds and direct foreign investments, on modernization, privatization and increased efficiency in business, on joining regional and European processes of integration, and not on the issue of the political status. It is significant that this realization seems to have finally been reached with the signing of the Belgrade Agreement between Serbia and Montenegro on 14 March 2002.

## **A Review of Selected Indicators of Economic Development in Sandžak**

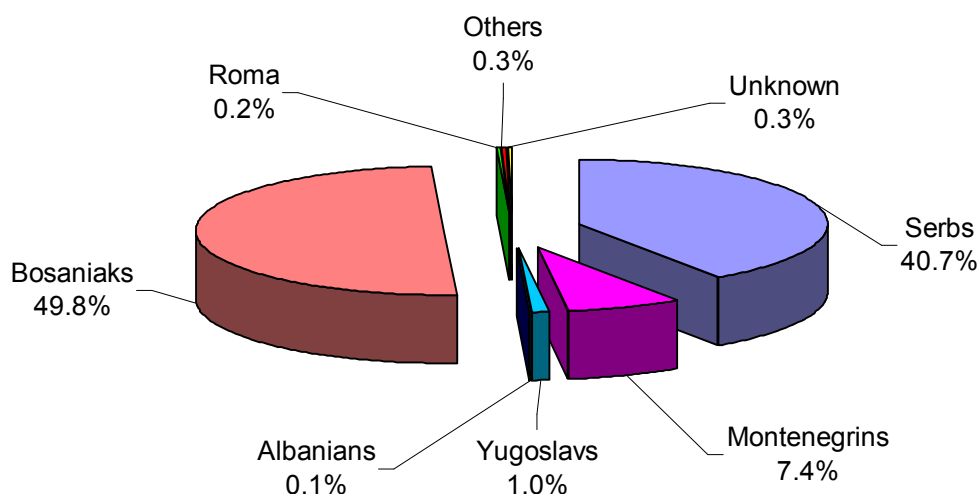
### *The Population and its Ethnicity*

According to the census report of 1991, there are 326,189 people living in 18 municipalities in Sandžak. The most highly-populated municipality is Novi Pazar with 85,249 residents, while Nova Varoš is the least-populated municipality with 21,812 residents. In the ethnic breakdown of the population, Bosniaks/Muslims dominate and constitute 49.8 per cent of the population, followed by Serbs with 40.7 per cent, Montenegrins with 7.41 per cent, Yugoslavs with 1.05 per cent, Roma with 0.24 per cent, Albanians with 0.13 per cent, and members of other ethnic groups with 0.66 per cent. Serbs constitute the majority population in Raška with 96.1 per cent, in Nova Varoš with 88.2 per cent, in Priboj with 65.1 per cent and in Prijepolje with 65.1 per cent. Montenegrins constitute 55.4 per cent of the population in Pljevlje, and Bosniacs form the majority in Tutin (94.3 per cent), Sijenica (76.1 per cent) and Novi Pazar (75.4 per cent), which is a result of historical and geographic factors.

The armed conflicts taking place on the territory of the former Yugoslavia during the 90s and the ensuing influx of refugees and internally displaced persons resulted in significant changes of the existing ethnic composition of Sandžak. According to a refugee census report conducted in eight municipalities of Sandžak in 1998, there were 4,951 refugees, which constitutes circa 1.5 per cent of the total population of the region. According to the 2000 census report, there are 6,713 internally displaced persons from Kosovo, forming 2 per cent of the total population. And Novi Pazar alone is home to 58 per cent of the displaced persons.

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<sup>1</sup> G-17 Institute.



*Chart 1: Ethnic breakdown of the population of Sandžak in 1991*

According to estimates of the Serbian Institute for Statistics, there were 340,650 residents of eight municipalities in Sandžak in the year 2000, which amounts to 4.4 per cent of the total (estimated) population of Serbia, not including Kosovo and Metohija. The municipality of Novi Pazar has the highest population in Sandžak, 27.4 per cent, and Nova Varoš the lowest, 6.3 per cent. If we look at the ethnic breakdown, Bosniaks form the majority of the population in Tutin (96.3 per cent), Sjenica (76.4 per cent), and Novi Pazar (76.1 per cent), while Serbs form the majority in Raška (96.6 per cent), Nova Varoš (89 per cent), Priboj (66.4 per cent), and Prijepolje (54 per cent). The ethnic breakdown by municipality showed no significant changes compared to 1991, according to this estimate.

#### *Indicators of Economic Development*

The gross national product for Sandžak in the year 2000 was 6,747 million dollars. The public sector participated with 56.8 per cent, while the private sector contributed 43.2 per cent. Of the eight municipalities surveyed, Novi Pazar, with 22.6 per cent, and Pljevlja, with 21.6 per cent, contributed most to Sandžak's national product, while Tutin, with 3.5 per cent, and Sjenica, with 6.7 per cent, contributed the least. Per

capita levels of the GNP for Sandžak in the year 2000 are below the overall levels for Serbia (without Kosovo and Metohija). The GNP for Sandžak was 19,800 dinars, which is 51 per cent lower than in Serbia without Kosovo and Metohija. The highest per capita national product was recorded in the municipality of Pljevlja – 36.2 per cent – which is 11 per cent lower than the per capita national product in Serbia without Kosovo and Metohija, and the lowest was recorded in Tutin – 6,100 dinars – which is 81 per cent lower than the per capita national product for Serbia without Kosovo and Metohija. One of the indicators of the degree to which this region is underdeveloped is that its population constitutes a larger percentage of the total population of Serbia in the year 2000 (3.66 per cent) than its share in the GNP (2.14 per cent).

Municipality	National product in thousands of dinars	Contribution of the public sector <sup>2</sup> to the national product (in %)	Contribution of the private sector to the national product (in %)	Per capita national product in dinars
Serbia <sup>3</sup>	315,288,807	55.5	44.5	40,711
Nova Varoš	610,076	66.1	33.9	28,508
Novi Pazar	1,527,758	51.3	48.7	16,357
Priboj	833,579	78.7	21.3	23,090
Prijepolje	953,264	60.1	39.9	20,196
Raška	680,272	54.7	45.3	23,953
Sjenica	451,207	39.6	60.4	12,818
Tutin	236,720	18.9	81.1	6,101
Pljevlja	1,453,998	56.5	43.5	36,214

*Table 1: National product and national earnings in 2000*

In Table 1 we can see that the contribution of the private sector to the national product in each municipality is fairly high: in Tutin 81.1 per cent and Sjenica 60.4 per cent, as compared to the whole of Serbia where the private sector contributes only 44.5 per cent. Novi Pazar, where the private sector contributes 48.7 per cent, and Raška with 45.3 per cent are also above the state average. At the other end of the spectrum are the municipalities where the private sector contributes significantly less than the state average: Priboj with 21.5 per cent, Nova Varoš with 33.9 per cent and Prijepolje with 39.9 per cent. We posit that these differences are even greater, given the fact that the

<sup>2</sup> This includes public, federal, mixed and state owned sectors.

<sup>3</sup> Not including Kosovo and Metohija.

private sector in certain municipalities in Sandžak (Novi Pazar, Sjenica, Tutin) is larger than what the official statistics reveal.

There is also a significant difference among the municipalities of Sandžak in the breakdown of the national product by type of economy. Industry is dominant in Priboj (63 per cent of the total national product of Sandžak), Nova Varoš (50.8 per cent), Novi Pazar (37.2 per cent), Prijepolje (34.9 per cent) and Raška (27.4 per cent). Agriculture plays a significant role in Sjenica (47.1 per cent), Tutin (44.1 per cent) and Pljevlja (32.6 per cent). In addition to industry and agriculture, trade has a significant contribution in all studied municipalities. Trade contributes 22.3 per cent in Tutin and 19.3 per cent in Novi Pazar to the GNP in Sandžak, which is higher than the overall state average of the contribution of this branch of the economy to the national product (16 per cent). Hospitality and tourism show the highest contribution in the national product of Sandžak in Raška (8.1 per cent) and Novi Pazar (4.3 per cent), as compared with the state average of 2 per cent. Craftsmanship contributes most significantly in Novi Pazar (4.3 per cent), while the state average is 1.7 per cent.

### *The Work Force*

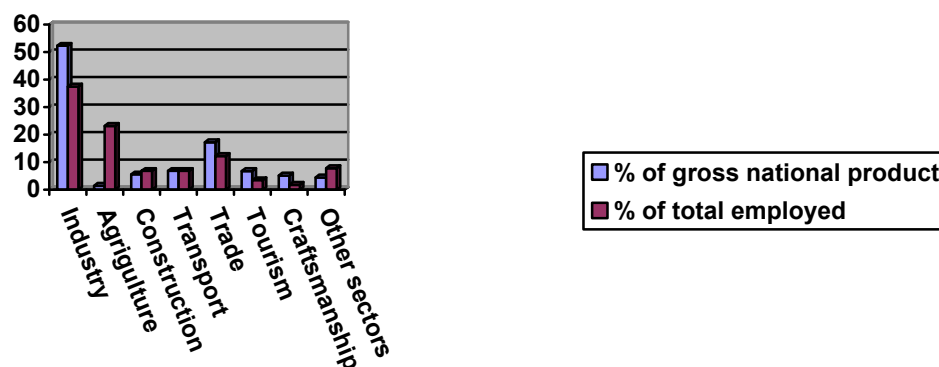
#### *Employment*

The average number of employed persons (employed in the public, unionized, mixed, state run, and private sectors, including those employed in private shops) in the eight municipalities surveyed in Sandžak in 2000 was 58,613 persons, which represents 3.1 per cent of the average number of employed persons in Serbia, not including Kosovo and Metohija. Those employed in the private sector (private enterprises, not including shops) represent 9.3 per cent of the total number employed and those employed in private shops represent 12 per cent. When broken down by type of economy, 70.8 per cent are employed in the profit sector and 17.2 per cent in the non-profit sector. Industry employs the highest number: 47.5 per cent (in Nova Varoš 60 per cent and in Priboj 59.3 per cent), while employment in other sectors is much lower, coming in at 5.7 per cent for trade. 7 per cent of the total employed in Sandžak work in education and culture.

When broken down by municipality, in Nova Varoš, 60 per cent of the total number of employed work in the industrial sector, in Priboj 59.3 per cent and in Prijepolje 53 per cent. It is noteworthy that in Tutin only 12 per cent are employed in industry, and

in Novi Pazar only 36 per cent. These municipalities have a high contribution from private shops: 26.9 per cent in Novi Pazar and 22.2 per cent in Tutin.

Women contribute 39.2 per cent to the total number employed, while the contribution of women employed in private shops is estimated at 17.6 per cent.

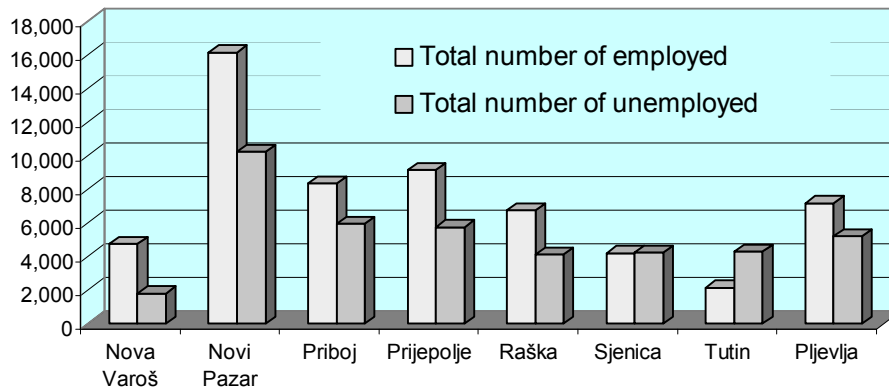


*Graph 2: Contribution by sector to the GNIP and total number employed*

### *Unemployment*

The total number of unemployed people in Sandžak at the end of 2000 was 41,526, placing the unemployment rate at 41.5 per cent (the overall unemployment rate for Serbia, not including Kosovo and Metohija, was 27.7 per cent). The share of Sandžak among unemployed in Serbia rose at the end of 2001 rose to 5.9 per cent, whereas in 2000, it amounted to 5.6 per cent of the total in Serbia without Kosovo and Metohija for the year 2001. Novi Pazar registered the highest unemployment rate with 24.6 per cent of the total number of unemployed people in Sandžak in 2000 and 29.5 per cent in 2001. The situation is worst in Tutin where there are twice as many unemployed people as employed. If we break down these figures, those between the ages of 31 and 40 represent 30.5 per cent of the total number, those from 19 to 25 years of age represent 23 per cent, and those from 26 to 30 represent 21.4 per cent. Women represent 57.7 per cent, which is similar to the figures for Serbia as whole, not including Kosovo and Metohija, while the highest rates of unemployment among women are in Pljevlja with 65.1 per cent and Novi Pazar, with 60.7 per cent.





Graph 2: Total number employed and unemployed in Sandžak in 2000

The unemployment rate in individual municipalities is, with the exception of Nova Varoš (27.4 per cent), significantly higher than the average rate for Serbia, not including Kosovo and Metohija. The highest unemployment rate is found in Tutin (66.7 per cent) and Sjenica (50.2 per cent). Novi Pazar has a registered unemployment rate of 38.8 per cent.

Municipality	Employed		Employed in all sectors combined <sup>4</sup>		Employed in the private sector		Unemployed <sup>5</sup>		Unemployment rate in %
	Total	Women	Total	Women	Total	Women	Total	Women	
Nova Varoš	4,736	5,084	4,506	2,022	230	65	1,791	949	27.4
Novi Pazar	16,139	27,076	11,798	5,682	4,341	482	10,230	6,302	38.8
Priboj	8,352	12,795	8,076	3,001	276	50	5,937	3,489	41.5
Prijepolje	9,150	13,568	8,466	4,082	684	134	5,746	2,883	38.6
Raška	6,738	9,568	6,222	2,220	516	344	4,110	2,360	37.9
Sjenica	4,208	9,012	3,686	1,834	522	79	4,234	2,293	50.2
Tutin	2,136	7,860	1,662	576	474	79	4,279	2,385	66.7
Pljevlja	7,154	11,258	6,663	2,266	491	92	5,199	3,168	42.1

<sup>4</sup> Public, Federal, mixed, state run, and private sectors not including private shops.

<sup>5</sup> Figures for 31 December 2000.

Table 2. Number employed<sup>6</sup> in all sectors and private shops in 2000

When compared with the year 2000, the figures for 2001 demonstrate the highest rise in unemployment rates in Novi Pazar (26.6 per cent), Tutin (13 per cent), and Nova Varoš (13.5 per cent). In the other municipalities there was a drop in unemployment rates, in Raška by 12.9 per cent, and in Pljevlje by 7.5 per cent. The most significant rise in unemployment for those under 18 was in Novi Pazar by 82.9 per cent, Prijepolje by 45.5 per cent, Sjenica by 44.4 per cent, and Tutin by 40.4 per cent. Certain municipalities registered a rise in unemployment for those over 50: Novi Pazar by 49 per cent, Nova Varoš by 38.2 per cent, and Tutin by 27.9 per cent.

Municipality	Total	Under 18	19-25	26-30	31-40	41-50	Over 50
Nova Varoš	26.6	82.8	18.9	24.1	25.5	36.5	49.0
Novi Pazar	-12.9	20.0	-14.7	-22.0	-13.8	-0.7	-2.2
Priboj	13.0	40.4	14.7	11.6	7.1	16.6	27.9
Prijepolje	-0.9	44.4	-8.5	-11.0	1.8	10.2	15.8
Raška	13.5		7.5	-1.8	22.1	24.8	38.2
Sjenica	-0.8	45.5	-2.0	-7.2	3.3	1.9	3.3
Tutin	-0.9	28.6	-0.7	-4.3	-2.9	1.6	6.9
Pljevlja	-7.5	17.1	-5.1	-8.1	-12.9	-1.8	-6.6

Table 3: Change in number of unemployed according to age in % (31 December 2001 compared with 31 December 2000) (insert source)

Based on work experience in 2001 in Sandžak, those without any work experience formed the largest group of unemployed (84.9 per cent), those with less than one year of work experience represented 1.8 per cent of the total number unemployed and those with more than one year of employment history 13.4 per cent.

<sup>6</sup> Annual average calculated based on figures for 31 March and 30 September.

Municipality <sup>7</sup>	Total		No work experience		Less than 1 year		More than 1 year	
	Total	Women	Total	Women	Total	Women	Total	Women
Novi Pazar	33.1	20.1	29.2	19.0	0.4	0.1	3.5	1.0
Raška	9.1	5.4	6.0	4.0	0.5	0.3	2.7	1.2
Tutin	12.3	6.8	11.0	6.5	0.1	0.0	1.3	0.3
Sjenica	10.7	5.8	9.2	5.2	0.1	0.0	1.3	0.5
Nova Varoš	5.2	2.9	3.8	2.1	0.1	0.0	1.4	0.8
Prijepolje	14.5	7.4	12.2	6.6	0.6	0.2	1.8	0.6
Priboj	15.0	8.4	13.5	7.5	0.0	0.0	1.4	0.8

Table 4: Breakdown of the unemployed based on factors of employment history and sex (31 December 2001)

Looking at the time required to find employment in 2001 in Sandžak, we find that those who had to wait for over a year before finding employment constitute 83 per cent of the populace, those who waited more than three years constitute 55.4 per cent, and those who waited one to three years constitute 29 per cent.

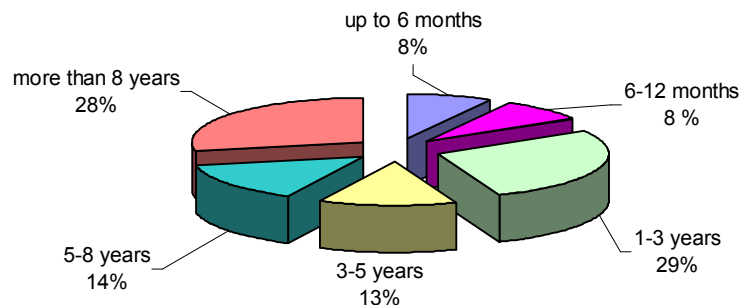


Chart 2: Number of the unemployed based on the length of time needed to find work in Sandžak (31 December 2001)

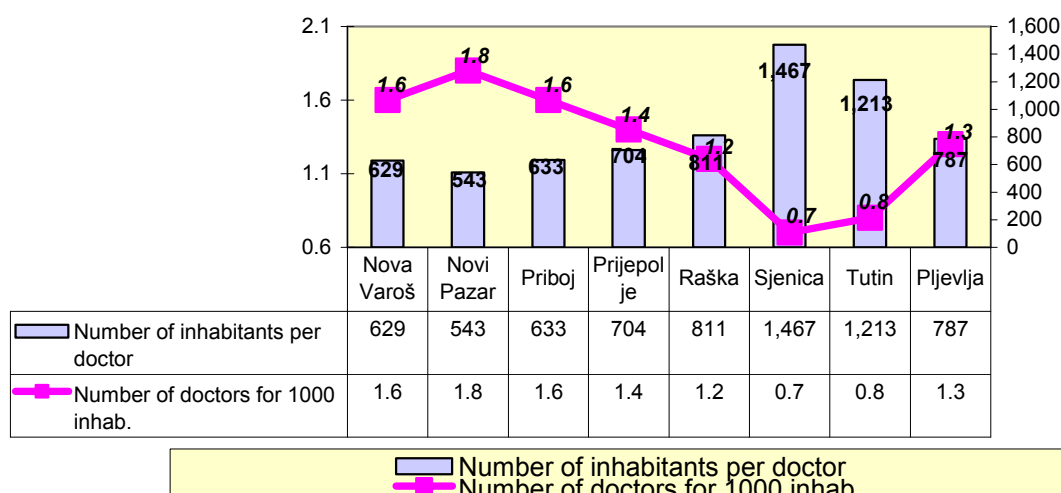
#### *Expenditures for healthcare, public services and for education*

The expenditures for healthcare in five municipalities in Sandžak<sup>8</sup> in 2000 total: 1,924 dinars in Pljevlje, 1,921 dinars in Novi Pazar, 1,362 dinars in Nova Varoš, 772 dinars

<sup>7</sup> There are no available figures for Pljevlja, the breakdown was calculated based on the total number of unemployed without this municipality.

<sup>8</sup> Note: Of the eight observed municipalities no data were available for Priboj, Prijepolje and Sjenica.

in Raška, and 553 dinars in Tutin. Of the municipalities studied, Novi Pazar devotes the largest percentage of its budget to healthcare: 11.8 per cent. The average number of doctors available per 1,000 residents is 1.3 for Sandžak as a whole (including all eight municipalities), while the average number of residents per doctor is 848.



**Graph 4: Number of doctors per thousand residents and average number of residents per doctor**

The expenditures for education are also highest in the municipality of Pljevlje: 21,405 dinars per student overall, 20,754 dinars per student for primary education and 22,863 dinars per student for secondary education, which is on average three times as high as in the other municipalities in Sandžak, probably a result of the higher salaries in Montenegro versus those in Serbia. The number of residents per student is fairly consistent: from six (for Novi Pazar) to eight (for Raška). Tutin devotes the highest percentage of its national product to education: 12.8 per cent. Novi Pazar devotes the least resources to education, coming in at 4,584 dinars per student, but this represents 4.6 per cent of its national product, which is roughly the average for all the other municipalities in Sandžak, if we exclude Tutin.

Of the eight municipalities, the costs of running government agencies and organizations are highest in Pljevlja with 2,490 dinars per resident, while in the remaining seven municipalities the average expenditure per resident equals 376

dinars. In Tutin, this represents the highest percentage of the national product (5.7 per cent).

Municipality	% of the National Product			In Dinars			
	Healthcare	Government agencies	Education	Per capita national product	Per capita cost of healthcare	Per capita cost of government agencies	Cost of education per student
Nova Varoš	4.8	1.6	3.7	28,508	1,362	455	7,533
Novi Pazar	11.8	2.1	4.6	16,357	1,921	346	4,584
Priboj	-	1.5	3.7	23,090	-	354	6,746
Prijepolje	-	1.4	6.8	20,196	-	286	9,120
Raška	3.2	1.9	3.6	23,953	772	448	6,966
Sjenica	-	3.1	6.6	12,818	-	396	6,481
Tutin	9.0	5.7	12.8	6,101	553	348	5,476
Pljevlja	5.3	3.9	8.5	36,214	1,924	2,490	21,405

Table 5: Cost of healthcare, government services and education

For Sanžak in the year 2000, the total combined costs of healthcare (for the five municipalities observed) represent 4.9 per cent of the total national product, the costs of maintaining government agencies and organizations represent 2.4 per cent, and the cost of education 5.9 per cent.

#### *Social Security and Welfare*

The number of people over 18 who received government benefits in 2000 in the region of Sanžak totaled 13,362, while the number of recipients of social security under 18 totaled 5,486. The group of recipients of legal age is comprised primarily of those needing welfare (25.5 per cent), senior citizens (25.5 per cent), and the mentally handicapped (19.6 per cent). Of those under 18, the majority (71 per cent) was in jeopardy due to their family situation.

The recipients of government benefits from Sandžak represent 7 per cent of the total number of recipients in Serbia in 2000, which is significantly higher than the share of Sandžak in the total population of Serbia (4 per cent).

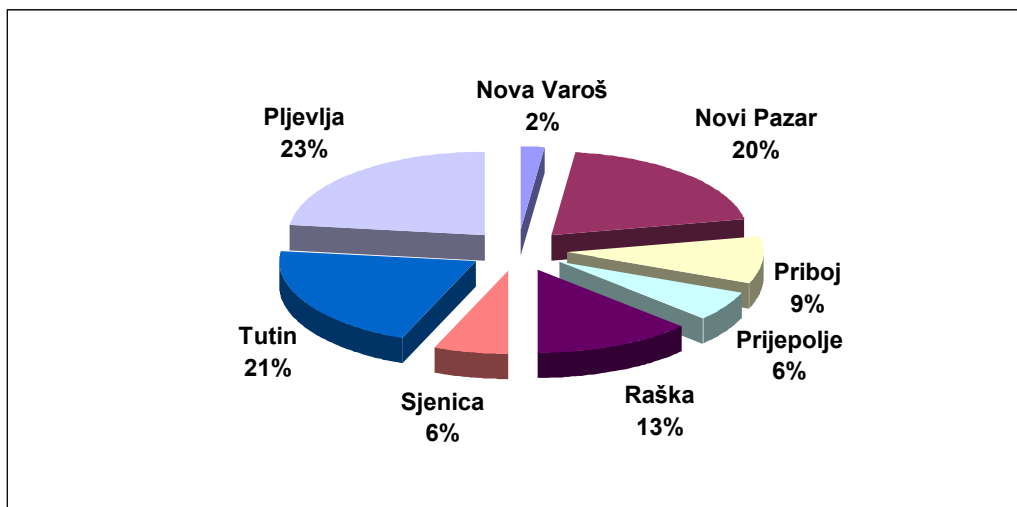


Chart 3: Recipients of government benefits, Sandžak, 2000

*Demographic characteristics and sources of residents' revenue in four selected municipalities in Sandžak<sup>9</sup>*

Within the framework of our research, only four municipalities, all located on the territory of Serbia, were included: Raška, Novi Pazar, Priboj and Pljevlja. The population of these four municipalities represents a significant portion of Sandžak's total population, which can be seen from the demographic data presented in the beginning of this paper. While the number of male and female tokens in the survey conducted throughout all of Serbia was fairly even, in three of the municipalities in Sandžak, the male segment of the population was significantly larger. Only in Raška was a greater number of women recorded. On the other hand, the average age of those surveyed, when compared with the overall average of 47 for Serbia, was significantly lower in Raška and Prijepolje, which may be due to the higher number of women surveyed.

<sup>9</sup> The factors discussed in this section of the paper were derived from a general population survey on earnings and preferences which was conducted in July 2001 in Serbia. The survey results cannot be considered entirely valid due to the low number of households sampled in the four selected municipalities in Sandžak, but they can provide a rough sketch of the relationships among the observed indicators. Namely, of the 2,006 households surveyed in Serbia, 17 were from Raška, 29 from Novi Pazar, 20 from Priboj and 19 from Pljevlja.

<b>Gender/Average age<sup>10</sup></b>	<b>Raška</b>	<b>Novi Pazar</b>	<b>Priboj</b>	<b>Prijepolje</b>
Male	41.2	79.3	60	55
Female	58.8	20.7	40	45
Average age	39	45	48	41

*Table 6: Breakdown according to gender and average age in four selected municipalities in Sandžak<sup>11</sup>*

The basic classification based on level of education is consistent with the results for the republic as a whole, as regards the population with a high school degree. Namely, the survey estimates that 56.7 per cent of the total population has a high school degree. There are significant differences when it comes to the population without formal schooling, which is estimated at 3.2 per cent for Serbia. In Novi Pazar, the breakdown may be a result of the sample including a high number of illiterates which may not be representative of the population as a whole. The survey results for Serbia indicated that 8.2 per cent of the population has an associates degree, while the total percentage of the population with a bachelor's degree is 10.3 per cent.

<b>Level of schooling</b>	<b>Raška</b>	<b>Novi Pazar</b>	<b>Priboj</b>	<b>Prijepolje</b>
No schooling	8.99	25.12	8.35	5.68
Elementary	10.48	0	10.73	31.23
Secondary	44.89	53.61	53.53	50.91
2-year college/Trade	5.58	6.33	19.97	3.88
College/Graduate	30.05	14.95	7.41	8.29
Total surveyed	100.0	100.0	100.0	100.0

*Table 7: Breakdown according to level of education*

From table 8 we can see that the rural population was surveyed only in Raška and Prijepolje. It is generally difficult to obtain an accurate breakdown of the rural population, as it is difficult to identify a strictly agricultural household by survey due to the fact that many households surveyed include members employed outside of agriculture. According to the census report in 1991, only 25 per cent of the population of Serbia was purely agricultural. The survey conducted throughout Serbia estimates that 47 per cent of the population have jobs in industries other than agriculture, only 6

<sup>10</sup> In percentages.

<sup>11</sup> Source: G-17 Survey on earnings and preferences.

per cent are employed in agriculture, and 89.9 per cent of the total households surveyed were non-agricultural.

<b>Employment</b>	<b>Raška</b>	<b>Novi Pazar</b>	<b>Priboj</b>	<b>Prijepolje</b>
Non-agricultural	36.62	62.99	38.82	63.00
Agriculture	16.00			18.43
Unemployed – Seeking employment	11.03	5.91	25.04	
Occasionally employed	5.58	10.94		4.42
Person with earnings	8.99	16.40	17.55	14.16
Homemaker	19.78	3.76	18.59	

*Table 8: Breakdown according to employment activity*

If we wish to examine the general household characteristics in the four selected municipalities, we could conclude that overall, the households are equipped with essential consumer goods to a relatively satisfying degree. The results show no significant departures from the results for the republic as a whole. However, these results do not indicate the age (i.e. wear and tear) of these products. One indicator of age could be the average age of the automobile, which runs at 14 years for Serbia as a whole.

On the other hand, the average number of members to a household in Serbia is 3.4. Results obtained independently for the four selected municipalities indicate that this figure is highest in Novi Pazar, where the average number of members per household is 5.



	<b>Average (Standard deviation)</b>			
	<b>Raška</b>	<b>Novi Pazar</b>	<b>Priboj</b>	<b>Prijepolje</b>
Average apartment size per member of household	28.686 (13.600)	20.086 (11.665)	17.520 (6.289)	19.775 (11.722)
<i>Household characteristics</i>				
Electricity	0.998 (0.036)	1.00 (0.0)	1.00 (0.0)	1.00 (0.0)
Telephone	0.798 (0.402)	0.931 (0.258)	0.80 (0.410)	0.250 (0.444)
Heating (built in)	0.317 (0.465)	0.241 (0.436)	0.250 (0.444)	0.050 (0.224)
WC	0.871 (0.336)	0.966 (0.186)	1.00 (0.0)	0.90 (0.308)
Bathroom	0.936 (0.244)	1.00 (0.0)	0.950 (0.224)	0.90 (0.308)
Drinking water in apt. or yard	0.987 (0.113)	1.00 (0.0)	1.00 (0.0)	1.00 (0.0)
<i>Consumer goods</i>				
Car	0.765 (0.437)	0.586 (0.501)	0.550 (0.510)	0.10 (0.308)
Average age of car	13.308 (4.750)	13.942 (7.750)	15 (6.115)	10 (0.0)
TV	0.942 (0.243)	1.00 (0.0)	0.950 (0.224)	0.60 (0.503)
VCR	0.588 (0.507)	0.655 (0.484)	0.7 (0.470)	0.40 (0.503)
CD player	0.236 (0.437)	0.103 (0.340)	0.0 (0.0)	0.15 (0.366)
Personal computer	0.118 (0.332)	0.172 (0.384)	0.050 (0.224)	0.0 (0.0)
Washing machine	0.942 (0.243)	1.00 (0.0)	0.850 (0.366)	0.70 (0.470)
Dishwasher	0.236 (0.437)	0.138 (0.351)	0.200 (0.449)	0.05 (0.224)
Portable heating unit	0.942 (0.243)	0.483 (0.508)	0.650 (0.489)	0.550 (0.5104)
Boiler	1.00 (0.0)	1.00 (0.0)	0.950 (0.224)	0.90 (0.308)
Refrigerator	1.00 (0.0)	0.966 (0.187)	1.00 (0.0)	0.950 (0.224)
Freezer	1.00 (0.0)	0.966 (0.187)	1.00 (0.0)	0.950 (0.224)
Number of households surveyed	17	29	20	19
Average size of household	3.294 (1.160)	5.138 (1.685)	3.50 (1.051)	3.65 (1.725)

Table 9: General characteristics of the population in the four selected municipalities

<b>Earnings</b>	<b>Raška</b>	<b>Novi Pazar</b>	<b>Priboj</b>	<b>Prijepolje</b>
From primary field of labour	55.9	68.5	48.0	27.6
Additional employment	13.5	9.0	18.6	7.9
Total from employment (1+2)	69.4	77.4	66.5	35.4
From disability insurance	0.0	0.0	0.8	0.0
Social (govt.) assistance	0.0	0.0	0.0	0.7
Pensions	11.0	3.7	14.3	5.1
Govt. assistance for children	2.0	4.7	3.6	3.1
Unemployment benefits	0.0	0.0	0.0	0.0
Scholarships	1.3	0.0	0.4	0.1
Total government benefits (3+4+5+6+7+8)	14.4	8.4	19.1	9.0
Monetary gifts received domestically	3.0	0.0	2.5	4.8
Monetary gifts from abroad	0.0	1.4	2.5	6.2
Gifts of goods and services received domestically	0.0	0.0	0.0	4.2
Gifts of goods and services from abroad	0.0	2.3	0.4	7.6
Total gifts (9+10+11+21)	3.0	3.7	5.5	22.9
From private land and store	3.6	10.0	5.1	16.1
Privileges and subsidies	0.0	0.5	0.0	0.0
Rents, interest, dividends	0.0	0.0	1.9	1.7
Natural consumption	9.7	0.0	1.9	14.9
<b>Total earnings</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Cost of sustenance <sup>12</sup>	37.5	66.0	61.0	43.2

*Table 10: Breakdown of household earnings and cost of sustenance in the four selected municipalities in Sandžak (in %)*

An analysis of the above data enables us to examine the structure of the total household earnings in the four selected municipalities according to their source. Work in a primary field of labour or profession constitutes the most significant source of income, which is similar to the results for Serbia (where earnings from a primary field of labour represent 51.2 per cent of the total earnings). Income earned from additional work makes a notably less significant contribution, and there are significant differences among the municipalities. The average for Serbia was 10.2 per cent. If we look at the total earnings from labour, we can see that it is the most significant factor in Novi Pazar. The percentage of government benefits for the republic as a whole was 14.2 per cent, which is similar to the results obtained in the selected municipalities. In terms of gifts (monetary and otherwise) received domestically and from abroad, the Survey places the average for Serbia at 6.6 per cent. The results of the Survey by municipality cannot be considered entirely reliable. We can see that this component was undervalued in three municipalities, all except Prijepolje, where it is very

<sup>12</sup> Expressed as percentage of total household earnings.

significant. It is interesting that in Novi Pazar and Prijepolje, income earned from private land or shops has a significant influence on the total earnings structure. It is interesting that natural consumption is a significant factor in Raška and Prijepolje, due to the presence of rural households surveyed. The relationship of expenditures for food to total income was measured at 42.7 per cent for Serbia. The data obtained for the selected municipalities indicate that a very significant portion of income in the municipalities in Sandžak is spent on food, which needn't necessarily be an accurate result, as the sample was small.

### *Conclusion*

A more thorough and comprehensive study, in the sense of covering a larger sample of households, would provide a better understanding of the structure of the demographic characteristics of the population, and we would gain a far more precise image of the state of economic and social development in this area, as well as of potential opportunities for further growth of this region. It is a fact that there are significant differences in the level of development among certain municipalities. By applying the appropriate instruments, these differences could be measured, which would allow us to assess the degree of inequality among the municipalities of Sandžak.