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Committee on Balance-of-Payments Restrictions

1981 CONSULTATIONS UNDER ARTICLE XVIII:12(b) WITH YUGOSLAVIA

Statement Submitted by Yugoslavia under the Simplified Procedures for Consultation¹

I. . . SITUATION OF THE BALANCE OF TRADE AND THE BALANCE OF PAYMENTS

A continued high degree of external imbalance has characterized Yugoslavia's economic relations with foreign countries over the past three years, as well as major efforts, especially in the internal stabilization of the economy, geared towards the creation of conditions requisite for mitigating this imbalance.

Unfavourable trends in economic relations with foreign countries, in trade in particular, reached their peak in 1979 when a \$7.2 billion trade deficit was registered, and a \$3.7 billion balance-of-payments current account deficit. Already in 1980 there was a significant reversal of these tendencies, and the development policy for the present five-year plan includes among its priority developmental targets the further diminishing of the balance-of-payments deficit.

Current Account Balance

	1978	1979	1980
Merchandise exports	5,668	6,794	8,987
Merchandise imports	9,983	14,019	15,064
Trade deficit	4,315	7,225	6,077
Invisible earnings (including remittances and interest payments)	5,775	7,732	8,965
Invisible expenses (including remittances and interest payments)	2,714	4,168	5,008
Invisible trade balance	3,061	3,564	3,877
Current account balance	1,254	3,661	2,200

¹These procedures are set out in BISD 20S, pages 47-49.

The value of merchandise exports in this period grew at an average annual rate of 19.6 per cent, and the real volume of exports at the rate of 4.6 per cent. The growth of imports was slower, 16.1 per cent in nominal, and 1.5 per cent in real terms. Owing to a large difference in the sum total of exports and imports, although export growth was faster, the trade deficit kept increasing in this period.

The increase of invisible earnings, including the remittances of Yugoslav citizens temporarily employed abroad and interest payments, was much more dynamic than the growth of exports, and amounted on the average to 23.0 per cent annually. However, the increase in invisible outlays was even more dynamic over this period (annual average 36 per cent growth), so that net expenditure outlays from invisible trade grew at the same pace as the trade deficit.

As a result of the above, the current balance-of-payments deficit increased by an average rate of 11.6 per cent over the period 1978-1980. The developments during each of the years covered by this period varied greatly however.

In 1978 the real volume of exports and imports of merchandise stagnated at about 1 per cent lower than in the preceding year. Owing to the faster growth of export as compared with import prices in that year, the trade deficit decreased by about \$60 million. At the same time the surplus on invisibles grew (although already in 1978 an appreciably higher growth in the rate of invisible outlays was registered than that of invisible earnings) so that the current balance-of-payments deficit was lower than the year before by over \$300 million.

In 1979, under the influence of numerous unfavourable external and internal factors, there was a marked deterioration of the balance of payments. Although exports increased by 19.9 per cent in nominal and about 4 per cent in real terms, however imports increased by far more (40.4 per cent in nominal terms, and about 18 per cent in real terms) so that the trade deficit in that year alone increased by \$2.9 billion. Although there was a considerable growth of the surplus on invisibles (about \$500 million), this offset the fast growth of the trade deficit only to a small extent, so that the balance-of-payments deficit almost tripled.

The measures undertaken in the field of internal stabilization of the economy in the course of 1980, above all deceleration of growth, economic growth of industrial production and the social product, and reduction of domestic consumption, led to a decrease in the demand for imported products, while concurrently releasing greater quantities of goods for export. The change of the dinar parity made

in the middle of the year enhanced the interest of associated labour organizations in exporting and in importing more expensive goods. In this way a fundamental reversal of foreign trade tendencies was brought about in 1980. Exports increased by 32.1 per cent in value terms and by about 11 per cent in volume terms. Imports increased by 7.5 per cent in value terms but decreased by about 10 per cent in volume terms. Thus the trade deficit also decreased by over \$1.1 billion. Since the invisible trade surplus increased by an additional amount of over \$300 million, the total reduction of the balance of payments current account deficit amounted to approximately \$1.5 billion.

The development policy for the period from 1981 to 1985 anticipates the continuation of the positive tendencies in economic relations with foreign countries. The export of goods and services in this period should grow twice as fast as the social product, i.e. at least by 8 per cent annually in real terms. The growth of imports of goods and services should be appreciably slower than the growth of exports and should amount to 1.1 per cent annually in real terms. In this way a substantial reduction of the current account deficit would be ensured so that the cumulative balance-of-payments deficit for these five years should amount to \$6 billion in current prices at maximum.

The unfavourable trends in the trade of Yugoslavia with foreign countries result from numerous internal and external factors mentioned below.

Another feature of the Yugoslav economy is a marked disproportion between the basic and the processing industries, leading to constantly high pressure to import raw materials and intermediary goods. This is particularly salient under the conditions of more dynamic economic growth, as was the case in 1979 when the registered rate of growth of the social product was 7 per cent, and of industrial production 8.3 per cent. The high growth of domestic demand in certain years, although an important accelerator of economic growth, also resulted in increased imports and the depletion of the available commodity stocks for export. The resultant disparity in commodity and monetary stocks rendered possible the high growth of prices on the home market, which in turn adversely affected export and import trends.

Inflationary trends and slower growth of the international economy have also had a bearing upon the balance of trade and the balance-of-payments deficits. The rise in foreign trade prices in 1979 alone, engendered an increase of the Yugoslav trade deficit of approximately \$1.5 billion. This tendency continued into 1980 when the rise of foreign trade prices with respect to the preceding year resulted in a trade deficit in the amount of a further \$700 million. Thus, the Yugoslav economy has registered a deterioration in its terms of trade for quite a long period of time, which, besides affecting the magnitude of the trade and balance-of-payments deficits, also represents an irretrievable loss of a portion of income earned through international trade.

II. THE YUGOSLAV TRADE AND EXCHANGE REGIME

1. Legal and administrative grounds for the conduct of trade and exchange activities

The fundamental legislation in Yugoslavia regulating trade and foreign exchange transactions with foreign countries includes the following laws:

- Law on Exchange of Goods and Services with Foreign Countries, published in the "Official Gazette of the SFRY", Nos. 15/77 and 17/78;
- Law on Foreign Exchange Operations and Foreign Credit Relations, published in the "Official Gazette of the SFRY", No. 15/77;
- Law on Performing Business Activities Abroad, published in the "Official Gazette of the SFRY", Nos. 15/77 and 17/78;
- Customs Law, published in the "Official Gazette of the SFRY", Nos. 10/76, 36/79, 51/79;
- Law on Customs Tariff, published in the "Official Gazette of the SFRY", Nos. 27/78 and 5/79;
- Law on the Principles of the Banking and Crediting System, published in the "Official Gazette of the SFRY", No. 1/77;
- Law on Long Term Production Co-operation and Business and Technical Co-operation, and on the Acquirement and Transfer of Material Rights to Technology between Organizations of Associated Labour and Foreign Persons, published in the "Official Gazette of the SFRY", No. 40/78;

- Law on Non-Residential Investments in Local Organizations of Associated Labour, published in the "Official Gazette of the SFRY", No. 18/78.

The passage of the above-mentioned laws regulating the foreign trade and the foreign exchange systems in the area of foreign economic relations has brought about a shift towards the decentralization of decision-making and changes with respect to the accountability and share of the socialist republics and the socialist autonomous provinces in the making of all decisions relevant to the pursuit and development of international economic relations, and to the provision of all the necessary conditions for associated labour to assume more efficiently a decisive rôle in economic relations with foreign countries.

The indispensable rôle of the State, within the framework of agreed rights and obligations is contained in its responsibility for guaranteeing the overall position of the country in international economic relations, for the status of the balance of payments and the foreign exchange balance of the SFRY, as well as for the implementation of the targets and tasks set by the joint economic and foreign exchange policy. The function of the State is of a planning and channelling nature, and it is under the obligation to safeguard the unhindered development of self-management relations.

More detailed information on the foreign trade and foreign exchange systems is contained in the paper "The Foreign Trade System of Yugoslavia and the Development of Trade in 1976/77" which was submitted for the last Yugoslav consultations in the Balance-of-Payments Committee (BOP/193).

2. Import-regulating methods

The import of goods is subject to the following forms of control of the foreign trade régime: free import, commodity quotas, foreign exchange quotas, licences and accordances. Products are classified as falling within a specific régime on the basis of the Brussels Nomenclature, which also serves as the basis for the customs tariff of the SFRY. The complete list of goods, with indications of the appropriate import and export classification, has been published in the "Official Gazette of the SFRY", No. 35/78.

(a) Importation of goods to which the liberalized régime (LB) is applied can be done freely without any administrative restrictions. The list of free imports contains for the most part raw materials and intermediary goods, followed by consumer goods and equipment. In addition, all products not classified under any other category of the import régime enjoy the free import treatment.

The free import list contains 3,513 tariff items, or the equivalent of 60 per cent of the total number of items in the tariff nomenclature. The share of free imports (LB) in the total value of imports was 47.2 per cent in 1978, 43.4 per cent in 1979 and 41.7 per cent in 1980.

- (b) Importation of goods to which the quota régime is applied is effected within set quotas either as per quantity (commodity quotas) or as per value (foreign exchange quotas).

The quotas are fixed for a given period, for one year as a rule. This import instrument encompasses products important for the implementation of Yugoslavia's development policy and for the protection of domestic production. Import quotas are determined by self-management agreements concluded by organizations of associated labour - the manufacturers, consumers and importers - taking into account the balance sheets for the given product.

Some products covered by this instrument such as rice, wheat, oils, butter and pork, are imported in the following way: the Federal Directorate for Food Reserves, bearing in mind the fixed quota, announces a public competition for the selection of the eligible importer, who shall upon election import the goods in question.

The quota régime includes 2,259 items or 38.5 per cent of the total number of items from the customs tariff. The share of quota-based imports in the total value of imports was 42.8 per cent in 1978, 42.2 per cent in 1979 and 36.7 per cent in 1980.

- (c) For the importation of goods subject to import licences, the organization of associated labour must obtain an import licence issued by the Federal Secretariat for Foreign Trade. This import licence system mainly covers those goods the trade of which is under control resulting from obligations assumed under international conventions and trade and other intergovernmental agreements. This import licence system covers eighty-three items, or 1.5 per cent of total items in the customs nomenclature. Imports under licences accounted for 10.0 per cent of the total value of imports in 1978, 14.4 per cent in 1979 and 21.6 per cent in 1980.

The comparatively high increase of this kind of imports is the result of the considerably higher imports of oil and oil-related products.

- (d) With a view to promoting trade, particularly the import of goods originating in developing countries, and in order to purchase them directly in these countries, certain goods are imported on

the basis of accordance. Such accordance is granted to organizations of associated labour by the Federal Secretariat for Foreign Trade. This applies to the importation of tropical fruit and spices, cocoa, some kinds of vegetable fats, cotton, jute, sisal, tropical wood, etc.

- (e) With a view to the promotion and linking of local with foreign production through long-term industrial co-operation, with reciprocal deliveries of parts, assemblies, components, semi-finished products, etc., imports for this purpose are not subject to any restrictions whatsoever.

3. Import charges

In Yugoslavia special charges are imposed on the majority of domestically-produced goods, as the levy for raising funds for the development of under-developed republics and provinces, or for the alleviation of consequences of natural disasters, etc. In order to equalize in respect of taxation the domestically-produced goods for which the said levies are payable, and the corresponding imported goods for which these are not payable, an equalization tax is applied which amounts to 6 per cent of the value of the imported goods. Products exempted from customs duties are also exempted from this tax. (Official Gazette of the SFRY, Nos. 22/68, 57/76 and 74/80).

A special tax of 1 per cent of the value of the imported product is payable on account of customs records for all imported goods which are not duty exempt. (Official Gazette of the SFRY, No. 35/76).

In order to implement more efficiently the production policy in the agricultural sector, ensure the stability of the market for agricultural produce and foodstuffs and implement the price policy, certain imported agricultural and foodstuff products are subject to special charges amounting to the balance between the regular market price and the lowest price of imported goods. (Official Gazette of the SFRY No. 15/68).

When new foreign currency exchange rates were introduced along with an associated increase of the customs duty base and of other import charges, the special import surcharge of 10 per cent was eliminated. (Official Gazette of the SFRY, No. 32/80).

4. Treatment of imports from various sources

There are no specific regulations regarding the special treatment of imports from different regions. In principle, the importer has only commercial considerations in mind when opting for the importation of a given product, (prices, quality, delivery terms, etc.).

5. State trading and government monopoly

In the Yugoslav economic system there are no State monopolies as regards the organization of export and import trade. As mentioned before, purchases and imports of goods for federal commodity stocks are made through a public tender or by the collection of offers and selection of the eligible importer to import the goods in question.

6. Export of goods

Goods may either be exported freely or under export licences.

For the export of goods subject to licences, the organization of associated labour must obtain an export licence issued by the Federal Secretariat for Foreign Trade. The export licence régime covers specific goods the trade of which must be controlled, pursuant to obligations undertaken under international conventions, trade agreements and other intergovernmental agreements (armament objects, narcotic drugs, works of art, cultural values), as well as some agricultural products of importance to the home market.

Of the total number of items in the Customs Nomenclature, 5,341 items or 95.5 per cent may be exported freely, while 262 items or 4.5 per cent are subject to licensing. Free export accounted for 95.4 per cent of the total value of exports in 1978, 95.1 per cent in 1979 and 94.2 per cent in 1980.

7. Measures to alleviate restrictions

The Compact on the Principles of the Social Plan of Yugoslavia, on the policy of the development of economic relations with foreign countries in the period from 1981-1985^{1/} stipulates that the policy of the protection of domestic production and technology development should ensure the positive influence of the foreign market on the domestic economy, primarily towards stepping up labour productivity and strengthening other qualitative factors of economic performance.

This means that commodity imports under quotas should only represent an ancillary instrument of protection for the purpose of the development of the Yugoslav economy, rather than one of the fundamental types of protection.

Relevant to a policy of protection for the current medium-term period, goods subject to import restrictions shall be reviewed with a view to the future reduction of such restrictions.

^{1/} Published in the "Official Gazette of the SFRY", No. 74/80.

Trade conducted under bilateral payment agreements, as one of the transitional forms of trade, is still practised in Yugoslavia, so that the clearing payment system is in operation with five countries, namely: Czechoslovakia, the USSR, German Democratic Republic, Albania and Mongolia.

The unfavourable trends in foreign trade and the marked increase of the balance-of-payments deficit, are the corollary of both internal and external factors. On the internal plane, the high rate of economic development, particularly of dynamic industry, the comparatively high level of domestic price and domestic consumption, are the principal factors attributing to the accentuated strain on imports. As regards foreign trade developments, protectionist measures abroad particularly affected the export of agricultural products, textile goods and ferrous metallurgy products, which account for half of Yugoslav exports to markets of developed countries. Over recent years the number of industrial sectors of export interest to Yugoslavia which have been affected by new forms of protectionism has increased. These include electronic and electric industry products, some means of transportation including ships, chemical products, non-ferrous metals, ferro-alloys, wood, leather and glassware products. This makes the further diversification of Yugoslavia's exports difficult.

In the forthcoming period it is expected that the Agreement on Co-operation between the SFRY and the EEC (the part of which pertaining to trade co-operation became effective on 1 July 1980) will alleviate some of the restrictions which gave rise to the high Yugoslav trade deficit with this region, and contribute to a more stable and balanced development of mutual relations. It should be borne in mind that in recent years trade with the EEC region accounted for some 50 to 60 per cent of the overall trade deficit of Yugoslavia.

Under conditions marked by a sustained high dependence of Yugoslav economic development on imports from certain regions, the lagging behind of exports to these regions has increasingly represented both a restrictive factor on overall foreign trade transactions, with consequences gradually shifting from the export to the import sectors of the economy and thereby necessitating import restrictions, as well as a factor slowing down the necessary changes in the pattern of Yugoslav exports and in the structure of the economy as a whole.

Under the long-term objective of adjusting its own foreign trade régime to international rules applied to developing countries, Yugoslavia during 1980 acceded to most of the agreements negotiated in the multilateral trade negotiations. At the end of 1980 it ratified the Geneva Protocol (1979) to the General Agreement on Tariffs and Trade, whereafter the Schedule of Yugoslav Tariff Concessions approved in the Tokyo Round became effective.