

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/266

8 October 1986

Limited Distribution

Original: English

## 1986 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH YUGOSLAVIA

### Statement by Yugoslavia

#### Balance of Payments, Foreign Debts and Foreign Exchange Reserves

##### Balance of payments

Over the 1984-85 period Yugoslavia registered an increase of the balance-of-payments surplus as compared to 1983, as a result of more balanced trade with foreign countries, and, to a lesser extent, of the increase of the surplus on invisibles. We expect a current account surplus in 1986 and later years, with the aim to improve the position of the Yugoslav economy in international economic relations and normalize its external liquidity. The balance-of-payments projection for 1986 envisages further increase of surplus in the current account balance.

(millions of dollars)<sup>1</sup>

	1982	1983	1984	1985	1986 <sup>2</sup>
Current account balance	-619	+212	+510	+833	+880
Comprising:					
Trade balance	-2,826	-2,131	-1,743	-1,601	-1,940
Balance on invisibles	+2,207	+2,343	+2,253	+2,434	+2,820

During the 1982-85 period a decrease of the trade deficit was recorded as a result of a 2.4 per cent annual average increase of exports, and a 1.3 per cent decrease of imports. The coverage of imports by exports over this period showed a tendency of constant growth, rising from 77.8 per cent in 1982 to 86.9 per cent in 1985. As a result, the trade deficit fell from US\$2.8 billion to US\$1.6 billion in 1985. It is estimated that in 1986 the exports of goods will grow by over a billion dollars as compared to 1985, and the imports by over US\$1.3 billion.

<sup>1</sup>Data for 1982 and 1983 are given according to the statistical exchange rate; for 1984, 1985 and 1986 according to current exchange rates in all tables referring to the balance of payments.

<sup>2</sup>Estimate

The unfavourable export results registered in 1986 in comparison with the planned ones, are primarily the result of certain internal difficulties and the adverse effects of some external factors. In addition to the necessary adjustment of the economy to the changes in the system of economic relations with foreign countries, carried out late in 1985, export performance was unfavourably affected by the growth of domestic consumption and high inflation. The numerous external factors adversely affecting Yugoslav exports comprise primarily the difficulties developing countries are faced with, which, owing to the price decreases of their export commodities (especially oil) and the high indebtedness of a number of them, are forced to reduce their overall imports for the balance-of-payments reasons, including those from our country; import restrictions and so-called voluntary export restraints of certain goods of importance for Yugoslav exports to some developed countries, problems in the marketing of agricultural products, especially meat, and the fall of export prices of certain raw materials traditionally exported by Yugoslavia.

In order to increase the exports in the second half of this year and to realize at least the estimated level, several measures were undertaken by the middle of 1986. These measures are aimed primarily to improve competitive capabilities of Yugoslav products on the world market, increase the income-based motivation of the export economy, improve terms of credit for the preparation of production for export, restrict general and collective consumption, inflation, etc.

(millions of dollars)

Year	Exports of goods	Imports of goods	Trade balance	Coverage of imports by exports (per cent)
1	2	3	4	5
1982	9,923	12,749	-2,826	77.8
1983	9,690	11,821	-2,131	82.0
1984	10,188	11,931	-1,743	85.4
1985	10,622	12,223	-1,601	86.9
1986 estimate	11,660	13,600	-1,940	85.7

The balance on invisibles over the period under review, i.e. 1982-85, registered an average drop of receipts of 4.8 per cent, and an even more important decrease of expenditure of 7.7 per cent on the average. The surplus on invisibles rose, over this period, from US\$2.2 billion in 1982 to US\$2.4 billion in 1985.

(millions of dollars)

Year	Foreign exchange receipts from invisibles	Foreign exchange expenditure on invisibles	Net foreign exchange receipts from invisibles
1	2	3	4
1982	8,373	6,166	2,207
1983	6,840	4,497	2,343
1984	7,002	4,749	2,253
1985	7,104	4,610	2,434
1986 estimate	8,065	5,135	2,930

The most important items of the balance on invisibles as regards receipts, are remittances of workers, tourism and transport, and as regards expenditure, drawings on private foreign currencies accounts, transport, and interest on foreign loans. By individual items, net remittances of workers are being maintained at the level of US\$1,600 million over the past four years, while receipts from tourism, after a certain fall in 1983, are showing a growth tendency. Net interest payments are developing similarly, i.e. recording a moderate growth after 1983.

The balance of payments with the convertible currency area registered developments similar to the overall balance of payments over the 1982-85 period. After a high current transactions deficit registered in 1982, we had a considerable surplus, due to the decrease of the trade-balance deficit and the maintenance of a positive balance on invisibles at the level of about US\$2 billion.

(in US\$ million)

Convertible currency area	1982	1983	1984	1985	1986 estimates
Current account balance	-1,580	+246	+812	+344	+731
Comprising:					
Trade balance	-3,519	-1,690	-1,172	-1,771	-1,540
Balance on invisibles	+1,939	+1,936	+1,984	+2,115	+2,271

Trade with the convertible currency area over the 1982-85 period was characterized by the increase of exports and decrease of imports, resulting in a considerable trade-deficit reduction. Over this period exports grew at the average rate of 5.6 per cent, while imports dropped by 2.5 per cent on the average. The coverage of imports by exports rose from 61.1 per cent in 1982 to 78.6 per cent in 1985. Such developments in trade with the convertible currency area resulted in the reduction of the trade deficit in convertible currencies from US\$3.5 billion in 1982 to US\$1.8 billion in 1985. Nineteen hundred and eighty-six projections envisage a considerable increase of exports to the convertible currency area, as well as an increase of imports, although somewhat more moderate. Such relatively balanced foreign trade would result in the maintenance of the trade deficit at the last year's level, while the coverage of imports by exports would rise from 78.6 to 82.6 per cent.

(millions of dollars)

Convertible currency area	Exports of goods	Imports of goods	Trade balance	Coverage of imports by exports (per cent)
1982	5,526	9,045	-3,519	61.1
1983	6,047	7,737	-1,690	78.2
1984	6,522	7,694	-1,172	84.8
1985	6,496	8,267	-1,771	78.6
1986 estimate	7,355	8,895	-1,540	82.6

#### Foreign exchange reserves

In 1982 foreign exchange reserves were considerably reduced, and the same level was maintained in 1983. In 1984 there was a considerable increase of foreign exchange reserves, and a moderate growth was recorded in 1985. In 1986 it is envisaged to maintain foreign exchange reserves at the level of last year.

(millions of dollars)

Position at the end of the year

	1981	1982	1983	1984	1985
Total foreign exchange reserves	2,687	1,676	1,622	2,156	2,365
Comprising:					
Assets of the National Bank of Yugoslavia	1,702	850	1,055	1,237	1,173
Assets of commercial banks	985	826	567	919	1,192

Foreign debt

The overall foreign debt has a declining tendency (US\$20,804 million in 1981 and US\$19,891 million at the end of 1985).

(millions of dollars)  
Position at the end of the year

	1981	1982	1983	1984	1985
Net foreign borrowing	19,219	18,542	18,729	18,274	18,100
- Total debt	20,804	20,260	20,577	20,191	19,891
- Foreign loans	1,585	1,718	1,848	1,917	1,791

The level of indebtedness of the country, measured by the ratio between annual instalments on medium and long-term credits and current foreign exchange revenue is showing a tendency of constant growth, particularly characteristic of the period following 1982. Such tendency of the level of indebtedness trend over the last years, was the result of the faster growth of annual repayments in comparison with the still insufficient foreign currency revenue, in spite of the fact that the overall foreign debt declined.

<u>Year</u>	<u>Level of indebtedness</u>
1981	20.5
1982	20.8
1983	27.0
1984	33.8
1985	34.8

As illustrated by the table, after a significant increase of the level of indebtedness in 1983 and 1984, its growth considerably slowed down in 1985, which is expected also in 1986.

Measures to remedy the situation

The policy started in 1980 was continued over the past period (1983-85), with a view to stabilizing the economy through the greater directing of production towards exports, by reducing domestic consumption to the level of the available resources, giving priority to meeting the import needs of production for export, making the amount and conditions of borrowing abroad conditional upon exports and by making organizations of associated labour and banks fully responsible for fulfilling the obligations contracted.

This made it possible, even under complex internal and external conditions, to register a continued growth of the current account surplus in 1983-85 and, with the use of new credits from international financial institutions, foreign governments and banks, to maintain external liquidity and reduce the total foreign debt by about US\$0.6 billion, increasing foreign exchange reserves by about US\$0.7 billion at the same time.

In this period too, economic development was proceeding in complex conditions in which the external liquidity of the country was one of the main factors limiting development. Improvements attained in economic relations with foreign countries made possible the gradual start of imports increase from 1984, which conduced towards arresting of the slowdown in output growth, the growth of industrial production, particularly that for export, and towards the halting of the process of the slowdown of economic growth. Measures continued to be taken with a view to bringing all forms of domestic consumption in line with the means available. Investment in capital goods decreased at a very high rate over this period - almost 10 per cent annually on the average. Although necessary, such developments had and will have their price, which will, particularly in the forthcoming period, affect development. Individual consumption and real personal incomes in particular, were decreased until 1985, when their minimum real growth was registered, which should stimulate the growth of production.

The Resolution on the policy of implementation of the 1986-1990 Social Plan of Yugoslavia lays emphasis for 1986, as well as for the following years, on attaining a shift from stagnant and inflatory developments, towards positive changes based on the qualitative growth and development factors and on the necessary structural changes. Through development policy measures, conditions will be created for the economy to attain a stable growth of production, exports and incomes, by increasing labour productivity, accelerating the pace of technical progress and other factors affecting efficiency of the economy. On this basis conditions will be created for increases of real personal incomes, for solving employment problems and raising the standard of living. Owing to such a development orientation the main tasks in 1986 are as follows:

1. substantially to decrease inflation, by eliminating its causes, to achieve financial consolidation, raise business efficiency and strengthen the financial bases of the organizations of associated labour,
2. accelerate the growth of production for export and assure the external liquidity,
3. increase labour productivity and raise the standard of living.

The following are envisaged for 1986:

- a growth of the social product of at least 3 per cent, with an industrial production growth of some 3 per cent and of agricultural of some 8 per cent;

- this should make possible exports of goods and services at real growth rates of about 5 per cent, and imports of about 4 per cent, which would result in a balance-of-payments surplus of some US\$880 million, ensure external liquidity and maintain foreign exchange reserves at the same level;
- in addition, labour productivity is envisaged to grow by at least 1 per cent, investments by 2 per cent and employment by 2 per cent, as well as real personal incomes in line with the growth of labour productivity.

In 1986 this would create conditions for more dynamic economic development in the remaining years of the current medium-term plan, which envisages a real social product growth at an average annual rate of some 4 per cent, of exports at an average real annual rate of about 6 per cent and of imports of about 5 per cent.

(Changes from the previous year, per cent)

	1982	1983	1984	1985	1986 <sup>1</sup>
Social product	+0.5	-1.3	+1.8	+0.5	+3.0
- Industrial production	-0.1	+0.8	+5.2	+2.7	+3.0
- Agricultural production	+7.5	-0.7	+2.2	-7.0	+8.0
Investment in capital goods	-5.5	-9.7	-9.6	-8.0	+3.2
Individual consumption	-0.1	-1.7	-1.0	-1.5	+2.0
Real personal incomes	-3.3	-10.3	-6.6	+2.5	+1.0
Cost of living	+32.7	+60.1	+46.5	+85.3	...
Volume of exports	-6.4	+2.3	+11.5	+7.6	+5.0
Volume of imports	-10.2	-4.7	-1.7	+2.5	+4.0

#### Main characteristic of the regulations governing foreign trade and exchange transactions

With a view to eliminating problems in the area of economic relations with foreign countries and in the functioning of the foreign exchange system, at the end of 1982 the Federal Executive Council proposed amendments to the Law on Foreign Exchange Operations and Foreign Credit Relations. They abolished the balance-of-payments and foreign-exchange-balance positions of the republics and provinces as well as their balances of payments. This Law was amended in 1983 and 1984. A special law lays down the system and ensures the more efficient discharge of the foreign

<sup>1</sup> Projection

debts. The policy of maintaining the real value of the dinar exchange rate created an improved basis for the development of exports. Import restrictions, as a necessary measure, were least of all applied to imports of raw materials and semi-finished products. Imports of raw materials and semi-finished products were also approved through countertrade arrangements.

Foreign trade and foreign exchange operations of organizations of associated labour are regulated under a number of laws, the main ones being the Law on Foreign Exchange Operations, the Law on Exchange of Goods and Services with Foreign Countries and the Law on Foreign Credit Relations. Special laws regulate more precisely certain areas of foreign trade and foreign exchange operations, such as long-term production co-operation and business-technical co-operation between domestic and foreign persons, foreign investments in Yugoslav organizations of associated labour, economic activities abroad by domestic organizations of associated labour, the execution of capital projects abroad by organizations of associated labour and ceding the construction of facilities in the SFRY by foreign persons.

Some elements of foreign trade and foreign exchange operations of domestic entities are also regulated under special laws on the customs system and the basic elements of banking operations in the country and abroad.

#### Legal and administrative bases for the application of trade restrictions

Late in 1985, the basic legislation governing foreign economic relations was substantially amended, as follows:

- Law on Exchange of Goods and Services with Foreign Countries, particularly sections referring to exports and imports of goods and services and registration of organizations of associated labour for engaging in foreign trade activities ("Official Gazette of the SFRY", No. 66/85) and amendments thereto ("Official Gazette of the SFRY", No. 38/86);
- Law on Foreign Exchange Operations as a whole, the most important changes pertaining to the regulation of payments to foreign countries ("Official Gazette of the SFRY", No. 66/85);
- Law on Foreign Credit Relations - section pertaining to foreign borrowing ("Official Gazette of the SFRY", No. 66/85 and No. 38/86);
- Law on Performing Business Activities Abroad - particularly the section on the rights and obligations of domestic organizations of associated labour in respect of their own and joint companies established abroad ("Official Gazette of the SFRY", No. 71/85 and No. 38/86);

- Law on Construction of Capital Projects Abroad - a new law regulating the rights and obligations of organizations of associated labour in constructing capital projects abroad ("Official Gazette of the SFRY", No. 71/85).

A common characteristic of the new laws is that they establish conditions for developing economic relations with foreign countries on principles characteristic for countries open to world markets, and depending on the degree of integration of the Yugoslav economy in the international division of labour, the growth of exports and a stable equilibrium in the balance of payments.

The Law on the Exchange of Goods and Services with Foreign Countries and the Law on Foreign Exchange Operations contain arrangements to be applied when the dinar achieves convertibility, as well as arrangements in force as of 1 January 1986 which are based on the need to bring the rights to imports and payments abroad by domestic persons in line with balance of payments possibilities.

#### Foreign exchange system

All export and import payments and settlements within the proportions specified in the balance of payments of Yugoslavia are effected through banks authorized for payment and credit operations with foreign countries. Besides these banks authorized for transactions with foreign countries there are also banks authorized for foreign exchange operations in the country.

Organizations of associated labour, under the rights to import and pay abroad, purchase foreign exchange (through authorized banks) in the foreign exchange market by submitting pay orders and depositing the dinar equivalent of foreign exchange in the amount of the value of imports. When exporting, organizations of associated labour are obliged to collect payments within sixty days. In exceptional cases, stipulated by law, the period for collecting foreign exchange for exports may be extended. When the foreign exchange is paid to the account of the authorized bank abroad, dinars are paid to the organization of associated labour in the equivalent of the foreign exchange. Organizations of associated labour choose an authorized bank which calculates their socially-recognized reproduction requirements<sup>1</sup> and keeps records on the use of their rights to import and

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<sup>1</sup> Socially-recognized reproduction requirements should be looked at in the context of conditionally free imports (LBO). They comprise payments for imports of raw materials, and semi-finished products and all payments for invisible transactions which are necessary for the current production of the organization of associated labour.

pay abroad. However, when payments are in question, an organization of associated labour may choose another bank authorized for transactions with foreign countries.

Foreign exchange is purchased and sold at interbank meetings as an organized part of the foreign exchange market. Representatives of authorized banks and of the National Bank of Yugoslavia participate in these meetings.

Banks authorized for transactions with foreign countries bring annual and periodic plans of foreign exchange inflow and outflow in line with the export plans and programmes of their member organizations of associated labour. These foreign exchange inflow and outflow plans should ensure harmony between collections and payments in foreign transactions. In addition, until the dinar becomes convertible, banks authorized for foreign transactions have the obligation of keeping records of daily foreign exchange positions, comprising all available assets abroad and all payments to foreign countries falling due. On the basis of these daily positions, the National Bank of Yugoslavia draws up a common foreign exchange position for the purpose of determining the overall demand and supply of foreign exchange, on the basis of which purchases and sales on the foreign exchange market are effected. With a view to the timely procuring of foreign exchange, organizations of associated labour are obliged to report all payments of larger sums to their banks (payments for purchases of energy materials, etc.).

The rôle of the National Bank of Yugoslavia is to determine which foreign exchange is purchased and sold on the foreign exchange market, as well as to harmonize the supply and demand of foreign exchange by its participation and intervention at the interbank meeting.

When there occurs a discrepancy between the overall demand and supply of foreign exchange, the Federal Executive Council determines payment priorities, especially: the repayment of obligations falling due on foreign credits and under conventions, imports of raw materials and semi-finished products by predominantly exporting organizations, imports of energy materials, etc. Priorities are met from the overall available foreign exchange at the foreign exchange market.

#### Basic characteristics and methods of exports and imports regulations

Exports and imports, when the domestic currency becomes convertible, will be effected under the following régimes:

- liberalized export and import (LB),
- import under quotas (K),
- export and import under licences (D).

Payments shall be carried out depending on import régimes.

The main criterion for classifying goods in the various import and export régimes when the dinar becomes convertible shall be the openness of the Yugoslav economy to the positive effects of the world market, implemented by making the number of goods and the value share of liberalized exports and imports predominant in total Yugoslav exports and imports (over 95 per cent in the case of exports and 80 per cent in the case of imports). This presupposes that exports and imports are free as a rule, and only exceptionally can they be regulated by restrictive régimes, when the honouring of obligations under international treaties or the rational protection of domestic production are in question.

In addition to liberalized imports, quotas also would be retained, and they would be based exclusively on the criterion of protecting domestic production with a view to its development. The development policy of the country would determine the economic areas and branches of activity to be protected through quotas. This would be done by the Assembly of the SFRY through the Social Plan of Yugoslavia.

The volume of imports under quotas (the level of protection and the period of its duration), as well as its distribution by the various organizations using the imported products, shall be determined in the manner set forth by organizations of associated labour within the Yugoslav Chamber of Economy. Organizations that are producers and consumers of the goods in question shall participate in the distribution in an equal manner.

If the fixed quotas or their allocation jeopardize the supply of the domestic market, production or exports of goods, the Federal Executive Council may fix quotas or take other measures to eliminate the disruptions. This counterbalances possible tendencies towards confinement and autarky which could be expressed in those economic areas where the manufacturers of the respective goods play a dominant rôle.

Export and import licence régimes are regulated by criteria laid down by law. Export and import licences may be requested when the obligation of controlling trade in specific goods is envisaged by international conventions ratified by the SFRY (e.g. narcotic drugs, coffee, cocoa bean, sugar, etc.), as well as in the case of exports and imports of weapons and military equipment, exports of historic and works of art and exports and imports of certain precious metals (gold, platinum, etc.).

In addition to the above-mentioned, in certain cases when regional channelling of imports is required (for a certain number of goods produced by developing countries), the Federal Executive Council may make it incumbent on economic organizations to obtain the approval of the competent federal authority for importing such goods. As this is not a restrictive régime, import approval is issued in any case, provided however, that imports may regionally be channelled to the countries producers of such goods.

Until the dinar becomes convertible, imports and exports may be:

- liberalized (LB);
- under quotas (Kk and Kv);
- under licences (D);
- only imports may be conditionally free (LBO).

In this period, the import régime, in addition to the rôle it will play when the dinar becomes convertible, also has the rôle of ensuring the volume of imports envisaged by the balance of payments of Yugoslavia. This rôle of the import régime is interdependent with the régime of payments abroad. This is why the largest number of goods, and therefore their value share in overall Yugoslav imports, in the transitional period, fall under quotas and conditionally free imports.

The rule of free payments applies to liberalized imports, regardless of their purpose (raw materials, equipment and consumer goods).

The volume of imports under quotas (by quantity or value) is determined by the Federal Executive Council, while organizations of associated labour within the Yugoslav Chamber of Economy, i.e. within the appropriate general associations, decide on their allocation through self-management agreements between the manufacturers, consumers, exporters and importers.

Conditionally free imports (LBO), from the aspect of commodity régime, represent liberalized imports, but within the possible volume of payments which is adjusted to the volume of imports envisaged by the balance of payments of Yugoslavia.

The Social Plan of Yugoslavia for the 1986-1990 period stipulates provision of additional protection, through the import régime, to be provided particularly in the fields of energy, primary production, for basic agricultural products and foodstuffs, as well as for products of significance to the domestic production and market. Criterion for classifying commodities under quotas is a need for protection of development.

On the basis of such criterion and objectives, in 1986 a classification was made of goods under various import régimes as follows: liberalized imports account for about 2.5 per cent of the total number of tariff items, conditionally free imports encompass the largest number of goods - about 75 per cent, quotas account for 21 per cent and licences for only 1.5 per cent of the total number of tariff items.

Import and export liberalization in the 1986-1990 period should be carried out depending on: the balance-of-payments equilibrium, trade balance, the coverage of imports by exports of Yugoslav products and

services, the structural adjustments of production, the increase of competitive position and export orientation, the decrease of the level of indebtedness and the release of a larger share of foreign exchange inflows for paying imports.

Liberalization is directed at:

- the liberalization of exports and imports of goods and services;
- narrowing balance-of-payments restrictions;
- a rational protection policy.

Therefore, the law and the economic policy documents envisage a gradual shift to the final arrangements stipulated by law, simultaneously with the attainment of the conditions for making the dinar convertible. It is reflected in the following when the regulation of exports and imports is in question:

- the reduction of the rôle of the import régime as the instrument of balance-of-payments restrictions by increasing the number of goods the import (and payment) of which is liberalized;
- the reduction of quantitative restrictions on imports of goods, so that the import régime becomes an instrument of the rational protection of domestic production development;
- the abolishment of quantitative export restrictions depending on output increases and the supply on the domestic market;
- the development of higher forms of co-operation between organizations of associated labour and foreign partners (co-production, joint ventures, etc.) as the basis for the promotion of the development of our own technology and penetration in foreign markets.

When exercising rights under the payment régime, liberalized imports at the same time mean liberalized payments. Imports under quotas and licences represent the right to payments. Until the dinar becomes convertible, the harmonization of the import and payment régimes differs when imports of raw materials and intermediaries and equipment are in question. In the case of raw materials and semi-finished products, the right to imports, under liberalized imports and quotas and licences, represent at the same time the right to payments of such imports. Economic entities pay for raw materials and semi-finished products under the conditionally free import régime, on the basis of and within their socially recognized reproduction requirements. Socially recognized reproduction requirements are increased or reduced as compared to the initially calculated amount of socially recognized reproduction requirements depending on individual export performance. Socially recognized reproduction requirements in addition to the payment of imports of raw materials and semi-finished products cover all invisible payments necessary for current production.

In the Yugoslav Chamber of Economy organizations of associated labour may, through self-management agreements on joint production and exports, reallocate the calculated socially recognized reproduction requirements and quotas. Payments for imports of equipment (except liberalized imports, the payment of which is free) are effected within a part of the calculated equipment amortization, and the share of the realized exports of the organization of associated labour in the current year. The part of the calculated equipment amortization as well as the share of export receipts belonging to individual organizations of associated labour, is specified each year by the current economic policy enactments of the Assembly of the SFRY. Equipment under the conditionally free régime may be imported and paid for up to the calculated part of the value of exports, i.e. the part of the calculated equipment amortization. Equipment under quotas and licences is imported in the quantity, i.e. value of the allocated quota, i.e. issued licence, and is paid to the specified amount of realized exports, i.e. calculated equipment amortization of the organization of associated labour using the imported products.

If the equipment under the conditionally free import régime is manufactured in the country and if previously a public bidding procedure or collection of offers by domestic manufacturers had not been carried out, the organization of associated labour is obliged to obtain the approval of the Yugoslav Chamber of Economy for importing such equipment. The Yugoslav Chamber of Economy shall grant approval to the organization of associated labour if the bids of domestic organizations of associated labour are less favourable in terms of prices, delivery and quality than the bid of the foreign manufacturers. If the equipment is imported on credit, i.e. over several years, imports may be reported up to the value of exports, i.e. the part of the calculated amortization, at maximum up to the fivefold value of the part of export and amortization calculated for that organization at the time of reporting such imports to the bank.

Consumer goods are imported in line with the determined amount of payments and the allocation made in the Yugoslav Chamber of Economy. Goods under the quota or licence régime may be imported up to the quantity or value specified in the quota, i.e. licence. The import pattern of consumer goods is determined in the Yugoslav Chamber of Economy and for most consumer goods imports public bids are obligatory for selection of the most favourable importer.

Socio-political communities and their authorities may import goods and services up to the determined volume of payments for such purposes. The total volume of payment is set forth in the balance-of-payments projection of Yugoslavia. Within this volume the Federal Executive Council determines the volume of payments for the needs of material reserves of various federal bodies and organizations and other users. The volume of payment for the needs of republic and provincial bodies is distributed by the competent republic and/or provincial authorities.

For commodities subject to quotas it is necessary to obtain a certificate from the appropriate association in the Yugoslav Chamber of Economy to the effect that domestic manufacturers are not in the position to deliver the respective commodity in the required quantity, quality and time. For goods imported under licences it is necessary to obtain an import licence from the competent federal administrative authority.

#### Specially regulated foreign trade operations

Contracts on long-term production co-operation and investments of foreign resources in domestic organizations of associated labour, due to their specificity and exceptional significance for the technological development of domestic organizations and their greater inclusion in the international division of labour, are regulated by special laws.<sup>1</sup> Exports and imports under such contracts are specially regulated in comparison with regular imports and exports. Regardless of the import and export régime, these activities are carried out pursuant to the approval of the competent authorities, which is given when the contracts are registered and lasts for the whole duration of the contracts. The approval of the competent authorities replaces the import régime (quota, licence) so that the commodities under the contract are imported and paid freely. All other foreign trade operations are carried out under the import and payment régimes.

The Law on the Exchange of Goods and Services with Foreign Countries specifically lists the cases when organizations of associated labour may temporarily import or export goods. These are primarily cases when the temporarily exported and/or imported goods are used in the process of production or are imported for improvement, repairs, executing certain works, such as the assembly of imported or exported equipment, etc. It also covers temporary exports and imports for the purpose of exhibiting at fairs in the country or abroad, exports and imports of specific devices for presenting certain public manifestations, etc., as well as temporary imports of passenger vehicles, yachts, boats, etc., for the purpose of organizing rent-a-car service primarily for foreign tourists. Organizations of associated labour may temporarily (for a specified period of time) export, and/or import leased equipment (machines, apparatuses,

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- <sup>1</sup>(1) Law on Long-term Production Co-operation, Business-Technical Co-operation and the Acquisition and Transfer of Material Rights to Technology Between Organizations of Associated Labour and Foreign Persons ("Official Gazette of the SFRY", Nos. 40/78 and 10/84).
- (2) Law on Investments by Foreign Persons in Domestic Organizations of Associated Labour ("Official Gazette of the SFRY", Nos. 18/78 64/84 and 38/86).

devices, transportation means, etc.) to be used in the process of production or for rendering services. In this case the contract must specify the duration of the lease, or may stipulate that upon the expiry of the contracted period the lessee will permanently keep the temporarily exported and/or imported equipment. Equipment may be imported under a lease contract subject to the approval of the competent federal authority and for the duration of the lease regulations pertaining to temporary export and import are applied. After the lease period expires, if the equipment is retained, the organization of associated labour must fulfil the conditions applicable to regular imports of such equipment. For goods temporarily exported or imported the organization of associated labour does not have to be entitled to the right to export and/or import (quota, licence), except that when importing equipment under lease it should obtain approval. An organization of associated labour is obliged to return the temporarily exported and/or imported equipment to Yugoslavia and/or abroad in the same or changed state except if, in the case of importing equipment under lease contracts, the contract envisages the possibility of the lessee keeping the equipment. During temporary exports and/or imports the temporarily exported and/or imported goods are subject to customs supervision.

Domestic and foreign physical persons may freely import and export objects for their needs provided that these are not exported and/or imported in quantities intended for sale. These are above all personal effects, as well as objects for the personal needs of the members of their family and household. This also applies to the temporary import and export for the purpose of temporary residence abroad and/or in Yugoslavia. Domestic and foreign physical persons may purchase objects for their personal needs, for the personal needs of the members of their family as well as for the needs of their household, from organizations of associated labour representing foreign persons and operating consignment warehouses of foreign goods, or import them through trade organizations registered for foreign trade operations.

In addition to the above-mentioned cases, domestic physical persons engaged in crafts or agriculture as their main activity may import capital goods for their needs (machines, devices, etc.) and the materials necessary for pursuing their activity. The law stipulates special conditions for domestic physical persons returning to Yugoslavia from temporary work abroad.

#### Customs duties and import charges

The average tariff rate on Yugoslav imports (weighted by the import value) over the 1982-1985 period was 6.9 per cent, and/or 7.6 per cent in 1982, 7.3 per cent in 1983, 6.5 per cent in 1984 and 6.3 per cent in 1985.

Amendments to the Customs Law ("Official Gazette of the SFRY", Nos. 7/84, 25/85 and 38/86), in addition to updating certain regulations and bringing this Law in conformity with the Law on the Exchange of Goods

and Services with Foreign Countries, provide for the possibility of opening duty-free shops within the country ("A" and "L" category hotels, marinas, nautical centres, motels on highways, etc.). The mentioned shops would sell products of domestic and foreign origin, specified by the Federal Executive Council, to foreign physical persons and Yugoslav citizens temporarily employed abroad, with payment being made in foreign currency.

The Law on Amendments to the Customs Tariff Law ("Official Gazette of the SFRY", Nos. 7/84 and 71/84) proposes reduction, i.e. exemptions from the payment of duties on imports of equipment and spare parts under export programmes.

Amendments to the Law on Payment of a Special Equalization Tax on Imported Products ("Official Gazette of the SFRY", No. 3/86) for equalizing charges on domestically produced goods and the like imported ones set the rate of this tax at 8 per cent for 1986.

AVERAGE IMPORT DUTY RATES (PER CENT)

Customs tariff section number	1982	1983	1984	1985
I Live animals and animal products	7.6	9.3	7.8	7.6
II Vegetable products	5.2	3.3	3.1	3.6
III Fats, oils and waxes	7.9	5.9	4.7	5.1
IV Foodstuffs and tobacco	6.1	6.4	10.3	6.1
V Mineral products	1.6	1.3	1.1	1.3
VI Products of the chemical industry	7.8	7.9	6.5	6.1
VII Plastic materials and rubber	10.4	10.4	10.2	9.7
VIII Leather, furskins and articles thereof	2.5	2.6	1.7	2.1
IX Wood and articles of wood	4.8	4.8	5.3	5.2
X Paper-making materials, paper and articles thereof	8.6	8.4	7.9	8.2
XI Textiles and textile articles	9.2	10.3	8.3	7.2
XII Footwear, headgear, feathers, etc.	18.1	18.7	18.2	17.7

Customs tariff section number		1982	1983	1984	1985
XIII	Articles of stone or plaster	12.7	12.6	12.0	11.1
XIV	Pearls, precious stones and jewellery	11.6	10.7	9.5	8.5
XV	Base metals and articles thereof	9.9	9.7	8.9	8.3
XVI	Machinery, appliances and equipment	12.6	12.0	11.6	11.2
XVII	Vehicles and other means of transport	13.0	13.9	13.8	9.8
XVIII	Instruments	9.3	9.7	9.0	8.2
XIX	Arms, ammunition and parts thereof	25.0	10.4	24.7	23.0
XX	Miscellaneous manufactures	16.2	16.2	14.8	15.3
XXI	Works of art	2.5	2.0	2.0	0.6
I-XXI	All sections	7.6	7.3	6.5	6.3

Regional breakdown of foreign trade

In the regional breakdown of foreign trade we registered an increased share of the developed countries, and a decreased share of the socialist countries, particularly in 1986:

(% share)

	1983	1984	1985	I-VI 1986
SFRY trade	100.0	100.0	100.0	100.0
of which:				
Developed countries	40.0	40.3	41.3	46.3
Developing countries	18.0	19.3	17.7	17.4
Socialist countries	42.0	40.0	41.0	36.3

The increased share of the developed countries in overall trade is the result of the increased share of these countries in overall Yugoslav imports and exports of goods over recent years.

(% share of the developed countries)

	1983	1984	1985	I-VI 1986
In overall exports of goods	33.0	35.7	35.0	41.4
In overall imports of goods	45.6	44.3	46.9	50.2

As most of the trade deficit and foreign debt is generated in trade with the developed countries, it is important that in recent years we registered a certain increase of the share of Yugoslav exports in trade with these countries (from 37.2 per cent in 1983 to 39.3 per cent in 1985 and to 39.7 per cent in the first five months of 1986). Efforts are being exerted, in co-operation with the developed countries, to establish equitable and more balanced economic relations, through co-ordinated measures. Co-operation with the developed countries should be further promoted by making use of the facilities under the General Scheme of Preferences, the promotion of production co-operation and joint ventures and technical co-operation on projects of mutual interest, the promotion of the existing bilateral forms and the expansion of multilateral co-operation with certain regional groups. The development of future co-operation will depend to a considerable extent on the possibilities for the access of Yugoslav export commodities to the markets of OECD member countries.

The importance of this issue is illustrated by the fact that products in the following sectors accounted for 50 per cent of Yugoslav exports to OECD countries over the past three years: agriculture and food processing, beverages and tobacco, iron and steel, textiles and clothing, footwear and leather articles, electrical appliances and machinery, as well as means of transport, including ships.

Share of Yugoslav Exports to OECD Member States, 1985

Agrifood products	11.2
Beverages and tobacco	1.7
Iron and steel	5.3
Textiles and clothing	9.5
Footwear and leather articles	2.6
Machinery and electrical appliances	8.3
Means of transport	6.6
	—
	TOTAL 45.2
	—

In all the mentioned sectors there is a high concentration of various forms of trade restrictions, the abolishment or at least the alleviation of which would facilitate the solution of the high external indebtedness problem, primarily by way of stepping up exports. It also would make space for the faster liberalization and increase of Yugoslav imports.

Trade with the East European socialist countries is carried out under annually-agreed-upon lists of goods. The pattern of Yugoslav exports to these countries is dominated by industrial products, while imports mainly comprise raw materials, including energy materials for Yugoslav industry.

With our three largest foreign trade partners from this region, payments are effected through clearing arrangements, with a considerably reduced positive Yugoslav balance in comparison with previous years and almost balanced trade in the first few months of 1986. On the whole, Yugoslavia has clearing payment arrangements with only five countries: the USSR, Czechoslovakia, the German Democratic Republic, Albania and Mongolia. In the past three years the proportion of clearing payments in total Yugoslav trade declined (from 35.1 per cent in 1983 to 32.0 per cent in the first six months of 1986). The strengthening of production co-operation and specialization, technology transfers, joint ventures, financial and scientific-technical co-operation, as well as co-operation in the field of energy, raw materials and food, which will be particularly encouraged, will contribute to the further development of economic co-operation with socialist countries.

The promotion of trade and other forms of economic co-operation with developing countries is one of the strategic objectives of the Yugoslav foreign trade policy. An expression of this is the Resolution of the Assembly of the SFRY on promotion of economic co-operation with developing countries adopted at the end of 1983. The Resolution envisages actions and incentives at all decision-making levels to ensure stable business conditions and the lasting interest of the economy in co-operation with partners from developing countries.

In order to achieve a more balanced regional structure of economic relations between Yugoslavia and foreign countries, conditions shall be created for the faster growth of exports and imports to and from developing countries than growth of trade with other regions. To this end, economic co-operation with these countries will be particularly encouraged through more complex forms of long-term co-operation and co-production and through the development of other forms of economic co-operation. Provisions have also been made for changes in the structure of imports from developing countries, with a shift toward more highly-processed products based on the raw materials, scientific and professional potentials of developing countries.