July 14, by Croatian President Tudjman, a population exchange, modeled explicitly on the British-sponsored 1923 Lausanne Treaty, which ended the Greek-Turkish War of 1920-22. Mass population exchanges are already under way, with Serbs and Croats living in areas expected to be part of the "other" state, fleeing to their post-partition "Fatherland." By July 22, some 40,000 Serbs had fled Croatia to the Serbian region of Vojvodina, while up to 20,000 Croats had fled the Serbian-occupied regions of Croatia.

Toward a Balkan war threshold

By the end of the third week of July, three major fronts where the Yugoslav civil war could spill over into an international conflict, had become clearly definable, each shaped by Serbia's acquisition or intended acquisition of non-Serbian or mixed population regions. The first case is a Serbian-Hungarian conflict over the future of the Vojvodina, a region of the Serbian republic bordering on Hungary, and containing a large Hungarian minority. The conflict broke into the open when, on July 14, Hungarian Prime Minister Joszef Antall reminded Serbia that after World War I, Hungary had ceded Vojvodina to Yugoslavia, and not to Serbia.

A hot media war between Serbia and Hungary has been raging ever since; however, the danger of armed conflict is minimal. However upset Budapest is at Serbia, Hungary is too weak militarily to do anything, and for reasons of continued economic dependence on Russia, will do nothing to antagonize Moscow. The Soviet "hands off" message to Hungary was conveyed through Russia's Romanian satrap, Ion Iliescu, who denounced Antall's statement as "unfortunate and dangerous." This has ignited tensions between Hungary and Romania, but again, at least for the next months, it is unlikely to escalate beyond a war of words.

That is not the case concerning the south of Yugoslavia, the next likely theater both for the civil war's expansion. Albanian President Ramiz Alia went on record on July 15, after a first-ever meeting with Kosovo Albanian leader Ibrahim Rugova, saying that Albania would act "for the protection and rights of the Albanians in Kosovo," should fighting erupt in the Albanian-inhabited but Serbian-ruled region of Kosovo.

Alia's statement that "civil war also threatens in southern Yugoslavia," was an accurate reference that the new "southern front" in the war could embrace not only Kosovo, but the southern Yugoslav republic of Macedonia—the third area of potential expansion of the civil war. Macedonia, bordered by Serbia, Albania, Greece, and Bulgaria, was the epicenter of most of the Balkan crises and wars from 1877 to 1913. The Macedonian crisis erupted after a July 20 declaration by its President, Vasil Tupurkovski, demanding that all Yugoslav Army units leave its territory or face expulsion by force.

The dangers of the war spreading to Macedonia have become enhanced following Bush's visit to Turkey and the agreements reached with Turkish President Turgut Özal, ratifying Turkey's role as Washington's junior partner.

IMF wrecked the Yugoslav economy

by Paolo Raimondi

The economic crisis is the main cause of the present looming civil war in Yugoslavia, and a political solution can only come in the context of a program of economic development. The economies of the republics of Yugoslavia have been destroyed by a combination of the bureaucratic incompetence of a dictatorial bolshevist regime, and the more recent austerity policies of the International Monetary Fund (IMF).

Dominated by this perverse pair, Yugoslavia has been paying interest and principal on a debt of approximately $20 billion for over a decade, and still has a hard-currency debt of approximately $20 billion to be serviced. The final blow came at the end of 1989, when the federal government of Prime Minister Ante Markovic, a Croatian, unveiled a brutal austerity program, worked out in coordination with the IMF. As part of the package, Yugoslavia hired Harvard University austerity specialist Jeffrey Sachs as a "special adviser" on the introduction of free market mechanisms, and Markovic called in World Bank and IMF experts to "reform" Yugoslavia's banks.

The resulting budget cuts, including cuts in subsidies for industry and agriculture, produced a drastic drop in productive output, bankruptcies, mass unemployment, and a very large wave of strikes which devastated all the republics, beginning with the most backward and poor like Serbia. It is calculated that, from the time these measures were introduced, to the beginning of the eruption of military conflicts, the average living standard dropped 30-40%. Even relatively prosperous Croatia, after free elections in May 1990, blindly continued the policy of economic suicide and named Jeffrey Sachs as a special economic adviser to the Croatian government. Now, with military confrontation under way, the collapse of the economic system will be inevitable.

Federal government is bankrupt

Despite all this, federal Prime Minister Markovic has recently elaborated a new "shock therapy" program, cutting the federal budget by 63 billion dinars at one stroke, to the level of 100 billion dinars. It is expected that Markovic will announce the insolvency of the state by the end of August or the beginning of September at the latest. For several months, the federal budget has been going exclusively to finance the

Armed Forces and the federal bureaucracy. And because the republics have suspended their contributions to the central government, a large part of the budget is simply financed by printing new money. This is a very short-term tactic to pay the soldiers, bureaucrats, and some of the workers, and to try to prevent social revolts against the central communist regime; but very soon it will create a huge inflationary explosion. Last year the story was circulating that the central government had stolen the equivalent of $2 billion from the central bank, just to pay the Army and support the operations of Serbian "Harvard University communist" Slobodan Milosevic.

The state of health of the federal reserves is also alarming: It has been calculated that hard-currency reserves, which until recently totaled $10 billion, will fall by September to less than $3 billion. This will mean a strangulation of imports and a further drastic reduction in production, which has already collapsed 25% in the past months. And the government will not have any hard currency to import the minimum oil that is required.

Markovic and the representatives of the federal central bank are contacting all the Western capitals in vain, trying to collect at least $3 billion in new credits. This is a pure illusion, however. Furthermore, the promised OECD package of $5 billion will not arrive in Belgrade in a situation of civil war, and trade has been paralyzed since Germany, for example, suspended its "Hermes" government credit guarantees to companies that export to Yugoslavia. Other Western nations have taken similar moves.

An additional economic financial complication has resulted from the collapse of tourism and the drying up of money transfers to home banks from Yugoslav emigrés working abroad. Croatian economists are saying that there is a gigantic flight of capital now under way from Yugoslavia toward the Western banks, a development which heralds an imminent collpase of the dinar and the whole Yugoslavian money market.

In this situation, a "monetary war" has also broken out. The federal central bank has blocked all hard-currency transfers to the Croatian and Slovenian central banks, which in turn denounced this action as "illegitimate" and announced countermeasures. Ante Cici-Sain, the president of the Zagreb central bank, said that they have banknotes "at least for the next three or four months." It is obvious that the republics are preparing to print their own currencies, if need be.

The case of Croatia

A look into the economic disaster in Croatia, the republic that is in the best economic condition, gives an insight also into the situation in the other republics. Ivica Gazi, the president of the Zagreb industrial association, reports that, leaving aside the effects of the "monetary war" among the republics, the economic damage in Croatia is so far estimated at the level of $4-6 billion, equivalent to 30% of the Croatian yearly Gross National Product.

In 1990 Croatia produced 26.7% of the total Yugoslavian GNP, Slovenia 19.7%. In Croatia, the transportation system is paralyzed, exports are near zero, and harbor activity fell 80%. All the trucks which normally use the Croatian road system, are now using alternate, longer and more expensive, routes. Gazi says that hopes of an economic recovery, which existed up until May, are now out of the question, with the freezing of all cooperation treaties and joint-venture deals. Many factories are going through bankruptcy procedures, in particular those which exported for the Soviet market, and the banks are compelled to take them over to prevent their definitive closure.

Solutions under debate

It is clear that at the present stage of the crisis, a political solution will not be an easy task: The republics may become independent, and an arrangement will have to be found for a future relationship. It is absolutely clear that there will not be peace without a policy of economic development and cooperation for all the peoples of the region, as part of an integrated Europe.

Some good ideas for a peaceful solution were discussed on May 14, just a few days before the intervention of the federal Army against the independence moves of Slovenia and Croatia, in a conference organized in Belgrade by the Yugoslavian Institute of International Politics and Economics, on the necessity of the economic and infrastructural integration of the republics of Yugoslavia and all the states of the Balkan region, with the rest of continental Europe. Eighty representatives of all the republics and of the governments of Austria, Italy, Albania, Hungary, Czechoslovakia, Greece, Romania, Turkey, and others participated.

A program was presented which coheres well with Lyndon LaRouche's "Productive Triangle" plan for high-technology and industrial development of the Paris-Berlin-Vienna core area. The program presented in Belgrade foresees a high-speed train connection Paris-Budapest and Gdansk-Budapest, and from there a spiral arm moving south toward Belgrade and beyond. High-speed trains and highways would connect Italy and Austria, via Ljubljana, Zagreb, and Belgrade, to Turkey and the Mideast. As for waterway transport, the conference supported a program to make the Danube River completely navigable, and the construction of a new water connection in Belgrade with the Danube and the Morava toward the south, and the construction of a canal connecting the Morava with the Greek river Axios, up to Thessalonika on the Aegean Sea. This would establish a quick connection with the Mediterranean and in particular the Suez Canal, providing a tremendous impulse to traffic and trade. This infrastructure program, which could have led the whole region out of economic backwardness, was presented in 1989 to the central government in Belgrade, but was turned down, on the insistence of the IMF team.