

last couple of years, average inflation in Croatia was approximately 3.5%. The GDP last year was \$21.3 billion, which is \$4,663 per capita. And it is one of the highest GDP per capita in all the countries in Central and Eastern Europe countries in transition.

The annual rate of inflation, as I said, was approximately 3.5% for the last couple of years. The annual rate of industrial output in 1998 was 2.7%.

Furthermore, in the last couple of years, we have continued growth of foreign currency reserves. Then, in 1995 and 1996, negotiations with Paris and London Club were successfully completed.

In January 1997, credit rating agencies . . . gave Croatia the great rating “BBB” and “BAA3.” We have very low foreign indebtedness. For the past years, we’ll have a budget deficit—the figure for 1998—we had a budget surplus of 0.2% of GDP, which shows that even in the circumstances that Croatia were, it is possible to achieve good economic results. . . .

U.S. investment

Since 1996, numerous American government institutions and agencies have been actively involved in Croatia for many years: the United States Trade and Development Agency, U.S. AID, and in 1997, the U.S. Department of Commerce opened a permanent regional office in Zagreb. There are more than 80 companies present in Croatia with direct investment, branches, joint ventures, license production agreements, or otherwise.

Furthermore, in 1996, the United States ranked sixth in the list of countries that invested in Croatia. As of 1997, the U.S. has led all countries in foreign investment in Croatia. In the period of 1993 till the end of 1998, the total amount of the foreign direct investments from the United States to Croatia, was more than \$1 billion, which means that now U.S. foreign investment to Croatia represents more than 48% of all foreign investment that has been made in Croatia.

I have mentioned Enron, but Enron is not the only result from that U.S. trade and business mission held in Croatia. Beside that, two years ago, there was a huge contract signed with the U.S. company Bechtel, on the construction of the 150-mile section of a highway from Zagreb to Zadar. . . .

Because that presence of Bechtel, which will construct a highway worth more than \$600 million, and tomorrow’s presence of Enron for the project worth more than \$200 million—as was mentioned before, these are not grants. They are credits that Croatia got with the assistance of the U.S. government, with the assistance of the U.S. Export-Import Bank. And because of that, we succeeded in getting very favorable credit terms.

But that money will be not only money that the big Bechtel and Enron will get, but numerous especially small and medium-sized Croatian companies, which will get the jobs, will

be partners with Bechtel, with Enron, in constructing the thermal plant, the highway in Croatia. . . .

The Kosovo crisis

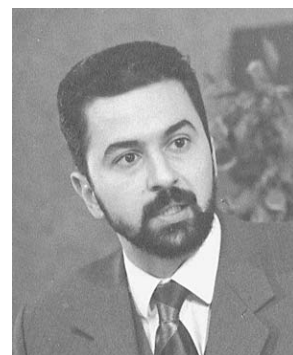
Now, finally, I would just like briefly to give some comments about the Kosovo crisis. Croatia has suffered, as has been already said, economic damages because of the NATO action in Kosovo. The gentleman [keynote speaker Paolo Raimondi] mentioned that the estimated losses are about \$2 billion. Our estimate is that it is a little bit less. Our estimate is about \$1.5 billion. We will mostly suffer the loss because of the decline of tourists this year. It will be more than a 50% decline from the revenues collected last year. Beside that, we will have some losses in food production, transportation, employment, tax revenues, and foreign investment.

But beside that, Croatia, the Croatian government supports very, very much that which NATO has done in Kosovo. We believe that the precondition, not only for Croatia, but for all other countries in the region, the precondition for economic growth, for an increase of the standard of living of the people, is to have political stability. And there was no chance that that kind of political stability could be achieved, without simply damaging the Milosevic regime’s ability, military ability, to threaten its neighbors. . . .

Faris Nanic

We need a new approach, political decisiveness

Mr. Nanic is the Secretary General of the Democratic Action Party (SDA) of Croatia, and former Chief of Staff to Bosnian President Alija Izetbegovic. He is the co-initiator, with Helga Zepp-LaRouche, of an “Appeal for Peace through Development in the Balkans,” which is circulating internationally for signatures.



Due to an illness in the family, he was unable to attend the seminar as scheduled, but addressed the following remarks to the audience by telephone. The text has been edited and subheads added. His written message of greeting, which was read by moderator Debra Hania Freeman, was published in EIR on July 2, p. 79.

. . . Unfortunately, I was not able to listen to the course of the conference. I just heard the last speaker, the gentleman from the Croatian Embassy. I would like to use the opportunity address a couple of things that I wanted to emphasize in my address to the conference.

First of all, I was thinking about having a certain description of what really happened in Bosnia and Croatia, so let's go back to the historical background, just for a little while. At the end of the 1980s, democratic changes began also in the former Yugoslavia. Also, despite being pawns of Communists, there was already very much indeed an economic, political, social crisis.

Bosnia and Croatia had resources to launch an economic recovery, especially before the war of the greater Serbian aggression. But at the very beginning, the devastating logic of liberalization was adopted, and there was not a single administration in those countries able or courageous enough to change the course.

Liberalization and monetarism in Croatia

Croatia was affected by the war in a significantly smaller proportion than Bosnia, in terms of physical devastation. But, instead of using this advantage, my opinion is that Croatia sold out a good part of its most competitive and quality industry, to mainly domestic speculators, or the state took them over, with no idea of how to restart production and improve quality.

I am quite aware that some of my remarks will not cohere with what the gentleman from the embassy said, but of course, we can always discuss it.

The result, unfortunately, is a mainly ruined Croatian industry, once competitive, especially in shipbuilding, construction, and machine construction industry. Large portions of the capacities are either abandoned or turned into storehouses for imported commodities. Real unemployment figures have gone up to 25%. Industrial production has declined for the 15th year continuously. The whole economy suffers from what we call illiquidity, which is nothing but a chain of mutual unpaid invoices that skyrocketed to the level of—some estimates say—\$7 billion. At the same time, the external debt increased to \$9 billion. Just to give you an example, former Yugoslavia went into the crisis when it reached the formal indebtedness of \$22 billion. The former Yugoslavia had 22 million inhabitants, it was 256,000 square kilometers.

This combination of \$7 billion of internal debt and \$9 billion of external debt, is a volatile mixture.

Unfortunately, the government—which is paid by the International Monetary Fund [IMF] for its macroeconomic stability, which means adjustments and restructuring in the economy—is stubbornly holding onto its policy of monetarism. That is the only way to keep the national currency relatively fixed compared to the deutschemark.

The result is the impoverishment of the population, where we already have about a million people living on the equivalent of \$4 a day. And we have a great increase in unemployment, a process of deindustrialization of the country. We have large food imports, and we are slowly becoming a food-import-dependent nation.

Every day, the external debt is increasing, by arrangements with the IMF. We have a block-out of investment, and a “Waiting for Godot” philosophy, in terms of waiting for foreign capital to flow in and solve all our problems.

I agree that some of these investments, especially the Enron deal that was signed today, are useful, and encouraging to some other possible private or government investors. But this is just a drop in the sea.

And we have so-called tycoon capitalism, where we have about 200 families that own practically everything of worth that is left in the country.

The important thing is that the concept of this free-trade liberalism is inherent to both—the government and the opposition. *There is no difference*, except that some of them have more social sensitivity, I should say—some more social sensitivity to the problems of the people.

Bosnia after the Dayton Accord

Bosnia, on the other hand, was largely devastated, physically devastated, by the war. About 80% of the pre-war industrial capacities were ruined, damaged, or dismantled, mainly by looting during the war.

And during the war, just about 10% of the capacity was working. The country only survived because of humanitarian aid and financial donations from abroad—both from the Bosnians and from some financial institutions or friendly countries.

The political settlement that is called the Dayton Peace Accord, which was accepted by the Bosnia government as has been stated numerous times, was accepted in return for a promise of the massive reconstruction effort, to be financed by the sponsors of the agreement.

Unfortunately, nothing of the sort has ever occurred. The agreement is a political experiment—a typical result of cabinet bureaucrats whose [ability to think in terms of] strategic dimensions does not go beyond the day after tomorrow.

And, the country is partitioned into two entities that have “vast authority”—except in monetary affairs, foreign affairs, and foreign trade issues. The Central Bank is nothing other than a Currency Board, which acts in a bookkeeping manner. It doesn't have anything to do with the development philosophy.

The idea of a Marshall Plan for Bosnia appeared only in 1993. And at the end of 1995, the beginning of 1996, a group of intellectuals worked out a plan of urgent measures for recovery of the national economy, which was based on a Marshall-like Plan, as leverage for sovereign credit generation for

a national bank, a reconstruction bank.

This plan, although presented to the responsible officials in Bosnia, has never been seriously discussed. Instead, what actually happened?

We have the governments, the entity government and the central government, weakened by corruption. And, as I said, the Currency Board, the Central Bank, is presided over by a figure from the international financier circles.

We have pressure from the IMF for repayment of part of the debt of the former Yugoslavia. We have the non-productive donor conferences, that have limited financial means, but even that is spent for the bureaucratic international structure—and, actually, to simply destroy the productive sector, because of non-competitiveness, and the orientation—which is largely a political thing—or even in the future, an orientation toward the [financial] quarter, which is the speculative economic sector.

And what I can see, is that the whole Bosnian economy still depends on foreign aid—the so-called donors' conference and foreign aid, the direct donations from abroad, and humanitarian aid, which is business-oriented, mainly to these 20-25,000 foreigners residing in the country in various areas and with various functions.

Bosnia has had a process of privatization which, from what I know, is a little bit more than what has been done in Croatia; but still, we don't know what the final results will be.

And there is one more thing that I would like to emphasize, which is that we had a number of contacts who were interested in private investment in Bosnia immediately after the Dayton Peace Accord was signed, and after NATO took control over the security situation in the country. But, unfortunately, their response was, that the bureaucracy of the World Bank and the IMF obstructed their efforts to invest into the real economic sector of Bosnia.

Finally, I would like to conclude with the idea that is presented in the *EIR*, and in the publications of the Schiller Institute, which is that what we can see, what we can recognize are the so-called engines of development for both countries. I'm especially thinking of the construction industry and the shipbuilding industry—the former military industry of former Yugoslavia that was largely concentrated in Bosnia, and that, with projects with good designs, could easily be turned for civilian production. And, of course, there is the vast potential of agricultural production in Croatia.

Transportation is the priority

What we definitely need to do in both countries—Croatia has made some steps forward—we need to recover, to reconstruct, and to modernize the transportation infrastructure. This is what is really killing the competitive ability of both countries. We have to rebuild, and reconstruct, and modernize the whole transportation infrastructure in both countries. This

is of the utmost importance, and has to be given a special priority.

And we do have resources for that, especially human resources. We have our engineering corps, we have our scientific institutions, the institutes. We have the *existing capacity* that can be revitalized, and that can produce the non-linear, physical aspect for development in the next decade.

I really do believe that what we need here, is a different approach. We need definitely, in both countries, for the governments to take responsibility for the development of their own people, for the overall development for the benefit of all.

We have been witnessing the process of governments slowly giving up their responsibility for the development of benefits of all the people. So, this is the problem. *So, what we need here is not only the economic theory applied, but what we also need here is a political decisiveness to change things, to go into a qualitatively new phase.* This is what is actually needed, particularly if we want to achieve much better and much more results than we have achieved in this period of 10 years.

Of course, the war has done its damage, and the war has produced a lot of problems, especially in Bosnia. *But we are in a position, now, that we have to face a number—hundreds of problems that we cannot solve one by one. We have to find a new quality, we have to make this phase-shift—as Mr. LaRouche repeatedly has said that we have to make a phase-shift—and then we will be able to cope with what is standing before us.*

That is the only way that I can see development of the region. So, we need a Marshall Plan. We need large investments, we need robust investments, we need to define the priority—the first-priority, second-priority projects in infrastructure—and we need to recover the industrial potentials and the agricultural potentials that we have in both countries, and that we have in the region.

Otherwise, there will be no development, unfortunately. Whatever these figures that have been mentioned here, they are mainly statistical figures that do not express the real situation that we have.

A credit-generation institution

So, I hope I was able to give you some of the ideas—and, of course, what we need here, is definitely an institution, a credit-generation institution, for the region, and a credit-generation institution in countries themselves, in order to prop up development.

Otherwise, waiting for someone else to come in, waiting for someone else to invest in what *we* need, and *what we think is important*, is not the way. This will produce no result whatsoever.

And that's what I wanted to share with you. And I hope that this short intervention of mine, can at least provoke you to discuss further.