

megatrend

# review

**The international  
review  
for applied  
economics**

## **Content**

Global economy	7-62
Economic policy and development	63-118
Economy of regions	119-158
Management and marketing	159-196
Business operations, analysis and planning	197-212
New technologies	213-226
Book reviews	227-236





---

# Megatrend Review

The international review of applied economics

Vol. 2 (2) 2005



Megatrend University of Applied Sciences, Belgrade

---

---

# Megatrend Review

The international review of applied economics

Vol. 2 (2) 2005

**Published by:**

Megatrend University of Applied Sciences

**Editorial board:**

Professor Mića Jovanović, PhD, President  
Professor Verka Jovanović, PhD, Vice-President  
Professor Jean Jacques Chanaron, PhD  
Professor Wolfgang Jahnke, PhD  
Professor Momčilo Milisavljević, PhD  
Professor Momčilo Živković, PhD  
Professor Vladimir Prvulović, PhD  
Professor Oskar Kovač, PhD  
Professor Veljko Spasić, PhD  
Professor Aleksandar Ivanc, PhD  
Professor Zoran Bingulac, PhD  
Professor Slavoljub Vukićević, PhD  
Professor Mirko Kulić, PhD  
Professor Milivoje Pavlović, PhD  
Professor Slobodan Kotlica, PhD  
Professor Slobodan Pajović, PhD  
Professor Dragan Kostić, PhD  
Professor Ćorđe Kadijević, PhD  
Professor Jelena Bošković, PhD  
Assistant Professor Vesna Milanović-Golubović, PhD

ISSN 1820-4570

UDK 33

The review is published twice a year.

All papers have been reviewed.

**Address:**

Megatrend Review  
Obilićev venac 12, 11000 Belgrade,  
Serbia & Montenegro  
Tel: +381 11 32 86 730, ext. 131;  
Fax: +381 11 32 86 737 ext. 123  
e-mail: imilutinovic@megatrend.edu.yu  
imilutinovic@megatrend-edu.net

**Editorial staff**

**Editor-in-chief and revisor:**

Professor Dragana Gnjatović, PhD

**Visiting editor:**

Professor Slobodan Pajović, PhD

**Members:**

Professor Galen Amstutz, PhD  
Professor Jean Jacques Chanaron, PhD  
Professor Darko Marinković, PhD  
Professor Vladimir Grbić, PhD  
Professor Beba Rakić, PhD  
Professor Dušan Joksimović, PhD  
Professor Gordana Komazec, PhD  
Assistant Professor Biljana Stojanović, PhD  
Assistant Professor Vesna Aleksić, PhD  
Assistant Professor Tomislav Obradović, PhD  
Assistant Professor Dobrinka Veljković, PhD  
Assistant Professor Ana Langović, PhD  
Ksenija Maltez, M. A.

**Secretary & Serbian language editor:**

Irina Milutinović

**Technical editor:**

Branimir Trošić

**English translation:**

Dragoslava Mićović

**Cover design:**

Milenko Kusurović

---

---

## CONTENT

**FOREWORD BY VISITING EDITOR** 5

---

### GLOBAL ECONOMY

---

PROFESSOR MILOMIR STEPIC, PhD  
**GEOPOLITICAL ORIENTATION OF SERBIA:  
EURO-ATLANTISM AND/OR EURO-ASIANISM** 7

ASSISTANT PROFESSOR SRĐAN MILAŠINOVIĆ, PhD,  
MLADEN BAJAGIĆ, PhD  
**GLOBALIZATION & FRAGMENTATION  
– RULING DYNAMICS OF GLOBAL SOCIETY** 23

PROFESSOR MARCEL MOLDOVEANU, PhD  
**NEW DIMENSIONS OF THE CENTRAL  
AND SOUTH-EASTERN EUROPEAN COOPERATION  
IN THE CONTEXT OF EUROPEAN UNION'S OPENING PROCESS  
TO THE REGIONAL AND GLOBAL SCALE** 49

---

### ECONOMIC POLICY AND DEVELOPMENT

---

PROFESSOR DARKO DAROVEC, PhD  
**FISCAL POLICY IN VENETIAN ISTRIA IN MODERN AGE** 63

SNEŽANA STOJANOVIĆ, PhD  
**FISCAL IMBALANCE AND FISCAL EQUILIZATION** 87

ASSISTANT NATAŠA STANOJEVIĆ, M.A.  
**SOCIAL AND ECONOMIC IMPLICATIONS  
OF DEMOGRAPHIC TRENDS IN THE REGION  
OF THE NEAR EAST AND NORTH AFRICA** 103

---

 ECONOMY OF REGIONS
 

---

- ASSISTANT PROFESSOR MARIJA MOJCA TERČELJ, PhD  
**ECONOMIC FACTORS AS PRESERVERS  
 OF ETHNIC AND CULTURAL IDENTITIES**  
*Zoque Indian Brotherhoods of Tuxtla Gutiérrez & Copoya* 119
- PROFESSOR ANDRÁS HERNÁDI, PhD  
**JAPAN'S TRADE AND FDI POLICIES  
 IN THE FIRST DECADE OF THE 21<sup>ST</sup> CENTURY** 139

---

 MANAGEMENT AND MARKETING
 

---

- PROFESSOR MOMČILO MILISAVLJEVIĆ, PhD  
**MARKET ORIENTATION  
 AND BUSINESS SUCCESS OF A COMPANY** 159
- ASSISTANT PROFESSOR DARKO LACMANOVIĆ, PhD 175  
**SALES MANAGER STYLES OF MANAGEMENT  
 – EXAMPLE OF HOTEL INDUSTRY OF MONTENEGRO** 175

---

 BUSINESS OPERATIONS, ANALYSIS AND PLANNING
 

---

- PROFESSOR MOMČILO ŽIVKOVIĆ, PhD  
 TATJANA DRAGIČEVIĆ, PhD  
**MOTIVES FOR STARTING A BUSINESS** 197

---

 NEW TECHNOLOGIES
 

---

- PROFESSOR SLAVOLJUB VUKIĆEVIĆ, PhD  
**CHANGES IN EMPLOYMENT AND STRUCTURE OF EMPLOYEES  
 UNDER CONDITIONS OF ELECTRONIC BUSINESS** 213

---

 BOOK REVIEWS
 

---

- ANA JOVANCAI  
**EUROPEAN UNION, ECONOMY AND PERSPECTIVES** 227
- JELENA BATIĆ  
**TRANSDISCIPLINARY KNOWLEDGE  
 – FOUNDATION OF CONTEMPORARY SUCCESSFUL BUSINESS** 231

## FOREWORD BY VISITING EDITOR

It was a great pleasure for me to accept the invitation of Professor Dragana Gnjatović, Editor-in-Chief of *Megatrend Review*, to edit the second 2005 volume of this scientific review, which was launched last year on the occasion of 15<sup>th</sup> anniversary of Megatrend University of Applied Sciences.

Confident of the right attitude of the editorial staff to insist on consistent scientific quality, interdisciplinary quality and topicality of published papers, I have accepted the invitation and done my best to meet the challenge. This is why I have been most delighted by the fact that in accordance with the reviews of scientifically competent reviewers I could put four original scientific papers, five reviews and three expert papers in this number.

As for my guiding principle when editing this number of *Megatrend review*, it simply fitted into the initial concept of the editorial staff: openness for various views, attitudes and opinions on the issues of global economics, economic policy and development, regional economics, management and marketing, business, analysis and planning, as well as new technologies. I have also decided to put two reviews of the books by professors of Megatrend University of Applied Sciences in the field of the European Union economy and research and development management, which were written by a young student and an assistant of our University respectively. In this way, various fields of social and natural sciences that find their application in contemporary economics have been covered and the readers have been offered a good opportunity to find out and evaluate the results of scientific work of renowned domestic and foreign authors in the mentioned fields.

In the end, I would like to emphasize my pleasure that I was also given an opportunity to follow the editorial policy regarding clearly expressed commitment of the Editorial Staff to make *Megatrend Review* internationally acknowledged and renowned. My modest contribution to these efforts can be seen in the fact that I have chosen the works by renowned authors from Slovenia, Hungary and Romania, whom I personally thank for successful cooperation.

Professor Slobodan Pajović  
Goeconomics Faculty  
Megatrend University of Applied Sciences





PROFESSOR MILOMIR STEPIĆ, PHD  
*Faculty of Geography, University of Belgrade*

## GEOPOLITICAL ORIENTATION OF SERBIA: EURO-ATLANTISM AND/OR EURO-ASIANISM

**Abstract:** *Long-term geopolitical and strategic orientations have multi-dimensional existential importance for Serbia and Serbian people. At the beginning of 21<sup>st</sup> century Euro-Atlantic integrations are considered the only proper choice. Otherwise, the prospects of Serbia and other Serb-populated countries would be quite uncertain. However, considered from a long-term perspective, this does not have to be a choice without any other options. Considering that Euro-American integrative links are becoming more and more disputable, while energy-related and all other links between the EU and Russia (as an embryo of Euroasianism) are getting stronger and stronger, Serbian factor in the Balkans should consider every possible position within this geopolitical concept on time and without any prejudices. Within this context, Serbia and Serb-populated countries should not have an ungrateful role of a passive object in any form of possible confrontation between the existing uni-polar marine-predominant Euroatlantism and the future multi-polar both continentally and sea predominant Euroasianism, but should try to achieve their own geopolitical goals through a “symbiosis of interests” and as an active subject.*

**Key words:** *geopolitical orientation, integration, Euroasianism, Serbia.*

### 1. Euro-Atlanticism – “the only path of contemporary Serbia”(?)

When on December 2, 1823, James Monroe (James Monroe, 1758-1831), the USA President from 1817 to 1825, presented a doctrine of the future American foreign policy in the Congress, it was difficult to assume that it would be the foundation of a non-European power, which would in a less than two hundred years later achieve an invulnerable global supremacy. The essence of the so-called Monroe's doctrine was to end an epoch of European imperialism and colonialism throughout the whole Western hemisphere and to mark the Ameri-

can territory along the meridian (from Alaska to Tierra del Fuego) as a zone of inviolable USA interests. A visionary thesis “America to the Americans” was geopolitically concretized in the following decades by suppression of European colonial powers, direct territorial expansion of the USA on the North American continent and successive achievement of various forms of hegemony in the Caribbean and in Central and South America. This continental, self-isolating and in its geopolitical characteristics continentally-predominant stage of American growing up into a big power at the end of 19<sup>th</sup> and the beginning of 20<sup>th</sup> century was succeeded by a ‘formula’ of sea power, whose theoretical (and practical) creator was Admiral Alfred Thayer Mahan (Alfred Thayer Mahan, 1840-1914). By taking over the supremacy over the oceans and strategically important seas from the Great Britain, the United States of America had soon established foundations to take over planetary supremacy. By a perfect estimation of the most favourable timing and military-strategic positions for their engagement during World War I and World War II, they acquired crucial geopolitical positions for almost exclusive control of ocean fronts of Euro-Asia as the largest and for global supremacy crucial part of the “World Island” (Mackinder’s term). With such starting advantages it was only a matter of when and how the USA (and its satellites) will win the Cold War. If 19<sup>th</sup> century was marked as Pax Britannica, then 20<sup>th</sup> century would remain recognizable as Pax Americana. For the first time in history one power – the USA – has achieved an almost unlimited global domination. In addition to this, although it is non Euro-Asian her triumphant “main geopolitical award is Euro-Asia”.<sup>1</sup>

Although its capability to achieve trans-Pacific influences will be of crucial importance for securing the future global American supremacy, it was not sufficient to establish trans-Atlantic bridge-head in West and Central Europe in order to achieve and maintain world geopolitical dominance but its transgression towards the East was also necessary. Euro-Atlanticism and its sea-predominant geopolitical ‘code’ have become a synonym of triumph, expansion, integration, democracy, progress, economic development, wealth, power, cultural and civilization-related superiority... It is considered an embryo, and sometimes a guinea-pig of creation of world system and global (new world) order, i.e. globalization as “developmental mega-trend”,<sup>2</sup> “iron historical unavoidability” and “strictly programmed path” (according to the comprehension of so-called *hyper-globalists*)<sup>3</sup>. Even skeptics in globalism, especially global-transformationists as conciliators of two extreme attitudes, do not question Euro-Atlanticism as a momentary or long-term necessity of European countries and nations, or existence of European pole of power embodied into the territorially and economically expansive

---

<sup>1</sup> Z. Bžežinski, *Velika šahovska tabla*, CID, Podgorica; “Romanov”, Banja Luka, 2001, p. 33.

<sup>2</sup> Lj. Mitrović, “Prilog sociološkom odredjenju globalizacije i tranzicije”, *Vreme globalizacije* (ed. M. Knežević), Dom kulture “Studentski grad”, Beograd, 2003, p. 36.

<sup>3</sup> M. Pečujlić, *Globalizacija - dva lika sveta*, Gutenbergova galaksija, Beograd, 2002, p. 10.

EU. Every other attitude or orientation is proclaimed imprudent, almost heretic, irrational, anti-civilization, subversive and opposing to not only European but also the interests of individual nations and states.<sup>4</sup> Even if it is tolerated to some exceptions that are economically powerful enough and/or for which their formal non-membership in Euro-Atlantic integrations is the issue of not only theirs but some other interests as well, after the fall of Eastern bloc and short economic and security integration vacuum it goes without saying for the countries of Central, East and South-East Europe that *de facto* they do not have any other choice.

Serbia, Serb-populated countries and almost the whole Balkans are undoubtedly in the zone of post-bipolar frontal territorial expansion of Euro-Atlanticism towards the East, but still on the second-grade direction and in secondary stage of its transgression. Since the strategic goal used to be and still is to get closer to Russian frontiers, the priority direction of penetration has been traced through Central Europe towards the East Europe. War destruction of Yugoslav state should be comprehended within such a geopolitical context, since Yugoslavia was created by the West for the sake of their interests after World War I, slightly restructured within the same territory after World War II, and after the Cold War when there was no need for its further existence – it was decomposed. Its fragments are assigned only an option of including into Euro-Atlantic integrations (the EU and NATO), but with various pace. Declaratively it refers to Serbia as well (and other Serb-populated countries now within other newly recognized Balkan States), although its “war sins” contributed to its lagging in the rear in the course of this process, even being rounded (Romania and Bulgaria are more towards the East geographically, but they joined NATO in 2004, while their membership in the EU is announced for 2007). According to the fact that the Euro-Atlantic West, like all conquering heroes throughout history, endeavours to collect its epochal triumph in territory and that it is in the stage of transgression before which all possible obstacles will be wiped out, Serbia has only one way at the moment – not to be a barrier to that mega-geopolitical project and extremely forceful pole of power. Any other option is considered to have catastrophic consequences.

## 2. Euro-Russian integration and position of Serbia

Serbia should establish its future position within the context of a new geopolitical importance of Euro-Atlanticism, which considerably changed in Europe in relation to a mission it had during the Cold War and the then “balance of

---

<sup>4</sup> Although the most prominent theorists and practical creators of globalization continue (for the time being) to consider and explicitly define a national state as an irreplaceable factor of the international relations, in reality and in global concretization, it becomes closer and closer to a form of local community within a “world state” that is being created.

fear". These changes are still in progress in the form of continuous transformation and adjustment. Simultaneous with the expansion of the EU and NATO towards the East, once bipolar geopolitical and geo-strategic role of Western Europe as American "bridge-head" at the Atlantic "façade" of Euro-Asia, is also changing gradually. The Europeans start to question trans-Atlantic essence of Euro-American economic and military and political integration after implosion of Soviet empire as a "big Eastern threat". The EU is still being built and more and more often appears globally as an authentic, autonomous and emancipated empire as well as a big power in economic, (geo) - political and even military sphere. Relieved from half-a-century long syndrome of iron curtain, after original reservations and "pulse-taking", it files away its deeply rooted prejudices and stereotypes and with less and less fear turns towards its geographically natural and continental neighbour – Russia.

Serbia and the overall Serbian ethno-territorial factor in the then "second" Yugoslavia met with complete surprise the fall of Berlin wall, dismantling of former European relations and change of temporary Balkan balance formula in accordance with the new post-bipolar geopolitical rules, unready to identify essential changes in power rank and incapable to build their interests and goals into regional, continental and global processes. In order to prevent that to happen again, it is necessary to achieve with a filigree-precision geopolitical and far-seeing Serbian positioning in relation to already easily observable trends. On the one hand, it is relativization of once undisputed Euro-American symbiosis, and on the other hand, it is the strengthening of bonds between two most powerful European countries – Germany and Russia. Considering German strength within the EU, its geographic position and the status of a "giant" in the middle of Europe, as well as swiftly created interest sphere in 1990s in the form of a "curtain" spreading from the Baltic to the Adriatic and its unavoidable intermediary role towards the European East and South-East, German-Russian ties, *de facto*, have the character of strengthening European-Russian approach. The term Berlin-Moscow axis was reestablished in scientific, economic and diplomatic vocabulary. It has modern and time-adjusted categorical terms of reference, but unchanged essence of a foot-hold of (trans)-continental self-determination.

In order to verify continental identity and anticipate integration "from Atlantic to Vladivostok", France joins as an obligatory stabilizing post. Establishing of Paris-Berlin-Moscow axis is considered an undisputable and necessary condition to create Europe independent (from the USA) and so-called European Europe. Such a completely variously conceived integration in comparison with European reality so far is seen as "European idea" by increasingly numerous and further in future-looking European geopolitical philosophers, and a new expanded continental alliance as an integral living territory of the Europeans. A convincing witness to this claim is a book titled "Paris-Berlin-Moscow: a path of independence and peace", in which a young French author Henri de Grossouvre

(born in 1967) gives convincing arguments of deeper and deeper gap between Europe and the USA, their essentially incompatible interests in the time to come and weakening of unnaturally sea-predominant foundation of Euro-Atlanticism. At the same time, he underlines strategic partnership of the EU and Russia that should grow into a tight Euro-Asian integration.<sup>5</sup> The idea of creation of Euro-Russian bloc within several variants of the future bloc structure of the world was shown in public and visualized by maps in 1994 (published in 1997). Based on the principles of multi-polarization and on theoretical geopolitical bases of pan-regions, global organization of the Planet at the beginning of 21<sup>st</sup> century is established in such a manner that Euro-Russian territorial and continentally predominant entity makes one of the key poles of power, and Serbia, Serb-populated countries and the Balkans as a whole are the part of it.<sup>6</sup> The Balkans, with Serbia as its geographical center and (regional) geopolitical “Heartland”<sup>7</sup>, has a considerably delicate position and a strategic function of preserving a southern part of the future Euro-Russian entity, opposite the Near-East territory rich in oil, which is also explosive and geo-strategically manipulative. However, both the Balkans and Serbia are far and do not influence the existence, tightness or functioning of *the axis*. Its stability will be completed by adequate and appropriate positioning of “a missing link” – for European measures spacious (603.700 km<sup>2</sup>) and numerous (about 49 million inhabitants) Ukraine. Euro-Russian “mechanism” could be autonomous, balanced and could function efficiently only with Paris-Berlin-Kiev-Moscow axis.

What has served as a starting integrative impulse and common bond connecting both the interests of the EU and Russia after the epoch of Cold War and severe military, economic and ideological confrontation? In the same way as in the middle of 20th century coal and steel were raw-material foundation of industrial (economic) and military power, the crucial indicator of the level of a country’s development and a factor of reconciliation between traditional French-German rivalry after World War II, such is now a role of oil and natural gas as energetic foundation and decisive geopolitical factor of global proportions. In the same way as the idea and establishing of the European Community for coal and steel (on May 9, 1950/April 18, 1951) were the first official step of European symbiosis and the following economic and political shaping of the EU, in the beginning of 21<sup>st</sup> century the oil and gas pipelines for the transport of Russian natural wealth towards the west of the continent become “the least common multiple” of Euro-Russian long-term goals, overcoming of inherited animosities and interest-related integration based on what should not cause any disputes – on “settled accounts”.

<sup>5</sup> H. de Grossouvre, *Paris-Berlin-Moscou: la voie de l’indépendance et de la paix*, L’Age d’Homme, Paris, 2002.

<sup>6</sup> M. Stepić, “Buduća blokovska struktura sveta“, *Ekonomika*, No. 1/2, Beograd, 1997, p. 37-41.

<sup>7</sup> Mackinder’s geopolitical term – “Heartland”.



Why does the EU turn towards Russian oil? Because its own reserves are almost spent (excluding the North Sea, where the majority of deposits belong to Norway, which is not even the EU member), and further orientation without any other options towards the import from more and more unstable Persian-Arabian Gulf region is marked as extremely risky for the future. Namely, the majority of predictions confirm that world oil reserves today are about 1.100-1.200 billion barrels<sup>8</sup> and that with increased research, investment, various forms of rationalization and inevitable raise of price they could serve to swollen (mostly urban) population for only a few next decades (until 2040), while the problems might intensify about 2020 already.<sup>9</sup> This implies especially to high energy-dependent Europe, where this coincides with the anticipated end of the German nuclear energy program and closing down of all their nuclear power plants. Within such a context, Europe would be forced to think in a long-term and strategically responsible manner in order not to face energy crisis and impasse; only a partial comfort might be offered to Europe by its own and world reserves of natural gas (maximum estimated world quantities at the current rate of exploitation would last for the next two hundred years), which are neither right or complete replacement for oil. Energy-based connection opens the door to multi-dimensional penetration to numerous Russian markets, vast Russian territory and towards other Russian natural resources.

Why does Russia direct the “tentacles” of its pipeline for the transport of “the black blood of the world” towards the EU? Because it manages the most respectable reserves, if we exclude potentially problematic Gulf countries (in the following order: Saudi Arabia, Iran, Iraq, the United Arab Emirates and Kuwait) and Venezuela (which is in the American gravitation and interest sphere). Because the European market is huge, geographically near, territorially connected and without many other options or possibilities to provide for stable, cheap and long-term exploitation and transport to non-European parts of the world by autonomous military power. Because it is relatively easy, fast and possible with small investments to make a network of the existing and planned Russian oil and gas pipelines on the one hand by the system which supplies the satellite countries of the former CMEA<sup>10</sup> and Warsaw Agreement in East and Central Europe (now mainly new EU members as of May 1, 2004), with the infrastructure of the rest of the EU in the west (the European fifteen or the Old Europe), on the other hand. Because Russia may branch off its oil and gas pipelines in a geo-strategically wise manner in three directions, which covers the entire front towards the West: first towards the north-west, for export by the Baltic Sea; second, towards the west, for transport by “Friendship” oil pipeline; third, toward the south, towards

---

<sup>8</sup> 1 barrel = 159 litres.

<sup>9</sup> Zoran Petrović-Piroćanac: *Mali pojmovnik geopolitike*, Centar za geopolitičke studije “Jugoistok”; Institut za političke studije, Beograd, pp. 241-243.

<sup>10</sup> CMEA – Council for Mutual Economic Assistance

the Black Sea and export by the future trans-Balkan routes.<sup>11</sup> Because supplying the EU with black gold by pipeline network indirectly provides for specific and subtle Russian management of the European territory and economy, and under particular circumstances even their control. Because the EU is a thankful consumer, whose paying capability is extremely important for Russia. Namely, the economy of Russia is given the opportunity to recover due to favourable oil price at the world market, which in 2004 broke a psychological barrier of 50 US Dollars per barrel, while prognoses say that it will soon rise to 60-70 US Dollars. And finally, and maybe the most important is because oil as a crucial geo-political factor, especially after the so-called first oil shock of 1973, offers a chance to Russia to return, by means of connections secured through exclusive supply of the EU, to Euro-Asian (and global) “chess board” as a respectable power and not to remain just one of second-rate regional powers with the role given to it by globalization strategists, allegedly for its own good.<sup>12</sup>

In each of the stages of multi-stage Euro-Russian integration Serbia would have to take a precise stand and based on its own state and wider national interests to fight for its own geopolitical position. Now at the beginning of 21<sup>st</sup> century, in the starting Euro-Russian embryo-transitive stage from Euro-Atlantic towards Euro-Asiatic orientation of Europe, it is obvious that Serbia should determine its place according to the fact that the judging role in the Balkans is still held by the USA as an undisputed power (of its own) uni-polar order. However, since this stage is temporary, such a position of Serbia will be redefined over time in accordance with the new postulates. Justifiably afraid from descending path of its hegemony,<sup>13</sup> especially after New York-Washington big bang of September 11, 2001, which is considered now not only a terrorist attack, the attack of the pirates of the new world order, but an open appearance on the scene of Islamic geopolitics of global ambitions<sup>14</sup> and the beginning of World War IV,<sup>15</sup> the USA will undoubtedly try to shape the forthcoming multi-polar-

---

<sup>11</sup> Zoran Petrović-Piroćanac: *Mali pojmovnik geopolitike*, Centar za geopolitičke studije “Jugoistok”; Institut za političke studije, Beograd, p. 480.

<sup>12</sup> Z. Bžežinski, *Velika šahovska tabla*, pp. 85-92; 187-190, and H. Kisindžer, *Da li je Americi potrebna spoljna politika – u susret diplomatiji 21. veka*, BMG, Beograd, 2003, pp. 72-81.

<sup>13</sup> Global hegemony leads towards strategic stretching, i.e. towards incapability to overcome internal problems and contradictions, on the one hand, and towards incapacity to prevent “the barbarians to unite” and oppose to the empire, on the other hand. In the post-unipolar epoch, the USA will be faced with the phenomenon of rise and fall of great powers. (In more details in: P. Kenedi, *Uspomina i pad velikih sila*, CID, Podgorica; JP “Službeni list SRJ”, Beograd, 1999).

<sup>14</sup> Dž. Saš, “Islamska geopolitika”, *Senka Rima nad Vašingtonom – pro et contra* (ed. Ž. Ivanović), “Filip Višnjić”, Beograd, 2002, p. 121-126.

<sup>15</sup> The Cold War may be considered World War III, in which the USA won, but according to many an opinion they remained lulled in their triumph, unready for unavoidable reforms and tragically lagging behind in preparations for the 21<sup>st</sup> century. This is why calls for appli-

ity<sup>16</sup> according to their own needs and goals to maintain any form of supremacy in crucial parts of the world such as Europe. This is why the USA maintains their arbitrary and military supported geopolitical role in Serbia as a central country in the Balkans, which represents a sensitive southern Euro-Russian wing. In this way Serbia could be (ab)used as American trump and Trojan horse in the aspiration to prolong, make relative, absorb for a short time, blunt the edge, and make absurd global economic and geopolitical ambition, maybe even prevent the creation of Euro-Russian bloc as a potential mega-power. In any case, the Balkans, and especially Serbia (together with other Serb-populated countries) could be given an ungrateful role of an instrument defined by America (towards the West) in preventing the West and the East to integrate (the EU and Russia). In the obsessive fear from “reborn Russian imperialism”, the USA have assigned (essentially second-rate) intermediary role to the EU in “Western” conceived integration, which was unambiguously elaborated by Henry Kissinger: “In this way a new order in Europe will be built from the West towards the East, and not as some argue for from the East towards the West.”<sup>17</sup>

Therefore, the essence of transgression would be realized by the survival of West-East direction, i.e. by keeping Russia in inferior position of just a neo-colonial supplier of various resources (especially oil and natural gas, and later water, electric energy...) and still superior Euro-Atlantic West. Within such a context, gas and oil pipelines (even those planned to go through Serbia and other Serb-populated countries) from the coast of the Black Sea to the Adriatic and the Aegean coasts of the Balkans (Constanza – Pančevo -Omišalj on the island of Krk - Trieste; Bourgas – Alexandropolis...) would not have such a prominent offensive geopolitical role as their traffic-geographic counterpart – a designed

---

cation of national shock therapy can be heard more and more often. Paul Kennedy quotes the words by John Chancellor: “What a country needs is a peace-time Pearl Harbor to shake it, to make the Americans aware of their own troubles, to induce their energy and desire to work”, and then adds: “Maybe a serious reformation program could be undertaken, which would follow after a shock sufficient for American smugness, such as financial crash or widely perceived threat from the outside...” (See: P. Kenedi, “Priprema za dvadeset prvi vek“, “Službeni list SRJ”, Beograd, 1997, p. 344 and 358). Haven’t the terrorist Islamic attacks of September 11, 2001, been both “the peace-time Pearl Harbor” and a shock sufficient for “American smugness” and “widely perceived threat from the outside”, all of which had been anticipated almost an entire decade earlier (the original issue of Kennedy’s book “Preparing for the Twenty-first Century” was published in 1993).

<sup>16</sup> A short definition of multi-polarism could be that it is a *state of international relations in which the world or regional scene is dominated by more than two centers of power*. Historical examples of multipolarism are the orders established by Westphalian Peace (1648) and Vienna Congress (1815), and the indicators of contemporary multipolarism begin to appear after the Cold War bi-polar and post-Cold War unipolar order. (See: Grupa autora, *Aspekti globalizacije*, eds. V. Pavićević, V. Petrović, I. Pantelić, M. Sitarski, G. Milovanović, Beogradska otvorena škola, Beograd, 2003, p. 205-206).

<sup>17</sup> H. Kisindžer, *Da li je Americi potrebna spoljna politika – u susret diplomatiji 21. veka*, p. 81.



network of ten corridors covering the Balkans and so-called New Europe of the EU (eight countries from the Baltic Sea to the Adriatic Sea). Since Euro-Atlantic vision does not include even the possibility of this initial complementary distribution embodied in gas and oil pipelines on the one hand, and in road and railway traffic bloodstream on the other hand, this means that possible inverse integrative direction (East-West), i.e. potential counter-axis Moscow – (Kiev) – Berlin – Paris, which would be dictated by economic and (geo)political dynamics and domination of Russia, would be interpreted as *a priori* impermissible concretization of Euro-Russian, or to be more precise Russian-European land predominant constitution. Serbia would accordingly have to determine its role in this stage of integration (avoiding to be a Russophile burdened by prejudices based on Slav, Orthodox, former alliance-related and ideological relations), especially when (if?) Russian-European/European-Russian pole of power grows into a core of (neo) Euro-Asian integration within which several centers of multi-polar world will be established.

### 3. (Neo)Euroasianism – Serbian geopolitical fiction or certainty?

Global geopolitical and geo-strategic importance of Euro-Asia have been emphasized by all theorists – from Mackinder, who located geographical pivot of history in its Heartland more than a hundred years ago (1904), to contemporary creators and interpreters of mondialism (Kissinger, Bzezinski, Fukuyama...), who see the preservation of further American supremacy in (direct or indirect) control over the most spacious territory on the Planet. In the first decade of 21<sup>st</sup> century a competition to the current expressed world domination of American sea predominant uni-polarity comes from Euro-Asian continent. This is the territory with the most spacious state (Russia), which also happens to be the richest in natural resources, then with the two most populated countries in the world (China and India), with spatially and demographically the most expansive religious and civilization group (Islam), with the greatest world energy reservoir (the region of Persian-Arab Gulf), with politically, economically and territorially the most dynamic integration (the EU), with technologically the most advanced industrial power (Japan), with several economically and financially most prosperous small countries (Far East Tigers/Dragons), with the countries where there is a very intensive development of civil and military nuclear programs (China, North Korea, India, Pakistan, Iran, Russia...), increasingly larger military budgets and more and more powerful armies which could bring into question sea exclusivity as a basis of American global power (China and Japan in the Pacific Ocean and India in the Indian Ocean)... Old civilizations were established in the territory of Euro-Asia, and some of them kept continuity and freshness until today. Objective attractiveness and values of some Euro-Asian civilization matrices threaten to

jeopardize self-promoted progress of so-called Western civilization model. After all, even Euro-Asian spaciousness (almost 55 million square kilometers), its natural versatility and the entire population (60% of world population) are value *per se* with which any other continent or the rest of the world cannot match.

Aware of Euro-Asian competition in world domination, the USA make efforts to maintain their geo-strategic acquisitions and strengthen the positions acquired by the end of World War II, during the Cold War and in the course of post-Cold War period, and would not allow the creation of integrated (maybe even institutionalized) system of Euro-Asian power and their coherent action that could push the USA aside from Euro-Asia. Contrary to American efforts to strengthen, extend and deepen their transatlantic and transpacific ties with vital ocean fronts in the East and in the West of Euro-Asia, and to penetrate as deep as possible into the Heartland zone, Euro-Asian powers do not gather the formula of their power and opposition to American sea predominance from their continental power only, as it used to be throughout the entire history. Their geopolitical identity is essentially being transformed in the direction of integral sea and land predominance code. They use the predispositions of their territorial morphology and physical-geographic components of their geopolitical position to participate simultaneously in the sea-ocean aquatory and far inside the continental hinterland<sup>18</sup> (China, India), but some of them strive to overcome the naturally lacking complementary distribution by various forms of integration. For instance, although participating in a closed Persian-Arab Gulf, and by means of the Arabian Sea in the Indian Ocean, Iran tries to overcome its imposed factual land-locked country's position by strengthening the leader position among surrounding maritime Islamic countries; the EU tries to compensate its small continental depth fast by expansion towards the continental East and approaching Russia; Russia, however, complements a position of a continentally closed and strategically vulnerable maritime country by intensifying pro-Western Euro-Russian connections. Contrary to traditional theoretical geopolitical concepts when Euro-Asia was a symbol of continentality, "world island" and "Heartland" (Mackinder), penetration of hordes from its center towards the coasts, great migrations, power of infantry and cavalry, it is now characterized by littoralization, more and more stable multi-dimensional control of its own ocean coasts, development of its own sea power with military-strategic concept and epochal geopolitical change in Rimland,<sup>19</sup> which after the British in 19<sup>th</sup> century were ruled by the Americans in 20<sup>th</sup> century. All this refers to birth of a new transcontinental geopolitical concept, whose previous developmental stage and one of constitutive multi-polar cores of the future is made by Euro-Rus-

---

<sup>18</sup> Continental inland

<sup>19</sup> Spikeman's geopolitical term – "land along the rim".

sian/Russian-European integration.<sup>20</sup> Does Euro-Atlanticism give the place on the world stage to contemporary Euroasianism and where is the place for just a pebble within a mosaic – Serbia?

The idea of Euroasianism is not new. It was theoretically founded in the stream of thought of so-called Russian (“white”) Euro-Asians and originated in the first years of their emigration after the October Revolution. Basic postulations were presented in a collection of papers “Exit to the East: presentiments and events”, which was published in Sofia in 1921, by four founders and classics of Euroasianism – Prince Nikolai Sergheievich Trubeckoj, Pyotr Nikolaevich Savitsky, Peter Petrovich Suvchinski and Georgiy Vasiljevich Florovski. They were joined by many a follower: N. N. Alexeiev, G. V. Vernadsky, P. M. Bicili, A. V. Kartashov... If the initial impulse to Euro-Asian movement was given by a linguist Trubetskoj with his book “Europe and Humankind”, published in Bulgaria in 1920, the first geopolitical dimension of Euroasianism was a work of an economist and geographer Savitsky (“Geographic and geopolitical foundations of Euroasianism” and other works). Euroasianism was then accepted and disputed, had its rises and falls, developed in various directions and outside Russian circles, but it was always dominantly Russian alternative to the Western geopolitical and civilization-related ambitions.<sup>21</sup> One form of Euro-Asian concept developed within German Haushoffer’s geopolitics before and during World War II. A renaissance of Euroasianism took place in Russia after the break of the USSR, a period of vacuum of ideas, crisis of Russian geopolitical identity, wandering between non-critical pro-Western orientation and universal post-Soviet ideology inspired by economic successes of Far-Eastern countries (China, South Korea and Japan – modernization without westernization), and disappointment in modern Europeanism embodied in transgression of the EU and NATO to the very Russian borders. Carefully at first, and then quite openly, the contemporary Russian dilemma resolved on the bases of former emigrant idea transformed into a modern version of Euroasianism – neo-Euroasianism. It receives wider and wider explicit support and it has more and more followers, both within the official politics and within wide and various cultural and scientific circles (President Putin, director Nikita Mihalkov, historian Lav Gumiljov – the most prominent disciple of Savitsky, respectable scientists such as Ochirova, Orlova, Panarin, Pashchenko, Sobolev, Stepanov...). A particular importance of its geo-politic quality within comprehensive and multi-dimensional idea of neo-Euroasianism is emphasized by the most exposed person and undisputed leader

<sup>20</sup> Henri de Grossouvre himself elaborates his thesis on Paris-Berlin-Moscow axis further, identifying it as a starting point for wider Euro-Asian cooperation and strategic partnership which will be joined by Japan, two Koreas, China and India. (see: H. de Grossouvre, “Paris, Berlin, Moscow: prospects for Euroasian cooperation”, *World Affairs*, Vol. 8, No. 1, 2004).

<sup>21</sup> About the origins and development of Euro-Asianism as idea, philosophical attitude, geopolitical concept and political movement of mainly Russian emigrants, see in more detail in: M. Subotić, *Put Rusije – evroazijsko stanovište*, Plato, Beograd, 2004.

of contemporary Russian Euro-Asians Aleksandr Geljevich Dugin, the author of many works, essays and some ten books,<sup>22</sup> a publisher and editor of many journals, founder and leader of socio-political movement Euro-Asia (in 2002, it grew into Euro-Asian party).<sup>23</sup> A seeming paradox, (neo)-Euroasianism has powerful echoed in West-European scientific (and geopolitical) thought, anti-Euro Atlantic political class and European cultural public (as an alternative and antipode to uni-polar American mondialism that turned into “Europe occupying enemy”). To a part of committed Serbian intellectual Diaspora in West Europe, and even more to a scientific and publicist geopolitical thought prone authors in Serb-populated countries, neo-Euroasianism came as a non-critically understood balm on a wound and a priori beneficial geopolitical concept for frustrating reality of fragmentation and reduction of Serbian territories in a series of wars for post-Yugoslav heritage.

#### 4. Pax Euroasiatica and geopolitical position of Serbia

In the shade of a late Cold-War confrontation of super-powers, when they were *de facto* two “scorpions closed in a bottle”<sup>24</sup> with their nuclear arsenal, and when the USA successfully enforced their anaconda strategy enclosing, restraining and “choking” the USSR, and Russia itself after the destruction of the USSR, there was a new strengthening power in the Far East – China. Taking into account its natural and demographic resources (1.3 billion people at the end of 2004), geopolitical and geo-strategic advantages, accelerated economic and military strengthening, and ambitions to become an unavoidable factor in both East Asia and Pacific and globally, it is more and more often predicted that 21<sup>st</sup> century would be the “Chinese century”. In South Asia at the same time, India has similar ambitions (1.1 billion people), and in Islamic world (1.24 billion people) also an Asian country – Iran – is trying to become a leader.<sup>25</sup> It is obvious that a specific geopolitical “structure” is being created within the largest territory on the Planet, which has outlines of a new multi-polar (neo) – Euro-Asian order. Its stability will be of crucial importance for the stability of “World island” (Mackinder), as well as for the whole world. Through direct connections of the EU and

---

<sup>22</sup> Dugin’s work “Fundamentals of geopolitics” (translation from Russian to Serbian), among other things, contains the essence of his geopolitical discourse of Euroasianism (A. Dugin, *Osnovi geopolitike I*, Ekopres, Zrenjanin, 2004; A. Dugin, *Osnovi geopolitike II*, Ekopres, Zrenjanin, 2004).

<sup>23</sup> M. Subotić, *Put Rusije – evroazijsko stanovište*, p. 14.

<sup>24</sup> Z. Bžežinski, *Američki izbor – globalna dominacija ili globalno vodstvo*, Politička kultura, Zagreb; CID, Podgorica, 2004, p. 8.

<sup>25</sup> M. Stepić, “Demograski elementi ključnih geopolitičkih teorija“, *Demografija*, 1 (ed. S. Stamenković), Geografski fakultet Univerziteta u Beogradu, Beograd, 2004, p. 70-71.

its individual member countries, especially by the intermediary of Russia, which plans to extend its oil pipeline arteries from Angarsk in South Siberia to the coast of the Japanese Sea (Nahotka near Vladivostok for Japanese supply), with a branch towards the town of Tajing in Manjuria, Euro-Russian integration would be extended all the way to China, and Paris-Berlin-Kiev-Moscow axis until Peking. Together with India and Iran Pax Euroasiatica would become visible, but only its land variant. If two major island countries would join Euro-Asia on two ocean fronts, Japan on the Pacific front and Great Britain on the Atlantic front, which are reliable American allies for the time being, its two “strategic bridge-heads” and “aircraft carriers” of Euro-Asian costs – only then would Euroasianism overcome its incompleteness. Only the Atlantic-Pacific axis London-Paris-Berlin-Kiev-Moscow-Peking-Tokyo, reinforced by intermediary of New Delhi and Tehran in Indian Ocean basin, would make Euroasianism become a completely articulated geopolitical concept of integral sea and land predominant character. There is a tendency among American theorists and geopolitical creators to preserve the American status of hyper-power and global hegemonist as long as possible, but there is also a consciousness that Euroasianism cannot be prevented from coming on the world scene. In accordance with this, the USA tries to shape it according to its own taste and needs, and to transform their own position from global domination to arbitrary global leadership.<sup>26</sup>

The Balkans, including Serbia and Serb-populated countries, undoubtedly belongs to Euro-Asia geographically, but geopolitically it is in the sphere of interest of currently dominating Euro-Atlanticism. Although the USA located their global geo-strategic focus at the beginning of 21<sup>st</sup> century in the zone of so-called Euro-Asian (global) Balkans,<sup>27</sup> the role of (classic, European) Balkans has not become insignificant because it holds one of key positions in the game for domination at “Euro-Asian chess board”.<sup>28</sup> The Serbian part of the Balkans is situated in the far South-East of “Western territory”, in its tangential zone with “Southern territory”, and complete with the “Eastern territory” they have the function to prolong a Cold War role of Rimland and continue the anaconda strategy – to close and suppress the great “middle territory” (Russia), not allowing it any maritime or piedmont Euro-Asian ambitions. Within this American-Atlantic projection, Serbia itself, especially its south and south-east parts, could be assigned a role of geo-politically sensitive link connecting the chain of three territories, whose destructive role in the future should manifest in preventing Pax Euroasiatica concept (“Euro-Asia to Euro-Asians”). Therefore, considering

---

<sup>26</sup> Z. Bžežinski, *Američki izbor – globalna dominacija ili globalno vodjstvo*, p. 61.

<sup>27</sup> According to Bzezinski, it is a central Asian territory, where there are former Soviet Moslem republics, Caucasus, Afganistan, parts of Iran, Turkey and Kaspian Russia. (More details in: Z. Bžežinski, *Velika šahovska tabla*, p. 118; Z. Bžežinski, *Američki izbor – globalna dominacija ili globalno vodjstvo*, p. 38).

<sup>28</sup> See the map - Z. Bžežinski, *Velika šahovska tabla*, p. 37.



that bridge-like position is still determined for the Balkans (this time as a transmission between “Western” and “Southern” territories), it is possible to define both theoretically and practically a destabilizing anti-Euro-Asian mission to Serbia as its central country and major geo-strategic passage.

Contrary to these American-Atlantic and land predominance options, geopolitical idea of Euroasianism could be carried out only if it wins the race with time and dismantles disintegrating detonators on time, which were being systematically built-in by the USA along Euro-Asian maritime front during 20<sup>th</sup> and in the beginning of 21<sup>st</sup> century (during World War II, Cold War and anti-terrorist war), i.e. if it consolidates and constitutes before the USA establishes full control in three brim territories and thus surrounds the largest territory on the Planet. The USA makes efforts to continue to lead the game at “Euro-Asian chess board” actively: a) within the “Eastern territory” it has its geo-strategic footholds which are, as crisis-manipulative, left for later (Korean Peninsula, Japan, Okinawa, Taiwan, the Philippines...); b) they are on their way to take full domination over “Southern territory” as a Russian and Euro-Asian “soft tummy” (from boiling Cashmere in the East to Levant in the West, beyond exclusive American political, economic and military control, but only Syria and Iran are still “under procedure”), and c) in the “Western territory” they fulfilled post-Yugoslav void in the course of the last decade of 20<sup>th</sup> century, infiltrating into strategically important “Pannonia fan” and “Dinara fortress”, arbitrating multi-dimensionally in fragmentation and territorial reduction of Serb-populated countries as the Balkan Heartland.<sup>29</sup> According to this, the success of Euroasianism will depend on the capability to dismantle a trap set in the shape of a chess board, which means that it should first break up the links of three large surrounding areas (one connection is in the south Serbian territory) and penetrate through them, and then to replace the American geopolitical concept of sea predominance by a new on all “chessboard squares” – Euro-Asian (out of which one is the Balkans, complete with Serbia and other Serb-populated countries in its territory).

Geopolitical importance of Serbian factor in the Balkans and future confrontations of two opposing options may become very important and its function delicate. In any case, only a dynamic role of a subject and within a symbiosis of interests with the major creators of a new geopolitical image of the world it is possible to evade passive condition of an object and new negative geopolitical balance with which the Serbs ended 20<sup>th</sup> century. It is understood implicitly that the symbiosis of interests is not a static but changing category, which does not mean that possible long-term and timely articulated Euro-Asian orientation excludes necessarily pragmatic quality of Euro-Atlantic alternative for the sake of achieving short-term goals such as preservation of natural, demographic, economic, and geo-strategic and other resources. Since the predispositions exist

---

<sup>29</sup> M. Stepić, *U vrtlogu balkanizacije*, JP “Službeni list SRJ”; Institut za geopolitičke studije, Beograd, 2001, pp. 102-108.

objectively, Serbia should urgently concretize its central political and geographical position in the Balkans into a comprehensive integrative and leading role – first on so-called West Balkans, and then within the entire Balkans.<sup>30</sup> In such a way it would recommend itself to not only current Euro-Atlantic attempts to preserve primary position in Europe by transgression towards the (South)East, but even more to the forthcoming Euroasianism as its potentially most reliable geopolitical support and intermediary within sensitive and vulnerable south brim. As the “last decade of 20<sup>th</sup> century proved (...) empirically (...) that Serbian geopolitical goals have been neither achieved even partially nor formed as consistent in their essence and in realization flexible and adjustable to the new time and goals of those who dictate global and regional processes”<sup>31</sup>, it is necessary to define them in advance. One of fundamentally important goals might be to join the EU. However, with what geopolitical self-determination would the EU then welcome Serbian accession – with Euro-Atlantic or Euro-Asian?

### References

- *Aspekti globalizacije* (Pavićević, V., Petrović, V., Pantelić, I., Sitarski, M., Milovanović, G. eds.), Beogradska otvorena škola, Beograd, 2003.
- Bžežinski, Z.: *Velika šahovska tabla*, CID, Podgorica; “Romanov”, Banja Luka, 2001.
- Bžežinski, Z.: *Američki izbor – globalna dominacija ili globalno vodstvo*, Politička kultura, Zagreb; CID, Podgorica, 2004.
- Grossouvre, H.: *Paris – Berlin – Moscou: la voie de l’ independence et de la paix*, L’Age d’Homme, Paris, 2002.
- Grossouvre, H.: “Paris, Berlin, Moscow: prospects for Euroasian cooperation”, *World Affairs*, Vol. 8, No. 1, 2004.
- Dugin, A.: *Osnovi geopolitike I*, Ekopres, Zrenjanin, 2004.
- Dugin, A.: *Osnovi geopolitike II*, Ekopres, Zrenjanin, 2004.
- Kenedi, P.: *Priprema za dvadeset prvi vek*, “Službeni list SRJ”, Beograd, 1997.
- Kenedi, P.: *Uspon i pad velikih sila*, CID, Podgorica; JP “Službeni list SRJ”, Beograd, 1999.
- Kisindžer, H.: *Da li je Americi potrebna spoljna politika – u susret diplomatiji XXI veka*, BMG, Beograd, 2003.
- Mitrović, Lj.: “Prilog sociološkom određenju globalizacije i tranzicije”, *Vreme globalizacije* (Knežević, M. ed.), Dom kulture “Studentski grad”, Beograd, 2003.

<sup>30</sup> M. Stepić, *Srpsko pitanje – geopolitičko pitanje*, Jantar-grupa, Beograd, 2004, pp. 332-339.

<sup>31</sup> M. Stepić, op.cit., p. 289.

- Petrović Piroćanac, Z.: *Mali pojmovnik geopolitike*, Centar za geopolitičke studije "Jugoistok", Institut za političke studije, Beograd, 2004.
- Pečujlić, M.: *Globalizacija – dva lika sveta*, "Gutenbergova galaksija", Beograd, 2002.
- Saš, Dž.: "Islamska geopolitika", *Senka Rima nad Vašingtonom – pro et contra* (Ivanović, Ž. ed.), "Filip Višnjić", Beograd, 2002.
- Stepić, M.: "Buduća blokovska struktura sveta", *Ekonomika*, No. 1/2, 1997 (Očić, Č. ed.), "Ekonomika", Beograd, 1997.
- Stepić, M.: *U vrtlogu balkanizacije*, JP "Službeni list SRJ"; Institut za geopolitičke studije, Beograd, 2001.
- Stepić, M.: *Srpsko pitanje – geopolitičko pitanje*, "Jantar-grupa", Beograd, 2004.
- Stepić, M.: "Demografski elementi ključnih geopolitičkih teorija", *Demografija*, knj. 1 (Stamenković, S. ed.), Geografski fakultet Univerziteta u Beogradu, Beograd, 2004.
- Subotić, M.: *Put Rusije – evroazijsko stanovište*, Plato, Beograd, 2004.



ASSISTANT PROFESSOR SRĐAN MILAŠINOVIĆ, PHD

*Police Academy, Belgrade*

MLADEN BAJAGIĆ, PHD

*School of Interior Affairs, Belgrade*

## GLOBALIZATION & FRAGMENTATION – RULING DYNAMICS OF GLOBAL SOCIETY

**Abstract:** *Globalization and fragmentation represent parallel and universal phenomena of post-Cold War epoch, which makes them important sociological and politicology-related topic. By their extraordinary complex and contradictory nature, these two processes appear as a subject of many a dispute and interpretation in various contexts and for various purposes. At the same time, globalization and fragmentation are subjects of both idealization and disputing. Many authors see these processes as destruction of authentic human existence which leads towards instability, risk, even world chaos, while for some others they are the beginning of contemporary democracy and “true human history.” However, both these groups of authors lack strong arguments and clear visions about the further course and consequences of these processes for the overall relations and processes in the world. Therefore, in order to consider main courses of integration and disintegration processes in contemporary world, as well as their positive and negative sides, there is a need to answer the following questions: what are globalization and fragmentation? Are we going towards the creation of a uniform world society or society of a chaos, in other words, are these regular processes in the development of a human society?*

**Key words:** *globalization, modernization, fragmentation, fragementation, neo-liberalism.*

### 1. Globalization and dimensions of interdependence

Integration and disintegration are the processes which mark fate and development of human civilization and global future at the crossroads of two millennia. While integration implies processes of “globalization, democratization and humanitarianism, disintegration refers to falling in of nation states and the

appearance of parochialism.”<sup>1</sup> As the most important integration process, globalization marked decisively the international relations after the Cold War in two directions: in the direction of accelerating economic integrations and in the direction of political fragmentations. However, before we start the discussion on all aspects of globalization, which has primarily contributed to surprisingly fast and revolutionary changes in the fields of economy, technology and exchange of information, it is necessary to say something about the very notion of globalization.

At the end of 20<sup>th</sup> century, globalization became a buzzword<sup>2</sup> which was used in various contexts and for various purposes, although its meaning is neither simple nor obvious (Jan Aart Schote)<sup>3</sup>. A large number of researchers from various scientific fields were preoccupied by the phenomenon of globalization and synthesized category and concept of the contemporary world, which refers us to the conclusion that the term globalization has finally acquired a status of serious analytical notion and secured an important place for itself in theory, both as a discourse and as a specific project. This is why the term globalization is neither “innocent nor neutral”, says Douglas Kellner – “it is used to mark many things and to replace some old discourses such as for instance imperialism and modernization.”<sup>4</sup> As a substitute for imperialism, the term tends to change focus of interest from the developed countries to one and the most developed country (the USA), or from national and local economies to transnational corporations. As a substitute for modernization, globalization refers to the meaning of a process which has a positive sign: it takes care of a progress and improvement as parts of universal path of progress and development of civilization. On the other hand, the term often assumes negative meaning, being suitable for covering and/or neutralizing the “horrors” of colonialism, becoming a part of neo-imperialism in this way. It is actually an attempt to cover up the continuity of exploitation carried out by a few powerful states and giant transnational corporations. “In this way some forms of barbaric and destructive aspects of contemporary world are covered by a veil (Douglas Kellner).” Yet, regardless of the various ideological approaches to the phenomenon of globalization, in terms of positive or negative valuable determination, it is multi-valence term that determines multi-dimensional process in the fields of contemporary technology, economy, politics, culture, as well as everyday life.

---

<sup>1</sup> Ch. W. Jr. Kegley, G. A. Raymond, *Exorcising the Ghost of Westphalia: Building World Order in the New Millennium*, Prentice Hall, New Jersey, 2002, p. 156, 168. These processes, according to Joseph S. Nye, converge together with transnationalism and nationalism – two competing forces in the world after the Cold War.

<sup>2</sup> D. Kellner, *Globalization and the Postmodern Turn*, Internet 23/11/2001, [www.gseis.ucla.edu/courses/ed253a/dk/GLOBPM.htm](http://www.gseis.ucla.edu/courses/ed253a/dk/GLOBPM.htm).

<sup>3</sup> Ch. W. Jr. Kegley, G. A. Raymond, op. cit., p. 157.

<sup>4</sup> D. Kellner, op. cit.

In social theory the term globalization is most frequently used to mark process of creation of a unique economic and political space on our planet, in other words the process of connecting and uniting contemporary societies into a world society. This is why globalization is not a historical *novum*, but a realistic historical process that has been developing over centuries and which has considerably accelerated in the recent decades. In the light of modern interpretation, this process is characterized primarily by “universalization, homogenization and unification of the world according to some important principles, determinants and standards of behaviour, as well as establishing of growing mutual connection and conditional quality among individual countries and regions.”<sup>5</sup> However, it is important to underline that the ideas of universalization, homogenization and unification are neither new nor unknown, “they appeared in the heads of creators of powerful states and empires even before these ideas were borne in Judean and Christian civilizations and religious-ideological movements, which gave them powerful ideological foundation. Objective conditions for their realistic putting on the agenda of historical priorities was brought over a hundred years ago by the epoch that English historian E. Hobsbawm called the *era of empires*, while Lenin called it the *epoch of imperialism*.<sup>6</sup>

Globalization as a world historical process refers to strengthening of interrelations and interdependence not only in politics and economy but also in culture. It is “a great transformation, new stage of techno-capitalism, which includes thorough restructuring and reorganization of world economy, politics and culture.”<sup>7</sup> Therefore, globalization is a term used to describe an accelerated process of strengthening of technological, economic, social, cultural and political interdependence in the world. Since it is an unforeseeable and turbulent process that researchers understand and explain variously, Anthony Giddens decides in favour of a classification according to which there are three streams of thought: skeptics, hyper-globalists and transformationists.<sup>8</sup> The stream of thought that according to Giddens is the closest to contemporary reality is transformationist one, primarily because its proponents observe globalization as “central wide-spectrum power of changes that shapes contemporary societies today.” Although the global order is being transformed and changed, the proponents of this stream of thought think that some deep-rooted patterns of behaviour still survive. Nation states and their governments still keep a part of their power regardless of ever increasing global interdependence. Main changes occur not

<sup>5</sup> D. Ž. Marković, “Sociologija i globalizacija”; V. Drašković, “Pojam, uzroci i posledice globalizacije”, *Globalizacija i tranzicija*, op. cit., p. 139.

<sup>6</sup> Č. Popov, *Novi svetski poredak – prethodnici istorijske epohe*, “Smisao”, Beograd, 1999.

<sup>7</sup> D. Kellner, op. cit.

<sup>8</sup> On skeptics and hyper-globalists see more details in: E. Gidens, *Sociologija*, Ekonomski fakultet u Beogradu, 2001, 63-65; S. Milašinović, “Globalizacija i mogućnost izbora”, *Bezbednost*, 1/2005, Beograd, pp. 35-51.

only in economy, but also in politics, culture and personal life of individuals.<sup>9</sup> Transformationists consider that this is why globalization is a dynamic, open, multi-directional, reflexive and contradictory process, a product of intertwined global networks.

Many researchers see globalization as a plague, identifying it with Leviathan that threatens the world by totalitarianism and complete Orwelization of individual and collective existence of people, while for the others it is a beginning of contemporary democracy and “true human history”, although as a world phenomenon of “economic, technological, political and ideological and cultural unification of the world it is *a priori* neither good nor bad.”<sup>10</sup>

Therefore, in the widest sociological sense, globalization is a contradictory process of connecting particular societies in the relations of interdependence and cultural connections, based on new information technologies and means of communication, so that a new world society appears on the Earth as well as consciousness of belonging to that society, both in the minds of individual societies and in the minds of their members. It actually reflects historical and civilization-related pattern of development of human society which is directly conditioned by the development of production powers of a man and means, interpersonal and inter-societal communication based on science, the most authentic indicator of capabilities during the development of a man as a contemplative and creative being.

One of the constitutive elements of the term globalization is interdependence – the notion which includes situation in which all participants or events in various parts of international system influence each other. Therefore, starting from the notion of dependence, Robert O. Keohane and Joseph S. Nye define interdependence as ‘mutual dependence’, which in world politics means situations characterized by interaction among states or among actors in various states.”<sup>11</sup> Interdependence is, therefore, mutual dependence: “I depend, you depend, we depend – this is a rule,” says Joseph S. Nye.<sup>12</sup>

Dynamic changes in the world, especially accelerated scientific and technological development in the fields of telecommunications and information systems (information revolution), liberalization of world market and promotion of new

---

<sup>9</sup> E. Gidens, op. cit., 65; M. Pečujlić, *Globalizacija – dva lika sveta*, “Gutenbergova galaksija”, Beograd, 2002; V. Pavićević, *Aspekti globalizacije – sa pregledom osnovnih pojmova*, “Dosije”, Beograd, 2003.

<sup>10</sup> J. Trkulja, “Globalizacija kao potčinjavanje ili šansa”, in: V. Pavićević, et al., eds., *Aspekti globalizacije – sa pregledom osnovnih pojmova*, Dosije, Beograd, 2003.

<sup>11</sup> R. Keohane, J. S. Nye, *Power and Interdependence* (3. ed.), Longman, New York, 2001. p. 7.

<sup>12</sup> J. S. Jr. Nye, *Understanding International Conflicts*, New York: Longman, p. 179. Interdependence among states within the international system is not a new phenomenon. Many theories within the science of international relation dealt with this phenomenon, primarily from the angle of research of conditions that might contribute to avoiding the conflicts among sovereign states.

values (human rights and care for the environment) influenced to start looking at interdependence after the Cold War from considerably different perspective. Namely, as opposed to traditional asymmetrical interdependence, the concept of “complex interdependence” becomes more and more prominent. This concept implies such a dynamics of the international system and world politics on which the crucial influence is made not only by the states but also by many intra-state and transnational actors. It can be merited to information revolution primarily, which contributed to technological and telecommunication innovation and increase of exchange of scientific, commercial and strategic information that have become general public good.<sup>13</sup>

Contrary to asymmetric interdependence, the following aspects of contemporary world may be considered the main features of complex interdependence: first, contemporary societies are connected by multiple channels which imply multitude of formal and informal links (official government connections, transnational institutions and organizations, connections between private actors – syndicates, non-government organizations, interest groups), whereas state boundaries are wiped off, and transnational organizations (for instance, multinational corporations and financial institutions) achieve ever increasing influence on national politics; second, military issues are not dominant on the agenda any more – there is an increasing influence of economic and ecological issues, and security is not the main preoccupation any more; third, the importance of “hard power” is decreased considerably since many contemporary problems (poverty, destruction of the environment and similar) cannot be solved by military means. Power can be used only in case of international consensus on its use, and the focus is on “soft power”, whose main dimensions, in addition to the degree of scientific-technological and economic development, are educational and age-related structure of population, predominance in knowledge and information superiority (information power).

This is why complex interdependence implies the fact that states are not the only actors any more, since transnational actors act beyond state boundaries and become more and more important factor in creation of world business. Also, power is not crucial – domination is overtaken by economic instruments and activities of international institutions. Finally, the primary goal thinks J. Nye “is not security but prosperity.”<sup>14</sup>

Therefore, the adoption of new and universal values and manners of behaviour in the international relations that make the integral part of the ideal of globalization has stimulated – in addition to political and military – economic, scientific, ecological and cultural aspects of interdependence, which together make

---

<sup>13</sup> R. O. Koehane, J. S. Jr. Nye, *Power and Interdependence in the Information Age*. – In: *Foreign Affairs*, Vol 77, No. 5 (September/October 1998), p. 84-85; R. O. Koehane, J. S. Nye, *Power and Interdependence* (3. ed.), op. cit., p. 15, 20-30.

<sup>14</sup> J. S. Jr. Nye, *Understanding...*, op. cit., p. 188.

a complex and intertwined network of complex interdependence. Contemporary problems of humankind (social, economic and political inequality and weakness, environment, human rights, etc.) under the conditions of complex interdependence become crucial fields of interest and negotiations in the global sphere, where transnational subject are more and more dominant. Thus economic and ecological issues and respect of human rights have priority over traditional issues related to security, and the consciousness of global risks (global heating, uncontrolled increase of world population, destruction of flora and fauna versatility, uneven economic development, pollution of waters and decrease of arable land), complete with the issues referring to preservation of world peace and protection of civil and political rights of people, have become the main topics of the international negotiations. In this way complex interdependence in the international politics contributes to the adoption of new patterns of political communication, which implies new methods and channels (building of trust and cooperation among states and participation of transnational subjects in the negotiations) in solving political issues important not only for nation states but also for the international system as a whole. This is why contemporary globalization, founded on the respect of crucial principles of complex interdependence, may be understood as “true revolution in human connections and relations, which contributes to fundamental changes of the manners according to which civilization is organized and behaves.”<sup>15</sup> This is the process which unites the world and strengthens the consciousness of the world as a whole, pointing to the importance of connecting, uniting and mutual interaction of the world despite its material, spiritual and existential diversity and versatility. It is directed towards a man as a citizen of the world, but also towards the states, in other words towards the forms of direct connections among states by means of transnational (supranational and international) institutional intermediaries.

Globalization understood in this way, on the one hand, leads inevitably towards uniting of humankind and creation of the world society, while on the other, it refers to the need to arrange the relations among individual societies within that world society, but also to create assumptions for new forms of arrangement of relations in the future united humankind.

As a series of processes that expand and accelerate mutual connections all over the world, globalization creates complex networks of exchange, which are not organized according to territorial principle. In comparison with state-center model of international system, it favours gradual and constant expansion of interactive processes, organizational forms and forms of cooperation beyond traditional boundaries defined by sovereignty. It is a process of growing interdependence among societies, which enables the event in one part of the world to have more and more influence on distant peoples and societies. It means uniting

---

<sup>15</sup> D. Pirages, *Globalization: A Cautionary Note*, Internet 14/07/2004, [www.aaas.org/spp/yearbook/2000/ch9.html](http://www.aaas.org/spp/yearbook/2000/ch9.html)



of social-economic changes in the world as a whole, abandoning state and state boundaries as relevant factors in solving global problems, whose driving power is made of two main processes: globalization of production and globalization of finances. Many aspects of globalization (economic, infrastructure-related, social-institutional, cultural, ecological and political-legal) pervade each other and make a complex network of interactions.

## 2. Globalization and changes in the structure of power

Within the context of objective changes produced by globalization after the Cold War, the following are particularly highlighted:

- dizzy growth of world telecommunications (communicational aspect);
- increased mobility of goods and services, capital and labour (economic aspect), and
- increased number of ecological problems, which cross the national boundaries (ecological aspect) (*Robert T. Kudrle*).<sup>16</sup>

Globalization in the field of communications is the consequence of powerful development and expansion of information technologies (development of mobile telephony, possibility of satellite transfer of information in global sphere and the appearance of the Internet), which helped build a bridge over spatial boundaries among states and regions, connecting people into so-called virtual electronic community. Revolution of telecommunications, according to some futurologists, transforms the planet into a big “global village”, where everyone shares common supranational identity, while more cautious authors estimate that it creates “global metropolis”, which does not have a social intimacy characteristic of a well integrated community. However, telecommunication revolution must be paid tribute for fundamentally having changed the existing structure and disposition of power. Traditional elements of power are still important, but not dominant in world business. Ever increasing importance is given to “soft forms of power”<sup>17</sup> – capability to shape interests and opinions of others in accordance with certain desirable cultural values and ideas. Hard power in globalized world is not sufficient for any state or other actor to achieve their charted goals. The change of the nature of power had crucial contribution here, the diffusion of which is influenced by five key trends: economic interdependence, transna-

---

<sup>16</sup> Op. cit., p. 157.

<sup>17</sup> Technology, information science, trade and finances are stated as new dimensions (“soft forms”) of power. Z. Bžežinski, *Američki izbor – globalna dominacija ili globalno vođstvo*, Politička kultura, Zagreb, 2004; CID, Podgorica, 2004. Joseph Nye talks about new, soft, impalpable and less coercive forms of power in comparison with traditional, hard forms of power (military force and similar). J. S. Jr. Nye, “Soft Power”, *Foreign Policy*, No. 80, 1990, p. 153-170.

tional actors, nationalism in weak states, expansion of technology and change of nature of political issues which are currently the focus of interest of the international relations (ecological changes, for instance).<sup>18</sup> From the angle of a state, soft power is “contained in national willpower, diplomatic skill and support that the power in a country has by its people”, while from a wider point of view, under the conditions of creation of information society *information power* becomes more and more prominent.<sup>19</sup> Those who create, control and have access to information have the advantage in the international politics in comparison with those whose greatest source of power is that they can threaten by the use of weapons. Power, therefore, flows not only from states towards non-state (private) actors, but from “the rich in money” towards “the rich in information.”

**Table 1:** *Effects of information technology on power*<sup>20</sup>

	Hard power	Soft power
Benefits of big actors	<ul style="list-style-type: none"> <li>• Revolution in military field</li> <li>• Primacy of development</li> <li>• Gathering of information by “technical method”</li> </ul>	<ul style="list-style-type: none"> <li>• Ranking of economies by production quantity</li> <li>• Slight poverty and marketing power</li> </ul>
Benefits of small actors	<ul style="list-style-type: none"> <li>• Commercial capability</li> <li>• Infrastructure</li> <li>• Intelligence activities in the fields of economy and commerce</li> </ul>	<ul style="list-style-type: none"> <li>• Expansion of non-government organizations and cheap mutual communication</li> <li>• Appearance of small and new virtual communities</li> </ul>

The other aspect of globalization – economic globalization, can be considered from several important viewpoints. First, it is a global expansion of neo-liberal economic and market principles and establishing of global technological and information networks and flows which erase national boundaries. Economic, technological and information-related organizational and spatial connecting of the world into an entity contributes to strengthening of interdependence among states, which are not capable any more to provide their respective populations with favourable economic conditions only by their own national potentials. Fast exchange of information and technological innovations “condenses the world” in which the states would pay less and less attention to territorial issues and would waive their “parochial national interests.”<sup>21</sup> The focus moves towards globalized

<sup>18</sup> J. S. Jr. Nye, *Soft Power*, op. cit., p. 160.

<sup>19</sup> Op. cit., p. 164.

<sup>20</sup> R. O. Keohane, J. S. Nye, *Power and...*(3. ed.), op. cit., p. 223.

<sup>21</sup> Ch. W. Jr. Kegley, G. A. Raymond, op. cit., p. 160. “Condensing” in its content represents objective processes of globalization, which include: waves of technological revolutions that lead towards compression of space and time, reduction of distances and time required for ever increasing communications; establishing of global economy – world bloodstream



international economy in which “irrepressible economic forces – transnational financial capital, corporations and world economic arbiter (IMF) – transform national economies into their own local units.”<sup>22</sup>

Under these conditions the most influential states will be so-called virtual states (Rouskrens), the states which would have sufficient financial and managerial skills to create products, provide services and control the goods beyond their boundaries, so that the signs pointing to the process of virtualization of the world economic system are more and more notable. On the other hand, the developing countries, despite the difficulties they are facing on an everyday basis, make efforts to catch the connection with contemporary economic and technological flows in order to join the global exchange of goods and services from as good starting position as possible and to maintain an acceptable level of economic development.

Briefly, old-fashioned nationalist chauvinism and geocentric ideas do not have their place in the economy of a united world any more. Under the conditions of globalized economy of 21<sup>st</sup> century, multinational corporations perform the majority of commercial and financial transactions by means of global information systems (e-trade), which creates an increasing asymmetry between economy and politics, electronically integrated world economy and territorially determined nation-states, as well as between geographic and cyber space. Such a development, conclude Kegley and Raymond, has created such circumstances under which “Westphalian model is no longer a corresponding instrument to conduct global businesses.”<sup>23</sup> The consequence of this is that production, capital and markets are globalized and intertwined into a network of world economy that has exceeded the traditional political jurisdictions of a state. Economic globalization thus causes weakening of the state, which is no longer a manager of national economy, but the instrument of adjusting national economy to the requirements of expansion of world economy.

Finally, ecological globalization includes also some important issues that are in focus of current researches and refer to the influence of globalization on the environment, world population, resources, etc. Neo-liberal economy and world market globalization have brought to important migrations of world population. The increase of number of people in industrial centers, great economic migrations within states and world in general, unemployment and bad living conditions in megalopolises, especially in education, social services and health care,

---

– intertwined arteries and capillaries leading to more and more condensed networking; information and media revolution and its cultural products (news, documentaries, music hits etc.) that cross over geographic boundaries and reshape the local cultural space by their cultural meaning; and networks of powerful supranational institutions which represent the outlines of new global political order.

<sup>22</sup> M. Pečujlić, op. cit., p. 14, 18.

<sup>23</sup> Op. cit., 162.

cause various problems and threaten with outbursts of violent and non-violent conflicts among various social, ethnic and religious groups. If we add to this the problems of the world population growth, the picture is not at all optimistic. Economic globalization also leads to degradation and decrease of quantity of vital non-regenerating resources (water, food, energy sources, minerals, arable land, forests, etc.). Arms race turned into *resource race* in the globalized world, threatening with conflicts over the rights to exploit and control these resources. By the end of 20<sup>th</sup> century, due to excessive use, many rich natural resources came to the verge of destruction, and if that verge was crossed, quite logically, there would be destruction of the very basis of these resources. At the same time, Earth's atmospheric envelope is being destructed and the danger comes from greenhouse effect and global climatic warming, soil erosions, rivers dry out, animal and plant species die out, seas and oceans become more and more polluted; in short, there is a danger from an overall collapse of the nature. All this refers to the statement that "political world perhaps represents a chess board of sovereign states, but natural world represents a seamless network," where "all things are mutually connected."<sup>24</sup> Economic and ecological interdependence, as a consequence of economic and ecological globalization, becomes ruling trend in 21<sup>st</sup> century, so that all international actors must urgently make additional efforts in order to solve accumulated problems which threaten the physical survival of humankind. Many countries, still aspiring to the concept of autonomy and sovereignty (sovereign right to use their natural resources and to treat the issue of environmental protection as national only) are still reluctant to join the efforts for environmental preservation, unless they are sure that other states would do the same. Such a situation results from the fact that damage caused by ecological destruction progresses slowly, and solutions for these problems are still too expensive. The states are tempted to behave like "stowaways", who negotiate about the agreements which reflect the lowest common denominators of determined interests and which lead to maximum responsibility of other nations, reducing at that their own duties. Despite some attempts to solve these problems at international level, the results have been rather small so far. This is why the additional efforts by states as well as international and non-government organizations are required in the years to come to establish new patterns of global negotiations concerning environmental issues in the widest sense, as establishing of new standards of conduct for all concerned. For without the global approach in solving these problems, "the formula of Westphalian peace will reappear as a barrier to successful solving of common problems," conclude Kegley and Raymond.<sup>25</sup>

---

<sup>24</sup> Ch. W. Jr. Kegley, G. A. Raymond, op. cit., p. 162.

<sup>25</sup> Op. cit., p. 164.

### 3. Contradictions of globalization

Globalization includes many contradictions. On the one hand, while it denotes a powerful growth of virtual capital, economic potentials together with creation of world market by expansion of commerce and capital flow, as well as accelerated technological, communicational and information progress, on the other hand, it represents a highly unbalanced process which increases inequality among and inside countries, favouring certain regions in the world or some social groups and not the others. Due to these reasons globalization cannot be estimated solely from the angle of positive economic, technological and information-related effects, but in relation to uneven and negative consequences that it causes in world economy and politics. The paradox of globalization therefore comes from the fact that it “integrates and unites, but also fragments and marginalizes, creating huge pressures and tensions inside states. Does globalization therefore promotes democracy or condense it, or does it do both?”<sup>26</sup>

The relation between globalization and liberal democracy is ambiguous and contradictory for many reasons. One of them is that certain countries in underdeveloped regions in spite their efforts to adopt fundamental principles of liberal democracy and political pluralism have failed to do so, primarily because of dominant authoritarian social structure and lack of human rights. Due to complete absence of democratic institutions of power, political pluralism and free economic initiative, unaware of importance of building democratic institutions as a key element of micro-economic and macro-economic development, these countries responded to globalization in a completely negative manner. Antagonism towards main values of Western societies that took the initiative in their efforts to impose neo-liberal values, principles of absolutely free market and their cultural patterns globally, were the main characteristics of the behaviour of certain countries, so that they closed within their own boundaries even more. There were powerful social unrests as a consequence, and the lack of democracy and political pluralism resulted in strengthening of political protests and establishing of various and even radical social and political movements. Economic, cultural and political influences of globalization together with the mentioned weaknesses of underdeveloped societies contributed to flourishing of nationalist and fundamentalist movements, which destabilized even more general condition in these countries. These processes were particularly characteristic of the countries of East and South-East Europe (the former USSR, Yugoslavia), the countries of East Asia (Afghanistan, Iraq, Iran) etc. Bloody ethnic and religious conflicts brought into question some elementary standards of a developing world order. This is why one of the biggest problems in interpreting the effects of globalization was reduced to the question how to overcome the disagreements on the

<sup>26</sup> Z. Öniş, “Neo-liberal Globalization and the Democracy Paradox: The Turkish General Elections of 1999”, *Journal of International Affairs*, Vol. 54, No. 1, pp. 284-285.

manner of arrangement of globalized world and create the new international order. The opinions on this are still divided. According to one opinion, the new international order can and should be arranged by establishing international organizations and institutions in democratic procedure, respecting and maintaining national and cultural identity of every participant and there should be equality of all subjects in expressing and achieving their interests within such created organizations and institutions. According to another opinion, the establishing of the new world order should be a framework for arrangement of globalized humankind where the most developed and the most powerful countries in terms of economy and politics would have a decisive role.

Some of the processes that mark globalization, especially global technological and information revolution, have contributed not only to the appearance of some forms of soft power but also to revolutionary changes in the structure and distribution of power. Namely, new technologies and information systems influence the accelerated development of conventional military potentials and military industry in general, as well as the expansion of mass-destruction weapons, particularly chemical and biological weapons. Despite strengthening of awareness of the need to put production and trade of these weapons under the strict international regime, which would in all aspects contribute to standardization of its use, primarily to peace purposes, many countries due to their narrow selfish interests and led by the logic of security dilemma tend to get in possession of these weapons. They are largely supported by the fact that the world is connected into global information network, which offers huge possibilities to obtain knowledge, means and materials required to produce mass-destruction weapons.

Economic and technological globalization, globalization of material production and expansion of information influenced the establishing of new cultural patterns and life styles, which are the condition to create global culture. Cultural globalization caused sudden changed in traditional paradigms, so that in “hypermedia environment of today, which is characterized by the explosion of communication technologies, the fundamental logic of real-politics intertwines with the logic of culture-politics (kulturpolitik).”<sup>27</sup> This means that achievement of state interests, including security, depends considerably on the promotion of state values and ideas (cultural specific characteristics) within other nations. Cultural globalization<sup>28</sup> can thus be understood as “making individual inter-

---

<sup>27</sup> P. C. Pahlavi, “Cultural Globalisation and the Politics of Culture”, *CEPES*, Quebec, Canada, October 2003, p. 5.

<sup>28</sup> The term (neologism) “glocalization” is also used here; op. cit. p. 6. A well-known expression “think globally, act locally” expresses the essence of this neologism in that it reflects the true content of dynamics expressed through relation globally vs. locally. J. N. Pieterse, “Globalization as Hybridization”, in: F. J. Lechner, J. Boli, eds., *The Globalization Reader*, Malden, Blackwell Publishers, Massachusetts, 2000, p. 102.

ests universal”, “global valorization of individual identities,”<sup>29</sup> or the process by which local values, standards and practice flow over and expand to global level by means of transnational communication channels, which are characterized by convergence – closing and disintegration. Namely, when some sources have more influence than the other, then the process of cultural globalization contributes to understanding, social and political convergence of nations, while in a situation when several sources have equal influence, the process results in divergent behaviour. Technological globalization has decisive influence on creation of the world where it is rather hard to protect from outside cultural influences, so that cultural globalization is characterized by dynamics of homogenization which sets aside the importance of local cultural identities and creates “post-traditional collective identity”, or universal cultural patterns and identity. Cultural globalization can thus be described as a process characterized by centripetal forces of convergence and centrifugal forces of disintegration. Disintegrating forces mark the process of reaffirmation of local cultures (reinstating of local traditional cultures and promotion of autochthonous identities) in comparison with the efforts to create universal cultural values and patterns of behaviour by means of integrative forces of convergence. Cultural homogenization is opposed by cultural differentiation.

Globalization in the field of culture, therefore, causes two processes: universalization and creation of “global culture” and fragmentation and multiplication of identities. However, for many people aspirations towards formation of global behaviour patterns, “global culture” and “global civil society” have produced dissatisfaction, fear and uncertainty for the future of traditional values such as national and cultural autochthony. In comparison with globalization, which in all its aspects tends to reduce the influence of nation states in many spheres of life, fragmentation, as an opposite process, contributes to revival of ethnic and religious identities and anew reproduction of nations.

The idea of establishing global culture at the principles and foundations of “cultural imperialism” has been born within so-called Western civilization circle, where globalization also originated as a universal process. This is why globalization in the field of culture is also called “Americanization”, “Westernization” or “cultural imperialism” and “cultural synchronization – homogenization”.<sup>30</sup> Where is the significance of culture within the context of discussion on disintegrating influences of globalization, especially within the context of anew revival of autochthonous cultural patterns as a response to attempts of the modern Western world to impose its own cultural values, ethical principles and life style as a foundation of modernization of the rest of the world and its cultural homogenization? Samuel P. Huntington made some attempts to give some answers to growing tensions between various cultures (cultural circles) in his

<sup>29</sup> Op. cit., p. 102.

<sup>30</sup> J. Tomlinson, “Cultural Imperialism”, in: F. J. Lechner, J. Boli, eds., op. cit., p. 311.

brilliant study titled “The Clash of Civilizations and the Remaking of World Order”, in which he analyzed various trends within unique human civilization, as well as relations between modern civilizations, offering, as said by Henri Kissinger, “provocative framework for understanding world politics in 21<sup>st</sup> century.”

One of the main features of civilizations is religion on which great civilizations have been established and decline. Civilizations develop fast fostering their tradition, culture, language and religion, and with all that their own identity. It is the same thing with religion, thinks Huntington. Since no universal language can appear, neither can universal religion. This is why according to Huntington the end of 20<sup>th</sup> century represents the period of overall cultural and religious renaissance worldwide, and the nature of contact between civilizations is determined to a large extent by ethnic and religious feelings and various cultural identities. The renaissance of non-Western cultures and non-Christian religions marks the world relations at the beginning of 21<sup>st</sup> century, since non-Western civilizations and cultures refuse Westernization and return to their autochthonous cultural values and identities. Huntington explains the renaissance of cultures in the following manner: “The distribution of cultures in the world reflects the distribution of power... Expansion of civilization power usually occurred in the course of history simultaneously with the flourishing of its culture and almost always implied the use of this power to expand one’s own values, practice and institutions on other societies. Universal civilization requires universal power.”<sup>31</sup>

Therefore, if there is not universal power, the chances to create universal civilization, universal values and patterns of behaviour are small. The processes go to quite an opposite direction. Awakening and renewal of religion and religious renaissance are natural response to the attempts to establish cultural hegemony of the Western world. This does not mean the refusal of modernization as a universal value, but refusal of secularism, moral relativism and surrendering to pleasures, so that it comes to reaffirmation of some other values (order, discipline, work, mutual help and human solidarity). The question usual for the Cold War time: “Whose side are you on?” has been replaced by the question: “Who are you?”<sup>32</sup>

Some authors express serious reserve for Huntington’s determination and classification of civilizations, as well as his claim about the certain conflicts between civilizations in the future.<sup>33</sup> The conflicts similar to Huntington’s conflicts of civilizations occurred in 18<sup>th</sup> century (huge adversity between Hapsburg and Ottoman Empire). Guided by such logic, it could be said that cultural differences among people can cause divisions and reduce efforts in solving the possible conflicts. However, there is little proof that they alone can cause conflicts or their extreme forms – wars. Also, there is not a proof that collective loyalty

---

<sup>31</sup> S. Huntington, *Sukob civilizacija*, CID, Podgorica, 1998, p. 100.

<sup>32</sup> Op. cit., p. 139.

<sup>33</sup> C. Brown, *Understanding International Relations*, 2. ed., St. Martins Press, New York, 2001, p. 233.



could be transferred from one nation to the entire civilization. The criticisms of Huntington's postulations of civilization conflicts can be supported by the fact that considering some concrete historical events following the Cold War (conflict in Rwanda) the lower level conflicts (between ethnic communities within one state) are more certain, i.e. small ethnic communities could sooner get to the level to do genocide than civilizations. This is confirmed by the fact that warring parties in Rwanda belonged to the same civilization. Therefore, cultural tensions that have occurred due to expansion of secular Western values lead rather to re-flaring of aggressive particularism or at least parochialism than to supporting of solidarity within a civilization spreading along the periphery of the international system.

#### 4. Dynamics of fragmentations and frammegrations

Frequent statement of renowned scientists, when it concerns contemporary processes and relations in the world, can be expressed in the following manner: "If the Cold War was marked by some forms of certainty and stability, current international order is characterized by great instability, even chaos."<sup>34</sup>

The end of 20<sup>th</sup> century thus marked for some authors the appearance and strengthening of contradictory organizational energies connected with globalization and fragmentation, which make a harmonized framework for attack on primacy of sovereign territorial states that represented a material pillar of the world order by then.<sup>35</sup> Simultaneously with these processes, some transnational social forces begin to incline towards creation of some form of global civil society, providing the sources for the project of establishing so-called global democracy.<sup>36</sup> The revival of religions closely connected with the rise of awareness of belonging to certain civilizations is also important. This is why the pessimism expressed by Richard N. Haass concerning the future of the world is not surprising at all: "We live in the epoch of contradictories: globalization and fragmentation, peace and conflicts, prosperity and poverty."<sup>37</sup>

Regardless of the fact to what extent and to which proportion the stability and security in the future can be broken due to internal (intra-ethnic, inter-ethnic, inter-religious) conflicts or conflicts of civilizations, the world politics at the

---

<sup>34</sup> Z. Bzezinski, *Out of Control, Global Turmoil on the Twenty-First Century*, New York, 1993; J. N. Rosenau, "Ominous Tensions in a Globalizing World", in: Conference on International Relations, Middle East Technological University, Ankara, Turkey, 2002.

<sup>35</sup> R. Falk, "World Prisms: The Future of Sovereign States and International Order", in: *Harvard International Review*, Summer 1999, p. 30.

<sup>36</sup> F. Kiningam, *Teorije demokratije*, "Filip Višnjić", Beograd, 2003; A. Lajphard, *Modeli demokratije*, CID, Podgorica, 2003.

<sup>37</sup> R. N. Haass, "What to Do With American Primacy", *Foreign Affairs*, Vol. 78, No. 5, 1999, p. 37.

beginning of a new millennium is characterized by deep tectonic disturbances, which are contributed by re-flaring of conflicts on all levels. The consequences of globalization have not left only positive traces on current reality of international relations so far. Due to many reasons, globalization influenced crucially the appearance of another process that marks the new millennium – *fragmentation*. So the nation states today find themselves between two forces: fragmentation, which appears and develops inside nation states, and globalization, which unwinds beyond (the power) of nation states. In today's world, which is characterized by processes of accelerated economic, technological and information integration, cultural homogenization and asymmetric interdependence, "state sovereignty is brought into danger by two intertwined processes: globalization and political fragmentation. Globalization and fragmentation have thus become "twin themes"<sup>38</sup> of scientific and popular literature that deals with the future of states and world as a whole.

Fragmentation is a term used to describe the process opposite to globalization. It refers to opposing to pressures of globalization, efforts to maintain traditional independence of states or social groups in solving some key issues, independent from entities acting beyond national boundaries. In the majority of literature fragmentation is focused on ethnic (and religious) conflicts within the existing states. Fragmentation, therefore, induces disintegration of globalized international system of states, as well as multiplication of sub-national identities inside nation states.

In the post-Cold war world the nation state sovereignty is largely limited by the process of globalization, so that many predict the crisis of the nation state and the end of nations in comparison with traditional comprehension. On the other hand, some predict that the power and authority of states would flow over into two directions: towards the international regimes and organizations, and towards local governments, nations and tribes. These two directions of nation state power overflow are consequences of globalization and fragmentation.<sup>39</sup> Fragmentation, i.e. disintegration of states is one of the most important consequences of globalization. The causes of this disintegration are double: the process of globalization has led to reduced capacities of states and loss of their traditionally understood legitimacy; the end of the Cold War has led to demonstration of political identity and cultural heritage of some nations, and hidden ethnic and religious intolerances surfaced and led to armed conflicts.<sup>40</sup>

---

<sup>38</sup> Sh. Biswas, "W(h)ither the Nation-state? National and State Identity in the Face of Fragmentation and Globalisation", *Global Society*, Vol. 16, No. 2, 2000, p. 175-198.

<sup>39</sup> Extensive discussion about the crisis of the nation state was published in the special issue of *Political Studies*, Vol. 42, *Special Issues*, 1994, and in the collection of papers *The Contemporary Crisis of the Nation State*, Blackwell Publishers, Oxford, 1995, John Dunn Edition; op. cit., ps. 176-177.

<sup>40</sup> S. Avramov, *Trilateralna komisija*, "Idij", Veternik, 1998. p. 105.



Many authors think that post-modernism or new forms of economic and cultural globalization led to ethnic fragmentation all over the world. However, ethnic fragmentation is not a new phenomenon in modern world system, nor is it the only aspect of the new stage of post-modernism or current globalization.<sup>41</sup> The establishing of ethnic identity and appearance of ethnic conflicts are historical processes, incorporated in the logic and structure of world system from its beginning. History knows ideological projects such as racism, which have favoured certain ethnic groups or the whole nations over the others, which have led to political inequality, polarization, exclusiveness, discrimination and repression. The ultimate effect of such projects was ethnic differentiation, suffocation of rights and marginalization of ethnic minorities. Therefore, violation of rights of ethnic and minority groups is historical fact and not new (modern) appearance caused by processes such as globalization.

Today ethnic conflicts appear as a result of structural contradictories between the efforts to establish cultural hegemony and ethnic diversity in the world. The origin of nations and national homogenization are dialectic processes, which in the modern world system have led to structural differentiation of ethnic groups. Also, certain nations tend to establish domination over other nations or ethnic groups and this leads to mobilization of ethnic groups and their resistance to such tendencies. Fragmentation along ethnic lines today is the main cause of destruction of states. In the biggest states in transition (Russia, China and India) fragmentation caused flaring of armed conflicts (Chechnya, Cashmere), and these conflicts by inertia led to additional political problems between these states in transition and market democracies. Also, fragmentation offered new possibilities for the expansion of international organized crime and global terrorism.

There is much contradictoriness and incompleteness in the essence of fragmentation. While for some authors fragmentation is negative (disintegrating) process, which tends to reduce the range of globalization (integration, homogenization), for some other it is positive (integrating) process, which includes the sources of re-strengthening of national consciousness, ethnic identities and autochthonous cultural values, and strengthening of nation states accordingly. This is why post-modern epoch is characterized by two key contradictory processes: the first one implies centralization, integration, and finally globalization, while the second refers to decentralization, fragmentation and localization. The processes of globalization and fragmentation, however, must be observed through a prism of interactive influences they have on each other on various levels of gathering and shape the destiny of the contemporary world.

---

<sup>41</sup> W. A. Dunaway, "Ethnic Conflict in the Modern World-System: The Dialectics of Counter-Hegemonic Resistance in an Age of Transition", *Journal of World System Research*, Vol. 9, No. 1, 2003, p. 4-7.

**Table 2: Some sources of fragmentation at four levels of gathering<sup>42</sup>**

<b>Levels of gathering</b> <b>Sources of fragmentation</b>	<b>MICRO</b>	<b>MACRO</b>	<b>MICRO – MACRO</b>	<b>MACRO – MACRO</b>
<b>Microelectronic technologies</b>	Enables to like-minded persons to be in contact all over the world.	Creates more open, more connected and more dependent people; gives them power to provide support.	Forces governments to make opposition groups competent for more successful mobilization.	Accelerates diplomatic processes; makes electronic surveillance and intelligence work easier.
<b>Knowledge and skill revolution</b>	Broadens horizons to people globally; makes them susceptible to the importance of far-away events; makes focusing on local environment easier.	Increases the capabilities of government agencies to think “beyond the box”; offers the chance to analyze challenges.	Forces police to succeed through increased capability of individuals, to find out when, where and how to join the collective action.	Increases quantity and improves quality of connections between states; strengthens their communities and friendships.
<b>Organizational explosion</b>	Makes multiplication of identities, sub-grouping, associating with transnational network easier.	Increases the competence of opposition groups to form and make pressure for change of politics; separates people from their elite.	Contributes to pluralism and decrease of authority; increases probability for authority crisis.	Makes global scene more transnational, which becomes denser around non-government actors.
<b>Branching of global structures</b>	Gives priority to conflicts and induces tensions between individuals; directs people towards local sphere and authority.	Makes creation of new spheres of authority easier and consolidates the existing spheres in the world with several centers.	Makes stronger transnational representation by the groups and interests for achievement of influences through various channels.	Creates institutional plans for cooperation on major global outstanding issues such as: commerce, human rights, etc.
<b>Increase of mobility</b>	Stimulates imagination and provides for more thorough contacts with foreign cultures; increases importance of outsiders.	Increases value and importance of sub-cultures, diasporas, and ethnic conflicts, since people aim at new chances abroad.	Increases trans-border migrations, which decrease the capability of governments to control national boundaries.	Increases the need for international cooperation in order to control flows of narcotics, money, immigrants and terrorists.
<b>Weakening of territoriality, states and sovereignty</b>	Weakens tradition and loyalty to the nation; increases distrust in government and other institutions.	Contributes to porosity of national boundaries and difficulties to make framework for one’s own politics.	Decreases trust in governments; makes difficult the possibility to achieve and maintain national consensus.	Increases the need for inter-state cooperation on disputable global issues; decreases control over events.
<b>Crisis of authority</b>	Re-directs loyalty; encourages individuals to replace traditional criteria by legitimate criteria of action.	Weakens capabilities of government and other organizations to create political frameworks on their own.	Makes it easier for people to make pressure or paralyze their governments, WTO and other organizations.	Increases the capability of government and non-government organizations; encourages diplomatic cautiousness in negotiations.
<b>Globalization of national economies</b>	Increases the consumer’s status; increases unique tastes; increases job anxiety; widens the gap between the winners and losers.	Complicates the tasks of state governments vs. markets; stimulates business associations.	Increases the efforts to protect local cultures and industries; makes it easier to express power in protests; polarizes communities.	Increases commercial and investment conflicts; offers initiatives for creation of global financial institutions.

<sup>42</sup> Op. cit., p. 18-19.

The contemporary world, therefore, represents a complex “pulsing organism” squeezed between two ruling dynamics – globalization and fragmentation. In order to note multiple interactions between these two processes, James Rosenau introduces the term “framegration”, by which he makes efforts to explain the complex connections between fragmentation and integration, i.e. globalization and localization. According to this author, framegration highlights all contradictoriness, ambiguity and uncertainty of the time ahead of us. Its main sources are microelectronic technologies, knowledge and skill revolution, organizational explosion, branching of global structures, increase of mobility, decrease of territoriality, states and sovereignty, the crisis of authority and globalization of national economies.<sup>43</sup>

When all the suggested sources of fragmentation are considered at various levels of gathering, a number of conclusions can be made. One of the important conclusions is that the nature of current world politics can hardly be researched successfully without taking into account all the ways in which ordinary people at the individual level may directly shape the course of certain events and changes within the world system. Also, the states and other macro-communities are still the main actors at global scene, and they are fast joined by a great number of other actors (non-government organizations and others).

On the other hand, Rosenau’s term framegration implies also “interactive and causal links between globalized and localized forces that change the main structure of world relations.”<sup>44</sup> It looks like a hypothetic analytical crossroads cut by globalization and fragmentation, integration and disintegration, interdependence and pluralism, influences of various levels of gathering where the effects of these processes may be evaluated considering the valuable orientation towards dynamics characterized by the mentioned forces. Rosenau includes the following activities into the globalization forces: the activities which stimulate the process of liberalization of world economy and uniting of world market of goods and capital in global proportions; the activities that create conditions for establishing and work of global economic and political institutions; the activities which provide for the higher level of interdependence by introduction of technological and telecommunication innovations; the activities which tend to homogenize nation states and initiate the process of creation of modern global society; the activities that tend to impose American and Western predominance and values, especially in culture, primarily by imposing English language as the language of communication on a global level. On the other hand, the forces of localization include

---

<sup>43</sup> J. N. Rosenau, “Globalization and Governance: Bleak Prospects for Sustainability”, *IPG*, No. 3, 2003, p. 11-29; J. N. Rosenau, “Ominous Tensions in a Globalizing World”, Conference on International Relations, Middle East Technological University, Ankara, Turkey, 2002

<sup>44</sup> J. N. Rosenau, “Distant Proximities: The Dynamics and Dialectics of Globalization”, in: B. Hettne, ed., *International Political Economy: Understanding Global Disorder*, Zed Books, London, 2004.

the essential changes in behaviour of people throughout the world, especially outside “the Western civilization circle”, due to the efforts to establish “Western hegemony”, as well as due to irresponsible behaviour of Western powers towards the rest of the world; deepening of the gap between the rich and the poor in the world (global apartheid);<sup>45</sup> reduction of quality and quantity of resources due to global warming, reduction of tillable soil and general destruction of the environment; the appearance of mass migrations, aversion and prejudices regarding the attempts to impose new patterns of behaviour and “hybrid universal identity”; revival of ethnocentrism, ethnic and racial hatreds and return to traditional customs; the appearance of movements for preservation of cultural heritage, especially language; the appearance of new security threats such as global terrorism; flourishing of religious fundamentalism and nationalism.

**Table 3:** *The example of mutual dynamics of fragmentation*<sup>46</sup>

<b>Globalization forces</b>	<b>Localization forces</b>
Free trade	Changes of behaviour of individuals and nations
International corporations, international insurance companies, exchange of money.	Due to irresponsible undertakings of the USA and the West, the gap between the rich and the poor countries in the world deepens.
Global political and economic institutions (UN, World Bank, IMF, WTO)	Lack of resources caused by global warming, reduction of tillable soil and destruction of the environment. Mass migrations, prejudices, ethnocentrism, ethnic and racial hatreds.
English as a universal language	Movements for the preservation of cultural heritage based often on language and customs.
American military, economic and cultural strengthening	Annoyance by American hegemony, terrorism
Modernization, scientific and technological innovations in information and traffic	Traditionalism, religious fundamentalism, nationalism.

When we speak about fragmentation, we must take into account two ambivalent dynamics characterizing the international system at the end of 20<sup>th</sup> and at the beginning of 21<sup>st</sup> century. The first one refers to process – forces of global-

<sup>45</sup> S. Avramov, op. cit., *Trilateralna komisija*, p. 80

<sup>46</sup> J. N. Rosenau, *Distant Proximities*, Internet 14/07/2004, [www.pupress.princeton.edu/chapters/s7529.pdf](http://www.pupress.princeton.edu/chapters/s7529.pdf); J. N. Rosenau, “Distant Proximities: The Dynamics and Dialectics of Globalization”, in: B. Hettne, ed., *International Political Economy: Understanding Global Disorder*, Zed Books, London, 1995, p. 46-65.

ization, whose influences may contribute to building of a new and safer world order, and at the same time, may cause many negative consequences for the stability of that order. Because of the positive effects of globalization, the order may stimulate people at all levels of gathering to accept new forms of agreement in order to solve disputable issues in a creative and peaceful manner, allowing to various groups to participate in the discussion and solving of these problems freely. Otherwise the order can lead to a standstill in negotiations and establishing of so-called tyrant hierarchy which prevents free participation of all subjects interested in solving certain outstanding issues. The second dynamics refers to fragmentation that can lead to interruption of connection between people at various levels of gathering and chaos, but also to strengthening of influence of individuals on world events and increase of pluralism, which is a prerequisite for various groups to achieve their goals.

Therefore, in order to understand the connections between order and fragmentation appropriately, it is important to know that both terms are full of various meanings, that "order for one person is a disorder for another, and that fragmentation for one person is connection to some other" (Rosenau). Both order and fragmentation, in other words, may be desirable and undesirable, depending on the perspective of evaluation.

Key dilemma today is whether globalization inspires long-term processes of reconciliation between those groups that are seemingly involved in hard-to-solve tensions, and whether liberalization and globalization may counteract the general chaos in the world and provide for more security for nations and communities, and finally for the stable order? In order to solve this dilemma, it is necessary to distinguish between order and fragmentation and societies on the one hand, as well as between desirable and undesirable conditions on the other hand, by studying the influence of the mentioned dynamics on several levels of gathering.

Order and fragmentation have always been integral characteristics of world events, but due to technological progress today they are interacting more than ever. The rate of global life inside states and among them has accelerated so much that there are great prospects to confirm that every strengthening of the order leads to increased fragmentation, and vice versa. In order to point out and note the degree of this interaction, the researchers introduce so-called fragementation into analysis, by which they try to explain the manners in which the tensions between order and fragmentation are inseparably interrelated. They do this by offering the table which describes four various social conditions and political forms that may prevail when valuable order and fragmentation dimensions are taken into account.

**Table 4:** *Desirable and undesirable order and fragmentation*<sup>47</sup>

	<b>ORDER</b>	<b>FRAGMENTATION</b>
<b>DESIRABLE</b>	Centralized democracy	Decentralized pluralism
<b>UNDESIRABLE</b>	Tyranny	Chaos

This is why “order and fragmentation are too important to ignore dynamics marking the contemporary world,” says Rosenau, since “some new transformations beyond these processes may not be expected in the future.”<sup>48</sup> Complex interactions between globalization and fragmentation would sooner contribute to the picture of the world where there would be more islands with desirable order and fragmentation (peace zones), surrounded by oceans of undesirable tyranny and chaos (zones of riots), where there would not come to stronger influences between them and mutual violations – which is a kind of stalemate position that does not offer hope for considerable changes in any direction.

### 5. Instead of a conclusion

Based on all that was said previously, what could be concluded about the prospects of processes of globalization and fragmentation in the course of the third millennium?

The essential characteristic of globalization is that it marks an objective and regular process of connecting, permeating and uniting of the world in spite of its economic, political, cultural and even civilization diversity. It has its roots and development path and represents an unstoppable flow of contemporary history and civilization that started with the expansion of production and financial markets in the second half of 19<sup>th</sup> century. Uniting the world into a human community, humankind, is the result of technological and information revolution and compression of time and space distance caused by them (Pečujlić), as a result of creation of global market and powerful transnational economic and political organizations, as well as formation of awareness on interdependence i.e. unavoidable connection, penetration and uniting of the world.

Prevailing neo-liberal form of globalization today means the unavoidable conquering of space, or by means of “imposing criteria, conditions and rule according to the standards of the only super-power left” (Prvulović), or economic necessity and power of mega-capital that knows no boundaries. Its economic dimension is highly contradictory and uncertain since it is expressed as comparative economic progress and social regression, complete economic superiority and social inferiority. Dismantling of welfare state in the West (through

<sup>47</sup> Op. cit.

<sup>48</sup> Op. cit.



Regan-Thatcher privatization and deregulation) and destructions of any social state in the real-socialism countries according to the recipes of radical neo-liberals (such as Hayek), gave strength to virtual and corporative mega-capital to crash national and local barriers and create uniform rules of behaviour at a global level. The consequence of this is creation of world reservoir of cheap labour power and the lowest social provisions, i.e. widening of the gap between the ultra-rich and increasingly poorer both among and inside the states. Political dimension of globalization is manifested through the process of creation of global authoritarian “parallel state” which threatens with authoritarianism of new type, considering the possibility of military, humanitarian and anti-terrorist interventionism, instead of “open and democratic society” (K. Poper). In the sphere of culture, the annulment of authentic specific values of national cultures and efforts to create universal mono-cultural (“McDonaldizing”) values does not lead towards peaceful but rather towards dangerous uniformity and conflict of civilizations which we witness all over the world, from Afghanistan, Bosnia, Kosovo and Metohija, to the Near East.

On the other hand, the consequence of this, especially in the underdeveloped part of the world, is strengthening of consciousness to preserve traditional cultural authenticity, as autonomy of states or societal groups in solving some crucial issues, independent from supranational entities that act beyond national boundaries. In this way fragmentation stimulates the disintegration of already formed rules within the globalized international system of states under the auspices of the rich and powerful, as well as multiplying of sub-national identities inside nation states. This is why the future of the world and its security within neo-liberal globalization vision is highly uncertain, as well as within the vision that comes from dynamics of fragmentation and search for new identities and its possible consequences. Because of this, today in the third millennium, we must appreciate and not just take into account the warning experience of previous periods, primarily three world wars, two armed ones and one cold war, growing ethnic nationalism, international terrorism and conflicts on religious and even civilization basis. Therefore, today, as pointed out by F. Major, “the complete vision of the world that seeks new balance of power and influence can be based only on open and fruitful dialogue and full appreciation and respect of the dignity of others or, in other words, on appreciation of cultural specifics of every nation.” This is why we must resist all spheres of man’s personal and social alienation in every way and support appropriate expression of cultural identity, which does not mean imposition of process of mondialization since every imposing, even imposing of human rights, democracy and consumer society, represents a form of enslavement and non-freedom.



## References

- Avramov, S.: *Trilateralna komisija*, Idij, Veternik, 1998.
- Biswas, Sh.: “W(h)ither the Nation-state? National and State Identity in the Face of Fragmentation and Globalisation”, *Global Society*, Vol. 16, No. 2, 2000.
- Blas, V.: “Uticaj globalizacije na Istočnu Evropu”, *Megatrend revija*, Vol. 2, Megatrend univerzitet primenjenih nauka, Beograd, 2005.
- Brown, Ch.: *Understanding International Relations*, 2. ed., St. Martins Press, New York, 2001.
- Bžežinski, Z.: *Američki izbor – globalna dominacija ili globalno vođstvo*, Politička kultura, Zagreb, 2004, CID, Podgorica, 2004.
- Bžežinski, Z.: *Velika šahovska tabla*, CID, Podgorica, 1999.
- Dal, R.: *Demokratija i njeni kritičari*, CID, Podgorica, 1999.
- Falk, R.: “World Prisms: The Future of Sovereign States and International Order”, *Harvard International Review*, Summer 1999.
- Gidens, E.: *Sociologija*, Ekonomski fakultet, Beograd, 2003.
- Goše, M.: *Demokratija protiv same sebe*, “Filip Višnjić”, Beograd, 2004.
- Haass, R. N.: “What to Do With American Primacy”, *Foreign Affairs*, Vol. 78, No. 5, 1999.
- Hantington, S.: *Sukob civilizacija*, CID, Podgorica, 1998.
- Held, D.: *Demokratija i globalni poredak*, “Filip Višnjić”, Beograd, 1997.
- Kegley, Ch. W. Jr. – Raymond, G. A.: *Exorcising the Ghost of Westphalia: Building World Order in the New Millennium*, Prentice Hall, New Jersey, 2002.
- Kellner, D.: *Globalization and the Postmodern Turn*, <http://www.gseis.ucla.edu/courses>
- Keohane, R. O. – Nye, J. S. Jr.: *Power and Interdependence*, 3. ed., Longman, New York, 2001.
- Kiningam, F.: *Teorije demokratije*, “Filip Višnjić”, Beograd, 2003.
- Keohane, R. O. – Nye, J. S. Jr.: “Power and Interdependence in the Information Age”, *Foreign Affairs*, Vol 77, No. 5, 1998.
- Lajphard, A.: *Modeli demokratije*, CID, Podgorica, 2003.
- Marković, D. Ž.: *Sociologija i globalizacija*, Centar za usavršavanje rukovodilaca u obrazovanju, Beograd, 2000.
- Nye, J. S. Jr.: “Soft Power”, *Foreign Policy*, No. 80, 1990.
- Nye, J. S. Jr.: *Understanding International Conflicts*, Longman, New York, 2002.
- Öniş, Z.: “Neoliberal Globalization and the Democracy Paradox: The Turkish General Elections of 1999”, *Journal of International Affairs*, Vol 54, No. 1, 2000.

- 
- Pahlavi, P. C.: "Cultural Globalisation and the Politics of Culture", *CEPES* (Centre D'études des Politiques Etrangères et de Sécurité), Quebec, Canada, 2003.
  - Pavićević, V.: *Aspekti globalizacije – sa pregledom osnovnih pojmova*, "Dosije", Beograd, 2003.
  - Pečujlić, M.: *Globalizacija – dva lika sveta*, "Gutenbergova galaksija", Beograd, 2002.
  - Pieterse, J. N.: "Globalization as Hybridization", Lechner, F. J. – Boli, J. eds., *The Globalization Reader*, Malden, Blackwell Publishers, Massachusetts, 2000.
  - Pirages, D.: *Globalization: A Cautionary Note*; <http://www.aaas.org/spp/yearbook/2000/>
  - Popov, Č.: *Novi svetski poredak – prethodnici istorijske epohe*, "Smisao", Beograd, 1999.
  - Pravulović, V.: "Proces globalizacije – za i protiv", Zbornik radova, Megatrend univerzitet primenjenih nauka, Beograd, 2003.
  - Rols, Dž.: *Teorija pravde*, CID, Podgorica, 1989.
  - Rosenau, J. N.: "Distant Proximities: The Dynamics and Dialectics of Globalization", in: Hettne, B., ed., *International Political Economy: Understanding Global Disorder*, Zed Books, London, 2004.
  - Rosenau, J. N.: "Globalization and Governance: Bleak Prospects for Sustainability", *IPG*, No. 3, 2003.
  - Rosenau, J. N.: "Ominous Tensions in a Globalizing World", Conference on International Relations, Middle East Technological University, Ankara, Turkey, 2002.
  - Sartori, Đ.: *Demokratija – šta je to?*, CID, Podgorica, 2001.
  - Tomlinson, J.: "Cultural imperijalizam", in: Lechner, F. J. – Boli, J., eds., *The Globalization Reader*, Malden, Blackwell Publishers, Massachusetts, 2000.
  - Yergin, D.: "Globalization: the story of our new interconnected world", *Social Education*, Vol. 66, No. 2, 2002.



PROFESSOR MARCEL MOLDOVEANU, PhD  
*Institute of World Economy of the Romanian Academy, Bucharest*

**NEW DIMENSIONS OF THE CENTRAL  
AND SOUTH-EASTERN EUROPEAN  
COOPERATION IN THE CONTEXT  
OF EUROPEAN UNION'S OPENING  
PROCESS TO THE REGIONAL  
AND GLOBAL SCALE**

**Abstract:** *New dimension of the European Union's enlargement policy on the regional level is represented by the attraction of material and spiritual values of Central and South-Eastern European Countries to the European space. The European Union's opening to Central and South-Eastern Europe is a reflection of realistic character of all-European integration process, through the acknowledgement to all European countries to be a part of common European civilization. Within the context of the acceleration of globalization process, the European Union has new responsibilities regarding its provision of security, stability and improvement of economic situation in Central and South-Eastern European countries. Political vision within the European space is to accept the integration of Central and South-East European countries when these countries are really ready to apply the Union rules and to face West European competition.*

**Key words:** *Central and South-Eastern Europe, European Union, regional cooperation, globalization.*

## 1. Introduction

The opportunity and understanding of the deep philosophy of world evolution at the crossroads of centuries and millenniums, that allows the interpretation of great ideas of universal economic and socio-political thinking on the international relations evolution, undoubtedly implies a vast multidisciplinary activity,

mixed efforts in scientific, academic and university research. The increasingly strong process of interdependence between globalization and regionalization – in the context of the end of the bipolar power at world level – has engendered a new philosophy regarding the evolution of the world, a reconsideration of the strategy of political and diplomatic, economic and also cultural and human relationships. The process of globalization and regional integration is generated by the unprecedented explosion of the informational channels and of the transport infrastructure, as well as by the reduction or removal of the national barriers from the path of the international flow of goods, services and capital. The economic world – says professor Eric Hobsbawn<sup>1</sup> – cannot be considered as being divided between the “first world”, concentrated on the production and marketing of high-technology industrial products, and the “third world”, which should produce and export raw materials and have an industry based on the substitution of imports, when this “third world” (if we can still call it like that) is represented by countries with a well-developed industry, mainly oriented towards exports.

The process of globalization undoubtedly involves new mechanisms of harmonizing, at certain levels, the national economic policies with the international regulations. The process of implementing some reforms at national level will depend, in numerous situations, on the content of the bilateral and multilateral negotiations: in principle, multilateral regulations take into account the protection of the economic interests of those countries which are not part of regional integration agreements. According to some analysts, the impact of a regional integration agreement on the exports of the countries which do not belong to an integration or cooperation group or community, as well as on the flow of foreign investments – in the context of globalization – is determined, to a large extent, by the commercial policies adopted by the governments of the countries involved in the agreement, by their restrictive or liberal character.

Within the “globalization-regionalization” process, the fundamental issue remains that of estimating to what extent the two phenomena are complementary or diverging. Robert Boyer, in his book “*Les mots et les réalités*”<sup>2</sup>, says that “the regional institutions created in the course of the integration process can be complementary to the strategies adopted at national level, but they will not be able to replace the nation-state in exercising its different functions”.

## 2. European Union in a multipolar world

The regional integration agreements are put into practice not only by extending the geographical area, but also by diversifying the fields of activity. We can assert that the essence of a successful integration process is to be found in the

---

<sup>1</sup> E. Hobsbawn, “First World and Third World After the Cold War”, *CEPN Review*, 1999, p. 19.

<sup>2</sup> R. Boyer, *Les mots et les réalités, mondialisation au delà des mythes*, Ed. La découverte, Paris, 1997.

geopolitical balance at a regional and subregional level, in the steady evolution towards democracy and in the success of reform policies. The degree of economic integration is determined by the implementation of the cooperation programs between the member states of some integration communities and groups, viewing the liberalization of trade and foreign investments, the free movement of capital and labour force. In this context, the European Union is objectively determined to promote an offensive strategy, through viable ways of intensification of cooperation with the other geoeconomic and strategic areas of the world: American (from the North-American Free Trade Agreement to Latin America), Asia-Pacific, former Soviet, Africa and Middle East.

In a multipolar world, that will bring into the first line of international relations new big actors of regional and universal vocation (China, Russia, Brasil, India), the European Union will play an extensive role in participating at the geostrategic, regional and global equilibrium, through promotion of an “open diplomacy” that will allow – by dialogue and cooperation – the resolving more rapidly and efficiently the great challenges of the beginning of the century and millennium<sup>3</sup>: the reduction of the great development gaps, the regional and global security, in a very solid economic background. The European Union has also major responsibilities in revitalizing the activity of international organisms and institutions, in giving the United Nations Organization the vocation of universality.

An objective priority of the European Union is and will be to maintain peace and stability in the Balkans, by an increase of the technical and financial assistance, and by intensification of the collaboration projects in the fields of justice and the adoption of the *acquis communautaire*.

Through the partnership and cooperation agreements, the European Union grants financial assistance to the members of the Community of Independent States (CIS), in order to support the reform and privatisation process, the modernization of the environment infrastructure and the development of the rural economy. The assistance programme takes into consideration the promotion of the bilateral and interregional cooperation, including the disarmament and observing human rights. Part of the EU's opening strategy towards the former Soviet area is represented by the Partnership and Cooperation Agreements with two economic and strategic powers, Russia and Ukraine. The democracy, rule of law, the public institutions represent goals as well as exigencies of the European Community towards the new independent states in the perspective of the acceleration of the integration process into the common European economic and social area.

The role of the European Union in maintaining peace and security in the Middle East should be emphasized. That solution undoubtedly, implies a fair

---

<sup>3</sup> M. Moldoveanu, *The evolution of the World at the Crossroad of the Millenniums*, Romanian Academy, Centre for the Comparative Economics and Consensus, Ed. Expert, Bucharest, 2003.

and long lasting solution, on the basis of pertinent resolutions adopted by the United Nations Organization. The cooperation relations with Africa (in the context of geographic proximity), Asia and Latin America will continue to present, in my opinion, an important component in the foreign policy of the European Union.

The European Union will promote actively the development of economic relations with Asia – region represented by the main economic powers – Japan, China and the “four dragons group” (South Korea, Hong Kong, Taiwan and Singapore) – region that will become a powerful area with sustainable economic growth in the perspective of the years 2010-2020. The strategic options of the European Union will have to be defined to a greater extent taking into account the architecture of the Asia-Pacific area, that constitutes the greatest world economic cooperation and integration project.

### 3. European Union and Central and South-Eastern Europe

The end of the Cold War has brought to the European public attention the issue of the ‘forgotten countries’ of the Central and South-Eastern part of Europe. After years of totalitarian regime, these countries discovered the chance to “return to Europe”, to proclaim their freedom and their commitment to the democratic values. The Central and Eastern European countries have begun their quest for membership of EU immediately after 1990. They faced probably the biggest challenge in their history: the necessity to reform, to undertake profound economic and political transformation in order to become stable, democratic states and free market economies, able to meet the expectations of full membership to European Union. In addition, the events of September 11<sup>th</sup> 2001 brought on rapid and deep changes in the evolution of the political-diplomatic, economic and cultural-human relationships on a global and regional scale and imposed a new philosophy on the architecture and the progress of the world at the beginning of a new century and millennium.

A new dimension of the EU enlargement policy at regional scale is represented by the cooperation relations and the attraction into the European circuit of material and spiritual values of the countries in the Central and Eastern Europe, strategy put into place through the accession, on 1<sup>st</sup> May 2004, of a number of 10 states, that will be followed, at the beginning of 2007, by Romania and Bulgaria, leading to a European Union of 27 and not only. The opening of the European Union towards the Central and Eastern European area reflects the realistic character of the strategy of the European integration process, through the recognition of a common Europe, of the same civilization.

The countries in Central and South-Eastern Europe have tried to develop cooperation relationships both with the European Union and among themselves,



in order to better cope with the exigencies imposed by the accession process. In this context, we believe that the complex subjects regarding the intensification and making efficient the cooperation and integration process in the Central and South-Eastern European Area must be taken into consideration from two points of view: as a goal of acceleration the restructuring and economic efficiency process, based on the specific conditions of the geographic areas and of the national economies; as integrated part of the globalization process, a phenomenon influenced by the strong emphasis of the interdependencies between the economies of the world.

The evolution of the world economy shows that the regional agreements – de jure and de facto – can represent efficient instruments for the promotion and harmonization of the national political and economic options in the evolution towards the globalization process. There is a number of regional organizations or fora focused exactly on developing the cooperation relations among these countries. They are not meant to be an alternative to the EU membership, but to complement and support this process. In essence, regional integration creates a favourable framework for the participation of the members of integrationist organisms in the international trade flows and contributes to the acceleration of the reform process at a national, subregional and regional level, as well as to the acceleration of foreign investment flows, with positive effects upon the joint development programs.

#### 4. Regional initiatives in Central and South-Eastern Europe

One of the most important organizations in the Central and South-Eastern Europe is the *Southeast European Cooperation Initiative (SECI)*. Set up in 1996, SECI has brought together countries like Albania, Bosnia and Herzegovina, Bulgaria, Serbia and Montenegro, Croatia, Greece, Hungary, Moldova, Romania, Slovenia, the former Yugoslav Republic of Macedonia, and Turkey in order to discuss, at regional level, the mutual economic and environmental concerns through joint projects, conferences and seminars. Areas such as facilitating trade, energy, transport infrastructure, suppressing crime and corruption are some of the most discussed issues on SECI agenda. In this context Romania plays an important role, having set up the SECI Regional Center for suppressing cross-border crime in Bucharest. SECI is intended to act as a catalyst to bring together countries of the region, lending institutions and technical agencies. Among the most important projects on SECI agenda, one can mention the monitoring and transparency of visa regimes and the project on development of an intelligent management and control system for transport on the Danube River.

One of the largest sub-regional cooperation initiatives emerged in the Central and Eastern part of Europe after the fall of communism, the *Central Euro-*

pean Initiative (CEI) was founded in 1989 by Austria, Italy, Hungary and former Yugoslavia, and now it includes 17 members (including Czech Republic, Slovakia, Bosnia, Croatia, Macedonia, Poland, Slovenia, Romania, Bulgaria, Ukraine, Belarus and Albania). An intergovernmental forum for cooperation in the fields of Trans-European transport infrastructure, telecommunications, energy, environment protection, tourism, CEI implements projects that support the EU's accession preparations for the candidate states.

The *Black Sea Economic Cooperation pact (BSEC)* has proven to be one of the most ambitious regional projects in the area. Founded in 1992, BSEC includes 11 countries, namely: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine. The main goal is the creation of a free trade area and increased cooperation in the infrastructure, environment, and telecommunication fields. The member countries have set up 15 Working Groups on specific areas, such as: trade and economic development; banking and finance; communications; energy; transport; agriculture and agro-industry; health care and pharmaceuticals; environmental protection; tourism; science and technology; exchange of statistical data and economic information; collaboration between customs and other border authorities; human contacts; combating organized crime, illicit trafficking of drugs, weapons and radioactive materials, all acts of terrorism and illegal migration. Once its Charter entered into force, the BSEC was transformed in 1999 into a regional economic organization with legal identity on the international scene. A key objective of the BSEC is to develop a regional strategy that would highlight the comparative advantages of the region, the priority sectors for investments, the costs and benefits of regional cooperation and the economic role of the region in the context of the wider European economy. The platform of cooperation between BSEC and the European Union is of great importance, being focused on the development of network infrastructure, trade and favourable climate for foreign investments, science and technology, protection of environment and combating terrorism and different forms of organized crime.

A cornerstone in the regional cooperation process in this part of Europe is represented by the *Central European Free Trade Agreement (CEFTA)* signed in December 1992, in Krakow, Poland. Including Czech Republic, Slovakia, Hungary, Poland, Slovenia, Romania and Bulgaria, CEFTA's main objective was to promote through expansion of trade the harmonious development of the economic relations between the member countries, to improve the living and employment conditions and ensure increased productivity and financial stability. The aim was to establish a free trade area among the member countries by gradual liberalization of mutual trade relations. Though much progress has been made, the free trade area is not complete, since it has not envisaged a full liberalization of agricultural products. For initiating negotiations for accession to the CEFTA, a country must fulfill two main pre-conditions: the respective European country has to be

a WTO Member and to have had signed an Association Agreement with the EU. This is meant to support these countries' efforts to meet the EU standards, particularly in the stage of negotiations for accession to the European Union. Covering both industrial and agricultural products, CEFTA also contains general provisions which encompass rules of origin, co-operation in customs matters, internal taxation, general exemptions, state monopolies, state aid, public procurements, protection of intellectual property rights, anti-dumping provisions. Expressing similar interests and goals, some of the members of WTO in the region, namely Croatia, Estonia, Latvia and Lithuania, have become members of the so-called "CEFTA plus" Group. This has proven to be an extremely constructive and useful exercise, which has led to "CEFTA plus" gaining a distinct voice and standing within WTO proceedings. One could ask the question what will happen to CEFTA after this wave of EU enlargement? A solution will be to extend CEFTA to other countries in the region, especially in the South-East Europe, countries that have already applied to EU, such as Croatia, or that intend to apply to EU, such as Serbia and Montenegro, Bosnia-Herzegovina.

The subregional and regional cooperation in the Central and South-Eastern European Area should contribute to the increase of the market size, to the development of new production capacities, to the acceleration of the integration process, as well as to the weakening of different actions of groups of interests, that are trying to turn the regional agreements into protectionist barriers.

It is obvious that, within the framework of globalization and regionalization, different positions, will continue to exist, namely on one hand, the position of the developed countries (OECD members, especially the "Group 7") – favourable to the acceleration of globalization – and, on the other hand, the position of some developing countries (with a reduced economic level confronted by major financial difficulties that need to answer a double dilemma: they need to open up towards the world economy and, at the same time, they have to cope with the globalization process).

The implementation of some decisions at national level will be conditioned by the pragmatism of the negotiations between states. It is necessary to realize that evolution of the world trends (in trade, investments) imposes adjustments to the national policies and solutions to these problems by cooperation.

In our opinion, we have to take into account the fact that, only by cooperation we can create a solid economic base, regional security and stability, with positive effects on finding solutions to existing tensions on territorial issues or related to the minorities' rights.

The integration of the Central and South-Eastern European countries into the regional economic circuit involves the right evaluation of the rapid changes in the international relations. In this perspective, I think that the intensification of trade and of the relations of economic, technological and scientific cooperation within the Central and South-Eastern European Area is an objective neces-

sity, if we take into consideration several defining elements, such as: the material and human potential that can be involved – by cooperation – in the national, regional and world circuit of material and spiritual values; the geographic proximity, with favourable effects on the complementary relations between the economic dimension and the cultural and human ones, amplified by the spiritual links, despite some artificially imposed disruptions; the necessity to increase the power of negotiation at the regional and global level.

### 5. Assisting the integration process

The process of restructuring and rendering efficient the Central and South-Eastern European countries has a double dimension: national and international. In this context, it is imperative to join the efforts and actions of the countries in this region within the economic organisms and the regional and world institutions in problems regarding the international relations, in order to reach an equilibrium between the strategic global objectives and the national economic and social priorities taken into account by the policy and decision-makers.

The key of the new framework of the foreign economic relations of the Central and South-Eastern European countries, on their way towards a market economy, *is the development of the subregional, crossborder and cooperations and their rapid and efficient approach to the European structures*. The European Union's opening towards the Central and South-Eastern European countries represents the acknowledgement of a common Europe to the same civilization. The "EU" is, by far, the first export market for the Central and Eastern countries and has the first place in the technological assistance and in the orientation of investment flows.

Designed to encourage and strengthen the cooperation relations among countries in the region, the Stability Pact for South-East Europe is a political initiative that concentrates its efforts to assist this part of Europe in its political, security and economic integration into Europe. Recently, developments in this region have taken place in a context of shifted international priorities, such as the conflict in Iraq. One can identify six priority areas of the Stability Pact: local democracy and cross border cooperation, media, energy, trade and investment, fighting organized crime, managing and stabilizing population movements. An important part of this cooperation is related to the implementation of several bilateral free trade agreements between the countries in this region.

The Stability Pact is complementary to the European Union's *Stabilization and Association Process (SAP)* set up in 2000, as a long term commitment to the region both in terms of political effort and financial and human resources. It is based on a gradual implementation of a free trade area and reforms meant to bring these countries closer to the European Union. On 21<sup>st</sup> May 2003, the

European Commission has presented a paper: *Communication on the Western Balkans and European Integration*. The framework for EU's relations with this region (Albania, Bosnia-Herzegovina, Croatia, the former Yugoslav Republic of Macedonia and Serbia and Montenegro)<sup>4</sup> will be given a new dimension, taking into account the successful elements of the EU's pre-accession policy towards the Central and Eastern Europe. Some of the key points in designing this renewed strategy will be the introduction of the *European Integration Partnerships*, the higher support for institution building through twinning programmes and reinforced technical assistance, the improvement of the political cooperation and granting the countries in the Western Balkans the possibility to participate in some Community programmes. Intended to be instruments to monitor the progress of the reform process in the Balkans, the European Integration Partnerships will identify the short and medium term reforms which the countries need to carry out, the priorities for action in supporting efforts to move closer to EU. As most important assistance donor for this region, the EU plans to allocate EUR 610 million aid to the Balkans. During the EU-Balkans Summit in Thessaloniki on 21<sup>st</sup> June 2003, the EU planned to upgrade the SAP for South-East Europe, to find a better strategy for the development of this region, in order to increase social cohesion, to provide aid in the fight against organized crime, reinforce border security, regional cooperation in communications, transport and energy.

Given the perspective of EU enlargement to the Central and Eastern Europe, it remains to be seen to what extent the cooperation initiatives in the region will survive and what role they will play in the future European context. One has to take into account that, once full members of EU, the countries are obliged to apply the EU Common Commercial Policy and solving the situation of the free trade agreements they had previously signed with third parties will encounter some difficulties.

In the context of the acceleration of the globalization process, the European Union has new responsibilities in order to ensure the security, stability and the improvement of the economic situation in the South-Eastern European countries. The political vision within the Economic European Area is to accept the integration of the Central and Eastern European countries only when they are really ready to implement the Community rules and to face Western European competition.

It is imperative that the restructuring and the process of economic reform, as well as the cooperation projects should be supported financially and technologically and be given managerial help from international financial and banking institutions.

---

<sup>4</sup> "Balkans, la plus orientale des peninsules de l'Europe méridionale, s'étendant sur l'Albanie, la Bosnie-Hertzegovine, Macedonie, la Turquie d'Europe et la Yougoslavie", Le petit Larousse, Dictionnaire encyclopédique, Paris, 1995, p. 1163.

In this perspective, we consider that the basic criteria in approaching the development of cooperation relations between the Central and South-Eastern European Area with third partners should not be trend factors (such as limits of material and financial nature, internal tensions), but the fundamental coordinates of the long-term economic and social strategies established by the dialogue partners.

It is our belief that only the integration of all the Central and South-Eastern European countries in the equation of the European process of economic, political and cultural development will lead to the creation of a security pole in this region, with favourable effects on the whole process of building a new Europe and a new world.

In this prospect, there is a need for thinking over the ways to integrate the former Yugoslavia Area, Serbia-Montenegro and the other countries within the new European architecture, with positive effects on world peace and security.

## 6. Deepening complementarities on regional and global level

In the context of deepening the interdependence and complementarities on regional and global level, more focus should be put on the viable ways and modalities to intensify the cooperation in the Danube-Black Sea and Euro-Mediterranean geo-economic and strategic areas.<sup>5</sup> The analysis and reflections should be focused on the development of a long and efficient relationship that would evolve from concept to pragmatic approaches, taking into account: the geographic proximity, the cultural-human potential, the trade, investment and technological flows, the necessity to connect the national entities to the new European and global architecture, the increase of the negotiation power at the interregional level in the international relations field. The two big geo-strategic regions of the world belong to the same civilization and are subject to similar changes as the other regions of the world, despite some specific features of history and culture.

The philosophy of the process of rethinking the economic and political-diplomatic strategy of the European Union towards the Mediterranean region, with an opening to the African and the Middle East world should also be emphasized. *The Euro-Mediterranean Conference in Barcelona* (November 1995)<sup>6</sup> introduced a new concept of the Euro-Mediterranean policy, namely *The North-South partnership*, with mutual rights and obligations: “*The Barcelona Declaration*” represents, indeed, an outstanding point in defining an Euro-Mediterranean policy, that, in my opinion, must know a pragmatic approach in promoting the economic reforms in

---

<sup>5</sup> M. Moldoveanu, “The Role Played by Co-operation within the Mediterranean and Danube-Black Sea Geo-economic Areas”, *Revue des études sud-est europeenes*, Ed. Academie roumaine, Tome XXXV, No. 1-2, Bucharest, 1997, p. 65-67.

<sup>6</sup> S. S. Pajovic, “Regionalism versus Globalism: A message for the Adriatic Region”, *Adriatico, A review of the Centre for Mediterranean Studies*, Podgorica, 1997, p. 87-88.



the South-Mediterranean region, relaunching the peace process in the Middle East and opening towards the global economy. I believe that achieving regional stability and security will represent the main pillar of the future regional free trade area. The development and modernization of the economies of the South-Mediterranean countries is, nevertheless, influenced by an increased domestic and foreign investment effort. Despite any endogenous or exogenous difficulties, the setting up of the Euro-Mediterranean economic area – through progressive stimulation of industrial cooperation, trade and investment – is in deep connection with the objective process of integration of developing countries in the world economy.

The future of cooperation within the two areas will have new dimensions of the process of globalization and regional integration. Gradul Co-operation Programme should be worked out. Its objective should be the promotion of regional economic interests in relation with other geo-economic areas of the world. The Programme should also be launching Partnership and Co-operation Agreements, which would define viable ways of developing trade and carrying out projects in fields of common interests. These common interests comprise of promoting foreign direct investment under a medium and long term strategy, which would allow a transfer of high-performance, non-polluting technologies, would help implement new management and marketing methods and would facilitate free access to the international networks of information and marketing, especially those already present in this region. Preparation of the Programme and monitoring the way it is carried out would have to be assured by a non-gouvernemental group of analysts and experts.

In defining and wording the priority co-operation objectives, there is a need for combined efforts by analysts and decision-makers, which would *a priori* lead to harmonising positions. This desire is brought about by the fact that – under certain circumstances – the co-operation strategy adopted by some bodies and institutions, sharing a regional vocation, might contradict – in some points – a number of differing options and priorities, which are considered as expressing national interests. In working out the co-operation programmes, one must take account – at the same time – of the better knowledge of the methods of work of the OECD Development Centre on giving assistance in their national and regional peculiarities. Defining responsibilities within the development strategy at the level of the Mediterranean-Adriatic and Danube-Black Sea geo-economic and strategic areas in the 21<sup>st</sup> century, however calls imperatively for combining – on multiple levels – the own effort with that of the international community which would give co-operation a new dimension and new structure. Through her geo-strategic position and her sphere of culture and civilization, the Adriatic will undoubtedly be the bridge linking the Mediterranean and the Danube-Black Sea Areas, giving new dimensions to co-operation ties at sub regional and regional levels in the prospect of 21 century.

The intensification and diversification of the cooperation at the Central and South-Eastern European level, as well as the Euro-Mediterranean and Danube-Black Sea region, does not represent an alternative to the general objective process of inte-



gration into the Euro-Atlantic structures, but a complementarity meant to support the material and human efforts of the participants to the cooperation agreements, to a more rapid development and modernization of the economic-social structures. Despite some contradictory approaches on the globalization and regional stability processes, only a consolidated cooperation between the European Union and the USA will reorient the world economy towards a sustainable growth. The Euro-Atlantic unity undoubtedly reflects the new dimensions of the interdependence process between globalization and regionalization and it is compulsory that this should be transformed into viable poles of stability in the world. The consolidation of the Euro-Atlantic unity, on the basis of democratic ideals and a common vision on the world evolution, at the beginning of the millennium, will allow the North-Atlantic Alliance to have a decisive role in the regional and global security process.

To define the co-operation strategy at the turn of the millennium, we should start from “*the national through the regional and universal*” a postulate launched within the international relations area by the most representative personality of Romanian’s diplomacy, Nicolae Titulescu. The defining co-ordinates of the present “globalization wave” and unprecedented size of the integrational process is, no doubt, an opportunity for analysis and reflection, as well as joint endeavors at the level of the academic and university research units, governmental bodies, and civil society as a whole.

### References

- Beeman, W. J. – Frank, I: *New Dynamics in the Global Economy*, New York, 1998.
- De Montbrial, T.: *L’Action et le Système du monde* (traduction de la langue française), „Expert”, Romanian Academy, Bucharest, 2003.
- Hobsbawn, W.: „First World and Third World After the Cold War”, *CEPN Review*, no. 2, 1999.
- Isařescu, M.: *Economic Thoughts*, vol. I-III, Centre for Comparative Economics and Consensus, Romanian Academy, „Expert”, Bucharest, 2001-2003.
- Lawrence, R.: *Regionalism, Multilateralism and Deeper Integration*, Washington, D. C., 1996.
- „Le Monde diplomatique”, *Publication mensuelle*, Paris collection, 2004-2005.
- Moldoveanu, M.: *The Evolution of World at the Crossroad of the Millenniums*, Romanian Academy, Centre for Comparative Economics and Consensus, „Expert”, Bucharest, 2003.
- Moldoveanu, M.: *Europe – Maghreb in the global architecture*, „Expert”, Bucharest, 2000.

- 
- Pajovic, S.: „Regionalism Versus Globalism: A Message for the Adriatic Region”, *Adriatico, A Review of the Centre for Mediterranean Studies*, Podgorica, Montenegro, 1996-1997.
  - Sachwald, F.: *Les défis de la mondialisation, innovation et concurrence*, Masson, Paris, 1994.
  - The World Bank: *Global Economic Prospects and Developing Countries*, IBRD, Washington D. C., 2003.
  - The World Bank: „Globalization, Growth and Poverty”, *World Bank Report*, IBRD, Washington D. C., 2002.



PROFESSOR DARKO DAROVEC, PHD  
*Science and Research Centre, University of Primorska, Koper*

## FISCAL POLICY IN VENETIAN ISTRIA IN MODERN AGE

**Abstract:** *The article highlights the most important social and historical circumstances that led to recession of Istrian economy in the 17th and the 18th century. A special emphasis is laid on the Venetian fiscal policy and revenue offices at the regional and local levels. On the basis of an analysis of archival documents, revenues and expenditures of the regional revenue office and treasuries of communes of Koper and Piran, which are considered to be the most important communes in Venetian Istria, are presented in detail.*

**Key words:** *Istria, Venetian supremacy, fiscal policy, 17<sup>th</sup> and 18<sup>th</sup> century.*

### 1. Introduction

During the period of Venetian supremacy from the mid 13<sup>th</sup> century to the mid 16<sup>th</sup> century, the Istrian peninsula experienced a period of fairly favourable economic trends. However, a comparison with neighbouring, Italian and today's Slovene and Croatian hinterland regions, shows that in the period from the mid 16<sup>th</sup> century to the early 19<sup>th</sup> century its northern, but most of all other parts, suffered from stagnation and even a recession of economic development.<sup>1</sup>

The formation of the economic structure of Istrian society was influenced by a number of factors. One of the most important is undoubtedly connected to general historical developments world-wide following the discovery of America and the consequent transference of main European commercial currents from the Mediterranean to the shores of the Atlantic Ocean. Although consequences of geographical discoveries did not have an immediate effect on the economic (in)stability of the Venetian Republic, the inability to adjust to the shifting economy resulted in

<sup>1</sup> F. Gestrin, *Trgovina slovenskega zaledja s primorskimi mesti od 13. do konca 16. stoletja*, SAZU, Ljubljana, 1965; T. Raukar, *Venecija i ekonomski razvoj Dalmacije u XV i XVI stoljeću*, Institut za hrvatsku povijest, 10, 1977, pp. 203-225; D. Darovec, "Studi storico-economici sull'Istria alla fine del' "Ancien Régime": risultati e prospettive", *Ricerche di Storia Sociale e Religiosa*, Istituto per le Ricerche di Storia Sociale e Religiosa, 49, Vicenza, 1996, pp. 113-134.

crisis, triggered by military confrontations with the advancing Ottoman Empire on one hand, and on the other struggles for supremacy with neighbouring Catholic countries. In the 16<sup>th</sup> and following centuries, consequences of military success, but without any considerable territorial gains of a relatively small country, which at the time consisted of an area stretching along the Adriatic Sea and several enclaves in the Greek world, were felt not so much in the capital as in other regions, especially Istria. Continuous threats of military conflicts, Turkish irruption and in particular epidemics of infectious diseases, which due to the instability of circumstances were spreading after periods of poverty, left indelible marks on the Istrian economy and demographic trends connected with it.<sup>2</sup> In this period the Austrian monarchy started to privilege its ports of Trieste and partly Rijeka, forcing new commercial routes and imposing high taxes, which made traditional trade routes of the Austrian hinterland population transfer elsewhere. At the beginning of the 17<sup>th</sup> century, the once intensive commercial intercourse especially with Carniola, which in Venetian Istria, most of all Koper, Piran and Muggia, saw the arrival of as many as 300 to 1000 Carniolan horsemen a day, started to perish. Notwithstanding the inflow of new settlers, coming mainly from the Balkans, which in that period were under Ottoman domain, the decimated population of coastal Istrian towns and their immediate hinterland did not manage to recover economically to an extent which would allow them to adjust to modern economic trends with the introduction of manufacturing, innovative crafts, or new agrarian and non-agrarian products.<sup>3</sup> Even though newcomers brought freshness into the demographic and economic aspects, their miserable economic position and reliance on agriculture and cattle breeding prevented modern economic initiatives to take off. It was only in the mid 18<sup>th</sup> century that the new population consolidated and integrated with the prevailing Istrian economy, and other customs. Nevertheless, the insistence of Istrian economy hindered rather than fostered progress, and traditional products suffered, such as salt, wine, oil and salt-fish, with the exception of the latter which was in surplus and more typical of northern Istria than in other parts. In this light, attempts made during the second half of the 17<sup>th</sup> century to introduce sericulture can also be considered as ineffective due to the fact that the population did not have enough means for the introduction of new cultures. These attempts were also obstructed by the state which despite declarative support and acts passed

<sup>2</sup> M. Bertoša, *Mletačka Istra u 16. i 17. stoljeću*, I-II, Istarska naklada, Pula, 1986; D. Darovec, "L'influenza dell'economia globale sulle migrazioni nell'area istriana, e l'immigrazione dalla Carnia in età moderna" in: G. Ferigo, A. Fornasin, *Cramars: emigrazione, mobilità, mestieri ambulanti dalla Carnia in Età Moderna*, Arti Grafiche Friulane, Udine, 1997, pp. 53-73; D. Darovec, "Vpliv množičnih smrti na gospodarsko in socialno podobo Istre skozi stoletja" in: *Množične smrti na Slovenskem*, Zbornik referatov 29. zborovanja slovenskih zgodovinarjev, Zveza zgodovinskih društev Slovenije, Ljubljana, 1999, pp.11-44.

<sup>3</sup> D. Darovec, "Gospodarsko stanje v Beneški Istri 17. in 18. stoletja", *Zgodovinski časopis*, 54, 1, Ljubljana, 2000, pp. 49-67.

allegedly to stimulate sericulture was rather disinterested in investments of financial and material means into its development in Istria.<sup>4</sup>

An important role leading to this state of affairs was played by Venetian fiscal policy. Not only all products for overseas trade first had to be shipped to Venice where they were burdened by various taxes. The insatiable state treasury, suffering from the absence of vast European markets, kept imposing higher and higher taxes on all products, both those generating profit as well as those for domestic use. The state was faithfully seconded by local authorities, in the Koper region the biggest impact being on wine production, and in the Piran region on salt and olive oil production.<sup>5</sup>

## 2. Fiscal policy

Trade with hinterland Austrian regions was of indisputable importance for the economy of Venetian Istria, particularly its northern parts. Trade not reaching the standards of the 15<sup>th</sup> and 16<sup>th</sup> centuries, in the succeeding period, caused the general economic growth to decrease.<sup>6</sup> However, are these economic relations to blame not only for the consequences of asymmetrical economic trends in comparison with other Venetian regions but also for economic recession, or can reasons for these state of affairs be searched for elsewhere?

Istrians should have found an ideal substitute for, or addition to, the lost Carniolan market in the Friulian environs. Above all, the two regions were part of the same state. In that period, Friuli reaped an abundant harvest of grain but lacked substantial quantities of oil, wine and salt, all of which were among traditional Istrian export products to hinterland Austrian regions, from where mostly grain was imported. However, coexistence within the same state proved to be

<sup>4</sup> D. Darovec, "La realtà economico-sociale in Istria alla fine dell'antico regime" in: F. Agostini (a cura di), *Veneto, Istria e Dalmazia tra Sette e Ottocento: aspetti economici, sociali e ecclesiastici* (Ricerche), Marsilio, Venice, 1999, pp. 43-85; D. Darovec, "Merkantilistični poskus Gian Rinalda Carlija: predilnica v Cereju pri Kopru", *Acta Histriae*, 5, Zgodovinsko društvo za južno Primorsko, Znanstveno-raziskovalno središče Republike Slovenije, Koper, 1997, pp. 91-102.

<sup>5</sup> J. C. Hocquet, *Il sale e la fortuna di Venezia*, Jouvence, Rim, 1990. (Le sel et la fortune de Venise. Voiliers et commerce en Méditerranée 1200-1650. P.U.L. 1979); D. Darovec, "Proizvodnja oljčnega olja kot osrednja gospodarska panoga Slovenske Istre v preteklosti", *Glasnik ZRS Koper*, 3, 5, 1998, pp. 36-49; D. Darovec, "Solarstvo v severozahodni Istri od 12. do 18. stoletja", *Annales, Ser. hist. sociol.*, 11, 1, Koper, 2001, pp. 71-92.

<sup>6</sup> F. Braudel, "La vita economica di Venezia nel secolo XVI", *Storia della Civiltà veneziana*, VII, Firenze, 1958; G. Luzzatto, *Storia Economica di Venezia dall'XI al XVI secolo*, Venezia, 1954; C. M. Cipolla, "The Decline of Italy. The Case of a Fully Matured Economy", in: *Crisis and Change in the Venetian Economy*, 2 ed., London, 1968, pp. 127-145.

more an aggravating than a facilitating factor for relatively normal economic progress. Taxes imposed on all Istrian products were substantially higher for export to Friuli than for export to Austrian regions. Clear evidence of this can be obtained if one of the main Istrian export products is considered: olive oil, which was mostly transported by sea.

With the discovery of the New World, Venetian financial authorities became aware sooner than expected, of the loss of some of their main markets, and simultaneously, with the philosophical spirit of a modern country towards centralised administration they were imposing higher and higher taxes, striving for the highest share of profit possible. Beyond doubt, from this point of view the Venetian Republic was a superpower, which is also confirmed by a number of legal decrees as well as the introduction of manifold ways and forms of fiscal supervision.<sup>7</sup> However, the latter brought more harm than good to economic growth, at least in Istria.

With decline of commerce with Austrian regions, Venetian economic policy was not channelled towards protection of Istrian economy, as recommended by its rectors. For example, by purchasing the surplus salt production in exchange for indispensable supplies of grain, which could only be bought at high prices: 3 to 4 lire higher than those paid on the Venetian market. The citizenry would undoubtedly have accepted the use of these measures of benevolence and would have praised the kind-heartedness of the authorities (Rel. 1663). Instead, the authorities ordered that the salt crystallising vats (*cavedini*) be abandoned. As a result, the stock of salt vats in Muggia, Koper and Piran decreased from 7,496 a year in 1594 (Prov., 1044) to 6,775 in 1762 (Rel.), i.e. by nearly 10%. Bear in mind, however, that the last figure dates from a period of increasing demand for Istrian salt and Venetian investments into the reconstruction of the Sečovlje salt works (Rel., 1754, 1763). These were made in the form of loans to the commune of Piran after certain salt funds had had to be abandoned.

Measures introduced by Francesco de Friuli, Istrian inquisitor, who, apart from the existing tax on wine bottling and the duty on wine exported to Austrian regions (*Terre aliene*) imposed an additional tax of 2 solidi on each urn of wine produced. This can be explained in the light of needs of a modern state striving for centralisation and balance at all levels of authority on its territory in order to enable more uniform progress on its whole-elongated territory by collecting the highest possible amount of budgetary means. In 1614 the podestà of Koper, Scipion Minio realised that the above mentioned tax contributed to an increase of the state revenue but added that as with all new things, the collection of this tax implied some problems. However, it was “important that this revenue too was designed for the public good” (Rel., 1614).

---

<sup>7</sup> M. Knapton, “Guerra e finanza (1381-1508)” in: G. Cozzi, M. Knapton: *Storia della Repubblica di Venezia. Dalla guerra di Chioggia alla riconquista della Terraferma*, Utet Libreria, Torino, 1986, pp. 275-353.



In their reports, several rectors of Koper expressed their concern over consequences the above mentioned attitude of Venetian authorities might bring, and of the fact that more and more profitable taxes were being withdrawn from the local treasury to be collected only by Venetian central offices, e.g. the oil tax in the second half of the 18<sup>th</sup> century. According to some Koper administrators, prior to the introduction of new regulations, everyone's interest in legal trade with the main products had been higher because the taxes had been both collected and spent at regional level, and the extent of tax evasion had supposedly been lesser (Rel., 1784). However, greed made the central Venetian administration turn a deaf ear to all warnings. Instead, without leaving any relatively profitable tax within the jurisdiction of the region to allow it to recover, or furthermore, develop any productive activity, the senate decreed that half of the expenses in public administration in the Istrian capital be covered with half-yearly subventions<sup>8</sup>, which later were coming from Udine (Rel., 1795). Constant credit should also be allowed for the purchase of grain, when the debt for that product until the year 1780, had already amounted to 30,630 ducats (SM, 17, 251) and around the year 1771 to more than 64,000 ducats (Term. Biave) for the whole territory of Venetian Istria.

A similar process affected one of the main Istrian activities: fishing.<sup>9</sup> Fish was taxed as soon as it got entangled into fishermen's nets, again when it was delivered to merchants, and again in fish shops. Another aspect of fishery as an economic activity that should be subjected to critical analysis is salt-fish. Fish could only be salted where it had been caught, where after the whole harvest had to be shipped directly to Venice which showed a huge demand for this renowned product, and where the whole state tax revenue was guaranteed collection.

How was the local market provided for? Several documents witness the absence of extensive crafts, merchants and sellers (*botteghieri*) from Istrian settlements. If present, however, due to a lack of sufficient means and manufacturing, apart from rare production plants for clothes made of rough wool (*panni grossi; panni di grissi, e rasse*<sup>10</sup>), they were limited to the most important activities and production.

With reference to the latter, since the mid 18<sup>th</sup> century the Venetian Magistracy of Trade (*Cinque Savi alla Mercanzia*) requested Istrian administrators, especially podestà and captains of Koper, to report any extensive commercial activities in Istrian towns, undoubtedly from the perspective of collecting new taxes levied on these activities. Nevertheless, as a rule the reports of the podestà

<sup>8</sup> ASV. SM, e.g. reg. 227 - 22.8.1761. In that period each half-yearly subvention amounted to 2,319 ducats.

<sup>9</sup> D. Darovec, "Ribištvo severozahodne Istre v obdobju Beneške republike", *Annales, Ser. hist. sociol.*, 8, 14. Koper, 1998, pp. 19-34.

<sup>10</sup> Type of clothes made of rough wool. It probably was named after Raška, i.e. Serbia, where wool was imported from (c.f. Boerio, 1856, 554).

of Koper are very much alike (CSM, 573, 12.5.1747; 20.9.1758; 17.12.1758). They reported not to know a *dogana*<sup>11</sup> as a form for the collection of duties and tariffs (*tariffe*) on imported products had ever been established in Istria. Some towns along the coast may have been giving the impression of a kind of prosperity but the countryside was stricken with misery and poverty which meant it would have been impossible to raise any tax revenue there (CSM, 573, 1747), they added. The few products imported by individual retailers were subject to low demand and low consumption, therefore no additional tax or impost, apart from the usual export and transit duty, was imposed on them. Hence, local merchants (*bottegghieri*) purchased part of their goods within their own regions. These products were mostly oil, wine and salt. Other durable goods such as silk, cotton, different items of clothing, metal products, tobacco, gunpowder and even playing cards were supplied from Bolzano, Venice, Padua, Ceneda and Castelfranco. Other textiles, coming from the renowned *Linussi* factory, were purchased in Udine (*le tele rigate e poi colorate, e quelle altresì di lino, e bianche*; CSM, 573, 1758).

Purportedly, from time to time, ships coming from Romagna, Puglia, Dubrovnik, Albania and the Levant, laden with oil, cheese, tobacco, flax, animal skin, knitted fabrics, fruit, etc. called at Istrian ports. It occurred several times, though, that ships heading for Venice called at the port of Trieste to unload their cargo to the benefit of Venetian Istrians who could then purchase a number of products but not oil, which they usually had in abundant quantities. As a consequence, the thought took hold that foreign ships only called at Istrian ports if they had to unload grain or load salt (Rel., 1669).<sup>12</sup>

As all Venetian products were subject to high and even double taxation, their prices were high. That is why Istrians preferred to go to Trieste to buy what they needed, especially animal skins, iron, medicines (*droghe*), soap, meat, products needed for boats, and construction material (*Fabbriche degli Edifizij*), such as pitch, tar and timber. Only a few were buying items from local merchants and those who did were buying them on credit. Consequently, local merchants' accountancy books were full of debit notes which would only be settled, if ever, after many years. After going bankrupt due to a series of debts, one of the main local merchants had to move to Trieste, the podestà of Koper, Valier reported in 1758. He added that in his opinion a *dogana* or *magacini* should be set up where goods coming from foreign countries could be stored and taxed. In opposition to his predecessors' opinions, he also claimed that the location of these *magacini* would not present a problem, although he acknowledged that in Koper there were only five to six merchants, in addition to two or three others in the rest of Venetian Istria (CSM, 573, 17.12.1758).

<sup>11</sup> For rulebooks and information on "doganas", i.e. customs houses, c.f. CSM, 59-60; PSD, 54.

<sup>12</sup> F. Gestrin, D. Mihelič, *Tržaški pomorski promet 1759/1760*, SAZU, Ljubljana, 1990.

In 1740, the podestà and captain of Koper, Pietro Antonio Magno, assured Venetian authorities that they should not fear thriving trade in Trieste because the port was dangerous for large vessels. However, in the decades to follow traffic in Trieste increased on a daily basis, “in all seasons and with our serfs coming there from as far as Dalmatia, the Levant as well as other places”, the Koper administrator wrote in 1747 (CSM, 573). Trieste was not only modernising its port, reported Pietro Antonio Magno with dismay: “It seemed that development would slow down under the rule of Baron de Fin, but his successor *Governator* started with the expansion of the pier and introduction of other changes”. He also added that Trieste attempted to set up a linen and textile weaving factory but that for the time being Gorizia managed to keep this activity in its hands. “Trieste took over much business in the skin trade, which was previously blooming in Koper. It also founded a wax factory where raw wax is modelled into products which are then sold in our towns” (Rel., 1740). Trieste became attractive to the Venetians themselves too, for example to a Venetian who in 1758, after having been expelled from Venice, moved to Trieste to set up a large soap factory. A single cauldron (*caldara*) could produce as many as 8 *miari*<sup>13</sup> of soap and the Koper administrator was informed that shortly after another cauldron was due to be delivered from Vienna, this one with a capacity of as many as 24 *miari* of soap (CSM, 573).

Around the year 1789 Savio Battaglia too wrote a bitter report about Venetian fiscal policy in Istria, which in his opinion was a key reason for poverty in this region. He could not recollect any area surrounded by sea, where the fish trade could not develop. He said, “referring to fishery, there is no daily supply of fresh fish which is overburdened by taxes and a number of imposts, but only supply of fish intended for processing and conservation with respect to the type of fish and consumers’ demands. In addition, numerous administrative mistakes cannot be unnoticed, if concerns expressed by the treasurer are considered: Istria suffered from poor supply of salt fish, but at the same time this was one of its trade articles, which gives proof of numerous administrative mistakes, made in view of the fact that it is normal to use your own product without having to import it from other provinces. Such an unusual phenomenon can only be explained with the fiscal system in use in the province. This is evident from two books of fiscal tributes to revenue offices in Koper and Rašpor, together with fiscal regulations of individual communes and other administrative units (feuds, author’s note).<sup>14</sup>

According to Battaglià’s report, “there is no agricultural or artisan product not burdened by one or more taxes in the very place of production, with similarly disadvantageous taxes once it has become an object of trade, inside or outside the province”. He also found that “in Istria there are twenty-four main customs

<sup>13</sup> 1 *miaro* corresponded to 1000 Venetian libre or 650 litres (c.f. Herkov, 1971, 40; 1978, 388; 1985, 475; Mihelič, 1989, 24-25).

<sup>14</sup> P. Kandler, *L'Istria (1846-1852)*, Trieste, 1847, pp. 44-45; 180-183.

duties paid into the state treasury, to which all taxes collected by communes and feuds should be added. These are imposed on the goods and not on their consumption which to a certain extent could alleviate direct state tax collection". With great surprise he added that despite an acute shortage of grain in the region, the revenue office of Rašpor levied a tax on grain, when, since 1764, the Venetian senate, had been sending necessary stocks of it to Istrian communes "as a form of loan which gradually, as a rule, becomes a gift".

Thus he argued that it was not surprising that Istrians were not striving to achieve a better economic standard with their work, "with the fiscal policy orientation preventing rather than fostering soil cultivation".

Following the above mentioned proposals, in the succeeding years Venetian authorities mostly took measures only within the framework of fiscal policy but little if nothing changed regarding the promotion of the economic development.

The first printed tariff list of taxes for the Koper revenue office, the central regional institution for tax collection for Venetian officials in Istria, was published in 1759. Shortly after a reform proposal by Girolamo Marcello, a second edition was issued in 1774, followed by two more versions printed in 1790 and 1795<sup>15</sup> respectively. Despite that, Venetians managed to raise taxes on only 14 products or forms of rent, which in fact were few in comparison with those collected in Chioggia, where Venetians imposed more than 50 different taxes (DAPD, 1007) to yield a tenfold revenue.

A comparison between Istria and other regions and communes of the Venetian Republic contributing abundant tax revenue to the centre of the state produces a justifiably pessimistic portrait of the economic situation in Istria, which was often depicted even worse than it actually was. In the last quarter of the 18<sup>th</sup> century tax returns collected by the two Istrian revenue offices amounted to 44,500 lire, with the Buzet treasury accounting for only 3,177 lire (DAPD, 662).

### 3. Regional fiscal administration

For a long time Venetian Istria saw the existence of a single – the Koper – revenue office which at the end of the 17<sup>th</sup> century was joined by the Buzet office<sup>16</sup> and its modest contributions. In addition to regional revenue offices, every commune had its own treasury and its own communal treasurer. Communal statutes defined his rights and obligations. Therefore, rents or the so-called "regalie" and taxes were collected at least at three levels:

---

<sup>15</sup> Tariff lists are kept in DAPD, the 1759 and 1795 editions are also kept in PAK. PA, Stampati.

<sup>16</sup> SM. 1693. 17.9. How much tax revenue does the revenue office of Rašpor contribute: *dac frumento 1350 lire, Muda del Carso 175, animali minuti 495, Taverne del Carso collected by the Signoria.*

- 1) At the state level: direct *regalie* of individual communes and (obligatory) duties for import to and export from Venice;
- 2) At the regional level: for Istria by the Koper treasurer;
- 3) At the communal level.

As early as the 17<sup>th</sup> century, Venetians secured themselves the right to the direct use of tax revenues for two products: salt and oil. The podestà and captain of Koper was in charge of the supervision of production and tax collection, but taxes were collected by the Venetian office “*Magistrato delle Rason Vecchie*”.<sup>17</sup> In Venetian Istria two major contributors to tax revenue were the communes of Koper and Piran. Thus these rents comprised a tenth of the salt produced in Koper, a seventh in Piran, and the so-called new impost (*nuova imposta*) levied on salt exported to Carniola, imposed mostly on the citizenry of Koper, Piran and Muggia, and sometimes Izola (Rel., 1650, 7, 334/5). The duty on oil exported to Friuli was also under the jurisdiction of the above-mentioned Venetian office but a special permission granted Koper administrator the right to use the revenue it generated for his employees’ salaries.<sup>18</sup> Revenue yielded by tax collection at the regional level flowed into the Koper revenue office and covered some needs of Koper and other Istrian communes.

Officials of numerous Venetian institutions, depending on the nature of the trade article or product, collected direct taxes and customs duties at the state level. In many instances various export duties had to be paid for goods bound for other regions of the Venetian Republic. Istrian products were most often exported to Friuli and after paying duty in their own commune, merchants had to pay additional duties in the place of export. The so-called Venetian customs duty (*doana*) imposed on all products imported to and exported from the Venetian market ranged from 10 to 30%; in some cases it was even higher. Moreover, exporters and importers also had to settle indirect costs of various written permits issued by revenue office treasurers, chancellors or other officials<sup>19</sup> but mostly tax collectors, who played a central role in all production and commercial activities worthy of consideration.

In accordance with the tariff list endorsed on 10 June 1732, communal officials, or more precisely the chancellor to the syndic, charged the following amounts for any product a native or a foreigner wanted to export from Koper by sea or land (M/1158, 242):

---

<sup>17</sup> C.f. SM. 1657. 10. 3.

<sup>18</sup> E.g. SR. 1659. 5. 7., 1666. 19. 6., 1669. 3. 8.

<sup>19</sup> Chancellor to podestà and captain of Koper was entitled to 4 solidi for every covering letter, 1 ducat for receipts of taxes collected in Koper, 4 lire for receipts of taxes imposed on meat, salt and the tax “*mude*” (*datii mute pontis*), 3 lire for taxes on mills, 40 solidi for fish shops and shops selling oil, cheese, salt meat and fat, and 30 solidi for receipts of any other tax levied (STKP, 3, 7).

- permit for a bundle or load of any kind 24 solidi;
- each bundle 4 solidi;
- permit for an ox 24 solidi;
- each ox 4 solidi;
- permit for honey 24 solidi;
- each barrel *barilla* 4 solidi;
- permit for cattle skin 24 solidi;
- each piece of animal skin 2 solidi.

Tax evaders were subject to a fine of 25 ducats or confiscation of goods, with half of the amount paid to the informant and the second half depending on the court's ruling.

### 3.1. Tax collectors

Tax collectors played a vital role, not only in guaranteeing a regular income to state and communal structures, but they also had to ensure a regular supply of foodstuffs, observance of fishing ground limits, observance of measures and quantities in the wine and oil trade as well as trade of other products. Last but not least, with fiscal regulations and obligations they acted as, in today's terminology, product quality-assurors.

Among the citizenry, tax collectors were often exposed to hatred; for aiming to achieve the maximum gain, they used to commit violations and use intimidatory methods to collect taxes. Legal helpers, among whom the so-called "bailiffs" who had the worst reputation, often assisted them. Tax collectors most often provoked the wrath of the citizenry if they raised higher taxes than legally defined, which was a very common occurrence. As a result, both communal and state authorities were obliged to issue a number of decrees to regulate their behaviour. However, in most cases much time had to pass before they trod on tax collectors' toes. In 1670, for example, Istrian communal administrators reported extortion of oil tax "from the poor" and two years later the same cause triggered citizens' uprisings in Koper (SM, 1670, 29.11.; 1672, 17.9.). But it was not until 1677 that the podestà of Koper, Zuan Gabriele Contarini issued a decree prohibiting to raise taxes by more than 6% higher than defined. Tax collectors had been demanding tributes by as much as 10% higher ("*a ricever in recognizione delle loro fatiche ducati sei per cento, dalli dieci, che antecedentemente erano consueti in simili occasioni contribuirgli*" ... Rel., 1677), and in 1679 (SM) there was a legal process against irregularities concerning the oil tax collection.

Nevertheless, this system of tax collection suited the authorities well, which is proven by documents expressing disappointment if this or that tax failed to be raised. Whilst in the late medieval period some taxes were leased or given as acknowledgements (*gratie*) for certain services, on the verge of the modern period



taxes were leased out to the highest bidder. In case a tax failed to be leased, other methods were used. Occurrences that a tax was not collected because of shortage of tax collectors were rare, though not non-existent. In 1603, for example, the podestà and captain of Koper (Rel., 1603) complained that the tax on notary documents (*dazio istrumenti e testamenti*), one of the most important taxes of the revenue office, failed to be collected. After for some time in Koper the tax on bread failed to be raised, women bakers (*pannicogole*) became liable to pay taxes in accordance with the quantity of bread baked (SM. 1682. 29. 10). In other cases a tax collection supervisor was appointed. Thus, in 1691 the podestà of Koper appointed the *Governator*, chosen among commoners for his good reputation and experience, to oversee the tax levied on communal fishing grounds (*paludi*) (SM. 1691. 22. 3.). In such cases taxes most often came under the jurisdiction of a state<sup>20</sup> or communal official (“*per conto pubblico*”; Rel., 1732). However, with his salary being assured and other obligations to fulfil, he was not motivated for tax collection.

Tax collectors were also obliged to meet provisions about methods of payment for taxes leased and with that tax collection, which sometimes yielded a good and sometimes a modest profit. In periods of famine or poor harvests, wars or epidemics tax lease was an extremely dangerous pursuit. In these cases leases of the same taxes were prolonged for long periods of time or payment in yearly instalments was granted, many times both.

An example of this is Vinciguerra Lugnan from Koper who in the year 1510 due to war and the prohibited organisation of the Rižana fair, did not manage to raise 400 lire for the lease of certain taxes. He was allowed to settle the debt within three years, and on top of that he was exempted from the payment of 15 ducats, “a sum equal to the loss he suffered due to the prohibited organisation of the fair” (SM. 1510. 20. 1. m.v.). In 1548 Giovanni Antonio da Sal from Koper, who in the previous year took on the lease tax on taverns outside the city (*dazio delle taverne fabbricate fuori di quella città*), was allowed to postpone the payment of 400 lire he would have had to pay into the revenue office, because the Rižana fair did not take place (SM. 1548. 31. 12.). Until the free fair was established again in 1642, the Koper region had lacked this very important activity. Documents mention the fair as early as the second half of the 14<sup>th</sup> century (STKP, 3, 51; SMi. 1381, 5, 81) and which first took place near the source of the river Rižana (*in caput Risiani*) near St Mary’s church.

In 1710 commercial routes were closed for sanitary reasons and as a consequence trade was made impossible, that is why Gio. Batta Ombrella, leaseholder of the wine tax, was exempted from paying his debt for that period of time (SM. 1710. 3. 12.). At the end of the 17<sup>th</sup> and the beginning of the 18<sup>th</sup> centuries the Ombrellas were one of the most active families in taking out leases of various

---

<sup>20</sup> In the year 1762 (Rel.), for example, after it failed to be collected, the Venetian state office took a lease on the tax on tanned animal skin (DAPD).



Koper taxes. As early as 1669, a member of this family ran as a candidate for the lease of the oil tax (SR. 1669. 21. 12.), in 1691 Pietro Ombrella for the wine retail tax (*Vino a spina*) (SM. 1691. 22. 3.), Gio. Battista Ombrella for the “*bezzo per orna del vino*” tax (SM. 1706. 31. 7.). The latter also took a lease on the tax levied on butcheries and fat<sup>21</sup> in Koper villages for a period of 4 years (*della grassa e beccarie delle ville*) for 2,600 lire, by 1,023 lire higher than the previous lease (SM. 1712. 23. 12.). In 1716 Gio. Batta Ombrella acquired the tax on notary acts, taverns outside the city, and mills (*istrumenti testamenti, osterie di fuori e molini*) for 12,000 lire for a period of 2 years (SM. 1716. 9. 1. m.v.). In 1711 Matteo Ombrella took out leases on taxes levied on bread, notary acts and taverns in villages for the amount of 5,000 lire (*dacio pane, istrumenti testamenti in osterie delle ville*)(SM. 1711. 23. 8.).

A reason for a postponement of tax lease payment could also be good references: for example, in the case of Nazario from Koper (*di Capodistria*), whose debt originating from the fish tax lease amounted to 700 lire, but upon the recommendation of the podestà of Koper he was allowed to settle his debt in 7 yearly instalments (SM. 1549. 15. 10).

However, not all debtors were looked at with a favourable eye. In 1661 Ottavio Pola as one of the referees for the wine bottling tax (*imbottadura vini*) owed 9,993 lire to the state. With regard to his numerous family and a general state of poverty he was allowed to compensate for the debt with his salt (SM. 1661. 29. 10.). A certain Zanesini, on the other hand, was imprisoned and sent to a galley for having appropriated 6,520 lire from the little oil tax lease (SR. 1661. 4. 2. m. v.).

In some cases the commune proved to be a more efficient tax collector. In 1626, for example, the Koper administrator prided himself on having filled up the communal treasury with taxes levied on salt and fines which had been previously leased out but tax collectors had not settled them for years (Rel., 7, 295/6).

Apart from that tax collectors were also imposed other “social” obligations such as a tribute in candles (*torcia di cera*) gifted to the fraternity (*alla scuola del venerabile*) of their town’s cathedral (SM. 1723. 2. 8.).

The economic structure of that time saw tax collectors as one of its indispensable units and they were present wherever there was any economic activity. They could be both promoters and obstructers of economic development of different branches but what bore most importance for the authorities was that they had and exercised limitless supervision of all activities. Without a tax collector’s permission nobody could, for example, give, gift, sell or alienate in any way the salt produced (STKP, 1, 27; STPI, 633). Similar restrictions were imposed on other taxed products, depending on the specifics of various production and commercial activities. The only exception, the domain of communal officials, mostly *fonticari*, was the supply of grain which was under the jurisdiction of

<sup>21</sup> Apart from fat, oil, butter and cheeses this tax comprises all dried meat products.

communal grain chambers (*Collegio delle Biave* or *Biade*), which many literary sources put side by side with communal “minor councils”, inherited from the developed Middle Ages.

When yearly or long-term contractual obligations expired, auctions of tax leases were usually held in municipal lodges of individual Istrian towns. Tax collection and administration (*conduttore dei dazi*) was granted to the highest bidder. In compliance with a Venetian monetary office provision (*Deputati, ed Aggiunti sopra la Provision del Denaro Pubblico*) issued in 1794 (PAK. PA. Stampati, 2) eight months prior to the expiry of a tax lease, an auction had to be called. The provision was valid for all taxes which exceeded the value of 310 lire (50 ducats) per year. Auctions were held on three consecutive Sundays, and only on the last Sunday could the lease be granted to the highest bidder. All auctions had to be held aloud, and the lease had to be at least three and at most five years long. In that period, the latter was only valid for communal tax leases and although the provision stated above, emphasises that these were the usual methods of leasing out and managing taxes, although these varied considerably throughout the centuries.

### 3.2. Regional revenue office

Soon after the Venetian domain extended over north-western Istria, a central regional revenue office was established in Koper, headed by the councillor and treasurer or *camerlengo* (*consiliarius et camerarius Justinopolis*),<sup>22</sup> elected in the Venetian Great Council with the same procedure for the election of the Istrian podestà. With the exception of the podestà and treasurer of Koper, both elected among four candidates, other Istrian podestà and treasurers had only to run against one candidate.

Starting their term of office, the doge handed them the so-called commissions (*commissioni*)<sup>23</sup> which defined their rights and obligations<sup>24</sup>, with their main obligation being tax collection. For Koper, the establishment of a central fiscal body, apart from the appointment of administrators with the title of podestà and captain, which in the Venetian Republic, was only usually awarded to administrators of regional capitals (e.g. Udine), represented one of the most important steps to be made towards acquiring the status of a regional capital, which was formalised in 1584 with the establishment of the court of appeal. Other ways

<sup>22</sup> ASV. Segretario alle Voci. Universi (Misti), B. 3 (1383-1387), 25.

<sup>23</sup> For commissions to Istrian rectors when starting their terms of office, c.f. Benussi's treatise (1887).

<sup>24</sup> Commissione del doge Andrea Dandolo ai Consiglieri di Capodistria, 1343-54. ASV. Senato. Commissioni ai Rettori ed Altre Cariche (Inventory n.° 326, in the first two envelopes corresponding to inv. 339; what needs to be ordered: Collegio Commissioni “Formulari”), Rett. B. 2, n° 55. C.f. ASV. MC.

leading to the acquisition of this status, interrupted for several decades by the Koper uprisings in the year 1348, was the privilege of the right to appoint Koper citizens, as an expression of gratitude (*gratia*) for their exertions, for positions of podestà of Buzet, Oprtalj, Dvigrad and Buje in 1423 (STKP, 5, 6, 130), i.e. immediately after the conquest of these towns. Moreover, in 1435 Koper was granted the right to choose the treasurer among its citizens. Before this acknowledgement, the regional treasury had already been managed by two Koper citizens, Antonio Ingaldeo and Christoforo de Serenis. They had been appointed to these positions for having rendered services to the Venetian Republic, which was common practice especially until the first half of the 15<sup>th</sup> century<sup>25</sup>. In 1435 their privilege was abolished by a doge's edict, and instead a regulation was enacted defining that the podestà and captain of Koper each year, following a proposal of members of the Koper Great Council, should appoint one of its members to the office of treasurer. However, similarly to the position of podestà in the above-mentioned Istrian localities, only a respectable Koper councillor could apply for this position. Furthermore, there were some conditions to be met: he was not allowed to be a debtor of the Venetian Republic, he had to be able to write, and he had to present guarantees (*bonam fideiussionem*)<sup>26</sup> in the amount of 200 ducats for the office of podestà, and as many as 1,000 ducats for the office of treasurer. However, after his term of office had expired, for a period of three years the appointed treasurer or podestà did not have the right to stand for re-election either for the same position or that of rector in one of the localities mentioned. One of the purposes of the doge's edict also was to grant all Koper councillors the possibility to ascend to these prestigious positions (STKP, 5, 7, 130-132), which not only represented one of the ways to acquire a well-paid job but also prestige for the highest social class. Koper citizens, members of the communal council, could therefore run for positions of local officials and central positions in the region as well, which were otherwise exclusive domains of selected Venetians.

If this state of affairs was advantageous for the citizenry of Koper, it's another issue. In Koper, the majority of taxes flowed into the revenue office, i.e. regional (Venetian), office, and the minority into the communal treasury whose main obligation was to procure funds for the development of the communal infrastructure (road, bridges and building repairs) and for the economic needs of the city. Most of the income collected by the revenue office, on the other hand, was used to finance the administrative apparatus, not only in Koper but also in the whole region under Venetian rule. The situation in Piran was different,

<sup>25</sup> Until the emergence and empowerment of the rather oligarchic and repressive Council of Ten beyond doubt the most important magisterial body in the Venetian Republic, at the end of the 14<sup>th</sup> century (Maranini, 1927) acts issued by the Venetian Great Council witness a number of so-called *gratie*, i.e. conferences of lifelong functions to individuals in exchange for certain exertions in commerce, military service, etc.

<sup>26</sup> Later the term *piezzaria*; *pieggaria* was used for these guarantees (c.f. Boerio).

where revenue from taxes levied on the production of salt and fishery as well as other activities was collected by the communal treasury and used for communal needs. Thus, within the framework of the general Istrian situation, Piran was considered to be a rich and flourishing town, and Koper, the administrative centre, which could also be said to be a bureaucratic town.

Koper was considered as such also by the Venetians, seeing it as an excellent opportunity for providing working places for their noblemen. That is why, generally speaking, Koper was better provided for than Piran, despite the fact that it could count on lesser budgetary means. With the establishment of the previously mentioned court of appeal, the Venetians granted well-paid positions to at least two *consiglieri*, who apart from judicial duties shared the 16-month term of office of the management of the revenue office (Leggi, 1683). All money collected in it had to pass through the hands of the vice-tax collector (*Vice Collettore*), while orders to pay were signed by the podestà (Rel., 1596, 7, 98). Notwithstanding these measures, numerous regulations were not observed and irregularities and frauds were committed. In 1604, for example, the podestà and captain of Koper reported that in connection with the revenue office he had to point out at least four issues:

- 1) Even if, for tours of inspection (*cavalcate*) rectors should have been granted daily allowances of 6 ducats, they were paid from 10 to 12 ducats; the podestà himself after his first tour was paid 58 lire (9.35 ducat) but after consulting the decree, he was contented with 6 ducats;
- 2) Councillors demanded cover for certain expenses from the “tenth for offices” item (*della decima di officij*) even though the Venetian Camerlengarie di Comun had already covered these expenses. This required an additional yearly sum of 108 ducats from the state budget;
- 3) In compliance with a commission (*commission*) the podestà should have been granted 32 ducats for every trip to his duties and back (to Venice and back, author’s note). In the last two years, however, they charged 64 ducats, 32 ducats each way, which was also granted to councillors. This accounted for additional 96 ducats every 16 months; the podestà had this regulated and registered;
- 4) For extraordinary costs (usually travel) only *bollette* and not policies were issued; the podestà decreed a prohibition of the issue of *bollette* if the policies had not been recorded beforehand.

The report was undoubtedly written as a response to his predecessor’s revision proposal, in which it was pointed out that many tax debtors leased real estate instead of paying off debts with money and then the treasury sold or leased back the same real estate to the same debtors. Hence, property was not lost and the real estate was only apparently paid for several times. Lodovico Loschi, for example, was *Vice Scontro* of the treasury and debtor of 9,000 lire. His real estate

was put up for auction by the podestà but no bidder appeared, which is a piece of evidence for solidarity in terms of irregularities and frauds among Koper citizens. Despite this he managed to raise an income of 4,500 ducats for the revenue office (Rel., 1603).

The above-mentioned decree issued to limit irregularities in daily allowances and travel expenses of communal and state officials was obviously of no long-term avail. As early as 1633 the podestà of Koper reported that councillors committed other irregularities, demanding to be paid daily allowances and travel expenses in advance. This practice was more a rule than an exception and *Vice-Collaterale* of that time, for example, prolonged his stay at military exercises and on this account “he could drag a ducat a day from the regional treasury” (Rel., 1633). Especially in the 17<sup>th</sup> and 18<sup>th</sup> centuries different officials working for a number of public financial institutions used whichever reason and excuse to, supposedly on official business, travel to Venice, turning this to their own private advantage. The Venetian *Magistrato degli Scansadori alle Spese Superflue* (magistracy for the prevention of superfluous costs) introduced a variety of measures and decrees to restrain these harmful habits of officials, such as a termination issued in 1777 addressing Venetian *Monte di Pietà* administrators (PAK. PA. Stampati), but all in vane. Despite high fines this practice remained present until the downfall of the Venetian Republic.

Irregularities committed by officials in public financial institutions were a frequent cause of appeals Istrian serfs made to the central authorities. It should not be forgotten that these events also led to many people’s uprisings against state or communal officials (c.f. Pahor, 1972), whose frauds were considered to be a method for the exploitation of the poor, who had to often deny themselves food to be able to pay their tributes into the budgetary treasury (SR. 1675. 22. 2. m.v.).

In the 17<sup>th</sup> and 18<sup>th</sup> centuries the office of treasurer was again granted to Koper citizens due to the fact that councillors to the podestà supposedly were overburdened with judging and other duties performed for the Koper Magistrate. In 1735 the treasurer, Dr. Pietro Grisoni, deceased, was succeeded by Dr. Cristoforo Tarsia. The explanation of his confirmation for the office of treasurer, stated that the candidate was suitable for the position in accordance with the act passed in 1640. In compliance with this act, the candidate needed 5 years experience, and among his job duties he could also find the management of communal archival documents referring to land ownership along the border and frequent conflicting situations with neighbouring Austrian towns (SM. 1735. 21. 4.). In the mid 18<sup>th</sup> century count Cristoforo Tarsia from Koper (Rel., 1752) was considered to be worthy of praise for his duties performed as fiscal lawyer (*Avvocato Fiscale*), whilst at the end of the same century this position was taken on by another count, Francesco Tacco (Rel., 1773, 1784).



#### 4. Taxes and contraband trade

With regard to main Istrian products, since the end of the 16<sup>th</sup> century official data do not show significant increases in the production of salt, oil and wine. The only exception among these activities was fishery, which mostly due to the harvests of fish in Rovinj recorded an increased production of salt fish. And, as mentioned before, another increase in tax revenue worthy of consideration was that generated by the tax levied in Koper on the ferry sailing to Trieste. However, higher taxes and various repressive legal provisions limited trade both within the Venetian territory and with neighbouring Austrian regions, particularly Carniola, and thus did not raise fiscal revenue. On the contrary, they lowered it.

In the second half of the 18<sup>th</sup> century, a sizeable share of Austrian money surprisingly appeared in the economic currents in Istria, which Venetian monetary institutions (*Deputati, ed Aggionti sopra la provision del dinaro pubblico*) fought against throughout the whole period but to no avail. Istrian rectors often complained that all financial institutions were crammed with Austrian copper *petizze*, which made it almost impossible to find any Venetian money in the region. In 1766, in order to clean some financial institutions 200,567<sup>27</sup> lire of Venetian money was sent to Istria by the Venetian senate in exchange for the Austrian money. "This invasion of *soldoni* causes huge damage to our trade. They are overvalued, their value being twice that of copper. Do something, take legal steps, to remove these *soldoni* from our province", Koper administrator implored (SR, 23, 277). Despite this, in 1777, the rector of Koper reported that the province was overflowed with approximately a million ducats of Austrian money, which had neither been driven away by official devaluation from 30 to 29 solidi<sup>28</sup> nor by repeated prohibitions to use it in trade.<sup>29</sup> "Imperial solidi are the only means of payment in the Province. All *Monte di Pietà* and *Fontico*<sup>30</sup> have been infected with high sums of Austrian money, which is without real value. People in Gorizia and Rijeka were advised by Austrian authorities that they can only make profit with their own money, that is why they are bringing it to Istria and exchanging it at a higher value", Koper administrator Antontio Dolfin complained in 1777 (Rel.).

---

<sup>27</sup> ASV. SR, 1766. 22.1. m.v. In public treasuries of communes, *fonticos* and *luoghi pii* in Istria there are copper *petizze* amounting to 200,567 lire.

<sup>28</sup> ASV. SM, 1761. 28. 5. Captain of Rašpor was ordered to publish a decree of 14. 5., devaluating the *petizze* to 29 solidi and other foreign currencies (reg. 227, c. 48, c.f. c. 65 and 86).

<sup>29</sup> ASV. SM, e.g. reg. 227-6.8.1761, reg. 229-22.9.1763.

<sup>30</sup> About this institutions c.f. Pullan, 1982; Prodi, 1982; Meneghin, 1974; Montanari, 1989; Garrani, 1957; Geremek, 1973; Altan, 1987; Assereto, 1983; Cargnelutti, 1994; Clavero, 1991; Avallone, 2001; Darovec, 2004, 91-176.

The flow of events was inverse to that in the 16<sup>th</sup> century when in Carniola, a different, more favourable exchange rate for Venetian money developed than in other Austrian regions. Vilfan defines this phenomenon as a formation of specific Carniolan money within the Austrian territory, while in the 18<sup>th</sup> century, the process represented the formation of a specific Istrian currency value of the Austrian money within the borders of the Venetian Republic.<sup>31</sup>

Where did Istrians get so much Austrian money if all surplus of their main products – with the exception of wine, subject to particularly high taxation rates for export to Carniola – had to be sent to Venice, from where then it was shipped all around the world by Venetian merchants? Could so much be earned only with wine and a couple of hundreds of urns of oil which they were allowed to export to Carniola, or maybe with salt, most of which officially first had to be offered to the Venetian Salt Magistracy and what was left to the communes, or with commercial and artisan articles which did not suffice for local use let alone for export? The only plausible explanation that can be offered, is that they provided for their humble survival means by smuggling everything from fruit, silk, oil, wine, salt, fish, etc. Since every activity not subject to at least the export duty was considered as contraband trade, and as has been noted earlier, only low amounts from this impost were managed to be collected, and could not therefore, justify the existence of so much Austrian money in the region. This is also confirmed by numerous reports of Venetian rectors.

“All small trade is connected with this money and the reason for this is that most trade is first linked to Trieste and only then to Venice,” Koper administrator found out in 1764. He added that “wine and silk represent a minor share of the trade while in Trieste, high quantities of salt are sold, kept in warehouses, and most of this salt has been smuggled by sea.” Needs of the ports of Trieste and Rijeka for salt were immense. Besides the salt produced in Istria and locally they also had to import salt from elsewhere, mostly from the Kingdom of Naples (Rel., 1725).

Although at least in the last quarter of the 18<sup>th</sup> century, they strove for the reintroduction of land routes to Trieste to foster controlled trade with Venetian Istrian towns, particularly Koper. In the words of a Venetian podestà “the only settlement in the region deserving to be referred to as town”, the majority of commercial and particularly contraband trade routes was connected with the sea. Venetian rectors complained an infinite number of times that two “*feluche*” did not suffice for efficient supervision at sea to stop this dirty business, and in addition to that they were so clumsy that smugglers noticed them from a distance, and avoided them (c.f. Rel., 1774, 1780, 1795).

Supposedly, this caused damage at several levels. In his report dating from 1784, the podestà and captain of Koper ascribed great importance to Istrian oil

---

<sup>31</sup> S. Vilfan, “Temelji in razvoj denarnih sistemov v slovenskih deželah do 17. stoletja”, *Zgodovinski časopis*, 40, Ljubljana, 1987, pp. 397-412.



as a form of public *regalie* on account of Carniolans. However, it could only be charged “when it is unloaded in our capital ... Due to more convenient prices, a more comfortable journey, more reliable and faster contracts, a major part of this oil ends up in foreign ports, particularly in the near-by Trieste. The phenomenon has become so extensive that not only the vile intrigues of experienced smugglers are to blame, but also illegal behaviour of those whose only duty is to condemn and persecute them. The worst part of this is that a share of this oil comes to Austrian Friuli and from there it follows underground contraband routes to reach Veneto or neighbouring towns where it is sold at a price much higher than the purchase price. This leads to double economic damage which can only be defined as the highest damage possible.” (Rel., 1784, 10, 317/8). Other examples of smuggling include wine exported to Cres without being taxed and from there, again without taxation, it continued its pilgrimage to Austrian Rijeka or Bakar (Rel., 1672).

The introduction of numerous Venetian fiscal measures inevitably led to such a response by the population. Smuggling was becoming more and more extensive and no repressive penal policy could put a stop to it. On the contrary, higher taxes gave rise to more smuggling. This did not have a negative impact on the state treasury, (but could undoubtedly do without it), in comparison with fiscal revenue coming from other regions of the Venetian Republic, extremely modest Istrian tributes, but also on the revenue of local communes which in this way were denied all means that could foster infrastructural development and introduction of various projects to enhance the development of economic activities. And the circle was complete.

## 5. Conclusion

The main conclusion that can be drawn in relation to economic history of the Istrian peninsula in the period of the Venetian domain, is that from the mid 13<sup>th</sup> to the mid 16<sup>th</sup> centuries, quite favourable economic trends are typical, at least in comparison with neighbouring Italian and hinterland, today Slovene and Croatian, regions. However, the period from the mid 16<sup>th</sup> to the beginning of the 19<sup>th</sup> centuries is marked by stagnation, and even recession of economic development in northern Istria, and particularly in other parts of the peninsula, to a large extent dependent on the intensity of commercial intercourse with its direct hinterland, today Slovene towns, and with Trieste. In this period, with the introduction of compulsory commercial routes and high taxes, the Austrian monarchy started to privilege its Trieste and partly also, Rijeka ports, which diverted traditional commercial routes of the hinterland Austrian and mostly Slovene population from Venetian Istria, into its own ports.

A key role for the state of Istrian economy was also played by the Venetian fiscal policy. Not only all products for overseas trade first had to be sent to Venice, where various taxes were levied on them, but particularly from the end of the first half of the 17<sup>th</sup> century, higher and higher taxes were imposed, not only on almost all products which generated any profit, but also on all products for local use. In this respect, local authorities faithfully seconded Venetian authorities; therefore, the population's response was not surprising. The extent of smuggling, which could not be stopped by any repressive practice, increased, and, higher taxes led to more smuggling. This did not have a negative impact on the imperial treasury, but which only could do without it, in comparison with fiscal revenue from other regions of the Venetian Republic, extremely modest Istrian contributions, but particularly on the revenue of Istrian communes. They were then denied all possibilities for infrastructural development, or projects to enhance economic activities.

### Sources

- AMSI** – Atti e Memorie della Società Istriana di Archeologia e Storia Patria. Poreč 1884 – all'Archivio antico municipale di Capodistria). Edited by: F. Majer, 1904.
- ASV** – Archivio di Stato di Venezia.
- ASV.** – Segretario alle Voci. Universi (Misti), B. 3 (1383-1387). ASV. Senato. Commissioni ai Rettori ed Altre Cariche, Rett. B. 2.
- ASV. SM** – Archivio di Stato di Venezia. Senato Mare.
- ASV. SR** – Archivio di Stato di Venezia. Senato Rettori.
- CSM** – Archivio di Stato di Venezia. Cinque Savi alla Mercanzia.
- DAPD** – Archivio di Stato di Venezia. Deputati, ed Aggiunti sopra la Provision del Denaro Pubblico.
- Leggi (1683)** – Leggi, Decreti e Terminazioni del Ser.mo Magg.r Cons.o etc., Concernenti il buon governo dell'Istria. Valerio Da Riva, Pod.tà e Cap.o di Capodistria. (BCT).
- M/** – Indication of archival units according to the Inventory of F. Majer (1904) and microfilm shot numbers in: Archivio di Stato di Trieste. Antico archivio municipale di Capodistria.
- m.v.** – More Veneto. Dated according to the Venetian calendar with 1 March marking the start of the New Year.
- PAK. PA.** – Pokrajinski arhiv Koper. Piranski arhiv.
- Prov.** – La Provincia dell'Istria. Koper, Tipografia G. Tondelli, 1867-1894.
- PSD** – Archivio di Stato di Venezia. Provveditori sopra Dazi, Revisori e regolatori dei Dazi e Dazio del vino.

- Rel.** – Relazioni dei Podestà e Capitani di Capodistria, in: AMSI, 6-8/1890-92, 10/1894, 13/1897.
- SM** – Senato Mare (1440-1797), in: AMSI, 7/1891, 9/1893, 11-17/1895-1901.
- SMi** – Senato Misti (1332-1440), in: AMSI, 3-5/1887-1889.
- SR** – Senato Rettori (1630-1797), in: AMSI, 18-20/1902-1904, 22-23/1906-1907.
- STKP** – Koper statute; edition: Statute of the commune of Koper from the year 1423 with supplements until the year 1668 (Lo statuto del comune di Capodistria del 1423 con le aggiunte fino al 1668). For publication edited by: L. Margetiæ, Pokrajinski arhiv Koper - Center za zgodovinske raziskave, Koper - Rovinj, 1993.
- STPI** – Piran statute; publication: Pahor M., Šumrada J. (1987): Statut piranskega komuna od 13. do 17. stoletja. Ljubljana, SAZU.
- Term. Biave** – Terminazione degl' Illust. ed Accell. Signori Sopra Proveditori, Proveditori, ed Inquisitor alle Biave. Venice 1771. PAK. PA. Stampe, 1.

### References

- Altan, M.G.B. (eds.): *Storia della solidarietà in Friuli*, Jaca Book, Milano, 1987.
- Assereto, G.: *Pauperismo e assistenza*. Archivio Storico Italiano, Deputazione Toscana di Storia Patria, Anno CXLI, disp. II. Leo S. Olschi Editore, Firenze, 1983.
- Avallone, P. (ed.): *Il "povero" va in banca. I Monti di Pietà negli antichi stati italiani (secc. XV-XVIII)*, Edizioni Scientifiche Italiane, Napoli, 2001.
- Benussi, B.: *Commissioni dei dogi ai podestà veneti nell'Istria*, AMSI 3, 3-109. 1887.
- Bertosa, M.: *Mletačka Istra u 16. i 17. stoljeću, I-II*, Istarska naklada, Pula, 1986.
- Boerio, G.: *Dizionario del dialetto Veneziano*, Premiata Tipografia di Giovanni Cecchini Edit, Venice, 1856.
- Braudel, F.: "La vita economica di Venezia nel secolo XVI", *Storia della Civiltà veneziana*, VII, Firenze, 1958.
- Cargnelutti, L.: "Istituti di pegno e comunità", *Guida dell'Archivio del Monte di Pietà di Udine (1496-1942)*, Arti Grafiche Friulane, Udine, 1994.
- Cipolla, C. M.: "The Decline of Italy. The Case of a Fully Matured Economy" in: *Crisis and Change in the Venetian Economy*, 2 ed., London, 1968.
- Clavero, B.: *Antiadora. Antropologia cattolica della economia moderna*, Giuffrè, Milano, 1991.

- Darovec, D.: “Studi storico-economici sull’Istria alla fine del”Ancien Régime”: risultati e prospettive, *Ricerche di Storia Sociale e Religiosa*, Istituto per le Ricerche di Storia Sociale e Religiosa, Vicenza, 49, 1996.
- Darovec, D.: “L’influenza dell’economia globale sulle migrazioni nell’area istriana, e l’immigrazione dalla Carnia in età moderna” in: Ferigo, G. (a cura di), Fornasin, A. (a cura di): *Cramars: emigrazione, mobilità, mestieri ambulanti dalla Carnia in Età Moderna*, Arti Grafiche Friulane, Udine, 5, 1997.
- Darovec, D.: “Merkantilistični poskus Gian Rinalda Carlija: predilnica v Cereju pri Kopru”, *Acta Histriae*, 5, Zgodovinsko društvo za južno Primorsko, Znanstveno-raziskovalno središče Republike Slovenije, Koper, 1997.
- Darovec, D.: “Proizvodnja oljčnega olja kot osrednja gospodarska panoga Slovenske Istre v preteklosti”, *Glasnik ZRS Koper*, 3, 5, Koper, 1998.
- Darovec, D.: “Ribištvo severozahodne Istre v obdobju Beneške republike”, *Annales, Ser. hist. sociol.*, 8, 14, Koper, 1998.
- Darovec, D.: “La realtà economico-sociale in Istria alla fine dell’antico regime” in: Agostini, F. (a cura di): *Veneto, Istria e Dalmazia tra Sette e Ottocento: aspetti economici, sociali e ecclesiastici (Ricerche)*. Marsilio, Venice, 1999.
- Darovec, D.: “Vpliv množičnih smrti na gospodarsko in socialno podobo Istre skozi stoletja” in: *Množične smrti na Slovenskem. Zbornik referatov 29. zborovanja slovenskih zgodovinarjev*, Zveza zgodovinskih društev Slovenije, Ljubljana, 1999.
- Darovec, D.: “Gospodarsko stanje v Beneški Istri 17. in 18. stoletja”, *Zgodovinski časopis*, 54, 1, Ljubljana, 2000.
- Darovec, D.: “Vinske mere in davki v severozahodni Istri v obdobju Beneške republike”, *Annales, Ser. hist. sociol.*, 10, 2, Koper, 2000.
- Darovec, D.: “Solarstvo v severozahodni Istri od 12. do 18. stoletja”, *Annales, Ser. hist. sociol.*, 11, 1, Koper, 2001.
- Darovec, D.: *Davki nam pijejo kri. Gospodarstvo severozahodne Istre v novem veku v luči beneške davčne politike*, Univerza na Primorskem, Znanstveno-raziskovalno središče Koper, Zgodovinsko društvo za južno Primorsko, Knjižnica Annales Majora, Koper, 2004.
- Garrani, G.: *Il carattere bancario e l’evoluzione strutturale dei primigenii Monti di Pietà*, Istituto di economia aziendale dell’Università commerciale “L. Bocconi” – Milano, Giuffrè, Milano, 1957.
- Geremek, B.: *Il pauperismo nell’età preindustriale (sec. XIV-XVIII). Storia d’Italia. Volume quinto*, Giulio Einaudi editore, Torino, 1973.
- Gestrin, F.: *Trgovina slovenskega zaledja s primorskimi mesti od 13. do konca 16. stoletja*, SAZU, Ljubljana, 1965.

- 
- Gestrin, F. – Mihelič, D.: *Tržaški pomorski promet 1759/1760*, SAZU, Ljubljana, 1990.
  - Herkov, Z.: *Mjere Hrvatskog primorja s osobitom osvrtom na solne mjere i solnu trgovinu*, Posebno izdanje historijskih arhiva u Rijeci i Pazinu, 4, Rijeka, 1971.
  - Hocquet, J. C.: “Il sale e la fortuna di Venezia. Rim, Jouvence”, *Le sel et la fortune de Venise. Voiliers et commerce en Méditerranée 1200-1650*. P.U.L. 1979, 1990.
  - Knapton, M.: “Guerra e finanza (1381-1508)” in: Cozzi, G. – Knapton, M.: *Storia della Repubblica di Venezia. Dalla guerra di Chioggia alla riconquista della Terraferma*, Utet Libreria, Torino.
  - Kandler, P. *L'Istria 1846-1852*, Trieste, 1853.
  - Luzzatto, G.: *Storia Economica di Venezia dall’XI al XVI secolo*, Venezia, 1954.
  - Majer, F.: *Inventario dell’Archivio antico municipale di Capodistria*, Koper, 1904.
  - Meneghin, V.: *Bernardino da Feltre e i Monti di Pietà*, L.I.E.F. Edizioni, Vicenza, 1974.
  - Montanari, D.: “Mons omnibus subvenit”, *I Monti di Pietà fra credito e carità*, Brescia, 1989.
  - Pahor, M.: *Socialni boji v občini Piran od XV. do XVIII. stoletja*, Pomorski muzej “Sergej Mašera” Piran, Mladinska knjiga, Ljubljana, 1972.
  - Prodi, P.: “La nascita dei Monti di Pietà: tra solidarismo cristiano e logica del profitto”, *Annali dell’Istituto storico italo-germanico in Trento*, Il Mulino, Bologna, 8, 1982.
  - Pullan, B.: *La politica sociale della Repubblica di Venezia 1500-1620. I., II.* (Rich and poor in Renaissance Venice. The Social Institutions of a Catholic State, to 1620), Basil Blackwell, Oxford, 1971, Il Velcro Editrice, Roma, 1982.
  - Raukar, T.: *Venecija i ekonomski razvoj Dalmacije u XV i XVI stoljeću*, Institut za hrvatsku povijest, 10, 1977.
  - Vilfan, S.: “Temelji in razvoj denarnih sistemov v slovenskih deželah do 17. stoletja”, *Zgodovinski časopis*, 40, Ljubljana, 1987.



SNEŽANA STOJANOVIĆ, PHD  
*Institute of Comparative Law, Belgrade*

## FISCAL IMBALANCE AND FISCAL EQUILIZATION

**Abstract:** *Fiscal imbalance represents a problem that appears very often in the countries with decentralized fiscal systems. Imbalance may be vertical and/or horizontal, so the problems are solved depending on the form of manifestation. The most frequent mechanism to remove or alleviate disturbed fiscal balance is inter-government transfers, first of all equalization transfers. The paper analyzes these mechanisms from both theoretical and practical point of view, underlying advantages and disadvantages of every individual solution.*

**Key words:** *vertical fiscal imbalance, horizontal fiscal imbalance, fiscal equalization, inter-government transfers, equalization grants, shared revenues.*

### 1. Introduction

The theory of public finances studies many various institutions. These include public expenditures, public revenues, budget and financial equalization. All these institutions (more or less) are studied within fiscal federalism as well, which is one of the most complex phenomena in the theory of public finances and practice of contemporary states. Fiscal federalism includes the relationship between high and low levels of authority, which are established in order to determine jurisdiction over public expenditures and with regards to sources from which the income for their financing will be provided. The term income here does not mean public revenues only, but also inter-government transfers and the assets acquired by loans. Considering that it is rare in practice that every level of state authorities has at its disposal public revenues that are sufficient to finance expenditures occurring during performance of public functions they are responsible for, there are often larger or smaller disproportions in the budget of some political-territorial unit. The basic mechanism to remove budget imbalance is transfer of assets from the budget of a high level authority (vertical transfers) or from the budget of a wealthier political-territorial units at the same level



of authority (horizontal transfers).<sup>1</sup> It is our intention in this paper to analyze various issues appearing under the conditions of budget imbalance and fiscal imbalance understood in a wider sense from both theoretical and practical point of view. Our goal is also to study the question of fiscal equalization and inter-government transfers by which equalization is carried out i.e. fiscal imbalance removed or alleviated.

## 2. Fiscal imbalance

Fiscal imbalance occurs when there is a lack of coordination between public expenditures and derivative public revenues. When we speak about fiscal imbalance, we mostly have in mind lower levels of authority since they, as a rule, control such incomes that cannot fully cover expenditures occurring at a usual level of public production they are responsible for. In this way central authorities attempt to hold a certain degree of control over total public expenditures within the state, but thus indirectly influence the decisions of lower levels of authority. However, fiscal imbalance may occur at central level of authority as well. Lower levels of authority have tax jurisdiction (full or partial) in relation to certain very abundant fiscal sources (for instance, value-added tax or income tax), in such a way that total collected income belongs to a lower political-territorial unit. The appearance of fiscal imbalance at any level of authority influences economy and macro-economic stability. Fiscal imbalance at a central level of authority represents a particularly “dangerous” form, since it can cause considerable shocks for macro-economic system of a state as well as the appearance of great fiscal disparities.

It is necessary to make distinction between vertical and horizontal fiscal imbalance. Vertical fiscal imbalance means lack of coordination between original revenues and expenditures of political-territorial units at various levels of state organization. This means that a certain political-territorial unit cannot cover expenditures occurring during performance of public functions (provision of public goods) for which it is responsible by the assets gathered by collection of its original public revenues.<sup>2</sup> This is actually budget imbalance. Horizontal fiscal imbalance occurs when there is inequality between fiscal capacities and fiscal needs of political-territorial units at the same level of state organization.<sup>3</sup> Both these forms, each in its own

---

<sup>1</sup> In addition to assets transfer, budgetary imbalance can be removed by borrowing (taking loans), but this is the mechanism used in a strictly limited number of cases in contemporary states, as a rule in order to finance capital needs. See: S. Stojanović, *Fiskalni federalizam*, Institut za uporedno pravo – Centar za antiratnu akciju, Beograd, 2005, p. 121-122, 142-143.

<sup>2</sup> R. Bird, *Fiscal Flows, Fiscal Balance and Fiscal Sustainability*, AYSPS, Georgia State University, Atlanta, 2003, p. 6.

<sup>3</sup> J. Martinez Vasquez, J. Boex, *The Design of Equalization Grants: Theory and Applications*, Part I: “Theory and Concepts”, The World Bank Institute and AYSPS, Georgia State University, Washington D.C., 1999, p. 13-14.

way, jeopardize macro-economic stability and because of that theory and practice of every state take particular care to find adequate mechanisms to remove them or at least alleviate them.<sup>4</sup> Inter-government transfers are most frequently used to this purpose, mostly the so called transfers for fiscal equalization. However, the manner in which the transfer will be made, the scope of assets, as well as the type of transfer depends of various circumstances. The greatest influence at that is made not by economic but by political factors.<sup>5</sup>

### 3. Removing or alleviating vertical fiscal imbalance

Considering that vertical imbalance actually represents budget imbalance, it would be required to make fiscal equalization of revenues and expenditures in budgets of all political-territorial units in a state in order to remove it. However, such an ideal case is not feasible in practice. It is impossible for all political-territorial units to use original assets that are sufficient to finance their expenditures, since this would mean too great an autonomy of lower levels of authority and thus too great decentralization of fiscal system with various negative consequences for the state.<sup>6</sup> Political-territorial units of the state are also exposed to the impact of various factors<sup>7</sup> that result in greater or smaller lack of coordination of revenues and expenditures in their respective budgets.

Vertical fiscal imbalance may occur in two cases: when there is a decentralization of public revenues which was not preceded by decentralization of public expenditures in the same scope, or when there is a decentralization of public expenditures which is not accompanied by decentralization of public revenues or when decentralization was carried out but in such a way that although lower political-territorial units control much of revenues, their collection is not sufficient to finance their expenditures. Regardless of the form of manifestation,

---

<sup>4</sup> R. Bird, *Fiscal Flows, Fiscal Balance and Fiscal Sustainability*, AYSPS, Georgia State University, Atlanta, 2003. J. Boex, J. Martinez Vasquez, *Designing Intergovernmental Equalization Transfers with Imperfect Data: Concepts, Practices, and Lessons*, AYSPS, Georgia State University, Atlanta, 2004; A. Shah, *Perspectives and the Design of Intergovernmental Fiscal Relations*, The World Bank, Washington D.C., 1991.

<sup>5</sup> R. Bird, *Intergovernmental Fiscal Relations: Universal Principles, Local Applications*, AYSPS, Georgia State University, Atlanta, 2000, p. 13.

<sup>6</sup> Under the conditions of decentralization the capability of central authorities to respond to economic shocks weakens, as well as the capability to pursue policy of stabilization, which can ultimately result in disturbance of levels and structure of public revenues. It can also happen that lower political-territorial units "compete" in introducing revenues and providing public goods, and so on. See: S. Stojanović, *Fiskalni federalizam*, p. 52-53.

<sup>7</sup> Some political-territorial units are wealthier, the other are poorer; important natural resources are located in some of them which provide high revenues, while others are exposed to unfavourable geographic and climatic conditions.

every state tends to remove vertical fiscal imbalance as soon as possible. It can be done in one of the following manners:<sup>8</sup>

- Giving authorization to lower levels of authority to increase their revenues on their own (by the increase of tax rates or introduction of new taxes);
- Taking responsibility for expenditures of lower levels of authority by the central authorities;
- Reducing the amount of expenditures of lower levels of authority;
- Using inter-government transfers.

The use of any of the above mentioned manners has both its advantages and disadvantages. Therefore, if lower levels of authority would make decisions on the increase of their revenues (first option) in a completely independent manner, there could be a situation of radical increase of revenues together with considerable increase of fiscal burden on citizens of a particular political-territorial unit. In addition to this, it is possible that there could be “interfering” with taxes that are jurisdiction of a lower level of authority. All this could lead to the occurrence of *tax migration* and *tax exporting* into neighbouring political-territorial unit. Individuals would move from political-territorial units with high taxes into those with lower tax burdens or into those where they can meet their requirements for public goods in the best way possible. Thus the cost and benefit principle is achieved: citizens agree to bear certain (heavier or lighter) tax burdens if they imply such a level and quality of public services by which their requirements are met in the best possible manner.

If central authorities would take responsibility for expenditures of lower political-territorial units, then for them it would mean creation of stimulation to produce unnecessary and excessive expenditures. Lower levels of authority know that if they exceed the allowed limit of their expenditures, the burden of “excess” of public expenditures would be financed from the central budget. This would ultimately lead to creation of unfair tax competition at lower levels of authority and considerable disturbance of state economy.

Third option which reflects in the reduction of the scope of expenditures of lower political-territorial units, could lead to application of radical measures (for instance, instead of reduction being made only in relation to unnecessary costs, the expenditures for needs such as education, basic health care, social services, and so on would also be reduced).

Taking into account the characteristics of the mentioned solutions, inter-government transfers are considered to be the best solution to remove and/or alleviate harmful consequences of vertical fiscal imbalance, primarily those that are used for vertical equalization.<sup>9</sup>

---

<sup>8</sup> R. Bird, M. Smart, “Intergovernmental Fiscal Transfers: International Lessons for Developing Countries”, *World Development*, Vol. 30, No. 6, 2002, p. 900-901.

<sup>9</sup> R. Bird, “On Measuring Fiscal Centralization and Fiscal Balance in Federal States”, *Environmental and Planning C: Government and Policy*, Vol. 4, 1986, p. 399.

#### 4. Removing or alleviating horizontal fiscal imbalance

The existence of differences in fiscal capacities and/or fiscal needs of political-territorial units at the same level of authority, in other words the appearance of horizontal fiscal imbalance causes much greater disturbances than those connected with the appearance of vertical fiscal imbalance. Unequal revenues of lower political-territorial units lead to that the citizens of different locations are provided with various public goods and services or the same goods and services but of various quality and scope, i.e. they bear various tax burdens. Due to this there are frequent tax-related migrations and then consequently fiscal disparities are created between jurisdictions at the same level of political-territorial organization. In order to remove or at least alleviate such disturbances, there is a transfer of assets from budgets of some political-territorial units into budgets of those where there is an imbalance. It is necessary to point out here that inter-government transfers are applied both in the relations between high and low levels of authority and in the relations between political-territorial units at the same level of authority – the assets are transferred from the budget of wealthier political-territorial units to those which are poorer. This is an application of so-called “Robin Hood” model, which is often used in Scandinavian countries (the assets are taken from the wealthy and given to the poor).<sup>10</sup>

It is important to underline that complete equalization of revenues (including transfers) and expenditures of political-territorial units at the same level of authority should not be aspired at in solving horizontal fiscal imbalance. If this would be attempted, there would be a situation when the majority of assets would be transferred to those political-territorial units that make the highest costs and have the lowest revenues, and this would stimulate lower units to keep increasing their expenditures and reduce the assets gathered by collection of original revenues. Also, lower political-territorial units would be inclined to express the biggest budget deficit possible, since this would influence the central authorities and other political-territorial units to transfer them as much assets as possible.<sup>11</sup> Because of this, when deciding about the scope of assets to be transferred in order to solve horizontal fiscal imbalance, average fiscal capacity and average fiscal needs at a certain level of political-territorial organization are taken into account. The average can be determined only if fiscal capacity and fiscal needs of every respective political-territorial unit to which the assets should be transferred are taken into account. Usually, fiscal capacity and fiscal needs may be determined using different criteria. The criteria such as collection of revenues,

---

<sup>10</sup> Council of Europe, “Methods for Estimating Local Authorities’ Spending Needs and Methods for Estimating Revenues, *Local and Regional Authorities in Europe*, No. 74, Strasbourg, 2000, p. 21-23

<sup>11</sup> R. Bird, A. Tarasov, *Closing the Gap: Fiscal Imbalances and Intergovernmental Transfers in Developed Federations*, AYSPS, Georgia State University, Atlanta, 2002, p. 5.

resident income value of a particular political-territorial unit, its gross revenues, total taxable resources and representative system of revenues are used for fiscal capacity.<sup>12</sup> It is considered that fiscal capacity can best be determined starting from representative system of revenues. This criterion includes determining fiscal capacity according to current system of revenues in a certain political-territorial unit. The amount of revenues that a lower political-territorial unit would acquire by investing average fiscal efforts is determined, whereas various circumstances are taken into account: type of revenues applied in it, degree of their collection, tax bases and tax rates.<sup>13</sup>

The following criteria are used for determining fiscal needs, i.e. needs for assets: current liabilities of lower levels of authority or public goods that are provided for lower political-territorial units in a standard manner, functions and competences for whose performance a certain political-territorial unit is in charge, index determined according to various indicators (demographic factors, special needs, level of poverty and unemployment, differences in living costs, etc.).<sup>14</sup> Most frequently fiscal needs are determined according to the index used in a formula where every indicator participates to a certain percentage, i.e. proportionate to other indicators.

After using some of the mentioned manners to determine fiscal capacity and fiscal needs of individual jurisdictions, a certain amount of assets is transferred with the goal to achieve relative horizontal fiscal balance. This means bringing fiscal capacity of respective jurisdictions to the level where they can meet all or the majority of public needs. Otherwise, if there were attempts to achieve absolute horizontal fiscal balance, we would have a situation where fiscal capacities of the wealthy political-territorial units would be equal to the capacities of the poor. The consequence of this would be the reduction of economic authority and activities of the most productive jurisdictions, and thus the reduction of the overall economic activities in the country, the appearance of macroeconomic instability and inflation, and thus the reduction of living standard of citizens. In order to prevent such disturbances, there is a tendency to establish relative horizontal fiscal balance.<sup>15</sup>

---

<sup>12</sup> J. Martinez Vasquez, J. Boex, *The Design of Equalization Grants: Theory and Applications*, Part I: "Theory and Concepts", p. 28-32.

<sup>13</sup> S. Stojanović, *Fiskalni federalizam*, p. 126.

<sup>14</sup> J. Martinez Vasquez, J. Boex, *The Design of Equalization Grants: Theory and Applications*, Part I: "Theory and Concepts", p. 33-35.

<sup>15</sup> S. Stojanović, *Fiskalni federalizam*, p. 127.

## 5. Inter-government transfers and fiscal equalization

The transfer of assets from the budget of one or more political-territorial units into the budget of that one where there is either vertical or horizontal fiscal imbalance represents the most frequent and best manner for reestablishing relative fiscal balance. These are equalization transfers, which are at the same time the most frequently used type of transfers in contemporary states.<sup>16</sup>

When deciding about transfer system that would be applied in a particular case, the method by which the scope of assets to be transferred and conditions of their transfer has crucial influence.<sup>17</sup> As for the method of determination of transfer amount, it should be pointed out that three different systems are in use: fixed determined percentage of the revenues of the central authorities or percentage ratio to some other macro-economic value (most frequently gross domestic product – GDP); determination on a case to case basis (*ad hoc*); based on determined formula.<sup>18</sup>

*Ad hoc* system consists in that total transfer amount is determined like the other budget expenditures, i.e. on an annual basis starting from budget priorities. This system offers the most possibilities to implement central control over expenditures of lower political-territorial units, but also the possibility to make considerable political influence. However, since the assets most often are not directed to specific needs, it is necessary to set strict limitations regarding the use of transferred assets. These limitations represent considerable interfering with financial autonomy of lower political-territorial units, and thus the stimulation for creation of various dissatisfactions in the country. Because of this, the system is applied in contemporary states only in exceptional cases. Hungary is one of the states where it is used. However, in order to prevent negative effects of *ad hoc* transfers, they are used for achievement of determined goals only, i.e. as conditional transfers. Thus, two types of *ad hoc* transfers are used in Hungary. For the first type, the central authorities transfer the assets to local communities (municipalities) for the purpose of construction of capital facilities. Considering that in this way the contribution is made to the construction of local infrastructure which is most beneficial for the citizens of the particular municipality, there is a requirement that the recipient municipality also finances the construction with a part of its own assets. This means that these are matching transfers. The second type of *ad hoc* transfer is represented by transfers given to municipalities

---

<sup>16</sup> In addition to equalization, the assets are transferred for other purposes as well: compensations for effects of overflow between neighbouring locations; achieving many political goals; implementation of various projects in local and sub-central units, etc. J. Ma, *Intergovernmental Fiscal Transfers in Nine Countries: Lessons for Developing Countries*, The World Bank Economic Development Institute, Washington D.C., 1997, p. 2.

<sup>17</sup> R. Bird, *Intergovernmental Fiscal Relations: Universal Principles, Local Applications*, p. 14-17.

<sup>18</sup> S. Stojanović, *Fiskalni federalizam*, p. 127-129



where there is constant imbalance between revenues and expenditures. Only current expenditures are taken into account, which occur during performance of obligatory functions of local authorities, while for the revenues the account is taken of both their own revenues and those ceded and transferred by the central authorities. These are *grants for municipalities in unenviable position*.<sup>19</sup> Transferred assets may be used to finance obligatory functions only. However, these grants have considerable disadvantages in that they may represent stimulation for municipalities to express budget deficit constantly – municipalities do not wish to increase the collection of original revenues because they would get the necessary amount of money from the central authorities if they do not have enough assets.<sup>20</sup>

Determination of transfer amount as fixed percentage of central revenues represents a system in which fixed percentages of individual central revenues that are to be transferred to lower level of authority are determined, or the percentage of the total amount of central revenues is determined which would be used for transfer. If transfer includes only certain central revenues, it could happen that the central authorities would over time increase the revenues collected from other sources which are not used for transfer. Another lack of this system appears also when revenues responding to cyclic trends in economy are chosen for transfer, such as purchase tax and personal income tax. This is exactly the case with transfers in Serbia. The assets used to remove vertical imbalance in local budgets are transferred from personal income taxes, which are annually determined in fixed percentage for all municipalities and towns in Serbia. By the end of 2004, when turnover tax was in use, there was a transfer of assets from this source, and the transfer amount was determined individually for each local community in nominal amount using clearly discretionary criteria.<sup>21</sup> Since VAT started to be used as of January 01, 2005, and turnover tax was cancelled, another source for transfer of assets to local communities had to be found. Namely, VAT does not allow division in a manner used with turnover tax system,<sup>22</sup> so because

---

<sup>19</sup> Á. Szalai, "System of Financing Local Communities in Hungary", a paper presented at the Conference on the reform of local communities financing system, Belgrade, June 24, 2003, p. 17-18.

<sup>20</sup> S. Stojanović: *Fiskalni federalizam*, p. 232-233.

<sup>21</sup> These were the following criteria: territorial size of local community; number of citizens; number of departments and number of elementary and high schools; number of children included in child welfare program and number of child care facilities; environmental status (level of protection and level of jeopardy); level of development. See: Article 99, paragraph 2 of the Law on Local Government, Official Gazette of the Republic of Serbia, No. 9/02, 33/04 and 135/04.

<sup>22</sup> Considering that VAT represents a multi-stage net turnover tax, the assets acquired by its collection cannot be distributed in the same manner as the assets acquired by collection of turnover tax, which is one-stage tax. VAT is paid in every stage of turnover, but in such a way that participants of every following stage are entitled to deduce the tax paid in the



of this, transfer of assets from the central authorities budget was directly introduced for the purpose of achieving horizontal balance. In addition to this, fixed nominal amount to be transferred to every municipality or town is determined by separate law annually.<sup>23</sup> The division is carried out in the way in which it was done in previous years with turnover tax, which means using the same discretionary criteria.

The third way to determine transfer amount is to use *established formula* in which various indicators of needs and capacities of lower political-territorial units are used (*per capita* income, geographic location, type of jurisdiction, existence of special circumstances acting within particular jurisdiction, etc.). It is the system that shows considerable advantages considering that the central authorities transfer to lower political-territorial units as much assets as required to achieve fiscal balance in each of them, by which horizontal and vertical fairness in assets distribution is achieved.

Such a manner of transfer is applied in many contemporary countries and represents one of the most popular forms of assets transfer since it contributes to fairness, but also to economic efficiency and considerable reduction of administrative costs. Germany is the example of such a country. Its federal Constitution (Basic Law) provides for equalization as a separate rule that should enable achievement of “principle of uniformity living conditions throughout the whole country.” It is the basic principle on which German state has been built. Due to this, equalization transfers are particularly taken care of. The assets are transferred in order to equalize fiscal capacities of both sub-central units (Lander) and municipalities (Gemeiden). VAT income division provided for by the federal Constitution represents basic equalizing mechanism. However, shares of the central and sub-central authorities (the state) are determined every year by a separate federal law, so that they change over time, and as of 1998, it has been provided for that a part of VAT that belongs to federal budget is ceded to municipalities. This is so called “primary VAT division”, after which there is “secondary division” in order to achieve horizontal fiscal balance (equalization). Per capita income represents the most important criterion in the division formula, which provides for objectivity in distribution of assets. Thus 75% assets are transferred considering the amount of per capita income in an individual state, while 25% assets are transferred to the weakest states in financial terms. Secondary division consists of three very complex stages that are distributed in such a manner as to lead to establishing relative fiscal balance. This is achieved when fiscal capaci-

---

previous stage (regardless of where the payment was made) from the basis for which they are obliged to pay taxes themselves. As total amount of collected assets can be determined only after the last stage of turnover is completed (retail), it is not possible to divide VAT during any of respective turnover stages. Compare: S. Stojanović, *Fiskalni federalizam*, p. 319.

<sup>23</sup> Law on division of transfer assets and participation of municipalities, towns and city of Belgrade in income tax in 2005, Official Gazette of the Republic of Serbia, No. 135/04.

ties of poor states are increased up to the scope at which they can cover 99.5% of their expenditures.<sup>24</sup>

In addition to Germany, equalization is incorporated in constitutions of other countries such as Canada, Switzerland, etc. In Canada, there is a separate Program of equalizing transfers, the goal of which is to achieve horizontal fiscal balance at sub-central level of authority, i.e. among provinces. Transfer of assets is based on a formula in which the most important indicator is fiscal capacity of an individual province. Fiscal capacity is determined as the amount of per capita income that the province may acquire by application of national average tax rates on the basis of their taxes. After that fiscal capacity of the individual province is compared with the amount of per capita income that would be achieved if the province had standard *per capita* tax basis. Otherwise, minimum amount to be transferred to a province is determined based on the formula in which many objective indicators are put into mutual relation.<sup>25</sup>

The other element important for determination of transfer system to be used in a particular case is transfer conditions. Depending on the goals that have to be achieved by assets transfer, it is determined whether transfers would be conditional or unconditional. The assets are transferred under certain conditions when one of the following goals should be achieved: compensation for effects occurred due to external effects and provision of production of public goods in accordance with determined (minimum) standards; stimulation of regional development; execution of delegated tasks. The most frequent forms of unconditional transfers appear as one of the following: equalization and achieving of stabilization function. If equalization assets were transferred under certain conditions, the central authorities could make political pressure on decisions of lower political-territorial units, and in such a way that lower units would determine their revenues and expenditures to the interest of the central authorities and not local population, which would represent considerable disturbance of tax fairness and economic efficiency.

After the scope of transfer assets is determined using one of the mentioned ways and it is determined whether the transfer would be conditional or unconditional, it is necessary for transfer system to be established in such a way as to be optimum for the particular state in a particular period. This means to be objective, transparent and simple; stable and flexible; not to influence decision-making of lower political-territorial units regarding revenues and expenditures and to be fair.<sup>26</sup>

The transfer of assets is carried out by means of grants and/or ceding (shared revenues). In both cases these are unconditional transfers. The difference

---

<sup>24</sup> More details about equalizing system in Germany by means of VAT distribution: S. Stojanović, *Fiskalni federalizam*, p. 175-180.

<sup>25</sup> S. Stojanović, *Fiskalni federalizam*, p. 166-167.

<sup>26</sup> S. Stojanović, *Fiskalni federalizam*, p. 129-131.

between grants and shared revenues is that grants can serve for both horizontal and vertical transfers, while shared revenues may be established only between political-territorial units on various levels of authority.

### 5.1. Equalizing grants

When we speak about grants, it should be pointed out that equalization may be carried out with relation to both expenditures and revenues of lower political-territorial units. Equalization is carried out with a goal to reduce the expenditures of all political-territorial units to the average, which means that each political-territorial unit in the country acquires revenues to the scope corresponding to average level of revenues at a certain level of authority. For both types of grants, those equalizing expenditures and those equalizing revenues, the assets are transferred unconditionally, the participation of the recipient is not required and there is no limiting of total amount to be transferred.<sup>27</sup>

#### 5.1.1. Grants for equalization of expenditures

The reason to introduce grants for equalization of expenditures is that the needs for public goods by citizens of various locations are more or less different. The differences appear under the influence of many factors in every respective location, which lead to that the citizens of a certain location express increased need for certain goods, while at some other location such a need does not exist at all or exists within a considerably lower scope.<sup>28</sup> Various needs lead to production of various public goods, and this can create various negative consequences (for instance, migration into location that provides greater scope or better quality of production of public goods). In order to eliminate such occurrences or at least alleviate them, the assets are transferred in order to bring the production of public goods in all political-territorial units of a certain (lower) level of authority to certain, average level. This implies setting of minimum standards that must be respected during production of public goods.

It should be recognized that assets for equalization of expenditures are transferred by both the central authorities and wealthier jurisdictions at the same level of authority. First the transfer within the same level of authority is carried out in such a way that jurisdictions whose needs for assets are lower (since the majority of their expenditures are financed from their original revenues) transfer assets to jurisdictions with increased needs, i.e. expenditures. The amount transferred represents a difference between average costs of public production at a certain

<sup>27</sup> Op. cit., p. 137.

<sup>28</sup> For instance, in big cities the existence of city public transport is necessary, while in small towns or village municipalities citizens do not often use public transport in order to go from one part of the town to the other.

level of authority and lower costs of production of public goods in wealthier jurisdictions. Only when the transfer of assets is carried out in this way, there comes the transfer by the central authorities. However, if wealthier jurisdictions carry out a transfer that completely meets the needs of poor jurisdictions, then the central authorities transfer is not required at all. Such a situation in practice is rather rare. Most frequently the central authorities transfer is also necessary in order to enable stable production of public goods. As a rule, central transfers are determined using formula in which various (objective) indicators are put in relation. Which indicator would have a decisive role depends on what jurisdiction is in question. It is at the same time a way to disable the influence of lower authorities to determine the amount to be transferred.<sup>29</sup>

### 5.1.2. Grants for equalization of revenues

Grants for equalization of revenues imply equalization according to the basic revenues of lower political-territorial units. The assets are transferred in order to enable those jurisdictions which cannot acquire sufficient assets to finance their regular public functions from their original revenues to organize production of public goods and services in such a manner as to meet the needs of their citizens. Average revenues of all jurisdictions at one level of political-territorial organization are determined and then wealthier jurisdictions (whose revenues are above average) transfer the assets to jurisdictions that are in the state of fiscal imbalance. Here also the transfer is carried out in accordance with the appropriate formula, because of which the influence of recipient jurisdiction on the amount transferred is either excluded or reduced to minimum.

### 5.2. Shared revenues

When we speak about shared revenues as a form of inter-government transfer, it is necessary to point out that there are various opinions in the theory of fiscal federalism. Some authors think that shared revenues represent exclusively one of the systems of revenues distribution (in addition to the system of original revenues and system of tax overlap),<sup>30</sup> while other authors think that transfer of assets can be carried out by cession of assets, i.e. in the form of shared revenues.<sup>31</sup> If the cen-

---

<sup>29</sup> Council of Europe, "Methods for Estimating Local Authorities' Spending Needs and Methods for Estimating Revenues", p. 21-22.

<sup>30</sup> R. Bird, "Assignment of Responsibilities and Fiscal Federalism", in: *Proceedings for the International Conference on Federalism 2002; Federalism in a Changing World – Learning from Each Other*, 27-30 August, 2002, St. Gallen, Switzerland, p. 428.

<sup>31</sup> A. Shah, "Intergovernmental Transfers and Grants", in: J. Litvack, J. Seddon, eds., *Decentralization Briefing Notes*, The World Bank Institute, Washington D.C., 2000, p. 28-29; E. Ahmad, J. Craig, "Intergovernmental Transfers", in: T. Ter-Minassian, ed., *Fiscal Federalism in Theory and Practice*, IMF, Washington D.C., 1997, p. 73.

tral authorities introduce certain revenues and determine all their elements, and lower political-territorial units are ceded a portion of collected assets, we think it is justifiable to speak about real transfer of assets. However, if the central authorities introduce certain revenues, and lower political-territorial units have the possibility to influence the amount of tax rate and tax basis, we can speak about revenues distribution only, and with the use of tax overlap system at that, since in this case we have a case of tax on general government revenues.<sup>32</sup>

If in certain cases shared revenues are considered to be transfers, it would be best if transfer amount would be determined by means of the formula consisting of several objective indicators. Then the transfer of appropriate amount of an individual source of shared revenues, or the transfer of certain part of overall shared revenues could be carried out. Implementing certain formula for transfer amount is more favorable option contributing to economic efficiency and fairness.<sup>33</sup>

The thesis that transfer of assets in order to establish fiscal balance can be carried out by means of shared revenues is confirmed by the example of VAT distribution in Germany, which we have already spoken about. Also, in Croatia revenues collected from personal income taxes are distributed for equalization purposes and this distribution has the nature of real transfer. In many countries there are separate funds established from which assets are transferred exclusively for equalization purposes. For instance, this is the case in Italy, Spain and Hungary.<sup>34</sup>

## 6. Conclusion

In countries with several levels of authority, there is often imbalance in the budgets of lower political-territorial units. Imbalance may occur both between expenditures and revenues of a certain political-territorial unit (budget, vertical imbalance) and in mutual fiscal relations between units of the same level of authority (horizontal imbalance). In both cases the disturbance occurs on the part of expenditures or on the part of the needs. In contemporary states this imbalance is usually removed or alleviated using inter-government transfers, particularly equalization transfers. There is always a tendency to remove disturbance so that relative fiscal balance could be achieved, which means that balance exists at least in the wealthiest lower political-territorial units, while in relation to all other lower units there is a tendency to bring their fiscal capacity to the level where the majority of their needs can be met. This actually means that transfers are used to bring their fiscal capacity to a certain level in relation to average fiscal capacity. In the majority of contemporary countries equalization

<sup>32</sup> R. Bahl, *Implementation Rules for Fiscal Decentralization*, AYSPS, Georgia State University, Atlanta, 1999, p. 17-18.

<sup>33</sup> S. Stojanović, *Fiskalni federalizam*, p. 139.

<sup>34</sup> Op. cit., p. 254.

is carried out by transferring assets from central authority, but there are also the examples of many contemporary countries where “Robin Hood” transfer model is applied, which is carried out among political-territorial units at the same level of authority.

It is important to point out that although in all countries transfers (in the form of grants or shared revenues) are used mostly to establish the disturbed fiscal balance, at the same time they represent a means of control of lower levels of authority by the central authorities. Most often the distribution of public functions in the country is carried out in such a way that the central authorities hold the most important and most expensive functions, but also the most generous sources of revenues by which they can finance their production of public goods. On the other hand, lower political-territorial units are assigned such public functions (obligatory and/or delegated) which according to subsidiary principle can be carried out most efficiently at the lower levels of authority, but for which their original revenues are not sufficient. Because of this there occurs imbalance between their revenues and expenditures, which is most often removed by transfer of assets by the central authorities, but sometimes by other (higher or equal) political-territorial units. It is beneficial for the central authorities if there is a constant fiscal imbalance in lower political-territorial units, since they can then influence their decision-making process by means of transfer, and often the influence is so big that production on lower levels of authority is organized in the way that it is in the interest of the central authorities and not in the interest of citizens of the particular jurisdiction. This disturbs the principle of fairness, but also the principle of benefit, while other disturbances that seriously jeopardize macro-economic stability may occur as well. This is why transfers should be used within the limited scope, even for equalization purposes, and only when it is really necessary. This means that transfers, as any other instrument of economic policy, show considerable advantages when used rationally, but every non-rational use can lead to misuse. They should be used as a “brake” for too great financial autonomy of lower levels of authority and prevention of excessive fiscal decentralization, but care should always be taken not to cross certain limit with their use.

### References

- Ahmad, E. – Craig, J.: “Intergovernmental Transfers”, in: T. Ter-Minassian, ed., *Fiscal Federalism in Theory and Practice*, IMF, Washington D.C., 1997.
- Bahl, R.: *Implementation Rules for Fiscal Decentralization*, AYSPS, Georgia State University, Atlanta, 1999.



- 
- Bird, R. – Smart, M.: “Intergovernmental Fiscal Transfers: International Lessons for Developing Countries”, *World Development*, Vol. 30, No. 6, 2002.
  - Bird, R. – Tarasov, A.: *Closing the Gap: Fiscal Imbalances and Intergovernmental Transfers in Developed Federations*, AYSPS, Georgia State University, Atlanta, 2002.
  - Bird, R., et al.: “Assignment of Responsibilities and Fiscal Federalism”, in: *Proceedings for the International Conference on Federalism 2002; Federalism in a Changing World – Learning from Each Other*, 27-30 August, St. Gallen, Switzerland, 2002.
  - Bird, R.: “On Measuring Fiscal Centralization and Fiscal Balance in Federal States”, *Environmental and Planning C: Government and Policy*, Vol. 4, 1986.
  - Bird, R.: *Fiscal Flows, Fiscal Balance and Fiscal Sustainability*, AYSPS, Georgia State University, Atlanta, 2003.
  - Bird, R.: *Intergovernmental Fiscal Relations: Universal Principles, Local Applications*, AYSPS, Georgia State University, Atlanta, 2000.
  - Boex, J. – Martinez Vasquez, J.: *Designing Intergovernmental Equalization Transfers with Imperfect Data: Concepts, Practices, and Lessons*, AYSPS, Georgia State University, Atlanta, 2004.
  - Council of Europe, “Methods for Estimating Local Authorities’ Spending Needs and Methods for Estimating Revenues”, *Local and Regional Authorities in Europe*, No. 74, Strasbourg, 2000.
  - Ma, J.: *Intergovernmental Fiscal Transfers in Nine Countries: Lessons for Developing Countries*, The World Bank Economic Development Institute, Washington D.C., 1997.
  - Martinez Vasquez, J. – Boex, J.: *The Design of Equalization Grants: Theory and Applications*, Part I: “Theory and Concepts”, The World Bank Institute and AYSPS, Georgia State University, Washington D.C., 1999.
  - Shah, A.: “Intergovernmental Transfers and Grants”, in: Litvack, J. – Seddon, J., eds., *Decentralization Briefing Notes*, The World Bank Institute, Washington D.C., 2000.
  - Shah, A.: *Perspectives and the Design of Intergovernmental Fiscal Relations*, The World Bank, Washington D.C., 1991.
  - Stojanović, S.: *Fiskalni federalizam*, Institut za uporedno pravo – Centar za antiratnu akciju, Beograd, 2005.
  - Szalai, Á: “Sistem finansiranja lokalne samouprave u Mađarskoj”, *Konferencija o reformi sistema finansiranja lokalnih samouprava*, Beograd, 2003.
  - *Zakon o lokalnoj samoupravi*, Sl. glasnik RS, br. 9/02, 33/04. i 135/04.
  - *Zakon o raspodeli transfernih sredstava i učešću opština, gradova i grada Beograda u porezu na zarade u 2005. godini*, Sl. glasnik RS, br. 135/04.





ASSISTANT NATAŠA STANOJEVIĆ, M.A.

*Geoeconomics Faculty, Megatrend University of Applied Sciences, Belgrade*

## SOCIAL AND ECONOMIC IMPLICATIONS OF DEMOGRAPHIC TRENDS IN THE REGION OF THE NEAR EAST AND NORTH AFRICA

**Abstract:** *Sudden and fast growth of population in the region of the Near East and North Africa in the second half of the 20<sup>th</sup> century, which was not accompanied by corresponding economic growth, has led to negative economic consequences. The most important economic consequences of rapid demographic growth have been the increase of unemployment, the increase of the scope of public expenditure, the additional pressure on limited resources in the region, as well as many indirect consequences.*

*Long expected fall of birth rate has started to show results not sooner than in early 1990s. According to the theories of demographic transition (positive economic effects of fast birth-rate drop) and positive experiences of other developing regions, there is a possibility to use the current changes of age structure as a flywheel of economic growth.*

*Demographic advantage of young population is in that it provides for the increase of labour force, but not automatically the economic growth. Economic progress depends on the capability of a country to absorb such an increase of number of workers, in other words to turn the higher inflow of young labour force into employment growth. This goal may be reached by special social and economic reforms. The reforms that would contribute to more adequate use of demographic potentials of the region of the Near East and North Africa in order to increase the economic growth are the following: the reform of educational system that would contribute to the improvement of educational, i.e. qualification structure of population, and the reform of labour market.*

**Key words:** *population, economic growth, demographic transition.*

## 1. Introduction

Until recently the population policy of the majority of developing countries has had a primary goal to slow down the growth of birth rate, and it has been focused accordingly on the issues related to family planning only, while other economic problems have been treated by usual measures of economic policy. Neither of these methods brought the desired results. In accordance with the results of the most recent scientific researches, more care is taken of the interdependence of demographic and social and economic factors when determining both population and economic policies.

The majority of researches of the nature of influence of demographic trends on economic growth of a certain geographic area focused on the relation between population growth and growth of gross domestic product *per capita*. The first researches of this relation showed the unambiguous correlation.<sup>1</sup> However, the ensuing attempts to determine special causal relation, or more specifically the relation between population growth and poverty and unemployment, have not offered convincing evidence either. The renewal of life cycle model and its including into empirical studies on growth have caused in the recent years renewed interest in the relation between demography and economic growth. The new results suggest much more direct relation between population and economic variables, or to be more precise between demographic changes and observed trends in accumulation of capital and growth performances. Many researches of particular relations within this relation have also been renewed – between population growth and distribution of goods, population age structure and social and economic development, accelerated urbanization and poverty, and other special relations and links.

The most important goal of these researches is better understanding of social, familiar and individual consequences of population growth, of changes in age structure and urbanization, and also the support to the governments of the developing countries to create the optimum population policy.

After a several-decade-long interest of scientists and institutions in this area, some aspects of demographic processes in the region of the Near East and North Africa have not still been explained adequately. This refers particularly to those demographic trends that are important for the economic growth in the region: sudden population growth, specific age structure and human potential.

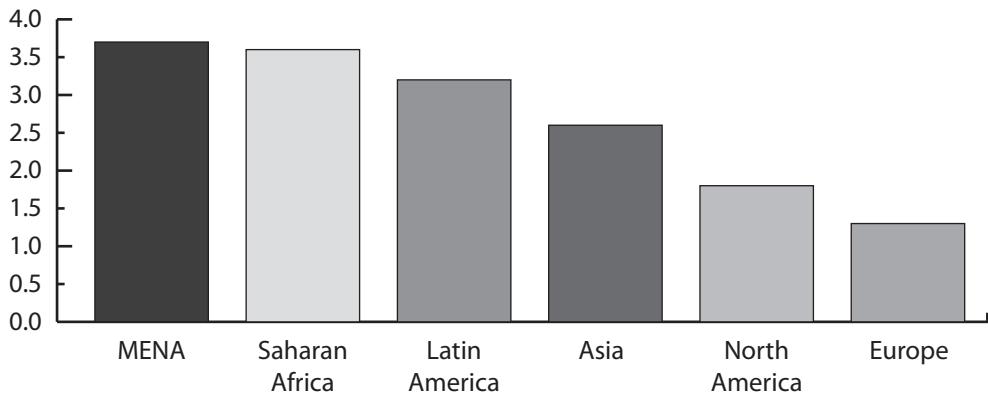
## 2. Economic consequences of sudden population growth in the region

Demographic explosion of 1970s and 1980s represented a serious demographic, economic, sociological and geographical problem in the Near East and North Africa. After World War II this region experienced the greatest popula-

---

<sup>1</sup> If the number of inhabitants rises faster than GDP, GDP per capita falls unavoidably.

tion growth recorded worldwide. The total number of inhabitants in 1950s was estimated at 100 million, in 1995 it increased to 325 million, and the estimates for 2025 are that the region will have about 600 million inhabitants. Until 1980s, in the majority of Arab countries every woman used to have over five children on an average. In 1990s, the annual population growth in the countries of the region was about 2.5%, while the annual growth in the developing countries was 1.7% in the same period. There is a great variety among the countries in the region, considering both the size of population and the population growth rate. For instance, the annual population growth rate in the Saudi Arabia was 4.2% in 1970, and 3.2% in 1990s. In these years, Tunisia had rates of 3.4% and 1.3%, which is below the rate of the developing countries.<sup>2</sup> Although some newer statistical data and estimates suggest the increase of the rate for 1.5% in the period from 2000 to 2015, the consequences of the recent demographic boom would not be restored for a long time.



**Graph 1.** Population growth rate (1950-2000)

**Resource:** United Nations, *World Population Prospects: The 2000 Revision*, New York: United Nations, 2001.

Not only demographers worry about the population growth of the region. Demographic pressure in the region of the Near East and North Africa has become a central topic of many economic researches for the last two decades.

Until 1980s, no negative influences of the abrupt population growth on economic flows were noticed. Slowing down of GDP *per capita* growth, a usual consequence of an abrupt population growth has not become obvious in this region. On the contrary, the economies of these countries experienced a drastic structural transformation and recorded a GDP growth above the average rates of the developing countries. The reason for this is the fact that the oil exploita-

<sup>2</sup> T. Yousef, "Demographic Transitions and Economic Performance in MENA", *Economic research forum*, Vol. 5, No. 4, December 1998- January 1999, p. 1.

tion started in the region in the previous decades. Oil boom was stimulated by constant inflow of labour force and capital to the region, and the state expanded its role of the employer and consumer.

Along with the collapse of regional economy in the period following huge oil-based rise in the middle of 1980s and during the Gulf war of 1990s, economic growth started to decrease abruptly, the wages fell and the unemployment rate doubled in some countries. The region was burdened by a high unemployment rate and very slow opening of new jobs, mainly as a result of disturbed labour market and lagging role of the state as the biggest employer. In the period from 1990 to 2000 the economic growth in the Near East was estimated at 1.5% annually, which is only a half of the average annual natural growth.

The 2003 World Bank Report on global development shows a sharp drop of GDP growth rate from 6.5% in the period from 1971 to 1980 to 2.5% from in the period from 1981 to 1990. GDP *per capita* growth fell from 3.6% (1971-1980) to 0.6% (1981-1990), and was only 1% in the period from 1991 to 2000. These data suggest the economic stagnation in the period of almost 20 years. The drama of relative lagging of the Near East and North African region is convincingly shown by the data on other Asian regions. The economic growth of East Asian and Pacific region was 6.6% in the period from 1971 to 1980; 7.3% from 1981 to 1990 and 5.4% from 1990 to 2000.

What the consequences of the rapid demographic growth for the economic performances of the Near East and North African region were is the question which could be answered only by determining the influences of demographic pressure on the increase of public expenditure, unemployment, poverty, great differences in income, as well as its influence on the degree of cultivated soil, migration and human capital.

The most important negative influences of abrupt population growth in the region are: *unemployment*, as a consequence of too high and abrupt increase of labour force; *increase of public expenditure*, as a result of general population growth, and the *pressure* on already limited region *resources* (natural resources – food and water, as well as infrastructure and health care) which cannot meet the requirements of the growing population.

The 1980s population growth was one of the key factors that influenced today's huge labour force growth. The additional reason for concern is that the accelerated growth of labour force occurred when the regional unemployment rate had already been rather high, the possibilities for migration were reduced and possibilities to create new jobs beyond public sector were rather limited.

The average unemployment rate in the region is 15%, and the economic growth rates are too low to meet the requirements of the current labour supply. In spite of global drop of the population growth recently the high rates of newly born from the past continue to increase the number of new workers at the labour market much faster than the new jobs are created. Labour force increases at the

rate of 3% annually, which results in especially high percentage of unemployment of the young people. In Gaza and urban parts of Algeria, the unemployment of the young people is almost 50%, and in Morocco and Egypt the unemployment of college educated young people is the cause of social instability. The unemployment among the young people ranges from 37% in Morocco to incredible 73% in Syria.<sup>3</sup>

By the year 2025, the countries of the region would have to absorb the additional 160 million of working age population. Due to the new inflow of work force, about 47 million of new jobs in the region should be created from 2002 to 2012, only to maintain the existing level of unemployment. The additional 6.5 million jobs will be required to reduce the unemployment rate for only 10%. Egypt alone faces the task to create 500,000 new jobs every year.<sup>4</sup> The prospects to reduce the unemployment rate in the countries and regions where serious conflicts occurred recently are even smaller: Iraq, Afghanistan, West Coast, and Gaza strip.

The additional aggravating circumstance that accompanied the huge population growth in the region of the Near East and North Africa was a specific population deployment. Despite the great expansion, the population of Arab countries is concentrated along river valleys and seacoast, in other words in the areas that have already been exposed to population shocks. This fact has important implications for economic, social and ambient policies in that the increased population has faced the lack of natural resources, which are already limited in the region. The accelerated population growth took place at the same time as urbanization and thus reduced the possibilities for the population to feed themselves, and the lack of drinking water is the problem that many countries in the region have been faced with for a long time already. The problem of lacking resources is further increased by hyper-urbanization, distancing from agriculture and the increasing need of women to get educated. The urbanization increased from 41% (1970) to 59% (2000) and will probably exceed 70% by 2020. The migration of labour towards already over-populated regions has also accelerated and the crash of the traditional family, clan, and tribal system based in the villages, is almost certain.

Long-term stable regional development in the next decade will depend on how management of natural but also human resources will be established in the following period. This problem of Arab countries is getting increasingly more serious and can become even worse by demographic pressures in the future.

During the past decades the intra-regional labour force migrations relieved to a large extent the pressure on the countries in the region that have had a prob-

---

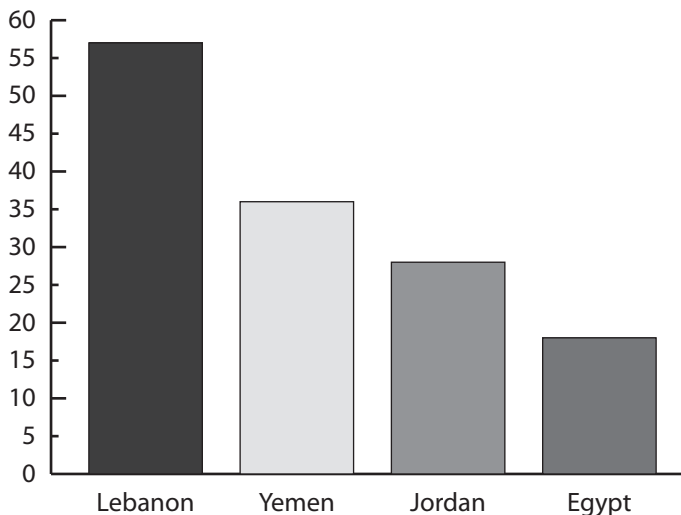
<sup>3</sup> Unlocking the Employment Potential in the Middle East and North Africa: Toward a New Social Contract, World Bank Report, September 2003.

<sup>4</sup> F. N. Roudi, *Population Trends and Challenges in the Middle East*, United Nations Population Division, World Urbanization Prospects, 2001.



lem of too high unemployment rate. Labour force migrations usually referred to migrations into countries within the region that exploited oil fields. The inflow of Arab labour force into the Gulf was useful for both sides – exporting and importing countries. For oil-based economies this inflow provided necessary skilled and non-skilled workers in various sectors. For exporting countries, this was a way to take care of the labour force surplus. Foreign labour force in the countries within the Gulf is about five million, which is two thirds of the total labour force. Labour force export makes about one fourth of the total import of goods and services of non-oil countries in the region and is estimated at 30% in Lebanon, Jordan and Yemen. This income made 20% of Jordan GDP and 11% of Egypt GDP in 1993.<sup>5</sup>

However, labour force markets in Arab countries rich in oil have also become saturated recently. Practically all South Gulf countries are very dependent on the labour force at the time when their young people are not only unemployed but also insufficiently educated or experienced. In many cases, these problems are aggravated by bad immigration policy, which is constantly broken by tolerating illegal immigration and inexistent laws that would protect domestic labour force. Some countries try to solve the problem by purging the foreign labour force, but the majority still lacks the consistent policy.



**Graph 2.** *Share of income from labour force export in the total export (%)*

Resource: UN, ESKWA, *Free trade zone in Arab region*, New York, 2001.

Current combination of a huge population growth in the countries of the Persian Gulf and constant low price of oil have lead to the reduction in their

<sup>5</sup> UN, ESKWA Report: *Free trade zone in Arab region*, New York, 2001, p. 26.

leaning on immigration labour force. The effect of such changes has dramatically manifested itself during the Gulf crisis (1990-1991), when Kuwait deported 350,000 Palestinians and when about half a million Egyptians fled from Iraq.

Long expected drop of birth rate started to give results not sooner than in the 1990s. In the recent years the majority of the countries in the region (especially Turkey, Iran, Algeria and Egypt) have recorded a considerable drop of birth rate. The consequence of this is a perceptible slowing down of population growth rate. It is estimated that the population growth rate will be about 2% in the whole region by the year of 2015. However, even if the birth rate dropped to the level of simple reproduction in the recent time, the population growth would continue. The consequences of a very high birth rate in the past are still present in the form of labour force inflow, but there is also a potential danger from a repeated (acute) population growth. In other words, those born in 1980s, when the population growth was at its peak, are now entering their reproductive years so that – thanks to their offspring – the repeated wave of population growth (baby boom echo) may be expected.

### 3. Demographic transition in the region of the Near East and North Africa

Until recently the studies of the influence of demographic characteristics on the economy of a certain geographic area have been limited only to the study of the role of general population growth, while the population structure changes were completely neglected. More recent scientific researches show that some demographic characteristics of the Near East and North Africa may have positive influence on the economic growth of the region. The process of demographic transition is of crucial importance for this influence.

Demographic transition is a process of demographic conditions shifting from high birth and death rates to low birth and death rates. This process unfolds as a consequence of many changes occurring during the transition from undeveloped to industrial and post-industrial societies. In the course of demographic transition the changes of birth rates, death rates and other demographic parameters lead to the changes in population age structure, making it more favourable to achieve economic growth. Namely, whether the country will be exposed to demographic pressure or will have demographic advantage depends on the relation of non-productive and economically active population within the entire population. Every stage of demographic transition is related to the age structure and has various influences on economic parameters. When a large part of population is non-productive (population at the age below 14 and over 65), the economic consequences of demographic pressure are the reduction of income and the reduction of GDP *per capita* growth rate, as well as falling rate of savings and investment. The process of capital accumulation is thus slowed down as well.

On the contrary, the growth of working population (which the region is rich in today) causes opposite effects, therefore: the increase of *per capita* income, savings, investments and capital accumulation.

Starting stages of demographic transition are usually marked by age structure dominated by the young but still economically inactive population, so that the increase of labour force is slower and accompanied by the above mentioned economic consequences. The examples of negative consequences of demographic pressure were Asia and Latin America in 1950s and 1960s, and the Near East and North Africa in 1970s and 1980s. In the countries of the Near East and North Africa the demographic transition unfolded slower than in other developing countries by the 1990s. High birth rate led to the increase of temporarily non-productive population (below the age of 15), in other words to the small percentage of economically active population in relation to supported population. The population in the region experienced the rise of the share of the young and supported population from 36% in 1950s to 45.6% in 1970s.

When thanks to high birth rate from the past the large number of the young people reaches the working age, labour force increases. Production capacities and economic growth measured *per capita* will automatically increase (on condition that birth and death rates do not increase further). Therefore, the countries that have the advantage of achieving the growth of the share of economically active population (between 15 and 64) achieve also the improvement of the mentioned economic indicators. Positive demographic changes were the cause of a rapid leap of economic growth rate in East Asia in 1970s and 1980s. Today the similar relation between the age groups has been achieved in the region of the Near East and North Africa, therefore certain economic growth may be expected, but not closely like the one achieved by other Asian regions.

As in other developing countries, the transition of the region of the Near East and North Africa was based on acceleration of birth rate and rapid drop of death rate, especially of children. This ensures that the reproductive population continues its growth for a few more decades, as well as the total number of newly born. In the majority of countries in the region about two thirds of the population is below the age of 30. According to all estimates, this trend will continue until 2010.

The fact that there is a great influence of demographic characteristics on the economic development is shown by the fact<sup>6</sup> that a third of entire economic differences between the region of the Near East and North Africa and Asian economies with accelerated growth results from demographic differences between regions. In order to study the role of demography in GDP *per capita* growth, the

---

<sup>6</sup> The results of comparative empirical study of the IMF and Harvard University: T. M. Yousef (International Monetary Fund), J. Williamson (Harvard University), published in: "Demographic Transitions and Economic Performance in MENA", *Economic research forum*, Vol. 5, No. 4, December 1998 – January 1999.

mentioned comparative empirical studies used the data on the scope of growth in the countries of the region. After checking economic, political and institutional variables, it has been determined that demographic characteristics of these countries, especially the growth rates of economically active and inactive population reveal the stated influence, in other words that they have a great role in economic performances of the region. The results of these researches refer to the period from 1965 to 1990, when the difference in the degree of economic development between the countries of the Near East and North Africa and other developing regions was the greatest. In the course of this period the region achieved great growth of working population, but at the same time the huge increase of the number of supported persons (children), which was the consequence of still rising birth rate in this period. The end result is that net demographic influence was close to zero.

**Table 1.** *Demographic transition (1965-1990), annual increase in %*

	Total population increase (%)	Economically active population (%)	Economically dependent population (%)	Net demographic influence (4)=(2)-(3)
East Asia	1.58	2.39	0.25	2.14
South-east Asia	2.36	2.90	1.66	1.24
South Asia	2.27	2.51	1.95	0.56
Latin America	2.25	2.64	1.77	0.87
Sub-Saharan Africa	2.81	2.78	2.85	0.07
Near East & N. Africa	2.73	2.88	2.37	0.51
Algeria	2.96	2.90	2.74	0.16
Egypt	2.32	2.67	1.93	0.74
Jordan	2.86	2.76	2.75	0.01
Morocco	2.53	2.77	2.08	0.69
Syria	3.42	3.52	3.24	0.28
Tunisia	2.28	2.52	1.59	0.93
Iran	3.18	3.21	3.02	0.19
Turkey	2.34	2.71	1.64	1.07

(a) Economically active population (15-64 years of age)

(b) Economically dependent population – age groups (0-14 and 65+)

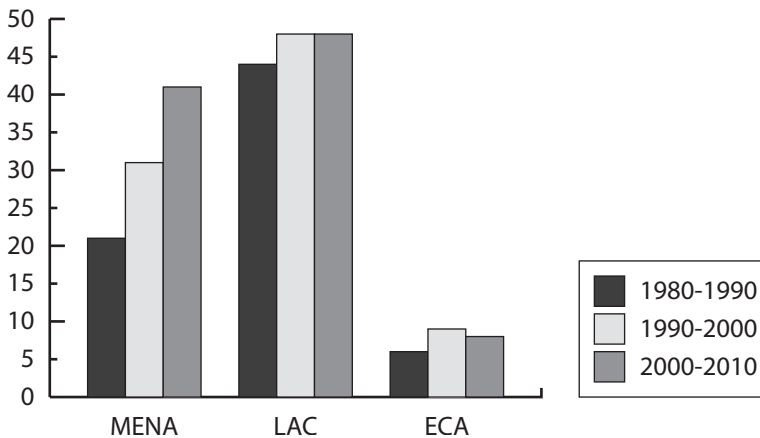
Source: *World Bank (1997)*

More considerable drop of birth rate in the Near East occurred much later. From the middle 1980s, the birth rate in the region was constantly higher in the countries with low and middle incomes and just below the birth rate of the poorest countries in the world.

Having reached such a peak, the share of inactive population in the region dropped for modest 4% during 1990s, in comparison with enormous 18% in East and South-East Asia, where this share was at its peak in 1960s; not a single country in the region was anywhere near East Asia. In other words, fast grow-

ing Asian economies carried out their demographic transition for half less time that was required for the region of the Near East and North Africa. If the demographic transition in the region had been as fast as in East and South-East Asia, the annual economic growth rate in the region would have ranged from 2.3% to 3.3% in the period from 1965-1990, and *per capita* income would have risen to 3,900 USD instead of 3,044 USD.<sup>7</sup>

The most important challenge the researchers face is to identify the manners that relieve the pressure of demographic pressure on economic growth. The greatest progress in this respect can be achieved by connecting the demographic transition with accumulation of capital and inflow of labour force.



**Graph 3.** Increase of labour force in millions (1980-2000)  
(Near East and North Africa, Latin America and the Caribbean, Europe and Central Asia)

Source: World Bank (2002)

MENA – Middle East and North Africa

LAC – Latin America and Caribbean

ECA – Europe and Central Asia

What will be the role of demographic trends and structure in shaping future economic growth of the region? The UN projections of demographic trends for the region of the Near East and North Africa for the next 25 years predict gradual changes of age structure in favour of economically active population, as a result of stable trend of birth rate fall. Future demographic projections are based on the fact that the region would have a chance to increase its GDP *per capita* by means of savings, investments and increased inflow of labour force. If nothing unforeseen happens, the demographic trends in the region should produce GDP *per capita*

<sup>7</sup> T. Yousef, "Demographic Transitions and Economic Performance in MENA", *Economic research forum*, Vol. 5, No. 4, December 1998/January 1999, p. 1.

increase for 2.1-2.3% in the period from 1995 to 2020. The increase of labour force in the countries of the region may add 1-1.5% to the annual economic growth rate. In addition to this, economically active population achieves incomparably larger scope of savings and investments than children or the old people, and it is the savings that are very important promoters of economic growth.

The future of the region of the Near East and North Africa looks bright if observed from the angle of relations between working and economically inactive population. However, the demographic transition cannot lead to some spectacular economic growth spontaneously. This demographic advantage provides only the potential for positive shift of a country's economy. Namely, this "demographic gift" of the young population, although providing the increase of labour force, does not provide immediate economic growth. Every economic progress will depend on the capability of a country to absorb such an increased number of workers, i. e. to turn the increased inflow of labour force into the increase of employment. Only in this case would the increase of labour force support the accelerated rate of accumulation of capital and higher growth. In order to use the stated demographic potential for the increase of economic growth, it is necessary that the governments in the region find the way to include the entire army of young people into the labour force; to be more precise, to create new jobs for them. The increase of number of jobs and economic growth of the region can be achieved primarily by long-term economic policy that would include certain social changes. As for the reforms concerning demographic potentials more directly, their positive effect on the economic growth can be achieved by the following: the reform of educational system that would contribute to improved educational or qualification-related structure of population and the reform of labour force market.

### *3.1. Reforms of educational and qualification-related population structure*

Building, improvement and efficient use of human potentials may have the role of a promoter of sustainable and fair economic growth and reduction of poverty. At the same time, there is a reverse influence: economic growth (or the lack of it) influences the possibility of human resources development, to which poverty is the main obstacle.

Low level of work productivity (GDP per worker) is one of the most serious causes of slow growth in the region of the Near East and North Africa. Low productivity is generally one of the important economic problems of the Arab world. According to the research results of the World Bank, the productivity in all Arab countries in this period was on an average less than half a productivity of developing countries that were taken as parameter (Argentina and Korea).<sup>8</sup> According to the oil share in the total GDP the Arab countries are divided into

---

<sup>8</sup> The World Bank: *World Development Report 1998/99*, Washington D.C., 1999.



three groups, whereas every group has approximately one third of labour force in the region. The first group includes nine countries that are the richest in oil and their productivity was somewhat more than a half the productivity of the compared countries. The second group includes countries with medium share of oil in GDP (Egypt, Syria and Tunisia) and their work productivity was less than one sixth of the productivity of the compared countries. The third group includes Arab countries poor in oil (Djibouti, Jordan, Lebanon, Mauritania, Morocco, Somalia, Sudan and Yemen), and their labour force productivity was less than one tenth of the productivities of Argentina and Korea.

The World Bank has determined that the productivity rates in the region of the Near East and North Africa show constant fall (-0.2% annually) from 1960 to 1990,<sup>9</sup> while they constantly rise in other parts of the world. The researches of 1999 compared the changes of work productivity rates in nine Arab countries with the fastest growth and other developing countries (1980-1990 and 1990-1997). Annual work productivity rate in China increased by 15%, in Korea for 8%, in India for 6% and in Arab countries only 4%.

At the level of a sector, UN organization monitoring the industrial development (UNIDO) has provided comparative data for industrial sector. Productivity of industrial labour force in the region in the early 1990s was estimated at the same level as in 1970s (when it was close to Japanese and European productivity level). In comparison with a huge growth in all other parts of the world, twenty-year long stagnation of productivity rate represents a considerable fall. According to UNIDO data,<sup>10</sup> productivity has been falling even after oil boom of 1974, in spite of the investments and a huge expansion of educational system at all levels.

Low level of productivity growth can be explained by the fact that Arab countries are far behind other developing countries in the development of key variables – years of education. Human capital is measured with the years of education, work experience, percentage of literate people or percentage of the enrolled students on colleges in one generation, and it makes rather an important factor of economic growth and employment. Availability of physical capital, labour force and human capital have for long been considered important factors of location of economic activities. These factors are especially important today in increasingly more numerous and globalized economies, which imply great mobility of capital. Although the investment capital requires both skilled and educated and cheap and unskilled labour force, it is considered that higher living standard and general growth would be more easily achievable with educated labour force that adapts to new ideas more easily. Some studies have shown that the countries with the lowest work productivity but with more educated labour

---

<sup>9</sup> J. Page, *Productivity, Learning and Industrial Development*, The World Bank Group, [www.worldbank.org/wbi/](http://www.worldbank.org/wbi/)

<sup>10</sup> K. J. Timmins, *Annual Report UNIDO* (United Nations Industrial Development Organization): 1997, 1998, 1999; [www.unido.org/doc/3480](http://www.unido.org/doc/3480)

force were closer to *per capita* income of rich countries and faster growth rate than the countries with less educated labour force.

The labour force that would be capable of playing the role of economic growth promoter must be educated and dynamic. For the sake of this goal the governments of the region should make efforts to carry out radical changes of educational and qualification-related structure of labour force. Low rate or negative growth of work productivity may change by improving the management and quality of institutions, by investing into human capital, establishing more open market and under the conditions of peaceful political environment. These are the same factors that influence the increase of GDP growth rate, which would in return support the increase of employment. In accordance with this, the acceleration of economic growth through faster accumulation and increase of productivity can enable the economy to absorb a great number of workers for jobs that provide for the stable growth.

In the several countries of the region, primarily in the Gulf countries, Lebanon, Jordan and Tunisia, the important development of human capital has been achieved according to the international parameters. The percentage of uneducated population over 25 years of age fell from 80% (in 1970s) to 46% (in 2000). In the course of the same period the average duration of education also raised from 1.3 to 4.5 years. However, the quality of human capital in the region as a whole did not achieve the proportionate progress, nor has the educational system improved in comparison with other developing countries.

In 1960s, *per capita* income of Arab countries was higher than that of East-Asian economies. After three decades *per capita* income in the region of the Near East and North Africa recorded the increase to 3,300 USD, while the East Asian countries achieved the amount of 8,000 USD. According to the researches of the World Bank, *per capita* income in the region would have been higher for the additional 1300 USD if the average level of education in the region had been at the level of East Asia. During the previous period the East Asian countries were more progressive than the Near East and North Africa concerning years of education, with the difference in educational level of about three years. In the period from 1960 to 1992, the differences in the educational level doubled to about six years. The consequence of this is also the fact that the productivity of Arab countries fell to less than half the productivity of the Republic of Korea, for instance.

The reason for such lagging is not the lack of financial resources. During the last decade the countries of the Near East and North Africa invested into education more than other developing countries (at the level of the average income). The reasons for slow improvement of educational level of population are the emphasis of quantity on the account of quality of teaching staff, old-fashioned teaching methods and directing the finances and energy towards high education much more than towards primary education. In the majority of countries the educational system is not coordinated with the requirements of modern global economy.

In order to improve efficiency of their educational systems the countries in the region must modernize the management of these systems, to reform teaching process and evaluation system, to initiate and encourage private educational systems and adopt educational programs that meet the requirements of modern economy, so that the possibilities offered by globalization of information and technology could be used in a better way.

### *3.2. Reform of labour force market*

Today's markets of labour force in the region of the Near East and North Africa have been shaped in the period after winning independence, and as such they do not support the tendencies to include the economies of these countries into current global economic flows. At the beginning of 1980s the social contract in the region of the Near East and North Africa was becoming more and more unsustainable. High level of public expenditure, falling work productivity and public policy not inclined towards private sector, commerce and investments led the economies of the Near East into a crisis. The intervention of the state and economic planning were largely favoured, contrary to the rule of market patterns. The sector of public services is rather large, and the labour force is managed by means of centralized hierarchical syndicate structures. Unity is imposed by means of strict political control. As for the structure of labour force in the Near East, the problem that requires urgent solving is the practice of excessive employment in the public sector and segmentation of labour force.

The problems implied by the labour force market vary among the countries in the region. During 1980s and 1990s, many governments in the region responded to economic crisis by selective economic reforms. Market-oriented policies were introduced into some fields, but the reforms of labour force market and privatization were considered politically too risky. Despite some positive effects, these selective reforms have not improved economic growth in the majority of countries, or created a sufficient number of new jobs.

The Gulf countries, which are oil exporters and gathered into a regional organization called Gulf Cooperation Council (GCC), made considerable efforts to carry out demographic transition as painless as possible. Fast expansion of young domestic citizens in the labour force market, especially in Bahrain, Oman and Saudi Arabia, created a potential for strong pressures because of unemployment. The governments focused adequately on long-term structural solutions. These countries undertook temporary steps to ease the demographic transition towards the market-based system. To be more precise, all GCC countries initiated ambitious programs for pre-qualification and educational reforms in order to meet the requirements for competence, especially in private sector. The government policy of guaranteed employment has not yet been abandoned, nor have the wages been lowered to the market level.

The example of the stated problems (excessive employment in public sector and segmentation of labour force) is Kuwait, where 98% of labour force is employed in the public sector, while 95% of private sector workers originate from other countries. In Morocco and Yemen, for instance, there are legal regulations that considerably prevent movement of labour force from public to private companies and vice versa. In many countries of the Near East the educational system continues to produce labour force skilled to work in those fields related to production and delivery of food in the public sector, and does not provide the personnel for activities in private sector.

In other, mostly non-oil economies, stabilization, commercial reforms, financial liberalization and structural adjustments were incomplete and slowed down, with emphasized domination of the public sector. Economic growth was very poor, and the private sector has not yet become a promoter of economic transformation. In all non-oil countries of the region the future requirements for creation of new jobs will be greater than they now are, although they do not exceed the limit with which the other parts of the world were faced with while experiencing this stage of demographic transition (East and South-East Asia). In addition to increased productivity and market dynamics, the creation of new jobs may increase the probability of sustainable growth.

More significant effects of economic reforms cannot be achieved without the political reforms, which would give institutional capacity and legal basis required for creation of new collective agreements to the governments in the region. New agreements would represent a growth generator and a basis to create new jobs. They would include the policy of promoting the role of private sector, boost commerce and increase foreign investments, but also integrate the workers into the public sector, protect their rights and provide for the participation of workers in the share of profit from the economic growth.

Without democratization, there are not many prospects that the reform of labour force market would achieve legitimacy among workers. Better management, transparency and responsibility, as integral part of democratization process, would strengthen the efforts to carry out new collective agreement. They are very important if the citizens should make judgments based on being well informed about the economic results. Similar is with the credibility of elections, which enable the citizens to maintain politicians in power or change them in accordance with the success of their management of the economy.

In the course of economic reforms of 1980s and 1990s, the governments in the region tried to postpone the considerable political liberation claiming that the economic growth must have priority. They would rather keep the dysfunctional *status quo* than reform the political institutions and practice for the sake of a vision of economic future of the region. In order to make progress towards the collective agreement that would protect workers, promote employment and create the conditions for sustainable economic growth, the governments must

take into account the fact that the renovation of political life is a prerequisite of successful economic reform.

The economic problems would require from the governments in the region to support the process of reformation above their current limits. This could be achieved most efficiently by improving and not by abandoning the understanding of the collective agreement. Economic reform will not be credible if the governments do not provide for the economic solutions to be socially acceptable under the existing demographic conditions.

### References

- Cordesman, A. H.: *Globalism and Regional Security in the Middle East*, Center for Strategic and International Studies, Washington, D.C., 2001.
- Dinić, J.: *Ekonomska geografija*, Naučna knjiga, Beograd, 1999.
- Laipson, E.: „The Middle East’s Demographic Transition: What Does It Mean?“, *Journal of International Affairs*, vol. 56, no. 1, The Trustees of Columbia University in the City of New York, 2002.
- Rached, E. – Craissati, D., eds: *Research For Development In The Middle East And North Africa*, IDRC, 2000.
- Roudi, F.: *Population Trends and Challenges in the Middle East*, United Nations Population Division, World Urbanization Prospects, 2001.
- Ruble, B.: „Youth in the Arab World: Demography, Employment and Conflict“, *Youth Explosion in Developing World Cities: Approaches to Reducing Poverty and Conflict in an Urban Age*, Woodrow Wilson Center, 2003.
- The World Bank, *Unlocking the Employment Potential in the Middle East and North Africa, Toward A New Social Contract*, Washington, D.C., 2004.
- Timmins, K. J.: *Annual Report UNIDO 2000*, United Nations Industrial Development Organization, [www.unido.org/doc/3480](http://www.unido.org/doc/3480)
- Yousef, T. M.: *Macroeconomic Aspects of the New Demography in the Middle East and North Africa*, Department of Economics School of Foreign Service Georgetown University, Washington, D.C., 2005.
- a) Yousef, T.: „Demographic Transitions and Economic Performance in MENA“, *Economic research forum*, vol. 5, no. 4, December ’98-January ’99.

ASSISTANT PROFESSOR MARIJA MOJCA TERČELJ, PhD  
*Faculty of Humanities, University of Primorska, Koper*

## ECONOMIC FACTORS AS PRESERVERS OF ETHNIC AND CULTURAL IDENTITIES

### Zoque Indian Brotherhoods of Tuxtla Gutiérrez & Copoya

**Abstract:** *The feudal economy of New Spain was in a need for a system of tribute payments in the colonies of Latin America, so the “Republic” gave Zoque Indian brotherhoods of Tuxtla Gutiérrez and Copoya the possibility to use the hereditary agrucultural land. The system of tribute payments has provided Zoque with partial economic autonomy, which gave them the possibility to preserve and transform their social relations, religious values and national and cultural identity. Within the institution of brotherhood, Zoque continued to live on “common land” where they cultivated horses and cattle. The prevailing share of income earned from these activities Zoque used to cover the expenses of their religious life.*

*The period of “Mexican Republic” had caused the economic collapse as well as political and cultural degradation of Zoque community. In 19<sup>th</sup> century, Zoque lost the right to use the land. This was followed by their economic assimilation in national society and later by cultural, linguistic and ethnic fusion. The period of Mexican revolution and social reforms has brought back the common land – ejidos – to Indians but for Zoque Indian Brotherhoods of Tuxtla Gutiérrez it was too late. Despite all these circumstances, social-religious relationship with the land has enabled Zoque to preserve their religious ritual being exclusively of agricultural character.*

**Key words:** *the economy of Zoque, hereditary agricultural land, the system of tribute payments, partial economic autonomy, religious ritual of agricultural character.*



## 1. Introduction

The aim of this article is to present the economic, social and religious connections existing between certain institutions that have enabled the survival and preservation of the cultural identity of two closely connected Indian communities from Chiapas, Mexico: the urban Zoque Indian community from Tuxtla Gutiérrez, and the neighbouring rural Zoque community from Copoya. At the same time, the work points out the importance of the economic factor in the preservation of ethnic identity. The article has been developed on the basis of several years of research work that resulted in a doctoral dissertation presented at the Ljubljana Faculty of Arts<sup>1</sup>.

The first part of article deals with the ethnic and historical image of the Zoque, the second introduces the politics of colonialism, its social institutions and methods of Evangelization; the third ultimately seeks to shed light on the adjustment of the autochthonous population to the new social circumstances, as well as on the manner of preservation of those key social, cultural and religious elements that have contributed to the subsistence of their ethnic identity.

## 2. The Zoque ethnic group and its cultural-historical image

The Zoque ethnic group is the only non-Mayan ethnicity in Chiapas<sup>2</sup>. In cultural and linguistic terms it is older than the Mayan. The most recent archae-

---

<sup>1</sup> Research work on this topic was carried out between 1991 and 1997. Intensive field research among the Zoque Indians from Tuxtla Gutiérrez and Copoya was conducted via a stationary method throughout 1991, from January to May, 1993, in October, 1996, and from October through November, 1997, when the work was rounded up by the editing of an ethnological film entitled "*Tzuñi meque – Feast Day of the Zoque*". The study of the literature, sources and the editing of the material, begun in this same period and extending till 1999, took place within the following institutions: Centro de Estudios Indígenas de la Universidad Nacional Autónoma de Chiapas (*Centre of Indigenous Studies of the National Autonomous University of Chiapas*) in San Cristóbal de las Casas, Instituto Chiapaneco de Cultura (*Chiapas Institute of Culture*) in Tuxtla Gutiérrez, Instituto de Investigaciones Antropológicas de la UNAM (*Institute for Anthropological Research of the National Autonomous University of Mexico*) in Ciudad de México, and the Department of Ethnology and Cultural Anthropology of Ljubljana Faculty of Arts, where in 1999 the final results were presented in the form of a doctoral dissertation entitled "Zoque Cosmology as an Interpretation Model and Subject of Ethnological (Anthropological) Explanation. Rituals in 'The House of Rabbits': Continuity and Transformation of the Religious and Social Lives of the Zoque from Tuxtla Gutiérrez".

<sup>2</sup> Chiapas is Mexico's southernmost state and one of its most backward areas; Chiapas industry, mostly food-processing, is only developed in the capital, Tuxtla Gutiérrez, and its surroundings. The local economy is based on farming, exploiting tropical virgin forest, cottage industry, trade, and recently, tourism. Next to Yucatán and Oaxaca, Chiapas has the largest density of Indian population: of almost 3 million people living there more than 30% are of

ological and linguistic studies have corroborated the link between the present *Mixe-Zoque* linguistic group and the Olmec civilisation and its predecessor, the Mokaya<sup>3</sup> culture. The development of agriculture, craft and inter-ethnic trade, permanent habitation of the population and the beginnings of social stratification date back to the pre-Olmec period, in the territory that connected the Mokaya culture with that of the Olmec – namely, the Zoque<sup>4</sup> territory. The Zoque were thus among the most ancient Mesoamerican settlers, among the first bearers of early agricultural civilisation and conveyors of material, cultural and trade elements to all later Mesoamerican cultures.

According to Velasco Toro immediately before the colonial period the Zoque were undergoing an economic and social process of development towards a stronger unified administration, maintaining regular contacts with neighbouring ethnic groups.<sup>5</sup> The theocratic administrative system of county districts enabled an accumulation of surplus domestic product, knowledge and religious power. Despite this the Zoque never formed a centralised socio-political body.<sup>6</sup>

In the pre-colonial period, the economy of the Zoque was based on a tributary system of agricultural communities, determined and controlled by mayors or elders (*caciques*). The high density of the population right before the Spanish conquest necessitated an intensive and collective cultivation of the land. The land, as an area of cultivation, was not private property. Due to the slash-and-

---

Indian origin. Chiapas is inhabited by the ethnic groups of the Highland Maya (Tzotzil, Tzeltal, Tojolabal, Chol, Mam, Mocho, Lacandon, Kakchiquel etc.) and the non-Maya group of the Zoque.

<sup>3</sup> According to Thomas Lee (1989: 25), the glottochronological dating of this linguistic group going back to 1600 B.C. coincides with the beginnings of the Olmec culture of San Lorenzo, which had long been considered the first Mesoamerican civilisation to develop agriculture. The archaeological excavations of the New World Archaeological Foundation and the Centro de Estudios Superiores de México y Centroamérica (Centre for Further Studies on Mexico and Central America) of the Chiapas University of Science and Art discovered even older evidence of agriculture and permanent habitation of the population in the Pacific Coast area of Chiapas (today Soconusco). The remains of this civilisation were named *Mokaya*.

<sup>4</sup> The Zoque language was in its *Mixe-Zoque-Popoluca* proto-origin also spoken by the inhabitants of the high Olmec civilisation.

<sup>5</sup> J. Velasco Toro, "Territorialidad e identidad histórica en los zoques de Chiapas" in: *Antropología Mesoamericana. Homenaje a Alfonso Villa Rojas* (Víctor Manuel Esponda, Sophia Pincemin y Mauricio Rosas Comp.), *Serie Nuestros Pueblos Chiapas 10*. Gobierno del Estado de Chiapas. Consejo Estatal de Fomento a la Investigación y Difusión de la Cultura. DIF – Chiapas, Instituto Chiapaneco de Cultura, Tuxtla Gutiérrez, Chiapas, México, 1993, p. 253, 259.

<sup>6</sup> In the pre-colonial period their territory was divided into four interdependent administrative units, or as Fábregas calls them (1986: 188), commands with county political centres or chiefdoms: Quechula, Javepaguay, Guateway and Zimatán. Two of these, Quechula and Javepaguay, were independent at the time of the arrival of the Spaniards. They had their own vassal communities and were very strong in terms of trade and military.

burn method of agriculture the cultivation of the land was periodical and the population lived in scattered settlements. In such circumstances agriculture represented both a link and reciprocity between the community and the land, while also playing the symbolic role of symbiosis between Nature and society. Not only was the land for cultivation a source of economic income, it represented the basis of religious life. In Mesoamerican societies, economy, religion and ideology were inseparable. Nature was sacral in character; the space was consecrated and common to everyone.<sup>7</sup> “The cosmic order” guaranteed an order on the Earth and the stability of the social structure. The chiefs of individual territorial districts were at the same time priests.

The core of the economic, social and religious integration was the extended family, the *cowiná*, which was based on local endogamy, patrilineal blood kinship with a patrilocal system, and on a religiously symbolic kinship system. It inhabited a common space and consequently also represented a neighbourhood community.

*Cowiná* was thus a neighbourhood not only connected by space but also by a blood kinship system and an ideology of common ancestors – *cowiná*<sup>8</sup>. Aside from the common cultivated land, it had a common deity (ancestor or patron) and distributed the duties of socio-religious life. Each neighbourhood had its own local temple, also called *cowiná*.

### 3. Colonial politics of hispanization:

#### Introduction of new social institutions and evangelization

After the military conquest, the Spanish introduced economic, demographic, political-administrative, urbanistic and religious measures with which they could control the Indian population. The colonial politics worked most actively on the transformation of social and religious life, although it preserved those economic elements which could, due to their similarity to the European feudal system, be incorporated into the emerging colonial economy.

---

<sup>7</sup> J. Velasco Toro, op. cit.

<sup>8</sup> Today the word has several meanings: it denotes a sanctuary or a chapel owned by a family leader (*cowináhatá* or “father *cowiná*”); saints or predecessors in this chapel; and the group of people taking care of them and preparing the celebration. Based on an analysis of the colonial dictionary written by Friar Luis González (Tecpatán, 1732), the current usage of the word and ethnographic material Dolores Aramoni Calderón (1998: 100-102) explains the meaning and origin of the word *cowiná*. *Vin* denotes the beginning, precedence, face, leadership, righteousness, fairness, unification, generalness, public (*vinaca* – face or visage; *vina apapue* – first among many; *vinati* – primarily; *vina apa* – to precede; *vina auapue* – predecessor; *vinaapa* – to lead; *covina* and *covinaapa* – military commander; to command; and *vintec* – neighbourhood).

The Spanish did not formally transform the pre-colonial tributary system, as they only changed the vassal's master, but they did make some radical changes with regard to production and the comprehension of ownership, especially in terms of basic property; i.e., land. Spatial ownership as a legal-political category was only established in Mesoamerica by the Spanish colonial authority--to its own benefit, of course--destroying the natural-social-religious balance in the Indian communities that had existed to that moment.

In 1526, the Spanish established a legal institution of land ownership in the form of *encomienda*<sup>9</sup>, which was an economic as well as social and legal institution. The tributes, part of the pre-colonial surplus production, now became a legal obligation of the owners of the land. Some villages had to pay their tributes to private owners, others to the Spanish crown, and more than a few of them had to pay tributes to both. The Indians also had to fulfil their compulsory labour service by taking part in renovation work on town palaces, churches and roads. After the banning of *encomienda* the Spanish crown solved the entrepreneurs' difficulties in hiring the Zoque as a cheap labour force with the so-called *El repartimiento*. According to this regulation, each Zoque settlement had to contribute weekly a certain number of people for farming works in private estates, for goods transportation and building private houses, and a certain number of people who took part in renovation works on public buildings, churches or roads.

In the colonial period, a Zoque village community was entitled to three types of communal land: *fondo legal* (common village land extending in a radius of 500m around the church), *ejido* (common land in the form of pastures or forest – up to 1 *legua* [5.5 km<sup>2</sup>]), and *tierras de repartimiento* (land to be dealt out or heritable family plots). The Zoque only had the right to use this land, while its ownership was still in the hands of the State or the Church, whose main interest was the collection of the highest tributes possible.

The Spanish colony consisted of two interdependent economic and administrative-political spheres: the “Spanish Republic” and the “Indian Republic”. The political and administrative system assigned the so called “Spanish Republic” political power and economic domination in urban settlements, as well as ownership of land, mines and country mansions, while imposing on its Indian counterpart the obligatory tributes, work on public buildings and servitude under the *encomienda*; in the political sense the leadership of the Indian republic played the role of mediator between the colonial authorities and local communities. The so-called *cacicazgo*, or local Indian political and religious authority, was based on a “cross system” of functions: it was established on the basis of Spanish political

<sup>9</sup> Unfortunately, there is no data regarding an *encomienda* in Tuxtla in the earliest colonial period. However, this does not mean that there was no such institution there. On the contrary, 18<sup>th</sup> and 19<sup>th</sup> century historical sources confirm that an *encomienda*, although in its seemingly changed form, had been very much present in this town till the very end of the colony, or precisely till 1817.

and religious hierarchy and a pre-colonial patriarchal kinship system. It had two types of functions: civil-political, performed by the town council (*ayuntamiento* or *cabildo*), and religious, carried out by the church administration.

The town council (*ayuntamiento*) consisted of a mayor (*alcalde*), councillors (*regidores*) and constables (*alguaciles*) with one-year tenures, which were re-assigned on January 1 of each year. Each district elected one councillor for the town council. The church administration was divided into individual parishes. The high officials were promoted alternatively from the civil-political hierarchical ladder to the religious hierarchy and vice versa. Starting at the lowest position of bailiff (*corchete*) in the town council or *maietumó* in the church administration, they passed from one post to another until reaching the top positions of mayor or chief steward (*mayordomo mayor* or *Kungujiará*).<sup>10</sup> The new form of government maintained in part the pre-colonial values, the greatest being age, though not in a chronological sense, but rather in terms of experience and wisdom.<sup>11</sup>

Andrés Fábregas lists nine hierarchical church positions among the colonial Zoque.<sup>12</sup> The highest was that of the consecrated elder – guardian steward (*sacramento mayordomo*)<sup>13</sup>, who governed approximately sixty saints’ guardians – stewards (*mayordomos*), executives (*albaceas*) and principals (*priostes*); these guarded the icons and the holy statues and were in charge of changing the statues’ clothes. After them came the treasurers (*fiscales*), who took care of the church court, the singing and the praying service. The chief treasurer (*jefe fiscal*) supervised the ceremony, the *mayojt* took care of the musicians, while the job of servant (*alférez*) was to prepare the feast and wait on the elders. The lowest or starting position was that of the *su-wes*, who was in charge of carnival merrymaking.<sup>14</sup>

The Zoque territory in the colonial period was divided into administrative-demographic units following the Spanish model. The balance between the production area and the production itself was redirected by the new administration system towards a concentration of population in larger villages and boroughs. Upon the ordinance of the 1549 Real Mandato Law, the colonial administration moved the entire dispersed Indian population into more clustered settlements using the pretext of securing “easier religious teaching, a more righteous and

<sup>10</sup> The Highland Maya also used the “cross system” during the colonial period (and still do). J. Velasco Toro, op. cit., p. 273.

<sup>11</sup> A. Fábregas Puig, “Cambios en la estructura de poder de los zoques: una formulación” in: *I. Reunión de Investigadores del Área Zoque, Tecpatán, Chiapas, 1986*, CEI-UNACH, Chiapas, 1989, p. 191.

<sup>12</sup> Ibid.

<sup>13</sup> The translation of these terms is based on mediaeval meanings of the words, precisely on the terminology of church brotherhoods.

<sup>14</sup> These positions still exist in some mountain areas of the Zoque.

pure Christian life and better trade”.<sup>15</sup> Actively involved in this radical demographic operation in Chiapas were also the Dominicans, who founded strong missionary centres in Zoque territory.

The Real Mandato Law determined the urbanistic image of the newly emerging Indian village settlements after the model of Spanish towns, which were divided into separate quarters or *barrios*.<sup>16</sup> While in Spain *barrio* denoted a town or village neighbourhood, in Mesoamerica it acquired another meaning, that of a kinship and economic unit, as it replaced the former *cowiná* in Zoque and the *calpulli* in Aztecs.<sup>17</sup> In ‘Europeanizing’ the Indians the Spanish colonial administration deftly used the social-economic aspect of this pre-colonial institution: the kinship-economic neighbourhood was substituted by village and urban quarters, which enabled greater economic control, especially in tributes, and a more rapid Christianisation of the population.

In the opinion of Dolores Aramoni Calderón, it was precisely the *cowiná* – as a basic social-religious unit of complex character – that the missionaries used to the benefit of the subtlest form of Christianisation.<sup>18</sup> The *cowiná* was thus replaced by Christian elements: the cult of ancestors by worshipping of saints, local family shrines by little Christian chapels, and the masked faces of the ancestors by holy images of the saints. Wider pre-colonial communities, linked by means of local shrines called *masandok* (“houses of stars”), were slowly being replaced by church brotherhoods.<sup>19</sup>

The church brotherhoods or associations<sup>20</sup> (*las cofradías*) were introduced in New Spain towards the end of the 16<sup>th</sup> century. Their purpose was to ensure

<sup>15</sup> F. A. de Remesal: *Historia General de las Indias Occidentales y Particular de la Gobernación de Chiapas y Guatemala. Tomo II*, Editorial Porrúa, México, 1988, p. 242, 243. (first edition: Madrid, 1619).

<sup>16</sup> The Spanish word *barrio* comes from the Arabic (*barri* – exterior) and denotes part of a town or a larger village (Larousse. Diccionario usual. México, D.F., 1985, p. 71).

<sup>17</sup> The first Spanish chroniclers translated *calpulli* as “*barrio*”, for due to the kinship resistance they had to move the Indians according to their patrilineal blood kinship. A new form of neighbourhood was formed, the so called “Mexican *barrio*”, which even today unites wider patrilineal relations, especially in the area of Indian rural local communities.

<sup>18</sup> D. Aramoni Calderón, “Las cofradías zoques: espacio de resistencia” in: *Anuario IEI VII* (1998), CEI-UNACH, San Cristóbal de las Casas, Chiapas, 1998, p. 90.

<sup>19</sup> J. Velasco Toro, op. cit., p. 266.

<sup>20</sup> The brotherhoods (Lat. *confraternitates*) were Christian organisations developed from religious and humanitarian incentives. Once professional and class associations, they offered social help to their members. In eastern and western Europe their role was taken over by guilds. The first reports on brotherhoods in Europe date to the 4<sup>th</sup> and 5<sup>th</sup> centuries, but only reports from the 9<sup>th</sup> century onwards offer more detailed information about them. In the Mediterranean they started developing more vigorously in the 13<sup>th</sup> century, in central and western Europe only in the 14<sup>th</sup> and 15<sup>th</sup> centuries. Their development was influenced by the mendicant orders (the Franciscans and the Dominicans), which operated among the people through the brotherhoods (Encyclopaedia of Yugoslavia 2, 1985: 446).



a more effective Christianisation and a faster integration of the Indians into the colonial society. The brotherhoods were a tool in the hands of the colonial politicians for the adjustment of the indigenous population to the new social, cultural, economic and political situation. On the other hand, these very institutions enabled the cultural defiance of the Indians and the determination of personal identity within the new society.<sup>21</sup> They played an extremely important role not only in the preservation of a cultural-religious and social resistance, but also political and economic resistance, particularly in times of crisis.

The church brotherhoods of New Spain differed from their European counterparts in the special role they had among the Indian population. There were two types of brotherhoods in the colony: the Spanish and the Indian<sup>22</sup>. The former grouped the Spaniards and the *mestizo* according to the various guilds they belonged to, while the latter associated the Indian population according to their affiliation to local village communities or communities of village quarters. The brotherhoods joined the Indian population on the basis of Catholic saints – village patron saints and patrons of village districts.<sup>23</sup>

The first Indian brotherhoods were established in Chiapas as early as during the 16<sup>th</sup> century<sup>24</sup>, their peak period being the beginning of the 17<sup>th</sup> century, when they became universally instituted among the Indian populations.<sup>25</sup> The Indians accepted them quite readily, as they provided a certain degree of economic independence and religious freedom. The historical archives of the diocese in San Cristóbal de las Casas has preserved various parochial records showing that Indian brotherhoods had land, cattle and money at their disposal. These goods were officially church property, while the Indians regarded them as joint property.<sup>26</sup> During the colonial period, the Church supported the economic independence of Indian communities, whose income from communal land was

---

<sup>21</sup> D. Aramoni Calderón, *ibid.*

<sup>22</sup> In New Spain, only a Spaniard or *mestizo* could become a member of guild societies, and the role of Mexican guilds and guild brotherhoods was similar to those in mediaeval Spain. The Indian associations, on the other hand, were particular inasmuch as the mutual economic and social help was provided through “godparentships”, which inherited this charge from the pre-colonial clan kinship systems; also, the Indian brotherhoods in the first place secured a social position for their members.

<sup>23</sup> D. Aramoni Calderón, “Indios y cofradías. Los Zoques de Tuxtla” in: *Anuario IEI V (1995)*, CEI-UNACH, San Cristóbal de las Casas, Chiapas, 1995, p. 14.

<sup>24</sup> The oldest record dates to the year 1561: on February 2, the Brotherhood of Our Lady of the Rosary was founded in the village of Tzelal, Copanaguastla (Aramoni Calderón, 1995: 13).

<sup>25</sup> According to some writers, particularly Murdo MacLeod, the reason for such flourishing was the great decrease of the Indian population caused by the Spanish Conquest in the 16<sup>th</sup> century. Due to the economic consequences the Church was looking for new sources of income. D. Aramoni Calderón: “Las cofradías zoques: espacio de resistencia” in: *Anuario IEI VII (1998)*, CEI-UNACH, San Cristóbal de las Casas, Chiapas, 1998, p. 91.

<sup>26</sup> *Op. cit.*, p. 92.

used both to provide for the needs of the community and to pay taxes.<sup>27</sup> With such internal economic and social freedom the Indian brotherhoods enjoyed a kind of autonomy. The brotherhoods also enabled freedom in the organisation of celebrations of saints. The priests only took part in the official liturgies, whereas everything else was in the hands of the “principals”, “elders” and other members. The Indians most easily adopted those elements of the new religious institution that helped them overlay and transform the pre-Spanish religion.<sup>28</sup>

In 1794<sup>29</sup>, there were six Spanish and twelve Indian brotherhoods in Tuxtla. Four of them belonged to the Zoque living in the main districts: the St. Hyacinth, St. Dominic, St. Michael and the St. Andrew districts. Other Zoque brotherhoods mentioned by archival records were the St. Mark Brotherhood, the Brotherhood of the Most Holy Sacrament, the Brotherhood of the Blessed Souls, and the Brotherhood of Our Lady of the Rosary. These brotherhoods had a common purse<sup>30</sup> and common land on which they reared cattle; the St. Dominic brotherhood bred horses on the estate of Santo Domingo Hueczá, while the Brotherhood of Our Lady of the Rosary raised cattle on the Copoya estate. Their income from the land was then used to pay for the masses read by the priests in the chapels of the respective brotherhoods, masses for deceased members (1 peso), candles, expenses related to the rituals as well as expenses for food and beverages offered at great religious celebrations.<sup>31</sup>

In 1794, the Mexican diocese banned the operation of 522 brotherhoods, limiting the disposal of land, cattle and wheat to the ones that remained active.<sup>32</sup> The brotherhoods with small memberships had to cede cattle breeding to estate

<sup>27</sup> In Guatemala the Indian brotherhoods cultivated the land for corn (Fortes, 1961: 130), while in the Zoque brotherhoods from Tuxtla Gutiérrez the church and civil authorities promoted especially horse and pedigree stockbreeding.

<sup>28</sup> D. Aramoni Calderón, “Renacimiento de la cofradía de San Agustín Tapalapa” in: *Anuario IEI IV (1991-1993)*, CEI-UNACH, San Cristóbal de las Casas, Chiapas, 1994, p. 142.

<sup>29</sup> There were 259 Spaniards, 701 *mestizos* and mulattoes, and 3,196 Zoque living in Tuxtla Gutiérrez that year.

<sup>30</sup> Compared to the Spanish brotherhoods, which had at their disposal 2040 pesos, the Indian ones worked with much more limited means – only 930 pesos. The four main districts’ brotherhoods together had in their purse only 16 pesos, the St. Mark Brotherhood had 100 pesos, the Brotherhood of the Most Holy Sacrament 176 pesos, the Brotherhood of the Blessed Souls 200 pesos, and the Brotherhood of Our Lady of the Rosary 204 pesos and 2 *reales*.

<sup>31</sup> In 1687, the St. Dominic Brotherhood paid a priest 48 *tostones* for masses, 20 *tostones* for sermons, 12 *tostones* for candles and 8 *tostones* for beeswax. D. Aramoni Calderón: “Indios y cofradías. Los Zoques de Tuxtla” in: *Anuario IEI V (1995)*, CEI-UNACH, San Cristóbal de las Casas, Chiapas, 1995, p. 16, 17.

<sup>32</sup> Due to the irregularities discovered by the church authorities in the common purses of numerous brotherhoods throughout New Spain between 1750 and 1775, and due to the prodigality that – in the opinion of the official Church – the Indian church brotherhoods displayed in the occasions of religious festivities.

managers appointed by state clerks. An agreement was reached between the new managers, the state and the brotherhoods, regarding the payment of expenses related to celebrations of patron saints. Many brotherhoods consequently converted to saint guardianships or stewardships (*mayordomías*).<sup>33</sup>

The official church ordinance bore a fatal effect on the brotherhoods from Tuxtla Gutiérrez as well, with the St. Dominic Brotherhood losing the right to breed horses on the Hueczá estate and the Brotherhood of Our Lady of the Rosary being deprived of the estate in Copoya. Though the grievances were stated immediately, they were not solved to the benefit of the Zoque Indians. The Zoque brotherhoods from Tuxtla Gutiérrez consequently transformed into guardianships or stewardships. With a similar form, structure and activity they have survived to this day. The Guardianship of Virgins of Copoya holds a special place in the present system, as it perpetuates the tradition of former brotherhoods, which supported themselves with the incomes from the estates on the high plateau.

#### 4. Contemporary saints' guardians – the Tuxtla Gutiérrez and Copoya

Zoque stewardship at the turn of the 20<sup>th</sup> century

The organisation of saints' guardians – elders, present among the Tuxtla Gutiérrez Zoque at the end of the 20<sup>th</sup> and on the outset of the 21<sup>st</sup> centuries, is called a stewardship and has eleven hierarchical posts.

The top position in the stewardship is occupied by a chief principal or prior (*prioste mayor*), also called *albacea*.<sup>34</sup> Below him are: the principal of the Tuxtla Lady of the Rosary (*prioste del Rosario de Tuxtla*), the principal of the Most Holy Sacrament (*prioste del Santísimo*), the principal of San Pascual (*prioste de San Pascualito*), the principal of St. Mark (*prioste de San Marco*), the first principal of the Copoya Lady of the Rosary (*primer prioste de Copoyita Rosario*), the first elder of Our Lady of the Candlemas (*primer mayordomo de Candelaria*), the second elder of Our Lady of the Candlemas (*segundo mayordomo de Candelaria*), the first principal of Our Lady of the Candlemas or the first expecting mother (*primer prioste de Candelaria* or *primera madre de espera*), the second principal of Our Lady of the Candlemas or the second expecting mother (*segundo prioste de Candelaria* or *segunda madre de espera*), the principal of St. Catherine (*prioste de Santa Catarina*) and the principal of Our Lady of Sorrows (*prioste de Dolorita*).

---

<sup>33</sup> D. Aramoni Calderón, op. cit., 17.

<sup>34</sup> *Albacea* ("executor of a will") for the Highland Zoque is one of the highest positions in guarding the images of the saints; in Tuxtla Gutiérrez, on the other hand, it refers to the person possessing and imparting knowledge on all religious and secular things.

The Tuxtla Gutiérrez stewardship includes approximately 300 families, of which 70 are at present taking an active part in the rituals.<sup>35</sup> This means that 70 Zoque couples are alternating one-year posts in the ceremonial institution. The couples are officially invited to every ceremonial lunch taking place in the stewardship. Each guardian has his own duties and privileges. The organisation has economic, social and religious significance. In the 19<sup>th</sup> century, the principals and stewards formed the political and religious Zoque government of Tuxtla Gutiérrez. Even now they guide the social life of the community, directing its activities, managing help between its members and the preparation of rituals, making decisions regarding the acceptance of new members and changes within the stewardship.

The posts have one-year tenures and are reassigned on name days of saints or – in the case of a high position (e.g., the principal of the Most Holy Sacrament) – on the eight day of Corpus Christi. When a new couple is accepted to the system of elders – saints' guardians, it is assigned one of the lowest positions (that of the principal of Our Lady of Sorrows or principal of St. Catherine). After one year the couple can apply for a higher position. When the couple has served out the lower ranking posts and reached the position of principal of the Most Holy Sacrament, they have made the position of member of presidency who jointly decide on the organisation of the entire system. The presidency elects the prior, or *albacea*, who holds the honorary position for an indefinite time and should of all members in the organisation possess the greatest share of organisational skills and experience, moral values and religious knowledge. The prior also comes from a reputable and well-off family.<sup>36</sup>

The principals (*priostes*) and stewards (*mayordomos*) can only take up the posts in pairs formed by husband and wife, with the occasional exception of a mother and son, and, even more rare, a brother and sister. Upon entering the stewardship the new members have to demonstrate economic competence, organisational skills and a religious-ethical maturity. They can apply for the post in the ritual community by themselves, but usually it is the stewardship that invites them to join in. The stewardship dispatches to the selected novices a group of three members of the presidency bringing a ritual baton as a token of the invitation.<sup>37</sup> The batons of the principals and stewards are made of flowers and are called *chocolillos* or *j̄ɔyo naqué*. The summoned new members must

---

<sup>35</sup> The oral information was received from Paulino Junapá (1949), prior alias *albacea* of the Tuxtla Gutiérrez Zoque Stewardship on November 2, 1997.

<sup>36</sup> The last but one Tuxtla Gutiérrez *albacea* was Francisco Velazquez (1917-1997), the only one who could still speak the Zoque language. He was a most respected member of the community, an elder. In the early nineties he ceded his position to Paulino Jonapá.

<sup>37</sup> In the previous century the high officials in politics would receive wooden batons, similar to those still used by the mayors of the Highland Maya. Religious high officials, on the other hand, have always been given flower batons.

receive the representatives of the presidency with lighted candles and incense, and treat them to a glass of *pozol*. With the selection of new members the stewardship demonstrates its social power and control. If the invited do not accept the post, sanctions follow.<sup>38</sup> The stewardship usually invites wealthy couples, but also includes poorer couples distinguished by religious and ethical values. In such cases the stewardship splits the expenses.

The members are assigned new positions after a special initiation ritual – “nomination” or “flower consecration” (*floreada*), which takes place a day or a week before the feast day of a saint. This means that the new principal starts his job as saints’ guardian when the celebration of his saint is over, and terminates it after a year with the preparation of a celebration. The only post requiring nomination on a special date is that of the principal of the Most Holy Sacrament (*prioste de Santísimo*), who is appointed on the eighth day of Corpus Christi, but only takes up the post six months later, on December 8.

The positions of male guardian, steward and principal or woman guardian and principal are manifested by the Zoque in the following ways: in the ritual room the guardians always sit in selected places; until the first half of the 20<sup>th</sup> century there were carefully crafted rush mats available for the guardians. The guardians at ritual assemblies do not work, rather are attended by servants appointed for that.

Aside from the saints’ guardians – elders, the religious system of the Zoque from Tuxtla Gutiérrez also involves other ritual-religious posts, those of masters and servants. The master posts are: masters of flower decoration (*maestros ramilleteros* or *j̄dyo nacpá*), masters of music (*maestros tambureros*), masters of pyrotechnics (*maestros de cohetes*), masters of candles (*maestro de velas*), the *llomo ettzé* dancers (*bailadoras llomo ettzé*)<sup>39</sup> and the *napap̄dk ettzé* dancers (*bailadores del penacho*).<sup>40</sup>

The servant posts, on the other hand, are: female cooks (*cocineras nombradas*), female makers of the *pozol* – *caca ujcuy* drink (*pozoleras*), and the position of tailor and washer of the saint’s clothes (*sastre-lavandero*). These posts are accepted by the members for an indefinite time; usually they carry out the jobs till their death. The terms for the assignment of the posts are not related to

<sup>38</sup> As related by Sarapia de la Cruz, the Tuxtla Gutiérrez stewardship has been known to react very severely to refusals of religious positions. The following case dates to the beginning of the 20<sup>th</sup> century: the stewardship chose a suitable novice and sent a group of representatives to his home. The man, who had previously been informed about the decision and was not willing to accept the responsibility, decided he would not be found home that day. The representatives left the ritual baton on the man’s household altar and returned after a week with a band of musicians. The man was tied up and urged – accompanied by drums and fiddles – as far as the town hall, where the town council presided. The council sentenced the man to jail for not fulfilling his duties towards the community.

<sup>39</sup> *Llomo ettzé* is a ritual fertility dance performed by women.

<sup>40</sup> *Napap̄dk ettzé* is a ritual plume dance performed by men.



the person's economic status, nor is it necessary for the post to be accepted by a male-female pair. The posts can be accepted by people skilled in the making of ritual-religious objects who are also distinguished by ethical and religious values – especially respect for the saints and the religious social life of the community.

The nomination to the new ritual posts is an initiation ritual allowing the novice to enter the consecrated circles of the social-religious institution of the Tuxtla Gutiérrez Stewardship. The nomination, or *floreada*, binds the new member to determinate duties, granting him at the same time certain privileges. The ritual is run by an *albacea*, who is helped by two assistants from his presidency. The *floreada* always takes place at the home of the member accepting the new post, in the presence of the invited stewardship. The novice is accompanied by two guitarists. The ritual is carried out at the novice's household altar, where incense and candles are lit. Following a special prayer of post "acceptance" the *albacea* and his assistants adorn the novice with a *j̄dyo soc toc* flower bouquet or a *chocolatillo* prepared by the masters of flower decoration. Finally, the *albacea* hands the tricorn bouquet to the new principal, steward or master, and this means that they may take up the new post.

## 5. Preservation of pre-colonial social and religious elements and syncretism

The social and ritual life of the Zoque underwent radical changes during the colonial period and the 19<sup>th</sup> century, but is still running in a peculiar, syncretical way. For the Zoque from Tuxtla Gutiérrez the festive calendar is opened by a dance with a plume made from the feathers of a Scarlet Macaw, called *guacamaya – napap̄dk ettzé*, which coincides with the celebration of the carnival. The plume dance is one of the most ancient Zoque holidays, which in the pre-Spanish period marked the arrival of the New Year or "new sun".

Following this holiday is the celebration of Our Lady of the Candlemas (Virgen de Candelaria). On January 30, the Tuxtla Gutiérrez stewardship takes three statues of Madonna (those of Our Lady of the Rosary, Our Lady of the Candlemas and Our Lady of Olachea) from the church in Copoya to the home of the "first expecting mother" (*primera madre de espera*) or the first principal (*primer prioste*) of Our Lady of Candlemas in Tuxtla Gutiérrez, where the statues remain overnight. On January 31, the stewards take the statues to the home of the "second expecting mother" (*segunda madre de espera*) or the second principal of Our Lady of Candlemas. On February 1, the statues are transferred to the home of the second steward or the second guardian – elder of Our Lady of the Candlemas, to be moved to the house of the first steward or the first guardian – elder of Our Lady of the Candlemas on February 2. After that the statues pass from house to house of those Zoque families who have asked the stewardship for permission one year before (usually for the purpose of vows). As related by the informants,



in the past the Madonnas were allowed to remain overnight only in houses of stewards. The custom of mass reception of holy statues, which has become popular in the last decades, may even last until a week before Palm Sunday, when a procession of stewards and other believers takes the statues back to the church of Copoya. Each house prepares a major religious celebration, *mequé*, accompanied by all obligatory ritual elements of the Zoque religious life.

The turning point of the festive calendar is Corpus Christi and its eight days. This celebration has a special role for the stewardship, as on the eighth day of Corpus Christi it nominates and consecrates the second highest couple in the hierarchy of guardians – elders, the principal of the Most Holy Sacrament, who are responsible for the Christmas-time rituals taking place on December 8, 24 and 25. On the eve of Corpus Christi, *nas tzé*, “the dance of white earth”, is performed, while on the eve of the eight day of Corpus Christi, *tongui ettzé*, “the dance of spurs”, is performed.

One of the most important feast days of the stewardship is that of the Copoya Lady of the Rosary, closely connected to the holiday of Our Lady of the Candlemas. On October 13, the floral decorations and ritual food are prepared, and on the same day the new principal, taking up the post in the forthcoming year, is nominated. On October 14 (the day of St. Theresa), the Tuxtla Gutiérrez stewardship brings the three statues of Madonna from Copoya. For one week, until October 23, they stay with the first principal of the Copoya Lady of the Rosary, who ranks highest on the hierarchical ladder of the Tuxtla Gutiérrez stewardship. The principal must be wealthy enough to host the stewardship and the visitors. His *mequé* is the most famous and requires, aside from the Candlemas celebration, the greatest amount of floral decorations, food and gifts. The celebration of Our Lady of Copoya is held right before the peak of the agricultural season; that is, before the beginning of the harvest.

The festive calendar ends with three feast days that have to be organized by the Tuxtla Gutiérrez principal of the Most Holy Sacrament (*prioste del Santísimo*). These are: the ritual sowing time (*la siembra*) on the day of the Immaculate Conception (December 8), Christmas (December 24 and 25) and Epiphany (January 6).

All these rituals are characterised by numerous pre-colonial religious elements mixed with Christian ones: for example, the making of *j̄ɔyo natzé* and *j̄ɔyo tzok tok* ritual floral decorations, the *llomo ettzé* dance of fertility, the *napap̄ɔk ettzé* plume dance, the ritual sowing, etc.<sup>41</sup> We have also seen how some colonial institutions have replaced their analogous Mesoamerican counterparts. The substitution policy of Christianisation replaced the pre-colonial temples with

<sup>41</sup> This has already been mentioned elsewhere: “Joyo naque, joyo soc toc – flor costurada, flor amarrada (Flor y el simbolismo zoque de los floreados)”. *Cultura y etnicidad zoque. Nuevos enfoques en la investigación social de Chiapas*. (Dolores Aramoni, Thomas A. Lee, Miguel Lisbona Coord.), San Cristóbal de las Casas, Chiapas, México: Universidad de Ciencias y Artes del Estado de Chiapas, Universidad Autónoma de Chiapas, 1999, pp. 129 – 136.

Christian chapels and churches, the saints took the place of the *cowiná* ancestors, the lords of the earth and deities of fertilities, the brotherhoods endeavoured to transform the local kinship institutions.

Despite the process of Europeanization, which the Zoque society experienced in the colonial period, and the process of assimilation brought about by the economic development of the national society in the 19<sup>th</sup> century, the essential traces of the Zoque social system and ideological values have in a shrouded and altered form survived till the present day. Determinate elements of the social-religious organisation of the Zoque society and its ritual life more or less explicitly indicate a surprising perpetuation of the pre-colonial cultural tradition.

In the celebration of the three Christian figures – Our Lady of the Rosary, Our Lady of the Candlemas and Saint Theresa – there are so many specific agricultural elements of the Zoque culture that we could hardly classify it as a Catholic holiday. The representatives of the official Catholic clergy from Tuxtla Gutiérrez do not take part in the celebration at all, as they do not agree with its contents and course. The care of the religious images and the organisation of “The Three Copoya Virgins” ritual are in the exclusive domain of the members of the Tuxtla Gutiérrez Zoque stewardship and the Copoya Society.

## 6. Conclusion

While the Spanish forcibly changed the material basis of the Zoque society, the essential traces of its social system and ideological values survived in shrouded and altered forms. This is in fact a process of transformation, the dynamics of which is set in a longer time period and in which the essential elements have survived interwoven with new concepts and values.<sup>42</sup>

In spite of the process of ethnocide caused by the Spanish Conquest, during the colonial period the Zoque were able to start the process of ethnogenesis on the basis of an altered way of living. The institution of church brotherhoods, which the Spanish introduced as a means of Evangelization and Europeanization, enabled the Zoque at the same time to preserve their pre-colonial ideological values and a cosmological concept, while the development of village and town districts allowed them to continue – though in an altered form – the pre-colonial local-kinship social system of *cowiná*.

The brotherhoods – as a means of adjustment to new social, cultural, economic and political circumstances – enabled the Zoque to face the changes,

<sup>42</sup> J. Velasco Toro, “Territorialidad e identidad histórica en los zoques de Chiapas” in: *Antropología Mesoamericana. Homenaje a Alfonso Villa Rojas* (Víctor Manuel Esponda, Sophia Pincemin y Mauricio Rosas Comp.), *Serie Nuestros Pueblos Chiapas 10*. Gobierno del Estado de Chiapas. Consejo Estatal de Fomento a la Investigación y Difusión de la Cultura. DIF – Chiapas, Instituto Chiapaneco de Cultura, Tuxtla Gutiérrez, Chiapas, México, 1993, p. 265.

helping them find and determine their own identity within the new colonial society.<sup>43</sup>

The Spanish did not establish the “Indian Republic” for political but rather economic reasons. The feudal economy of New Spain required the tributary system. The republic gave the Zoque minimal political status and the possibility to use heritable plots. The very tributary system ensured them partial economic autonomy, on the basis of which they could preserve and transform their social relationships and religious values.

The institution of brotherhoods secured them the “communal land”, on which they bred horses and cattle, using the greater part of the income from these activities to cover the expenses of the community’s religious life. The close relationship between colonial economy and social-religious life enabled the Zoque to continue the pre-colonial cultural tradition even in colonial times.

The period of the Mexican republic caused an economic collapse as well as a political and cultural devaluation of the Zoque society. In the 19<sup>th</sup> century the Zoque lost their right to the use of land. This was followed by an economic assimilation into the national society, and later by a cultural, linguistic and ethnic fusion. The Zoque, like all other autochthonous groups of Latin America, did not have any political rights. The new Mexican constitution, which supported the economic development of private capital, only expressed the idea of the “equality of the citizens”. It did not mention any autochthonous populations.

The time of the Mexican revolution and social reforms returned the communal lands, *ejidos*, to the Indians. But for the Zoque of Tuxtla Gutiérrez it was already too late. The economic circumstances of the 19<sup>th</sup> century had made them look for new sources of sustenance. They had abandoned agriculture and dedicated themselves to different types of craft. Despite everything, though, they still observed the fertility ritual, which was closely connected to agricultural production and a local kinship-based social system. The social-religious association with the Zoque agricultural community from Copoya enabled them to preserve a ritual of an exclusively agricultural character.

In the second half of the 19<sup>th</sup> century the Zoque from Tuxtla Gutiérrez were rapidly losing their economic, ethnic, social and linguistic originality, for this reason clinging even more than any other Zoque community to the institution of religious posts called stewardship, which helped them through the times of crisis thanks to its cohesive social character.

In the Indian community of the Zoque from Tuxtla Gutiérrez the economic aspect of the religious posts system is of fundamental importance. The economic level of the ritual community strengthens mutual assistance and assures an even distribution of goods among the members of the community. We mentioned before that the saints’ guardians are chosen from among the wealthiest people,

---

<sup>43</sup> D. Aramoni Calderón, “Indios y cofradías. Los Zoques de Tuxtla” in: *Anuario IEI V (1995)*, CEI-UNACH, San Cristóbal de las Casas, Chiapas, 1995, p. 90.

who are constantly alternating at the post. Poorer members of the community are also allowed to take up various functions, and they receive financial support from the community. The social level binds the community into a homogeneous unit that allows any individual to take part in the system of government. The alternation of posts prevents the monopoly of an individual and promotes a high degree of democracy. The symbolic level is the ideological binder of the society. It determines the conceptive world of the community and prevents the *mestizo* from entering it.

The ideology of belonging to a certain social group or the ideology of a group's identity is a dynamic process ranging from totemic clan classifications to nationality, depending on the degree of historic development. It is also a process involving degrees of enlightenment and awareness of affiliation to a determined group. The Zoque from the Chiapas Highlands never mention their ethnic affiliation. They identify with the area they inhabit and the ancestors inhabiting the area before them. For them awareness of local affiliation is evident; the concepts of ethnic identity and diversity are alien to them as there is no subject close to them that they could recognize as different in this sense. The Zoque from the Central Chiapas Lowlands, on the other hand – in our case the Zoque from Tuxtla Gutiérrez – have been confronting cultural diversity for more than 3,000 years and have therefore been forced to determine by themselves the ideological limits of such diversity, lest these should be forced on them by politics.

Thanks to the institution of stewardship the present Zoque community in Tuxtla Gutiérrez is able to maintain its social connectedness and homogeneity and consciously express its cultural originality. The transformed social-religious institution continues to perform the function of pre-colonial local-kinship communities of *cowiná* and colonial local brotherhoods that acted as the fundamentals for the formation of religious values. The Zoque adjusted the institution of religious posts to their own religious, social-political and economic needs, or in the words of Dolores Aramoni: the appropriation of an imposed social institution allowed the Zoque culture to survive.<sup>44</sup>

The identity of the Zoque from Tuxtla Gutiérrez is consciously expressed through the phenomenon of a religious-social institution that on the one side maintains and takes care of mutual economic assistance, while on the other side strengthens the concept of diversity. In the case of the Tuxtla Gutiérrez Zoque, who in the second half of the 20<sup>th</sup> century lost almost all traces of their linguistic originality, religion became the essential identity symbol, as it maintains the balance between the economic basis, social cohesiveness and the conceptive world of the community.

---

<sup>44</sup> Op. cit., p. 35.

## References

- Aramoni Calderón, D.: “Indios y cofradías. Los Zoques de Tuxtla”, in: *Anuario IEI V (1995)*, CEI-UNACH, San Cristóbal de las Casas, Chiapas, 1995.
- Aramoni Calderón, D.: “La cowiná zoque, nuevos enfoques de análisis” in: *Cultura y etnicidad zoque. Nuevos enfoques en la investigación social de Chiapas* (Dolores Aramoni, Thomas A. Lee, Miguel Lisbona Coord.), Universidad de Ciencias y Artes del Estado de Chiapas, Universidad Autónoma de Chiapas, San Cristóbal de las Casas, Chiapas, 1998.
- Aramoni Calderón, D.: “Las cofradías zoques: espacio de resistencia” in: *Anuario IEI VII (1998)*, CEI-UNACH, San Cristóbal de las Casas, Chiapas, 1998.
- Aramoni Calderón, D.: “Los zoques en la época colonial: fuentes de investigación” in: *I. Reunión de Investigadores del Área Zoque, Tecpatán, Chiapas, 1986*, CEI-UNACH, Chiapas, 1989.
- Aramoni Calderón, D.: “Renacimiento de la cofradía de San Agustín Tapalapa” in: *Anuario IEI IV (1991-1993)*, CEI-UNACH, San Cristóbal de las Casas, Chiapas, 1994.
- Aramoni Calderón, D.: *Los refugios de lo sagrado. Religiosidad, conflicto y resistencia entre los zoques de Chiapas*, Colección Regiones, Consejo Nacional para la Cultura y las Artes, México, 1992.
- Báez-Jorge, F.: “El sistema de parentesco de los zoques de Ocotepec y Chapultenango, Chiapas” in: Alfonso Villa Rojas et.al, *Los Zoques de Chiapas*, INI-SEP, Serie de Antropología Social, Colección 39, México D. F., 1975.
- Clark, J. E.: “Los olmecas, pueblo del primer sol” in: *Los olmecas en Mesoamérica* (John E. Clark ed.), México, 1994.
- Clark, J. E.: “Antecedentes de la cultura olmeca” in: *Los olmecas en Mesoamérica* (John E. Clark ed.), México, 1994.
- De Remesal, F. A.: *Historia General de las Indias Occidentales y Particular de la Gobernación de Chiapas y Guatemala. Tomo II*, Editorial Porrúa, México, 1988 (first edition: Madrid, 1619).
- Fábregas Puig, A. “Una interpretación de la estructura de poder entre los zoques” in: *Antropología Mesoamericana. Homenaje a Alfonso Villa Rojas* (Víctor Manuel Esponda, Sophia Pincemin y Mauricio Rosas Comp.), Serie Nuestros Pueblos Chiapas 10. Gobierno del Estado de Chiapas. Consejo Estatal de Fomento a la Investigación y Difusión de la Cultura. DIF – Chiapas, Instituto Chiapaneco de Cultura, Tuxtla Gutiérrez, Chiapas, México, 1993.
- Fábregas Puig, A.: “Cambios en la estructura de poder de los zoques: una formulación” in: *I. Reunión de Investigadores del Área Zoque, Tecpatán, Chiapas, 1986*, CEI-UNACH, Chiapas, 1989.

- Fábregas Puig, A.: “Notas sobre las mayordomías zoques en Tuxtla Gutiérrez” in: *Revista ICACH 2-3/20-21, 1970-71*, Instituto de Ciencias y Artes de Chiapas, Tuxtla Gutiérrez, Chiapas, 1971.
- Foster, G. M.: “Cofradía y Compadrazgo en España e Hispano-América” in: *Guatemala Indígena 1*, Guatemala, 1961.
- Južnič, S.: *Identiteta*, Fakulteta za družbene vede, Ljubljana, 1993.
- Lee, Th. A.: “El canón del río La Venta en la historia zoque” in: *Cultura y etnicidad zoque. Nuevos enfoques en la investigación social de Chiapas* (Dolores Aramoni, Thomas Lee, Miguel Lisbona Coord.), Universidad de Ciencias y Artes del Estado de Chiapas, Universidad Autónoma de Chiapas, San Cristóbal de las Casas, Chiapas, 1998.
- Lee, Th. A.: “La lingüística histórica y la arqueología de los zoque-mixe-popolucas” in: *1. Reunión de Investigadores del Área Zoque, Tecpatán, Chiapas, 1986*, CEI-UNACH, Chiapas, 1989.
- Lisbona Guillén, M.: “Entre la Modernidad y la Identidad: Apuntes en torno al Sistema de Cargos y la Etnicidad en una Comunidad Zoque de Chiapas” in: *América Indígena LIV, No. 4, oct.- dic. 1994*, Instituto Indigenista Interamericano, México, 1994.
- Lisbona Guillén, M.: “Los estudios sobre zoques de Chiapas. Una lectura desde el olvido y la reiteración” in *Anuario 1993*, Instituto Chiapaneco de Cultura, Gobierno del Estado de Chiapas, Tuxtla Gutiérrez, México, 1994.
- Lisbona Guillén, M.: “Religión en Ocoatepec, Chiapas” in: *Anuario 1991*, Instituto Chiapaneco de Cultura, Gobierno del Estado de Chiapas, Tuxtla Gutiérrez, México, 1991.
- López Espinoza, O.: “Un ritual agrícola en la ciudad” in: *Cultura y etnicidad zoque. Nuevos enfoques en la investigación social de Chiapas* (Dolores Aramoni, Thomas A. Lee, Miguel Lisbona Coord.), Universidad de Ciencias y Artes del Estado de Chiapas, Universidad Autónoma de Chiapas, San Cristóbal de las Casas, Chiapas, 1998.
- Medina-Hernández, A.: “Los que tienen el don de ver: los sistemas de cargos y los hombres de conocimiento en los Altos de Chiapas” in: *I. Coloquio: Historia de la Religión en Mesoamérica y Áreas Afines*, Instituto de Investigaciones Antropológicas de la UNAM, Serie Antropológica 78, 1987.
- Rivera-Farfán, C.: “El carnaval de Ocozacoautla” in: *Revista del Consejo 5*, Consejo Estatal de Fomento a la Investigación y Difusión de la Cultura, Instituto Chiapaneco de Cultura, Tuxtla Gutiérrez, México, 1991.
- Rivera-Farfán, C.: “La organización ceremonial en San Fernando y Ocozacoautla” in: *Cultura y etnicidad zoque. Nuevos enfoques en la investigación social de Chiapas* (Dolores Aramoni, Thomas A. Lee, Miguel Lisbona Coord.), Universidad de Ciencias y Artes del Estado de Chiapas, Universidad Autónoma de Chiapas, San Cristóbal de las Casas, Chiapas, 1998.



- Rivera-Farfán, C; Lee Whiting, T. A.: “El Carnaval de San Fernando, Chiapas: los motivos zoques de continuidad milenaria” in: *Anuario 1990*, Instituto Chiapaneco de Cultura, Gobierno del Estado de Chiapas, Tuxtla Gutiérrez, México, 1991.
- Terčelj, M-M.: “Joyo naque, joyo soc toc – flor costurada, flor amarrada. (Flor y el simbolismo zoque de los *floreados*)” in: *Cultura y etnicidad zoque. Nuevos enfoques en la investigación social de Chiapas* (Dolores Aramoni, Thomas A. Lee, Miguel Lisbona Coord.), Universidad de Ciencias y Artes del Estado de Chiapas, Universidad Autónoma de Chiapas, San Cristóbal de las Casas, Chiapas, 1998.
- Terčelj, M-M.: “Magia de la sangre. Del simbolismo a la terapéutica” in: *Anuario IEI V (1995)*, CEI-UNACH, San Cristóbal de las Casas, Chiapas, 1995.
- Terčelj, M-M.: *Sokejska kozmologija kot interpretacijski model in kot predmet etnološke (antropološke) razlage*, Doctoral dissertation, Department of Ethnology and Cultural Anthropology of the Faculty of Arts, Ljubljana, 1999.
- Velasco Toro, J.: “Territorialidad e identidad histórica en los zoques de Chiapas” in: *Antropología Mesoamericana. Homenaje a Alfonso Villa Rojas* (Víctor Manuel Esponda, Sophia Pincemin y Mauricio Rosas Comp.), *Serie Nuestros Pueblos Chiapas 10*. Gobierno del Estado de Chiapas. Consejo Estatal de Fomento a la Investigación y Difusión de la Cultura. DIF – Chiapas, Instituto Chiapaneco de Cultura, Tuxtla Gutiérrez, Chiapas, México, 1993.
- Velasco Toro, J.: “Perspectiva histórica” in: *Los Zoques de Chiapas* (Alfonso Villa Rojas et al.), Instituto Nacional Indigenista y Secretaria de Educación Pública, Serie de Antropología Social, Colección 39, México, D. F., 1975.

PROFESSOR ANDRÁS HERNÁDI, PHD

*Institute for World Economics, Hungarian Academy of Sciences, Budapest*

## JAPAN'S TRADE AND FDI POLICIES IN THE FIRST DECADE OF THE 21<sup>st</sup> CENTURY

**Abstract:** *The article begins by illustrating with hard, statistical and soft, survey data where Japan and its competitiveness stand compared with the other two poles of the world economy: the United States and the European Union (I). It goes on to recapitulate the main trends in Japan's foreign trade and FDI flows up to the present day (II), before considering the likely trends in Japan's external economic policies (III). It ends with some conclusions on the future of Japan's economic partnership and free-trade agreements (IV).*

**Key words:** *Japan, competitiveness, trade and FDI policies, economic partnership and free trade agreements (EPAs and FTAs).*

### 1. Japan in today's world economy

Per capita GDP data for 2003, measured at current prices and exchange rates, reveal a clear hegemony in the world economy of the United States, although Japan and the three largest EU members (Germany, France, and the UK) came quite close. While the total GDP of the EU 25 was almost identical with that of the United States, its greater population made the EU per capita figure much lower, whereas Japan's was only 10 per cent less (Table 1). When purchasing-power parity (PPP) data are compared, the United States is still in the vanguard of the world and its position in relation to Japan becomes another 15 percentage points better (Table 2).

The media in 1997-8 was awash with news of an Asian crisis. Front-page news tend to exaggerate. In this case, it would have been closer to the truth to

---

\* Thanks are due to the Japan Society for the Promotion of Science for a research fellowship allowing the author to exchange views on related subjects with Japanese scholars in September 26-October 15, 2004. Special thanks go to Ritsumeikan University and Professors Hiroshi Tanaka and Kazuo Inaba for hospitality and help.

speak of a crisis in Southeast Asia,<sup>1</sup> for it was far from general. China and India were practically unaffected, and other strongly 'regulated', smaller economies felt some limited impacts. Even the countries hardest hit, such as South Korea, Indonesia, Malaysia, and Thailand, overcame the crisis in a couple of years, returning to a growth path faster than the rest of the world's, and even more importantly, reappearing on their main export markets (Table 3).

On Japan, the impact was relatively greater as the country had already gone through a decade of stagnation. Yet the author has argued before,<sup>2</sup> that this was no 'lost decade' but a period of transformation, leading to further internationalization (globalization) of the economy and society. Even growth rates had started to 'normalize' by 2003 and 2004.<sup>3</sup>

**Table 1.** A comparison of GDP, population and GDP per capita in selected developed countries, USD, current prices and exchange rates, 2003

	GDP, USD billion	Population, millions	GDP p.c., USD
United States	10,895.5	291	37,440
EU 25	10,930.5	455	24,020
Germany	2,405.9	82	29,340
France	1,752.1	60	29,200
UK	1,786.0	59	30,270
Japan	4,302.1	128	33,610

**Sources:** Author's compilation and calculations based on *IMD World Competitiveness Yearbook*, 2004; *IMF International Financial Statistics Yearbook*, 2003; *ECB Statistics Pocket Book*, July 2004.

**Table 2.** GDP, population and GDP per capita in selected developed countries, USD, PPP, 2003

	GDP, USD billion	Population, millions	GDP p.c., USD
United States	10,628	291	36,520
EU 25	11,306	455	24,850
Germany	2,234	82	27,240
France	1,603	60	26,720
UK	1,583	59	26,830
Japan	3,518	128	27,480

**Sources:** As Table 1.

<sup>1</sup> The author and colleagues argued this in A. Annamária, Z. Bassa, A. Hernádi and K. Mészáros: "The Far Eastern region: moving beyond an atmosphere of crisis", *Journal of East Asian Affairs* XIV, 2, 2000. See also A. Annamária, Z. Bassa, A. Hernádi, K. Mészáros and A. Székely-Doby: *Far Eastern responses to globalization*, Working Papers 138., Institute for World Economics (IWE), Budapest, 2003.

<sup>2</sup> See, for example, Hernádi, András (2001), "Crisis or transformation? Japan viewed from Hungary" in: Hernádi András and Makoto Taniguchi, *Japan and Asia in a new global age*, Working Papers 114, Budapest: IWE.

<sup>3</sup> GDP forecasts for Japan for 2004 range between 3 and 4.5 per cent.

**Table 3.** GDP real growth rates in Asia (15), the World, the United States and the EU, 1996-2003

	1996.	1997.	1998.	1999.	2000.	2001.	2002.	2003.
Japan	3.5	1.8	-1.1	0.7	2.4	-0.6	1.2	2.7
China	9.6	8.8	7.8	7.1	8.0	7.3	6.7	9.1
India	7.8	4.8	6.5	6.1	4.4	5.6	4.7	8.1
South Korea	6.7	5.0	-6.7	10.9	9.3	3.1	6.3	3.1
Taiwan <sup>a</sup>	5.7	6.8	4.8	5.7	6.0	-1.9	2.6	3.2
Brunei	NA	NA	NA	NA	NA	NA	NA	NA
Cambodia	NA	NA	NA	NA	5.4	5.5	5.5 <sup>p</sup>	5.0 <sup>t</sup>
Indonesia	7.8	4.7	-13.1	0.8	4.9	3.3	3.7 <sup>p</sup>	4.1
Laos	6.9	6.9	4.0	7.3	5.8	5.7	5.7	5.9 <sup>t</sup>
Malaysia	10.0	7.3	-7.4	6.1	8.3	0.4	-0.7	5.2
Myanmar	6.4	5.7	5.8	10.9	6.2	10.5	5.3 <sup>p</sup>	5.1 <sup>t</sup>
Philippines	5.8	5.2	-0.6	3.4	4.0	3.4	4.4 <sup>p</sup>	4.5
Singapore	7.7	8.5	-0.1	6.9	10.3	-2.4	2.2	1.1
Thailand	5.9	-1.4	-10.5	4.4	4.6	1.8	5.4	6.7
Vietnam	9.3	8.2	5.8	4.8	6.8	6.9	7.0	7.2 <sup>t</sup>
World	4.4	4.2	2.6	3.5	4.5	1.6	1.7	2.5 <sup>p</sup>
United States	2.8	3.3	2.8	3.3	3.4	0.8	1.7	3.1 <sup>p</sup>
EU <sup>x</sup>	2.7	2.7	2.7	2.7	2.7	1.7	1.1	0.8

**Sources:** IMF *International Financial Statistics Yearbook*, 2003 (for 1996-2002) and IMD *World Competitiveness Yearbook*, 2004 (for 2003). For the EU: ECB *Statistics Pocket Book*. For Cambodia (all years), Laos, Myanmar and Vietnam (for 2003): UN ESCAP *Economic and Social Survey of Asia and the Pacific*, various issues. To avoid inflation impact and exchange-rate fluctuations, figures are based on GDP data in national currencies at constant (1995) prices. Sources for 1996-9: UN ESCAP, *Ibid.* For 2000-2002: Deutsche Bank Research /www.dbresearch.de/. p) Preliminary estimate. t) Forecast/target. Source: UN ESCAP, *Ibid.* x) 1996-2000: average.

Table 4 illustrates global positions in exports and imports. The former can also be considered as a dimension of international competitiveness, while the latter reflect a country's absorption capacity for consumption, and perhaps more importantly, its readiness to invest or efforts at further development. As the table shows, the United States is the one country considered here that spent significantly more on imports than it earned by exports, thus contributing to one of its twin deficits. The EU 15 kept its leading trading position in the world, although Germany was the only one of its three biggest members to export more than either of the two leading Asian economies, Japan and the People's Republic of China.<sup>4</sup> (The People's Republic was already a bigger importer than Germany in 2003).

<sup>4</sup> The People's Republic of China appears under two headings in Table 4: Mainland China and Hong Kong. The data should be added to show the People's Republic's trading positions.

**Table 4.** *Export and import positions of selected countries, 2003*

	Exports		Imports	
	USD billion	(%)	USD billion	(%)
World	7530	(100)	7819	(100)
United States	724	(9.6)	1305	(16.7)
EU 15	2879	(38.2)	2788	(35.7)
France	386	(5.1)	390	(5.0)
Germany	742	(9.9)	596	(7.6)
UK	306	(4.1)	384	(4.9)
Japan	474	(6.3)	383	(4.9)
Mainland China	438	(5.8)	413	(5.3)
Hong Kong	224	(3.0)	232	(3.0)

**Source:** *IMF Direction of Trade Statistics Quarterly*, September 2004.

Table 5 shows overall rankings of the same countries for world competitiveness in 2000 and 2004. The United States kept its top position, but the other highly developed countries under discussion lost competitiveness. Only Mainland China and Hong Kong improved their positions.

**Table 5.** *World competitiveness rankings of selected countries, 2000 and 2004*

	2000.	2004.
United States	1	1
Germany	8	21
UK	15	22
France	19	30
Japan	17	23
Hong Kong	14	6
Mainland China	31	24

**Source:** *IMD World Competitiveness Yearbook*, 2000 and 2004.

The two most efficient ways for countries to improve international competitiveness is to continue utilizing the advantages offered by export orientation and FDI inflows and outflows. The share of merchandise exports as a proportion of GDP in Japan (dependent on its domestic market, though considered a merciless exporter in some markets and some product categories) remained at 10-12 per cent over the 1996-2003 period. Shares in other countries with huge domestic markets either rose considerably (Germany: 20-21 per cent; People's China: 31 per cent), or decreased steadily (the United States from 10 to 6.5 per cent and the UK from 27 to 17 per cent). In the same period, all Asian economies reviewed and Germany improved their current-account positions as proportions of GDP (Japan: 1.5 and 3.2 per cent; Mainland China: 0.8 and 3.3 per cent; Hong Kong: -1.0 and 10.2 per cent; Germany: -0.3 and 2.3 per cent. The current-account posi-

tion worsened significantly in the United States (-1.8 and -4.8 per cent) and to some extent in France (1.3 and 1.0 per cent) and the UK (-0.1 and -1.7 per cent).<sup>5</sup>

Inward direct investment stocks in Mainland China in 2003 surpassed USD 500 billion, supplemented by USD 375 billion in Hong Kong (United States USD 1554 billion; UK USD 672 billion; Germany USD 545 billion; France USD 434 billion). Japan, with various liberalization and FDI-attraction schemes, continued to catch up (USD 90 billion). Some of the countries under review were very active in FDI exports. Direct investment stocks abroad in 2003 stood at USD 336 billion for Japan, and USD 37 billion for People's China and for Hong Kong (United States USD 2069 billion; UK USD 1129; France USD 643 billion; Germany USD 622 billion; Netherlands USD 384 billion).<sup>6</sup>

The positions of the United States and People's China in international competitiveness were remarkable for a number of factors. But Table 6 shows that Japan, the leading Asian economy, excelled only in accumulating gold and foreign exchange reserves (SDR 450 billion, highest in the world).<sup>7</sup> The only other notable Japanese statistics here were the share of high-technology exports in its total manufactured exports (25 per cent). Survey data did not show it a big achiever either.

## 2. Main trends in Japan's trade and FDI flows

Before making predictions about the future in Japan's external economic policies, it is advisable to study some basic historical trends. Japan's share of world exports eased considerably in the last decade (from 9.6 per cent in 1993 to 6.1 per cent in 2003), while those of the United States and the EU decreased much less (from 12.3 to 9.1 per cent and from 38.7 to 36.8 per cent respectively). The only country surveyed where the import share grew was the United States (from 15.8 to 17.3 per cent). It virtually stagnated in the EU (from 36.8 to 37.0 per cent) and lost relative weight in Japan (from 6.4 to 5.1 per cent).<sup>8</sup> Japan suffered a huge loss of international position in FDI exports in 1990-2003 (from 11.5 to 4.1 per cent) while its main rivals retained or increased shares that were twice to four times as great initially. The relative weight of Japan's inward stock doubled, but remained modest compared with its competitors, whose shares did not change significantly (Table 7).

<sup>5</sup> *IMD World Competitiveness Yearbook*, 1997 and 2004, and author's calculations based on *IMF International Financial Statistics* 2000 and October 2004.

<sup>6</sup> *UN World Investment Report*, 2004.

<sup>7</sup> Japan improved that position further to USD 838 billion by the end of October 2004, the latest figure available; <http://www.boj.or.jp/en/stat/sk/data/skeall.pdf/>

<sup>8</sup> Author's calculations based on *IMF Direction of Trade Statistics Yearbook*, 2000 and 2003, and Quarterly, September 2004.



**Table 6. Selected factors for international competitiveness, 2002-2004**

	Total reserves: ranking (SDR billion)	Tax revenues as a proportion of GDP: ranking (%)	Employers' social security contributions, income as proportion of GDP p. c.: ranking (%)	Exchange-rate policy and company competitiveness: ranking (score)*	Government subsidies to firms as proportion of GDP: ranking (%)	Creation of firms hindered or supported by legislation: ranking (score)*	Investment incentives to foreign investors: ranking (score)*	Total compensation of manufacturing workers: ranking (USD/ hour)	Average annual working time: ranking (hours)	Attitudes toward globalization: ranking (score)*	Values of society supporting competitiveness: ranking (score)*	High-tech as a proportion of manufacturing exports: ranking (%)
Japan	1 (447)	23 (27)	28 (15)	16 (6.1)	26 (0.8)	32 (5.9)	44 (4.8)	45 (20.3)	34 (1864)	20 (6.7)	32 (5.9)	14 (24.5)
China	2 (294)	12 (17)	1 (0)	10 (6.4)	27 (0.9)	23 (6.6)	13 (7.0)	5 (0.7)	23 (1958)	21 (6.7)	18 (6.6)	16 (23.3)
USA	8 (60)	26 (29)	19 (9)	4 (6.8)	15 (0.4)	6 (7.8)	16 (6.8)	49 (21.3)	29 (1895)	23 (6.6)	2 (8.4)	7 (31.9)
France	19 (24)	55 (44)	57 (51)	54 (3.4)	40 (1.3)	40 (5.3)	27 (6.2)	46 (20.8)	59 (1561)	56 (4.2)	56 (4.5)	20 (21.2)
Germany	11 (38)	42 (36)	35 (21)	49 (4.2)	44 (1.5)	48 (4.6)	45 (4.8)	59 (30.0)	55 (1674)	29 (6.2)	49 (5.0)	29 (16.6)
UK	15 (29)	39 (36)	20 (10)	43 (4.7)	16 (0.5)	35 (5.7)	28 (6.2)	44 (19.1)	38 (1787)	26 (6.4)	26 (6.2)	10 (31.4)

**Source:** Author's compilation based on various tables in *IMD World Competitiveness Yearbook, 2004*, covering 51 countries in 9 regions.

\* Survey data given on a 0-10 scale of negative to positive perceptions.

**Table 7. Japan's international position in stock of FDI exports and imports, 1990-2002**

	Exports		Imports	
	1990.	2003.	1990.	2003.
	USD billion	USD million	USD billion	USD billion
World	1,758.216	8,196.863	1,950.303	8,245.074
Japan	201.441	335.500	9.850	89.729
USA	430.521	2,069.013	394.911	1,553.955
EU	797.102	4,035.610	795.808	3,335.454
	%	%	%	%
World	100	100	100	100
Japan	11.5	4.1	0.5	1.1
USA	24.5	25.2	20.2	18.8
EU	45.3	49.2	40.8	40.5

**Source:** *UN World Investment Report, 2004*

**Table 8. The partner structure of Japanese foreign trade, %, 1996-2002**

Partner	Exports										Imports									
	1996.	1997.	1998.	1999.	2000.	2001.	2002.	1996.	1997.	1998.	1999.	2000.	2001.	2002.						
World, US\$ billion=100%	411.3	421.1	388.0	419.2	478.2	403.4	416.6	349.6	338.6	280.8	310.7	380.5	349.1	337.1						
United States	27.5	28.1	30.9	31.1	30.1	30.4	28.8	22.9	22.4	24.0	21.7	19.1	18.3	17.4						
EU	15.4	15.6	18.5	17.8	16.4	16.0	14.7	14.2	13.4	14.0	13.8	12.3	12.8	13.0						
Australia & New Zealand	2.2	2.2	2.4	2.4	2.1	2.2	2.3	4.8	5.0	5.3	4.7	4.5	4.7	4.7						
Asian developing	44.1	42.2	34.8	37.4	41.3	40.1	43.2	37.7	37.2	37.2	39.9	41.9	42.5	43.6						
China & Hong Kong	[11.5]	[11.6]	[11.0]	[10.9]	[12.0]	[13.4]	[15.7]	[12.3]	[13.0]	[13.8]	[14.4]	[15.0]	[17.0]	[18.7]						
European developing*	0.9	1.1	1.2	0.9	0.9	1.0	1.1	1.5	1.6	1.4	1.6	1.6	1.5	1.4						
Middle East	2.6	2.7	3.5	2.6	2.2	2.8	2.9	10.1	11.3	9.1	9.9	13.0	12.7	12.1						
Latin America	4.1	4.7	5.0	4.3	3.9	4.1	3.6	3.2	3.3	3.2	3.0	2.8	2.6	2.6						
Other	3.2	3.4	3.7	3.5	3.1	3.4	3.4	5.6	5.8	5.8	5.4	4.8	4.9	5.2						

**Source:** Author's calculations based on *IMF Direction of Trade Statistics Yearbook, 2003*. \*Including all post-Soviet states.

**Table 9. Regional distribution of Japan's exports of FDI, %, 1995-2003**

Destination	1995.	1996.	1997.	1998.	1999.	2000.	2001.	2002.	2003.*
World, US\$ million=100%	22,630	23,428	25,993	24,151	22,743	31,556	38,333	32,280	12,456
Asia	37.6	41.6	50.5	32.5	8.6	6.9	20.4	25.3	20.6
People's China	14.2	9.9	7.2	5.4	1.6	3.0	5.6	8.1	10.4
Hong Kong	1.5	4.7	6.8	3.3	-0.7	0.4	1.3	0.7	1.3
ASEAN	17.7	22.4	29.9	18.7	4.9	0.7	10.5	13.2	6.0
United States	39.3	47.3	28.4	23.5	31.2	44.7	18.5	23.5	26.7
Latin America	NA	-6.0	9.0	23.4	24.2	12.6	11.3	12.6	14.2
Oceania	NA	3.0	1.1	5.9	0.2	0.9	1.7	4.4	3.3
Western Europe	14.8	12.1	9.6	9.2	36.1	34.7	46.7	30.2	31.3
Eastern Europe	NA	0.4	0.4	0.8	0.6	0.5	0.2	0.4	1.9
Middle East	NA	1.1	0.8	0.5	0.5	-0.1	0	0.3	-0.2
Africa	NA	-0.5	0.5	1.4	0.9	-0.6	-0.5	0.7	2.1
Other	8.6	1.0	-0.3	2.8	-2.3	0.4	1.7	2.6	0.1

**Source:** Author's calculations based on data from Regional Balance of Payments, Bank of Japan, Ministry of Finance ([www.mof.go.jp/bop](http://www.mof.go.jp/bop)), and *IMF Direction of Trade Statistics Yearbook, 2003*. \*First half.

Although Japan's share of global trade decreased, it managed to retain its huge export surplus throughout the period under review. Its trade surplus between 1996 and 2003 was never less than USD 50 billion and in most years reached or even surpassed USD 100 billion (Table 8, Row 1). These annual surpluses represented 15-30 per cent of its exports.

The structure of this trade by main partners (Table 8) was remarkably stable on the export side. The Asian developing countries, the United States, and the EU all continued to account for outstanding, high and significant shares respectively. However, around the time of the Southeast Asian financial crisis in the middle of the period, Japanese exporters adapted fast to sluggish demand in Asian developing countries by increasing sales to the United States and the EU. Meanwhile the Chinese market (Mainland China and Hong Kong), not hit by the crisis, remained a voracious market for Japanese products, even increasing its share from 11 to 16 per cent after 2000.

Imports showed bigger changes. The US share declined steadily from 24 to 17 per cent, while that of the Asian developing countries increased from 37 to 44 per cent – above their share of Japan's exports. Again, China was the striking performer (12 to 19 per cent) and overtook the United States. A modest increase in the share of the Middle East after 1999 might be explained by considerations of oil-supply security.

Table 9, Row 1, shows that Japan's annual exports of FDI rose from the USD 23-26 billion range in the second half of the 1990s to USD 32-38 billion.<sup>9</sup> Western Europe has consistently held the greatest share since 1999, while Asia has also surpassed the United States. The trends reflect Japan's endeavours to moderate its dependence on the United States, in favour of neighbouring Asian countries and the third pole, Western Europe or the EU. Another development worth mentioning has been the stabilization of Latin America's share at 12-14 per cent by the end of the period under review. (The relationship with free-trade agreements such as NAFTA and the one mooted between Japan and Mexico is mentioned in the next chapter.)

Special attention needs to be paid to intra-regional changes among the Asian countries. People's China showed a steady decrease between 1995 and 1999, followed by a steady increase, but together with Hong Kong, it only surpassed the combined share of the ASEAN countries in 2000 and in the first half of 2003. (Except in the first half of 2003, Eastern Europe hardly reached 1 per cent, with a relative weight of 0.5 per cent throughout the period.)

---

<sup>9</sup> The 2003 figure of USD 29 billion remained close to latter range. UN World Investment Report, 2004.

### 3. Probable trends in Japan's external economic policies

Japan's social and economic changes in the last decade were parts of a transformation process, bringing it increasingly into line with international macro development and micro business models, without losing its precious cultural and other traditions. There had been earlier efforts to cut back state intervention in the economy, notably during the premierships of Yasuhiro Nakasone in the 1980s, when 'planning' was almost erased from the vocabulary of economic policy-making. But by the end of the 1990s, there were more telling signs of this.<sup>10</sup>

Loss of importance and prestige by the hitherto mighty Ministry of International Trade and Industry (MITI) and Ministry of Finance (MoF) had become apparent by the end of the 1990s.<sup>11</sup> A huge change in the system of government administration was introduced on January 6, 2001, at a cost of some USD 400 million dollars. Files and workplaces of 33,000 employees were moved and the number of ministries and agencies cut from 22 to 12 plus a Cabinet Office.<sup>12</sup>

As foreign investors become more prominent in industry and domestic trade and market forces spread through the financial sector, the scope for administrative intervention or 'guidance' has narrowed. Even Keidanren, the organization that acts as spokesman for the biggest corporations, plays a much smaller role than it did. One possible explanation for all this may be the advance of the so-called IT revolution.

The number of 'scenarios' and 'visions' put forward by the public sector has decreased considerably, while initiatives in this field by the private sector have become stronger. A Keidanren document about long-term prospects, for example, predicts a stronger global attitude in Japan.<sup>13</sup> The thrust of Japanese knowledge and technologies will move from the domestic economy to the international arena, while a 'free economic sphere' will emerge in East Asia under

---

<sup>10</sup> Two rather general, but revealing statistics are the share of the public sector in total employment and that of public expenditure in GDP. The former in 1999 was 3.2 per cent in Japan, but 6.1 per cent in Italy (with about half the population). The latter proportion increased in Japan from 35% in 1993 to 38% in 2003, while in Italy it eased from 56 to 48 per cent. OECD figures cited in *Magyar Hírlap*, September 19, 2003, p. 2, and *The Economist*, March 20, 2004, p. 114.

<sup>11</sup> After relinquishing its almost daily handling of the banking sector, the MoF was no longer allowed to devise the state budget either. Fundamental figures and ratios are now formulated by a new council under the prime minister's Cabinet Office (*The Economist*, January 9, 2001, p. 51).

<sup>12</sup> Government officials stressed efficiency rather than cost-cutting when justifying the changes. Shigeki Suzuki, responsible for reorganizing the hitherto independent Ministry of Post and Telecommunications, hoped, for example, that passports and driving licences could soon be issued at post offices (*Nikkei Weekly*, December 4, 2000, p. 3).

<sup>13</sup> *Japan 2025: Envisioning a vibrant, attractive nation in the twenty-first century*. Tokyo: Nippon Keidanren, Japan Business Federation, Keizai Koho Center, 2003.

Japanese leadership. It is also worth noting how the document speaks about the economy to be based on 'a self-regulating economic system driven by the private sector and market concerns'.<sup>14</sup> Keidanren itself is foreseen as 'a bridge between the private and public sectors', based not on a close relationship with the administration, but on 'rivalry with the Japanese government'.<sup>15</sup> The organization sees multilateral and bilateral trade agreements as the institutional framework for economic cooperation not only in the East Asian region, but globally, as means of regional economic development based on free movement of goods, people, services, capital and information, solving global problems that endanger progress in the region. In Keidanren's view, Japan does not see the emerging East Asian economies as threats, but as supplementary forces, although Japan should reassure these countries that it will remain open to their investments, goods and immigrants.<sup>16</sup>

The wording reflects mounting pressure from some of the Japanese private sector for looser immigration controls. Ageing of the population points to the need to ease (structural) shortage of labour.<sup>17</sup> So Japan can obviously be expected to open its doors gradually to immigrants, especially nurses to take care of the elderly and technicians (mainly from China and India) capable of performing routine computer-related tasks.<sup>18</sup> A perhaps far-fetched UN estimate holds that Japan will need an annual 600,000 immigrants to cover its labour demand.<sup>19</sup> Behind such estimates lie obvious considerations: certain activities and services cannot be exported, as the demand for them appears domestically. For example, mounting unwillingness to take jobs like caring for the elderly and similar low-prestige tasks is increasing the need for foreign labour. The outsourcing of some call services and software tasks will take place in parallel.

---

<sup>14</sup> Ibid., p. 4.

<sup>15</sup> Ibid., p. 12.

<sup>16</sup> Ibid., p. 9.

<sup>17</sup> Japan's population is expected to peak at 128 million in 2007 and then shrink rapidly. At present, there are some four active earners for each pensioner, but by 2025, there will only be 2.2. Taxes and welfare payments, now 36 per cent of GDP, will exceed 60 per cent by 2025 (*The Economist*, July 1, 2000, p. 28).

<sup>18</sup> A first hesitant step was taken toward opening the labor market in November 2004, when Japan and the Philippines agreed on the principles of an economic partnership agreement (EPA), under which both would select candidates in the Philippines among nurses and health care workers who were certified there. Those selected would enter Japan with special visas and be required to take Japanese language training for six months. Their stays in Japan, however, would be limited to about four years, but workers acquiring Japanese qualifications would be allowed to extend their visas every three years. However, the sensitive decision on the maximum number of such workers Japan would admit was shelved and the final pact was not expected to include an annual figure either (*Nikkei Weekly*, November 22, 2004, p. 1 and 7.)

<sup>19</sup> *New York Times*, September 23, 2001, p. 18.

The Japanese economy will have a growing need for foreign investors, not because of shortage of capital – the country has huge foreign-exchange reserves – but for the beneficial effects of new competitors and the transfer of foreign management methods. Here, however, the Japanese External Trade Organization (JETRO) comments self-critically, ‘Japan must develop the type of domestic environment that attracts foreign capital and human resources.’ This certainly relates to the methods of Japanese government.<sup>20</sup>

#### 4. Economic partnerships and free-trade agreements<sup>21</sup>

Japan, like other highly industrialized countries, has been asserting its global interests mainly through GATT and then WTO membership. In a tripolar world economy, however, Japan has developed a stronger interest in regional cooperation schemes, such as ASEAN, PAFTA, APEC, the EAEC, PECC and AFTA,<sup>22</sup> although it continues to emphasize its preference for ‘open’ as opposed to ‘bloc-type’ regionalism.<sup>23</sup> In view of the failure or limited success of such schemes, Japan began at the end of the 1990s to turn to other means such as bilateral free-trade agreements.

In a peculiar way, the Japanese government has been continuously influenced in the same direction by the inflexibly protectionist behaviour of domestic business circles. Its policy consideration was to confront them, especially the agricultural lobby, with huge Japanese manufacturing corporations and trading houses operating on a global scale, which would have strong interests in free

---

<sup>20</sup> *White Paper on international trade and foreign direct investment. Summary*, JETRO, Tokyo, 2003, p. 39.

<sup>21</sup> The former (EPAs) are vehicles for wider economic cooperation, including services, labour and capital movements, standards, royalties, environmental and other fields, and even harmonization of government policy. The latter (FTAs) are designed simply for removing tariff (and non-tariff) barriers to trade. For more detail, see Jung Sung Chun, “Japan’s policy for an East Asian FTA and Korea’s response”, *Korea Focus*, July-August 2004, pp. 141-156.

<sup>22</sup> ASEAN – Association of South-East Asian Nations. PAFTA – Pacific Free Trade Area. APEC – Asia-Pacific Economic Cooperation. EAEC – East-Asian Economic Caucus. PECC – Pacific Economic Cooperation Conference. AFTA – ASEAN Free Trade Agreement.

<sup>23</sup> With regard to RTAs, the WTO has ruled out the creation of discriminatory arrangements by referring to the concept of ‘open regionalism’. It changes the interpretation of most-favoured nation (MFN) from exclusive MFN required from members only, which is the GATT norm, to inclusive MFN (also for non-members). It also changes the norm of reciprocity from specific direct balancing of benefits to more diffuse and general give and take. See “WTO obligation and outward orientation of RTAs” in: *Meeting the challenges in an era of globalization by strengthening regional development cooperation*. New York: UN Economic and Social Commission for Asia and the Pacific, 2004, p. 43. The same source cites APEC as an example of open regionalism (*Ibid*, p. 45.)



trade and in keeping up with rivals.<sup>24</sup> For these mainly transnational companies have realized that processes towards regionalism in the world (such as NAFTA in North America and the EU in Europe) may crowd them out of significant commodity and capital markets or face them with latecomers' *disadvantages*. FTAs, on the other hand, have pressed competition on Japan and so given momentum to domestic structural changes continually called for in business at home and abroad. At the same time, priority is clearly being given to neighbouring East and Southeast Asian countries in the sequence of agreements being concluded.<sup>25</sup>

This recognition gained poignancy after the 1997-8 financial crisis in South-east Asia<sup>26</sup>, when thorough study of the chances for regional and bilateral trade agreements began also at MITI.<sup>27</sup> This was undoubtedly helped by the fact that strong opposition from the United States and China had thwarted Japan's attempt to establish an Asian Monetary Fund. It therefore had to be satisfied with bilateral forms of rendering financial aid to countries in crisis.<sup>28</sup>

Figure 1 summarizes the framework in which the author sees Japan's global, regional and bilateral trade and FDI policies being pursued. It shows Japan seeking appropriate responses to challenges that appear on three different levels.

#### *4.1. Japan's role in economic partnership on global level*

On a global level, Japan has striven for a seat on the UN Security Council and long been the main financial contributor to the UNDP, and through its global network of embassies and JETRO and JICA (Japan International Cooperation Agency) offices, it also represents the interests of its private sector, from huge transnationals

---

<sup>24</sup> The biggest were car companies (Toyota, Nissan, Suzuki, Honda, Mazda), manufacturers of electrical and electronic equipment (Matsushita, Toshiba, Sony, Sharp, Fujitsu, NEC), and the *sogo shosha* or general trading firms (Mitsubishi, Mitsui, Sumitomo, Nissho-Iwai etc.)

<sup>25</sup> According to some observers, negotiations with Mexico, for example, were otherwise going quite well until deliberately slowed down, so that it would not become the first FTA deal with a country from outside the region. Preferential treatment for the region, according to the political scientist Professor Takashi Inoguchi of Tokyo University, should be seen even in the creation of a post of state minister in charge of East Asian affairs, who retains the rank of deputy prime minister (*Nikkei Weekly*, December 22, 2003, p. 37). Most recently, Prime Minister Junichiro Koizumi announced on December 20, 2004 that he would himself take on the role of coordinating ministries to promote EPA talks (*Ibid.*, December 27, 2004-January 3, 2005, p. 6).

<sup>26</sup> The after-effects of this crisis were the subject of a study at the Asia Research Centre: Artner, Annamária, András Hernádi, Klára Mészáros and András Székely-Doby (1998), *The Far Eastern region: moving beyond an atmosphere of crisis*. Working Papers 91. Budapest: IWE.

<sup>27</sup> Since renamed the Ministry of Economy, Trade and Industry (METI).

<sup>28</sup> Under the Miyazawa Initiative (named after the then minister of finance), all in all some US\$ 30 billion has been made available to Thailand, Indonesia, Malaysia, the Philippines and Korea.

down to small and medium-sized firms. In addition, Japan has been recognized as a leading supplier of aid, in terms of absolute volume provided.<sup>29</sup>

**Figure 1.** *The main frames of Japan's external economic relations: trade, investment, finance*

GLOBAL SCHEMES: UN, WTO, World Bank, IMF	JAPANESE RESPONSES: UNDP, JETRO, JICA, MOFA
(INTER-)REGIONAL SCHEMES: ADB, APEC, ASEAN+3, RTAs*, EAC, ASEM, 'YES'	Summits, 'AMF', FTAs, Yen bloc
BILATERAL SCHEMES PTAs**, FTAs	FTAs, EPAs***

**Notes:** \* As of July 2003, only three WTO members (Macao China, Mongolia and Taiwan) were *not* party to at least one regional trade agreement (RTA).

\*\* Preferential trade agreements.

\*\*\* Economic partnership agreements.

#### 4.2. *The role of Japan in regional economic cooperation*

On a regional level, Japan has played a lead in the Asian Development Bank and Asian Pacific Economic Cooperation forum, initiated and 'operated' ASEAN+3 (summit and lower-level meetings of 10 ASEAN members plus Japan, China and Korea), promoted, as mentioned, the idea of an Asian Monetary Fund, and supported several other regional schemes. It signed, for example, a joint declaration on the Comprehensive Economic Partnership (CEP) between ASEAN and Japan on November 5, 2002, providing for early measures to realize economic cooperation, including elements of a possible free trade area within ten years.<sup>30</sup> Afterwards, at Prime Minister Koizumi's meeting with ASEAN leaders in Djakarta on September 4, 2004, they agreed on a deadline of March 2007 for an EPA. Two of the most recent schemes for regional cooperation, the East Asian Summit (EAS) meetings and East Asian Community (EAC),<sup>31</sup> are aimed at a free-trade area, financial cooperation and a security pact. These are the types explicitly intended to offset the increasing importance of the European and North American regional blocs in the world economy. Later, a challenge to Japan's external economic policy might be posed by South American blocs or

<sup>29</sup> For a longer analysis, see Hernádi, András (2003), *Japan's ODA policies*. Budapest: IWE, mimeo.

<sup>30</sup> See: R. Sen, *Free trade agreements in Southeast Asia*. Southeast Asia Background Series I, Institute of Southeast Asian Studies, Singapore, 2004, p. 78.

<sup>31</sup> See, for instance, "East Asian diplomacy: Yankee stay home", *The Economist*, December 11, 2004, p. 50.

even a single Pan-American bloc. The South American Community of Nations (SACN) is a regional trade accord signed in Peru on December 8, 2004, between the member-countries of MERCOSUR and the Andean Community. But it has yet left so many issues open that it has rightly been described as a loose, long-term project, only tangential to intra-regional trade.<sup>32</sup> Thus, the Free Trade Area of the Americas (FTAA), a hemispheric scheme much promoted by the United States, seems to be even more far-fetched at present.

The special, inter-regional cases that link regionalism to global scenes are also worth considering. The ASEM (Asia-Europe Meetings) Dialogue, initiated by France and Singapore in the 1990s, also enjoys Japan's active support.<sup>33</sup> New elements in this include the submission of a report on October 8, 2004 by the ASEM Task Force for Closer Economic Partnership (CEP) to the ASEM meeting in Hanoi.<sup>34</sup> This calls for more 'rational and beneficial' use of Asian savings, to reduce ASEM members' 'potentially destabilizing over-dependence on the US dollar', enhance international use of the euro, and create a more balanced international monetary system. It was also recommended that ASEM leaders should take the initiative to create a regional bond market in East Asia, using a basket 'YES' (yen-euro-US dollar) basket of currencies.<sup>35</sup> Clearly by 2020, however the Chinese yuan (renminbi) will have to be playing a similar role in such a basket if China keeps increasing its share of world trade, especially in trade in Asia. Two minor news items about relations between Japan and Europe are interesting in this respect. German Chancellor Gerhard Schroeder remarked on a recent trip to Tokyo that Europe could learn from the interventionist Bank of Japan. Meanwhile a senior Japanese finance ministry official said that Japan and the euro zone authorities were discussing the prospect of joint intervention if the yen and the euro continued to strengthen against the dollar.<sup>36</sup>

### 4.3. Bilateral agreements

On the bilateral level, Japan started its series of FTAs with Singapore, as the most developed of its partners in the region, and as it had no agricultural products to be afraid of. For the same reason, the Ministry of Agriculture, Forestry,

---

<sup>32</sup> See, for instance, "South American unity still a distant dream", *Financial Times*, December 9, 2004, p. 4.

<sup>33</sup> The ASEM process is reviewed by the author at greater length in a Hungarian-language paper in the *Műhelytanulmányok* (Workshop studies) series No. 23. Budapest: IWE.

<sup>34</sup> At the same meeting, all the ten new EU countries were admitted into ASEM, making it a more comprehensive inter-regional forum.

<sup>35</sup> "Asia quietly seeks to move out from under U.S. dollar", *Nikkei Weekly*, November 29, 2004, p. 39.

<sup>36</sup> *International Herald Tribune*, December 11-12, 2004, p. 4; *Financial Times*, December 11-12, p. 24.

and Fishing (MAFF), representing the agricultural lobby in Japan, has preferred multilateral agreements over bilateral ones, because the preparation process takes longer. Representatives of sectors that appear protectionist at multilateral negotiations may promote bilateral agreements that do not impinge on their sector's imports.

The Japan-Singapore Economic Partnership Agreement (JSEPA), which came into force on November 30, 2002, brought a number of advances. (1) It eliminated tariffs on goods accounting for 98.5 per cent of current trade. (2) It committed both countries to improve the speed and efficiency of mutual customs clearance of goods and replace paper-based trade documents with more cost-effective electronic versions. (3) It increased vastly the commitments by both countries to liberalize and facilitate transactions in the services sector, with special regard to tourism, ICT, the media and broadcasting, and finances. (4) It guaranteed each other's citizens entry and work permits and administration of their investments under liberal conditions. (5) It contained detailed provisions on investment promotion and protection. It also promotes mutual recognition and cooperation in competition policy, provides procedures and regulations for government procurement, initiates collaboration and cooperation on intellectual property, enhances cooperation in science, technology and human resources, and offers orderly settlement of disputes.<sup>37</sup>

Negotiations with Mexico and Korea were more problematic for both sides. Those with Mexico have profoundly illustrated the strong interests and counter-interests behind the FTAs. Japanese manufacturing companies, by a NAFTA regulation of 2001, were stripped of the tax-free status that they enjoyed as component suppliers under the so-called Maquiladora Programme so long as assembly was followed by re-export – mainly to the United States. This made these Japanese companies very keen to see an FTA between Japan and Mexico.<sup>38</sup> However, strong doubts have also been aired. Japanese agricultural producers, with their traditionally protected positions, were obviously resistant to an FTA with Mexico once they knew that similar treaties were in the offing with countries much closer to Japan.<sup>39</sup> (Similar considerations led to a few products being excepted from the tax-free category in the FTA with Singapore.) After sorting out, or rather postponing solution of a number of issues regarding imports by Japan of pork and orange juice, and by Mexico of cars and steel products, the

---

<sup>37</sup> Sen (2004), pp. 27-32.

<sup>38</sup> Japan's Ministry of Economy, Trade and Industry estimated that the absence of such an FTA lost them USD 3.7 billion in annual profits and 32,000 jobs (*Nikkei Weekly*, December 15, 2003, p. 6).

<sup>39</sup> Fukushima Nukaga, Chairman of the Council on FTA-related Affairs and a leading governing-party politician, clearly aimed to dispel such anxieties when he said Japan should consider compensating farmers who lost by FTAs concluded with Asian countries (*Nikkei Weekly*, December 15, 2003, p. 6).

agreement was signed on September 17, 2004, with implementation postponed until April 2005. So, notwithstanding some limitations, Japanese businesses became entitled to take part in public procurement opportunities for which a precondition was an FTA between Mexico and the partner country.<sup>40</sup>

The obstacles to an FTA with Korea are similar. There are additional problems, such as historical tensions between the two countries, although the atmosphere was improved somewhat by the two countries' success in planning, coordinating and hosting the 2002 World Cup Soccer Championship. The main economic consideration hindering the negotiations is protectionism initiated by less competitive Korean sectors.<sup>41</sup> The general fear on Korea's side is that its trade deficit with Japan will grow considerably, if and when import tariffs are abolished, as exports of Korean manufactures already face almost no duties at all.<sup>42</sup> To sum up, the fate of the agreement will depend on the interest shown by Japanese companies in investing in Korea. Rivalry between the two countries – Korea's endeavours to compete internationally with Japan in more and more fields – will also emerge in the final stages of the negotiation process. One might go so far as to say that strong Korean nationalism and a possible change in the relationship between the two Koreas might equally have a significant influence on the outcome in the opposite direction.<sup>43</sup>

Concluding an FTA with Korea could bring closer a trilateral trade agreement with People's China, as mooted in the communiqué by the three leaders after a meeting in Bali on October 8, 2003.<sup>44</sup> (There Japan and the 10 ASEAN countries also signed a framework agreement on economic cooperation, holding out the prospect of a regional FTA among them.) Bilateral FTA negotiations with Thailand, the Philippines, and Malaysia continue with expectations of being concluded in 2005. They are likely to be followed by FTAs with Indonesia and People's China.<sup>45</sup> Apart from similar agricultural problems, the sensitive issue with Thailand and the Philippines is liberalization of the Japanese labour

<sup>40</sup> *Nikkei Weekly*, September 20, 2004, p. 5.

<sup>41</sup> This is the opinion of Jwa Sung-hee, president of the Korean Economic Research Institute, cited in *Nikkei Weekly*, September 15, 2003, p. 29.

<sup>42</sup> At the time of writing, Korean goods in Japan met average tariffs of 2.7 per cent, while Japanese goods in Korea met average tariffs of 9.2 per cent (*Nikkei Weekly*, October 27, 2003, p. 44).

<sup>43</sup> The process might also be influenced indirectly by the FTA Korea concluded with Chile in February 2004, although Chile is far smaller and more remote (*The Economist*, February 28, 2004, p. 59).

<sup>44</sup> *Nikkei Weekly*, October 13, 2003, p. 2 and 28.

<sup>45</sup> The Osaka-based business lobby, which includes the CEOs of Matsushita Electric, Sanyo Electric, Sharp and other corporations, seems to be the most enthusiastic advocate for such an FTA between Japan and China. COFCO, China's top food trader, is also promoting the idea. Its president, Liu Fuchun, said, 'Many wealthy Chinese would buy Japanese rice even if they had to pay 10 times the price of Chinese rice.' (See "Unlikely voices may back FTA with China", *Nikkei Weekly*, July 5, 2004, p. 32.) However, the United States is apparently 'trying

market. (Both countries would like freer access there for their doctors and medical assistants.) Malaysia, in turn, would like to retain a kind of infant-industry status for its car manufacturing.

**Table 10.** *Candidate countries/regions for future EPA talks*

<i>Country/region</i>	<i>Expected results</i>	<i>Problems</i>
China	Would contribute to forming East Asian community. Japan would help China develop intellectual property protection and other systems.	Tariff cuts will have serious impact on agricultural, forestry and fisheries products for both countries. China urged to first steadily implement international rules.
India	Expanded business opportunities for Japanese firms. Liberalization would have significant effect on this high-tariff country.	Tariff reduction would have serious impact on some industries in Japan, e.g. textiles. Uncertainty about possibility of high-level EPA.
MERCOSUR (including Brazil)	Opportunity to strengthen relationship with Latin America as a whole.	Serious impact on agricultural, forestry and fisheries producers in Japan.
Australia	Significant for securing resources.	See above, as for MERCOSUR (Brazil).
Middle East (including Saudi Arabia)	Help in securing resources, including crude oil, in long term.	Limited effect on trade.
Chile	Significant for securing resources.	See above, as for MERCOSUR (Brazil).
South Africa	Beachhead to African market.	Weak economic ties with Japan.

**Source:** *Nikkei Financial Daily*, as cited by *Nikkei Weekly*, September 6, 2004, p. 1.

The *Nikkei Weekly*, Japan's influential business periodical in English, carried a front-page article on how Japan would start a strong campaign to conclude further EPAs and FTAs.<sup>46</sup> The main points made there seem to offer an effective way of concluding what has been said in this paper and showing the likely priorities in Japan's choice of partners for such agreements, up to the end of the decade. 'Looking to move the free trade process forward, the Japanese government aims by 2010 to ink economic partnership agreements (EPAs) with at least ten nations and regions, including China, Brazil and Australia. Tokyo... seeks to reach agreements with countries and regions with high growth potential or a wealth of natural resources... The government is also preparing to launch talks next year with the entire Association of Southeast Asian Nations. The government is looking to strengthen economic ties through the EPAs and use them to promote domestic structural reforms... Bolstering ties with the emerging so-called BRIC economies – Brazil, Russia, India and China – is seen as a pressing issue... In Asia, the government is studying potential agreements with China... Australia is seen as a likely candidate because it would provide a stable supply of natural resources. South Africa, Chile and Middle Eastern countries are emerg-

---

to deter Japan and China from entering into a FTA,' which may add an extra dimension to the issue. (See, for instance, *Nikkei Weekly*, June 7, 2004, p. 22).

<sup>46</sup> "Tokyo ramps up EPA talks, eyes at least 10 by 2010", *Nikkei Weekly*, September 6, 2004, p. 1 and 7.



ing as possible candidates for EPA partnership, according to informed sources.' The article was accompanied by a revealing table showing pros and cons for the countries and regions discussed:

However, an editorial in the same newspaper a few weeks later called attention to some inherent problems: 'Tokyo's FTA bids have been hobbled by uncoordinated and cumbersome policy-making. The Ministry of Economy, Trade and Industry is pressing trade partners to open their markets to Japanese industrial products. At the same time, the Ministry of Agriculture, Forestry and Fisheries is doing everything in its power to protect domestic farmers from cheaper imports. And the Foreign Ministry is not doing its job as policy coordinator. This situation can only be changed by centralizing policy-making, vesting a single minister with the authority to oversee and coordinate trade policy from a strategic perspective. Without a clear leader for this mission, Japan could well suffer a costly defeat in the FTA stakes.'<sup>47</sup>

---

<sup>47</sup> "Lack of leadership handicap in FTA race", *Nikkei Weekly*, September 27, 2004, p. 28.

---

## References

- Artner, A. – Bassa, Z. – Hernádi A. – Mészáros, K.: “The Far Eastern region: moving beyond an atmosphere of crisis”, *Journal of East Asian Affairs*, XIV, 2, 2000.
- Artner, A. – Bassa, Z. – Hernádi A. – Mészáros, K. – Székely-Doby, A.: *Far Eastern responses to globalization*, Working Papers 138, Institute for World Economics (IWE), Budapest, 2003.
- Hernádi, A.: *Japan’s ODA policies*, IWE, Budapest, 2003, mimeo.
- Hernádi, A. – Taniguchi, M.: *Japan and Asia in a new global age*, Working Papers 114, IWE, Budapest, 2001.
- *IMD World Competitiveness Yearbook*, various volumes from 1997 to 2004.
- *IMF Direction of Trade Statistics Yearbook*, 2000 and 2003, and Quarterly, September 2004.
- *IMF International Financial Statistics 2000 and October 2004*.
- *Japan 2025: Envisioning a vibrant, attractive nation in the twenty-first century*. Tokyo: Nippon Keidanren, Japan Business Federation, Keizai Koho Center, 2003.
- Jung Sung Chun, “Japan’s policy for an East Asian FTA and Korea’s response”, *Korea Focus*, July-August 2004.
- *Meeting the challenges in an era of globalization by strengthening regional development cooperation*, UN Economic and Social Commission for Asia and the Pacific, New York, 2004.
- Sen, R.: *Free trade agreements in Southeast Asia*, Southeast Asia Background Series I, Institute of Southeast Asian Studies, Singapore, 2004.
- *The Economist*, various issues.
- *The Financial Times*, various issues.
- *The Nikkei Weekly*, various issues.
- *UN World Investment Report*, 2004
- *White paper on international trade and foreign direct investment. Summary*, JETRO, Tokyo, 2003.



PROFESSOR MOMČILO MILISAVLJEVIĆ, PhD  
*Megatrend University of Applied Sciences, Belgrade*

## MARKET ORIENTATION AND BUSINESS SUCCESS OF A COMPANY

**Abstract:** *The first explanations of the notion of market orientation of a company boiled down to understanding customer requirements in order to satisfy their needs. It was actually the understanding of a strategy of company's market orientation only as a market-driven strategy. In recent times, with more active role of a company in forming desires and tastes of customers, the notion of market orientation has become more comprehensive, so there is a distinction between market-driven strategy and market-driving strategy. A contemporary enterprise does not respond to customer requirements only, but it has become an active factor in forming their needs. Empirical researches have pointed to the fact that a comprehensive approach to market orientation or marketing orientation has positive effects on business results of a company. This is the case not only with the enterprises doing business in the economically developed countries, but also with the enterprises in the developing countries.*

**Key words:** *market, business results, customers, innovation, strategy.*

### 1. Evolution of the concept of company's market orientation

The first explanations of the notion of market orientation boiled down to understanding of customer requirements and creation of combinations of marketing mix which would meet their needs. Such a concept of market orientation has been defined as market-driven in recent years. To be market-driven means the capability to understand, attract and keep valuable customers. Over time the term market-driven strategy has started not to include meeting the requirements and needs of customers only, but all stakeholders, such as share-holders, creditors, suppliers and the state.

G. Armstrong and P. Kotler define marketing as social and managing process by which the individuals and groups procure what they need by creating

and exchanging values with others.<sup>1</sup> Business marketing includes creating and maintaining of profitable relations in exchange with customers. They consider that marketing process includes several stages: understanding market and customer needs and desires; creation of market-driven strategy; construction of market program by which superior value would be delivered to customers; providing customers with a payable product and fostering their satisfaction with the product; gain profit as a result of using market-oriented business strategy. The first four stages belong to the activities of creating the value for customers and building the relation with them, and the last stage refers to drawing a benefit from satisfied customers in return. This benefit is expressed in the form of current and future sales, market share and profit.

A market-oriented company is in a position to achieve competitive advantage thanks to its unique innovative approach to customers. In addition to this, according to the opinion of P. R. Dickson, a competitive advantage should be understood in the sense of dynamics of competition.<sup>2</sup> He expresses disagreement with the standpoint of neoclassic theory of market equilibrium and claims that the main characteristic of the market is its disequilibrium. He sees marketing as a science and skill of creating changes (disequilibrium) in the market in the manner that would provide for the changes that are beneficial for the company. Various responses of salespersons and customers to changes in supply and demand, thinks Dickson, create possibilities that could be used by the company that understands market. He underlines the importance of adjusting company to the market occurrences.

M. Harmsen and B. Jensen express the opinion that literature on market orientation can be divided into two main streams.<sup>3</sup> One stream observes market orientation as a separate way of thinking – philosophy of management that directs the activities of a company towards market. Market orientation is described as a company culture, set of beliefs or set of values. The second stream explains market orientation as a behaviour – set of processes and/or actions that are connected with the understanding of market and capability of a company to respond to this understanding. This includes acquiring information on the market, spreading the information within the company and response to the market information. Both streams focus on customers and competitors, i.e. market, and adjustment of a company to the market. Harmsen and Jensen think that both streams of market orientation thought lack suggestion how to accommodate to the market. They suggest as a possible solution the use of literature based on

---

<sup>1</sup> G. Armstrong, P. Kotler, *Marketing: An Introduction*, 7. ed., Pearson/Prentice-Hall, Upper Saddle River, NJ, 2005, p. 6, 7.

<sup>2</sup> P. R. Dickson, "Statics and Dynamics Mechanics of Competition: A comment of Hunt and Morgans Competitive Advantage Theory", *Journal of Marketing*, 1996, p. 10.

<sup>3</sup> M. Harmsen, B. Jensen, "Identifying the Determinants of Value Creation in The Market, a Competence Based Approach", *Journal of Business Research*, 57, 2004, p. 531.

practical examples of successful application of market-driven strategies, in order to understand the foundation of company's competent decisions for the action on the market. In order to identify competency required for creating value in the market, these authors think that it should first know what is actually demanded in the market. The next step is to connect external signals and internal factors in order to coordinate market demand with company's possibilities and thus achieve business success.

S. G. Day thinks that a market-oriented company supports its orientation by four important components: first, by its culture, i.e. specific values, beliefs and behaviour; second, by superior feeling for the market and capability to connect with the customers; third, by strategic thinking processes, which means that it aspires to deliver superior value to target customers, and fourth, by organizational strategy and systems which provide for connection of all aspects and activities in the market.<sup>4</sup> According to Day, market orientation provides for creation of a winning strategy, anticipating the possibilities and dangers before competition and achieving the full potential of strategy, providing for the competition in implementation. This is therefore outside-to-inside and not inside-to-outside way of thinking.

A unique framework for explaining the differences in business operations results among companies has been offered by W. J. Stochhorst and M. E. Van Raaid.<sup>5</sup> These authors have offered the following model, the variables of which refer to possible sources of differences in the successfulness of company's business operations:

Innovation → resources → business operations' efficiency  
→ advantage in positioning → result.

The presented model suggests that there are five possible sources of difference in business operations results among companies: potential advantage on product market, difference in business operations efficiency, unique production technology or technology that is difficult to copy and innovative capabilities.

In the light of the shown model, company market orientation may be shown by the following model:

Study of the market → knowledge of the market  
→ value generating processes → defined benefit for customers → result.

<sup>4</sup> S. G. Day, "What Does It Mean to be Marketing Driven?", *Business Strategy Review*, 1998, p. 11.

<sup>5</sup> W. J. Stochhorst, M. E. Van Raaid, "On Explaining Performance Differentials – Marketing and the Managerial Theory of the Firm", *Journal of Business Research*, No. 57, 2004, p. 472.



Stochhorst and Van Raaid consider that one of the basic characteristics of market orientation is focus on customers. In addition to this, it should take into account that customers do not always strive towards new and technologically superior products or services, but towards permanent value of the existing products or services so that the competition would find it hard to imitate. Only the company with a serious focus on customers attempts constantly to offer something better and faster than the competition, to make the access to the product easier, and then thanks to all these things customers decide in favour of its product only. Only by innovation, return information from customers and use of knowledge it is possible to make a company irreplaceable for customers. This is why these authors think that good coordination among functional units of the company is required in order for customers to get what they need.

In order for companies to achieve success in focusing on customers, R. Gulati and J. B. Oldroyd suggest ten changes in their business operations.<sup>6</sup> First, crucial people in the company should show interest in achieving change of focus on customers. Second, a small group of crucial people should consider why such a change is required. Customer focus requires new manner of conducting business, and not only listening to what customers want and respond to it within the company. Third, it is necessary to find new customers, which cannot be achieved by market research only, but the application of a chosen strategy of attracting customers is required. Fourth, it is necessary to find out what the unused potentials in the company are so that the customers would value the product more and better. Fifth, key company people should work on creation of an idea and then transform this idea into explanation how the company's processes should be carried out so that business operations would be more successful. Sixth, they should determine precisely the expectations of not only customers but of the company as well in order to coordinate desires and possibilities. Clear consideration of the scope of possibilities makes it easier to decide for the investments that should contribute to customers valuing the product more. Seventh, novelty that should be introduced refers to testing a new concept with a chosen group of customers. This is how the confirmation is obtained that the concept is reliable. Eighth, key company people should make efforts to win over all the employed who could contribute to the application of the new concept. Ninth, a critical mass of customers should also be won over to accept the concept, which is a starting point from which the company would achieve business success. Finally, tenth, the right moment should be used to approach customers as an asset contributing to the company.

Companies accentuate certain aspects of market orientation variously. Two standpoints are most often quoted in literature. According to the first standpoint, market orientation consists of three components: collecting general information on the market and company referring to current and future customers' needs; spreading collected information among the company sectors; response of

---

<sup>6</sup> R. Gulati, J. B. Oldroyd, "The Quest for Customer Focus", *Harvard Business Review*, 2005, p. 33.

all the people in the company to collect and spread information.<sup>7</sup> According to the second standpoint, market orientation consists of the following components: customer orientation – good understanding of customers' goals so that offer can be created for them; competition orientation – both current and potential; inter-functional coordination – the resources of the entire company are used to create competitive advantages of the offer for target customers.<sup>8</sup>

The importance of market orientation in company strategic planning results from the essence of business concept, by which it integrates, coordinates and directs company activities to identifying, anticipating and meeting the needs and requirements of customers. This is why company strategic planning must be based on information obtained from market research. Market research should contribute to finding that critical factor in the given situation which would enable recognizable advantage in relation to other participants in business operations. Strategies are alternative ways of using company resources to achieve business operations results. Strategies are hard to formulate when there is a lack of understanding of events at both domestic and international markets.

## 2. Market-driven and market-driving strategies

In recent years, a market-driving strategy has appeared as an alternative to market-driven strategy. Both strategies are included by company market orientation. Market-driven concept refers to the capability of a company to learn, understand and respond to market events. On the other hand, market-driving concept refers to the capability of a company to change and create a market. Market-driving companies are those that deliver superior value to customers and in this way they can acquire viable competitive advantage more easily. By changing the structure or composition of the market, these companies thus change the behaviour of the participants in the market. The possibilities to influence customers are larger when there is an interaction with them in business transactions. This is why a positive influence of market driving on company's business success is larger if the interaction of the company with customers is better.

P. Kotler speaks about three levels of competency in applying marketing concept.<sup>9</sup> The first level is the response to expressed needs and requirements of customers. He calls it responsive marketing, which represents a foundation of marketing as business concept. Second level is anticipative marketing and its purpose is better understanding of market events and trends. This level of com-

---

<sup>7</sup> A. K. Kohly, M. Jaworski, "Market Orientation: The Construct, Research Proposition and Managerial Applications", *Journal of Marketing*, 1980, p. 15.

<sup>8</sup> Op. cit., p. 21.

<sup>9</sup> P. Kotler, *Marketing Management*, 9. ed., Prentice-Hall International Inc., Upper Saddle River, NJ, 1997, p. 36.

petency provides the company with the opportunity to adjust to events that are about to happen. The third level of competency is creative marketing, when a company is capable of creating something that is not explicitly demanded by the market or something it is not even thought about. This level of competency enables to create the market and not only to meet the wishes of the existing market.

Both strategies – market-driven and market-driving – are consistent with two basic components of marketing philosophy, since they focus on customers and their wishes, as well as on the concept of company profit orientation. Interpretation of market orientation, in the sense of market-driven strategy, refers mostly to company response to market changes. On the other hand, market-driving strategy may be considered proactive since it implies activities of a company that influence the changes of certain market elements.<sup>10</sup>

The comprehension of the need of market-driving starts from the assumption that it is not enough for a company to react passively to environment changes by making efforts to coordinate its resources with the requirements of target market in the best way possible. Taking into account that competitors use their actions to deliberately reduce differentiated offer, the offer becomes increasingly similar and competitive advantage is lost. This is why companies must make efforts to change markets and not only to adapt to them. Market-driving company is in a good position to change market structure and behaviour of participants and to gain competitive advantage. Company's offer has greater value for customers than the offer of competition. In addition to this, the company uses some possibilities that competitors cannot use successfully. Through creation of a unique and superior value chain that other producers cannot imitate, the company succeeds in influencing customers to value its product more than the products of its competitors.

In order to replace market-driven with market-driving strategy, it is necessary to understand dynamics and features of company culture. Culture is the manner in which problems are solved and dilemmas within a group, company or society overcome. There is a certain correlation between culture and strategic changes in the company. Interpretation of information on the environment and other strategically important situations depends on company culture. For interpretation of information, it is important how the decisions will be made and what the responses will be, which includes values and beliefs, as well as ethic norms. Namely, strategy is formulated based not only on logic, but also based on dominant values of the company. Accordingly, some companies are more and some are less inclined to changes. Some are more and some are less inclined to risk-taking. It is normal that strategy not only reflects culture but also influences it to a certain extent, making efforts to modify it in order to correspond to the reality of business situation.

---

<sup>10</sup> P. R. Dickson, *op. cit.*, p. 12.

Transformation leadership is considered an important assumption of transfer from a market-driven to market-driving strategy. Transformation leadership is observed as a process that changes and transforms company. There is a prevailing belief that transformation leadership leads to greater business success of the company. Transformation leaders are capable of changing culture of their companies. There is an explicit correlation between culture and strategic changes in the company. As culture is the most important determinant of company behaviour, leaders have great responsibility for its creation, maintaining and changing. Market culture is oriented towards achievement of better business results in the market. In addition to customer and competition orientations, it provides for an inter-functional coordination within a company that is necessary for all the employed to be market-oriented. Prevailing of market culture means also the inclination to accept risk since market-driven companies do not always offer products and services that correspond to the existing needs and wishes of customers. Willingness and capability are required to teach customers how to use new products and services.

A proactive company makes efforts to have strategic initiative in order to control place and time of action in the market. In order to achieve competitive advantage, it is necessary to allocate key resources to strategic directions of company's development. All important strategic actions require cooperation of marketing activities with other business functions of the company. Innovative companies use strategic surprises launching new products to certain market segments. Companies use marketing strategy to exploit market possibilities which are not noticeable for other companies within the branch. Strategy flexibility is achieved considerably by tactic decisions that are made when the application of strategy begins.

### **3. Strategy of attracting and maintaining customers**

Consistent implementation of chosen marketing concept that nurtures relationship with customers is a good manner to maintain competitive advantages of the company. The accent of application of such a marketing concept is more on maintaining the existing than on attracting new customers. Customer satisfaction is contributed by the fact that they actually become active participants in relations with producers. Market-oriented company considers the importance of building the relation with customers, offering them satisfaction by providing them with the product of desired quality and design and under the sales conditions they value. In this way, attracting and maintaining customers becomes the foundation for success of application of the chosen marketing strategy. Sometimes it can be considered a mistake when greater attention is paid to the efforts to sell to new customers than to hold the existing customers. Naturally, it is dif-

difficult to balance between attracting new and holding the existing customers, but the approach to the existing customers as a safe asset of the company is by all means a safe criterion for decision-making on the content of the particular marketing concept.

According to new perceptions of market orientation, life-lasting product valuation by both existing and new customers should be the goal of strategic marketing that is equally important for the company. In order to explain differences in the approach to the new and existing customers, the terms of offensive and defensive marketing are used. The term offensive marketing typically refers to activities directed to increase the size of customer foundation, and the term defensive marketing refers to activities directed to the existing customers, to keep them as product buyers or service users. Some newer findings direct to ever increasing importance of defensive marketing, to achieve profitability of business operations by means of long-term cooperation and relationship with customers.

According to one opinion, a capability of the company to organize and use information on individual customers in a more efficient manner than competitive companies becomes the key for business profitability today.<sup>11</sup> The relationship between the company and customers becomes the relationship between acquaintances, friends or even partners, where the company makes efforts to adjust its offer to individual requirements of customers. At the same time, customers are ready to pay premium prize or to become obliged to a long-term cooperation with the company. Mutual trust becomes a corner stone of long-term cooperation. It is important that the customer chooses the type of the relationship with the company – acquaintance, friend or partner. The company starts from a chosen relationship when deciding whether to allocate resources in the production of the existing product, differentiated product or to adapt the product to customers' requirements. As customers move through various relations with the company (acquaintances, friends and partners), it is expected that they would value the product more and more and that they would constantly prolong the duration time of their relationship with the company. The highest level of the relationship is partnership, where the sources of competitive advantage of the company are the following:

Satisfaction + trust + obligation.

This is the situation that provides the company with the most favourable viable competitive advantage.

The company may classify customers according to potential possibilities of gaining profit and their potential loyalty. Potential profitability may be high or low, and potential loyalty may be short-term or long-term. Based on this, the customers may be classified into four groups.

---

<sup>11</sup> D. M. Johnson, F. Selnes, "Customer Portfolio Management: Toward Dynamic Theory of Exchange Relationships", *Journal of Marketing*, 2004, p. 4.

	Potential loyalty	
	Short-term	Long-term
<b>High</b>  <b>Potential profitability</b>	<i>Butterflies</i> Good coordination between the supply and customers' needs. High potential profit.	<i>True friends</i> Good coordination between the supply and customers' needs. The highest potential profit.
<b>Low</b>	<i>Strangers</i> Low coordination between the supply and customers' needs. The lowest potential profit.	<i>Migratory birds</i> Weak coordination between the company's supply and customers' needs. Low potential profit.

**Figure 1:** Customer relationship groups

Source: G. Armstrong, P. Kotler, *Marketing: An Introduction*, 7. ed., Pearson/Prentice-Hall, Upper Saddle River, NJ, 2005, p. 25.

The group titled *butterflies* is profitable but not loyal. The company strategy should be short-term oriented cooperation.

The group titled *strangers* provides for both low profitability and low potential loyalty. The company strategy should be not to invest into this group of customers.

The group titled *true friends* is both profitable and loyal. The strategy is to turn friends into those who believe in the company. It is necessary to keep constant relationship with them.

The group titled *migratory birds* is very loyal, but not considerably profitable. This is the most problematic group for creating strategy. The strategy should seek ways to increase the sales to this group, but at the same time to reduce the costs of relationship with the customers in this group.

Companies focused only on customers who are easy to attract and hold to buy certain products do not allocate their resources in an efficient manner.<sup>12</sup> The estimation is that the greatest number of companies that implicitly or explicitly group their customers into four segments based on difficulties and costs of attracting and holding only, sentence themselves to low profitability in advance. According to such a grouping of customers, the first group consists of those customers who are easy to attract and hold. The second group consists of those who are hard to win over but easy to hold. The third group consists of those who are easy to win over but hard to hold. Finally, the fourth group consists of those who are hard both to attract and hold. Very often a consequence of such an approach

<sup>12</sup> H. M. Hayes, et al.: *Business Marketing, Global Perspective*, Irwin, Chicago, 1996, p. 118.



is that it all ends with a relatively small number of customers who are both easy to attract and keep. This is why it is necessary to consider the issue of winning over and holding customers in the function of profitability of the company. This is why it is necessary to determine the right relationship between customers and long-term profitability of the company. Maximum attraction and holding of customers does not always lead to maximizing of profit. Excessive investment into winning over new customers is not a good strategy, but too modest investment into holding of the existing customers is even worse strategic option.

According to some recent opinions, customers and their valuation of the product are more important for the company than the brand and their valuation of the brand, although the existing market research practice and measurements of business success of a company applied so far do not reflect this fact.<sup>13</sup> This change from product-oriented thinking to customer-oriented thinking implies the need to carry out the changes from product-based strategy to customer-based strategy. In other words, strategic possibilities of the company are best considered in the sense of the best possibility to improve driving factors of product valuation by customers. Underlying the link between marketing actions and financial yield suggests that investments in marketing should be directed at improving customers' perceptions of the product.

#### 4. Market orientation and innovation of the company

The concept of product valuation by customers is of fundamental importance for market orientation of the company. The paradigms of customer satisfaction and product valuation by customers are connected, the paradigm of customer satisfaction being older at that. Many years ago the literature in the field of marketing used to point out that satisfying customer needs is the way to gain profit.

Classic economy also spoke about value in use of the goods. The goods possess value in use if they meet the needs and desires of a particular customer. In the recent times it is pointed out that the best way to meet customer's expectations is to establish direct communication with him/her, regarding the product, its price, manners of payment and delivery. Through interaction with their suppliers, the customers gain experience in cooperation and thus gain trust. If trust is not built through interaction with suppliers, the customers do not value the product either.<sup>14</sup>

---

<sup>13</sup> J. R. Rust, et al., "Return on Marketing: Using Customer Equity to Focus Marketing Strategy", *Journal of Marketing*, 2004, p. 10.

<sup>14</sup> N. Woodall, "A Structural, Attribution and Dispositional Perspective", *Journal of the Academy of Marketing Science Review*, No. 20, 2003, p. 17.

The notion of *innovation* introduced for the purpose of greater product valuation by customers is different from the notion of *technological innovation*. It is possible to apply innovations with the purpose of greater product valuation by means of technological innovation or without it. Namely, technological innovation does not always lead towards greater product valuation by customers; to what the greatest number of customers value. Two critical questions for customers are whether a radically superior value is offered to them by product innovation and whether the prices are acceptable at target markets.

The importance of control over the process of providing evidence to customers on the need to value a specific product highly is particularly underlined today. The control over this process must be consistent with company market orientation, even if it means to adapt and reshape the existing strategies. The process of providing evidence to customers on the superior product value includes three stages: first, defining factors based on which the customers value products; second, improvement of these factors; third, providing evidence of product superior value.<sup>15</sup> Defining the factors based on which customers value the products (quality, design, packaging, taste, smell, sales conditions, and price) depend on the availability of relevant information, their understanding and responding to them. The improvement of the defined factors depends on operational capability of the employed, the manner of their response to market changes and their motivation to make changes. Providing evidence on the superior value of the product bases on the supply chain and relevant logistics, but it depends to a great extent on the attitude and readiness of those who provide services to customers to do their job in a quality manner.

Theoretical model of creativity has been developed for creation of new products and marketing programs, which includes three variables: resources, advantage in product positioning and company business success.<sup>16</sup> The resources at that contain three important dimensions of market orientation: orientation to customers, orientation to competitors and inter-functional coordination. The advantage in product positioning is the result of three sub-variables of the model that can be controlled, and these are: market potential, technological turbulence and company size. Company business success is evaluated based on relative market share, yield to investments, profitability and goal achievement. The hypotheses of this theoretical model for all three dimensions of market orientation have been tested. The research results show that the first dimension of market orientation – orientation to customers, has positive influence on both business success with new products and the efficiency of marketing program. However, market orientation does not always lead to truly greater interest of customers in new

---

<sup>15</sup> F. N. Pearcey, "Marketing Implementation: The Implication of Marketing Paradigm Weakness for Strategy Execution", *Journal of the Academy of Marketing Science*, No. 3, 1998, p. 223.

<sup>16</sup> I. Subin, Jr. Workman, "Market Orientation Creativity and New Product Performance in High-Technology Firms", *Journal of Marketing*, 2004, p. 118.

products since because of inertia the existing customers are not always ready to accept them. Orientation to competition contributes to the improved successfulness of new products marketing and marketing program efficiency, but not to a great extent. Inter-functional coordination contributes to the improvement of creativity since it provides for more efficient solution of problems related to new products and marketing programs. If we consider the limited range of company's orientation to create truly new products, it refers to high-technology companies only, where the research of motives and behaviour of the existing customers is of considerably less direct benefit than for other types of companies. Orientation to competition does not actually contribute to better sales of new products, although it has an important influence on their true novelty.

It is not hard to define competitive advantage, which is an important element of every rational strategy. Every company that succeeds in selling its products or services on the market with above average profit rate when compared with other producers achieves competitive advantage. Together with corresponding resources and competency of the employed, a market-oriented company is enabled to create a differentiated product or service in comparison with the offer of competition. The difference may be in important product and service attributes or in the way of their delivery to customers. The advantages are permanent to the extent to which they cannot be imitated simply.

The company must choose target markets where there are chances to achieve competitive advantage, where the barriers to entry are high and exit barriers are low. In order to achieve favourable market position on the target market, the company must have free use of appropriate resources. Companies compete for the advantage through differentiation of products, so this is why it is necessary for them to be innovative. Competition is observed as constant effort and mutual confrontation of companies to create, maintain or increase the advantage based on product differentiation. Product differentiation is considered a primary stimulation for innovation in marketing.

A constantly learning company expands its possibilities for survival, but also for development in the future. Survival on the market for such a company is not a satisfactory goal of business operations. Learning that improves the capability to create something new is added to learning to survive or *adaptive learning* in companies that wish to develop in the future. Companies that learn in order to develop in the future make efforts for their learning growth rate to be equal or higher than the rate of changes in the business environment. Learning process provides for the competency of the employed to be in step with the changes in production and on the market. Therefore, the successful transformation of the essence of competency may be carried out only by a continuously learning company. Companies that are capable of improving their own competency are open to respond to new business issues (new products, markets, technologies). Learning efficiency depends on acquiring, processing, storing and use of knowledge.

## 5. Results of empirical researches

Hypothetic model has been created for the study of relationship between innovation and company business success, which investigates the influence of market orientation, learning orientation and entrepreneurial orientation to company's innovation.<sup>17</sup> Innovation is defined as a capability to introduce new processes, products and ideas in the company. It has been determined by research that market orientation has considerable positive effect on innovation. It is the most important determinant of company business success. It influences innovation more in situations of expressed rather than negligible market disequilibrium. Market orientation is incorporated in company culture. It is understandable that market orientation is more important when customer preferences are changing, when the framework of their needs and requirements expands, when new companies come to and leave the branch and when there is a pressure for the company to offer new products to the market.

In such a situation the need is greater to be connected with customer orientation, orientation to competition and inter-functional coordination, in other words all three dimensions of market orientation, to create new products, processes and ideas. Innovation is greater if market orientation is supported by orientation to learning. It has been determined that entrepreneurial orientation is an important driver of innovation. It is the task of the management to create and strengthen the company culture which would unite market orientation, orientation to learning and entrepreneurial orientation.

Basic assumption of hypothetic model is that market orientation contributes to greater creativity and innovation of the company. The development of creative ideas manifests in creation of new products and efficient marketing program, which is considered a foundation for innovative strategies. Creativity enables to create differentiated products that are the foundation of relatively permanent competitive advantage. By differentiating products, company improves its business success since it influences the increase of customer loyalty and their satisfaction. Creativity enables competitive advantage for the company, because thanks to it a product that is valuable, rare and difficult to imitate is created.

One empirical research has suggested that market orientation contributes to company innovation, which again influences its business success.<sup>18</sup> Orientation to competition and inter-functional coordination influences the innovation of company to considerably less extent than orientation to customers. The authors of this empirical research conclude that all three components of market orientation: orientation to customers, orientation to competition and inter-functional orien-

---

<sup>17</sup> M. T. G. Hult, et al., "Innovations: Its Antecedence and Impact on Business Performance", *Industrial Marketing Management*, No. 33, 2004, p. 430.

<sup>18</sup> K. J. Han, et al., "Market Orientation and Organizational Performance: Is Innovation a Missing Link?", *Journal of Marketing*, 1998, p. 40.

tation contribute to creation of both technological and managerial innovations, especially in the periods of fast technological changes in business environment.

The culture of market orientation should be brought into connection with innovative strategy of the company. It is not sufficient for creation of competitive advantage to be market-oriented or market-driven only. Forming of innovative strategy that complements with company market orientation should accordingly provide for consistency in directing company business towards success. Authors' suggestion is for the company that wishes to improve performances to go through the following stages in effective allocation of its resources: first, to consider the conditions in market environment, and second, to allocate resources to the components of market orientation that are the most efficient under the identified conditions.

The studies on the relationship between market orientation and company performances have been carried out mostly in the USA and some economically developed countries of Europe. Their results suggest the positive relationship between market orientation and business success, based on the assumption that market orientation provides the company with better understanding of customer needs, which leads to increase of their satisfaction. It has been pointed out in all studies that the relationship between company business success and market orientation may vary depending on branch characteristics, customer characteristics and measures used.

The research was carried out in China with the aim to establish the relationship between market orientation and company business success in the countries in transition in order to establish the truth about universal acceptability of marketing under completely different business operating conditions.<sup>19</sup> The analysis determined that gathering information, their spreading within the company and response of the company to them are the main factors influencing the market orientation in the economy of China and that they have positive effect on company business success. The research was carried out in the companies doing business in competitive environment facing not only domestic but also international companies. It is interesting that greater market orientation was determined for industrial than consumer companies. This is explained by greater importance of that type of company to make free use of reliable information on the market.

The other study of consequences of market orientation in China examined not only the effect of market orientation on company business success but also the effects on customer satisfaction, holding of customers, power in distribution channels and the social responsibility of companies.<sup>20</sup> Based on the researches in

---

<sup>19</sup> E. Kaynak, A. Kara, "Market Orientation and Organizational Performance: A Comparison of Industrial vs. Customer Companies in Mainland China Using Market Orientation Scale (MARCOR)", *Industrial Marketing Management*, 33, 2004, p. 151.

<sup>20</sup> R. Qu, C. T. Ennew, "An Examination of the Consequences of Market Orientation in China", *Journal of Strategic Marketing*, 2003, p. 211.

two economic branches, the conclusion was made that the benefit of market orientation is manifold. The research results suggest that market orientation results in not only better business success of a company but also contributes to increase of satisfaction and holding of customers, increase of company's power in distribution channels and leads to higher degree of company's social responsibility. The researchers suggest to all companies interested in Chinese market to accept market orientation if they wish to achieve business success there.

There is no doubt that there is a close connection between market orientation, competitive advantage and company business success. Market orientation means that companies are driven by customer needs, focused on competition and that there is a coordination of all business functions within the company. The essence of competitiveness reflects in the delivery of superior products and services, with the accent on quality and innovation. Competitive advantage is acquired based on this, which reflects in customer loyalty, success of new products on the market and greater market share. The results of competitive advantage are high business results, which reflects in above average profitability and great sales scope growth. Monitoring of business results and competitive advantage serve as feedback to make possible corrections in maintaining competitiveness of the employed in the company.

### References

- Armstrong, G. – Kotler, P.: *Marketing: An Introduction*, 7. ed., Pearson/Prentice-Hall, Upper Saddle River, NJ, 2005.
- Day, S. G.: “What Does It Mean to be Marketing Driven?”, *Business Strategy Review*, Spring 1998.
- Dickson, P. R.: “Statics and Dynamics Mechanics of Competition: A comment of Hunt and Morgans Competitive Advantage Theory”, *Journal of Marketing*, October 1996.
- Gulati, R. – Oldroyd, J. B.: “The Quest for Customer Focus”, *Harvard Business Review*, April 2005.
- Han, K. J., et al.: “Market Orientation and Organizational Performance: Is Innovation a Missing Link?”, *Journal of Marketing*, October 1998.
- Harmsen, H. – Jensen, B.: “Identifying the Determinants of Value Creation in The Market, a Competence Based Approach”, *Journal of Business Research*, No. 57, 2004.
- Hayes H. M., et al.: “Business Marketing, Global Perspective”, IRWIN, Chicago 1996.
- Hult, M. T. G., et al.: “Innovations: It's Antecedence and Impact on Business Performance”, *Industrial Marketing Management*, No. 33, 2004.



- Johnson, D. M. – Selnes, F.: “Customer Portfolio Management: Toward Dynamic Theory of Exchange Relationships”, *Journal of Marketing*, April 2004.
- Karpillat, A. E., et al.: “Market Driving Organizations: A Framework”, *Journal of the Academy of Marketing Science Review*, No. 05, 2004.
- Kaynak, E. – Kara, A.: “Market Orientation and Organizational Performance: A Comparison of Industrial vs. Consumer Companies in Mainland China Using Market Orientation Scale (MARCOR)”, *Industrial Marketing Management*, No. 33, 2004.
- Kohly, A. K. – Jaworski, M.: “Market Orientation: The Construct, Research Proposition and Managerial Applications”, *Journal of Marketing*, October 1980.
- Kohly, A. K. – Jaworski, M.: “Market Orientation: The Construct, Research Proposition and Managerial Applications”, *Journal of Marketing*, October 1980.
- Kotler, P.: “Marketing Management”, 9. ed., Prentice-Hall International Inc., Upper Saddle River, NJ, 1997.
- Pearcey, F. N. “Marketing Implementation: The Implication of Marketing Paradigm Weakness for Strategy Execution”, *Journal of the Academy of Marketing Science*, No. 3. 1998.
- Qu, R. – Ennew, C. T.: “An Examination of the Consequences of Market Orientation in China”, *Journal of Strategic Marketing*, September 2003.
- Rust, J. R., et al.: “Return on Marketing: Using Customer Equity to Focus Marketing Strategy”, *Journal of Marketing*, January 2004.
- Stochhorst, W. J. – Van Raaid, M. E.: “On Explaining Performance Differentials. Marketing and the Managerial Theory of the Firm”, *Journal of Business Research*, No. 57, 2004.
- Subin, I. – Workman, Jr.: “Market Orientation Creativity and new Product Performance in High-Technology Firms”, *Journal of Marketing*, April 2004.
- Woodall, N.: “A Structural, Attribution and Dispositional Perspective”, *Journal of the Academy of Marketing Science Review*, No.20, 2003.

ASSISTANT PROFESSOR DARKO LACMANOVIĆ, PHD  
*Faculty of Tourism, Hotel Management and Commerce,  
“Mediterranean” Union of Faculties, Bar*

## SALES MANAGER STYLES OF MANAGEMENT – EXAMPLE OF HOTEL INDUSTRY OF MONTENEGRO

**Abstract:** *Sales managers have at their disposal managing instruments by which they can stimulate latent efforts and performances of sales persons. Management is the process in which one individual influences the behaviour of other people in order to achieve certain goals. Management efficiency is based on personal characteristics, managerial skills and behaviour of sales manager.*

*A sales manager in the hotel industry of Montenegro, on an average, mainly points out details, facts and certainty. He is energetic and practical thinker, focused on short-term realistic goals. He develops rules and procedures for performance evaluation. Sales managers of the surveyed hotels, according to the determined psychological profile of management style, have mainly positive attitudes towards team work, facing technological and market challenges of the future sales, further expert improvement based on various contemporary training methods and use of new technical and technological solutions and concepts in sales.*

**Key words:** *sales management, motivation, management.*

### 1. Introduction

The aim of this paper is to note dominant management style of sales managers in hotel industry of Montenegro and to show possible directions of improvement of sales activities from the aspect of high quality management.

The first part of the paper offers theoretical summary of the notion and role of management in the process of sales activities performance. The second part contains presentation of the results of primary research of management style of sales managers in the hotel companies of Montenegro. The conclusion refers to the importance of the existing managerial skills of sales managers in Montenegrin hotel industry, taking into account facing contemporary sales challenges.

## 2. Management as a function of sales management – notion and role

### 2.1. Sales force motivation

Motivating sales efforts, according to W. Stanton and R. Spiro, usually includes three dimensions: intensity, perseverance and choice.<sup>1</sup> Intensity refers to the scope of efforts spent by a salesperson on a certain task; perseverance shows how long the salesperson would continue to engage his/her sales efforts; choice refers to salesperson's choice of specific activities in order to achieve business results.

Reward system is based on motivation mixture, which consists of the following elements:

#### I Financial rewards

##### A) Basic system of reward:

- Salary
- Commissions
- Bonuses
- Additional financial remunerations

##### B) Sales competitions

#### II Non-financial rewards

##### A) Awards such as badges, trophies, certificates

##### B) Praises and encouragements by the management

##### C) Job promotions

##### D) Possibilities for promotion (this can also be financial reward)

#### III Other elements

##### A) Sales meetings and conventions

##### B) Management and supervision

##### C) Sales training programs

##### D) Sales mentoring

##### E) Elements of sales planning

- Prognoses
- Budgets
- Sales quotas
- Sales areas

##### F) Evaluation of sales performances

##### G) Elements of general management

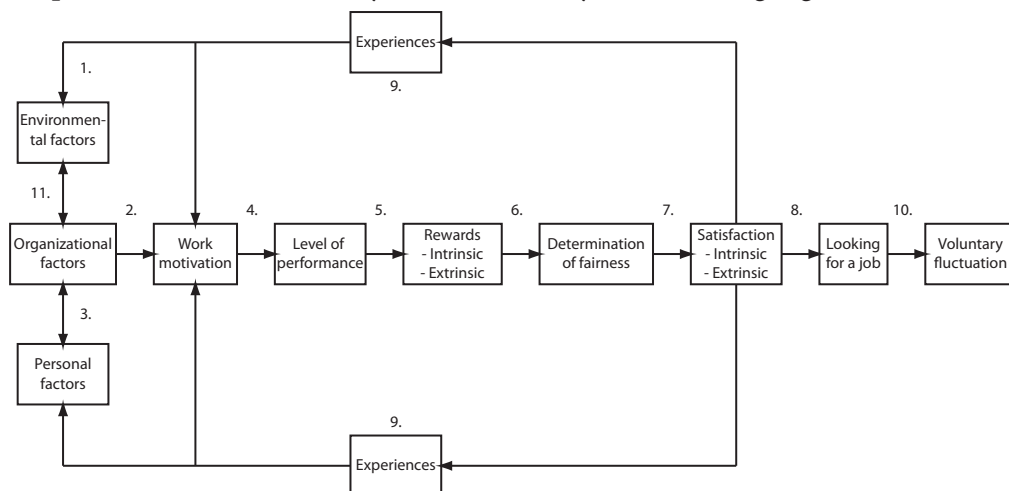
- Organizational structure
- Management style
- Communication channels

The problem of “topping out” sales persons (the sales persons who have reached a certain level of development, without further moving), would continue

---

<sup>1</sup> W. Stanton, R. Spiro, *Management of Sales Force*, Irwin/McGraw-Hill, New York, 1995.

to present a challenge for sales managers in the future. It is important for the sales managers to recognize the causes of “topping out” and to work with their sales persons in order to overcome these problems. Segmentation of sales structure, grouping of sales persons according to their motivational needs with the offer of various reward systems for every individual group, represents an innovative approach to motivation challenges of sales force. The behaviour of salespersons in the process of motivation may be illustrated by the following Figure.



**Figure 1:** Behaviour of sales persons in the motivation process

Source: M. C. Futrell, *Sales Management, Teamwork, Leadership and Technology*, The Dryden Press, Harcourt Brace College Publishers, Orlando, 1998.

C. M. Futrell suggests the following motivation techniques:

- 1) Team work – supporting the team work. Sales managers should aim at creating powerful sales teams.
- 2) Authorization – giving sales persons the necessary authorizations so that they could fulfill their obligations.
- 3) Communication – clearing up your ideas and goals to sales personnel.
- 4) Listening – listen carefully to salespersons; consider their short and long-term goals.
- 5) Observation – managers should acknowledge and award outstanding achievements.
- 6) Integrity – keep up your promise, do not change plans in the course of the year, setting a good example.
- 7) Questioning – awareness of continuity of motivation process and changes in the sales structure.

- 8) Unity – good sales managers would unite a sales team by developing cooperation among the sales team members.
- 9) Enthusiasm – giving inspiration through honest acknowledgment of salesperson's success, respect for their opinions.
- 10) Setting standards – setting high standards and assuring salespersons that they work for an exceptional company.

Individuals may be motivated in various manners; accordingly, the managers cannot motivate all members of the sales structure at the same time. Also, the manager should consider the overall contribution of sales to the company's goals when she/he establishes a sales awarding system.<sup>2</sup>

Based on the research of job satisfaction and level of loyalty to the company, E. Babakus suggests that job satisfaction has important consequences connected with fluctuation of salespersons, which can be expressed through several observed facts.<sup>3</sup>

First, higher level of satisfaction leads to feeling that the job fulfills expectations and to higher level of loyalty to the company. Higher level of job satisfaction and loyalty to the organization are connected with the lower level of inclination to leave the organization.

Second, the possibility of sales management to increase job satisfaction seems connected with the reduction of conflict and ambiguous sales role (expressed through salesperson's insincere and indefinite approach, the customer does not know whom the salesperson represents, *note by D.L.*) and increase of salesperson's perception of organizational support which is expressed through training, reward system, leadership and other management activities.

Third, the role of training suggests that it takes great part in potential value of understanding job satisfaction. Sales organization provides for the extensive training, which starts by initial orientation towards sales job through various aspects of sales, relation with clients, and knowledge of product and business activities of the company.

Fourth, positive connection between training and performances has not been found. This may suggest the fact that other factors play more important role in salesperson's performances, although this is not consistent with contemporary understanding of management and practice.

Fifth, the role of rewards in job satisfaction model is directed towards fulfillment of business expectancies and expected organizational support. Not a single correlation has been found between rewards and inner motivation. Rewards play relevant role in job satisfaction model.

Sixth, the expected organizational support influences the manners in which the salesperson sees his/her relation with the organization in the light of recognizing indi-

---

<sup>2</sup> M. C. Furtell, *Sales Management, Teamwork, Leadership and Technology*, The Dryden Press, Harcourt Brace College Publishers, Orlando, 1998.

<sup>3</sup> E. Babakus et al., "Examining the role of organizational variables in the salesperson job satisfaction model", *The Journal of Personal Selling & Sales Management*, New York, 1996.

vidual achievements, fulfilling one's own requirements, considering personal views and offering assistance when needed.<sup>4</sup>

The results of researches related to the effects of "psychological exhaustion" of salespersons on sales management suggest several facts. According to P. S. Brown, competition for reward, status or even survival within the organization, are frequent methods used by sales managers to motivate their salespersons to achieve for better sales performances.<sup>5</sup> The results of the Gallup research<sup>6</sup>, which studied the attitudes of more than a half million salespersons show that a personal characteristic of many great salespersons is that they are competitors, people who "wish to conquer their colleagues or competition."

Although high sales efficiency is the most important goal of sales management, the researches show that setting challenging personal goals is an important inter step towards the achievement of the main goal. Personal goals are evaluated as "directing factors of sales action." The results of the research show that interaction between competition threat and competition psychological climate influence the salesperson's goal-setting.<sup>7</sup>

Job satisfaction is critical for sales organization. C. Swift Owens and C. Campbell note that there are three dimensions that are significantly connected with job satisfaction of sales managers: autonomy, cohesion and lack of pressure should influence the creation of work environment where sales managers are completely satisfied with their jobs.<sup>8</sup>

Considering the factors influencing the interaction of invested work efforts and results of work of salespersons, R. Srivastava determines that the effort is key element contributing to sales success and the one which is fully under control of each respective salesperson – within which people can regulate the intensity of executing their tasks. In comparison with this, the sales results are not fully under control of salesperson but are subject to erratic market conditions. However, if everything else is the same, the salesperson showing greater efforts should have better sales results.

Sales managers traditionally lean mainly on financial rewards in order to stimulate salespersons to greater sales efforts. It is a prevailing opinion that the invested efforts have positive impact on sales performances.

---

<sup>4</sup> Ibid.

<sup>5</sup> P. S. Brown et al., "Effects of trait competitiveness and perceived intraorganizational competition on salesperson goal setting and performance", *Journal of Marketing*, Vol. 62, No. 4, Chicago, 1998, pp. 88-99; according to: A. E. Locke, P. G. Latham, *A Theory of Goal Setting Task Performance*, Prentice Hall, Englewood Cliffs, NJ, 1990.

<sup>6</sup> *Gallup Management Consulting Group*

<sup>7</sup> P. S. Brown et al., *ibid.*

<sup>8</sup> C. Swift Owens, C. Campbell, "Psychological climate: Relevance for sales managers and impact on consequent job satisfaction", *Journal of Marketing Theory and Practice*, Vol. 6, No. 1, Statesboro, 1998, pp. 27-38.

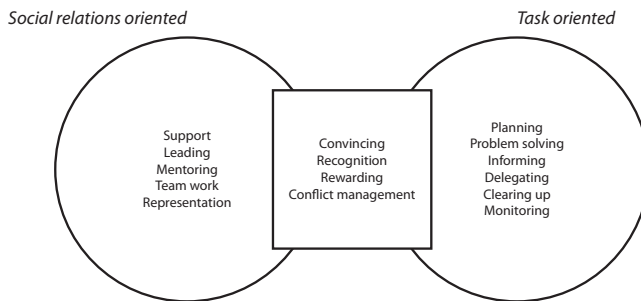


R. Srivastava highlights the fact that sales managers play key role in individual sales results. By inspiring salespersons for greater work engagement, sales managers hold steering instruments to stimulate latent sales efforts and performances.<sup>9</sup>

## 2.2. Sales management

W. Stanton and R. Spiro define management as “a process in which one person influences the behaviour of other people in order to achieve certain goals.”<sup>10</sup> Management efficiency is based on personal characteristics, managerial skills and behaviour of sales managers. Personal characteristics include self-confidence, initiative, energy, creativity and maturity in decision-making. Managerial skills consist of the following: problem solving skills, interpersonal skills, communication skills and skills of persuasion. Managerial behaviour represents a measure of good management and includes a set of various activities categorized under two main styles of conduct.

Styles of managerial behaviour in the process of management are shown in Figure 2.



**Figure 2:** *Styles of managerial conduct*

Source: W. Stanton, R. Spiro, *Management of Sales Force*, Irwin/McGraw-Hill, New York, 1995.

Business situation, every one respectively, determines a corresponding level of every managerial conduct/behaviour.

C. M. Futrell points out the three key terms in the process of management: people, impact and goals.<sup>11</sup> Sales managers who have leader capabilities must have the capacity to motivate people to work more than is usually expected. Leaders raise awareness of the personnel related to new results and motivate them to go beyond

<sup>9</sup> R. Srivastava et al., “The will to win: An investigation of how sales managers can improve the quantitative aspects of their sales force’s effort”, *Journal of Marketing Theory and Practice*, Vol. 9, No. 2, Statesboro, 2001, pp. 11-26.

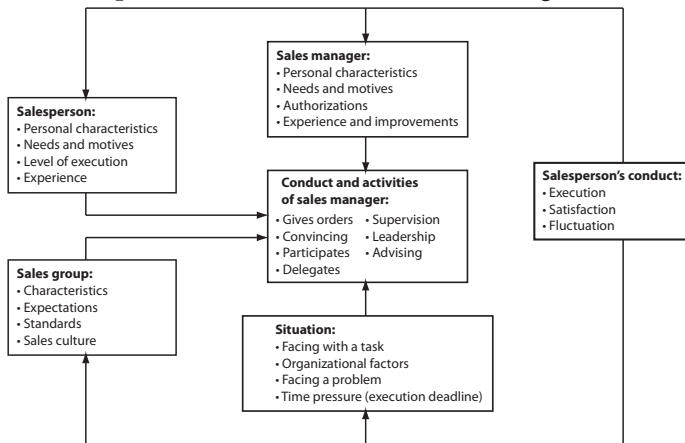
<sup>10</sup> W. Stanton, R. Spiro, *ibid.*

<sup>11</sup> M. C. Furtell, *ibid.*

their own interests for the welfare of sales sector or company. They create atmosphere of changes and should have visionary ideas that stimulate people to work harder. Leaders influence people's emotions; they stand by their decisions, clear up their vision to others and motivate them to achieve it.

According to Futrell, leaders possess the following characteristics: they have powerfully defined feeling of purpose; they know what should be done.<sup>12</sup> They are efficient in communication, so they clear up their vision of the future. They are persistent and ready to spend as much time as needed to achieve the desired results. They are self-confident because they know their strengths, weaknesses, skills and capabilities. They learn, they are informed and thus develop new skills and improve the old ones. They like their job; they see work as adventure and keep refreshing it. They are charismatic; they are capable of attracting and uniting people in a joint effort. They establish interpersonal relations based on trust, respect and attention. They take risks. They are willing to test and experiment with any resource that can serve its final purpose. They are willing to help others achieve their goals. They remove barriers so that their salespersons could achieve goals and help them achieve success at their jobs. They are not just managers and supervisors. They are "the class" among others. A true leader is capable of motivating and inspiring people to make progress and learn while turning dreams into reality. Every one of their salespersons feels that she/he is in control of his own destiny. Every person feels important.

It is possible to identify six key factors of management for achieving the desired level of sales activities performance, which is shown in Figure 3.



**Figure 3:** *Situation model of salespersons management*

**Source:** M. C. Futrell: *Sales Management, Teamwork, Leadership, and Technology*, The Dryden Press, Harcourt Brace College Publishers, Orlando, 1998.

<sup>12</sup> M. C. Futrell, *ibid.*

There are four main styles of sales management, based on task-oriented and people-oriented approaches, that are illustrated by management matrix shown in Figure 4.

Strong	Sales manager and salesperson make decisions together <b>Style 3: Participation</b> Weak task Strong personnel	Sales manager makes decision with the discussion on the topic: Why? <b>Style 2: Persuasion</b> Strong task Strong personnel
	Weak task Weak personnel <b>Style 4: Delegation</b>	Strong task Weak personnel <b>Style 1: Giving orders</b>
People oriented		
Weak	Salesperson makes decision	Sales manager makes decisions
	Weak	Strong
	Task orientation	

**Figure 4:** *Styles of management according to main concepts*

Source: M. C. Futrell, *Sales Management, Teamwork, Leadership, and Technology*, The Dryden Press, Harcourt Brace College Publishers, Orlando, 1998.

Sales managers use their authorizations as a means of influence on sales structure. Leaders usually have five resources of authorization within a sales organization: legitimacy, rewards, coercion, expertise and reference.<sup>13</sup> Management is an important element of understanding managerial process. Sales managers who are more personnel oriented are better managers: they link rewards with the efforts of their salespersons in a correct manner; they do not interfere in the activities of their salesperson unless there are some problems.<sup>14</sup> Such managers also have more influence on their personnel since they have charisma, they are ready to consider the situation together with their personnel and thus stimulate them intellectually.

The researches show that in practice weak people oriented management is valued less. This can be explained by the fact that sales managers at lower organizational levels focus on daily operative details, leaving other management details to higher management levels. The relationship salesperson – sales manager is then primarily established on economic foundation.

Decision-making style is narrowly connected with the management style. Managers who characteristically make decisions in a fast and careful manner are noted as managers of higher performances than those who are late or who avoid to make decisions or ignore facts. Since researches showed that intuitive and spontaneous style of decision-making does not influence manager performances, it is suggested

<sup>13</sup> Ibid.

<sup>14</sup> A. F. Russ et al., "Leadership, decision making and performance of sales managers: A multilevel approach", *The Journal of Personal Selling & Sales Management*, New York, 1996.

that such styles do not influence the quality of decision-making or decision implementation. This is why it is recommended for the sales manager to be systematic in decision-making instead of leaning on a “good feeling.” Determination, as opposite to avoidance of decision-making, has such an impact that conclusion of sales turns into a situation characterized by fast and clear action. This feature is valued at sales managers because it gives visible results in fast job performance and less stress for subordinated personnel who spend less time on thinking, wondering what decision will be made and how it would influence them.

Practically, sales managers should continuously reduce ambiguities and understatement in action.<sup>15</sup> Investing their own time into socialization of new salespersons, managers may clear possible vagueness in work. Sales managers may use that time to define goals and expectations of all sales persons clearly. Constant communication related to organizational changes, communication related to anticipating the manners the changes would influence salespersons, including modeling of change acceptance, are the examples of leader’s consideration and explanation of behaviour that has an important role in reducing conflicts and understatement.

J. A. Dubinsky notes that managers are assigned various positions based on their field of specialization and have responsibilities and duties separate from their colleagues at lower and higher levels of hierarchy.<sup>16</sup> For instance, lower level managers tend to focus on supervision of subordinated personnel; contrary to that, lower level managers take care of strategic planning, monitoring of business indicators, they analyze organizational performances and coordinate various functional units. The more individuals climb up hierarchical ladder – the less are they connected to the level of salespersons. Also, jobs are usually more clearly defined and managers have short-term goals at lower organizational levels, while positions at a higher level are weaker defined and more directed towards achieving long-term strategic goals. The following is noted: as sales manager moves from the first line via middle to top management, technical skills (capabilities to fulfill specialized tasks which require certain process) become less critical and conceptual and decision-making skills become more important. Low level sales managers should have “supervising skills”, middle level managers should have “managing skills” and high level managers should have “administrative and managing skills.”

The differences in understanding job requirements between sales managers and salespersons, according to the research by R. K. Evans, have important influence on salesperson’s job outcomes.<sup>17</sup> If sales managers have a different per-

---

<sup>15</sup> E. Jones et al., “Leader behavior, work-attitudes, and turnover of salespeople: An integrative study”, *The Journal of Personal Selling & Sales Management*, New York, 1996.

<sup>16</sup> J. A. Dubinsky et al., “Satisfaction with sales manager training – Design and implementation issues”, *European Journal of Marketing*, Vol. 35, No. 2, Bradford, 2001, p. 27.

<sup>17</sup> R. K. Evans et al., “Salesperson and sales manager perceptions of salesperson job characteristics and job outcomes: A perceptual congruence approach”, *Journal of Marketing Theory and Practice*, Vol. 10, No. 4, Statesboro, 2002, pp. 30-45.

ception of job requirements than their salespersons, and the salespersons are not aware of it, then they are not in a position to undertake correctional actions. In that case managers must make efforts to understand better how their salespersons see their role in a particular job. Also, managers must be aware of the relative size and value of differences existing between them and their salespersons and perceptions of job characteristics. Prevailing of possible misunderstandings might suggest the need to use more efficient mechanisms by which sales managers would be in touch with salespersons' perceptions regarding their jobs. Accordingly, the managers should lean more on electronic communication. Traditional methods of training supervision should be replaced or improved by the techniques allowing the management to control more salespersons, but still stay in touch with reality of salesperson's job.

### 3. Management style of sales managers in hotel industry of Montenegro

#### 3.1. Methodology-related notes

The research of sales management process in the hotel industry of Montenegro (management style in particular) that was carried out in 2003 was based on application of survey method on a significant sample of hotels. The survey was carried out by a targeted interview with hotel sales managers.

The level of the research significance was determined based on relative parameters of participation of the surveyed hotels within total indicators in Montenegro. The indicators shown in Table 1 are: the number of hotels, the number of rooms and the number of beds.

**Table 1:** *Participation of observed hotels within total indicators in Montenegro*

Name of the hotel company	Number of hotels	Number of rooms	Number of beds	Share in number of hotels	Share in number of rooms	Share in number of beds
"Ulcinjaska rivijera" Hotel Company (HC)	8	1.492	3.536	11%	13%	13%
"Mimoza" HC	3	200	606	4%	2%	2%
"Primorje" HC	2	452	930	3%	4%	4%
"Montenegro Stars" Hotel Group	3	383	815	4%	3%	3%
"Miločer" HC	2	183	376	3%	2%	1%
"Boka" HC	6	1316	2.625	8%	12%	10%
HIT Montenegro	1	180	338	1%	2%	1%
"Budvanska rivijera" HC	6	1.501	3.882	8%	13%	15%
Total	31	5.707	13.108	42%	51%	50%
Total number of hotels in Montenegro	74	11.198	26.468	100	100	100

Based on the presented indicators, it can be considered that the observed sample of hotel companies is significant enough for relevant conclusions.

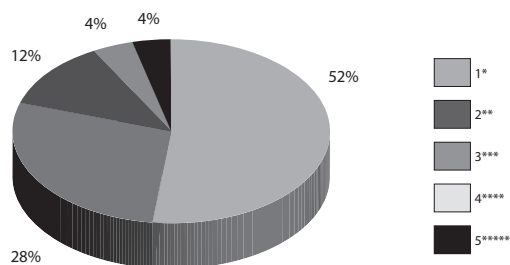
The ownership structure of sampled companies shows that state-owned companies dominate (five companies) and there are two privately-owned companies ("Montenegro Stars" and HIT Montenegro).

Spatial distribution of the observed companies includes the Bay of Boka Kotorska (towns of Herceg Novi and Tivat) and Montenegrin coast (towns of Budva, Bečići, Pržno – Sveti Stefan, Ulcinj).

According to season concentration of tourist demand, the hotels working during the main season dominate.

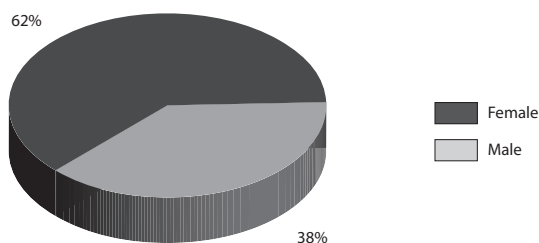
According to the type of hotel, the surveyed hotels are mainly seaside resorts with full board and lodging; a small number of hotels are town hotels with only bed and breakfast.

The quality structure of boarding capacities in the surveyed hotels is shown in Figure 5.



**Figure 5:** Quality structure of boarding capacities of the surveyed hotels

The structure of sampled hotels does not differ essentially from quality structure of the total hotel capacities in Montenegro in 2003 (1\* - 8%; 2\*\* - 45%; 3\*\*\* - 28%; 4\*\*\*\* - 17% and 5\*\*\*\*\* - 2%).<sup>18</sup>



**Figure 6:** Gender structure of polled sales managers

<sup>18</sup> Grupa autora, *Podsticaji za turističke investicije – uporedna analiza – proširena za Crnu Goru*, DEG, Bearing Point GmbH, Düsseldorf, 2003.



The gender structure of polled sales managers is shown in Figure 6.

It could be noticed that the majority of polled sales managers are female.

The questionnaire is basically structured into two parts. The first part includes the questions based on which we can define the main data on boarding capacities of the surveyed hotel companies and hotels, such as: the number of hotels, the number of rooms and the number of beds. Based on a test method, the second part evaluates the sales manager managing style.

### *3.2. Research results*

The variety of organizational structures imposes the specific micro-organizational structure of sales function for every individual company. The sales are managed by: sales department manager (two companies), commercial director (two companies), marketing and sales director (one company), marketing leader (one company) and sales director (two companies). There is a sales chief in two companies and assistant director in one company. Direct executives – salespersons are mainly sales officers (4 companies), sales organizers (1 company), booking officer (1 company), tour operator and billing clerk (1 company).

The description of jobs and work tasks within the sales structure according to the requirements of qualifications, knowledge of languages and computer skills in the observed companies is shown in Table 2.

Obligatory requirements concerning qualifications for a managing job position within the sales structure of all surveyed companies is a university degree, knowledge of two foreign languages (five companies) or one foreign language (two companies) and computer literacy (all companies).

As for the job position of department heads, university degree or two-year post secondary education are required, the knowledge of two foreign languages and computer literacy.

Direct executives – sales persons are required to have two-year post secondary education (two companies), university degree or two-year post secondary education (six companies), secondary school education (one company), the knowledge of two foreign languages (four companies) or the knowledge of one foreign language (two companies).

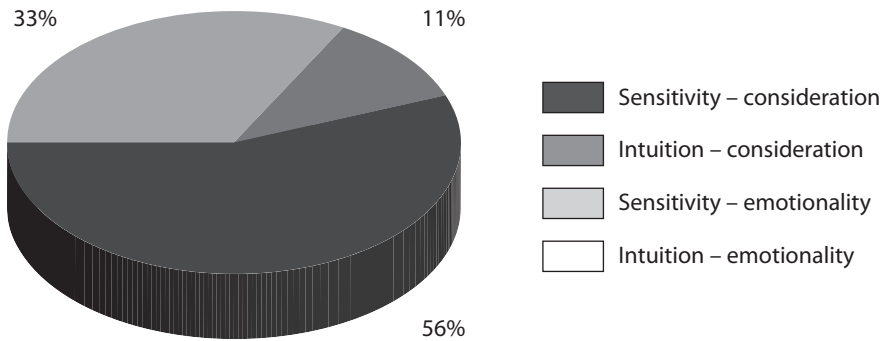
Sales managing line of the observed companies has been established in one of the following manners: 38% of companies with the following line: sales officer – sales chief – commercial director or sales director – general director; 25% of companies with the following line: sales officer – sales chief – general director; 0% of companies with the following line: sales officer – hotel manager; 38% of companies with the following line: sales officer – commercial director or sales director – general director.

**Table 2:** Description of jobs and work tasks within the sales structure of the observed companies

The name of hotel company	“Ulcinjska rivijera” HC	“Mimoza” HC	“Primorje” HC	“Montenegro Stars” Hotel Group	“Miločer” HC	“Boka” HC	HIT Montenegro	“Budvanska rivijera” HC
Job position (Managers)	Sales director	Commercial director	Commercial director	Marketing and sales director	Sales department manager	Sales department manager	Marketing leader	Sales director
Qualification requirements	University qualifications	University qualifications	University qualifications	University qualifications	University qualifications	University qualifications	University qualifications	University qualifications
Foreign language requirements	2 languages	1 language	2 languages	2 languages	2 languages	2 languages	1 language	
Computer literacy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Job position	Sales chief	Tour operator	Sales officer	Assistant director	Sales organizer	Independent sales officer for domestic market	Sales chief	Marketing department chief
Qualification requirements	University/Two-year post secondary education	Two-year post secondary education/secondary school	University	University	Two-year post secondary education/Secondary school	University/Two-year post secondary education	University/Two-year post secondary education	University
Foreign language requirements	2 languages	2 languages	1 language	2 languages	1 language		2 languages	
Computer literacy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Job position	Sales and marketing officer	Billing clerk		Booking officer		Independent sales officer for foreign market	Sales officer	Sales officer
Qualification requirements	University/Two-year post secondary education	Secondary school		University		University/Two-year post secondary education	University/Two-year post secondary education	University/Two-year post secondary education
Foreign language requirements	2 languages			2 languages		2 languages	2 languages	
Computer literacy	Yes	Yes		Yes		Yes	Yes	
Job position								Excursion and animation officer
Qualification requirements								Two-year post secondary education

Motivational factors in the surveyed companies are as follows: salary – in 75% of companies; percentage of the realized turnover – 0%; salary plus percentage of the realized turnover – 0%; salary with the correction according to the accomplished sales plan – 13%; salary plus bonus – 13% of companies.

Test results of sales manager styles of management in the observed companies are shown in Figure 7.



**Figure 7:** *Sales manager styles of management in the observed companies*

Testing the managerial styles of sales managers in the observed companies, the following has been established:

a) 56% of managers belong to the “Sensitivity – consideration” group. They emphasize details, facts, certainty. They are determined and practical thinkers focused on short-term realistic goals. They develop rules and procedures for evaluation of performances.

b) 33% of managers belong to the “Intuition – consideration” group. They show interest in current everyday problems of people. They are creative and progressive thinkers with perceptive skills. They would rather emphasize detailed facts referring to the employed than tasks. They focus on organization structure in favour of the employed.

c) 11% of managers belong to the “Sensitivity – emotionality” group. They prefer dealing with theoretical or technical problems. They are pragmatic, analytic, methodical and conscientious. They focus on possible use of interpersonal analysis. They can consider numerous options and problems simultaneously.

d) 0% of managers belong to the “Intuition – emotionality” group. The managers who would belong to this group avoid particularities. They are charismatic, participating, useful and people-oriented. They focus on general aspects, general topics and emotionality. They decentralize the decision-making process and establish little rules and procedures.

On an average, sales managers in the surveyed companies belong to the “Sensitivity – consideration” group. Therefore, an average sales manager in the hotel industry of Montenegro emphasizes mostly details, facts and certainty. She/he is

determined and practical thinker focused on short-term realistic goals. She/he develops rules and procedures for evaluation of performances.

Considering the test questions about the managing style, the following percentages of positive responses of the polled managers have been determined:

### *I part*

1. I care more about:
  - a) people's feelings, 50%; b) their rights, 50%
2. I usually cooperate better with:
  - a) imaginative people, 25%; b) realistic people, 75%.
3. It is a great compliment when people say that I am:
  - a) a person of real feelings, 37%; b) consistently reasonable person, 63%.
4. When I work with other people, I prefer to do so:
  - a) in an accepted manner, 37%; b) to devise my own way of doing it, 63%.
5. I am more annoyed with:
  - a) strange theories, 63%; b) people who do not like theories, 37%.
6. It is a great acknowledgment to call someone:
  - a) a person with a vision, 63%; b) a person with a common sense, 37%.
7. I often allow:
  - a) my heart to prevail over my head, 0%;
  - b) my head to prevail over my heart, 100%.
8. I think the biggest mistake is:
  - a) to show too much heartiness, 25%; b) to be dislikeable, 75%.
9. If I were a lecturer, I would rather teach:
  - a) courses that include theory, 50%; b) short courses, 50%.

### *II part*

I prefer one of the offered responses:

- |                         |                       |
|-------------------------|-----------------------|
| 10. a) compassion, 43%; | b) cautiousness, 57%; |
| 11. a) justice, 100%;   | b) mercy, 0%;         |
| 12. a) production, 33%; | b) design, 67%;       |
| 13. a) mild, 67%;       | b) strict, 33%;       |
| 14. a) uncritical, 0%;  | b) critical, 100%;    |
| 15. a) literally, 67%;  | b) figuratively, 33%; |
| 16. a) imaginative, 0%; | b) factual, 100%.     |

The largest percentage of positive responses was given on questions 7b, 11a, 14b, 16b; without a positive response were questions 7a, 11b, 14a and 16a.

### 3.3. Implications of research results

The surveyed hotel companies reflect the existing condition of hotel industry in Montenegro regarding quality and quantity structure of boarding capacities, ownership structure, macro-organizational structure of the company, economic and financial indicators of business activities, sales performances, and price policy. The research included small, middle-size and large hotel and tourist companies both state and privately owned, with various hotel offers for various market segments. The achieved economic and financial results on an average show the values that are within the range of general indicators of the entire Montenegrin hotel industry.

The surveyed companies establish sales managing line from sales officer to general director through three basic variants: sales officer – chief – director – general director; sales officer – chief – general director; sales officer – director – general director. A line sales officer – hotel manager or some other specific line has not been established in these companies. The majority of companies have centralized managing structure from which the presented sales managing lines come from.

Since the managing efficiency is based on personal characteristics, managerial skills and behaviour of sales managers, it is possible to give several characteristics of managing process in the observed companies. First, sales managing based on line managing structure provides for greater flexibility and creativity of the employed, reduces the time of response to market impulses, but also narrows the area of salesperson's responsibility. Second, the sales manager assumes almost all responsibility, but also the authorizations within the proportional scope, by which the access of others to decision-making is limited and the flexibility of the entire sales organization is reduced. Third, salespersons cannot influence decision-making process in any important manner, which within the patterns of decision-making styles represents a task-oriented managing structure with order-issuing style of management, where sales managers are those who make all decisions. Therefore, task-orientation is strong, while sales personnel orientation is weak. Such a tendency towards bureaucratization of organization and managing process represents a basic obstacle to free development of entrepreneurial initiative within the organization and reduces the capability of innovative behaviour of a company. Decision-making process is determined by the speed of response, sales experience, lack of a more complex data analysis, personal characteristics of managers and subjectivity in judging particular situation.

Sales management of expected market and technological changes would have to base on team work predominantly, participation of sales personnel, reduced authorizations of managers, increased authorizations of salespersons, reduced tendency towards bureaucratization. The future managing structure should be task-oriented and people-oriented equally, and sales managers should make decisions through a discussion on the topic: Why? In that case, both task

and sales personnel orientation is equally strong. Characteristic managing style is decision-making through assuring salespersons in the organization about appropriateness and importance of set goals and tasks. Such a managing style would be coordinated with turbulent changes in both internal and external environment of the sales organization.

Motivational system of all polled companies is based on financial rewarding, mostly by salary only, which represents a direct form of reward for work engagement. Combining salary with certain stimulations based on planned performance or bonuses is not a usual reward system, but it is more a specific reward system in private companies which have certain preconditions for this type of rewarding. In principle, financial rewarding is the most frequent form of motivation of the employed, independent from social and economic environment, type of activities, type of organizational behaviour of a company and managing style. Current business conditions in the majority of hotel companies represent limiting surroundings for establishing of new forms of reward systems, especially in sales structures. Long-term market instability, financial crisis, organizational preconditions and qualification of personnel do not provide for long-term planning of sales and establishing of adequate result monitoring as a basis to apply various forms of reward systems.

Reward system based on salary only in accordance with the determined coefficients based on job description and tasks provided for a certain job is the system functioning in the surveyed companies. The result of the reward system based on the salary only is unmotivated sales personnel who do not wish to engage enough, which is also often additionally caused by unclear or unrealistically planned tasks. In that case, sales personnel link their work engagement only to the fulfillment of their work hours, and not to the achievement of sales scope. They would be unwilling to work overtime, they would avoid working on weekends, and they would set conditions for additional bonuses for their overtime engagement. On the other hand, sales managers cannot always organize work adequately under such circumstances. The consequence of this is that she/he would often undertake the obligations of her/his co-workers that she/he would be overburdened by unnecessary tasks and eventually the time required for quality treatment of priority tasks would be reduced.

Insufficiently motivated sales personnel are not fully ready to face job stresses, as almost everyday situation in the majority of sales companies. Avoiding stress under the pretext of insufficient motivation has the consequence of constant or temporary abandoning work place, inadequate response to client's requirements in the form of either delayed response or too fast unfounded response, non-acceptance of "hot" tasks, making wrong decisions due to insufficient concentration and loss of jobs, not being interested in seeking new clients.

Adequate reward system in the existing organizational structure that could result in more motivation and interest of salespersons for greater work engagement



could be a system of salary with the correction according to the degree of execution of sales plan. The increase of sales scope for a certain percentage according to the planned value would proportionally, according to the determined coefficient, influence the increase of basic salary, while the decrease of sales in comparison with the planned scope would result in decreasing the basic salary according to the defined coefficient. Newer organizational models and styles of management would require the use of wide-range reward systems, which would include sales competitions and various forms of non-financial rewarding, such as: acknowledgments (badges, trophies, and certificates), praises and encouragements from the management, job promotions, and possibilities of promotion.

The research has determined that more than a half sales managers use managing style characterized by:

- Emphasis on details, facts and certainty;
- Determination and practical thinking;
- Focus on short-term, realistic goals;
- Developing of rules and procedures for evaluation of performances.

A little over than a third of sales managers emphasizes the following characteristics of their managing style:

- Interest in current, everyday problems of people;
- Creativity, progressive thinking with perceptive capability;
- Emphasis of detailed facts related to the employed rather than tasks;
- Focus on organization structuring in favour of the employed.

One tenth of sales managers emphasize the following characteristics of their managing style:

- Inclination towards dealing with theoretical or technical problems;
- Pragmatic, analytic, methodic and conscientious qualities;
- Focus on possibility of use of interpersonal analysis;
- Capability of simultaneous consideration of many options and problems.

None of the interviewed managers belongs to the group with the following characteristics of managing style:

- Avoiding particularities;
- Charismatic, participative, useful and people oriented;
- Focus on general aspects, general topics and emotionality;
- Decentralization of decision-making process, establishing of a reduced number of rules and simplification of procedures.

Sales managers in the hotel industry of Montenegro, on an average, mostly emphasize details, facts, certainty. They are determined and practical thinkers.

They focus on short-term realistic goals. They develop rules and procedures for performance evaluation. On an average, they have the following characteristics as direct managers:

- They take equal care of people's feelings and rights;
- They cooperate considerably better with realistic than imaginative people;
- They consider a greater compliment the fact that they are consistently reasonable than emotional persons;
- They would rather devise their own manner of cooperation with people, than work in an already accepted manner;
- They are more annoyed by strange theories than by the people who do not like theories;
- They think it is a greater acknowledgment to call someone a person with a vision than a person with common sense;
- They think their head controls their heart, and not vice versa;
- They think it is much greater mistake to be dislikeable than to show too much heartiness;
- As lecturers – trainers, they would both teach courses that include theory and fast practical courses;
- They are more cautious than compassionate;
- They are fully inclined to justice and not mercy;
- They are more inclined to design and less to production;
- They are mild rather than strict;
- They are fully critical;
- They like literate interpretation more than figurative;
- They fully accept factual and not imaginative explanations.

The managing style of sales managers in the hotel industry of Montenegro results from generally accepted opinions about the manner, methods and goals of managing in practice of the majority of hotel companies. The managing is based more on subjective, discretionary behaviour of sales managers in accordance with their personal characteristics, knowledge and skills rather than on systematic, goal-determined and planned concept in accordance with the determined rules and procedures. Crossing from the zone of subjective to the zone of objective managerial behaviour is imposed by the need to face continuous growth of internal and external variables important for the decision-making and managing processes.

Decision-making process requires well trained and prepared sales managers with considerable degree of participation of sales team members, so that the sales structure could face adequately all the variables relevant for positive outcome of every decision. The participation of sales team members must base on precisely determined rules and procedures of sales management in order to avoid ambi-

guities and discrimination in decision-making, in order to reduce subjectivity of judgment and provide for the uninterrupted flow of managing process.

Sales managers of the surveyed companies, according to the determined psychological profile of managing style, have mostly positive attitudes towards team work. Also, they are ready to face technological and market challenges of sales in the future period, to improve their expertise based on various contemporary methods of training and use of new technical and technological solutions and concepts of sales.

#### 4. Conclusion

Management, as one of the functions of sales management, must be based on a precisely determined rules and procedures of decision-making. Seeking the right decision from the aspect of efficient realization of set goals, must base on continuous coordination of specific managing style with the requirements of concrete sales situation. Sales managers face their own capability to stimulate team work actively, delegate authorizations, decentralize decision-making process and launch motivation process in positive direction.

Managing style of sales managers is determined by their attitudes towards team work, readiness to face technical and technological challenges of sales in the future period, acceptance of the requirement for expert improvement based on various contemporary methods of training and new technical and technological solutions and sales concepts.

#### References

- Babakus, E. et al.: “Examining the role of organizational variables in the salesperson job satisfaction model”, *The Journal of Personal Selling & Sales Management*, New York, 1996.
- Brown, P. S. et al.: “Effects of trait competitiveness and perceived intraorganizational competition on salesperson goal setting and performance”, *Journal of Marketing*, Vol. 62, No. 4, Chicago, 1998; according to: Locke, A. E. – Latham, P. G.: *A Theory of Goal Setting Task Performance*, Englewood Cliffs, Prentice Hall, NJ, 1990; Brewer, G.: “Mind Reading: What Drives Top Salespeople to Greatness”, *Sales and Marketing Management*, May, 1994; Churchill, A. G. et al.: *Sales Force Management*, Chicago, 1997.
- Dubinsky, J. A. et al.: “Satisfaction with sales manager training – Design and implementation issues”, *European Journal of Marketing*, Vol. 35, No.1/2; Bradford, 2001.

- 
- Evans, R. K. et al.: "Salesperson and sales manager perceptions of salesperson job characteristics and job outcomes: A perceptual congruence approach", *Journal of Marketing Theory and Practice*, Vol.10, No. 4, Statesboro, 2002.
  - Futrell, M. C.: *Sales Management, Teamwork, Leadership, and Technology*, The Dryden Press, Harcourt Brace College Publishers, Orlando, 1998.
  - Futrell, M. C.: *Fundamentals of Selling, Customers for Life*, McGraw-Hill/Irwin, New York, 2002.
  - Grupa autora: *Podsticaji za turističke investicije – uporedna analiza – proširena za Crnu Goru*, DEG, BearingPoint GmbH, Düsseldorf, 2003.
  - Jones, E. et al.: "Leader behavior, work-attitudes, and turnover of salespeople: An integrative study", *The Journal of Personal Selling & Sales Management*, New York, 1996.
  - Russ, A. F. et al.: "Leadership, decision making and pervormance of sales managers: A multilevel approach", *The Journal of Personal Selling & Sales Managment*, New York, 1996.
  - Srivastava, R. et al.: "The will to win: An investigation of how sales managers can improve the quantitative aspects of their sales force's effort", *Journal of Marketing Theory and Practice*, Vol. 9, No. 2, Statesboro, 2001.
  - Stanton, W. – Spiro, R.: *Management of Sales Force*, Irwin/McGraw-Hill, New York, 1995.
  - Swift Owens, C. – Campbell, C.: "Psychological climate: Relevance for sales managers and impact on consequent job satisfaction", *Journal of Marketing Theory and Practice*, Vol. 6, No. 1, Statesboro, 1998.



PROFESSOR MOMCILO ŽIVKOVIĆ, PHD

*Faculty for Business Studies, Megatrend University of Applied Sciences, Belgrade*

TATJANA DRAGIČEVIĆ, PHD

*Megatrend Business School*

## MOTIVES FOR STARTING A BUSINESS

**Abstract:** *The concept of entrepreneurship is based on the main components of contemporary business, such as innovation, competition, knowledge, technology, capital. Starting an enterprise is directed at synergic uniting of all these components and their efficient use. Therefore, enterprising processes stimulate local economic development and they are positive factor of economic growth. The motivation for starting a business is influenced by various factors and their various intensities. The analysis of importance of individual factors and motivation of individuals can help create better infrastructure conditions of a society in the direction of stimulating enterprising activities. This paper analyzes the results of the survey carried out among the students of Megatrend Business School, future entrepreneurs, and these results are compared with the corresponding results of the surveys carried out worldwide among the real entrepreneurs.*

**Key words:** *entrepreneurship, entrepreneur, innovation, motive, enterprise, development, factors, knowledge, idea.*

### 1. Introduction

Entrepreneurship represents a pro-active manner of business operations and activities. Such an approach to business activities includes also a special emphasis on creativity, innovation and changes. Entrepreneurs adapt to market requirements by their enterprising activities, creating conditions of their own market positioning.

Enterprising concept is a product of enterprising activities such as continuous creation and application of ideas, application of system knowledge, prediction and use of possibilities and business opportunities within the environment.

*Enterprising concept implies uniting and coordinated action of four enterprising components: technology, knowledge, innovation and capital.* The role of all four components is emphasized within the contemporary business trends and



represents a response to fast and radical changes and requirements of the environment. Enterprising concept enables efficient use of available and accessible resources, diversification of business activities, creation of flexible and sustainable organizational structure of an enterprise and expansion of economic activities through services and knowledge into global framework.

The above stated view of enterprising concept has been considered through a prism of enterprise-making dimensions: innovation, knowledge, idea, market, environment conditions and global goals in local infrastructure.

## **2. The role and importance of entrepreneurship within the local economic development (LED)**

Enterprising concept may represent a model and important factor of economic growth of a country. The studies have shown that the countries with a high level of enterprising activities have greater potential to create dynamic economic activities that correspond to the requirements of efficiency and effectiveness of the world market. The important potential comes from the flexibility in business operations, provision and mobilization of required resources, innovation of production range, as well as from attracting direct foreign investments.

Economic strategy outlined on the basis of business activities development enables economic growth and integration into global economic flows. It also causes opening of new jobs and creates prerequisites for a higher level of productivity.

Although the enterprising activity is of small scale in under-developed economies, and the limited resources – primarily financial and human – are rather emphasized, the possibilities for development should be sought in the generation of business dynamics by efficient business decision-making based on revival of big economic subjects and creation of small and middle-size enterprises.

These conclusions are supported by the fact that even international institutions stimulate the level of enterprising activities by various recognized economic programs in the developing countries, especially countries in transition.

(Re)structuring of economic flows and entrepreneurial activities should represent a response to global economic changes. The development of entrepreneurship may signify an efficient response to global trends.

It is necessary to note in the analysis of these processes that entrepreneurship represents the result of three dimensions:<sup>1</sup>

- Favourable infrastructure conditions,
- Planned government development programs,
- Acceptability by local culture.

---

<sup>1</sup> [www.worldbank.org/urban/led/seed/module3.local.pdf](http://www.worldbank.org/urban/led/seed/module3.local.pdf)

Favourable infrastructure conditions include the availability of finances, ground, municipal services, construction of traffic and telecommunication network, existence of business incubators in the function of animation of entrepreneurial activities, primarily at the local level. There is also the support of financial institutions with acceptable credit arrangements for small and middle-size enterprises and similar activities.

In addition to infrastructure conditions, governments can support the development of entrepreneurship by their activities and programs as a response of macro-environment. The support and role of governments and other state institutions reflect primarily in synchronization of legislation with measures stimulating the entrepreneurial activities, in providing a stable and stimulating legal and business environment, open markets, tax systems with privileges for entrepreneurs and creating and establishing confidence in entrepreneurship and defining national clusters.

Local community has enormous influence on the level of entrepreneurial activities, creating positive and stimulating atmosphere for the development of enterprises at the local level. Local institutions should offer direct support to entrepreneurs in their business enterprises through educational institutions, expert programs, establishing of local information centers, programs of local financial sources, creation of clusters, creation of incubator areas, etc. Such a proactive approach promotes LED (Local Economic Development) concept, which bases on building of local competition and stimulates economic activities at the level of national economy as well.

The importance of entrepreneurial activities within local economic development is that they embrace business opportunities from the environment, stimulate the development of innovation and competition through creation of common vision on close cultural and social dimensions that do not exist at local level. When a problem appears, it is solved here “in the neighbourhood”, so the effects of its solving can be seen and noted directly.

Local economic development will be enabled through stimulation of entrepreneurial activities by synchronized action of factors influencing the intensity and quality of that development. These are primarily tradition and culture, the support of local administration, strengthening of the role and importance of educational and research institutions, participation in the plan and program of LED local companies, creation of a network of financial system and support at the level of the country.

The mentioned LED determinants enable creation of high probability of success of enterprises and creation of entrepreneurial network, which would accelerate economic growth transferring the effects of competition from the local to the national level. This would lead to increased business dynamics, so the entrepreneurial processes would create an increasing number of new jobs, regardless of whether they are newly established enterprises or the existing ones.

### 2.1. An enterprise

When there is an appropriate economic and business environment and atmosphere that support innovation and stimulate entrepreneurial activities, many people of various professions and social status are interested in changing their jobs, often even their professional and social status. Under contemporary conditions the owners and organizers of business activities represent a creative force and potential that enables changes of structure of national economy and its accelerated development. This is particularly present and notable in the developed countries. According to the data of the USA Small Business Administration, small business sector, including self-employment, employs 58% of the total USA manpower and creates 40% of GDP.<sup>2</sup> Experience and practice show that starting an enterprise and new business represents a risk. The USA research shows that only 10% people who wish to start their own business accomplish that in practice.<sup>3</sup>

Statistics show that a great number of small newly established enterprises fail in a short period of time, and many bankruptcies occur because the individuals enter the business on a rush, without adequate preparations and realistic estimations of their own and available possibilities, without knowing the requirements and conditions of their future business, rules and conditions of business operations.<sup>4</sup> Also, the great number of new businesses close down soon because of the lack of or bad planning, the lack of knowledge and business skills, the absence of reality and capability of owners or workers to organize and perform the chosen activities, and similar.

The decision on entering into a new business enterprise is complex and always risky. It should be based on the estimate and analysis of a large number of factors, primarily on the following ones:

- Realistic estimate of one's own and collective capabilities (family, partners);
- Available capacities and resources such as knowledge, premises, capital;
- Complex analysis of all aspects of the future business.

When committing oneself to a new business, it is necessary to leave aside personal desires, feelings and emotions, and analyze and evaluate realistic economic parameters and other objective indicators of the enterprise itself, in other words of the business and future business operations. The success of a new business is

---

<sup>2</sup> M. Jovanović et al., *Preduzetništvo*, Megatrend univerzitet primenjenih nauka, Beograd, 2004, p. 59.

<sup>3</sup> [www.worldbak.org/urban/led/seed/module3.local.pdf](http://www.worldbak.org/urban/led/seed/module3.local.pdf)

<sup>4</sup> The researches show that 30% of the newly established enterprises in the USA fail within the first year of their establishing, while 62% do not survive the first six years.

achieved by patient work, will, persistence and risk-facing, with timely undertaking of all required measures and activities in the process of business dealing and operations. Before starting a business, it should choose a business that offers a chance of long-term success under the conditions and within an environment where it will be carried out. Such an approach requires a detailed earlier preparations, analyses and consideration of the future approach to an enterprise. An approach to every business, especially a new one, requires a persistent, patient and devoted work and personal engagement, without limited working hours in the beginning. The practice confirms that it is sometimes considerably more difficult to work for oneself than for some employer.

As a rule, the choice of appropriate and “right” job is a difficult problem, a dilemma and a complex decision for every entrepreneur. Within such a choice and a dilemma, it is necessary to put the requirements of the future undertaking in relation with personal knowledge, experience, skills, capital and a wish to succeed. When defining business enterprise, it should choose in favour of growing and developing markets and not in favour of saturated, picky or stable ones. Considering that both products and services have their life cycle (which is determined by time), the future entrepreneur should try to enter the business at the beginning of that cycle because in later stages, especially at the peak of the cycle numerous and severe competitors are present for which new entrepreneurs are not prepared at the beginning.

In the process of choosing a new business, the literature suggests to find answers to some important questions:<sup>5</sup>

- What jobs do you really like to do?
- What jobs or professions are you inspired or excited by?
- How do you spend your spare time most frequently?
- What kind of jobs or activities are you most familiar with?
- What would you like to leave behind as your success and your life work?

Practice shows that the chances for enterprise success are the greatest if one chooses the work which s/he likes and knows well. In addition to this, the jobs that are unknown, fatiguing and hard for the future entrepreneur and lead to dissatisfaction and frustration should be avoided. The study of practical experiences also confirm that if you are convinced that something is extraordinary and good, and if you see your “true chance” in it – it will probably happen in practice. Entrepreneur must be convinced and sure that her/his business will be successful and long-lasting.

---

<sup>5</sup> According to: V. Novaković, D. Samardžić, *Mali biznis i preduzetništvo*, Beograd, 2000.p. 65.

*2.1. Bearer of entrepreneurial activities – an entrepreneur*

An entrepreneur is a bearer of entrepreneurial activities. She/he has an important role in creation of entrepreneurial society, which leads towards national prosperity through introduction of new competitive products and services. The entrepreneur's activities are directed at efficient use of ideas, resources and expansion of limits of innovative possibilities. Idea as a basic component of entrepreneurship implies creation of new business enterprises, new organizations, new economic branches.

The entrepreneur is an individual whose overall active participation aims at implementation of an idea that is a response to some noted business chance at the market. We can say that an entrepreneur is a visionary determined to realize her/his ideas, but at the same time the creator because she/he builds the foundations of new business activities by her/his persistence and risks s/he is exposed to a large number of factors influence profiling and creation of an entrepreneur. Most frequently they are divided into three groups:

- Personal characteristics,
- Life path circumstances and
- Environmental factors.

When studying the entrepreneur's characteristics and factors influencing her/him, it has been noted that a large number of personal characteristics can be equated with an entrepreneur. These are: great need for personal achievement, orientation towards future, rather highlighted inner self-control, high level of education – which stipulates high tolerance of ambiguities, persistence and industriousness. Great many practical examples show that the origin of a large number of entrepreneurs is rather similar; most often they are first born children whose parents engaged in entrepreneurial activities.

In addition to personal characteristics life path circumstances may also be a decisive factor in the decision of an individual to become an entrepreneur. Losing a job or an unpleasant event within a family are very often crucial moments to start an enterprise.

The factors of direct environment may also be catalyst in the individual's decision on her/his way to successful entrepreneur. Environmental factors may be favourable and available infrastructure, market accessibility, availability of technology and similar.

However, there is a dilemma here – which of these factors is prevailing and decisive for starting entrepreneurial activities, in other words in making the relevant decisions. The condition for an entrepreneur to make a quality and successful business decision about her/his new business or enterprise is to consider, organize intellectually and understand business she/he will be doing in a

required and sufficient manner, as well as relevant factors and circumstances influencing it.

### 3. Analysis of motives for starting a business and factors influencing the level of entrepreneurial activities – questionnaire

The answers on many questions representing strength of entrepreneurial activities included the research carried out on a sample of students of second year of Megatrend Business School, who studied the subject Entrepreneurship. The survey included the students in Belgrade, Zrenjanin, Sombor and Indija. The study was carried out in order to try to find an answer to the question whether the entrepreneurial activities have the growing potential in our country as well.

The analysis was carried out in the course of winter semester of 2004/2005 academic year. The survey included 152 students – 72 in Belgrade, 28 in Sombor, 22 in Zrenjanin and 24 in Indija. (Figure 2)

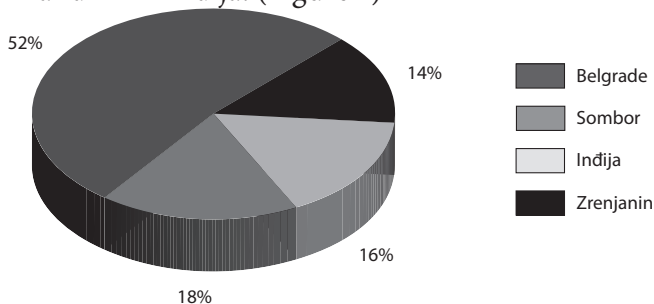


Figure 1: Towns in which the survey was carried out

Among 152 students, 90 were females, which makes 59.21% and 62 students were male, i.e. 40.79%. The average age of respondents was 24.33 years, which corresponds to the average age of entrepreneurs starting their own enterprises (Figure 3).

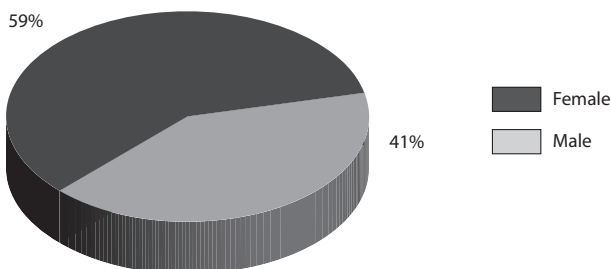


Figure 2: Structure of respondents by gender



The questionnaire was answered anonymously. The only personal data that were required from the students were their age and gender. The questionnaire consisted of two groups of questions; the first group referred to motives for starting a business. There were nine criteria to which students answered according to the level of importance. The criteria were as follows:

- To use one's own skills and capabilities
- To gain control over one's own life
- Because of the family
- I like challenge.
- In order to live where and how I like.
- To gain respect and acknowledgment.
- In order to earn lot of money.
- In order to fulfill someone else's expectations.
- This would be the best choice possible.

The criteria to start an enterprise were evaluated by the following degrees:

- Very important
- Important
- Less important
- Irrelevant

Students were allowed to evaluate several offered criteria by the same level of importance.

The second part of the questionnaire referred to evaluation of factors that influence the level of entrepreneurial activities. The questions were worded based on the similar EU and USA researches, which were carried out by Gallup Agency in September 2000.<sup>6</sup> According to these studies, 8063 Europeans and 507 Americans were interviewed. The research was carried out by telephone on a random sample. The questions were as follows:

1. Gender                      M              F
2. Age                      \_\_\_\_\_
3. Was someone in the family engaged in entrepreneurship?              Yes              No
4. Difficulties in starting a new business [very difficult (0) – very easy (100)]: \_\_\_\_\_
5. Difficulties in starting a new business:
  - a. lack of finances;
  - b. complex and slow administration;
  - c. lack of information
  - d. unfavorable economic climate.

<sup>6</sup> *Flash Eurobarometer 83*, "Gallup Europe", September 2000, [www.europa.int](http://www.europa.int)

6. Your relation towards risk:
  - a. Following a failure, I would not engage in a new business again.
  - b. Following a failure, I would try to start a new business.
7. Who would start a new business most frequently?
  - a. People who have already started some lucrative business;
  - b. The owners of small-size enterprises;
  - c. The executives of big companies.
8. Would you rather be
  - a. employed
  - b. self-employed – have your own business?
9. Do you need a support of the family and friends to start a new business  
(0 – not at all, ..., 100 – I need it very much) \_\_\_\_\_
10. Do you need a high education in order to start a business?
  - a. Yes
  - b. Maybe
  - c. No

*3.1. The results of the survey carried out  
among the students of Megatrend Business School  
considering the motives for starting a new business*

The questionnaire about the motives for starting a new business included nine mentioned criteria and four degrees of importance. The students were allowed to evaluate several criteria with the same degree of importance, but each criterion must have had a certain importance. Very similar thinking of interviewed students in all towns was noted, as well as between genders.

The majority of students answered that a *very important* criterion in starting a new business was “*to use of one’s own skills and capabilities*” (66.45%) and “*to gain control over one’s own life*” (55.26%).

The two following criteria were evaluated as *important*: “*that would be the best choice possible*” (54.61%) and “*in order to earn lot of money*” (51.97%). For these two criteria there was a various importance among the students in Belgrade and Indija when compared with the students of Sombor and Zrenjanin. The students in Belgrade and Indija evaluated higher the criterion “*that would be the best choice possible*”, and then the criterion “*in order to earn a lot of money*” follows. The students in Zrenjanin and Sombor think that the motive “*in order to earn a lot of money*” is more important than the criterion “*that would be the best choice possible*”. In these two towns, the students said that some other criteria such as “*I like challenge*”, “*Because of the family*” are important when deciding to start a business. It can be noted from the results that there is a various influence of development of local environment, cultural and demographic factors and standards, when an individual decides to start an enterprise.

The criterion “*in order to fulfill someone else’s expectations*” was evaluated as *irrelevant* in all towns (59.21%).

**Table 1:** Priorities when starting an enterprise according to the students of II year of Megatrend Business School in Belgrade, Sombor, Zrenjanin and Inđija

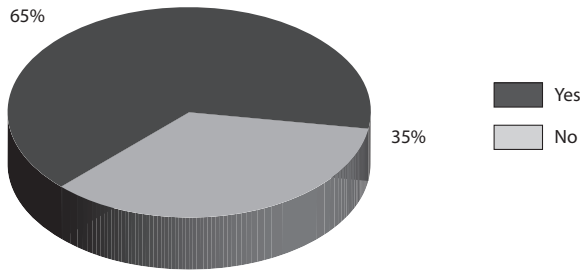
The answers – all students	Very important	Important	Less important	<b>Irrelevant</b>
To use one’s own skills and capabilities	66.45%	32.24%	1.32%	0.00%
To gain control over one’s own life	55.26%	39.47%	5.26%	0.00%
Because of the family	26.97%	37.50%	25.00%	2.63%
I like challenge	16.45%	37.50%	32.24%	13.16%
In order to live where and how I prefer	31.58%	42.11%	15.13%	9.21%
To gain respect and acknowledgment	29.61%	42.11%	22.37%	5.92%
In order to earn a lot of money	26.97%	51.97%	17.76%	1.97%
In order to fulfill someone else’s expectations	3.29%	7.89%	28.29%	<b>59.21%</b>
That would be the best choice possible	20.39%	54.61%	13.82%	9.87%

If we take into account all researches about the motives for starting a business carried worldwide so far, we can conclude that the answers obtained from the students of Megatrend Business School are very similar to the answers of entrepreneurs on their entrepreneurial motives. Considering the profile of an entrepreneur, the criterion of using one’s own skills and capabilities is ranked first among the motives for starting a business, as is for the students of Megatrend, and the profit is at the fourth or fifth place only (at the fourth for the students).

Also, it has been noted that “*to fulfill someone else’s expectations*” is irrelevant criterion for starting a new business for the entrepreneurs, and this was also the answer of the students. The criterion “*I like challenge*” is different between the interviewed students and entrepreneurs. The entrepreneurs evaluated this criterion as important and relevant, while it was not particularly important for the students.

### 3.2. The results of the questionnaire about the factors influencing the degree of entrepreneurial activities

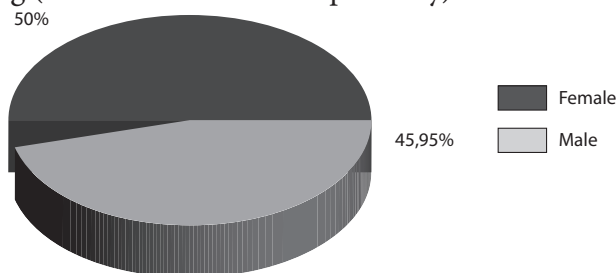
The questionnaire included, as has been shown, ten questions. As for this poll, there have been various answers considering evaluation of difficulties in starting an enterprise, as well as considering the attitude towards the risk between the genders and among certain towns. As for other questions, similar thinking and answers have been noted.



**Figure 3:** Did someone in the family engage in entrepreneurship?

There were 53 “Yes” answers and 99 “No” answers to the question “Did someone in the family engage in entrepreneurship?”

The second question referred to evaluation of difficulties when starting a new business. The students should evaluate the percentage of difficulties on the scale ranging from 0 to 100. The female students evaluated the starting of new business as 50% difficult, while the male population showed a bit more optimistic evaluating the difficulties with 49.95%. The students in Belgrade and Indija expected less difficulties in starting a new business (35.86% and 35.65% respectively), while the students in Sombor and Zrenjanin expected more difficulties in the beginning (79.18% and 43.86% respectively).



**Figure 4:** Difficulties in starting a new business

If we compare these data with the studies carried out in the EU and the USA, we can conclude that starting a new business is considered much more difficult in our country than in the above mentioned countries, where this index ranges from 26 in the USA to 28 in the EU countries. The reasons for such results should be sought in different entrepreneurial climate and conditions for starting and operating a new business, as well as obtaining the required resources.

The next question referred to defining of main factors that can cause difficulties. The following factors were offered as answers:

- Lack of finances;
- Complex and slow administration;
- Lack of information, and
- Unfavourable economic climate.

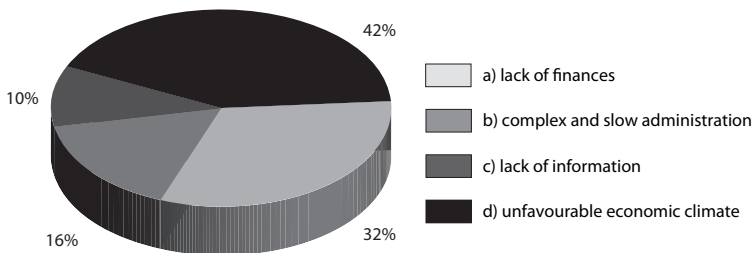


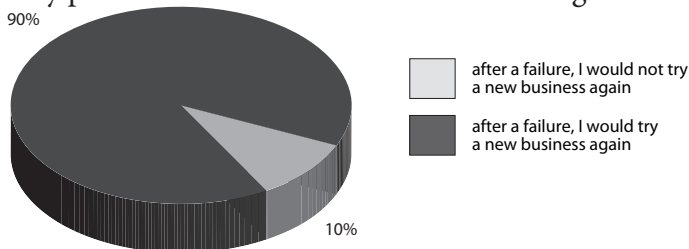
Figure 5: Difficulties in starting a new business

The largest number of students answered that it was *unfavourable economic climate* (108), then the *lack of finances* (83), and only then the *complex and slow administration* (40) and *lack of information* (25). The answers were almost identical in all towns and between genders, the only difference being that the students in Belgrade put the *lack of information* at the last position, following the factor of *complex administration*, while for the students in Sombor, Zrenjanin and Indija the *lack of information* preceded *complex administration*.

These answers of Megatrend students differed very much when compared with the answers of the respondents of Gallup agency. Their respondents consider that the lack of financial resources and complex administration are the biggest difficulties to start a new business. The answer to these differences may be sought in the fact that the students – future entrepreneurs – have not yet faced practical problems and difficulties concerning the provision of financial resources for a new business.

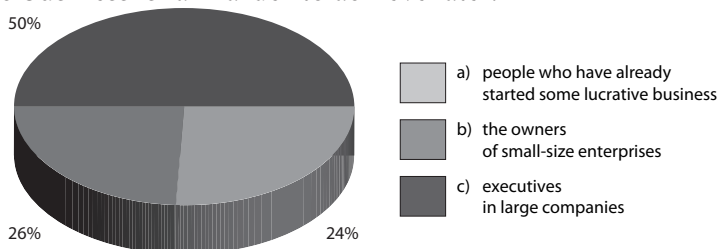
The sixth question referred to the relation of respondents towards risk-taking. They were asked to choose between two offered answers, “whether they would try a new business again after a failure or not”. There were 137 students

who would try again, while only 15 would not. Here there were also differences between genders. In Sombor and Belgrade the female students showed less inclined towards risk-taking than male students, although generally speaking they all had very pronounced attitude towards risk-taking.



**Figure 6:** *Your attitude towards risk-taking*

The future entrepreneurs in the USA and EU are much more reserved towards risk-taking than the interviewed students. The Gallup researches show that the majority of the Americans and Europeans think that the chance should be given to the individuals who have failed in their first entrepreneurial attempt (index 72 on the scale from 0 – disagree to 100 – agree very much), while the Europeans (index 51) are less inclined towards risk-taking than the Americans (index 40).<sup>7</sup> The practice shows that when you fail in business once, the successful return to business is far harder to achieve later.



**Figure 7:** *Who would start a new business most frequently?*

The seventh question referred to the “background” of entrepreneurs. The majority of respondents – 74, consider that the enterprises are started by people who have already engaged in some lucrative business. 38 of them think that these are the executives in large companies, in other words experienced people, while 36 think that these are the owners of small-size enterprises. This or similar ranking was made by the students in Belgrade, Sombor and Indija. The students in Zrenjanin think that the executives of the large companies are at the first place, and then the owners of small-size enterprises or people who have already engaged in some business enterprise.

<sup>7</sup> Op. cit., p. 11.



According to the Gallup research, the majority of respondents said that these were the owners of small-size companies, and then the people already involved in some lucrative business and in the end the executives in large companies.

The eighth question was as follows: “Would you rather be employed or have your own business?” There were 127 respondents out of 152 who answered that they would rather have their own business and 25 of them that they would rather be employed by some employer. Here it has been noted that female students were more inclined towards “traditional” employment than the male students. It has also been noted that the students who had someone with his own business in the family would rather decide in favour of employment than to have their own business.

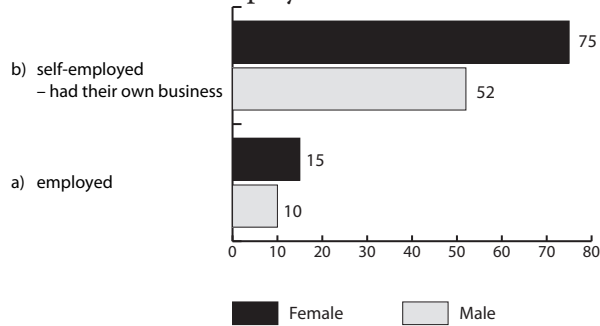


Figure 8: Would you rather be employed or self-employed? (Criterion: gender)

The question “Do you need a support of your family and friends?” was answered by the majority of students with “Yes” and in high percentage. On the scale from 0 – not required at all to 100 – required very much, 71.49% students answered that it is required. A somewhat less assistance is required by the students in Sombor and Zrenjanin when compared with the students in Belgrade and Indija. As for the genders, the support is equally important for both males and females.

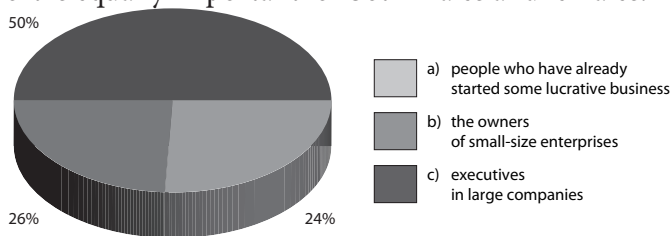
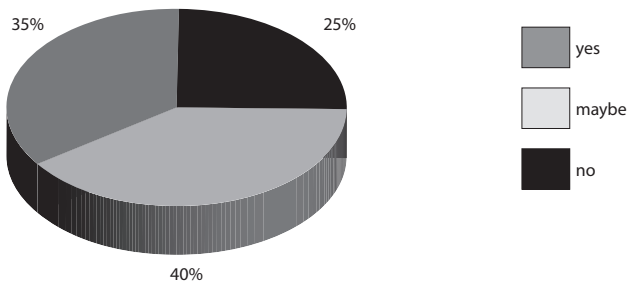


Figure 9: Do you need a support of your family and friends to start a new business? (0 – not at all, ... , 100 – required very much)

Such a trend is noted at the Gallup respondents in Europe and America as well.

The last question referred to the required *level of education for starting a new business*. The largest number of students (61) was not sure whether the high education was required to start an enterprise, while 38 thought that it was not required. The attitudes towards the educational factor varied among the towns. In Belgrade, 20 students thought that the education is necessary, 33 were not sure (the answer was maybe), and 25 estimated that it was not required. In Zrenjanin, 9 students thought it was necessary, 8 were not sure and five thought that it was not necessary. In Sombor, 13 students thought the education was necessary, 12 were not sure and three thought that it was not necessary. In Inđija, 11 students thought the education was necessary, 8 were not sure and five thought that it was not necessary.



**Figure 10:** Do you need a high education to start a new business?

#### 4. Conclusion

The analysis of business climate and the surveys carried out show that the entrepreneurial activities and ventures are developing in domestic economy, both within individual business activities and within the companies. The studies carried out show that the students of Megatrend Business School have great entrepreneurial potential, or the inclination towards starting an enterprise. It is evident that the students conclude that it is necessary to improve infrastructure conditions considerably, in other words the entire business climate so that the starting of enterprises that support the local economic development would be easier and more successful. It has also been noted that the general attitude of respondents is that the main difficulties in starting an enterprise in our country are bad economic climate and lack of financial resources. The students were highly tolerant of ambiguities, and also had insufficient practical experience, so this is why they accepted the risks of the new business to a larger extent. The answers suggest the wish of the students to run their own business independently and not to be employed by some employer. The entrepreneurial practice, however, shows that it is sometimes much harder to run one's own business than

to work for the employer. The support of the family is very important for the respondents. This is natural considering that they are a population without their own capital and previous business experience in enterprising. The students evaluated the factor of education, skills and capabilities rather high as the conditions for successful running of business, by which they showed rather a realistic comprehension of their future business activities.

### References

- Jovanović, M. – Živković, M. – Langović, A. – Veljković, D.: *Preduzetništvo*, Megatrend univerzitet primenjenih nauka, Beograd, 2004.
- Novaković, V. – Samardžić, D.: *Mali biznis i preduzetništvo*, Beograd, 2000.
- *Flash Eurobarometer 83*, “Gallup Europe”, September 2000, [www.europa.int](http://www.europa.int)
- [www.worldbak.org/urban/led/seed/module3.local.pdf](http://www.worldbak.org/urban/led/seed/module3.local.pdf)

PROFESSOR SLAVOLJUB VUKIĆEVIĆ, PHD  
*Faculty of Management, Valjevo*  
*Megatrend University of Applied Sciences, Belgrade*

## CHANGES IN EMPLOYMENT AND STRUCTURE OF EMPLOYEES UNDER CONDITIONS OF ELECTRONIC BUSINESS

**Abstract:** *Modern society is characterized with a new type of institutionalization of state and economy. The main characteristic of modern society is its global character. It is undoubted that the way towards globalized society leads via digital revolution. Digital economy is the cause of important changes in the position and structure of certain categories of workers, and at the same time it has led to radical changes in organization of work and business. On the other hand, application of contemporary information technology has created need to employ more and more experts with appropriate technical qualifications.*

**Key words:** *globalization, electronic business, employment, knowledge innovation.*

### 1. Introduction

The world we are living in is characterized by important changes all over the planet. This is the time of explosive changes that are fundamentally remaking the world it used to be for the last five centuries and in the center of which there were local economies, states and cultures. We are witnesses to origination of a new epoch – epoch of globalization.

When attempting to answer the question what globalization is, there are diametrically opposite answers, ranging from opinions that it is an objective process that has originated due to “iron historical unavoidability” to the opinions that it is a new form of Western domination. “While some see globalization as progress and spreading of general welfare, for others it represents regression,

creation of ever increasing gap among societies, globalization of poverty and unemployment.”<sup>1</sup>

Globalization as a process manifests in various forms, and some of its essential characteristics can be expressed through closer and closer connection, interdependence of societies in the fields of production, commerce, environmental protection, crime prevention. Denser and denser connection of private and public institutions in the world is the result of technological and information revolution and reduction of distance and time necessary for communication caused by this revolution. Awareness of increased interdependence and common destiny of the world is shaped at the world market. The same forms of companies and business dealings are also spreading all over the world. A unique world system of global order is being created within which local societies are no longer autarchic communities but they become a part of this unique system. A network of supranational institutions is established which makes decisions about the destiny of individual societies to a great extent. Creation of a unique world order has been accompanied with the process of deep divisions, polarizations and conflicts. “There are many worlds in one world.”<sup>2</sup> The relationship between forces of polarization and integration (gradual spreading of economic welfare or deeper and deeper gaps among these worlds) should give the answer to the key question: Does the world order go towards global democracy or authoritarian world state?

## 2. Electronic commerce – paradigm of globalization

Modern society is characterized with a new type of institutionalized state and economy. The main characteristic of modern society is its global character. It is undoubted that the path towards globalized society leads via digital revolution. Since the appearance of first computers in 1946, until today, there have been many permanent changes in all segments of contemporary society. Traditional understanding and forms of manifestation of certain forms of society have been eradicated. The notions of classic state and economy have been replaced to a great extent by new notions such as electronic state and digital (electronic) economy. It is certain that contemporary technologies and generally new forms of social organization represent powerful support to acquiring profit as one of main goals of globalization.<sup>3</sup>

---

<sup>1</sup> M. Pečujlić, *Globalizacija (Dva lika sveta)*, “Gutenbergova galaksija”, Beograd, 2003, p. 12.

<sup>2</sup> Op. cit., p. 17.

<sup>3</sup> Investments in information equipment are growing dizzily. In 1960, investments into this type of equipment amounted to 3% of total investments while in 2000, they reached 52% and in some fields such as communications, insurance and banking they reached even 75% of all equipment investments.

Digital economy is the cause of important changes in the position and structure of certain categories of workers, and at the same time it has led to radical changes in organization of work and business dealings. On the other hand, the application of contemporary technology creates a need to employ an increasing number of experts with appropriate technical qualifications. Namely, an increasing number of workers are required to do jobs related to software and communication technologies. For illustration, in the USA in 1996, there were 7.4 million people employed in information industry. The similar situation is in Europe as well, which expresses the need to employ thousands of “network specialists.”<sup>4</sup>

Under the conditions of fast technological changes, product “life cycle” is shorter and there is a need for new organization of company business operations. It is obvious that network organization of companies represents a new model of implementation of information systems and information technologies on the new system of business operations. Establishing and spreading of this type of company organization has been enabled by developed information systems and information technologies on the one hand, and new organization and educational culture of the employed, on the other hand.

### *2.1. The notion of electronic business*

The term electronic business has been used for the first time back in 1996, by the American company IBM, in order to mark business operations accompanied by the application of contemporary electronic technology. More intense use of the term electronic business (e-business) followed when it should have made conceptual difference from the term electronic commerce used by then (e-commerce), which made electronic business and electronic commerce equal. The term electronic business, although new, is complex and includes several components that express its complex essence.

First of all, it is a notion situated in a wider context of so-called digital economy. This type of economy includes new types and new kinds of business operations, such as: construction of information structure, development of information technology industry (hardware, software, components), provider services, sending business contents, on-line financial services, as well as the changes in the existing forms of business operations: public services (traffic, PTT, electric power industry, insurance), electronic publishing, advertising, marketing, forming of new digital market (Internet) which requires completely new rules (laws), profiles and number of employees and does not acknowledge national and local boundaries. The core of digital economy generates huge financial assets.

Today we still do not have a uniform definition of electronic business. Even big encyclopedias such as for instance “Encyclopedia Britannica”, define the

---

<sup>4</sup> Commision of the European Comunites: *Strategies for Jobs in the Information Society*, COM, 2000, p. 48.

term e-commerce as the term e-business, in other words there is no difference between these two terms. What various definitions of the notion of electronic business have in common are their elements: automation and optimization of business processes, improvement of relationship with target groups (customers, citizens in general), improvement of other support services. One of the definitions of electronic business that meets the criteria of general quality and comprehensiveness in relative terms points out that electronic business is “purchase and sale of information, products and services by computer network, as well as the support for any type of transactions by means of digital informatics.”<sup>5</sup>

In practice, business activities and transactions within electronic business refer to production, distribution and consumption of certain goods and services. The notion of goods includes a wide range of productions from traditional ones (such as furniture) to new ones, such as electronic books. Services are also understood widely and refer to information, financial and legal services. Their distribution and consumption is realized through electronic exchange of data, electronic commerce, electronic payment, on-line delivery of appropriate goods, electronic financial transfer, electronic creation of conditions, electronic bidding, common purchases, direct marketing, and after-sales service.<sup>6</sup> The mentioned fields through which electronic business is carried out represent at the same time the areas of work where the greatest changes occur related to redefining of needs for labour power: the number of employees is reduced, but there is an increased demand for new profiles of workers.

### 3. General assumptions for introduction of electronic business

Electronic business can be implemented in any form of work organization. The implementation of this possibility depends on the speed of business processes automation. In order to introduce the process of electronic business in some company or public administration organization, the business process must previously be automated (fully or per segments). Automation of business processes implies existence of appropriate preconditions, the two of them being particularly important. It is necessary first of all to define and describe all jobs per business processes that are being automated. More precisely, it should previously make a written document in electronic form in which a list of tasks per respective job is given. Then, it should make a description of information flows among jobs for every business process or Business Process Scenario (Event Scenario). It is very

---

<sup>5</sup> R. Kalakota, A. B. Whinston, *Electronic Commerce*, Addison – Wisley, Publishing Company, Inc., New York, 1996, p. 23.

<sup>6</sup> See in: Commission of the European Communities: *A European Initiative in Electronic Commerce*, COM, 1997, p. 157.



important to define preconditions of business processes automation and improvement of business process organization and this importance can be seen in the fact that there is a separate branch of business developed – Event Management.

### 3.1. E-Business Wheel

The process of electronic business is a complex process consisting of several elements, i.e. business processes that together make a coherent entity. In order to understand the entirety of electronic business better and more easily, a conceptual model of so called e-Business Wheel has been developed, which describes the most important processes of electronic business.

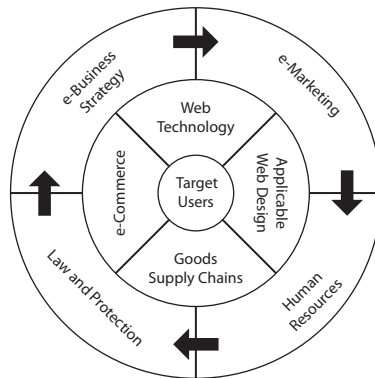


Figure 1: *e-Business Wheel*<sup>7</sup>

As shown on Figure 1, the wheel consists of seven parts that surround as a starting basis of all contemporary business processes. The main goal of all contemporary business concepts is to meet client's requirements and to form such a business environment in a particular company thanks to which all business processes would be in the function of the client. Profit is acquired as a result of high quality relationship with customers.

It should also be noted that e-Business Wheel comprises two main segments: e-business strategy and application of electronic business. Strategy of electronic business defines all business processes the ultimate goals of which are customer satisfaction and company profit. Naturally, in order to achieve this final goal of electronic business, it is necessary to create and lead appropriate operative processes, i.e. to apply electronic business in an adequate manner.

<sup>7</sup> D. Varagić, D. Tošić, Savetovanje "Elektronsko poslovanje", Palić, 2003.

**STRATEGIC ELECTRONIC BUSINESS**

Philosophy, strategy and policy of electronic business

e-Marketing and e-PR (Public Relations)

Information and communication infrastructure

(ICT - Information and Communication Technology)

**OPERATIVE ELECTRONIC BUSINESS**

e-Production and e-Products

e-Technology

Distribution chains (eSCM – electronic Supply Chain Management)

Electronic protection and law

**Figure 2:** *Electronic business segments*

**4. New forms of work organization  
and new categories of employees in electronic business**

Originating as a consequence of total changes within the process of globalization, electronic business implies automation and optimization of business processes. Business processes are carried out in the appropriate technological surroundings, the components of which are telecommunication services, information services, telematic applications, multimedia and the Internet. Also, business processes are carried out in the manner that establishes new forms of work organization and, naturally, new professional profiles, which all directly influence the number of employees and their qualification profiles.

*4.1. Specific forms of electronic work organization*

Electronic business is carried out within absolutely new work forms, which are expressed by new notions: virtual organizations, virtual offices, and virtual teams.

Virtual organizations represent geographically variously displaced entities that are connected by common interests. Work tasks that are carried out in this type of organization are mutually independent. The fact is that work tasks are fulfilled in space and time that are different but coordinated with the support of information technologies. It is obvious that there is a specific integration (globalization) of work in various states, which creates new possibilities, but also the problems: from employment, through payment of the employees to application of various national labour legislations, as well as standards of the international labour law. Creation of virtual organizations erases state boundaries and integrates working space, bureaucratic barriers disappear and the overall business operations become incomparably more efficient. Work is globalized and there

is a specific planetary integration that is taking place. Very often, virtual work organization imposes the need to apply international labour legal standards, which is not the case of classic forms of work organization. Virtual organization offers multiple advantages: possibilities to hire the best experts, more flexible and easier response to changing requirements of business participants, establishing of healthy competition among various companies, increase of productivity rate of the employees, reduction of business costs, 24-hour work time.

At the same time, virtual organization establishes distance work (telework), which is a new form of work that was not known previously. This term means the space where the employees fulfill their tasks in electronic business. This type of office is organized variously. It is possible to give a different desk to the employee every day (hotdesk environment), or the employee can spend most of his/her working hours at clients' places using their equipment and resources, similar as hotel visitors (hotelling). Finally, it is possible to give the working space to the employee the moment she/he arrives at work according to the principle: who comes first services the client (touchdown office).

Within distance work (telework), the organization of work place can be profiled variously. First, the employee can work at home. She/he then controls dynamics of work and work hours with the provision of all technical means. Second, the majority of employees can share working space by working in the office distant from the organization headquarters (satellite office). In this way time and costs of communications are reduced. Third, it is possible for employees to fulfill their work tasks by means of mobile technological support (mobile office). For instance, this is the practice known for traveling salesmen. Finally, there are virtual offices, whose premises are shared by the employees of several organizations (telecentre).

As a result of work of virtual organization, there appears a need to form virtual work teams. This process is very complex since it implies team work of various worker profiles, which carry out their work engagement in various manners and under the different conditions of virtual work organization. It is obvious that virtual teams incorporate workers of various profiles and qualifications, but also imply certain general knowledge of team members: information literacy, specializations in certain fields, as well as capability for team work with co-workers with whom they often do not have direct contact (Internet cooperation). Those who work in virtual teams obviously do not correspond to classic notion of an employee, static and often tied to the desk where she/he would be waiting for his/her retirement. Work flexibility parallel to required new state-of-the-art knowledge comes first, which influences creation of new worker profile that can meet the requirements of contemporary electronic business.

It is clear that the need for new workers, i.e. for worker profiles changes essentially. New relationship is established between those workers who are required and those are not required any more. Namely, the notion of worker is redefined,

especially in the part covering special conditions that certain workers should fulfill for certain jobs.

### **5. Main directions of changes in employment and structure of the employees in electronic business**

Transnational companies are organizational form of companies through which globalization process is institutionalized. These companies represent the main form of highly internationalized production in the world and key bearers of contemporary technical process in global proportions. Key assumptions of transnational company business dealings, in material sense of the word, are computers, telecommunications and computer networks. These material assumptions of transnational companies' business operations are at the same time material assumptions of world economy in general. However, the basis of planetary tendency of information technology application is made of people with their expert knowledge and skills, as starters of globalization process. A view of "the map" of contemporary business operations reveals their main areas and directions where under the conditions of electronic economy the greatest changes occur regarding employment and new profiles of the employees.

These are primarily electronic communications, electronic commerce, electronic banking, electronic public administration, electronic finances and electronic marketing. Each of these fields of work and business operations is represented by the following important characteristics: first, the need for new personnel; second, by surplus of the employees whose knowledge is technologically outdated; third, by mutual conditionality of work of certain experts in order to achieve the entity of business goals.

#### *5.1. Electronic communications*

The essence of electronic business is made of electronic communications with network exchange of electronic data and flexible system of message sending. The analysis of today's electronic communication system and comparison with a traditional system of electronic data exchange shows that these are different technical levels of operation which require different knowledge of the employees operating these systems. Open EDI (Electronic Data Interchange), which is used by the Internet, means that EDI messages can be sent and received by e-mail. At a higher level of sophistication, EDI can use electronic form available at Internet websites that users can order. The Internet is therefore directly in the function of efficient business, especially in "business to business" type of transactions.

When we speak about employment or the structure of the employees, the Internet business highlights the main issues of organizational and operative

nature. These is security, competitive advantage in development of the product that is acquired through research and development (RD), efficiency in the function of EDI automatic payment, availability of information related to sales and other internal organizational transactions.

### *5.2. Electronic commerce*

When we speak about employment and the structure of the employees, the most significant changes occur in electronic commerce. This type of commerce replaces classic commerce and opens new business possibilities. Classic tradesman and the counter, as symbols of trade are disappearing irretrievably and are replaced by contemporary types of business operations and Internet traders armed with computer knowledge and capable of electronic communication with other participants in commercial chain. This form of commerce started in 1970s by innovation that was known as electronic fund transfer. However, the applications in this domain were of a limited application capacity. There were used by big corporations and a small number of business companies, until Electronic Data Interchange (EDI) appeared.

The largest number of the employees in electronic commerce use telephone in their work, e-mail, fax-machines, automatic identifications based on bar code, EDI, visual information transfer, access to their business partners files, transfer of messages on electronic forms, Internet. When commerce started being carried on over the Internet, the market for many types of goods and services became digital. Brokers in Wall Street already have systems for automatic search of the Internet in order to find the company profile they are interested in.

There are several models of electronic commerce: Business to Business (B<sub>2</sub>B); Business to Consumer (B<sub>2</sub>C); Consumer to Consumer (C<sub>2</sub>C), by means of Supply Chain Management.

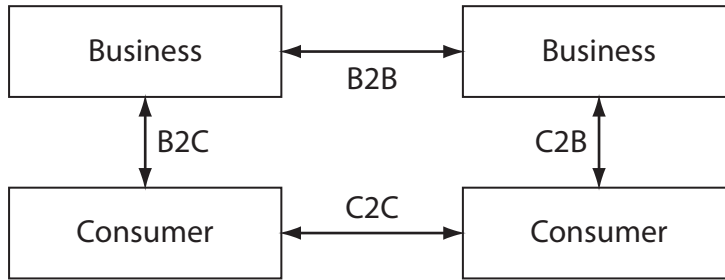
The first model of electronic commerce – (B<sub>2</sub>B) – enables creation of new connections between business processes, whereas transactions for sales of goods among organizations as well as integration of supply chains and creation of conditions for on-line purchase of goods of one business process for the other have been made easier. Problems of B<sub>2</sub>B applications are, first of all, legal integration, security of data and flexibility of this type of application.

The second model of electronic commerce – (B<sub>2</sub>C) – provides for direct interface between companies and consumers (for instance, retail and services website). This model directly eliminates one category of the employees, and these are tradesmen, since it is obvious that there are not intermediaries between producers and consumers in this type of commerce.

Finally, with the support of contemporary information technologies it is possible to carry out trade between consumers – (C<sub>2</sub>C) – where payment of services appears as a problem. Companies that support this type of business must solve

the issue of payment of services in an unconventional manner. In the future, this type of electronic commerce will be carried out by supply chains, i.e. by delivering the right product to the right place at the right time and at the right price. All prognoses suggest that this would be the most attractive application of contemporary information technologies in the future.

The scheme of the mentioned models would look like this:



**Figure 3:** *Scheme of flows of products, services, information and finances in electronic commerce*

### 5.3. *Electronic banking*<sup>8</sup>

This sphere of electronic economy responds to requirements of users for fast services in the sphere of money and related transactions. Mass networks for data communication have been built, and considerable changes have occurred in the number and type of the employees. Namely, in many banking operations, as almost nowhere else, human work is automated and replaced by machine work. Cashier machines and automated systems for management of financial assets have replaced banking officers. Main banking activities such as check accounts, savings, loans and various forms of payment are transferred through network, which provides for standardization and establishing of a procedure of user services in all parts of banking activities and achieves the spreading of the range of banking services and easier access to the user at any time. When we speak about digital payment, the majority of these systems require a kind of “digital wallet.” It is an important new payment instrument. As analysis of application of this instrument in electronic banking exceeds the framework of this paper, we shall only draw attention to its functions and types. The most important functions are to ensure the process of payment from buyer to seller; to confirm authenticity of user by means of digital signature and to keep and carry out transfer of monetary value from buyer to seller. Two most topical categories of digital wallet at the

<sup>8</sup> This type of banking is better known under the name of *cyber, virtual or online banking*.

moment are: client-based digital wallet and server-based digital wallet.<sup>9</sup> It should not underline particularly that this type of payment eliminates intermediaries in electronic commerce and increases interactive relationship between producers and customers, especially in B<sub>2</sub>B and B<sub>2</sub>C segments of commerce, which has already been explained previously in the paper.

#### 5.4. *Electronic administration*

Modernization of business is spreading irrepressibly on all social spheres and segments of government. Important shifts have been made in the sphere of transformation of government administration into public service of citizens, especially in Government to Consumers (G<sub>2</sub>C) relationship.

The other spheres where there are major changes in public administration are the following: Government to Business (G<sub>2</sub>B); Government to Government (G<sub>2</sub>G) and Government to Employees (G<sub>2</sub>E).

The cooperation between government and consumers (G<sub>2</sub>C) is characterized by a few novelties through which modernization of the whole process manifests. First of all, it is the possibility that public administration service is accessible to citizens by a single entrance to the Internet (single touch point) 24 hours a day and that they can fulfill their administrative liabilities (taxes and other liabilities) over the Internet without any limitation.

The category of business in public administration that includes the cooperation of government and its bodies with business subjects and other legal subjects (G<sub>2</sub>B) is especially important for business under the conditions of globalization. Shortening of time required for carrying out complex transactions depends on the quality of this cooperation and the foundation is created for making quality business decisions in companies, as well as administrative decisions in competent government organizations.

Improvement of efficiency of public administration is observed also within international communication of government bodies (G<sub>2</sub>G), as well as on the relation government – employees (G<sub>2</sub>E), which is entirely expressed by the notion of modernization of public administration within a political system.

Observed on the whole, electronic administration establishes a need for higher level of information and technological knowledge of employees, which includes in the majority of cases professional additional training of the existing personnel or even their complete pre-qualification.

---

<sup>9</sup> For illustration only, Microsoft Passport is particularly interesting with the latter type of digital wallets, within which Single Sign-In (SSI) service is offered to users, as well as the option of express buy. User signs in for shopping on a website by just one click on Passport logo.



### 5.5. *Electronic finances*

The entire system of changes in contemporary business is rounded up by electronic finances that should provide for implementation of the world trend of production that is induced by new order, or to be more precise, production for a known buyer, which is the newest form of electronic commerce. Business on demand, to which future certainly belongs, is possible to realize by means of electronic finances, or more precisely, system of global connections. By means of electronic finances the capability is developed for a faster response to customer's requirement, market events and competition threat.

Tools required for this type of finances are primarily the following: the Internet, mobile telephony, wireless Web, conference connection, GPS systems within contemporary technologies. Each of the mentioned fields and all of them together require new profiles of workers with appropriate qualifications. Practically, restructuring of the world has been made which now functions according to new principles and based on new foundations. This fact automatically opens a range of questions regarding the status of workers who have so far performed financial operations in a classic manner and whose knowledge is outdated technologically. Prequalification is carried out where possible, but in the majority of cases the measures of social policy are applied that should provide for adequate social treatment of this category of employees.

## 6. **Instead of a conclusion**

Planetary process of globalization, as we have already explained, shows like the Hindu god Siva, many faces and creates ambient for new forms of business within which electronic business is dominating. New forms of business cause, according to "domino effect", the whole range of changes in various spheres of society. Very important changes manifest in the sphere of work and creation of new values, therefore in the sphere of economy and labour power. We have tried to draw attention and mark some spheres where there have been revolutionary changes conditioned by current supranational trends. Contemporary image of national economies and global economic map imminent to market economy bear many new colours and shades. Completely new branches of economy have been born which dominate both national economies and the world economy, dictating the need for new profiles of workers. A worker at the beginning of 21<sup>st</sup> century is "a warrior" armed with new knowledge and skills that did not exist earlier or were not required from him, but now they are *conditio sine qua non* of his working existence and existence in general, and a necessary condition in creation of profit. Changes of technological systems and their improvement impose necessarily constant innovation of knowledge in the sphere of work, i.e. constant stretching of limits of necessary knowledge making the race for knowledge endless.

---

**References:**

- “Consumer Protection in the Global Electronic Marketplace, looking Ahead”, *Bureau of Consumer Protection*, FTC, September 2000, <http://www.ftc.gov>
- Commer Net and Nielsen Media Research, *CommerceNet/Nielsen Media Demographic and Electronic Commerce Study*, 1997, [http://www.commerce.net/work/pilot/nielsen\\_96/press\\_97.html](http://www.commerce.net/work/pilot/nielsen_96/press_97.html)
- CommerceNet 2000, *Barriers to electronic commerce, 2000 Study*, <http://www.commerce.net>
- Commission of the European Communities, *Communication from the Commission: Strategies for jobs in the Information Society*, Brussels, COM(2000) 48 final, <http://europa.eu.int>
- Drakulić, M.: *Kompjutersko pravo*, MST “Gajić”, Beograd, 1996.
- Đurović, R.: *Multinacionalne kompanije, pravni i organizacioni aspekti*, Savremena administracija, Beograd, 1997.
- Electronic Mailbox Protection Act of 1997, (USA)
- E-Mail User protection Act of 1998, (USA)
- Pečujlić, M.: *Globalizacija (Dva lika sveta)*, “Gutenbergova galaksija”, Beograd, 2003.
- Vukadinović, R.: *Pravo Evropske unije*, Institut za međunarodnu politiku, Beograd, 1996.
- Zakon o elektronskom potpisu, “Sl. glasnik RS”, br. 135/04.



ANA JOVANCAI  
*Geoeconomics Faculty,  
Megatrend University of Applied Sciences, Belgrade*

## EUROPEAN UNION, ECONOMY AND PERSPECTIVES

*An essay on the book titled "The Economy of the European Union"  
by Professor Vladimir Grbić  
Megatrend University of Applied Sciences, Belgrade, 2005*

The European Union is certainly the largest economically homogenous area in the world, which by its many specific features represents one of the most important research topics all over the world, therefore the challenge for scientists in our country as well.

Geoeconomics Faculty of Megatrend University of Applied Sciences, which has for years followed global trends and the European Union as a separate sector of studies, has been given a new text-book of wide application – “The Economy of the European Union” by Professor Vladimir Grbić. In the course of his long theoretical and practical work, Professor Grbić has specialized for this subject and has successfully brought us closer the complex system of functioning of one of the most important world integrations. What a challenge this work must have been can be concluded from the words of its author: “Particularity of this integration has put new temptations in the way of economic science. Appropriate analytic instruments for scientific valorization of live economic reality that was constantly being enriched were lacking. The study of the EU economy had to develop along with it.”

Scientific and professional public has an opportunity to get introduced to the material characterized by complexity, conciseness and facts. The style of writing, terminology, graphic representations and tables contribute to better understanding of the content.

Professor Grbić points out that building of the united Europe is undoubtedly one of the most important political and economic undertakings in the second half of 20<sup>th</sup> century. This process has been based on a large number of positive values and civilization achievements, on the idea of preserving peace and stability, economic and social progress, rule of law and respect of human rights and freedoms.

The book "The Economy of the European Union" deals with the topic through fifteen chapters and by means of many case studies that make it easier to the reader to follow the subject matter; it also offers us the possibility of independent wider analysis. The following topics have been elaborated: subject and method of the European Union economy study; notional and historical determination of integration in the European Union, economy of the European Union and the world; institutions; theories of economic integration; monetary integration; tax policy; budget; agriculture; industry; competition policy; commerce; traffic; regional policy; expansion.

Professor Grbić starts with the widest definitions of economy and elaborates the economy of particular areas through this framework; he defines the subject of study of the economy of the European Union and answers the questions concerning manners of establishing institutes, institutions, and economic policy; economic structure and its changes; mechanisms of functioning of economic system; effects of integration processes; patterns of establishing economic integration. His studies have been founded on two scientific methods: method of comparative analysis and method of macro-economic modeling. For further understanding of the matter, chronologically and methodologically consistent, the author presents the development of economic integration from the beginning of its evolution. Today, when the European Union is consisting of 25 member-countries functions as one of the most important world integrations, it should remind the readers that the path it crossed in order to achieve the original goal was not easy.

Special importance for understanding the functioning of the European Union belongs to institutions, fiscal system and the budget, which the author elaborates in detail in separate chapters. Internal market of the European Union implies fulfilling of four basic freedoms: freedom of movement of goods, capital, people and services. However, the achievement of the mentioned preconditions is obstructed by differences in the amount of effective tax burden of factors of work and capital in the Union member-countries. In addition to disturbing optimum allocation of resources, the fact that each state has a separate fiscal system influences the raise of administrative costs. This is why a special emphasis in the book has been put on harmonization of fiscal systems as a necessary precondition for functioning of the internal market of the Union.

We further meet with the manner of financing the European Union, which differs from other international organizations that are financed exclusively by contributions of the member-countries. In the past decades there were often serious disagreements in budget policy and misunderstandings about fair financial division among the member-countries. This is why the budget was subject to many transformations and in 1999 the agreement was reached about the financial framework of the EU for the period 2000-2004. The most important sectors where firm integration bonds were made from the very foundation of the EU are then elaborated. Back in 1957, agriculture was given one of the central roles by the Roman

Agreement. It should take into account that over 50% of the budget is spent on common agrarian policy and that the mentioned costs resulted in conflicts as well. On the other hand, agricultural taxes represent the main source of income, which gives additional importance to the sphere of agriculture. The main characteristic of agricultural policy system is a group of agrarian prices, or to be more precise: target prices, intervention price, levies and subsidies. Such a concept had a goal to protect domestic products and manufacturers and proved efficient in a short time. However, analyzed in a wider sense and taking into account the implications of agrarian policy for various economic and social structures, it had negative consequences. This created a several forms of pressure for its change: budget pressure, customer pressure, international pressure and the pressure resulting from the fight for the environmental preservation. Professor Grbić explains in detail how the reforms were carried out in order to regulate the mentioned problems: starting with the analysis of quota system, which is badly evaluated because of “creation of bureaucratic instead of market economy;” over reforms that were made in 1992 in the form of reducing prices of agricultural products and compensations to farmers for their income losses; to reforms of Common Agrarian Policy in 1997 within Agenda 2000, which finally created conditions for “multifunctional, sustainable and competitive products in the EU”. It is particularly interesting to mentions a case study.

In the next chapter we can get introduced to industrial structure of the Union. The parameters show that in 2000 the European Union was a leading industrial manufacturer, with 40% share in industrial production of the triad (the EU, the USA, and Japan). The most developed industrial countries are Germany, France, Italy and the Great Britain. The most important branches of economy (based on their share in the total value added) are: electric and optical equipment, transport equipment and basic metal products. A very interesting part of this chapter represents a “phenomenon of grouping of individual industrial branches at certain locations, the so called agglomeration of production.” The author states that the causes of this are the development of competitive industrial producers, as well as transport costs that at the level of EU participate with 25% on an average in the costs of price formation of certain products. Strengthening of competitive capabilities at an international level are pointed out as main goals of industrial policy, as well as strengthening of productivity by improvement of research, development and strengthening of scientific and technological foundation of industry. It is the very question of technological policy that the author has elaborated in detail introducing us to framework programs of research that represent “the basic instrument of realization of technological, i.e. research and development policy.”

Separate chapters deal with traffic policy, the goal of which is high transport frequency with minimum endangering of the environment and lower economic costs, as well as basic characteristics of commerce and commercial policy.

The changes that are expected in key spheres of the EU economy after expansion are what make the book by Professor Grbić different from other works avail-

able on the same subject. Regardless of whether May 2004 marked the beginning of a new more powerful and more influential European Union in the world, or the beginning of its weakening, the fact is that joining of ten new member-countries ended one period of its history. Today an expanded European Union has a population exceeding 454 million, covers the territory of about four million square kilometers and after the USA it represents the strongest market and the most influential political factor in the international relations. The question is whether the price, in the form of possible problems in adjusting of new member-countries, will be too high. At the beginning of the chapter the motives of new member-countries for joining are defined clearly, as well as the EU motives to receive them. Furthermore, the readers can analyze in detail the presented macro-economic parameters which compare economic structure of new EU member countries (15). Professor Grbić warns of the problems that might follow in the future: "Environmental protection can be used as an example of high requirements set before newly integrated countries. According to some estimation, in order to achieve ecological standards of the Union, it would be required to invest 35.2 billion Euros to Poland, 13.7 to Hungary, 12.4 billion Euros to Check Republic..." The author also underlines the problem of high rates of inflation and unemployment, as well as the problem of access to funds (especially agricultural fund) for the new member-countries.

The author has elaborated the current issue of Serbia and Montenegro joining the EU. He has considered the position of Serbia and Montenegro within political determination of the West Balkans in a certain stage of integration. He finds reasons for bad economic parameters (unemployment, balance of payments deficit and indebtedness) in war heritage and sanctions, but also points to the fact that their improvement is the only condition for joining the EU. From the perspective of our country, the issue of development of commercial relations with the EU is very important. The author explains that although the EU approved preferential treatment for the export of products to its market as of December 2000, our country has not used this opportunity in the best way. The question whether Serbia and Montenegro will be capable of improving its commercial relations with the EU and get closer to European standards of quality of goods and services remains open.

It can be concluded that the book "The Economy of the European Union" by Professor Vladimir Grbić represents a successfully accomplished project that demystifies the problems of everyday transformation of the EU economy. It is necessary to take into account the author's efforts to put such a complex and topical theme in a very simple and accessible manner into a book that would get Europe and its integration processes closer to many readers.



JELENA BATIĆ<sup>1</sup>

## TRANSDISCIPLINARY KNOWLEDGE – FOUNDATION OF CONTEMPORARY SUCCESSFUL BUSINESS

*An essay on the book titled “Research and Development Management”  
by Professor Gordana B. Komazec and Professor Mića B. Jovanović  
Megatrend University of Applied Sciences, Belgrade, 2005*

For a few recent decades we have been witnesses to great changes in the field of technology thanks to which the power of the man has grown in almost all spheres of life. New technologies, the foundation of competitive power, have given new strength to the man, but have also led to doubts and failure to adapt. People often fail to adapt to circumstances they have created. Namely, technology has predominantly developed without deep thinking about the consequences on the development of the man and society. Technology had its support in science, which was directed more to profit than to truth.

In theory and practice of management the term *research and development* (R&D) means a part of a company in charge of activities directed at gathering knowledge on new products and processes intended for the market. These activities include systematic observation of phenomena the goal of which is to learn new facts or test the existing ones so that theoretical knowledge would be transformed into applicable knowledge and facts. The process from which scientific and expert knowledge comes from has undergone major changes within a new environment. Research and development are no longer within a domain of scientific-research and research-development organizations, but are also the important business function. R&D is important and irreplaceable source of knowledge, and the most profitable organizations of new economy are the research companies.

The crucial role of research and development in a company and R&D management are the main topic of the book titled “Research and Development Management”, the authors of which are Professor Gordana Komazec and Professor Mića B. Jovanović. Professor Komazec holds Masters Degree in Economics, she is a Doctor

---

<sup>1</sup> Student of master studies, Geoeconomics Faculty, Megatrend University of Applied Sciences, Belgrade

of Engineering in the field of organizational sciences, and she is Associate Professor at Faculty for Business Studies at Megatrend University of Applied Sciences. Professor Jovanović is Associate Professor at Faculty of Technology and Metallurgy, where he has also acquired Doctorate in the field of technological design and has a license of technological process designer. Professor Komazec and Professor Jovanović have realized or participated in realization of several dozens of scientific-research, research and development projects and studies in the field of development of technology and new products, as well as in making of technological designs of industrial facilities. The experts in the field of technology, the authors have been aware of the need to update the previous edition of the book in such a way as to incorporate all important changes and preserve what has not changed. The changes in the manner of management are such that they do require better understanding of research process, especially because of the development of innovations in real time. Due to this reason actually, a part of the second and updated edition of the book is dedicated to models of learning and creation of knowledge, research processes and innovation development. Particular emphasis has been placed on *designing*, which makes an essential part of *innovation process*. Workers with various expert qualifications participate in this process. Professor Jovanović thinks that getting to know foundations of technical side of designing opens wider perspectives to those who participate in this process as economists. “Project management is indispensable field of knowledge to all those involved in management,” says Professor Jovanović.

The book is divided in four thematic parts. The author of the first, second and fourth parts is Professor Komazec, while the author of the third part – the part dealing with design – is Professor Jovanović. The main intention of the authors of this scientific book was to introduce us to the main categories related to R&D in as simple way as possible, its connections and relations with business system and environment, whereas the relationship between R&D and innovation is particularly highlighted. The intention of two Professors was to show the advantages of cooperation on their own example and underline the need of connecting knowledge from various sources.

After the introductory part where the authors give basic definitions and notions related to research and development activities, the first part of the book presents the place and role of R&D within company development. It has changed considerably within a relatively short period of time. Because of this, the historical development of R&D management is shown in the function of development of technology.

Contemporary companies, doing business at the global market in real time and applying knowledge as their basic resource lean on R&D as innovation engine. This includes time disposition of various types of innovations and combination of applied technologies with new market segments. Companies make efforts by their managerial activities to provide for long-term continuous development combining internal and external factors. Directing innovation flows, they create dynamic capability of the company. *Marketing* and *innovation* become two main functions

of business system. In combination and correlation with technology, marketing focuses more on the environment while technology attempts to create new market possibilities based on scientific knowledge and internal capabilities. The environment should be observed as external factor, although it has been shaped by companies and their proactive activities. The authors point to various degrees of impact of first, second and third level of the environment. They underline the third level of the environment as the most important, which consists of four basic components: technology, economy, society and political-legal regulations. All three levels act mutually as well, so that the influence of external factors on business activities is very dynamic and complex.

A company of 21<sup>st</sup> century is the organization of people sharing the same goals. They are prepared for uncertainty of the future, so that they create their own future, take responsibilities for their own future and the future of the company. Strategic and business planning based on the relationship between technology and market gives place to integration of human resource in achieving business success. Modern approach includes planning of steps in communication networks. The boundaries between scientific disciplines are erased, the emphasis shifts from information to innovation. Both people and electronic networks have been connected. Manifestation of environmental changes, with the consequences on the role and importance of R&D management, can be shown through two parallel processes: *process of globalization* and *process of local-regional development*. These processes have contributed to growth of productivity in the work of R&D department in the company.

Professor Komazec warns us that we should be aware of the greatest changes in the business activities in the company of 21<sup>st</sup> century, which would be caused by the new quality of biosphere. The humankind can choose between two megatrends: self-destruction or organized solidarity. This is why *sustainable development* is a new approach to business, which promotes natural, human and financial resources in order to improve economies and societies as integrated way towards welfare of the existing and future generations.

R&D is in the function of company development that is achieved by technological changes. It is known that companies consist of technical, biological and organizational systems. In the course of their functioning, system (company) structure may change: evolutionally, adaptively or revolutionary. Technological changes include innovation and diffusion. In the process of diffusion, R&D has a task to improve technology according to market requirements through close connection with engineering and marketing services. R&D is the infrastructure of innovation, i.e. *invention* is transformed into *innovation* through research and development process. Professor Komazec gives a historical survey of the development of R&D management from first to second generation.

The major part of the book is dedicated to research and development process. As any other function in the business system, R&D has its own specific features. R&D is based on knowledge, creativity and intelligence of people doing business. It

should take care of a specific research and development process and development of innovation. Innovation process includes a series of scientific, technological, organizational, financial and commercial activities. R&D is a part of this process that can be carried out in various stages, from idea to solving problems of any part of innovation. Innovation process spreads over the existing business processes, i.e. chain of supply, production, distribution and communication with customers. Critical point in this chain is the choice of adequate measure for innovation. Innovation develops through various learning processes. Common learning with partners becomes the most important. The place and role of partners, particularly customers and suppliers, depends on the manner in which the innovation is carried out, the stages of innovation process, as well as the type of innovation. Innovation process is full of risks, whereas it is difficult to determine whether the market or technological uncertainty is greater. Market uncertainty is linked with activities of competition and customers, and technological uncertainty results from the level of knowledge and capabilities of R&D, intellectual capital and its protection. Both uncertainties are time-related. As time flows in which research activities in order to collect data multiply, the chances of success decrease since the competition may reach the goal. The contemporary approach to R&D decreases the risk by focusing on creativity and knowledge management and thus increases the possibility of success.

The third part of the book deals with designing as an essential part of innovation process. Each stage of innovation process is covered by some design activity and results in a certain design document. The process of designing (creative and expert solving of problems or meeting needs) regardless of the size and importance of the system it relates to (company, factory, product, equipment), from the beginning of the first idea to realization is carried out in several stages:

- Preliminary design;
- Detailed design;
- Execution design.

Written documents originating as the result of these stages of designing are called technological designs, and the process is called technological designing. Designing in non-technological fields is in practice called the other designing. In all other forms of designing, Professor Jovanović particularly highlights the field of mechanical designing. He also differentiates architectural-construction designing and electrical designing. Professor Jovanović thinks that it is particularly important to point out the problems of the environmental protection projects, which mostly deal with the topic of waste waters.

In the course of creative and expert solving of problems or meeting the requirements of the industry, we meet with various elements of development designs. Implementation of every development design includes three stages: preliminary capital design, capital design and stage of exploitation. The last stage represents a

---

period from the beginning of trial operation of production facilities until the start-up of the facilities.

Regardless of the degree of elaboration of a study, key informations for decision-making on some project are derived based on evaluation of investment effects. Although in practice the evaluation of investment effects is often reduced to use of a chosen model of economic analysis, it cannot be claimed to be a routine job since preparation and interpretation of the results require necessary expert knowledge.

In the fourth and the last part of the book, Professor Komazec speaks about R&D management considering three important functions: planning, management and organization. She draws our attention to the process of strategic decision-making and planning since R&D comes both at the beginning and at the end of the process. The future is planned based on research facts about possible changes and it is carried out by various types of innovations realized by R&D activities. Planning is the process that decreases uncertainty of the future business activities and it is directed at balancing resources and capabilities. The need for entrepreneurial spirit of R&D manager has been highlighted, as well as their creativity in team organization. R&D teams often consist of people coming from various geographic areas, i.e. people of various spirit and character, so the inter-cultural quality of the team and virtual organization come first. In addition to expert knowledge, R&D managers are required more and more to have characteristics of visionaries and leaders so that they could find new possibilities in a creative manner. The problem of a contemporary company and the man working in it lies in insufficient knowledge of oneself. Science has not offered clear answers about the man, especially in the part of joint creation and application of knowledge. The goal of the authors in this book is to point to the need of networking, which is not only an organizational form, but the process of knowledge creation that would lead a contemporary man to new cognitive circumstances. It cannot be said at the moment how companies will develop in the future, since within network cooperation the processes are carried out with a high degree of freedom so that the outcomes are more difficult to predict. One of the certain changes is a shift towards higher social responsibility and ecological awareness, which will probably change our lives in the future. New trans-disciplinary knowledge will result in a new science.

Professor Jovanović and Professor Komazec have given important contribution by their book towards answering basic questions and solving issues which companies face during their everyday business activities. They have particularly underlined the necessity of R&D development that would connect various kinds of knowledge and create a new knowledge closer to the essence of human existence. New knowledge would better solve the other problem – time. “It seems that it becomes condensed and that managing its speed is a great challenge for a man,” say the authors of this exquisite book.

CIP - Katalogizacija u publikaciji  
Narodna biblioteka Srbije, Beograd

33

**MEGATREND review** : the  
international review of applied economics  
/ editor-in-chief Dragana Gnjatović.  
- Year 1, 1 (2004) - Belgrade: Megatrend  
University of Applied Sciences, 2004  
- (Belgrade: Megatrend University of  
Applied Sciences). - 24 cm

Dva puta godišnje. - Je izdanje na drugom  
jeziku: Megatrend revija = ISSN 1820-  
3159

ISSN 1820-4570 = Megatrend review  
COBISS.SR-ID 119185164