

Chaillot Paper

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The Western Balkans: moving on

Franz-Lothar Altmann, Judy Batt, Misha Glenny, Gerald Knaus and Marcus Cox, Stefan Lehne, Jacques Rupnik, Ivan Vejvoda and Romana Vlahutin

Edited by Judy Batt



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Paris

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Au cœur de l'Europe, les Balkans le sont de multiples façons. Sur nul autre dossier, la mise en œuvre d'une politique étrangère commune aura été aussi rapide et aussi efficace : si la PESC existe, c'est bien à l'égard des Balkans. Ils furent à l'origine de la création de la PESD il y a cinq ans, ils en demeurent l'une des priorités majeures : dès décembre 2004, l'opération Althea, en Bosnie-Herzégovine, sera à cet égard exemplaire. Bien avant l'adoption de la Stratégie européenne de Sécurité, l'Union a aussi développé à l'égard de la région une politique intégrée, mêlant systématiquement les instruments économiques, politiques, militaires dont elle disposait. Un double mouvement n'a donc cessé de rapprocher les Balkans et l'Union : alors que les pays concernés manifestent, chacun à son rythme et selon ses spécificités propres, leur volonté d'adhésion à l'UE, celle-ci a systématiquement accru ses responsabilités directes dans la transition européenne que traverse chacun de ces pays : l'eupéanisation des Balkans est, au regard de l'Union, une réalité incontestable.

Pour autant, près de dix ans après les accords de Dayton et cinq ans après la guerre du Kosovo, l'ensemble de la région est loin d'être totalement stabilisé. A l'exception notable de la Croatie, la route vers l'Union reste, pour l'ensemble des pays issus de l'ex-Yougoslavie, difficile, incertaine, douloureuse. La stagnation économique, les ambiguïtés politiques, l'irrationnel des passions et des ressentiments, sur fond d'irrésolution collective de l'Occident sur le statut final du Kosovo, sont autant de contraintes qui nourrissent davantage les crispations nationalistes que la modernisation et la réconciliation des sociétés. Comment dès lors dresser un bilan objectif du chemin parcouru ? Quels sont les chances, les obstacles, les perspectives d'une eupéanisation définitive des pays de la région ?

Ces questions furent, en 2004, au cœur des travaux de la task force de l'Institut sur les Balkans que dirige Judy Batt, chargée de recherche à l'Institut et titulaire d'une Chaire Jean Monnet. Réunis sous sa direction, les différents auteurs de ce Cahier de Chaillot sont parmi les meilleurs experts européens de la région : les analyses proposées dans ce volume dressent un état des lieux le plus fidèle possible, autrement dit complexe, des perspectives d'intégration européenne ouvertes pour chacun de ces pays.

Simultanément, les auteurs de ce Cahier passent en revue les différents instruments et les politiques de l'Union à l'égard des Balkans : tous plaident en faveur d'une intensification de l'investissement politique de l'Union dans la région, afin que ce volet balkanique de la PESC devienne, de façon irréversible, une success story. Trancher la question du statut final du Kosovo en est une condition première, et urgente. L'intensification des crises au sud de l'Europe, en particulier en Irak et au Moyen-Orient, l'écart des priorités entre les agendas américains et européens, l'investissement des énergies sur les processus de ratification de la Constitution européenne, ne doivent en aucune façon servir de prétexte à un report indéfini de la question du Kosovo : depuis plus de dix ans, l'Union européenne s'est progressivement approprié les Balkans. Elle y a moins que jamais un droit à l'erreur ou, pire, à l'inconstance.

Paris, octobre 2004

Introduction: the stabilisation/integration dilemma

Judy Batt

The Western Balkans:
moving on

1

The European Council at Thessaloniki in June 2003 reaffirmed that ‘The future of the Balkans is within the European Union’. The agenda set now is to consolidate the stabilisation of the region that finally took root with the democratisation of Serbia after the ouster of Slobodan Milosevic in the autumn of 2000, and to shift the focus on to the future – EU integration. The common declared aim of the EU and all the states of the region is to repeat the success of the post-communist countries of Central and Eastern Europe (CEE) which acceded to EU membership in May 2004.

This laudable aim, however, begs the question of whether that success story can be directly replicated in the much more complex conditions of the Western Balkans.¹ How far are the challenges of transition facing these countries today really comparable to those surmounted by CEE after 1989? Is it a question merely of delayed transition, starting ten years late after the wars of the 1990s were brought to an end? Or does the Western Balkans represent a special case, not only because of the devastating effects of those wars, but also because of longer-term factors specific to the region? And if these countries are a special case (or rather, a set of very diverse special cases), is the EU ready?

The EU today is certainly better prepared than it was in the early 1990s to exert its influence in the region. It is now present on the ground with a manifold array of offices and agencies, monitoring, advising, exhorting and providing substantial funding. EU police missions are active in Bosnia-Herzegovina (BiH) and the Former Yugoslav Republic of Macedonia (FYROM), and the EU (military Operation *Althea*) is due to take over from SFOR in Bosnia by the end of 2004 – the largest mission yet undertaken under the rapidly developing ESDP. The EU has accumulated valuable experience in helping CEE prepare for accession, experience that it will seek to transfer to the Western Balkans. But if transition here poses deeper, and different, challenges, the EU will need to adapt its strategies.

1. Albania, Bosnia and Herzegovina, Croatia, FYROM, Serbia and Montenegro/Kosovo.

While all countries of the region were democracies by the end of 2000, the results of elections in Croatia and Serbia in late 2003 once again raised questions about the consolidation of stability in the region. In Croatia, the nationalist party of the late President Franjo Tudjman (the Croatian Democratic Union – HDZ) returned to power. Although significant change had been going on for some years at the level of the top leadership, there was still room for doubt about how the new government would behave. In Serbia, democratic forces won a majority of votes, but their internecine strife led to the formation of a weak coalition, dependent in parliament on the votes of former President Slobodan Milosevic's Socialists. Meanwhile, disarray among the democrats allowed the extreme nationalist Serbian Radical Party to garner the largest share of the votes, greatly enhancing its chances in the ensuing presidential election in June 2004. In the event, Boris Tadic, a committed democrat with strong Western-oriented credentials, won. Although his party remains outside the coalition, an agreement on 'cohabitation' with the government of Prime Minister Vojislav Kostunica seems to have created a breathing space in which Serbia can once again focus on domestic reform, reconciliation with its neighbours and international reintegration. How long this will hold is, however, an open question.

Croatia under the HDZ has confounded the sceptics and made rapid strides towards EU integration, receiving a positive *avis* on its application for membership in April and in June 2004 being invited by the European Council to begin accession negotiations in 2005. It thus seems to have become locked in to the virtuous circle of domestic reform and reward from the EU that was crucial to the CEE 'success story', as the chapter in this volume by Romana Vlahutin argues. But the case of Serbia remains fraught with internal and external obstacles. Much has been achieved, as Ivan Vejvoda points out in his chapter. Yet continuing political instability; the difficult economic situation; demands by the West for compliance with the International Criminal Tribunal for the Former Yugoslavia (ICTY) in the Hague; and, not least, the festering question of the status of Kosovo question, are all feeding on each other to exert a damaging impact on Serbia's capacity to move forward.

A further problem is the constitutional instability that afflicts not only Serbia and Montenegro, bound together in a loose new Union (SCG) that replaced the Federal Republic of Yugoslavia

(FRY) of the 1990s, but also BiH, where the political compromise thrashed out at Dayton in 1995 has erected a cumbersome and barely functional multi-tiered state. Both unions are heavily dependent on external pressure to survive. BiH is an international protectorate, headed by an energetic High Representative (wearing the 'double hats' of the UN and the EU) who substitutes for the chronic lack of political will of the main parties to work together. But, as Gerald Knaus's chapter argues, the Draconian powers of the High Representative are thwarting the development of democratically accountable and responsible government. The SCG is under determined pressure from the EU, which demands that the union become fully functional before proceeding to a Stabilisation and Association Agreement (SAA). But the Belgrade Agreement of 2002 that laid the bases for the Union contains a time bomb: either party may call a referendum on independence after three years. (i.e. in 2006) The uncertainty this generates undermines the incentive to compromise on key issues vital for the Union's coherence.

Indeed, events elsewhere in the region in the spring and summer of 2004 further confirmed that stabilisation is by no means yet assured. In March, ethnic riots in Kosovo erupted, leaving 19 dead, about 4,000 of the Serbian minority driven from their homes and substantial damage to property, including both houses and treasured Serbian cultural monuments. UNMIK and KFOR manifestly failed in their mission to preserve order and protect citizens' security, undermining the credibility of the international community and its objectives. It is now clear that Kosovo's uncertain 'final status' has become the key challenge to the stability of the whole region, as Misha Glenny's chapter argues. This directly affects not only Serbia, but also FYROM, where ethnic civil war between Macedonians and the sizeable Albanian minority was only narrowly averted in 2001. The summer of 2004 saw mass demonstrations and riots, this time by ethnic Macedonians, fomented by hard-line nationalist forces, against a new law on decentralisation. Because this is a crucial element to the full implementation of the 2001 Ohrid agreement (brokered by the EU and other international actors to end the Albanian revolt), these events not only challenge the authority of the international community but renew uncertainty about the viability of FYROM as a state and undermine its chances of accelerating progress towards EU integration.

To add to the pervasive sense of instability in the region, economic conditions are far from encouraging, as Franz-Lothar Altmann's chapter all too clearly shows. Economic reforms are proceeding painfully slowly (largely as a result of the pervasive political instability). Although wartime physical damage has now largely been repaired, the starting point for economic transition is generally a very low level of development. There is little sign of 'take-off' into self-sustaining – and rapid – growth in particular in acute cases such as BiH and Kosovo, where key factors of growth in the late 1990s – external assistance and the demand created by sizeable contingents of international workers – are both now in decline. Remittances from emigrant workers in Western Europe are also declining, as West European countries impose strict controls on further emigration by means of the visa regime, and enforce refugee returns to a region now deemed 'stable'. Those migrants permitted to settle permanently in the West are now seeking to bring their families to join them, thus reducing their ties with the homeland and correspondingly reducing remittances. Foreign direct investment (FDI), vital for future growth and integration into the European economy, is still low, deterred by political instability, corruption, incomplete reforms and the legal uncertainty created by unresolved 'final status' questions.

What makes the Western Balkans' transition different from that of Central and Eastern Europe?

Croatia's promotion to the group of candidate countries negotiating EU accession highlights the diversity within the 'Western Balkans' region – an EU designation invented in 1999 to cover the countries targeted as 'potential candidates' by inclusion in the Stabilisation and Association Process (SAP). With Croatia's 'defection', however, the region has shrunk to a problematic cluster of countries that not only face, individually, deeper political and economic difficulties, but are also inextricably bound up with each other by historical, ethnic, political and economic ties. This prompts further reflection about the specifics of transition here, and the prospects for following the 'Central European' model.

The 'regional dimension' is clearly much more important here. Regional cooperation is an explicit condition for advancing towards EU integration that was not formally imposed on CEE.

Each state must demonstrate commitment to improving relations and increasing political and economic cooperation with its regional neighbours in order to progress. This is unquestionably the right approach. The purely bilateral approach adopted towards the CEE accession candidates prompted competition between them at the expense of cooperation, which a region as fragile and fragmented as the Western Balkans can ill afford, for economic as much as security reasons. But the regional approach nevertheless needs careful calibration with individual country assessments and rewards for achievement.

Apart from that, three main dimensions of potential divergence from CEE patterns can be identified: political culture; problems of statehood; and the impact of the wars of the 1990s.

Political culture

The fact that the residual 'Western Balkans' region without Croatia is now wholly comprised of territory that, historically, was shaped by the Ottoman Empire begs the question of how far the legacies of that historical experience set it apart from CEE. Westerners have traditionally identified 'the Balkans' with peculiarly intractable characteristics of political fragmentation, bitter 'tribal' feuding, social parochialism and chronic economic backwardness. The questions of whether this region is 'really' part of Europe, and whether it can ever be successfully integrated into Europe, are not new.

However, we have to avoid the trap of historical determinism. Radical change has been as salient a feature of the region as continuity. One Balkan country – Greece – is an established, and increasingly successful, member state of the EU. Two others – Romania and, particularly, Bulgaria – have made remarkable progress in catching up with CEE on the way to EU accession, expected in 2007. Westerners asked similar questions in the early 1990s about the capacity of post-communist 'Eastern' Europe to break with its past, before these countries succeeded in redefining themselves as 'Central Europe' by firmly detaching themselves from the former Soviet space and implementing radical reforms. Croatia has shown equal determination to follow Slovenia in detaching itself from any group tagged with the 'Balkans' label. It is less easy for the Western Balkans region to impose a new definition on itself, at least as far as purely geographical terminology is

concerned. What is needed is to neutralise the negative connotations of 'the Balkans'.

The political defects attributed to the 'Balkans' as a region are thus by no means immutable, and neither are they unique to it. 'Habsburg legacies' are sometimes invoked to explain the superior performance of the 2004 accession countries by comparison with the 'laggards', Romania and Bulgaria (and hinted at by Croatia to highlight its superior 'European' credentials). Such legacies may indeed be part of the explanation for better developed administrative and institutional structures, but they are neither all-determining nor are they all benign. One has only to recall the exposure of Habsburg socio-political pathologies in the nightmarish works of Franz Kafka and Robert Musil's imaginary state 'Kakania'. Moreover, one could well argue that ethno-linguistic 'tribal' nationalism was quintessentially a 'Habsburg' product, subsequently exported to the Ottoman world – whose own record in cultural coexistence was for much of its history somewhat better.

What was characteristic of CEE after 1989 was self-confidence and national consensus in asserting the respective states' rightful claims to a place in the 'European Club'. Today, opinion polls in the Western Balkans show very high levels of popular support for European integration, fluctuating between 75 and 85 per cent, comparable to CEE (before the sobering experience of preparing for EU accession tempered enthusiasm). What people in the Western Balkans region appear to want from the EU is no different from what the CEEs were seeking in the 1990s: firstly, an overarching framework for regional security, to overcome a history of external domination and internal mutual animosities; secondly, a decisive stimulus of social and economic modernisation, to end long marginalisation from the European mainstream; and thirdly, a powerful external guarantee of improved governance, locking in democratic norms and constraining corrupt and rapacious political élites.

What is striking about the political culture of the Western Balkans today is the *lack of* self-confidence in their 'European vocation'. Indeed, this is a long-term characteristic: in the nineteenth and twentieth centuries, travellers from the region would speak of 'going to Europe', painfully aware that they were entering a different world. The vociferousness with which they would protest their 'common European heritage' only betrayed an underlying anxiety that their region was falling ever further behind. The same psy-

chological reflexes are at work today. While clearly wanting EU integration, people are deeply worried that their states and societies are not up to the challenge. One recent poll in Serbia is typical: asked what were the reasons for Serbia's lagging economic performance, a clear majority placed political instability and lack of consensus among the parties, corruption and poor quality legislation at the top of the list, followed (at some distance) by the 'mentality' of the people – laziness, disorganisation, bad habits.²

But perhaps equally salient a factor in Western Balkans' diffidence as to their prospects is widespread scepticism in the region about whether 'Europe' really wants them at all. From the perspective of the region, the EU failed them in the 1990s. It could do so again. Hence the peculiar sensitivity for them of the terminology the EU adopts: the definition of the states of the region as 'potential candidates' has evoked not the expected response of gratitude and optimism for the future, but misgivings and suspicion. For if 'the future of the Balkans is in the EU, why does the EU still beat about the bush – why not call them 'candidates' right now? This line of reasoning was evident in the run-up to the June 2003 Thessaloniki summit, when all the national leaders of the Western Balkans countries made concerted efforts to persuade the European Council to redesignate them as 'candidates', and to move the management of the Western Balkans portfolio from External Affairs to the Enlargement Directorate. It is not that either élites or societies of the region believe they will realistically be ready for membership any time soon, but that is just the point: the lengthy time-scale itself not only reinforces self-doubt but also weakens the incentive effect of the EU accession prospect. Both élites and societies need constant reassurance and encouragement.

Statehood

The Bulgarian sociologist Ivan Krastev boldly asserts: 'one clear thread is visible in the post-communist puzzle of success and failure: only nation-states have succeeded in the European integration project.'³ It was only after Croatia's independent statehood became consolidated in the late 1990s that the country was able to begin redefining its national identity in terms compatible with 'European' values, and to direct its energies fully towards reform and achieve EU candidate status. Clearly, EU accession presup-

2. Marten Board International, July 2004; <http://www.marten-board.co.yu>.

3. Ivan Krastev, 'Bringing the State back up', conference paper September 2003; <http://www.suedosteuropa-gesellschaft.com>.

poses both national consensus and a functioning state with unchallenged jurisdiction within secure borders. These attributes are lacking in all other countries of the Western Balkans. Unresolved 'status' issues afflict all the remaining former Yugoslav states, and are a major factor of internal political division and paralysis. Borders are far from secure, and spillover effects from unrest in one part deeply affect neighbouring countries. Even if, as Misha Glenny argues, 'Greater Albanian' aspirations are marginal in Albania itself, that state fully exhibits the profound weakness of institutions and administrative capacity that is characteristic of the Western Balkans region as a whole.

What does Krastev's assertion imply for a region made up of barely functional union-states (SCG and BiH), protectorates (BiH again, and Kosovo), and fragile, ethnically divided FYROM? Can they ever become 'nation-states' in the sense Krastev implies: consolidated political communities based on the equal rights of individuals as citizens? And should the EU even try to force them into this mould? Indeed, it is by no means clear just what the EU's vision for the *finalité politique* of the region is.

Serbian and Montenegrin opponents of the EU-brokered SCG argue, not without justification, that both republics would move faster towards European integration as independent states. Yet the EU's insistence that it would only negotiate with a functioning union of the two led to paralysis, and a more flexible 'twin-track' approach is now to be tried. Indeed, Montenegrins are divided roughly fifty-fifty on the question of independence, so any hasty move could easily provoke internal conflict. While Serbs are rather indifferent to the SCG, its eventual break-up would not resolve the key question of Serbian statehood: Kosovo. Without relinquishing Kosovo, which a majority are not ready to do, Serbia's prospects for consolidation as a nation-state are remote.

BiH has taken some important steps towards strengthening state institutions at the expense of its two component ethnic entities, but only under constant pressure from the UN/EU High Representative, backed by the international community. But still it has some way to go before the EU will accept it as a functional negotiating partner for an SAA.

FYROM's survival as a unitary state remains precarious as long as the Kosovo question remains unresolved. Meanwhile, its prospects for securing EU candidate status depend on implementation of the Ohrid agreements, including decentralisation. Not

only is this now in doubt, but many Macedonians fear that decentralisation will undermine the state by turning it into an ethnic federation and strengthening Albanian separatism. Others would disagree with this prognosis, but nevertheless the recent unrest has demonstrated that the two ethnic communities are far from the consensual coexistence presupposed by the liberal model of the nation-state.

Questions of statehood and national identity were by no means absent from the transitions in CEE either. The Czechoslovak federation broke apart, and the Baltic republics broke away from the Soviet Union to form new nation-states closely tied to the majority ethnic identity. Resurgent ethnic minority demands in the region – particularly the Hungarian minorities’ demands for territorial autonomy – seemed to raise questions about the stability of state borders. But there was no appetite for violence, and armed conflict between states did not occur. The major explanation has to do with the centrality of the idea of ‘returning to Europe’ to the CEE revolutions of 1989, which tempered popular nationalism and focused élite energies on proving their nations’ ‘European’ credentials. This constraint was bolstered by the EU’s consistent message that no state could be accepted as a candidate for membership that had not first settled its relations with its neighbours and demonstrated respect for minorities.

But important underlying changes had also taken place in CEE well before 1989 that made a repeat of the interwar instability of the region much less likely. The states of the region had become much more homogeneous than they had been as a result of the human disasters of war: the holocaust of the Jews, post-Second World War border changes (especially Poland), and forced population transfers and migration (mainly affecting German minorities). The Helsinki accords of 1979 had confirmed borders, and all states had signed up to the principle of their inviolability. The break-up of Czechoslovakia could be peacefully negotiated in 1989, because the two nations had no history of fighting each other and no mutual recriminations over territory or minorities. It was mutual indifference, rather than mutual fear and mistrust, that undermined the common Czechoslovak state. Moreover, neither Germany nor Hungary was interested in exploiting the situation to press revisionist claims as they had in 1938-39. The Baltic states’ recovery of their independence was more fraught on account of the adverse reaction of the Russian-speaking minori-

ties. Although Russia's rhetoric on their behalf often took on aggressive and threatening overtones, Russia refrained from armed intervention, because of its concern to re-make its relationship with the West. And the Baltics' dependence on Western support (the United States and several other Western states had never recognised their annexation by the Soviet Union) at the same time constrained their anti-Russian nationalism.

Such a favourable environment for the stabilisation of a regional political order of nation-states is not present in the Western Balkans to date, hence the continuing explosive potential of nationalism that Jacques Rupnik's chapter emphasises. Moreover, one often-overlooked explanation for the special difficulties the region has faced and still faces lies in the nature of the previous communist regimes. What all the more problematic transition countries share – notwithstanding their enormous differences – is the fact that their previous communist regimes were wholly or to a large extent 'home-grown'. If communism was by no means the first choice of the people, the communist regimes of Yugoslavia and Albania were independent of Soviet control and developed largely in opposition to it. Communism in CEE was overwhelmingly imposed from outside by Soviet force. Notwithstanding those regimes' efforts to accommodate 'national specifics' and cloak themselves in national dress, they never overcame the stigma of being agents of foreign domination in the eyes of the majority of the people. They were well aware that, without Soviet backing, they could not survive. When this was withdrawn, they ceded without a fight and rapidly adjusted to the new conditions.

The 'home-grown' character of Yugoslav and Albanian communist regimes is one quality shared with communism in Russia, Ukraine, Belarus and Romania in the period of Ceausescu's dictatorship. This meant they penetrated, and became much more firmly embedded in, the respective societies and developed powerful internal mechanisms to sustain their rule. The vested interests attached to these (in the state apparatus, the economy and the security sector) have been, correspondingly, much harder to dislodge. Social resistance to communism was weaker and alternative non-communist élites struggle to emerge. One cannot help noticing that transformation of states into functioning liberal 'nation-states' in all these countries has been slower, because more contested, chaotic and threatened by violence, than in CEE.

The legacy of war

The impact of the wars of the 1990s is the most obvious cause of the acute difficulties in transition faced by most of the Western Balkans. In the late 1980s, Yugoslavia was as well placed as any of the CEE states to embark on the 'return to Europe.' In fact, the Yugoslavs at that time felt that they were already 'part of Europe'. The economy was much more open, and its long history of 'market-socialist' reforms – albeit as much of a failure as those of Poland and Hungary in the 1980s – had endowed its managerial élites with some useful experience. Economic and cultural integration with Western Europe were closer. The country had long proved able to attract large numbers of Western tourists, and Yugoslavs could travel to Western Europe without visas (still required of Central Europeans into the early 1990s). A sizeable proportion of the labour force had spent much time working in Western Europe.

War all but destroyed this social capital, as professional élites fled abroad, Western countries imposed visa regimes to stem the tides of emigrants and asylum-seekers, and tourists stayed away. Self-centred, obsessive nationalism led to political introversion and estrangement from the rest of Europe. External economic ties were cut as economies geared up for war, and, in Serbia's case, an international economic embargo was imposed. The 1990s were thus a decade of isolation from Europe, and 'returning' will be an even more painful and protracted process than it was for the CEE after 1989. For recovering from war is not just a matter of making good the damage to property and infrastructure – restoring the material *status quo ante* – but of tackling its deeper impact on patterns of political economy and social psychology.

The transition away from the peculiarly dysfunctional system of Yugoslav self-managed socialism towards a market economy had already begun by the time war erupted, and continued in erratic fits and starts alongside the reorientation of economies to a war footing. In this unpromising context (greatly compounded in Serbia by the damaging impact of Western economic sanctions), economic transition was diverted into very damaging blind alleys. Economic dislocations and shortages vastly inflated the profits of black-marketeers, turned local 'warlords' with a vested interest in sustaining ethnic conflict and undermining formal peace agreements still today. Privatisation was exploited by powerful individuals with close ties to the ruling élites and to the

burgeoning security apparatus. War set the stage for a variety of 'crony capitalism', dominated by narrow self-serving coteries. This went much further than in CEE, where corrupt 'insider' privatisation was constrained by more robust legal and institutional checks and competition from foreign investors.

The state itself in Western Balkan countries was distorted by the growth in power of the military and security forces during the wars. Corruption reached such dimensions that most states were 'captured' and thoroughly perverted by association with organised crime. The awesome challenges these forces could subsequently pose to new democratic élites seeking to undo the damage were tragically illustrated by the assassination of Serbian Prime Minister Zoran Djindjic in March 2003. The Polish leader Lech Walesa pithily explained to Western audiences that the transition from socialism back to democratic capitalism would be like trying to turn a fish soup back into a tank of live fish. For many Western Balkan economies, the fish-tank was smashed and the fish just rotted during the war years.

Wholly new spawning grounds are gradually emerging, but so far these are producing only small fry – small-scale private businesses, overwhelmingly in trade and services rather than productive industry. Much of this private sector is unregistered, so provides no revenue for the state. It has no chance of access to domestic capital for development, and provides little additional employment. In the absence of large inflows of FDI, an unprecedented pattern of deindustrialisation has taken hold in parts of the region, as large-scale industry collapses, and individual workers turn back to the countryside for survival, supplemented by ad hoc unregistered earnings in the 'grey' economy.

The impact on society has of course been devastating, most of all for the sizeable numbers of refugees and displaced persons whose fate still remains to be settled. There are thus serious questions to be asked about the social capacity to withstand and respond positively in future to the shocks that the restarted economic transition will bring. Polish, and even more so Romanian, workers and consumers had taken a battering in the last years of communism, but exhaustion and frustration in the postwar Balkans run much deeper. Balkan societies have shown extraordinary resilience and resourcefulness in coping with the impact of war, but they have done so by resorting to some practices and

attitudes that are hardly conducive to rapidly reaping the benefits of democratic and market reform.

The most salient of these are profound mistrust of politicians of all hues and systematic evasion of the state. These are quite rational responses where politics is still a pretty dirty business and near-bankrupt states have little to offer citizens. But mass 'internal emigration' undermines the capacity of new democratic élites to build legitimacy, and deprives them of the self-confidence needed to implement the necessary reforms. Societies are fragmented into small informal 'networks' based on personal trust, at the expense of the formation of robust social movements and parties capable of calling leaders to account. 'Civil society', where it exists, is mainly confined to cities and almost wholly dependent on foreign 'democracy-promotion' financial assistance, which may alienate it from wide swathes of 'real' society. Thus democratic élites, struggling to articulate a new 'social contract' in conditions of acute poverty and economic stringency, face an ever-present threat of populist demagogues, backed by shadowy forces whose roots are still in the past.

Conclusion

The key for the Western Balkans is rapid integration into the EU, as all the following chapters argue, but this needs to be accelerated. Stefan Lehne sets out the EU's strategy for the region in his chapter, but admits that results have fallen behind expectations. Nevertheless, an enormous amount has been achieved. Yet a question that surfaces repeatedly is whether the EU can approach the region with the expectation that the basic dynamics of change will follow the same trajectory of sequenced phases that was characteristic of CEE. While in CEE the phases of stabilisation, transition and integration indeed overlapped, they did basically follow one another. In the Western Balkans, EU integration is a *condition* of stabilisation, rather than the other way round. This implies that the phases of stabilisation, transition and integration need to proceed simultaneously for their mutually reinforcing effects to work. If this is so, it will indeed pose new challenges for EU policy towards the region – a point to which I shall return in the concluding chapter.

Romana Vlahutin

In the parliamentary elections of November 2003, the Croatian Democratic Union (HDZ), the party that had ruled Croatia under the semi-authoritarian leadership of Franjo Tudjman throughout the difficult 1990s, returned to power. Many, both home and abroad, were apprehensive that this would prevent further positive developments in the country and in the region, and wondered whether democracy in Croatia was robust enough to provide the necessary checks and balances, without outside pressure. So far, Croatia has stood the test, proving that it has changed. That was a gradual and painful process that is worth examining, not only as it is interesting in its own right but also because it casts light on the international community's policies that assisted in it and could prove useful in other similar situations.

The Croatian exception

In the last few years discussions about the gloomy situation in the states of former Yugoslavia have usually included a parenthesis – ‘(except for Croatia)’. It was obvious that the Croatian case was developing differently, and the country became an example of the possibility of change in the entire region. For a majority of foreign observers and commentators, the parenthesis became apposite after the death of President Franjo Tudjman in November 1999, the demise of his government, and parliamentary and presidential elections in early 2000, which led to the formation of a coalition government under former Prime Minister Ivica Račan, with Stipe Mesic returned as the President of the country.

For the majority of Croatian citizens, however, Croatia has been ‘in parentheses’ from the time that Yugoslavia began to fall apart. The Slovenian and Croatian leaderships proposed several constitutional possibilities, from asymmetrical federation to confederation or even commonwealth of independent states. When

Slobodan Milosevic, with the assistance of the top ranks in the Yugoslav People's Army, rejected all the Slovenian and Croatian proposals for reforming or remaking the Federation, and opted for war, Croatia (unlike Slovenia) was unable to escape. The country found itself fighting a defensive war on its territory at the same as it was undergoing three comprehensive transitions: from a constituent federal republic to a sovereign state; from an authoritarian one-party system to a multi-party democracy; and from a form of socialist to a market economy.

The 1990s were hard years – the country was fighting for its existence and international recognition, as well as for its democratic future. In these conditions it was easy to slip into practices that were far from the democratic model, especially in a state that had never before lived as a democracy. But internal debate on the quality of Croatia's democracy, and the political struggle for its improvement, never ceased. In those times Croatia felt misunderstood in many ways (even though its practices often lent substance to Western criticism); and it was especially adamant in its refusal to be referred to as a 'Balkan' state.

After the war in Croatia, and especially after the Dayton Peace Accords of 1995, Croatia wanted to catch up with other transition states in Central and Eastern Europe (CEE), but this was easier said than done. In the view of the international community, Croatia was still a key part of the same Balkan conflict, and would be included in the same international conflict management framework for the Balkans. Unfortunately, through the 1990s that was not to bring quick results.

In Croatian politics the fear of the 'Balkans' label – the fear that political decisions or policies would bind Croatia's fate to that of the other former Yugoslav states – was in the 1990s one of the main political issues. Croatia's urge to distance itself from the underdeveloped and war-torn region was not only a reflection of its superiority complex¹ or its historical longing to be recognised as a 'true European' state; even more, it resulted from an assessment that inclusion in the Balkan grouping would necessarily drag Croatia down. Foreign observers saw this fear as primary proof of Croatian nationalism, parochialism and anti-Europeanism. For them, it was hard to give a rational explanation as to why a state would be so opposed to re-establishing close, not to say quasi-federal relations with its immediate neighbourhood, while at the same time seeking quasi-federal relations with the EU. But Croatia's fear,

1. Throughout its history Croatia was a borderland between empires, from Roman times to the early twentieth century, when it found itself on the border between the Austro-Hungarian Empire and the Ottomans. As the last Roman Catholic country to the east it was often regarded as a last bastion of Western Christendom, and has developed a feeling of superiority over its less developed eastern neighbours.

although it contained many irrational elements, was fed by the EU's lack of a clear vision and policy for each individual country of former Yugoslavia. The models of Baltic, Visegrad or even Scandinavian cooperation, while admirable, were of little use for direct application, because the circumstances were completely different. The treatment of the former Yugoslav countries as a group was not transparent enough. Although the vague idea that Europe would not be 'whole and free' without this piece of the continent was frequently mentioned, answers as to when and how were left to the future. In Croatia, this policy void was interpreted as a sign that the country would be used (or 'sacrificed') for the appeasement of other neighbouring states – for which read Serbia. Croatia was to become a hostage of the Balkans, and it would have to wait for all those other states to reach the stage where the region as a whole could be accepted by the EU.

The change

The year 2000 was a turning-point for Croatia. The right combination of important structural preconditions and political and policy decisions brought the country to the point of no return in the transition process and made it a credible candidate for EU membership. Unlike the rest of the Stabilisation and Association Process (SAP) countries at that time, Croatia was fortunate in having important preconditions for change in place: structural clarity, neutralised hard security problems and a reasonably sustainable economy.

Structural clarity

Croatia solved its status issues quite early in the conflict in former Yugoslavia and established a clear and functional state structure. After the last occupied territories were effectively brought under Croatian rule in 1998 (with the successful reintegration of formerly occupied Eastern Slavonia), and the threat of war had diminished, political rhetoric had to change. The economy, rule of law, functioning of the state administration, social welfare and civil freedoms superseded questions of national identity, statehood and sovereignty. Croatia was safe from the immediate threat, and this widened the space for an already open discussion on the

quality of internal societal organisation and the key foreign policy choices facing the country, especially its involvement in the conflict in Bosnia and Herzegovina (BiH) and its ambition to join the EU and NATO.

Subregional security

The Dayton peace accords were signed in 1995, marking the beginning of the end of the BiH wars. The end of the 1990s saw the final stage of the crisis in former Yugoslavia – the war in Kosovo and NATO intervention. Thereafter, the core of the security problems in the Balkans shifted south, into Serbia and Montenegro, Kosovo, Albania and Macedonia. Croatia had nothing, or very little, to do with this crisis, and no particular stakes in it, apart from a general strategic need for a stable neighbourhood. The shift in the international community's strategic focus brought qualitatively different foreign policy opportunities to the country: it was no longer considered a vital part of the solution, and could now try to change its position to that of a security provider, offering its expertise and good offices.

Sustainable economy

By the standards of other SAP countries, but also by the standards of some candidate countries, Croatia is economically well off, with a per capita GDP of €5,420 (2003), which is way ahead that of all its neighbours to the south (see Franz-Lothar Altmann's chapter for comparative figures). Its macroeconomic indicators are stable, with consistently low inflation by eurozone standards (2.4 per cent in 2003). GDP has been growing steadily at about 4-5 per cent a year, and continuous growth in industrial output has been recorded.² This is an economy whose composition (roughly 70 per cent services, 20 per cent industry, 10 per cent agriculture) offers a good base from which to catch up and face the challenges of EU markets.³ Although there are no exact figures on how much Croatia has lost in real terms and in lost opportunities due to the war and postwar reconstruction (especially in its most volatile branch, the tourist industry), it is clear that its economy was rather resilient and has managed to survive and grow despite the circumstances.

These preconditions were important, but the turning point came with the formation of a new political consensus within Croa-

2. Reiffesen Bank Croatia data, research paper 'Growth region South East Europe'; <http://www.rba.hr>.

3. Commission of the European Communities, 'Opinion on Croatia's Application for Membership of the European Union', Brussels, 20 April 2004, p. 122.

tia. At the end of the 1990s Croatian citizens had simply had enough of corrupt and obscure politics, and there was a genuine will on the part of the vast majority to live in a functioning democracy. There was also an important consensus that Croatian membership of the EU was a vital national interest. This was later confirmed by the unanimous declaration of the Croatian parliament in 2002. The internal political situation was ripe for change, and it came in the parliamentary elections of January 2000, and in a presidential election one month later, which swept the HDZ out of power.

The new coalition government, led by Ivica Račan's Social Democratic Party (SDP), had many difficult tasks to tackle: a grim internal political and economic situation, the country's negative international image, a complicated regional situation, uneasy relations with the EU and NATO. Moreover, it was Croatia's first experience with coalition government, and a highly heterogeneous one at that. The new President, Stipe Mesic, brought a new style of government and immediately started to change the image of Croatia abroad. The new Government brought fresh optimism, but this did not last very long. The coalition soon became rather dysfunctional. Parties behaved as if they were already running separate election campaigns for the next elections rather than a common government. The Government lacked clear direction (particularly in the domestic policy area) and the strength to follow through the most difficult reforms. Aware that the former communist past of some of its leading figures was a handicap, it was always fearful of being accused by the right-wing opposition of 'national betrayal' (especially in issues related to the war, cooperation with the ICTY, and relations with former Yugoslav states). At the same time, it fell victim to the desire for a quick and total change that its voters hoped for. The coalition government lasted one term, and paid the price for its deficiencies at the elections of November 2003, but overall it left Croatia stronger and much more democratic than it had been when it took office in 2000.

The Stabilisation and Association Process

An essential external ingredient of Croatia's change of course after 1999 was the EU's Stabilisation and Association Process (SAP), with its policy of differentiation. This was a turning-point in the

EU's approach towards the region. Launched in 2000, it brought new dynamics to Croatia's internal affairs and foreign relations, and culminated in the European Commission's positive *avis* on Croatia's application for membership in April 2004, followed in June by the European Council's decision to grant Croatia the status of EU candidate country.

It is already taken for granted that the promise of integration serves as the EU's best conflict-prevention tool, and also as an excellent catalyst for the transition processes, ranging from democratisation to economic reforms. This was no different for the countries of former Yugoslavia in general, and for Croatia in particular. The SAP was not as elaborate and geared to EU accession as the Accession Partnerships for the CEE candidate countries. An important portion of it was dedicated to stabilisation and postwar issues like reconstruction, return of refugees and aid. The association part was less ambitious, but it was probably the closest the EU could get to political courage at the time in offering the promise of EU membership to 'the region'. And for the purpose it had to serve, it was good enough. Despite some scepticism in Croatia, the SAP proved useful in steering change in Croatia due to its appropriate combination of political promise, a clear bilateral format, constant scrutiny and 'country ownership'. Croatia was finally confronted with its own deficiencies in an objective, technical manner, set down on paper, chapter by chapter, and it started delivering.

For years the lack of a clear EU position, not to mention policy, on former Yugoslavia weakened its credibility and influence in the region. Everyone knew that the real brokers were the Americans. But at the Zagreb summit of 2000, for the very first time the EU came up with a fairly clear idea of its vision for the states of former Yugoslavia, and, even more important, how this could be realised. What was on offer were Stabilisation and Association Agreements (SAAs), modelled on the Europe Agreements for the CEE. In the SAP capitals, the 'potential candidate' terminology of the proposed SAAs was often interpreted as EU-speak for 'we know it is politically correct to say that we want you, but we do not really want to commit' – and Stefan Lehne's chapter indicates that, at the beginning, this was not wide of the mark. But all sides have learned their lessons and, at least in Croatia, a new political realism had taken hold: ignore the terminology and fulfil the conditions.

The newly formed Ministry of European Integration took the coordinating role, and devised an efficacious organisational mechanism to implement the SAA. This mobilised the state administration directly, but also indirectly had a mobilising effect on society as a whole. The EU, or 'Europe', were divested of their mythological status and became a matter of intrasocietal discussion on practical issues. Unlike the candidate countries of the 2004 wave of enlargement, the states of former Yugoslavia have sobering recent experience of the EU's weaknesses as much as its strengths, so integration has been approached in a less idealistic way as a realistic, strategic choice.

However, by the end of 2002 Croatia found that the SAP could not cater for all its EU accession-related needs. The programme's emphasis on stabilisation, and its rather similar treatment of the weakest and the strongest, no longer suited a country which had advanced to the point where it was ready for the next generation of more sophisticated and comprehensive assistance. Croatia was performing as well as (or sometimes even better than) the CEE candidate countries, but was being treated as a part of the countries subject to crisis-management. Politically, it was also important for Croatia to get out of this policy limbo. The SAP had served its purpose, but in order to move on Croatia had to apply for membership.

This provoked a brief panic in the corridors of many EU foreign ministries and in Brussels too. The moment had come for the EU to fulfil its promise, and sooner than many in the EU were prepared for. The country 'in parentheses' was asking for the regional policy straitjacket to be loosened. Some argued that Croatia's application would mean its defection from the region, and would provoke frustration in other SAP countries that could have an adverse influence on their internal political developments (Serbia was of special concern). But others, like former Commission President Romano Prodi and Commissioners Patten and Verheugen, argued just the opposite: graduation of one country to candidate status could only have a positive influence on others, and strengthen, not weaken, the impact of EU policy by showing that if an individual country made adequate progress in political and economic reform, the EU would deliver on its promise.

The return of HDZ

By 2003, the HDZ leaders understood that the party had either to change or cease to exist as an important political force. The key figure in the change was its newly elected President, Ivo Sanader, who fought against considerable odds to transform HDZ into a regular European conservative party. When he took on the task, few in Croatia believed that this former Deputy Minister of Foreign Affairs and former Chief of President Tudjman's Cabinet would have enough strength and could muster enough support to reinvent the HDZ and prepare it for victory at the forthcoming parliamentary elections. But he did: he cleansed the party of its notorious shady characters, and disciplined others to support his EU vision for Croatia. The election campaign was very professional, the first example of contemporary political marketing seen on the Croatian political scene.

Both the SDP and HDZ have their traditional voters (fluctuating around about a quarter of the electorate for each party), but elections in Croatia are usually decided by swing voters, who account for between 15 and 20 per cent. This group consists of political moderates, who, while concerned about issues related to the war and the traumas that it created, are forward-looking. They want a capable and trustworthy government that can deliver results, first and foremost in the economy and in the functioning of the state. This group, disillusioned with petty bickering between the coalition partners, constant scandals and the slow pace of reform, and attracted by the self-confidence and professionalism of the HDZ campaign, have decided to give Sanader and his party another chance.

Political party	Seats in parliament	Percentage of vote
Democratic Centre – DC	1	0.7
Croatian Democratic Peasants Party – HDSS	1	0.7
Croatian Democratic Union – HDZ	66	43.4
Croatian People's Party – HNS	10	6.6
Croatian Peasants' Party – HSS	10	6.6
Croatian Social Liberal Party – HSLS	2	1.3
Croatian Party of Rights – HSP	8	5.3
Croatian Pensioners' Party – HSU	3	2.0
Istrian Democratic Union – IDS	4	2.6
Liberal Party – LS	2	1.3
LIBRA	3	2.0
Prigorsko Goranski Union – PGS	1	0.7
Independent Democratic Serbian Party – SDSS	3	2.0
Social Democratic Party – SDP	34	22.4
The Party of Democratic Action – SDA RH	1	0.7
Independents	3	2.0

There are 152 seats in the Parliament. The final number of seats depends on the minorities' votes. Depending on their turnout at the elections, they are allocated reserved seats, and in the current Parliament there are eight national minority representatives, including three Serbs. HDZ formed the coalition government with DC, HDSS, HSLs, HSU, SDSS and SDA, giving it a majority of eleven. Apart from the big comeback of HDZ, the 2003 elections saw the near-extinction of the once strong and affluent liberals; the unexpected victory of an interest group (The Croatian Pensioners' Party) and the high share of 'lost' votes (about 13 per cent) for numerous marginal parties and independent lists which did not make it to Parliament (whose votes were then redistributed among stronger parties).

The election victory of HDZ raised suspicions both domestically and internationally that this would mean a return to the rhetoric and practices of the mid-1990s: deficiencies in the rule of law, political cronyism, corruption. The international community, which was especially interested in Croatia's impact on the Western Balkans region, was not sure what to expect from the comeback of HDZ, or what its neighbourhood policy would be.

The new HDZ government confronted a series of paradoxes. The first was its own establishment: since HDZ did not have enough seats to form a government alone, it had to seek support elsewhere, and got it from representatives of minorities, including representatives of the Serb minority. Prime Minister Ivo Sanader now followed an old rule of governance: make the hardest moves at the beginning of your mandate, so that you have plenty of time to mend the possible political damage later. So he celebrated New Year's Eve with the Italian minority, wished a Merry Christmas in person to Croatian Serbs, took trips to the areas where the Serb minority refugees had returned to their homes, and ate bread offered by the local women for the entire country to see on TV. The Government was prompt in extraditing to the ICTY all those indicted in the first six months of its rule. What for outgoing Prime Minister Ivica Račan would have been an enormous political risk, exposing him immediately to attack due to his 'communist past', the new Prime Minister could deliver with little opposition, because his party, HDZ, did not have to prove its Croatian national credentials but rather its 'European' credentials.

Domestic analysts agree that it is too early to say whether Sanader has fully succeeded in restructuring HDZ, but he has

definitely set a very brisk pace for his party. His biggest problem is the possibility that he might be too sophisticated for grass-roots HDZ voters, and that the amount of political change they will have to swallow might prove just too hard to digest. It is realistic to expect that those in HDZ who lost the ideological battle will fight back hard, especially on the local level. Also, other parties on the political right (and the Croatian Party of Rights in particular) will see this as an excellent opportunity to co-opt those in HDZ who are disillusioned by Sanader's European rhetoric and practices. Prime Minister Sanader is facing the same problem former Prime Minister Racan had to endure throughout his entire mandate: pressure from the political right (not numerous but quite vociferous) will force him either to appease them by useless compromises, or to make it very clear that HDZ would rather lose some members than be blackmailed by those whose ideologies are not compatible with the party's declared European outlook.

The foreign policy agenda

Knowing that the foreign image of HDZ would not be an asset, Sanader worked hard to change it both internationally and internally. The electoral campaign almost overdid images of him shaking hands with important European statesmen, in order to counterbalance constant accusations from political opponents that an HDZ victory would throw the country back into international isolation and seriously hinder Croatia's bid for EU and NATO membership.

Sanader rushed to prove them wrong. In foreign affairs, he has many qualities that the late President Tudjman lacked: he is a talented communicator, well trained in international relations, capable of quickly responding to the challenges of negotiations and, above all, a realist. Prime Minister Sanader dedicated (or sacrificed) the first six months of his government to securing EU candidate status for Croatia. In all he did and said, it was clear that the EU goal would take precedence over all other matters. Whether this zest reflected a genuine pro-European vision or was a tactical move to gain enough political credit for the next term (as the opposition claims) does not really matter because it has served the country well. Croatia has been accepted as an EU candidate, and the start date of negotiations is to be declared soon.

At the time HDZ came to power, Croatia was still under some scrutiny in the areas of refugee return, minority rights and regional cooperation, despite the progress made by the previous government on all those issues.⁴ The incoming government had to keep up the pace and solve the remaining questions. The real challenge was cooperation with the ICTY, and especially the apprehension of General Ante Gotovina, who has been at large since his indictment by the ICTY in 2001.

Cooperation with the ICTY

The ICTY has been one of the most controversial issues in Croatian political life. While conforming to 'European norms' in all other areas has the support of the vast majority of Croatian citizens, with the ICTY it is often the opposite. This requirement is perceived as highly political and in many respects unjust, given Croatia's defensive role in the war. But the ICTY, especially in the 1990s, was also exploited by the secret services and interested politicians in internal struggles and blackmail. It took time for Croatian courts to start effectively prosecuting those suspected of war crimes and criminal activity during the war. Racan's government tried to present the ICTY as a legal, not a political question; but this failed, which raised the issue of the credibility of Croatia's EU aspirations, and its genuine will to abide by the agreements it has signed. It became a serious problem especially in relations with Britain and the Netherlands, who refused to ratify Croatia's SAA and threatened to block its membership application.

As soon as HDZ came to power, Sanader moved to pass this credibility test. In coordination with the foreign and justice ministers, the Prime Minister immediately started a shuttle diplomacy campaign to persuade the international community, and especially ICTY Chief Prosecutor Carla Del Ponte, of the Government's intention to cooperate fully with the Tribunal. This succeeded. In April 2004, with General Gotovina still at large, Del Ponte was the first to acknowledge the new Government's very good cooperation. This led to a clear passage for the positive *avis* and candidate status for Croatia.

But the ICTY is still sending what to the Croatian public seem like mixed messages. The recent developments in the case of General Tihomir Blaskic (his sentence of 45 years, regarded in Croatia as highly unjust, was reduced to 9 years in prison) has boosted the

4. Op. cit., in note 3, p. 37.

credibility of the ICTY considerably among the Croatian public and reinforced the Government's policy. A cold shower followed when the Tribunal decided not to grant the appeal of two Croatian generals for temporary release pending trial, despite guarantees provided by the state. The best news, however, is that Croatian courts are themselves becoming much more efficient in the prosecution of alleged war crimes, although there is still a lot to be done in securing flawless operation of this kind.

Regional cooperation

One of the foreign policy community's main concerns over the return of HDZ was its regional policy and the implications for the Balkans. Those fears proved unfounded. As already mentioned, once the security and political concerns were dealt with, the Balkans became what, logically, it had always been: a vital national interest in all senses – economic, political, security-related. Any government that ignored this would be either irresponsible or strategically short-sighted, and would very soon be punished. But it took that positive answer from the EU to its candidacy application for Croatia to be almost freed from its fear of 'the Balkans'. Anchoring the country firmly in the EU finally secured it room for manoeuvre to get seriously involved in the region. Now the issue of further Croatian involvement will depend more on the willingness of neighbouring countries to accept it than on Croatia's readiness to offer it.

This is especially important in Croatia's relations with its eastern neighbours, SCG and BiH. It is commonly held (for example by Misha Glenny in his chapter) that the core of the former Yugoslav problems has been Serb and Croat national questions, and that once this axis becomes functional, the entire region will operate much better. But this is only partly true. The greatest assistance Croatia can offer Serbia now is to lead by example, in questions ranging from refugee return to the protection of minorities and cooperation with the ICTY. Serbia's problems go well beyond its relations with Croatia, and this formerly important axis will only be able to play a moderate role in the future.

Bosnia and Herzegovina is a completely different case. In its relations with BiH, Croatia went through extremes of total involvement (under Tudjman's government) to practically no involvement at all (under the coalition government). This has not been helpful for BiH, in the first place because no sustainable

development and long-lasting peace in that country can be reached without the consensus of its Croatian population. And in this regard Croatia proper could and should assist.

Croatia should do much more to make sure that Croats in BiH not only see BiH as their state, but also as a state in which they want to continue living. It is of strategic importance for Croatia, for the international community and for BiH as a multiethnic state, to keep the local Croatian population in numbers that would guarantee their role as one of the three constituent peoples. This will be particularly important when Croatia becomes a member of the EU (which will happen sooner than for BiH). Due to the fact that Croats can have dual citizenship, BiH Croats will become a unique group who will be both citizens and foreign nationals within the EU's borders, depending which passport they use. Any suggestion that before this happens they should be stripped of their right to citizenship (which would require major amendments to Croatia's constitution) or be forced to choose between the two passports, would provoke their massive relocation to Croatia, and would in practice mean the collapse of BiH as we know it now. How to persuade BiH Croats to continue living in their country is an issue that both Croatia and the international community should start thinking about sooner rather than later.

The domestic policy agenda

As in other transition countries, in Croatia it is hard to draw a clear line between the foreign and domestic policy agenda, since most internal reforms are driven by foreign policy goals, particularly its intent to join the EU. However, there are issues that are at the forefront of public scrutiny, in particular questions of accountability and corruption, economic opportunities, rule of law, and the effectiveness of state services in general and welfare in particular.

Accountability. A heavy legacy of the transition years was a lack of transparency, especially in privatisation, and many scandals, which brought the HDZ government down in January 2000. Since then, the Croatian public has become very sensitive to political cronyism and the abuse of public or political positions for private benefit, and the media immediately react to any signs of such dealings. In the first few months of the new government, Prime Minister

Sanader had to face some crises of this sort, and in each case the Government succumbed to public pressure. Croatian civil society and public opinion have now become an important element in the decision-making process, and internal political pressures have become more important and effective than external ones. Elections have finally become the best corrective of political practices.

Austerity measures and the welfare state. When it came to power in 2000, Racan's coalition government had to cut a number of welfare programmes, especially those related to war veterans, maternity and unemployment benefits. One of the main promises of the HDZ electoral campaign was the reversal of those measures. The biggest criticism of the Government by independent economists today is that the budget is being increased not from the returns on economic growth but from the profits of the remaining state-owned businesses and from higher taxes. Also, spending has been channelled less into promoting the growth of domestic production and direct foreign investment than into welfare programmes. However, approaching EU membership and compliance with the Maastricht criteria, along with pressure from the IMF, have already forced the Government to back-pedal on its welfare promises. The state budget has already been rebalanced in line with the Government's intention to cut back spending on social security, but also on assistance to business, infrastructure projects and the state administration.

Croatia as a model for the Western Balkans?

Croatia's successful bid for EU candidacy has raised hopes that it might serve as a model of reform and democratisation for other SAP countries. Unfortunately, these hopes may be too optimistic, because those states have problems that are in many respects different and structurally more intractable than those experienced by Croatia. What made the states of former Yugoslavia similar in the 1990s were the results of war: issues like refugees, war crimes and reconstruction. These questions can be solved fairly quickly if there is a political leadership capable of making the right decisions and having enough financial support to implement them. Structural problems, however, like status issues, security and basic economic development, are much harder to solve.

In the Balkan context, for the EU Croatia was a comparatively easy fix. With status issues solved early, a fairly resilient economy and hard security threats neutralised, it was able to reach social and political consensus on EU aspirations in line with its aspiration to be recognised as a ‘civilised, European’ country. There was only one point on which Croatia contested European policy – the EU’s failure to differentiate between states in the Balkan group – but once the EU proved that it was serious by switching to an individual approach, and being both strict and fair, Croatia became much easier to deal with.

Serbia after four years of transition

Ivan Vejvoda

The Western Balkans:
moving on

3

Introduction

Democrats struggling against the regime of Slobodan Milosevic in the 1990s made an important political choice for the future of Serbia: they would use exclusively political, non-violent, peaceful, electoral means. On 24 September 2000, a historic victory against Milosevic was achieved in the presidential elections, in extremely adverse circumstances in which the whole opposition, civil society and independent media were being harassed. The result was contested by Milosevic and his acolytes; but then hundreds of thousands of people turned out onto the streets of Belgrade on 5 October to defend their victory in front of the Parliament building. These events testified to the commitment to that consensual political decision: Serbia would go forward into the future in an evolutionary way and break with the past of violence and revolutionary methods of change in truly democratic fashion.

This set the stage for Serbia's democratic transition. The victory in 2000 was the result of ten long years of struggle by Serbia's democratic political opposition and civil society. It had seen successes and failures, from the first important demonstrations in Belgrade in March 1991 (when tanks were brought out into the streets against the citizens of the capital) until 5 October 2000, when Serbian society confronted and then defeated a retrograde, authoritarian regime that had taken Serbia far off the course of European democratic dynamics and into a complete cul-de-sac.

It was clear to all informed analysts that after the fall of Milosevic's regime, there would ensue a very difficult two or three years during which the multiple bad legacies of the recent and distant past would have to be tackled. Even though an irreversible change had occurred, the complexities of the inherited institutional architecture and the confused relations between the two component republics of the Yugoslav Federal Republic would have a serious impact on the implementation of reforms, often slowing

them down dramatically or diverting political energies from the priorities of social and economic change.

Peaceful change from an authoritarian regime has its price. Many of those who were part of the old regime do not disappear overnight and cannot be 'purged', but remain part of society, and, accordingly, the overhaul of institutions proceeds at a slower pace. The fact that Milosevic's wife was a member of the Parliament of the Federal Republic of Yugoslavia until February 2003 is just one revealing example of the institutional obstacles and the challenges of dealing with the recent past. An even more significant example is that a democratic Minister for Defence took office only in March 2003 – meaning that the reforms of the military/defence sector could only begin two and a half years into the transition.

Serbia had chosen the ballot box as the means to overcome the catastrophic policies of more than a decade under Milosevic's regime. This gave a mandate to democratically elected leaders to pursue a forward-looking vision which consisted in bringing Serbia back into the family of democratic nations and engaging in the process of European and Euro-Atlantic integration. As then Prime Minister Zoran Djindjic put it, 'We must find a solution mainly by finding our place in Europe, not by seeking historical rights.' This was the path that all post-communist countries had embarked on and on which many were by now well advanced. Serbia was the latecomer, the laggard. Time was of the essence.

The politics of transition

Democracy and political pluralism imply a political market in which competing visions of the future are presented to the electorate. Defeating Milosevic required the formation of a coalition of 18 parties with the backing of other key societal actors. It was self-evident that such a coalition had a limited shelf-life during which to launch the key reform processes in politics, economy, society, education, the military, the judiciary and law enforcement agencies. This presented a particularly acute case of what the German political sociologist Claus Offe has called the 'simultaneity' problem: virtually every aspect of the state and society had to undergo far-reaching reform at the same time, all within a context of scarcity of resources (both political and economic).

Serbia was not an ordinary transition state. In addition to embarking on the standard transition path, it also had to recast the union with Montenegro, rapidly reintegrate into the international community and meet the conditions of being a member of the United Nations by fully complying with its obligations to the International Criminal Tribunal for the Former Yugoslavia (ICTY) – in other words to redress the recent wrongdoings it had inflicted upon itself and others. With the plaudits and help, in particular from international financial institutions, the European Union and its individual member states, and the United States, Serbia moved quickly to try and recapture lost ground.

The parties' search for and consolidation of their identities and public images ran counter to the need for full coalition unity to pursue a packed agenda of political and economic reform in compliance with the Copenhagen criteria for would-be EU candidates. Fledgling political parties were struggling with their as yet unsure footing, and already thinking ahead to the next elections, while at the same being aware that the national interest required coalition coherence if it was to pursue change at a sustained pace. Cooperation with the ICTY was from the start, and still remains, a major challenge. It was when Prime Minister Zoran Djindjic's government – under whose stewardship the key reforms were launched – took the politically risky decision to arrest and deliver Slobodan Milosevic to the ICTY in June 2001 that the coalition began its long, inevitable process of dissolution. The Democratic Party of Serbia of then President of FRY Vojislav Kostunica decided to withdraw from Prime Minister Djindjic's government.

The Djindjic government was committed to turning the country towards the future and European integration. They were determined to confront the legacies of war and the structural weaknesses of the economy, society, public administration and law enforcement. The state had to be democratically strengthened and made more efficacious in order to implement the agenda of reform.

The weight of the legacies of the past was daunting. The 1990s under Milosevic had reduced all key institutions to rubble, across the board. The tasks facing the new Government included (to mention only the biggest ones) kick-starting a stalled economy, restructuring socialist-era industrial dinosaurs, curtailing corruption and organised crime, tackling the unreformed military

and security agencies, and coping with the humanitarian crisis of refugees and internally displaced persons (IDPs). More than 200,000 people had fled Kosovo after the NATO intervention ended in June 1999, in addition to all those refugees who had arrived in Serbia in the course of the 1990s conflicts in Croatia and Bosnia and Herzegovina (BiH).

European integration and constitutional questions

There is no doubt that recasting the Federal Republic of Yugoslavia was necessary, but replacing it with the Serbia-Montenegro union (SCG) took a heavy toll on the country's progress towards European integration. It was necessary because the relationship between the two republics had changed significantly over the previous decade. Montenegro under President Milo Djukanovic had distanced itself from the Serbia of Milosevic. The victory of democratic parties in Serbia in 2000 entailed a process of redefining the common state, propelled to the top of the agenda in 2001 when Montenegro's ruling coalition declared its intention to move towards independence by calling a referendum. After protracted debates, at the end of 2001 Serbia came to the conclusion that Montenegro had best go ahead with the referendum in order to determine the future of the relationship.

It was at that moment, in December 2001, that the European Union stepped in through the offices of the High Representative, Javier Solana. The aim was to avoid the risk of a hasty separation which might jeopardise the stability achieved in the region after the intervention in Kosovo. The question of Kosovo's final status weighed heavily in the considerations surrounding the future of the Serbian-Montenegrin relationship. The Belgrade Agreement signed in March 2002, and the ensuing Constitutional Charter of the State Union signed in February 2003, gave birth to a loosely constructed state with a potentially limited shelf-life, in so far as after three years (i.e. in 2006) referendums could be called to determine whether a majority in either republic wanted to continue to coexist in the Union or proceed to a 'velvet divorce'.

The implementation of the Belgrade Agreement and the Constitutional Charter of this rather unique state union of two republics took much more time than expected. The Action Plan to harmonise the economies of the two units, leading to a single mar-

ket and customs area, proved to be a Sisyphean task. There has in fact been no movement towards the European integration of SCG in the eighteen months following the assassination of Prime Minister Djindjic. This caused much frustration among all those concerned, and a growing sense that each could have advanced faster along the road to EU integration had it not been for the other.

The Gymnich meeting of EU foreign ministers on 4-5 September 2004 in Maastricht acknowledged the reality that the union was proving a brake on progress towards EU integration. It was decided to pursue the integration process on separate tracks in the two republics as far as technical, economic and administrative issues were concerned, while at the same time strongly endorsing the continued existence of the state union itself. This was a sound political decision made in the best interests of Serbia and Montenegro, as well as of the Balkans region and the EU itself. It is now up to each republic to prove its willingness, readiness and capacity to move forward on the agenda of integration.

In the meantime the historic EU enlargement of May 2004 has gone ahead. NATO enlargement, with the inclusion of Slovenia, Romania and Bulgaria, has now encompassed a significant part of the Balkans, with of course Greece and Turkey already long-established members. Albania, Croatia and Macedonia (Former Yugoslav Republic of Macedonia - FYROM) are members of NATO's Partnership for Peace programme. Croatia, due to its proactive policies towards the ICTY in particular, has achieved full candidate status and will begin accession procedures in 2005. Macedonia tendered its application for membership in April 2004. Albania is in the process of negotiating a Stabilisation and Association Agreement. Thus while most countries are clearly moving towards EU and NATO integration, SCG, the pivotal geopolitical centre of the Balkans, has stalled (along with BiH). This is not conducive to the key interest of all - stability. By permitting the 'twin-track' integration of Serbia and Montenegro at a practical level, the EU has recreated the conditions for forward movement.

Following this decision, and in light of the Thessaloniki summit commitment, it is now of decisive importance for the EU to seek creatively the means to enhance relationships with the countries of the region, and augment funding to accelerate the integration of those countries that are lagging. This is in the EU's own best interest, and would also probably mean only a minor increase

in expenditure. But it is close institutional linkage, locking these countries into programmes of exchange, enhanced partnerships and monitoring that will help accelerate the dynamics of integration. In practical terms, the specific issue of visa facilitation (removal from the Schengen 'blacklist') is one of the most powerful incentives the EU has to offer these countries, and more thought needs to be given to specifying precisely what conditions have to be met for the visa regime to be relaxed, and what can be done to help meet them.

Redefining its relations with Montenegro is by no means the end of Serbia's constitutional quandaries. We shall return to the question of Kosovo below; but here it is worth noting how progress in transition is burdened by additional tasks in a country whose borders are ill-defined and whose sovereignty over its territory is not yet assured. A small but significant illustration of this is the fact that the Serbian parliament voted to change the emblem, flag and anthem of the republic only in August 2004 – until then Serbia still had an emblem topped by the red star. Change has been slow and difficult in a number of areas due to the magnitude of the agenda. A new Serbian constitution, to replace the existing one forced through Parliament by Milosevic in 1990, is still in the making. Despite proclamations by the Government that this has been its key priority, no movement has occurred. There is presently a constitutional constraint that requires a two-thirds majority in the Parliament to change the constitution. It will become clear in the coming months whether the major democratic parties can agree on this, so removing another remaining legacy of the Milosevic period, and give Serbia a new constitution in line with the changing times.

Cooperation with the ICTY

The most important immediate obstacle on Serbia's path towards the EU can be removed by Serbia itself. Cooperation with the ICTY is, it cannot be said too often, the sine qua non for opening the way forward. Only once this is out of the way will Serbia be fully exposed to the magnetic pull of Brussels.

That has now become patently clear to all who matter in decision-making in Serbia. The newly elected President of Serbia, Boris Tadic, is adamant about compliance with ICTY. Key members of the ruling coalition in Serbia at the moment, such as Minister for Foreign Affairs Vuk Draskovic, the Deputy Prime Minister Miroljub Labus, and the State Union Minister for Human and Minority Rights Rasim Ljajic, are all unstinting in their demand for action. Every day that passes without a result in compliance is a loss for Serbia, because others are moving ahead and it is lagging further behind. Yet the relentless cycle of elections – in the past 11 months Serbia has had two sets of presidential elections, parliamentary and most recently local elections in September 2004 with run-offs following in early October for mayoral contests – poses constant short-term interruptions which are not helping this process along. A further problem that has yet to be overcome is the practical implementation of the political decision to seek out ICTY indictees.

Cooperation with the ICTY has not been helped by the ambivalence of the new Prime Minister, Vojislav Kostunica, on the issue. Just before taking over his mandate, he said that cooperation was not a priority for his government, only to reverse this position several months later and spell out that it was indeed a priority. When he was President of FRY from October 2000 to 2003, he did not have a clear-cut position on cooperation with the ICTY, which confused public opinion as to what the policy of the country really was. His ambivalence on the issue was an obstacle to rapid progress. Now he has accepted the urgency of the issue – but, at the time of writing, the arrest of Ratko Mladic (indicted for the Srebrenica crimes) and of four indicted generals is still awaited.

Non-compliance simply hinders the forward movement of the country on all integration issues. Nevertheless, it is interesting to see how in Serbia often nowadays significant political figures invoke the positive move forward of Croatia as a positive example for Serbia. This shows how the Balkans region functions as an interdependent set of communicating vessels, which can generate peer group pressure and effective mutual positive incentives.

Irreversible change in Serbia confirmed through trial by fire and in two elections

The assassination of Prime Minister Zoran Djindjic on 12 March 2003 was both tragic and a most difficult blow for the democratic modernising forces in Serbia. It was also a severe test for the fledgling democratic Serbian state that Djindjic had helped to set up and push on to deepening reforms. In the event, the state proved that its key institutions and procedures were able to withstand the shock and throw back the gauntlet tossed at its feet by unreconstructed retrograde forces that were trying to turn the clock back. As Djindjic himself put it only days before his death: 'those who think that by removing me they will put Serbia back into chaos are naive.'

Zoran Djindjic and the government of Serbia had decided in the second half of 2002 to set up institutions that would combat organised crime, corruption and the grey economy. Legislation had been prepared to introduce special courts to deal with organised crime and war crimes, and special prosecution procedures and witness-protection programmes were voted in by the Serbian Parliament. In January 2003 the heads of the Serbian secret service were changed in order to engage fully in the new struggle and ensure the country's movement forward. The final element of this reformed judicial and law enforcement architecture was supposed to be the federal (state union) Minister for Defence. This last piece of the institutional structure – the first democratic Defence Minister – was supposed to be voted in on 13 March 2003. This would have put the military at last under full civilian democratic control. Djindjic was assassinated the day before, allegedly by members of the security services.

The trial of the indicted assassins (indicted also for the kidnapping and killing of former president of Serbia Ivan Stambolic, and for two assassination attempts against Vuk Draskovic, current Minister for Foreign Affairs) is proceeding in the special court in Belgrade and is major test-case for the Serbian democratic state and its judiciary. The fact that Serbia was able to resist the onslaught of what was variously termed the 'Hague lobby' or the 'the pyramid of crime', in which different vested interests of the former Milosevic regime were implicated, was evidence that the first steps in democratic transition had borne fruit. The irre-

versibility of the democratic turn made by Serbia in the early autumn of 2000 had been confirmed.

In spite of a great many doubts voiced both at home and abroad about the irreversibility of this democratic change, additional confirmation that the majority in the Serbian polity had irreversibly chosen democracy, Europe and Euro-Atlanticism was provided by the parliamentary elections of December 2003 and the presidential elections of June 2004. In these elections, Serbian citizens voted in a ratio of roughly 60:40 in favour of the democratic option. This is a stable underlying trend that is easy to overlook given the day-to-day vagaries of party politics (full details of election results are presented in the tables at the end of this chapter).

A new political landscape is emerging from the political magma of the 18-party DOS coalition formed in 2000. What we are witnessing is the crystallisation and simplification of the political chequerboard. This expected political dynamic – the consolidation of political forces around the major centre, centre-left and centre-right alternatives – is now taking shape. An example of this ‘simplification’ of the political scene is the fact that the Democratic Party (DS), following Boris Tadic’s victory in the presidential elections, has absorbed smaller parties such as Otpor (the former youth/student movement), the Democratic Centre, and parts of the Civic Alliance of Serbia.

The salient feature of this new political map is that no one democratically oriented party has so far demonstrated the electoral capacity to win a clear majority in parliamentary elections. Thus the future will see an interplay of democratic coalitions leading the country through the transition and the EU integration process. The group of democratic parties comprises the two major parties DS (led by Boris Tadic), and the Democratic Party of Serbia (DSS, led by Vojislav Kostunica), followed at some distance by the G17Plus (led by Miroljub Labus and Mladan Dinkic), and possibly the newly united Social Democratic Party (led by Nebojsa Covic).

At the other end of the political spectrum, the remaining key challenge is the strength of the Serbian Radical Party (SRS, still presided over by Vojislav Seselj, the war crimes indictee currently in prison in the Hague). This party, which was a crucial political ally of Slobodan Milosevic’s power structure, has survived as the voice of both extreme nationalism and those who are paying the high social and economic costs of transition. The Serbian Socialist

Party (SPS, still presided over by Milosevic) just made it over the threshold in the December 2004 elections but is losing the struggle to survive.

The only other noteworthy development has been the appearance of tycoon Bogoljub Karic, who stood as a candidate in the presidential election and has formed his own 'Movement of the Force of Serbia' (PSS). This has been dubbed by political pundits in Belgrade 'Forza Serbia', to highlight parallels with Silvio Berlusconi's Forza Italia. Karic created his fortune under Milosevic. He was even at one moment a deputy prime minister of the Milosevic government in Serbia. Owner of a popular TV channel (BK), part owner of a major mobile telephone operator, with influence in the press and political circles, Karic entered the political fray at the end of the fourth year of transition in Serbia, and scored a strong 18 per cent in the recent presidential elections. The mainstay of his party's rhetoric is a typical populist message, offering easy and quick solutions to all the difficulties of transition and reform. Whether this party can sustain its early momentum is open to doubt, as its performance in the September 2004 local elections and elections for the parliament of Vojvodina suggested it has now peaked. In the future parliamentary elections, likely some time in 2005, the party will most probably not be able to match the score of its leader, but will certainly remain on the scene.

The elections for mayors and local councillors throughout Serbia and for the parliament of Vojvodina in September/October 2004 provided another demonstration of the broader political party dynamic. Although the overall turnout was comparatively low (34 per cent in the first round) compared with earlier elections, it follows the pattern of declining voter turnout in other transition countries, and is indeed not unusual for local elections in many democratic countries. In the key race for the mayorship of Belgrade (a direct election for what is in effect the third most important position in the country), the DS candidate Nenad Bogdanovic won narrowly in a run-off against the SRS candidate (by 50.3 per cent to 48.3 per cent). At the time of writing, the DS candidate seems poised to win. More importantly, in the Belgrade city assembly a local government coalition of DS and DSS will be formed (having together secured 47 out of 90 seats). This may suggest the shape of a future national government coalition after parliamentary elections. These will in all probability not occur before

early spring 2005. President Tadic has advocated a period of stabilisation of the political scene so that Serbia can regain momentum on the path of reform, freed from the constraints of electoral politics.

September 2004 also saw elections for the parliament of the province of Vojvodina under a new system in which half the seats are elected under a proportional system and the other half in a two-round majority system. While the trend was for a majority of votes to be cast for the block of democratic parties, the SRS performed strongly. The SRS won the mayorship of Novi Sad. Vojvodina confirmed the general trends of the DS's maintained strength; the loss of support for the ruling coalition (DSS, G17 Plus, SPO/NS – but not in such a degree to upset the Government) and the failure of the PSS to match the vote won by its leader Karic in the June presidential election. Thus the opposition SRS continues to attract a significant proportion of the vote as the key choice for both hardline nationalists and disaffected protest voters.

What Serbia now has is a co-habitation between the DS President, who has huge personal legitimacy after his recent victory and his party's subsequent marked rise in popularity, and the government of DSS Prime Minister Vojislav Kostunica, bruised by a series of misguided policies, stalled privatisation, eccentric and subsequently reversed education reform. This explains the weak performance of the ruling coalition's candidate in the June presidential (13.3 per cent), and the ratings of DSS and its coalition partners are falling. It is a minority government which at first, controversially, depended on support in parliament from Milosevic's SPS. That support is now in question, but this poses no major danger to the coalition because the DS is backing the Government where its policies clearly promote the dynamics of reform.

It must be said that the current Government has achieved some important economic results. The debt with the London Club of creditor banks has been successfully negotiated and 60 per cent has been written off. The 'sugar affair' of illegal re-exports of imported sugar to EU markets has been dealt with effectively and sugar exports have now resumed. The Government has demonstrated its will to deal with such forms of organised crime. Macroeconomic stability continues and inflation remains at single-digit levels. Growth is expected to reach 8 per cent in 2004, after three years of serious effort at market reforms. This economic recovery

is to the credit of both the current and the preceding governments, but it also follows the pattern of other post-communist transition economies, where economic recovery began to gather pace in the fourth year of transition. The current Government has also secured the passage of about 50 laws that are crucial for a functioning market economy and for the creation of a favourable environment for foreign investment. Progress in transition now depends on the implementation of further major reforms to strengthen the rule of law, combat organised crime, corruption and illegal migration and build up administrative capacity especially in border control and assuring the security of travel and identity documents. The need for further reforms to promote economic development remains a key issue.

Regional stability, regional cooperation and the issue of the final status of Kosovo

One of the major priorities of foreign policy of the country has been regional cooperation and relations with neighbouring countries. Regional cooperation has been remarkably successful. A variety of international and grass-roots forms of regional cooperation have been developed. The South East European Cooperation Process has been a standard-bearer but a myriad of other initiatives at different levels, not only of high policy, but also civil society initiatives, the creation of cross-border 'Euroregions' and other forms of cooperation, including bilateral free trade agreements, lifting visa requirements, arrangements for dual citizenship with neighbouring countries – all testify to a willingness to go beyond the precarious post-conflict situation and develop more stable and substantial political, economic, and commercial relationships. These are essential for a region of countries that are too small and economically too weak to compete on the global market.

The Balkans, and SCG as part of them, have come a long way since 2000, although clearly very much still remains to be done. The unresolved status of Kosovo is now the key outstanding issue for Serbia/SCG, the region and the international community. The complacency with which much of the international community had addressed the issue was unfortunately severely punished by

the March 2004 violence and ethnic cleansing perpetrated against the non-Albanian (mostly Serb) population of the province.

In January 2003, then Prime Minister Djindjic had launched an initiative to spur on the resolution of the issue. Taking a proactive, forward-looking approach that advocated a 'European, democratic, rational, and de-emotionalised' path towards resolution, he caught many stakeholders off-guard. Principally Djindjic realized that (a) too much complacency was leading dangerously towards uncontrollable developments; (b) all stakeholders, first of all Belgrade and Pristina, but also including the UN, EU, United States, the Contact Group countries and all neighbouring states, needed to work hand in hand towards a relatively speedy solution.

Then as today, the European and Euro-Atlantic perspectives are paramount. Part of the solution is the ultimate 'Europeanisation' of the region, all its citizens and territories. The Thessaloniki summit of June 2003 was unequivocal about the EU destiny of the Balkans. The new Enlargement Commissioner Olli Rehn reiterated this commitment in a statement on 16 September 2004, announcing that his Directorate-General would be taking over the Balkans portfolio from DG External Affairs. The conundrum is the way in which process and outcome are combined: how to maintain the levels of stability already achieved in the Balkan region and in each individual country, while addressing the many complex domestic difficulties that plague them, and moving steadily forward through a negotiated process on the thorniest issue – Kosovo.

On the need for a negotiated solution there are no qualms. Deliberations formally began in Vienna in October 2003, and two working groups that emanated from that meeting also began proceedings. Little progress was achieved and formal contacts came rapidly to a halt. The sides will return to the table. They have in fact been meeting in seminars and conferences informally over the past years and have come to know each other. These are not insignificant steps on the path forward.

An immediate issue at the time of writing was whether the Serbs would participate in the general elections of 23 October in Kosovo. This related to the broader issue of security and rights of the non-Albanian population. Notwithstanding certain successes, the overall security situation of non-Albanians has been

dismal. Lack of any significant progress in IDP returns has not helped. Guarantees for security are needed before any Serbian politician can endorse a call for Serbs to go out and vote. There is a clear understanding that participating in elections is of the essence – but not under any conditions.

The issue of decentralisation (or whatever term the various stakeholders accept) of Kosovo government structures is now the focus of attention. It simply means transferring formal competences in a number of areas to local government and to those who live there, so that they feel their voice is heard and their livelihood protected. The features and framework of decentralisation in all its aspects will of course be negotiated. This is a situation in which the presence of the EU in particular guarantees that solutions will conform with the *acquis* and the Copenhagen criteria.

The Contact Group has become engaged in a more determined way since March 2004, aware that complacency is not possible anymore. The divergent dynamics and time-horizons of the key factors in the search for a solution all ultimately have to be coordinated. Constraints on the various international military forces involved (their need to reduce troop levels because of pressing demands elsewhere); deep socio-economic problems (mainly unemployment and economic stagnation in Kosovo itself); the minorities' security, rights and sense of being 'at home' in their own land – these are among the definitive ingredients of a negotiated solution that have to be addressed. And the countries in the neighbourhood must all also be part of the process and lend their support to the search for a solution. They need to feel reassured by the coming solution and not threatened by it.

The subtle balance between domestic political dynamics of the key players, Belgrade and Pristina, and their participation in the broader European agenda, represent both a difficulty and a blessing. The EU perspective is crucial as a strong motivational force. On the other hand the polities and political cultures in some instances in the region are not yet fully capable of rising to the challenge of managing these processes. Therefore strong, committed and forward-looking leadership – statesmanship – is called for. The region is part of Europe. All countries and their populations have clearly expressed, on numerous occasions, their willingness to join the EU, Partnership for Peace and NATO. Leadership from both international bodies, the EU in particular, and from

those in government in the respective countries, is of the essence to achieve workable, successful outcomes to all outstanding issues.

Conclusion

Serbia has gone through four difficult but also by no means unsuccessful years. Much has been achieved. After having been the pariah state while others were moving swiftly forward toward the EU and NATO, now the country is approaching the point that it could have reached a long time ago. There is no alternative route but prudent and determined compliance with international obligations and the rule of law. Serbia must address the recent past by fulfilling its international obligations so as to open the way to a complete integration into regional security structures, Partnership for Peace, and the process of EU integration, thus becoming a full contributor to the security and prosperity of the region and Europe.

As in all post-communist transition countries the political losers (former communist nomenklatura) seek to become the economic winners. This means that those who had vested interests in the past go through a metamorphosis and appear under different guises in the attempt to retain their commanding position. However, it is the hard work of institutional reform, democratisation and modernisation in all walks of life, through daily painstaking efforts, that leads a country forward.

Serbia and Montenegro after the *annus mirabilis* of 2000, which raised expectations of rapid success, now confronts hard reality and burdensome legacies, and the realisation that there is no magic solution. Sustained effort is required on the part of the state and civil society, public administration and individuals. Democracy is a learning process, not an 'off-the-shelf' product. Democracy has been maturing through the cycle of elections over these past several months. Political parties are evolving and coming to recognise that they must work together within their broad political family, and facing up to the reality that there will not be clear-cut, single party majorities. Learning to balance party interest with a clear appreciation of the public interest, to work for the public good while serving diverse constituencies, is part of the democratic transition.

Many challenges lie ahead in the near future. Some of the basic lessons have been drawn from the catastrophe of the 1990s and some of the tools (institutions, rules and procedures) for dealing with the challenges ahead have been acquired. This allows a cautiously optimistic assessment that the country is, despite all, on course but still needs to accelerate its pace along the road ahead, and be ready to tackle the many pitfalls that remain.

It is also incumbent upon the EU to continue to search for ways to help all those reform and future-oriented democrats to address the challenges that confront them. This involves not only more substantial funding (comparable to the pre-accession funds), but also much more intense institutional interface and interaction at all levels to accelerate the dynamics of integration, maximise Serbia's potential to make up lost ground, and thus finally secure the stability of this troubled region of Europe.

Serbia: Parliamentary elections 28 December 2004

Political party (leader)	Percentage	MPs (250)
Serbian Radical Party – SRS (Seselj)	27.6	82
Democratic Party of Serbia – DSS (Kostunica)	17.7	53
Democratic Party – DS (Tadic)	12.6	37
G17 plus (Labus/Dinkic)	11.5	34
Serbian Renewal Movement/New Serbia – SPO/NS (Draskovic/Ilic)	7.7	22
Socialist Party of Serbia – SPS (Milosevic)	7.6	22
Others*	15.3	–

* Parties that did not reach the 5 per cent threshold were not allocated seats.

Presidential elections

First round - 13 June 2004

Candidate (Party)	Votes	Percentage
Tomislav Nikolic (SRS)	954,339	30.60
Boris Tadic (DS)	853,584	27.37
Bogoljub Karic (PSS)	568,691	18.23
Dragan Marsicanin (DSS)	414,971	13.30
Ivica Dacic (SPS)	125,952	4.04
All remaining candidates		5.25
Total voter turnout: 47.75 per cent		

Second round - 28 June 2004

Candidate (Party)	Votes	Percentage
Boris Tadic (DS)	1,681,528	53.24
Tomislav Nikolic (SRS)	1,434,068	45.40
Total voter turnout: 48.35 per cent		

Bosnia and Herzegovina: Europeanisation by decree?

Gerald Knaus and Marcus Cox

The Western Balkans:
moving on

4

Nine years after the end of the war, Bosnia and Herzegovina (BiH) has overcome its most difficult peace-building challenges, and the threat of violence has disappeared from the political scene. Along the way, however, the international mission in BiH has developed into a quasi-protectorate, with extensive international powers and some strikingly illiberal tendencies.

According to some, the secret of BiH's success has been the resolute use of international authority, allowing democracy and the rule of law to follow along later when conditions are more favourable. This is a seductive doctrine, not least for those holding the reins of power. International officials in BiH as well as diplomats on the Peace Implementation Council Steering Board show a marked reluctance to allow the country to graduate to a more normal form of engagement with the international community. While some want to stretch the use of extraordinary international powers until the tenth anniversary of the 1995 Dayton peace agreement, others argue that even beyond that date the citizens of BiH cannot be trusted to govern themselves unsupervised.

However, this system of illiberal democracy under international supervision has now become the most serious constraint on the development of an effective state. The country remains isolated from the European integration processes taking place around it. So long as responsibility is vested in an international official, rather than its own elected institutions, BiH is not taken seriously at the international level. Furthermore, rather than building up national institutions equal to the severe social and economic challenges the country faces, the international protectorate has exacerbated a tendency to passivity on the part of BiH's governments and political élites. As the international reconstruction programme draws to a close, the extent of BiH's structural problems has become painfully apparent. Yet its institutions are failing to formulate or implement an effective policy response, and their patterns of public expenditure are unsustainable. What

BiH urgently needs is responsible political leadership and effective institutions.

Peace-building successes

The international postwar mission in BiH has seen some extraordinary successes in overcoming the worst effects of war and ethnic cleansing. The paramilitaries which roamed the country in 1996 have been disbanded, ethnic armies insulated from the political sphere and reduced greatly in size and influence, and neighbouring countries have ceased to subvert the domestic constitutional order. Indicted war criminals have been excluded from political life. Freedom of movement has been restored, and the former military frontlines which divided the country into a patchwork of hostile ethnic enclaves have become largely invisible. Both interethnic violence and serious crime are at remarkably low levels.

As a peace-building model, BiH therefore deserves to be studied closely. The implications of some of these early postwar experiences still need to be properly examined. Some of the most criticised decisions of the early postwar period – such as the early conduct of national elections, in circumstances which seemed to guarantee that wartime élites would dominate political life in the postwar state – appear in a different light with the benefit of hindsight. Early respect for democratic *forms* may have helped to overcome hostility to the new state and draw potentially hostile élites back into the political process. Rather than attempting to exclude certain political forces as a class (the Iraq de-Baathification model), the International Criminal Tribunal for the Former Yugoslavia (ICTY) offered a different strategy: it slowly and methodically removed from public life those who were individually implicated in atrocities. After a slow start, the ICTY process was supported by the international military through the arrest of indictees,¹ often a precondition for other peace-building successes at the local level. These two strands of international strategy – drawing wartime leaders into democratic institutions, while bringing war criminals to justice before a respected tribunal – proved complementary. The net effect was that much of the wartime and postwar political leadership structure was decapitated within a few years, without an early showdown that would have allowed real opposition to the international forces to be mobilised.

1. It remains surprising and is problematic that these efforts have not included putting all the necessary military resources into capturing the two most notorious indictees, Ratko Mladic and Radovan Karadzic.

Adherence to a clear set of principles and legal processes was also key to the vast property restitution campaign, which perhaps for the first time in history successfully reversed the worst effects of ethnic cleansing. The campaign was based upon a bedrock respect for property rights in Bosnian society, and worked through clear and widely publicised legal procedures which emphasised individual rights and freedom of choice. This rights-based approach, based on a legal rather than a political logic, disaggregated the problem into a large but finite number of individual property claims, building up public pressure for a solution which in the end overwhelmed the resistance. More than 200,000 property claims from those who fled or were ethnically cleansed during the conflict have been resolved, removing one of the most dangerous sources of tension, and the gradual reintegration of returnees into their local communities has transformed the social and political environment.

Adherence to democratic procedures and the rule of law was in fact fundamental to the successes of the international mission in BiH. On occasions when international influence was exercised in an ad hoc and arbitrary manner, ignoring procedures and avoiding external checks and balances, the outcomes were much less impressive. As the work of the international mission turned from basic peace-implementation tasks to institution-building and development, this pattern became all the more apparent.

Institution-building

The Bosnian peace process presented an institution-building challenge on a daunting scale. Of the multiple layers of government created by the Dayton and Washington agreements, only the municipalities existed prior to the conflict. With rare exceptions, such as the Ministry of Foreign Affairs at central state level, the old republican institutions of former Yugoslavia were not incorporated into the new constitutional order. In fact, many of them persisted as illegal ‘parallel structures’ for some time after the Dayton agreement, and had to be actively dismantled. State-level institutions were created without clear functions or obvious domestic constituency, and are still in the process of defining their role. The Federation of Bosnia and Herzegovina, created on paper in 1994 as a Bosniac-Croat alliance, ended up as one of the two ‘entities’ comprising the

state, thus creating a federation inside a federation (more by historical accident than deliberate design). Until at least 2000, it competed for authority with the remains of wartime institutional structures and with its own ten cantons, which bear the bulk of governance responsibilities. The other entity, Republika Srpska, began to take its current form only in 1998, after the shift of its capital from the wartime mountain headquarters of Pale to Banja Luka. Before then, the administration had been little more than a political bluff, relying on personal networks, ruthless paramilitaries and the support of neighbouring Yugoslavia. The District of Brcko was created in 2000 as a result of an international arbitration over a disputed part of the inter-entity boundary line, and is still not properly integrated into the BiH constitutional order.

As a result, most public institutions in BiH are no more than a few years old, and many have yet to assume their final form. Across the state, two entities, ten cantons and one district, administrative organs are preoccupied by their own internal affairs, struggling to establish an internal structure, gather human and budgetary resources, define their programmes and establish relationships with their political masters. This most basic dimension of institution-building is a full-time occupation for officials, making the institutions introspective in nature, and remote from and often irrelevant to the public they are supposed to serve.

When Robert Putnam made his famous study of the introduction of regional government in Italy in the 1970s and 1980s, he described a slow painful process of development, from an initial 'Kafkaesque combination of lethargy and chaos',² through the evolution of stable organisational structures, improved delivery of services and, eventually, cautious growth in approval at the community level. So even in a prosperous society with no recent history of war and ethnic division, the process was measured in decades, rather than in years.

It is therefore not surprising to encounter low institutional capacity across all levels of government in BiH. It is remarkable, however, that the performance of government has not become an issue within the democratic process. In BiH, the popular pressures which a democratic system relies upon to generate continual improvement in public sector performance are weak, or missing entirely. There are a number of factors which contribute to this phenomenon. First and foremost, BiH citizens see the international mission, rather than their own elected leaders, as the real

2. Robert Putnam, *Making Democracy Work* (Princeton, NJ: Princeton University Press, 1993), p. 48.

locus of power. Civil society finds it more productive to direct its lobbying activities towards the international community, and turns away from domestic politics. At the same time, BiH politicians are all too happy to allow international officials, who do not have to face election, to take the responsibility for difficult or unpopular decisions. This creates a self-reinforcing dynamic of low public expectations and low performance, and contributes to a distaste for politics in general. Few people in BiH are held in lower esteem than elected politicians.

A second factor is a widespread perception that the constitutional system which emerged from successive peace agreements is merely a temporary arrangement. There are many intellectuals and political élites in BiH who find the Dayton compromise deeply unpalatable and who agitate for radical constitutional change, without any clear vision of a final destination or how to reach it. They hope that the international mission will use its powers to impose a new constitutional system, obviating the need for debate and compromise. Though there is no real prospect of this happening, the constant repetition of these arguments serves as a distraction from the daily performance of government, and makes BiH politics decidedly insubstantial in nature.

A third factor is the unresolved distribution of responsibilities across different layers of government in BiH. From the citizen's perspective, it is very difficult to know whom to blame for poor governance outcomes. This confusion serves to dilute accountability. A final factor is an international institution-building strategy which attempts to isolate key institutions from the political process by making them independent of government or answerable directly to the international mission. There are good reasons why certain public institutions in democratic systems may be separated from the immediate influence of the government of the day, whether for the purpose of creating institutional checks and balances or in order to enhance stability and predictability in certain policy areas. However, these are exceptions to a more fundamental principle. In most areas, the democratic system depends upon elected representatives to ensure that the behaviour of public administration serves the public interest. To *depoliticise* government is to make it less responsive to the needs of the public.

One of the main threats to the development of the BiH state is a looming public finance crisis. Rapid growth of government in BiH has been made possible by the massive international

reconstruction programme. Huge inflows of foreign money – some \$5.1 billion over several years – provided direct subsidies to government budgets, accounted for almost all capital expenditure and led to a huge boost in indirect tax revenues, especially customs. This allowed public expenditure to expand dramatically, without being constrained by the bleak economic conditions.

Now that the international reconstruction programme has drawn to a close, the looming crisis in public finance poses a direct threat to the stability of the Bosnian state. In a detailed review of public expenditure in 2002, the World Bank stated that ‘the present size and scope of public spending is well beyond the levels that can be sustained with BiH’s future resource availability. It is of the highest priority in both entities, but particularly in the Federation, to streamline public administration.’³ Their concern is triggered by the large share of public spending in BiH’s GDP. In 2002, BiH had domestic revenues of KM5.6 billion⁴, equivalent to 52 per cent of its total estimated GDP.⁵ Bosnian governments and public funds then spent KM6.1 billion, equivalent to almost 56 per cent of GDP – far above the regional average of 40 per cent.⁶

Part of the problem comes from BiH’s relatively high public-sector salaries. As a group, public administrators have been relatively successful at protecting themselves against the decline in living standards that has affected the rest of society. Though public sector wages are not necessarily high in absolute terms, across the country the public administration is the highest-paid sector of the economy, or close to it. The international mission has contributed to this problem, by distorting the labour market in the administrative centres and through an institution-building strategy that buys loyalty and compliance through high salaries. In fact, in the District of Brcko, which is under the direct control of an international administrator, the imbalance of salaries between the public and the private sector is at its most acute.

This imbalance has occurred against a background of a very weak postwar recovery, which has consistently fallen below even the most pessimistic predictions. In its first postwar review of public spending published in 1997, the World Bank set out its hope that, by 2000, the country’s output would be back at 70 per cent of the 1990 level, and public spending would be close to the regional average. This proved unattainable. In fact, even the worst-case scenario outlined by the World Bank was too optimistic. Growth

3. World Bank, ‘Public Expenditure & Institutional Review’ (PEIR), iv.

4. 1KM (convertible Marka) = €0.51129.

5. The numbers are based on estimates of the IMF. See ‘IMF Staff Report’, July 2003, p. 27.

6. The difference between revenues and expenditures is made up largely by international credits. IMP Staff Report, July 2003, p. 27. See also: Jean-Luc Bernasconi (World Bank), ‘Overview of public spending composition in BiH’, Proceedings of the Public Expenditure Conference, 4-5 March 2003; <http://www.worldbank.ba>.

slowed sharply before BiH had recovered half of its prewar output, falling from 15.8 per cent in 1998 to 3.8 per cent in 2002.⁷

Because of its weak economic performance, BiH now faces a painful period of adjustment. International assistance has declined rapidly. A recent IMF projection sees total foreign assistance falling from \$699 million in 2000 to \$218 million in 2007, a drop of more than two-thirds.⁸ At the same time, BiH has begun to service its pre- and postwar debt. In 2001, the World Bank, which with \$1.1 billion of the total \$3.1 billion debt is BiH's biggest creditor, undertook a 'creditworthiness review'. It analysed what it called a 'full reform' or best-case scenario, in which the economy grows at an annual rate of 6 per cent between 2001 and 2010, savings increase and exports rise sharply.⁹ Even in this best case, the Bank noted, there would need to be huge cuts in public spending on salaries, transfers and services in the near future.¹⁰ In reality, however, what is unfolding is the worst-case scenario. In each of 2001, 2002 and 2003, growth estimates were well below 6 per cent. Rather than increasing, savings rates are actually going down.¹¹ Imports are growing faster than exports. Credit growth appears likely to 'decelerate sharply'.¹² In such a case, the Bank warned, the outcome would be 'explosive debt indicators' and a deterioration of 'prospects towards a self-sustained economy'.¹³

With this combination of rising debt and falling aid, Bosnian governments need to accomplish both a reduction in expenditure and at the same time a shift in expenditure away from spending on their own institutions, particularly in the form of wages, towards investments in BiH's development. All of this requires institutions with broad public legitimacy and the ability to take painful and long-term decisions. The present system of shared international/local governance is not providing either.

Industrial collapse and the temptation of authoritarianism

Ultimately, the test of the Bosnian state-building project is whether it produces governments capable of meeting BiH's severe development challenges. Across its different constitutional layers and functional areas, the dominant feature of the Bosnian state is its passivity in the face of a growing social and economic crisis. Not only is rule by international decree failing to address the

7. IMF, July 2003, p. 25.

8. IMF, July 2003, 'Medium Term Reform Scenario 2000-2007', p. 41.

9. In 2000 total outstanding debt was \$3.1 billion: 1.1 billion was held by the World Bank, 829 million by bilateral creditors, and 1 billion by commercial creditors.

10. The Bank speaks of 10.9 percentage points of GDP. 'Creditworthiness Review', p. 29.

11. IMF, July 2003 about developments in 2002: 'household savings rates have likely declined', 'corporate savings also appear to have dropped significantly in 2002', p. 8.

12. IMF, 'Staff Report', July 2003, pp. 7-9.

13. 'Creditworthiness Review', p. 32. The World Bank is in the process of reviewing its debt-service calculations for BiH.

development problems, it is also contributing directly to the passivity of BiH's governments.

BiH is going through a period of wrenching social and economic change. The industrial economy built up under 50 years of socialism is disintegrating, leaving BiH with a legacy of structural economic problems that would threaten to overwhelm even the most effective of states. As old industries disappear, the most visible sign of the crisis is a dramatic shortage of employment. According to official figures, no more than 25 per cent of working-age Bosnians are in official employment – an alarmingly low figure. Forced out of the formal economy and lacking any effective social safety net, many Bosnians are forced to pursue survival strategies ranging from itinerant labour to black-market trade. Growing numbers are retreating back to the life of subsistence agriculture that their families left a generation ago, working inadequate plots of land in primitive conditions. As a result, half of BiH's population is living either beneath (19 per cent) or just above (30 per cent) the national poverty line.

Why has the collapse been so dramatic? For the past 120 years, industrialisation in Bosnia and Herzegovina has been a tool of social policy – a means to bring an isolated, rural society into the modern world. It was industrial development that brought Bosnia its urban landscape, its institutions of higher education and the European outlook and expectations of its urban population. However, the distinctive feature of this process of transformation was its top-down nature. Under the Austro-Hungarian administration until the First World War, the Yugoslav monarchy in the interwar period and the communist regime from 1945 to 1990, industrialisation was a product of development strategies imposed from above, without mobilising the initiative and resources of the local population.

This pattern of *authoritarian development* had profound consequences for the kind of industrial society which emerged. It was fuelled by vast foreign credits, which socialist Yugoslavia attracted through its non-aligned status and strategic importance during the Cold War. The investments were directed by a political logic, and often made little economic sense. They were entrusted to self-managing enterprises which invariably ran at a loss, and were kept alive by constant injections of public money. In 1979, with the second oil crisis, foreign borrowing came to an abrupt end, and BiH's industrial economy began to unravel.

By the end of the 1980s, living standards had fallen drastically, and the 'big systems' that had been the backbone of Bosnia's industrial society were little more than hollow shells. Then war brought production to a standstill, destroyed an important part of the capital stock and displaced a large proportion of the population. By 1996, much of BiH's enterprise sector was beyond saving – particularly the armaments industry, which had been the core of the industrial economy.

When international agencies began planning for postwar reconstruction, they believed that BiH would make an easy transition to a market economy, through rapid privatisation and a large injection of reconstruction aid. They underestimated the legacy of misplaced investment, outdated technology, excess capacity, over-employment and enterprise debt which was the result of decades of authoritarian development. In the early post-war years, some companies managed to scrape together the funds to restart production, but most were unable to sell their products and soon closed their doors again. Reconstruction aid rebuilt houses, schools, medical clinics, roads and bridges, improving the living standards of most households. But it could not save BiH's industrial economy and create a foundation for sustainable growth.

Though Bosnian governments are aware, in general terms, of the scale of the crisis, in the most critical development areas – industrial policy, agriculture, infrastructure development, management of natural resources, education and training, social welfare – there is a vacuum of credible policies. All too often, government policies in BiH are little more than broad statements of good intentions. They are not based upon hard information, or any real analysis of the problems. They are not developed in consultation with the groups they are supposed to help. They do not affect what public institutions actually do. Nor do they affect the way public money is actually spent.

This passivity is in itself a legacy of authoritarian development. Bosnia's political elites have a tradition of looking to outsiders to provide the policies and resources for development. They have a distrust of participatory policy-making – the intense process of debate, compromise and constituency-building among different interest groups that characterises the democratic process – and prefer a style of politics where the public interest is determined by experts, outside the political process. This attitude is reinforced by weak mobilisation of interest groups and low expectations of

government on the part of Bosnian citizens, which means that government is not under strong pressure to improve its performance. This political dynamic produces governments that are unresponsive, unaccountable and often strikingly ignorant of the society they are supposed to serve.

The profound distrust of the give-and-take between different groups with opposing interests and the belief that there is an alternative to compromise constitutes Bosnia's *temptation of authoritarianism*. It is being reinforced by the peculiar postwar system of illiberal democracy and the peculiar political economy of the postwar period. The prewar dependence on external funding (transfers from the Yugoslav budget) has shifted to the reconstruction programme, while the international mission now takes the role of external policy-maker. The immaturity of government institutions, the fragmented constitutional order and a pervasive fear of nationalist politics all contribute to a tendency to leave the hard decisions to outsiders.

Obstacles on the path to Europe

BiH's industrial crisis is exceptionally severe, but it is not fundamentally different in nature from the problems that have been successfully addressed over the past decade in many parts of post-communist Europe. The European integration and pre-accession process has shown itself to be an extraordinarily effective tool for fostering more effective public institutions, and for providing assistance in ways that develop rather than supplant domestic capacity. Under the European flag, many of BiH's regional neighbours are undergoing a profound transformation, engaging in a series of quiet administrative revolutions. BiH needs to accelerate its progress towards membership of the EU. It is held back by its underdeveloped state and illiberal democracy, both of which are to a significant extent linked to its continuing dependence on the strategic intervention of the international community.

BiH is internationally more isolated today than it was five years ago. It has stood still while the rest of SEE (with the notable exception of SCG) has made substantial progress towards a European future. Like SCG, BiH has not yet reached the point of beginning *negotiations* for an Association Agreement with the EU, and so has no contractual relationship with it at this moment. Together with

SCG, BiH remains one of the last countries in Europe excluded from NATO's Partnership for Peace programme, which with members like Turkmenistan, Belarus, Armenia and Tajikistan has not traditionally been considered an exclusive club.

Although BiH has been offered a 'European perspective' at recent EU summits, it is not yet being prepared for future EU candidacy in practical policy areas. Negotiations on a Stabilisation and Association Agreement will not begin until BiH has made further progress on fulfilling the 16 priority areas of reform identified in the European Commission's Feasibility Study. Meanwhile, EU assistance to BiH has been steadily reduced since 2000. Compared with the EU candidate countries in SEE – now including Croatia, which is considerably more wealthy – BiH will receive steadily declining levels of support in coming years. It remains on the black list of countries where a visa to travel to the EU is required, while Croatian citizens (who include many Bosnian Croats to whom Croatia offered the option of dual citizenship), as well as Bulgarians and Romanians, can travel to the EU with minimal formalities. No criteria have been established for when the visa requirement might be lifted.

The only important European organisation that BiH has been able to join is the Council of Europe. Yet recently the Council of Europe's Parliamentary Assembly concluded that the powers and instruments of the international mission in BiH were incompatible with basic principles of human rights:

The scope of the OHR is such that, to all intents and purposes, it constitutes the supreme institution vested with power in Bosnia and Herzegovina. In this connection, the Assembly considers it irreconcilable with democratic principles that the OHR should be able to take enforceable decisions without being accountable for them or obliged to justify their validity and without there being a legal remedy.¹⁴

The Assembly noted that 139 officials had been removed from office by the High Representative, including elected officials and judges, without any form of due process. It commented: 'The question indeed arises as to the extent to which the current role of the [High Representative] is compatible with membership of [BiH] in the Council of Europe.'

14. Parliamentary Assembly of the Council of Europe, Resolution 1384, 26 June 2004.

Several days later, the High Representative embarked on the most draconian use of his powers ever, dismissing 59 politicians from Republika Srpska's largest political party, the SDS, including most of its senior leadership, blocking the bank accounts of various individuals and companies, and transferring the SDS's annual allocation of public funds to other institutions. The charge brought against the SDS politicians (collectively, not individually) was that they were members of a political party whose financial affairs, according to an investigation commissioned by the High Representative, were 'a catalogue of abuse, corruption and tax evasion'. The OHR concluded that, because of an absence of proper financial controls, 'we cannot be confident that the party is no longer providing financial assistance to its indicted founder, Radovan Karadzic'.¹⁴ The allegations were not entrusted to the judicial system, and there was no avenue for appeal. As the High Representative put it: 'The RS has been in the grip of a small band of corrupt politicians and criminals for too long. We have to get rid of the cancer of obstructionism and corruption in the RS structures and nothing less than major surgery will do.'¹⁵

The OHR actions received applause from many non-Serbs within BiH. They were also readily accepted by many international observers, who approved of resolute action against war criminals and nationalists. It has become conventional wisdom that the use of unaccountable international authority is necessary in order to remove obstacles to the peace process, and that without the international presence BiH's fractious ethnic groups would soon lapse back into conflict. International authority, according to this view, is an instrument of progress and a shield against anarchy. Yet the all-powerful role of the OHR may also undermine the incentives for BiH's politicians to take responsibility for the country's advance towards the status of full candidate for EU membership, as the High Representative himself recognised in 2003 in an exhortatory address to the BiH parliament:

The European Union is currently in the midst of conducting a Feasibility Study for BiH. They have made it clear that you cannot get to Europe through the Office of the High Representative; that these reforms have to be your reforms, not mine. That is not empty rhetoric. It is hard political fact.

14. OHR Press Release, 'Financial review reveals abuse, corruption, tax evasion in SDS', 1 July 2004.

15. OHR Press Conference, 'High Representative announces measures against ICTY obstructionists', 30 June 2004.

A new European engagement

The time for a move towards a clear alternative to the present mode of international engagement in BiH is fast approaching. What would this alternative require, in practical terms, for BiH and for Europe?

It would mean accelerating the prospects of BiH's promotion to the status of an official EU candidate, and firming up the rather vaguely specified timetable implicit in the original conception of the Stabilisation and Association Process as a framework for 'potential' rather than real candidacy. Candidate status should be regarded as a means to consolidate the progress made in peace implementation and state-building over the past nine years. Delaying the process or attaching yet more conditionality would be counterproductive at this stage. Past experience in CEE, as well as more recent experience with Croatia (and, most spectacularly, with Turkey since 1999), demonstrates that the EU's unambiguous commitment to candidates' membership within a firm pre-accession framework has the potential dramatically to accelerate the domestic reform process. Once accepted as a candidate, BiH would be offered mechanisms and incentives similar to those offered to Bulgaria, Romania and Turkey since they became candidates.

This is the best tool available to the international community to transform the political dynamic in BiH and overcome the passivity of its institutions. It would also mean reshaping the international architecture inside BiH. The OHR's role should be steadily and purposefully transformed, to be replaced by an EU Special Envoy on the model of Macedonia and a much enlarged Commission Delegation. CARDS assistance should be replaced by aid instruments modelled on the experience of PHARE, SAPARD and ISPA, imposing the same standards (rigorously monitored by the Commission) before disbursing any money. Stabilisation and Association reports should become more like the regular annual reports on accession candidates, measuring progress towards agreed reform goals according to clear and public criteria.

To move towards Europe, BiH needs to overcome its authoritarian temptation, and embrace a genuinely democratic political process. For that to happen, the international community must be

ready to take the (limited) risk of withdrawing from direct intervention in that process. It must cease to provide cover for BiH politicians' habits of dependency, irresponsibility and isolation from their domestic constituencies, which are at the root of their authoritarian tendencies. The sooner this happens, the sooner BiH will truly set out on its path towards Europe.

Regional economic problems and prospects

Franz-Lothar Altmann

The Western Balkans:
moving on

5

Nine years after the Dayton peace agreement and five years after the Kumanovo arrangement the Western Balkans have reached a state of superficial political stability which at least makes it unthinkable that open conflicts between Balkan nations like those of the 1990s might again happen. This, however, does not exclude completely the possibility that remaining interethnic tensions in Kosovo and Macedonia could become inflamed again and lead to severe clashes. Besides this it is obvious that sustainable internal political stability in the region is primarily dependent on urgently needed improvement of economic and social conditions.

The low general level of economic and social development

The economies of the countries in the region are burdened by two severe legacies: the arrangements of the old socialist semi-planned economy and the damaged structures of the war economies of the 1990s. In addition, the old export markets of former Yugoslavia have ceased to provide profitable demand for Bosnian, Croat, Serbian or Macedonian products which anyhow at present can be produced only in relatively small quantities. None of the West Balkan countries except Albania has so far regained the level of real GDP of 1989, the last year before the dissolution of Yugoslavia and the beginning of the different conflicts. Bosnia and Herzegovina (BiH) as well as the Serbia-Montenegro union (SCG) still perform at an economic level which is only half that of 1989, Macedonia has fallen back to 77 per cent, due to the setbacks caused by the ethnic clashes of 2001, and only Croatia is now approaching the 1989 level. Albania is in fact the only country that has surpassed the 1989 level due to high economic growth rates in the last years, but had started at an extremely low level when entering the phase of transforming society and economy.

Table 1: Economic growth in South-East Europe, 1989-2003

	Estimated real GDP 2003 (1989 = 100)
Albania	123.0
Bulgaria	87.3
Croatia	91.0
Romania	92.4
BiH	n.a.
SCG (less Kosovo)	49.9
Macedonia	81.4
Slovenia	119.9

Source: ECE-UN: *Economic Survey of Europe*, 2004, no. 1, p. 190.

Table 2 contains some macroeconomic data and indices which clearly show the backwardness of the region. In comparison to the EU average, per capita GDP calculated at the official exchange rate for Kosovo stands at only 4 per cent, for Macedonia and Serbia-Montenegro at 8 per cent, and even Croatia performs only at some 23 per cent of the EU average. But even if one uses purchasing power parity (PPP) calculated figures – shown in brackets in Table 2 – the low performance is still obvious. Should the expected acceleration in economic growth take place in the region, which per se becomes questionable if one considers the high deficits in the current account balance, then even a doubling of per capita income in the course of ten years would lead to a performance level of something near to just 16 per cent of the present EU average.

This contrasts rather sharply with the latest report of the European Commission for the countries of the Western Balkans in transition of January 2004¹ and also with the third SAP-Report,² in which the Commission sketches a relatively positive picture with regard to general economic development in the region. It is true that since the year 2000 there has been an average real growth in GDP of 4.5 per cent per year, but again one must take into account the extremely low starting point for all of these countries. On the other hand one must admit that this economic growth has happened during a time of low economic performance in the EU countries which could suggest that, together with an economic recovery in the EU, an even more rapid economic growth with average rates of five per cent or more could be expected for the countries of the Western Balkans.

1. EC Commission, Directorate-General for Economic and Financial Affairs, 'The Western Balkans in transition', European Economy Occasional Papers, no. 5, January 2004, 75 pp.

2. Commission of the European Communities, 'Report from the Commission – The Stabilization and Association process for South East Europe. Third Annual Report', Brussels, 30 March 2004, 38 pp.

Table 2: Macroeconomic indices, Western Balkans, 2002/2003

Index	Albania	BiH	Croatia	Macedonia	SCG	Kosovo
GDP growth, real, percentage						
2002	4.7	5.5	5.2	0.9	4.0	3.9
2003	6.0	3.2	4.8	3.3	1.2	3.8
GDP ¹ per head (€) 2002 (GDP/hd at PPP, 2001 USD)	1,602 (3,680)	1,383 (5,970)	5,420 (9,170)	1,972 (6,110)	2,055 (3,532)	705 ² ...
Inflation, end of 2003, in per cent	2.8	0.4	1.5	2.4	8.0	1.8 Jan-Apr 2004
Rate of unemployment June 2003	15.2	43.0	18.9	46.0	29.0 (June 2002)	n.a.
Trade deficit as a percentage of GDP, 2003	-22.8	-36.6	-27.2	-17.2	-25.1	-71
Current account as a percentage of GDP, 2003	-6.3	-17.5	-5.4	-6.2	-8.1	-32.9
HDI-Index Human Development Index(2001)	0.764	0.735	0.818	0.784	n.a.	n.a.
UN Education Index	0.80	0.83	0.88	0.86	n.a.	n.a.

1. Nominal GDP at official rate of exchange.

2. IMF projection for 2004 based on Jan-Apr, 2004, latest assessment.

Sources: EU Commission, 'European Economy - The Western Balkans in transition', *Occasional Papers*, no. 5, Brussels, January 2004; *Economic Survey of Europe*, 2004 no. 1 (New York/Geneva: UN-ECE, 2003); *UNDP Human Development Report 2003*, New York, 2003; USAID, RIINVEST, UNDP: *Early Warning Report Kosovo*, no. 6, January-April 2004.

However, one must bear in mind that this economic growth has been accompanied in all countries concerned by high deficits in the balance of trade. Imports into the countries of the Western Balkans (Kosovo not included) have increased between the years 2000 and 2003 from €18.7 billion to €25.4 billion, whereas in the same period exports have increased only from €9.8 billion to €11.1 billion. In trade with the European Union alone, the deficit in the balance of trade of the Western Balkans amounted to €7.8 billion in 2002, which corresponds to more than 13 per cent of the region's GDP. This shows that the countries are not yet capable of taking advantage of the asymmetric trade liberalisation offered by the EU to the region. This is on the one hand due to the lack of production capacities. To a large extent, however, it is caused by an inability to meet the quality standards of the EU.

Table 3: Exports and imports of the countries of the Western Balkans 2002 (in USD million)

	Exports	Imports
Albania	330	1,489
Croatia	4,899	10,713
FRY ¹	2,275	6,320
BiH	733	2,758
Macedonia	1,158	1,694
Kosovo (2003)	43	1,162

¹ As SCG was known until 2003; less Kosovo.

Sources: ECE-UN, *Economic Survey of Europe*, 2004, no. 1, pp. 199-200; USAID et al., *Early Warning Report Kosovo*; both op. cit.

The state of reforms

Given simply the performance of the economies of the region described above, one must ask whether and if so how much market economic transformation has in fact taken place and what the respective state of economic competitiveness is. A research group organised by the Bertelsmann Foundation has recently undertaken a larger research project which, for 116 countries, analysed how the transformation to democracy and market economy had been managed in the recent past and what deficiencies could still be observed.³ In this project intraregional comparisons have also been made. Among the countries of CEE and South-East Europe (SEE) three groups have been identified. All countries of the Western Balkans can be found (together with Romania) in the last, i.e. worst, group, except for Croatia, which was placed in group number two together with Bulgaria. The study found that these countries exhibit greater political deficiencies and/or by far the weakest socio-economic level of development.

In its regularly published reports, the EU confirms that even the West Balkan countries have built up important basic market economy institutions but it does not consider them to be fully-fledged, functioning market economies, with the exception of Croatia. Social divisions, poverty and deficiencies in the health and educational systems are particularly prominent and

3. Bertelsmann Foundation (ed.), *Bertelsmann Transformation Index 2003 - Auf dem Weg zur marktwirtschaftlichen Demokratie* (Gütersloh: Bertelsmann Stiftung Publishers, 2004), 378 pp.

structurally entrenched in Albania, BiH, Macedonia and SCG. These countries were to some extent already characterised by widespread structural poverty in the state socialist era, but in addition partly became impoverished in the course of the disaggregation of former Yugoslavia.

Weak foreign trade performance and increasing foreign indebtedness

One of the most striking characteristics of the economies of the Western Balkans is their poor foreign trade performance, which mirrors the general weakness of their economies. On average the region's exports can only pay for less than half of its imports, with Albania and BiH faring worst. Although Albania was able to increase its exports at a faster pace than its imports during the 1990s, its exports still cannot cover more than a quarter of its imports. A similar picture emerges in BiH, where exports meet the cost of just one-third of imports. In Kosovo the export-import ratio was down to 3.5 per cent on average in 2003.

One caveat must be added in this context, namely the fact that a large portion of economic activity, in particular cross-border trade, does not appear in official statistics. A variety of explanations are possible: the wars in former Yugoslavia, the economic sanctions against the rump Yugoslavia, the Greek embargo vis-à-vis newly independent Macedonia, the weak customs administrations in all countries of SEE, and general problems in institution-building in the process of transformation. All of this is responsible for the fact that so-called 'grey' economic spheres, i.e. officially non-registered activities as well as deliberately criminal economic activities like smuggling, trafficking in drugs and human beings, do not appear in economic statistics and in particular in foreign trade data. This certainly held true to a large extent during the time of the trade sanctions against Republika Srpska (eastern part of BiH), and the Federal Republic of Yugoslavia, as well as between the latter and Macedonia. Yugoslavia could not but circumvent the sanctions in illegal ways when trying to prevent a complete breakdown of its economy. Those illegal structures, developed during the time that sanctions and boycotts were imposed, still exist and are functioning in parallel with official economic activities.

Thus, if one takes the official foreign trade figures, then the share of foreign trade in GDP is extremely low compared with, for example, the accession countries of CEE. The highest level of foreign trade has been in Macedonia, where in 2001 one third of GDP was devoted to exports, and the lowest in Albania (6.6 per cent of GDP). Figures for the other countries are 18.2 per cent for the then FRY, 20.7 per cent for BiH and to 23 per cent for Croatia. As a comparison, in the same year Hungary and the Czech Republic reported figures of 59 per cent, and Slovakia even achieved 63 per cent.

Lack of foreign direct investment

Given the fact that the countries of the region cannot achieve rapid economic recovery through their own efforts, they are very much dependent on support from outside the region, in particular on capital inflow. The financial support that came from the joint efforts of the international community in the context of the Stability Pact for South East Europe has been channelled to the extent of 80 per cent into infrastructure, the rest being devoted to support projects in areas like institution-building, internal security and the development of democracy. However, foreign direct investment (FDI) is urgently needed for restructuring and modernising the backward economies (Albania, Macedonia) and those economies which were heavily damaged during the Balkan wars (BiH, Croatia and rump Yugoslavia). Table 4 shows the comparatively low level of FDI in the Western Balkans, Croatia once again being the exception.

Table 4: Levels of FDI (USD million)

	1995	2000	2001	Sep 2003
Albania	211	578	759	1,029
BiH	21	355	519	1,014
Croatia	473	5,155	6,597	8,765
Macedonia	33	389	919	962
Rump Yugoslavia	329	1,319	1,484	2,538
<i>For comparison</i>				
Slovenia	1,763	2,809	3,250	3,638
Bulgaria	445	3,162	3,850	5,950
Romania	1,250	6,517	7,636	9,958
Czech Republic	7,350	21,644	26,764	42,697

* Estimation UNCTAD, DITE

Source: UNCTAD, DITE: *Handbook of Statistics 2002*; ECE-UN: *Economic Survey of Europe 2004*, no. 1, p. 86.

Croatia is the one of the five West Balkan countries which has so far been accepted for 'credit ratings' by the big agencies Fich, Standard and Poor's and Moody's. Coface puts Croatia in mid-2004 at a country rating of A4, at the same level as Latvia, Lithuania and Poland but before Bulgaria, Romania and Russia (B). Albania, BiH, Macedonia and SCG appear several classes below, with D. This rating is also mirrored in polls, which UNCTAD has carried out among transnational companies, which were asked about their expectations and regional priorities for the period 2002 to 2005. For the entire CEE and SEE region the answers of the transnational companies with regard to their investment priorities put Poland first with 33 per cent, Hungary second with 20 per cent, the Czech Republic third with 18 per cent and Romania and Bulgaria with only four per cent each. The fact that the countries of the Western Balkans are not mentioned at all indicates that they fell below the one per cent threshold.⁴

Retarded process of transformation

As mentioned above, certainly the wars of the 1990s in Croatia, BiH and Kosovo caused enormous setbacks for the economies of the region. This coincided with the obvious problems those societies have in coping with necessary transformation policies after the fundamental changes in the former socialist camp. Whereas the countries of CEE, as well as Bulgaria and Romania in SEE, were able to cope with the difficult requirements of market economic reforms, and have now, after a period of stabilisation and consolidation, (hopefully) entered the path of sustained economic growth, the countries of the Western Balkans are rather characterised by delays and inherent barriers to transformation. In this section I will try to characterise briefly the state of affairs regarding economic transformation country by country.

Albania

The transition to a market economy has coincided with a fall in industrial production and several interruptions to the transformation process due to the state crisis of 1997. Among the countries endeavouring to reform, Albania has therefore occupied one of the very last places. Although far-reaching liberalisation of economic

4. 'Transnational Cooperations and Export Competitiveness', in *UNCTAD World Investment Report 2002*, p. 14, table 1.5.

activities, stabilisation of the currency, a decrease of the budget deficit and elimination of state subsidies have previously meant that Albania has been an also-ran among those countries, the expected stimulating effects of these policies have failed to materialise because the industrial base is antiquated, infrastructure is moribund and agriculture inefficient. In addition one must state that the lack of economic management experience and traditional centralism are factors that severely hinder progress. The high growth rates of the last few years are only due to the extremely low starting level, and they have been accompanied by growing social disparities and a high poverty rate. The gap between rural and municipal areas has clearly increased.

Market economic competition basically exists but institutional control is very weak, and it functions rather as unregulated exchange capitalism with a strong informal sector. A clear separation of the economy from politics has not yet been achieved, and the post-communist state administration has turned into an opaque, corrupt system, which has negative effects on the utilisation of resources. The development of an effective banking system and functioning capital market are still in the making, and foreign trade has been liberalised, leading to high import surpluses.

If one looks at currency and price stability one sees that consistent policy in this area has led to a clear decrease in the rate of inflation and a stable currency. On the other hand there are consistently high budget deficits resulting from very low tax and duties revenues.

Privatisation in the service sector, in agriculture and with small and medium-sized enterprises, has been more or less completed. Forms and modalities of privatisation have changed in the course of the last years fairly often, so that the transfer of industrial enterprises to private ownership has been very sluggish. On the other hand one observes that interested Albanians do not have the necessary financial capital to invest in the decaying large state enterprises. Since the latter are in any event producing at a very low level, the private sector already accounts for 80 per cent of total economic output.

The social safety net is still underdeveloped and suffers from the small revenues of public budgets due to tax avoidance. A large part of social security is funded by transfer payments made by the approximately 600,000 Albanians living and working abroad. The officially registered unemployment rate of 15.8 per cent in 2002

can in reality be estimated at more than double that figure because of hidden unemployment, in particular in rural areas: unemployed family members on small private farms are anyhow not registered. The system of health insurance is in the making, but unless medical care is paid for by patients or their relatives it is difficult for the needy to receive medical treatment even in the public health system.

The Albanian economy's potential is very restricted, even though since 1998 it has shown relatively high growth rates. It has not been possible to reactivate core sectors of the Albanian economy like the extraction and processing of chrome and copper, and the production of crude oil and natural gas is decreasing, so that recorded economic growth results primarily from activities of small and medium-sized enterprises and the service sector. That means that the relatively positive macroeconomic data do not reflect the real level of development of the Albanian economy, which is plagued by permanent energy shortages, low quality and scant attention to environmental considerations. In particular the macroeconomic data do not reveal the enormous environmental destruction in both the cities and the countryside, the growing amount of household waste and the lack of plans for its disposal. The use of wood for heating purposes has increased soil erosion, and untreated waste water from cities passes direct via the rivers into the sea.

If the Albanian economy is to be made sustainable then clearly the financial constraints of the public budget prevent any improvement of the material equipment of schools and higher education institutions. Foreign financial and material support has contributed to the rebuilding of schools but at the same time school attendance is falling in rural areas and illiteracy is again on the increase. Many cultural institutions like theatres, libraries, sports grounds and cultural centres have had to close their doors, and research institutes of the Academy of Sciences and universities do not have at their disposal the necessary financial means to support research projects.

BiH

The transformation of the economy started after a delay of ten years and is still in its initial phase. The low level of development, exacerbated by the conflict of the 1990s, limits the freedom of

choice for most citizens, social exclusion on the basis of poverty, ethnic or gender affiliation can be seen in Bosnia to varying degrees, but social disparities are not pronounced.

Market competition can be seen only partially, mostly in the fairly strong informal sector. The majority of enterprises are still in state ownership, and the market is furthermore segmented between two parts of the country, the Muslim-Croat Federation and the Republika Srpska (RS). Monopolies that developed during the war were entrenched by insider privatisation, low FDI and a lack of domestic capital. On the other hand, privatisation of the banking sector is almost completed and foreign trade is largely liberalised. The existence of a strong and independent central bank and the pegging of the currency to the euro have resulted in low inflation and stable prices. However, the budgets of the central state as well as those of the two entities (Federation and RS) are still primarily dependent on international support and financial assistance.

As in Albania, in principle private ownership and the acquisition of ownership are legally guaranteed. Due to very low foreign investment and high bureaucratic obstacles, however, the privatisation process is not yet completed, and the fragmentation of the Bosnian market hampers the development of new enterprises. Political control of the economy and war-related damage to the infrastructure inhibit private entrepreneurship.

Formally BiH still retains the very costly welfare regime of the communist era, but due to the weakness of state institutions and the lack of financial means it is not able to offer satisfactory services. Pensions as well as unemployment payments are below subsistence levels. The health system in principle is cost-free but is in very bad shape. This leads necessarily to bribery and resort to private practitioners. The high unemployment rate of more than 42 per cent (2002) and the lack of funding for social security have led to widespread poverty. Many employees in state enterprises have for years been on unpaid leave or receive only a very small pro forma payment.

The positive and sometimes high rates of growth must be ascribed to the low starting level at the end of the war and are due mainly to construction works, chiefly the reconstruction efforts in housing. Real production is only marginal, and the Bosnian economy has few new enterprises that might in the long term be viable. Today industrial production is at approximately 40 per

cent of the pre-war level. As in Albania, environmental awareness is very low in society, and ecologically acceptable growth is clearly a low priority. The education system, which under the communist regime was fairly well developed, was heavily damaged during the war and is strictly separated today along ethnic lines in the two entities. The lack of funding and reforms in research and development, as well as the dispersal of the university system, are leading to a desperate situation in universities and R&D.

Croatia

Among the countries of the Western Balkans Croatia is clearly in the leading position with regard to the level of socio-economic development. Social exclusion is relatively small, and social disparities can be considered moderate compared with other transformation countries. However, although macroeconomic growth has been achieved recently, a deterioration of the purchasing power of the lower income groups and an increase in the incidence of poverty must be noted, and it has not been possible to eradicate developmental imbalances between the regions.

The essential features of a market economy and competition have been achieved, but are not applied to universal rules of the game. Only in recent times have laws been passed that will improve transparency in privatisation as well as in dealings with foreign investors. A new anti-trust law and a related surveillance authority will control monopolies and oligopolies, something that so far has happened only case by case and inconsistently. Foreign trade has largely been liberalised, and the banking sector has gained stability after the crisis of the years 1998/99 due to the inflow of foreign capital through the takeover of state-owned banks by West European banks. The capital market, in contrast to the banking sector, is still rather underdeveloped, but, notwithstanding these deficits, in its opinion of 20 April 2004 the EU certified that Croatia has a functioning market economy.⁵

Since 1993, a successful fight against inflation as well as an appropriate currency rate policy have been evident. The high foreign trade deficit is due to the very strong domestic currency, the Kuna, which according to many observers is overvalued.

In Croatia the basic framework for a functioning private sector does exist, but only very recently have attempts been made to decrease, in a systematic manner, the size of the strong state enter-

5. Commission of the European Communities, 'Opinion on Croatia's Application for Membership of the European Union', Brussels, 20 April 2004, p. 53.

prise sector that still exists through privatisation tenders. The social security net has been partially rebuilt but does not yet cover all risks for all strata of the population. The high unemployment rate of 19 per cent (2003) puts a heavy burden on the social security system.

Since 1995 Croatia has been in a phase of economic growth which results mainly from domestic demand. This, however, causes high foreign trade deficits which can only partially be compensated by income from tourism. Production is characterised by distinct export weakness, which suggests that there will be major difficulties in the face of global competition.

Today there is much greater awareness of environmental problems among both society and law-makers, but they are still subordinated to economic growth. Croatia has solid state institutions for primary and secondary education, and the university system is also adequate although heavily centralised. Deficits can be seen in research and development, so that private institutions and investment in this area assume greater importance.

Macedonia

Market economic reforms have resulted in little progress in Macedonia in recent years, economic growth is still inadequate, high unemployment has led to impoverishment of large sectors of the population. Further reforms are needed in the labour market, in public administration and in the banking and capital market, as well as in the sphere of public finance administration. Widespread legal unpredictability and unclear property rights are such that the basic conditions of market economy and competition must still be considered to be lacking. An effective anti-trust policy cannot come into force due to widespread corruption in government and administration. New laws on banking, investment funds and foreign currency transactions have strengthened the banking system and enhanced the liberalisation of foreign trade. But repeated cases of governmental interference in already privatised firms has led to a sense of uncertainty and insecurity among prospective foreign investors. Insider privatisation that favours individuals who have little capital but do have political influence locally has frozen a situation of under-capitalisation in the business sector. The low inflow of foreign capital reflects the far-reaching legal uncertainty in business transactions with foreign investors.

The social safety net for compensating poverty and social risks is inadequate, in particular in the light of an unemployment rate of 45.3 per cent in 2003. Only one-fifth of the unemployed receive unemployment benefits. The state of the health system is also inadequate and characterised by a lack of equipment. Informal private networks far outclass the state-run ones. In particular, privately organised subsistence agriculture has become an important aspect underpinning social security.

The political crisis of 2001 brought to a standstill the previously positive economic growth, and difficult global economic conditions exacerbated the economic crisis in Macedonia. Aspects of ecological sustainability of economic growth are rarely considered. From the earlier period of socialism Macedonia still has at its disposal a fairly well established state primary, secondary and university education system, but there is little modern infrastructure. Expenditure on research and development is at a very low level, given the limited state budget.

SCG

The union is characterised by different economic systems in the two republics, which have different currencies and excise and tax systems. In all areas of transformation deficits are apparent, to a lesser extent with regard to reforms in the legislation but mainly in their implementation. At a very low development level, which has been caused by the wars, social exclusion is very noticeable and in part entrenched, so that social disparities have increased in recent years. Free market economic competition exists only in certain sectors, and is in addition not regulated institutionally. Among the reform measures initiated so far in the post-Milosevic era, banking reform is regarded as the most successful. Foreign trade has been liberalised, with a resultant higher increase in imports vis-à-vis exports. One of the major successes of attempts at reform after Milosevic has been reducing inflation, which in the year 2000 still stood at 120 per cent whereas at the end of 2003 it was down to only 8 per cent. Since May 2002 the Dinar has been convertible and foreign exchange reserves have increased substantially. A tax reform was necessary for the consolidation of the state budget, but due to continuing economic weakness it has not led to increased revenues.

Privatisation of small enterprises has been accelerated, in particular after the passing of the new privatisation law in June 2001.

The new law adequately defines property rights and acquisition of properties. Severe problems still exist in privatising the big state enterprises in Serbia as well as in Kosovo. In Montenegro privatisation has progressed more rapidly.

The social security system is only rudimentary and fragmented, and in addition there are differences between the two republics. In 2001, for the first time for ten years, all regular social benefits were paid fully, and in the same year the pension insurance system was reformed, but stagnating public revenues and increasing unemployment, which was officially at 25 per cent in 2002, are setting clear limits to the attempts to re-establish the social security system. A further severe burden is the high number of refugees from Kosovo, Croatia and BiH, which is estimated at 600,000.

The extremely weak industrial base will not show a clear improvement if foreign investors do not provide the necessary capital inflow. Also, agriculture is suffering increasingly from a lack of fertilisers and machinery to such an extent that the FAO in Rome has warned of an impending food crisis.

If one looks ahead at the prospects and preconditions for recovery then one must first of all note that existing institutions for education, training and research and development are suffering from extremely low funding. New school material has not been provided in either republic for many years, and the number of children with complete secondary school education is falling. During the period of international economic and political sanctions in the 1990s the exploitation of natural resources became more intensive, and the ecology has been severely affected. National priorities with regard to environmental protection were redefined for the first time only in 2001.

Kosovo

Kosovo has been in a peculiar situation since the UN administration first tried to stabilise the province's political life and secure the return of refugees and internally displaced persons. Economic reform policy, in particular privatisation of state-owned enterprises and restructuring of public enterprises, is blocked due to Belgrade's unsettled property claims, which will remain unresolved until the question of Kosovo's status is resolved. Serious

delays and changes of privatisation policies have led to a loss in credibility of privatisation in the eyes of potential investors. UNMIK, specifically KTA (Kosovo Trust Agency, which is supposed to handle the privatisation), is hesitating and the Provisional Institutions of Self Government, i.e. the Kosovar government, do not have the authority to undertake major privatisation steps, because they would very probably neglect Serbian claims. In addition, one observes a lack of socio-economic cohesion between the key local actors (trade unions, government, business) and lack of communication between them and UNMIK/KTA concerning economic reforms.⁶ However, the stagnation of privatisation will negatively affect the implementation of 'Standards for Kosovo' since privatisation and restructuring of state-owned enterprises are seen as essential elements for the implementation of standards in the economic sphere.⁷ UNMIK Pillar IV, KTA and the Government will have to find ways out of this, essentially politically caused, impasse.

In the meantime external financial donations have had to cover short-term economic and infrastructural needs, but contributions have already decreased from €975.7 million in 2000 to €120.2 in 2003. There are no long-term resources for public investment, nor is there a strategy for generating investments from available financial resources (deposits, bank savings, privatisation income). Subsidisation of public enterprises continues in order not to increase the social malaise even further. Thus the very low growth rate of 3.8 per cent in 2003 resulted primarily from small businesses like trade, services and handicrafts. The fact that in the previous years growth rates were higher is attributable to the much higher international donations and remittances from the Kosovar diaspora during the first years after the 1999 conflict.

Unemployment remains the major socio-economic problem and is a fertile ground for social unrest as well as for seeking profitable business in the grey or even criminal economy. The number of registered job-seekers has increased since 2000 and in February 2004 stood at 287,265 signalling an almost linear increase of 10-12 per cent annually. The official unemployment rate of 39 per cent is, however, challenged by most observers, who put the real unemployment rate at some 60 per cent. Unemployment is highest in the age groups up to 39 years, reaching 72 per cent in the 16 to 24 age group. The basic monthly pension is €40 (April 2004).

6. USAID, RIINVEST, UNDP, *Early Warning Report Kosovo*, no. 6, January-April 2004, p. 10.

7. USAID, etc., op. cit., p. 14.

One of the very few successful reform sectors is banking. Here a relatively satisfactory level of consolidation has been reached, and bank deposits and loans are recording a continuous increase. There is a tendency to increased confidence in local banks.

Conclusion

The severe economic conditions and very bleak prospects for the countries in the region have led to a steady outflow of persons, in particular of the younger generation. Students seek opportunities to study abroad, because local universities cannot compete with international standards and are unable to provide education that is already desperately needed and will be of even greater importance once the region becomes more integrated into global structures. However, once students have acquired professional skills abroad they start to reflect on their prospects back home, and often decide to accept job offers in their host countries rather than return to uncertainty and joblessness. Thus for Serbia, for example, it is reported that already more than 600,000 young people left the country, probably for good, during the 1990s. But also normal migrant workers from the region who formerly intended to return after having saved enough money to open a small business in their home country now increasingly decide to remain abroad in view of the bleak prospects in the region.

With the clear exception of Kosovo, where there is a very young population and consistently high birth rates, in all the other countries of the Western Balkans we now find birth rates that are even below the West European average, which might indicate that, together with the continuing brain drain, the region is dying, remaining deindustrialised with an increasing lack of human capital and relying on subsistence agriculture. Even if that picture might be exaggerated it still realistically reflects the prevailing negative trends. The prospect of EU membership alone is not a sufficient remedy for these weak economies, since the time to attain membership is relatively, and realistically, much too long. Great efforts on both sides are absolutely necessary to overcome this impasse: the countries in question have to take forward the necessary reforms, improve the quality of the legal framework and combat corruption. The international community, in particular

the EU, must provide substantial economic development aid, for example firstly for agricultural development. All these countries are big net importers of food and are threatened by a perennial debt trap. Special mixed commissions bringing together local and EU economists and politicians should try to work out, for each country, tailor-made development programmes on the basis of very clear analyses of the problems. Otherwise, the development gap between Europe and the Western Balkans will not decrease but further widen.

The Kosovo question and regional stability

Misha Glenny

The Western Balkans:
moving on

6

It would be hard to overstate the crucial significance of Kosovo for the stability of the wider Balkan region. To be precise: the continued absence of any long-term solution to the Kosovo issue – one, moreover, that both Belgrade and Pristina can live with – threatens to do immense damage to all South-East European countries. This is especially dispiriting as the evidence mounts of progress in other key areas. The region is now overcoming many obstacles that are more formidable than those faced by other European states in transition.

So considerable is the potential threat to what has been achieved that one can only wonder at the apparent lack of urgency with which the international community has approached the Kosovo issue since the events of 17 March 2004. That outbreak of mob violence was the manifestation of popular frustration at the sclerosis that had steadily consumed UNMIK, and at the inability of Albanian political parties to emerge from the straitjacket of international rule. While the main targets were Serb communities in almost all areas of Kosovo, violence was also directed at representatives and symbols of both UNMIK and KFOR. The degree to which the violence was orchestrated is disputed, although at least one Western intelligence service has suggested that some organised crime syndicates with political aspirations did mobilise a network of rioters. Everyone agrees, however, that, once it began, the violence spread spontaneously with little encouragement. Mobile phones proved to be an effective method of mob coordination. The events ought to act as a final warning to all concerned that the Kosovo bomb is ticking.

As has been the case elsewhere in the Balkans over the past fifteen years (most recently in Macedonia in 2001), complex political and social tensions spilled out in a burst of ethnic hostility, perpetrated, in this instance, by an Albanian mob against specific Serb settlements. For the first time in the contemporary Balkans, however, popular hostility and violence were also clearly directed

towards representatives of the international community, from both UNMIK and KFOR. If these events were ever to be repeated, there would be a strong possibility not only of ethnic violence, but also violence directed against international workers, wrecking the international community's strategy and policies (inasmuch as they exist) through large parts of the region.

The nervousness of established Albanian leaders in the face of the March violence underlines just how high the stakes would be in the region if public order collapsed in Kosovo once more. Privately, these leaders have expressed fears that they would not be able to control a repeated outbreak of violence. Moreover, it is dawning on them that they, too, are a potential target because they work with the increasingly despised UNMIK structures.

If their assessment is correct then the implications of further violence for the region are immense. If discontent cannot be channelled into political strategies, violence can spiral. In previous phases of the Balkan conflict, outbreaks of violence can invariably be traced back to malicious instances in central government. In both the Bosnian and the Croatian conflicts, fighting would stop if Zagreb, Sarajevo or Belgrade wanted a cease-fire to work (the only instance of this not working was when Pale wanted to continue fighting in defiance of Belgrade – for a while the Bosnian Serb tail wagged Belgrade's dog). If the centre was not interested in a lasting cease-fire, the fighting would usually continue, although this would be blamed on 'rogue elements'. Over the past fifteen years, the chain of command has always proved very taut.

In Kosovo, the influence of established politicians is waning and so is the ability of these leaders to maintain public order. UNMIK's policing role is negligible to the point of irrelevance. It is the commitment of the established leaders to non-violence that keeps the lid on popular anger. This is a precarious state of affairs, and were this authority finally to collapse then the southern Balkans would enter into a period of distressing uncertainty, with the possibility of unrest spreading beyond Kosovo to engulf southern Serbia, western and northern Macedonia and Skopje, southern Montenegro, Republika Srpska and even Vojvodina.

Before invoking the demons of renewed hostilities, however, it is important to remember the exceptional benefits that Europe, not to mention the region, will accrue from a negotiated solution to Kosovo's status. Romania, Bulgaria and now Croatia have all

made striking progress on the road to European Union integration. Less than fifteen years ago, Nicolae Ceausescu was still a powerful dictator with the ability and will to wreck Romania's economy and society. The economic starting point for both Romania and Bulgaria in 1989 was much less encouraging than for large parts of Yugoslavia (witness the speed with which Slovenia became the most dynamic of new EU entrants once it had disentangled itself from the process of Yugoslav collapse). If the sword of Damocles of Kosovo hanging over the Western Balkans could be lifted, the release of tension would generate sufficient economic and political energy to ensure that EU accession became a manageable and measurable process. If Romania and Bulgaria can do it, so can the Western Balkans. But at the moment, the threat of Kosovo is compounded by other unresolved constitutional issues in several states of the region, stalled progress towards the Euro-Atlantic integration of SCG and BiH as a result of their non-compliance with the International Criminal Tribunal for the Former Yugoslavia (ICTY) in The Hague, and continuing economic stagnation throughout. And as a consequence, with the exception of Croatia, the countries of the region are simply not yet in a position to emulate Romania and Bulgaria.

From a historical perspective, a solution to Kosovo would bring an end to the cycle of violent regional competition combined with external military and political intervention that began in the 1870s. If the Kosovo problem could be resolved, this would set SEE on the road to fruitful local cooperation and European integration. Europe's much-fabled Balkan powder keg would be rendered harmless both to itself and to European security. It is a dramatic choice between a final round of blood-letting which would set the Balkans back another fifteen years at least, or a historical breakthrough that would consign the unhelpful stereotypes of the past to the bin. This would not only open the prospect of a prosperous and stable future for the Balkans, it would also contain crucial lessons for conflict resolution in other parts of the globe.

The unfinished business of Kosovo allows conflict and divisive relationships to compete with the burgeoning processes of regional cooperation. Why do the negative effects of Kosovo's unresolved status resonate so far beyond its borders? There are three aspects, intimately related, to this question. The first

concerns Serbia's ability to accelerate its process of European integration. The second concerns the impact of Kosovo on BiH, Macedonia and Montenegro. And the third relates to attitudes towards Kosovo throughout the Albanian world.

The feud between competing élites in Serbia and Croatia accounts in large part for the ripping up of former Yugoslavia. The brunt of the misery occasioned thereby was borne by the peripheral territories of BiH and Kosovo, with Macedonia having narrowly escaped collapse into ethnic strife in 2001 as a further spin-off effect. It is a historical irony that now only the democratic and economic rejuvenation of both Serbia and Croatia can guarantee the establishment of a new stable political order in the region. With regard to security, a democratic and prosperous Serbia is even more important than a democratic and prosperous Croatia, because Serbia's stability impacts not just on relations with Bosnia and Croatia, but also on Montenegro, Kosovo and even, in certain circumstances, on Macedonia. Serbia's geographic importance, offering the easiest overland access route for trade between Western Europe and Greece, Turkey and the Middle East, invests it with a yet greater significance for the development of the whole region. Leaving aside the political and cultural desirability of Serbia's integration within the EU, Europe is denying itself real economic opportunity in failing to embrace Serbia quickly and effectively into its family.

As a rule, the EU does not admit states into its family whose constitutional status is not crystal clear. The exception to this was Cyprus, which became a full EU member despite a murky constitutional status. But Cyprus is a special case because of its relationship with Greece. Quite simply, Athens was prepared to block the 2004 enlargement process entirely if Cyprus, whether united or divided, were not included as part of that round. Had Cyprus not enjoyed the special patronage of the Greek state, however, the EU would never have entertained its membership. This was the exception that proved the rule that the EU will only (and not without reason) negotiate with coherent nation-states with clearly defined borders and a settled constitutional order.

Serbia can neither claim constitutional clarity, nor of course does it enjoy the type of patronage that allowed Cyprus to slip under the bar. Serbia can demonstrate real progress in key legislative and administrative areas that are the technocratic focus of the

EU accession process. But it is worth pointing out that its progress is made terribly difficult by its relationship with Montenegro, its partner in the SCG, which boasts a different currency (the euro) and insists on maintaining internal tariffs on certain goods. Until Belgrade is able to divest itself of the uncertainty that currently plagues its relationship with both Montenegro and Kosovo, Serbia will not become a credible candidate for EU membership.

Inside Serbia, this constitutional gridlock assists conservative and isolationist political forces and hinders supporters of reform and European integration. The failure of the latter to produce any concrete benefits to the electorate leads to a slow erosion of faith. Why should citizens continue to offer political support to policies of integration when they are constantly told that despite all their efforts Serbia lags behind in reform, has failed miserably in its cooperation with The Hague and is obstructionist towards Kosovo? For the Radical Party and its allies, it is easy to exploit this disaffection.

More broadly, it exacerbates the irritation that often characterises relations between Belgrade and Brussels, helping also to further poison the bad blood generated by issues such as cooperation with the ICTY. Given that progress towards EU membership is absolutely critical both in the short and medium term regarding the prospects for foreign direct investment in Serbia, this state of affairs is demonstrably regrettable and damaging.

To break this gridlock would require a careful political strategy combining real political courage in Serbia itself and political imagination in Brussels and the EU member state capitals. Serbia must overcome the psychological hurdle regarding General Ratko Mladic and make it a priority to track him down (although the continued absence of General Ante Gotovina in The Hague while Croatia is lauded for its full cooperation with the ICTY does not help those Serb ministers who are genuinely trying to move this along). But the EU also needs to come up with clear and concrete advantages for Serbia in pursuing integration. Easy access to Schengen countries is the most obvious issue but it reflects something wider. European integration should not be a one-way process. If the Serbs continue to make the effort on reforms, Europe should make its embrace a little more convincing. Specifically, given Serbia's strategic importance it should be targeted as a priority for the process of EU accession.

Political courage in Belgrade and imagination in Brussels are rare commodities. But unless Serbia develops into a modernising state capable of cooperating with Croatia to act as twin motors of regional growth, then it is hard to envisage how the Western Balkans can prosper as a whole.

This leads on to the issue of Bosnia, Montenegro and Macedonia. These three states may regard Serbia (and in Bosnia's case Croatia too) with suspicion in varying degrees. At the same time, Serbia enjoys support among the Serbian populations in Bosnia and Montenegro. But not one of these states can hope to prosper in the long term if Serbia proper is afflicted by insecurity and economic decline. There is also a convincing argument that failure in Kosovo would deal a hammer blow to the prospects of Macedonia's short-term future and possibly its very existence.

All three countries are inherently weak both in terms of popular legitimacy and in economic prospects, but their respective relationships to Serbia and the Kosovo issue differ widely. Macedonia is the most immediately affected because of the influence that the Kosovo Albanian élite exerts over its counterpart in Macedonia. The Albanian communities in Kosovo and Macedonia are much more closely connected with each other than they are with Albanians from Albania across the mountains. The Macedonian Albanians have always looked to Kosovo for political leadership, although there is some evidence of a shift away from this. Indeed, the main ethnic Albanian party, the Democratic Union for Integration (DUI, led by Ali Ahmeti, leader of the Albanian revolt in 2001) is currently in coalition with the ethnic Macedonian Social Democratic Union of Macedonia. The DUI has demonstrated an impressive commitment to the Macedonian state and cooperation with Macedonian political parties. But this is often a strained relationship that is not helped by Macedonia's lamentably weak economic performance. Political crisis in either Kosovo or Macedonia would see the Kosovar leadership again reassert political primacy over the Macedonian Albanians.

At the end of August and the beginning of July this year, demonstrations broke out in Skopje as Macedonia's parliament was debating the new law on self-government that reduces the number of municipalities in the country. The legislation will also improve Albanian access to local government in accordance with the Ohrid Agreement that brought the mini-civil war to an end in 2001. The law prescribes that where minorities constitute over 20

per cent of a municipality's population, their language can be used in official business. The protests in Skopje were organised by Macedonians, spurred on by the opposition Internal Macedonian Revolutionary Organisation (VMRO) party (even though this party was a key negotiator of the Ohrid Agreement), who claim that the legislation would smooth the path for Albanians to break up the country at some later date. Protests in Skopje were also directed against the prospect of the capital city becoming bilingual as a result of the inclusion of outlying Albanian-majority villages within the capital's administrative borders. Riots in Struga on the northern shore of Lake Ohrid in western Macedonia followed when it emerged that the addition of Albanian villages to that municipality would lead to a new Albanian majority in Struga's local government.

These are worrying events, especially as Macedonia's government is currently convincing very few, whether its electorate or the international community, of its efficacy and ability. More recently, the tensions have been ratcheted further as an émigré Macedonian group successfully organised a petition that forces the Government to hold a referendum in November 2004 on the re-zoning of municipalities. But the re-zoning issue and the referendum are unlikely of themselves to bring down the Macedonian state. Macedonia's Achilles heel is Kosovo. As long as Kosovo's status is unresolved, it will remain much easier for factions or parties in Kosovo who might seek to destabilise the region either for political or economic benefit to create problems inside Macedonia.

The most important of these are criminal groups who cooperate across all borders and benefit from the continuing uncertainty in the region. These have in the past proven ready to jeopardise peace in order to maintain the relatively lawless environment in which they thrive. So an essential part of any agreement on Kosovo (regardless of its precise status) must include the inviolability of the Kosovo/Macedonian border and the Kosovo/Albanian border. If that provision were entrenched, there would be little incentive for Albanian Kosovars to waste their political energies either on trying to unite with Albanian-inhabited areas of Macedonia or to disrupt the political process in Macedonia. In the event of Kosovo achieving independence, the same guarantee of border inviolability should apply to both Montenegro and Serbia, whether they remained together in the union or divided into two independent states.

There is a second related reason why Kosovo's unresolved status threatens Macedonia. The absence of final status is inflicting an increasingly heavy toll on Kosovo's economy, encouraging the development of what several observers have referred to as a 'black hole' in the Balkans. The lack of clear property laws and an exceptionally poorly executed attempt at privatisation (under the auspices of UNMIK and the EU) have led to a significant deterioration in economic conditions in Kosovo, most strikingly a steady increase in unemployment as the tax base declines.

This 'black hole' implies a criminalised economy and, like its astronomical counterpart, it exercises a debilitating pull on surrounding economies. It has an especially negative effect on Macedonia, where opportunities in the licit economy for Albanians are highly restricted. Albanians remain largely dependent on either subsistence-level agriculture or the flow of remittances from abroad. As such, the Albanians of Macedonia with cultural, clan and family ties across the northern border have been easily integrated into the grey, not to say black, economy of Kosovo. Some assessments of the Macedonian conflict of 2001 have convincingly argued that much of the violence stemmed from disputes among criminal gangs which then disrupted the largely corrupt political relationship between the two ruling parties in Macedonia at the time, VMRO and the Democratic Party of Albanians.

A final status agreement in Kosovo will go a long way towards immunising Macedonia from the danger of infection of the diseased polity which prevails in the province. It will furthermore lessen the attraction of 'greater Albanian' elements who are small in number but unsettle moderates of all nationalities and undoubtedly thrive on uncertainty and opaque constitutional arrangements.

This introduces a third major issue regarding the regional impact of Kosovo's situation. For many years, there have been warnings about the danger of a pan-Albanian movement coordinating across the three major areas where Albanians live in the Balkans – the Republic of Albania, Kosovo and Macedonia. The more fearful of these voices include the possibility of attempts by Albanian nationalists to destabilise Montenegro and northern Greece as well. These fears appear to be based partly on a determinist assumption that the constituent parts of a national group dispersed across different states will inevitably at some point seek

to join with one another, and in part on the yet more dubious assumption that such a desire is within the Albanian national character.

Yet of all the larger Balkan peoples, Albanians have shown the least inclination, or in any case the least support, for the idea of a 'Greater State' formation. There is certainly little interest in the idea in Albania proper, which, although weak, is an established state with concomitant institutions and vested interests. Most of its political élite fear that a 'Greater Albanian' project would result in a shift of power from Tirana to Pristina. Their fears are underpinned by a discernable cultural hostility that exists between Albanians from Albania and those from Kosovo. Furthermore, Albania's crisis of the past decade is quite distinct from those affecting former Yugoslavia. Albania does not wish to be drawn into this, as such an involvement would be self-evidently highly damaging. In Kosovo, 'Greater Albanianism' has a greater purchase but it cannot be characterised as a mainstream ideology even there. Here a clear message from the international community has succeeded – a new enlarged Albanian state in the Balkans would receive no favours abroad. Occasionally extremist organisations, such as the recently emerged Albanian National Army, stake their claim for a greater Albania but until now these have remained thoroughly marginal. It is significant that since 1990 in Albania proper, 1992 in Macedonia and 1999 in Kosovo, Albanians have fragmented quite considerably into a varied set of political parties, none of which places any apparent value on 'Greater Albanian' ideology.

Of course there is no doubt that in times of economic and social distress or political uncertainty, adept political players can start to build political organisations that substitute an expansionist national ideology for more serious policies that seek to address the real problems of the electorate. And because the economic and social situation of the majority of ordinary Albanians in the Balkans is so appalling, it would be a mistake to dismiss the possibility of a revanchist ideology taking hold among them. This again argues urgently for a thorough reassessment of international policies in Kosovo.

The impact on Bosnia of the Kosovo status question is indirect in so far as Serb nationalists (but even moderates and some Bosniaks) argue that if a final status solution for Kosovo were imposed on the Serbian government then Serbia would seek compensation

by staking a claim to the Republika Srpska. Whether Serbia has the wherewithal and motivation to pursue such a policy is open to doubt, but it could certainly apply pressure on BiH through its myriad back channels, probably scuppering the smooth functioning of this already convoluted state structure. This demonstrates the need to secure Serbia's approval of any final settlement in Kosovo, especially if that final settlement is some form of independent Kosovo. Bosnia's long-term security depends on the commitment of both Croatia and Serbia not to interfere in the country's constitutional arrangements (this reinforces the idea that the stability of the two key countries in the Western Balkans is the bedrock upon which regional security can develop). If there is violence in Kosovo or if there is a final status agreement that does not win the approval of Belgrade, then the domestic pressure on Serbia's government to take a closer interest in the affairs of Republika Srpska will increase.

Montenegro's relationship with Kosovo is peculiar because it is in many respects filtered through the awkward relationship that exists between Podgorica and Belgrade in their joint state union. But in one respect Montenegro must urgently wish for a steady and relatively swift settlement of the problem. This concerns the existence of the Albanian minority in the south of Montenegro. As with the Macedonian Albanians, this group is heavily influenced by Kosovo intellectuals and political parties. The recent benign attitude by the government in Podgorica to this minority has ensured harmonious coexistence in the past few years, but disruption in Kosovo, the frustration of Albanian aspirations and the emergence of a new Albanian nationalist movement would place a question mark over that harmony.

These various threats all combine to inflict one painful blow on the region's economy. Until a satisfactory solution to the Kosovo problem is reached, there will be no significant flow of FDI into the region. Romania and Bulgaria are beginning to escape their association with the Western Balkans and, as candidates for EU membership who are expected to join in 2007, the flow of FDI into the two countries is accelerating year on year (although there are still doubts about corruption and absorption capacity, so their performance is weaker than that of their northern neighbours – Hungary, Slovakia, the Czech Republic and Poland). But for Serbia, Montenegro, Macedonia, Bosnia and Albania, the amount of

FDI remains negligible. In private conversation, bankers and business are united – the Western Balkans still represent far too high a risk. Until the region’s political and constitutional issues are resolved, these countries will not benefit from any significant injection of investment.

The implications for Europe are clear. Although the EU announced at the Thessaloniki summit in June 2003 that the Western Balkans would definitely be offered membership into the EU at some unspecified point in the future, Kosovo is not merely holding the region’s progress back, it is having a negative impact. This is leading to an ever wider divide between western and northern Europe and SEE, the most distressed area of what may be called ‘inner Europe’ (i.e. EU member states plus those who have been given guarantees of eventual membership).

This is Europe’s backyard, and if the EU is unable to bring peace and stability to SEE, it reflects poorly on its aspirations beyond Europe’s borders. As the economies of the Western Balkans continue to deteriorate, so the possibility of further instability increases, with direct implications for European security in so far as the area becomes a key host to organised crime syndicates and, possibly, a base for terrorist operations.

The demise of Balkan nationalisms? A sceptical view

Jacques Rupnik

The Western Balkans:
moving on

7

After the almost simultaneous fall of the Milosevic and Tudjman regimes in Serbia and Croatia in 2000, a reassuring narrative came to prevail both in the region and in the European Union's approaches to it. The narrative ran something like this: after a decade dominated by the logic of war and the politics of radical ethno-nationalism, the Balkans have entered a period of stability and belated democratic transitions. Nationalist forces, trapped in the agenda of the past, are being supplanted by democratic and modernising coalitions that look forward to a European future. This pattern seemed to fit developments in Croatia, where a coalition of social democrats and liberals led by Iвица Račan came to power; in Serbia, where the DOS political coalition formed a government under Zoran Djindjic, and Vojislav Kostunica took over the Yugoslav presidency; and in Kosovo, where Ibrahim Rugova's LDK party of moderates prevailed over the political offspring of the UCK independence fighters. If the Balkans had missed the first train to Europe, they were not going to miss the next.

There was, and indeed there still remains, ample evidence to back this presentation of the situation. In Croatia, the November 2003 electoral victory of the HDZ (Croatian Democratic Union) founded by Franjo Tudjman raised some concerns about a possible resurgence of nationalism, with the return to the fore of some of the prominent figures closely associated with the wartime regime, but the new Prime Minister, Ivo Sanader, promptly embarked on a course that distanced his government from some of the rhetoric, and most of the authoritarian practices, of the Tudjman era. However, in Serbia, the success in the December 2003 parliamentary elections of the ultra-nationalist Radical Party, whose leader Vojislav Seselj is detained in The Hague, charged with war crimes by the International Criminal Tribunal for the Former Yugoslavia (ICTY), indicated that such a complacent reading of the situation was unsustainable. The massive ethnic violence that erupted in Kosovo in March 2004, directed

against the local Serb minority, was another clear warning that, despite progress made in stabilising the region under international supervision, the nationalist forces were down but not out. The potential for conflict remains so long as politicians in the region can exploit 'unfinished business' remaining from the dissolution of Yugoslavia, while European integration remains still a distant prospect.

So four years after the fall from power of Milosevic, and five years after the establishment of an international protectorate in Kosovo, EU policy-makers are confronted with the following questions: is there a serious risk of resurgent nationalism in Serbia and some of its neighbouring countries? Or are the above-mentioned developments merely final outbursts of defeated and declining political forces that do not seriously jeopardise the political stability of the region?

A Croatian model for Serbia: can nationalism be made 'Eurocompatible'?

Some (including this author) have argued that Croatia could imitate the pattern set by Slovakia, where, after the electoral defeat of Vladimir Meciar's nationalist-populist movement in September 1998, a loose coalition government, backed by a mobilised civil society, came to power. There are many parallels between the two countries, going back to their shared legacies from Austria-Hungary, to their brief Second World War encounters with independent statehood under Nazi protection, followed by their experiences as junior partners in the respective communist federations. In both Slovakia and Croatia in the early 1990s, the bid for independence was associated with the rise of nationalist forces whose ideology and political practice meant that the priority given to nation-building turned out to be at odds with the process of European integration. The Slovak pattern of overcoming this dilemma in early 2000 was indeed repeated in Croatia, when a coalition of opposition parties (social-democrats and liberals most prominent among them), backed by a large array of 'civil society' organisations, made it possible to bring about an alternation of power. In September 2000, this pattern seemed about to repeat itself in Belgrade, when the DOS coalition won its victory over Milosevic.

However, there is another ‘Croatian model’ which may be more relevant for the current situation in Serbia: it concerns how far nationalist politics has been tamed. The return of the HDZ to power is by no means unproblematic: some ‘old hands’ are back on the political stage, corrupt networks inherited from the war and ‘clientelistic’ practices prosper unchecked by the judiciary, and nationalist reflexes are still detectable in the persistent tensions with neighbouring Slovenia over territorial questions.¹ But the legacy of democratic changes introduced by the previous government of Racan, the moderating influence of President Stipe Mesic (who has established new relations with Bosnia and represents an effective institutional counterweight to the Prime Minister), and the constraint imposed by Croatia’s European aspirations, have contributed to the transition from hard to soft nationalism. The aim of Prime Minister Sanader is to transform the HDZ from the nationalist-populist movement of the 1990s (whose members ranged from ex-communists to ex-fascists) into a party of the conservative right somewhere between the Bavarian CSU and Silvio Berlusconi’s Forza Italia.

The government of Ivo Sanader has so far done little to improve the rule of law internally, but it has not reversed three major policy shifts inaugurated in the post-Tudjman era under the influence of President Mesic and the Racan government that became test issues for the EU’s attitude to Croatia. The first was the change of policy towards BiH and the abandoning of Zagreb’s support for the HDZ nationalist extremists in Herzegovina. The second was cooperation with the ICTY, including the delivery of Croatian military personnel widely seen by Croats as defenders of the national territory from aggression. Finally, the return of members of the Serbian minority, expelled during and in the aftermath of the 1995 military campaign in the Krajina, continues, on the whole, to be promoted by the Sanader government. The Herzegovinian Croats no longer have the influence in Zagreb that they exercised in the 1990s while General Gojko Susak was Minister of Defence. The Serbian minority representative, Milorad Pupovac, who was a critic of Tudjman’s policies, has now joined the government coalition. Cooperation with the ICTY continues even though the case of General Gotovina, who has yet to be arrested, shows its limits.

1. The nationalist posture might bring dividends in domestic politics, but not in relations with the EU. After a border incident in September 2004, Slovenia promptly declared that it would cease to support Croatia’s application for EU accession. The relations between Zagreb and Ljubljana had deteriorated since the 1994 law passed by the Croatian Parliament concerning territorial waters and the creation of a Croatian economic exclusion zone in the Adriatic. International or European mediation will be necessary to defuse the conflict.

The 'Croatian model' can therefore be described as the postwar emergence of a 'Eurocompatible' nationalism, i.e. not a Western-style liberal democracy, but a polity that accepts some basic internal (democratic) and external (European and regional) constraints on the nation-state. Is this a possible scenario for Serbia's future? The answer from the newly elected Serbian President, Boris Tadic, and analysts close to him (including Ivan Vejvoda in this volume) is clearly positive. But the claim to 'irreversible change', apparently confirmed by Tadic's election in June 2004, deserves to be more closely examined.

There are indeed significant differences between political developments in Croatia and those in Serbia which suggest that a more cautious prognosis is necessary. First, Croatian nationalism is 'satiated', as it has achieved all of its main goals: the creation of a nation-state controlling all of its territory while laying down political terms for a numerically and politically weakened Serbian minority.² The same cannot be said of Serbia, where the nationalist goal of a 'Greater Serbia' has been defeated in the series of wars in Croatia, Bosnia and Kosovo. The problem today is that no one is quite sure what the contours of 'Small Serbia' should be. While the expansionist nationalism of the 1990s has dissipated, there remains a frustrated nationalism, a nationalism of spite. Secondly, Croatian nationalism has embarked on a moderate course that is marginalising the radical elements: some have left the political stage, others have left the HDZ for small groupings with little electoral backing, such as the Party of Rights. But in Serbia the strongest political party today is the Radical Party, identified with rabid ultra-nationalist leader Vojislav Seselj. Thirdly, while in Croatia the government coalition is attempting to break with the legacies of the Tudjman era, the same cannot be said of the governing coalition in Serbia, established in spring 2004 under Kostunica as Prime Minister with the tacit support of Seselj's and Milosevic's parties. Whereas in Croatia the opposition (and thus the possible alternative future government) is democratic and pro-European, in Serbia the main opposition remains anti-democratic and hardly a partner for the EU.

One should avoid drawing too stark a contrast, however, as there are a number of mitigating developments, such as the outcome of the Serbian presidential election in June 2004, won by Boris Tadic. This vote indicated that a moderate pro-European course can obtain the backing of half of the electorate.³ A survey

2. The Serbian minority in Croatia traditionally enjoyed a privileged status both in the Austro-Hungarian Empire (as guardians of the border (*krajina*) with the Ottoman Empire) and in Tito's Yugoslavia, which relied on Serbian over-representation in the state administration and the military to enhance political control.

3. The municipal elections of 19 September 2004 with the lowest participation rate (1 in 3) since 1990 gave a split result, with gains for both reformers and nationalists and Kostunica's DSS losing ground.

conducted in the whole of South-Eastern Europe in 2002 showed that the EU remains the most trusted international institution in both Serbia (30.8 per cent) and Croatia (38.6). In Croatia the EU is followed by the UN (37.7) and NATO (31.5), while it is followed in Serbia by the World Bank (27.2) and the IMF (23.9). The ICTY has the trust of only one-fifth of Croats, and it is at the bottom of the list (7.6) just ahead of NATO (6) in Serbia.⁴

What are the main explanations for the resilience of nationalist forces in Serbian politics? To be sure, the socio-economic background has to be taken into account. In a country where over a third of the population are unemployed, there is undoubtedly scope for a protest vote, which accounts for part of the Radicals' support. But a recent study suggests that the social factor accounts for relatively little in Serbia.⁵ Other factors have therefore to be explored.

Serbian political cleavages and the shared ideological matrix

The results of the Serbian parliamentary elections of December 2003 came as a shock and a wake-up call to those who had accepted the comfortable 'democratic transition' reading of the dynamics of post-Milosevic politics. The clear victory of the Radicals (SRS), an ultra-nationalistic, xenophobic party whose leader is currently in The Hague charged with war crimes, could no longer sustain the prediction that the moderate nationalists of Kostunica's DSS would provide a 'soft landing' for the radical nationalism of the 1990s. The Radical Party, with 27.6 per cent of the vote and 82 MPs out of 250, came ten points ahead of Kostunica's DSS (with 17.7 per cent and 53 MPs), supposedly the voice of compassionate conservatism and moderate nationalism. Then came two reformist democratic parties: DS with 12.6 per cent and 37 MPs, and G17plus with 11.5 per cent and 34 MPs. They were followed by the Serbian Renewal Movement led by the maverick Vuk Draskovic (with 7.7 per cent and 22 MPs), and the Socialist Party (SPS) of Milosevic's followers (with 7.6 per cent and 22 MPs).

One can take comfort from these results by observing that a slight majority of votes went to the parties of the former DOS coalition that overthrew Milosevic. Or one can confront the evidence that one-third of the electorate backed radical nationalist

4. *South East Europe Public Agenda Survey* (Stockholm: South East Europe Democracy Support Network (SEEDS) and International IDEA, 2002).

5. Alina Mungiu-Pippidi, 'Milosevic's Voters: explaining grassroots nationalism in post-communist Europe', in A. Mungiu-Pippidi and I. Krasztev, *Nationalism After Communism* (Budapest: Central European University Press, 2004), pp. 43-82.

forces directly associated with a decade of war in the Balkans (SRS, SPS), while moderate nationalists (Kostunica's DSS) split the DOS coalition, forming a new coalition government with the tacit backing of the SRS and SPS. As one observer put it: 'In politics and policies Serbia increasingly resembles the Milosevic era without Milosevic.'⁶

This, obviously, is an overstatement. In the face of the Radical challenge, the presidential election of June 2004 saw the democratic parties working together, giving the impression that a 'democratic coalition' existed, at least virtually. But other dividing lines, related not just to past opposition to Milosevic but to the challenges of dismantling the legacy of his regime and its ideology, have now become more apparent. It is inappropriate to keep viewing Serbian politics primarily through the prism of democratic, reformist, pro-European 'forces of the future' versus retreating, nationalist and post-communist 'forces of the past.' Rather, it seems more relevant to speak of a *continuum* of nationalist ideologies and agendas, ranging from the most radical to the most moderate proponents, running as: Seselj/Nikolic (SRS)- Milosevic/Dacic (SPS)- Kostunica (SDS)-Draskovic (SPO)-Djindic/Tadic (DS).

Viewing the October 2000 victory of the DOS coalition as the culmination of a decade of struggle of the democratic opposition against the Milosevic regime glosses over an important fact: a large part of the opposition was nationalist too. Most of the leading figures of present-day Serbian politics (such as Draskovic and Kostunica) were active in the 1980s in making the 'Serbian question' the central grievance against the Titoist legacy, and thus prepared the ground for Milosevic. Hence also their ambivalence towards Milosevic's wars in the 1990s, best represented by Vojislav Kostunica. While he never endorsed the cult of violence of Seselj (who, together with Draskovic, tried to revive the wartime Cetnik tradition), he considered himself close to Radovan Karadzic in Republika Srpska, which he referred to as Serbia's 'second lung'. During the 'winter of discontent' of 1996, when the Zajedno opposition movement (the precursor to DOS) was formed, Kostunica was asked whether his support for the Bosnian Serbs would change. His reply:

6. International Crisis Group, 'Serbia's U-Turn', *ICG Report* no. 154, Brussels, 26 March 2004.

I have said that nothing will change . . . My visit to Pale [Karadzic's headquarters] and talks with the leadership of Republika Srpska at the time that the Zajedno coalition had begun to function, and then the statements I made at rallies in Serbia, best illustrate that our national policy and our stand on Republika Srpska will not change.⁷

Certainly the idea of the rebuilding of 'a political, cultural and spiritual Serbian' space remained a central idea for Kostunica. His first visit to BiH after his 2000 election to the Yugoslav presidency was to Republika Srpska – rather than Sarajevo – for the burial of a nationalist poet in the presence of Bosnian Serb leaders. As Ivan Colovic, a lucid observer of the deeper undercurrents in Serbian cultural and political life, observed, Kostunica worked hard to outdo his predecessor as the promoter of a nationalist *Kulturkampf* in a context where 'the struggle for territory, the supreme goal of the state, has been momentarily displaced from the military front to the cultural front'.⁸

Immediately after his election to the Yugoslav presidency, Kostunica was welcomed by the EU as the symbol of the new democratic orientation. On most issues, however, he remained faithful to his former credo. In Montenegro, he made an alliance with Milosevic's supporters there to oppose the bid for independence spearheaded by Milo Djukanovic. On Kosovo, he criticised Milosevic's 'Kumanovo capitulation' after the NATO intervention in 1999, and advocated the return of the Yugoslav Army to Kosovo, something that, according to him, was only 'a matter of time'.⁹ To the extent that cooperation with the ICTY is the test *par excellence* of breaking with the Milosevic era, Kostunica fails it by periodically denouncing it as undue interference and an assault on the 'dignity of the state'. The prevailing expectation in Western Europe four years ago was that Kostunica and his party would be the catalyst shifting the political spectrum from radical to moderate nationalism, from introverted post-communist conservatism to a modern, democratic and open society. Perhaps it is time to admit that the modesty of the results may have something to do with the shared nationalist legacies of Milosevic and his successors, and Western misreading of the political trajectories of the main protagonists and political forces involved in the transition.

7. *Javnost*, 26 October 1996.

8. In an essay published in *Republika* (Belgrade), no. 288-289, July 2002. For a more general assessment of the interplay of culture and politics in Serbian nationalism, see Ivan Colovic, *Politics of Identity in Serbia* (London: Hurst, 2002).

9. *Glas javnosti*, 8 December 2000. Similar views were formulated at a press conference on 26 June 2001; *Politika*, 27 June 2001.

Dismantling the institutional base of Serbian nationalism

The second reason for the resilience of nationalism in Serbia concerns the very limited extent to which the security apparatuses inherited from the war and the Milosevic regime have been dismantled. The transfer of power in 2000 was relatively smooth because the Army, headed by General Nebojsa Pavkovic, accepted it as part of an understanding that neither the past role of the military nor its key place in the Serbian power system would be challenged by the new regime. The continuity of the state, which was President Kostunica's priority, preserved its security apparatus intact, thus overshadowing economic and democratic reforms, which were Prime Minister Djindjic's priority.

This proved unworkable: The Milosevic regime was characterised by the penetration of the state and the main political parties by corrupt business and organised crime. This legacy of a weak state dependent on the security and parallel criminal structures became a major obstacle to the implementation of democratic reforms and cooperation with the ICTY. Prime Minister Djindjic's attempt to tackle the problem (about which he knew a great deal) cost him his life: he was assassinated in March 2003. His successor, Zoran Zivkovic, did succeed in dismantling some of those criminal networks, long protected by Milosevic's Head of State Security, Jovica Stanisic, in the state of emergency (Operation *Sabre*) imposed after the assassination. This effort was a key condition for democratic change, but it became very divisive for the ruling coalition, and further reform soon seemed to lose momentum.¹⁰

Curiously, during a visit to Washington in August 2003, Prime Minister Zivkovic offered to send Serbian troops to Iraq and Afghanistan. His deputy, Nebojsa Covic, later explained the rationale: 'Members of our police and army are well experienced in the fight against terrorism and this could be most helpful to the international community in all the challenges that will be faced in Afghanistan.'¹¹ The notion that the Serbian military experience in fighting Muslim combatants in Bosnia and Kosovo (now being examined by the ICTY) could be put to use against Muslim fighters in Afghanistan or Iraq under NATO supervision can be seen as Belgrade's most audacious (though not altogether credible) attempt to turn a handicap into an asset in its effort at international reintegration.

10. See International Crisis Group, 'Serbian Reform Stalls Again', Brussels, 17 July 2003.

11. Eric Janson and Stefan Wagstyl, 'Serbia offers troops to help NATO in Afghanistan', *Financial Times*, 4-5 October 2003.

For the EU, the credibility of Serbia's reintegration efforts rests on the regime's cooperation with the ICTY, an institution regularly branded by Belgrade as 'anti-Serb'. In September 2003, ICTY chief prosecutor Carla del Ponte indicted and demanded extradition of four prominent Serbian generals. Her timing was indeed totally inappropriate and counter-productive, as it coincided with the launch of the parliamentary electoral campaign and so handed the SRS and SPS nationalists one of their favourite propaganda tools. Instead of criticising the political uses and abuses of international justice, the then Prime Minister Zivkovic stated that extraditing the generals was out of the question, while the Minister of the Interior even put one of the four 'heroic defenders of Serbs in Kosovo' on his Liberal (*sic*) Party slate. Meanwhile, Seselj and Milosevic were for a time able to campaign over the airwaves from The Hague as their parties attempted to turn the election campaign into a referendum against the ICTY. As for reform of the Army, it has, according to General Blagoje Grahovac, 'practically not yet begun, while the military high command, as the most loyal part of Milosevic's system of power, is now stronger than ever'.¹²

For Serbia, breaking with nationalist politics means confronting its responsibilities for the decade of war in former Yugoslavia. That in turns depends on the political leadership being able to redefine its relationship with the military and disentangle its ties to old security structures – in short, a complete overhaul of the Serbian state.

The contours of Serbian statehood: Montenegro and Kosovo

If there is one lesson to be learned from the post-communist transitions to democracy of the last fifteen years, it is that they have little chance of success unless there is a consensus over the territorial framework of democracy, i.e. unless the question of 'stateness' is resolved. The break-up of Yugoslavia and the ensuing attempts to redraw boundaries through violent means was largely responsible for derailing the democratic transition and the emergence of nationalist authoritarian regimes in the successor states (namely Serbia, Croatia and BiH). The assumption was that with the end of the war and of the wartime regimes, the democratic transition

12. Quoted by Sonja Biserko, 'The Eighth Session lives on', in *Bosnia report*, April-June 2004, p. 29 (reprinted from *Helsinki povelja*). The author quotes Interior Minister D. Mihajlovic as saying that sending General Lukic to the Hague would 'leave Serbia without a proper Army or Police, with unimaginable consequences'.

would resume in the 'Western Balkans', albeit with a ten-year delay behind CEE. This desirable outcome is by no means obvious. This is only marginally to do with the level of economic development or political culture, but far more to do with the unresolved issues of Serbian 'stateness' which have been the focal points of nationalist politics in the recent past. Most prominent among these are the questions of Serbia's relationship to Kosovo and Montenegro, which also has implications for Republika Srpska in BiH.

In the immediate aftermath of the lost wars and the fall of Milosevic, there was an opportunity to clarify the questions of Serbian statehood. This would have meant acknowledging that Yugoslavia no longer existed and that Kosovo, where the war started and ended, would never return to Serbia. After the failure of attempts to create a 'Greater Serbia', there was an opportunity to redefine the relationship with Kosovo and Montenegro, and thus the contours of the Serbian state. Kostunica and the democratic coalition that came to power in 2000 had the opportunity to do so as part of the process of making a clear break with the Milosevic legacy, but they had little inclination, and came under little international pressure, to do so.

Lesson number two: if the difficult unresolved issues of a lost war are not tackled in its immediate aftermath, while the new regime has strong legitimacy, these will come back to haunt the process of reform later, but in much more adverse circumstances. The first missed opportunity was when Kostunica failed to use his nationalist credentials to confront Serbia with the loss of Kosovo. The second was when Djindjic failed to use his privileged relationship with Djukanovic to strike a deal with Montenegro. The EU welcomed Kostunica at its Biarritz summit in October 2000, which was the right message to send to the Serbian people. But it did not make Serbia's 'return to Europe' conditional on confronting the most difficult legacies of the old regime, which was the wrong message to send to the Serbian political élites.

These difficult issues have thus merely been postponed. The unfinished business concerning the spoils of former Yugoslavia concerns a would-be state (BiH), a micro-state (Montenegro), and a de facto state (Kosovo). And all of them have as common denominator: the reluctance of Serbs to redefine the Serbian state.

Time is running out, as the final status of Kosovo is to be dealt with in 2005, and SCG seems likely to fold in 2006. Each of these issues is specific, and one should try to avoid direct linkage

between them, but there are obvious connections: if there is no 'post-Yugoslavia' (SCG), what is the argument for keeping Kosovo part of it? If Kosovo embarks on a course of independence, how can Montenegro be dissuaded from choosing the same option? The low-key approach focusing on concrete issues (transport, energy, telecommunications) tried at the meeting between representatives from Belgrade and Pristina in Vienna in October 2003 produced little by way of results. Both sides are focused on the one issue that seems to matter to them: the Kosovo parliament threatened to declare independence in the spring of 2003, while in August 2003 the Belgrade parliament adopted a resolution maintaining that the only acceptable future for Kosovo was within Serbia and with Serbian troops present there.

The political context has deteriorated and favours strategies of ethnic outbidding in both Belgrade and Pristina. The political landscape in Serbia shows the persistent influence of hard-line nationalists, while the eruption of anti-Serb violence in Kosovo in March 2004 has confirmed both sides in their respective postures. The victory of Seselj's SRS in the Serbian parliamentary elections in December 2003 demonstrated to Kosovo Albanians that they have little to expect from the democratic transition in Belgrade. The ethnic cleansing of Serbs in Kosovo confirmed for the Belgrade leadership that they are right not to trust an 'independent Kosovo'. Five years after a military intervention justified by opposition to ethnic cleansing and the defence of human rights, there is room for doubt as to how far the prime beneficiaries of the intervention actually share those values. And Serbian politicians compete as to who will be the most intransigent defender of the Kosovo Serbs, arguing that 'if the international community is not capable of protecting them we shall have to do it ourselves.'

Five years after the end of the war there has been regression on both sides. In Belgrade 'moderates'¹³ advocate a Serbian entity in Kosovo on the model of Republika Srpska in BiH, but the implicit suggestion is that this will be a prelude to partition. This is precisely why this solution remains unacceptable to the Kosovo Albanians, and hardly more acceptable to the international community in light of the implications for both BiH and Macedonia. The deadlock only fosters mutually reinforcing nationalist postures in Serbia and in Kosovo. The return of the 'Serbian question' to the forefront of the political agenda does not bode well for the pursuit of democratic change in either Belgrade or Pristina.

13. In February 2002 the then Serbian Prime Minister Zoran Djindjic told this writer that he considered Kosovo as lost for Serbia, but that the Serbian public was not yet ready to be told. Two years later Prime Minister Kostunica proposes a 'federalisation' of Kosovo in a post-Yugoslav confederation.

This unfavourable political context will only increase the pressure on the EU to become even more directly involved with state-building in the Balkans. The EU is taking over SFOR in Bosnia shortly, it has major responsibility for the Kosovo protectorate, it has induced the constitutional agreement in Macedonia, and is at once guarantor, monitor and arbiter in the agreement between Serbia and Montenegro on SCG. The interconnection between these issues, and the ticking political clock, could make a strong case for taking this involvement one notch further by proposing a coherent regional approach to the unfinished business of former Yugoslavia. One thing is certain: the only way to obtain important concessions on all sides' incompatible nationalist agendas is the promise of a more important gain, which can only be membership of the EU. Given the EU's present 'enlargement fatigue', the temptation will be to pursue other urgent issues and to follow a classic, piecemeal approach to further enlargement; but it is simply not realistic to expect the Western Balkans to wait fifteen years to fulfil the conditions, as the CEE countries did.

Call it 'European trusteeship' or 'special membership', what matters here is that the EU provide the overarching political framework within which the difficult unfinished business of the break-up of Yugoslavia can be dealt with. These nations first had a common roof imposed on them by the empires of the past; later, Yugoslavia provided a common roof. Now they need a common European roof to complete their nation-state building process. If this is to come about, the political élites of the region will have to understand that their states will not have the national sovereignty of the nineteenth century but will share sovereignty in a twenty-first century European Balkans.

Has the ‘Hour of Europe’ come at last? The EU’s strategy for the Balkans

Stefan Lehne

Introduction

‘The hour of Europe has come’. These were the proud words of Jacques Poos, the Foreign Minister of Luxembourg who, as President of the Foreign Ministers’ Council, headed the European crisis management efforts at the beginning of the Yugoslav crisis in June 1991. Mr Poos’s pride was understandable: European shuttle diplomacy between Ljubljana and Belgrade had just successfully ended the confrontation between the Yugoslav Army and Slovenia.

Unfortunately, only a few weeks later, as the crisis erupted in Croatia, the hour of Europe came to an abrupt end. The following months and years, which saw a permanent deterioration of the situation, first in Croatia and then in Bosnia, became a particularly bleak chapter in the efforts to create a common European foreign policy. The Europeans were sharply divided in their approach to the Yugoslav crisis, particularly on the issue of the recognition of the independence of Slovenia and Croatia. They lacked the cohesion, determination and instruments to bring the crisis under control.

The United States had been quite reluctant to become engaged, as no important US security interests were at stake. However, as the bloodshed worsened and in the absence of a credible European effort the United States felt compelled to be more and more active. The American bombing of Serb positions in 1995 was decisive in bringing the war in Bosnia to an end and it was symbolic for the strong leadership role of the United States that the peace negotiations took place at a US Air Force base in Dayton, Ohio. The signature of the treaty in Paris could not hide the reality that the European role throughout the negotiation had been marginal.

During the following years the overall division of roles between Europe and the United States did not change significantly. Europe still contributed the lion’s share of soldiers, humanitarian assistance and international expertise, but its political influence was not commensurate.

The EU missed an opportunity for a stronger political and security role in 1997 after the collapse of the central authorities in Albania, when proposals for a WEU stabilisation force were blocked in the EU Council. In the absence of agreement the troops were sent by a 'coalition of the willing' under Italian leadership (Operation *Alba*).

The Kosovo crisis of 1998-99 followed the same pattern. The EU's cohesion had improved, but determination and capabilities were still lacking. At every point in the escalating crisis, in the decisions to threaten and then to use force as well as on the conditions for ending the conflict, the impetus came from Washington.

The year 2000 can be considered a turning point. As the EU's Balkans policy became more coherent and proactive, the US-European relationship in the Balkans shifted towards greater equality. Four main factors were responsible for this development.

1. *The nature of the problem had changed.* With the democratisation of Croatia following the death of Franjo Tudjman in November 1999 and the victory of the democratic forces over Slobodan Milosevic in Serbia in September 2000, all countries in the Balkans had democratic governments. All became committed to joining the European mainstream. While enormous problems remained, the risk of a major conflict had diminished radically. This made it possible for the EU to move towards the development of a comprehensive policy towards the region.
2. *A new consensus on Balkans policy.* All EU member states had learned lessons from the experiences of the early 1990s. At that time there had been little expertise of the Balkans in most European foreign ministries. The initial divisions had therefore been rather the result of historical reflexes based on past alliances with various parties in the region than a genuine clash of interests. In the course of the intensive work on Balkan issues throughout the 1990s the EU had developed a common analysis. The shared interest in the stabilisation of the region gradually came to the fore. There was now sufficient agreement on the objectives to develop a more ambitious policy.

3. *Enhanced capacity for managing international problems.* The establishment of the position of the High Representative for the CFSP greatly enhanced the EU's ability to respond rapidly to new developments and to engage with local actors and international partners. Thanks to the High Representative's active involvement the EU played a leading role in managing the crisis in FYROM and in mediating the constitutional dispute between Serbia and Montenegro. Over a period of several years three of the EU's seven Special Representatives dealt with Balkan issues.

The EU had also begun to develop an operational capacity in civilian and military crisis management. It was no coincidence that the new instruments were first deployed in the Balkans. In spring 2003 the EU took over the police operation in BiH from the UN. In the summer of the same year it took over from NATO's military presence in FYROM, which in turn was followed by an EU police mission in December 2003. Currently preparations are under way for a military operation in BiH, which will replace SFOR by the end of 2004.

4. *Lessons learned from the enlargement process.* Following the democratisation of Croatia and Serbia, all West Balkan countries were united in their commitment to joining the EU. While generally much poorer and further handicapped by the recent conflicts, the Balkan states shared many features with their eastern and northern neighbours. Throughout the 1990s the EU's had accumulated vast know-how in promoting the integration of the CEE countries into European structures. It was logical that this experience would strongly influence its developing approach to the Western Balkans.

The EU's strategy for the Balkans

In 2000 the European governments decided that the Western Balkans needed a comprehensive new policy approach. They would continue to deploy their foreign policy and crisis management instruments in order to promote the stabilisation of the region, but they would also hold out the promise of association, of integrating the West Balkan countries gradually into European structures.

The policy provided for the conclusion of comprehensive treaties with each of the countries and it deployed important policy instruments, in particular in the areas of trade and assistance. Beyond developing the EU's relations with each of the countries it also encompassed the promotion – later de facto largely subcontracted to the Stability Pact for South Eastern Europe – of regional cooperation between them.

Most importantly, the Stabilisation and Association Process (SAP) gave the countries the perspective of future membership in the EU. At first this commitment was expressed rather tentatively, but it gained greater clarity in the course of the following years. The Concluding Document of the EU-Balkans Thessaloniki summit in June 2003 clearly stated that the future of the Balkans would be in the EU and that progress in this direction would depend on the fulfilment of the same conditions and requirements that applied to the Central European States. Moreover, Thessaloniki decided also to put several instruments of the enlargement process (partnerships, opening of Community programmes, administrative twinning, etc.) at the disposal of the West Balkan countries, thus further reducing the gap between the SAP and the pre-accession process.

The perspective of EU membership linked to the step-by-step implementation of the SAP has become the major source of the EU's influence in the region. In its practical application the SAP involves a series of steps, ranging from the establishment of a Consultative Taskforce, the Feasibility Study on a Stabilisation and Association Agreement (SAA), the beginning, conclusion and finally the ratification of the Agreement. This in turn opens the way to application for membership, launching the candidate country on a similar process ultimately aimed at accession to the EU.

At each of the steps of the SAP, progress is made dependent on the fulfilment of conditions formulated by the EU. The annual reports by the Commission introduced in 2002 are a further way to regularly assess performance. Beginning this year (2004), European Partnerships concluded are to commit the countries of the region to a set of reform priorities. The assistance offered within the framework of the CARDS programme, much of which is now devoted to institution-building, is also designed to support the same reform priorities.

The EU approach can be best compared with a long and difficult study programme involving entrance exams, report cards, intermediate degrees but also scholarships and academic honours. There is something intrinsically one-sided in the relationship between the EU and its regional partners. Whereas a prospective candidate country can express its concerns and difficulties, the rules and conditions are essentially set by the EU. Nevertheless the policy is emancipatory in its objective, as the ultimate prize is membership of the EU.

Is the strategy working?

Four years after the launching of the SAP, the time has come to look at the results of this policy so far. While the two dimensions of the strategy are linked, for the sake of clarity they will be considered separately.

Stabilisation

The years 2000 and 2001 saw significant remaining security challenges in the Balkans, in particular the ethnic Albanian insurgencies first in southern Serbia and then in the Former Yugoslav Republic of Macedonia (FYROM). In close cooperation with the United States and NATO, the EU played an important role in managing these crises and in post-conflict stabilisation. 2002 and 2003 were the first years since 1991 free from major violence in the Balkans. This progress in security was reflected in the reduction of international troops deployed in the Western Balkans. Overall troop levels were reduced from 65,000 in summer 2000 to 29,000 in May 2004.

As far as the EU is concerned one can, however, note a rather paradoxical phenomenon. Whereas the overall risk of conflict in the Western Balkans has greatly diminished, the EU's involvement in hard security issues in the region is expanding rapidly. The paradox is, however, easily explained by the fact that the development of ESDP really began only at the end of the Balkan wars. EU military and police operations became possible by the end of 2002. In view of the important European security interests at stake in the Balkans, it was the logical theatre in which to undertake the first

operations. The preoccupation of the United States with other regions and NATO's new focus on other parts of the globe (such as Afghanistan) also argued in favour of a new division of labour. Beginning in early 2003, the EU initiated police operations in BiH and FYROM and a military presence in FYROM. It is currently preparing to take over from SFOR in BiH.

Whereas the EU may be a latecomer as an operational actor in security policy in the Balkans, there is unfortunately still a lot to do. The era of large-scale conflict might be over but, in parts of the region, the potential for interethnic tensions and confrontation persists.

The situation in BiH can certainly be considered to be essentially stable. In terms of consolidating the state structures and the return of refugees, progress over the past years has been remarkable. However, many of the advances achieved were due to the strong leadership of the High Representative. The reform efforts are not yet self-sustaining, and a significant security presence is still necessary as an ultimate guarantee against an unravelling of the Dayton regime. The taking over of this military presence by the EU envisaged for the end of 2004 represents the most ambitious operation so far undertaken by the EU

In Kosovo the tragic events of mid-March 2004, which caused 19 deaths, the destruction of 730 homes and 29 religious buildings as well as the displacement of over 4,000 people, illustrated clearly that this question remains the greatest challenge to security in the Balkans. As Kosovo's security is closely interrelated with that of its neighbours, this is not just a local problem but one for the entire region.

Since the end of the Kosovo conflict in summer 1999, the international community has wrestled with a dilemma. There is no prospect for genuinely sustainable stability in the region as long as the status of Kosovo has not been resolved. At the same time addressing this issue in itself presents considerable risks to stability. If the international community tackles the status issue without adequate preparation, deadlock at best and confrontation at worst might be the result. If it waited for too long the unstable elements on the ground, in particular the impatience of the Kosovar population, the persistent economic crisis and the still tense relations between the ethnic communities might well lead to a new crisis.

Former SRSG Michael Steiner's 'Standards before Status' policy indicated a way to overcome this dilemma. Progress in building democratic institutions, in ensuring the rule of law, and in protecting the rights and the freedom of movement of minorities, would be linked to the perspective of a process to resolve the status issue. In autumn 2003 the Contact Group, together with UNMIK, attempted to turn the 'mantra' of 'Standards before Status' into an operational policy. Mid-2005 was identified as a date for a review of standards, which could lead to the beginning of status negotiations. At the end of March 2004 a detailed Standards Implementation Plan was adopted by UNMIK and the Provisional Government, which should offer a 'road map' to ambitious reforms.

The violence in March constituted a severe setback for Kosovo. While 'Standards before Status' remains at the core of the international community's strategy, it has become clear that it now needs to be complemented by a proactive approach to some of the key problems, such as security of minorities, effective local government, the empowerment of Kosovo's fledgling institutions and the urgent economic and social problems.

It has also become clear that tackling the status issue cannot and should not put off for long. This was a central message of Ambassador Kai Eide's August 2004 report to the UN Secretary-General. The comprehensive strategy for Kosovo proposed in the report found broad international support and gave a clearer sense of direction to the international approach to Kosovo.

The third post-conflict area where the EU and the international community remain strongly engaged, FYROM has developed encouragingly over the past years. There has been important progress in implementing the Ohrid agreement and the ethnically mixed SDSM-DUI government appears committed to multiethnicity and to progress towards EU membership. The residual risks in FYROM are mostly related to the danger of a spillover of a renewed crisis in Kosovo. In view of the stabilisation of the former crisis areas the military presence – originally provided by NATO and later by the EU – ended in December 2003 and was replaced by an EU police operation.

This transition in FYROM is emblematic of a broader change in the nature of security concerns in the Balkans. As the risk of

major conflict has receded, the focus has shifted from the military to the policing aspect. Organised crime, in particular trafficking in humans, drugs and weapons, is perceived today as presenting the most pressing security issues, with a clear impact also on EU member states. Widespread poverty, weak state institutions and endemic corruption provide a fertile ground for criminal networks which exploit the traditional transit role of the Balkans into Western Europe. The investigation into the murder of Prime Minister Zoran Djindjic has shed additional light on the manifold links between the shadowy power structures of the former regime, war criminals and organised crime. Combating organised crime and bringing war criminals to justice are therefore essential elements of the efforts to consolidate democracy in the Western Balkans.

The EU's approach to tackling these problems is multidimensional. It ranges from strict conditionality regarding the cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY) in the Hague, to visa bans against individuals supporting war criminals and crime figures linked with extremist political groups, to police operations in BiH and FYROM, to many CARDS programmes in the areas of rule of law and border security. This is complemented by activities of EUROPOL and EU-sponsored activities within the Stability Pact. The multiplicity of projects and activities, which are complemented by bilateral measures by individual EU member states, cannot hide the fact that the overall record in this field is not altogether encouraging. Not only is there a distinct deficit in coordination among the various actors in this field but the resources and the manpower deployed are so far no match for the well-financed and smooth international and interethnic cooperation of criminal networks.

Association

The most striking phenomenon in assessing this dimension of the EU's policies is the unevenness of progress. By far the most advanced country is Croatia. An SAA is completed (ratification is about to be finalised). The Commission has evaluated the application for membership positively. In June 2004 the European Council gave Croatia the status of accession country and indicated that negotiations could be opened in early 2005.

FYROM, too, has a completed SAA. The Commission has begun work on its opinion on Skopje's application for membership, which was submitted in April 2004.

Negotiations on an SAA with Albania have been going on for several months. However, the EU Council has linked completion of the negotiations with progress on reforms. As there is considerable unhappiness about the pace of reform efforts, particularly in the crucial areas of fighting organised crime and corruption, it is at the moment likely that the negotiations will have to be extended into 2005.

Regarding BiH, the Commission has submitted a Feasibility Study which links the beginning of negotiations on an SAA with progress on 16 reform priorities.

SCG lags behind at the moment. The Commission has postponed the finalisation of the Feasibility Study due to lack of progress in the areas of cooperation with the ICTY in The Hague, and economic harmonisation between Serbia and Montenegro. The tense internal political situation, as well as a series of elections, has so far prevented decisive progress on either issue. Kosovo has been linked into the SAP through a special 'Tracking Mechanism', which – roughly the equivalent of a Consultative Task Force – is designed to ensure the compatibility of reforms with European standards.

There are several explanations for the marked differences in the progress of the West Balkan countries in the SAP.

One factor is historical accident. SCG, for instance, could only begin the process after the fall of Milosevic in October 2000, at a time when negotiations on an SAA with FYROM were well under way. *Another* is difference in capacity. It is obvious that Croatia, which has more than twice the per capita GDP of any other West Balkan country, finds it easier than other states to prepare its institutions for implementing European standards.

A third factor is constitutional complexity and unresolved status questions. Here, both BiH and SCG have a handicap compared with the other states. In the case of BiH it is evident that the top-most concern of the negotiators of Dayton was to end a war, not to produce state structures optimally suited for participation in European integration. An underdeveloped government at state level and continuing tensions between the state and the entities continue to hinder progress. Moreover, too many of the reforms

undertaken so far have been led (or sometimes even imposed) by the OHR. Obviously, progress towards the EU must be promoted first and foremost by the local authorities and not by the international community. Over time, the 'pull' of the EU should replace the 'push' of the OHR as the force for change in BiH.

SCG suffers from the complications derived from the arrangements of the state Union. However, the crux of the matter seems to be less the difficulties inherent in the highly decentralised construction than the uncertain political will of Podgorica and Belgrade. In particular, economic harmonisation, initially identified by the European Commission as a precondition for initiating negotiations on an SAA appeared to lie beyond the limits of Belgrade and Podgorica's preparedness to cooperate. Political turbulence and troubled relations between the republics brought harmonisation efforts to a standstill. In view of the political priority of preserving a European perspective for the SCG, the EU has recently adjusted its approach. It is now ready to deal separately with the republics on issues where they have the competencies. The outcome of these separate negotiations should eventually be brought together in a single SAA. The EU has thus removed one big obstacle from the road to Europe. The other one, compliance with the political conditions, in particular cooperation with the ICTY in The Hague has to be removed by the SCG leadership.

A fourth important factor in determining the pace at which a country moves towards Europe is the extent and strength of political commitment to this policy. During a difficult process of transition, democracies inevitably experience a good deal of political instability. As the experience of the CEE countries has shown, large parts of the population go through periods of frustration and impatience. As a consequence the parties in government frequently lose elections. A rigorous reform policy that entails sacrifices is frequently unpopular. The temptation of populism is always there.

Progress towards EU membership, on the other hand, requires most of all unity of purpose and consistency of efforts. A government's room for manoeuvre is limited. EU conditionality does take account of the electoral cycle. There is thus potential tension between the unpredictable dynamics of democracy and continuous progress towards Europe. The success of the accession process in CEE rested to a considerable degree on the fact that the political élite in candidate countries was largely united in its commitment

to European integration. Whether post-communist, social democratic parties dominated the government or conservative or liberal forces took the helm, the EU always found a partner willing to do the necessary to move forward on the accession agenda.

Clearly, we are not yet at that point in the Western Balkans. The legacy of the wars and structural weaknesses make the political landscape even more volatile and unstable. While almost all political parties pay lip service to the objective of EU membership, the European idea clearly does not as yet have the powerful uniting force that it did in CEE. All too often the political agenda is dominated by the nationalist past rather than the European future, with the settling of old scores rather than the tackling of concrete challenges; hence the risk of stagnation and even of serious setbacks.

However, developments in Croatia over the past months have demonstrated that the CEE success story can also be followed in the SAP countries. Tudjman's HDZ was clearly one of the most problematic nationalist forces in the region, whereas the party's current leadership has managed a remarkable transformation of the party. After coming to power in early 2004 it tackled the most sensitive issues, such as full cooperation with the ICTY and the return of refugees. Progress in fulfilling the conditions set by the EU was promptly rewarded by a positive Opinion of the Commission on the application for membership and the perspective of an early beginning of membership negotiations. This will certainly facilitate further reform and economic development, just as was the case in CEE.

The Croatians' success story should serve as an additional motivating factor for the rest of the region. The objective must be to follow this example as rapidly as possible in other SAP countries. This requires on the one hand local leaders that commit themselves to building a strong national consensus in favour of a European reform agenda. These efforts should cross party lines and involve civil society. An effective public information strategy will be essential. Legislative and executive efforts should focus on achieving the priorities set out in the European Partnership documents.

At the same time the EU must remain credible in keeping the promises set out in the Thessaloniki summit declaration. The perspective of EU membership can be a powerful motor for reform, but it does not work in homeopathic dosage. Without significant

institutional and financial engagement, the prospect of membership can easily turn into an empty rhetorical exercise, into a kind of 'double bluff', in which the EU pretends to offer membership, while the countries of the region pretend to implement reforms.

In this context the EU will have to address a conceptual problem in the current SAP structures. The original idea of turning the status of 'Associate' (following the conclusion of an SAA) into an attractive longer-term option for the countries of the region has clearly not worked out as expected. Both Croatia and FYROM submitted their applications for membership long before their SAA entered into force. The other countries of the region are likely to follow their example. An SAA is not seen as an objective in its own right, but merely as a stepping-stone towards pre-accession status.

This view is perfectly understandable, since EU accession remains the ultimate objective and every country wishes to move towards the next stage as quickly as possible. But it is also reinforced by the EU's current funding policy. Enjoying pre-accession status is much more attractive financially than the CARDS assistance open to SAP countries. Thus the most developed countries enjoy the most generous EU assistance, a situation that is questionable in terms of both fairness and the overall development of the region.

There is thus a good case for going one step beyond the Thessaloniki decisions, which have already greatly reduced the differences between the SAP and the pre-accession process. In the future Financial Perspectives for the period 2007-12 the CARDS programme and the pre-accession instruments could be amalgamated in a single assistance programme that would serve both the pre-accession and the SAP countries. This would still allow for differentiation but with greater flexibility than has been the case so far. The new Commission entering office in November 2004 will also have new structures in external relations. The Commissioner in charge of enlargement will also have responsibility for the SAP, which has to all intents and purposes turned into a part of the enlargement process. The future financial and administrative structures of the EU should reflect this fact.

Conclusion

Five years of the Stabilisation and Association Process have thus produced sufficient progress to validate the overall policy approach, but clearly not enough to allow complacency. During this time the Western Balkans have undoubtedly become more stable and the EU has become an operational actor also in the area of 'hard' security. However, the 'unfinished business' of Kosovo remains a source of tension that has possible regional implications. Democratic structures and the rule of law remain fragile in some of the countries. Organised crime and corruption obstruct economic and democratic development alike.

Opening the perspective of EU membership to the countries of the region has had some important successes, notably in Croatia and FYROM, but has not yet had its full mobilising impact in other parts of the region. Economic growth in the Western Balkans rose above 4 per cent in 2003 for the fourth consecutive year, but all the countries continue to face significant structural challenges, in particular the decline of the old industries and underdeveloped agriculture. High unemployment and severe social problems continue to overshadow an essentially positive macroeconomic picture.

During the five-year period the foreign policy agenda of the European Union has expanded dramatically. Throughout the 1990s the Western Balkans had indisputably been the top priority of EU foreign ministers. Today, the Middle East, Iraq, Afghanistan, the struggle against terrorism and WMD proliferation sometimes have an equal or higher priority on the agenda. Competition for the attention of decision-makers, but also for the administrative and financial resources of the EU, has become fierce.

What used to be taken for granted some years ago bears repeating today: the Western Balkans remain a central challenge for the EU's external relations. The stability of the region is intrinsically linked to that of the EU. If Bulgaria and Romania join the EU as planned in 2007, the Western Balkans will turn into an EU enclave on the Mediterranean. The EU will either succeed in absorbing this region successively into its own structures or risk importing instability in various forms, including through uncontrolled migration and illegal trafficking.

The EU's credibility as an international actor thus depends to a large extent on its success in the Balkans. If it fails to ensure lasting stability in its immediate neighbourhood, it need hardly try elsewhere. Moreover, the time when it was possible to shift responsibility onto the transatlantic partner has probably gone for ever. The United States will continue to play an important role in the Western Balkans, but in view of its worldwide commitments it will no longer be prepared to assume the leading role.

Whether we like it or not, 'The hour of Europe has come'. Unlike 1991, the EU today has the experience, the instruments and the appropriate strategic concept to help the West Balkan countries meet the challenges at hand. What is now required, first and foremost, is the determination and staying power to build on the progress achieved and to bring – in close cooperation with its partners in the region – the 'Europeanisation of the Balkans' to a successful conclusion.

Judy Batt

9

The EU does not have an ‘exit strategy’ for the Western Balkans – it has an ‘accession strategy’, as EU leaders repeatedly affirm. This strategy owes much to the experience gained from assisting the Central and East Europeans in their preparations for accession. But it cannot take for granted that that success story will repeat itself in the Western Balkans. Contributors to this volume have all pointed out that many of the challenges the region now faces are not fundamentally different from those confronted by CEE in the past decade; yet they are deeper and combine together in specific ways that make accelerated progress towards the goal of eventual EU accession more complex and uncertain. The risk of failure still looms, and the costs of failure, for the EU just as much as for the region itself, would be very high indeed.

The EU has already shown willingness to be flexible, recognising that consigning the region to a prolonged phase of uncertainty as ‘potential members’ would not generate the necessary momentum. It has modified its ambiguous language to bolster the credibility of its commitment to the region: the EU wants the Western Balkans in, and it is ready to work with governments and peoples to reach that goal. The Stabilisation and Association Process (SAP) has been ‘enriched’ (in EU parlance) by the addition of instruments developed for the pre-accession phase in CEE. The SAP portfolio has now been transferred from the Commission’s Directorate-General for External Affairs to DG Enlargement. All this is positive – even symbolic gestures have enormous importance for a region so riddled with mistrust about the intentions of powerful external actors, and so lacking in self-confidence. But is it enough?

For Croatia and FYROM, the answer seems to be ‘no’, as both applied for EU membership before their Stabilisation and Association Agreements (SAAs) came into force, confounding the EU’s envisaged graduated framework. Croatia is now a promising candidate for accession, but the rest of the region remains fragile, and

its demands pose unprecedented challenges for the EU. Stabilisation, transition and integration seem unlikely to proceed in a smooth sequence; because all of these processes are tightly interconnected, they need to be tackled together.

Strategic political vision

Lasting stabilisation of the region is blocked by the uncertainty about Kosovo's 'final status'. The events of March 2004 undermined the credibility of the international community's strategy of 'standards before status' – as long as final status is not clarified, local political actors are unwilling to cooperate on achieving the standards. Addressing the Kosovo question directly itself poses a risk to stability, but the status quo is not sustainable. Of course, the EU cannot act alone here – close partnership with the United States is essential, and the UN Security Council will have the final say; but the EU should now take the lead in building international consensus on the way forward.

It is not appropriate here to embark on detailed prescription, but a few basic principles can be put forward. It is time to recognise that Kosovo can never be returned to Serbian rule, and the EU should openly acknowledge this. UNSC Resolution 1244 (which confirmed the territorial integrity of the former Federal Republic of Yugoslavia, now SCG) has now outlived its usefulness. A new UNSC Resolution would have to prioritise the rights of the non-Albanian minorities. It should also rule out partition of the province, which would seriously undermine the stabilisation already achieved elsewhere in the region. The EU can play a major role in preparing Belgrade and Pristina for a final settlement, but it will not be easy and will place major demands on the High Representative for CFSP and future EU Minister for Foreign Affairs. The EU member states will have to show unwavering unity of purpose, and also generosity, flexibility and sensitivity towards Serbia in order to give more effective support to democratic Serbian politicians. The EU will also have to be closely involved on the ground in Kosovo to ensure that minority rights guarantees are fully implemented, alongside devolution of greater powers and responsibility to the Kosovo authorities. Eventually, the EU should prepare to take over the lead international role from the UN.

Flexibility and its limits

As suggested in my introduction, and supported by the arguments of many of the contributors, stabilisation, transition and integration seem to run in parallel rather than sequentially in the Western Balkans context. But this challenges a basic assumption of EU conditionality, namely, that at each stage, conditions are set and only once satisfactory progress towards meeting them has been demonstrated will the EU 'promote' a country to the next stage. In practice, this is proving hard to sustain. Croatia submitted its application for membership even before its SAA had been ratified. FYROM, with its SAA already ratified, also felt it necessary to follow suit, despite EU efforts to dissuade it, on the grounds that it was far from ready to begin negotiating accession. Early promotion of all West Balkan countries to candidate status is desirable to augment EU support, consolidate the stabilisation process and boost the momentum of reform. The only remaining condition for this is full cooperation with the ICTY by SCG and BiH.

Clearly, the EU cannot be 'flexible' in the sense of lowering the standards required of an EU member state. The EU itself could not function on that basis, and none of the member states would accept lower standards for the Western Balkans than the new ones were able, with much effort and courage, to attain. Croatia's decision to apply was motivated by its unwillingness to remain bound to the problematic Western Balkans region, and self-confidence in its ability to catch up with the candidates negotiating accession (indeed, many Croats were convinced that the country was at least as ready for membership as some of the 2004 accession countries). The Croatian government was not asking for different standards, but for the opportunity to show it could meet them. Here, the EU showed flexibility by accepting that its 'regional approach' had to be complemented by differentiation between countries according to results. This enhanced the credibility of its promises of 'eventual membership' and had a stimulating effect on other countries of the region.

The logic of FYROM's application for EU membership was somewhat different from Croatia's. The Government's decision to apply was motivated not by unrealistic estimates of the country's readiness to meet the standard conditions for accession, but rather by a desperate sense that rapid integration into the EU might be the only way of holding the state together. This

application turned EU conditionality on its head – functional statehood was argued to be a consequence, rather than a condition of membership. What conclusions the Commission will draw in its avis on FYROM's application will be seen when it reports in 2005.

All arguments put forward for accelerating one or another country's promotion to candidate status refer in fact not to the need to lower standards, but to the need to give Western Balkans countries access to the same level of funding as that available to the candidates, and the same close attention, detailed advice and day-to-day contacts with EU institutions. The latter are promised in the 'enriched' SAP's new instruments modelled on those developed in the pre-accession process in CEE – 'European Partnerships' with each country (irrespective of whether it already has an SAA or not); and annual 'progress reports'. But until the money is on the table, the indications are that Western Balkans countries will continue to regard these with some scepticism – and not without reason, because without equal funding, the development gap between them and the candidates will continue to grow. Yet were funding on the same terms and equal to that available to candidates to be offered, the rationale for treating the Western Balkans as a category separate from the candidates would disappear, especially as all are now in the hands of the Enlargement Commissioner.

That, however, is not the end of the story, because the EU will still need to develop and apply transparent criteria for differentiation between candidates. There is no doubt that some Western Balkans countries will need a much longer time to prepare for accession than others, and probably longer than the 2004 accession countries needed. The key question is not so much how long it will take as what, precisely, that will involve.

State-building and EU integration

The EU has often presented itself as a means of overcoming the negative aspects of the nation-state in Europe, but it would be misleading to suggest that this presages 'the end of the nation-state'. Not only are the peoples of Europe demonstrably deeply attached to their states as the basic focus of democratic political legitimacy, but the very functioning of an integrated union presupposes that

member states are capable of applying agreed common standards and rules, and can be trusted by their partners to do so. Thus EU integration cannot be seen as a means of bypassing the weak and dysfunctional states of the Western Balkans. A major challenge for the EU is to deepen its strategy and policies to support state-building in the Western Balkans.

Already in the case of CEE it was apparent that EU conditionality was penetrating to an unprecedented degree into candidate states' internal arrangements. The annual progress reports commented not only on technical aspects of legislative harmonisation and economic reforms, but paid close attention to the quality of democracy and respect for human and minority rights, as well as more detailed issues such as standards in prisons and orphanages. The capacity of the candidate states to implement EU regulations, administer transfers and combat organised crime and corruption were of particular concern. The development of a completely new, regional layer of government was demanded, opening up huge and often sensitive questions for the candidates about the constitutional structure of their states and the distribution of powers. All of this was somewhat coyly referred to in EU parlance as 'strengthening administrative capacity', no doubt in the hope of depoliticising a highly intrusive process that was far from merely technocratic but touched on many of the fundamentals of state sovereignty. The CEEs accepted this as the price to be paid for the ultimate security of membership in a voluntary club of equals.

The EU will have to be even more closely involved, often in a much more 'hands-on' way, in state-building in the Western Balkans. Indeed, it already is. Obvious examples of this are the EU police missions in FYROM and BiH, and Operation *Althea*'s takeover from SFOR in BiH. Their role is not only short-term conflict management but also long-term assistance to institution-building in the security sectors of these countries. A major security challenge for the whole region will be bolstering the capacity to tackle organised crime and trafficking in drugs, weapons, and women and children. The region has also become a transit route for illegal migration into the EU. Here, the philosophy of the EU's 'regional approach' is highly relevant. While the capacity of each of the states needs to be built up, effective responses to these problems demands intensive cooperation between their police, border control and judicial authorities. This is not an easy matter among states that only recently were at war with each other, and whose

institutions in these fields are the most severely in need of reform. It will not come about of itself. It needs comprehensive engagement from outside. The EU might here consider how to develop something like a 'regional Schengen' for the Western Balkans, with joint border patrols at the region's external borders including EU border guards. A complementary benefit would be greater ease of movement for legitimate travellers between the states of the region. Indeed, the successful development of such forms of close cooperation in policing and border security should provide the conditions for EU member states to lift the visa regime on the remaining West Balkan countries. This would be a truly major practical and symbolic step towards overcoming the isolation and marginalisation that so afflicts morale in the region.

The EU's key role in brokering the Ohrid agreement in FYROM in 2001, and the Belgrade agreement of 2002 which founded SCG, means that it is already very deeply implicated in state-building in both cases. The decentralisation elements of the Ohrid agreement are posing profound challenges for fragile Macedonian democracy, and the EU will need to monitor and provide support for its implementation. In the case of SCG, the Union has so far proved barely functional. It has been impossible for Serbia and Montenegro to reach agreement on harmonisation of their very different economies, which has become an intractable obstacle to starting negotiations on an SAA. The EU is now showing willingness to adapt to this fact of life, and a 'twin-track' approach to the economic aspects of the SAA will be pursued, while continuing to support the political union. This will be far from the standard 'nation-state' presupposed by the EU integration process; but it may prove to be more workable for the complex and convoluted political context of the Western Balkans.

The EU's far-reaching political and economic role in the region raises important questions about how credibility and trust can be sustained in conditions of unequal power. This requires very sensitive and skilful handling. Gerald Knaus's chapter highlights the traps inherent in the most extreme case of unequal power between international actors and the 'quasi-state' protectorate of BiH. The EU clearly does not want to absorb the Western Balkans as a set of quasi-states or EU protectorates. The principle of 'ownership' of reforms by the governments concerned is often reiterated, but practice often departs from this ideal. The potential result is that states will remain weak and fail to strike firm roots in society,

compromising their democratic legitimacy. At the same time, there is a danger that trust in the EU as a benign partner will decline.

Economic development

The Western Balkans' economic problems are deeper than merely those of overcoming the effects of war – devastating as those were. Underdevelopment, deindustrialisation and spreading poverty are now emerging as key security challenges for the region and for the EU itself. Although the basic tasks of transition from a socialist to a market economy are not in principle different from those of CEE in the 1990s, the botched and incomplete transitions effected in the extraordinary circumstances of war pose special challenges – political as well as economic. 'Insider privatisation' and the links established between 'big' business, organised crime and shadowy political networks opposed to reform greatly add to the complexity of economic transition. EU policies towards the region thus need to pay particular attention to the dependence of economic transition on strengthening state institutions.

Moreover, the problems of underdevelopment reach back even further in time. Significant parts of former Yugoslavia were hardly touched by socialist development; in particular, small-scale peasant farming has persisted right through the upheavals of the twentieth century, and remains as important as ever after the dislocations of war and deindustrialisation. This is not a problem that can be tackled by 'transition' policies alone: much evidence suggests that poor and underdeveloped regions fall further behind, rather than catching up, unless a comprehensive long-term development strategy is in place. This is a problem that the EU will certainly also find itself confronting in another new candidate – Turkey – in the coming years. This calls for a new strategic approach to promoting long-term economic development in candidate countries. Here, the EU can draw upon its experience in funding regional development in poorer parts of the EU, as well as in assisting developing economies far beyond Europe. For the Western Balkans, it can draw upon the substantial expertise of former Yugoslav economists, who not only have local knowledge but many of whom have worked in the World Bank and other international economic development institutions.

The EU's investment in the Western Balkans has already been substantial in terms of both money and manpower. Much has been achieved, but this is no time for complacency. The region cannot now be left to struggle with its problems as an enclave of decline and despondency wholly surrounded (after Romania's and Bulgaria's accession) by a flourishing EU. Its problems are our problems too.

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Abbreviations

BiH	Bosnia and Herzegovina
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CEE	Central and Eastern Europe/Central and East European(s)
DOS	Democratic Opposition of Serbia
DS	Democratic Party (Serbia)
DSS	Democratic Party of Serbia
DUI	Democratic Union for Integration
ESDP	European Security and Defence Policy
EU	European Union
EUROPOL	European Police Office
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FRY	Federal Republic of Yugoslavia (1990-2002)
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
HDI	Human Development Index
HDZ	Croatian Democratic Union
ICTY	International Criminal Tribunal for the Former Yugoslavia
IDP	Internally Displaced Person
IMF	International Monetary Fund
ISPA	Instrument for Structural Policies for Pre-Accession
KFOR	Kosovo Force
KM	Convertible Mark (international code BAM)
LDK	Democratic League of Kosovo
NATO	North Atlantic Treaty Organisation
OHR	Office of the High Representative
PHARE	Poland and Hungary: Aid for the Restructuring of Economies
PPP	Purchasing Power Parity
PSS	Movement of the Force of Serbia
RS	Republika Srpska
SAA	Stabilisation and Association Agreement(s)
SAP	Stabilisation and Association Process
SAPARD	Special Accession Programme for Agriculture and Rural Development
SCG	Union of Serbia and Montenegro
SDP	Social Democratic Party (of Croatia)
SDS	Serbian Democratic Party

SDSM	Social Democratic Party of Macedonia
SEE	South-Eastern Europe/South-East European
SFOR	Stabilisation Force
SPS	Serbian Socialist Party
SRS	Serbian Radical Party
SRSG	Special Representative to the Secretary-General
KTA	Kosovo Trust Agency
UCK	Kosovo Liberation Army
UNMIK	UN Interim Administration Mission in Kosovo
USD	US dollars
VMRO	Internal Macedonian Revolutionary Organisation
WEU	Western European Union

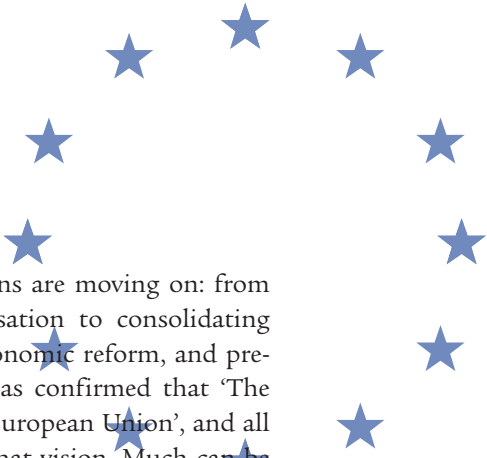
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The countries of the Western Balkans are moving on: from postwar reconstruction and stabilisation to consolidating democratic states, implementing economic reform, and preparing for EU accession. The EU has confirmed that ‘The future of the Balkans is within the European Union’, and all the states of the region now share that vision. Much can be learned from the Central and East European experiences of transition and integration, and the EU itself is better prepared than it was in the early 1990s. All the countries of the region have made progress in the past five years, and Croatia, for one, is ready to start accession negotiations. But, as is shown in this *Chaillot Paper*, an easy and straightforward replication of the CEE ‘success story’ is by no means guaranteed. The unresolved issue of Kosovo’s final status looms over the region. Tackling the ‘unfinished business’ on the Western Balkans agenda is inseparable from accelerating the region’s integration into the EU. The EU must respond with strategic political vision and long-term policies to support state-building and promote faster economic development.

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