Collection of Policy Reports

"The Enlargement of the EU to Balkans"

Policy Reports that shaped the policies and debate on European integration of Balkans

In this Collection of Policy Reports:

"*After Milosevic: a Practical Agenda for Lasting Balkans Peace*" by the International Crisis Group, 2001.

"*The European Union and the Balkans: From Stabilization Process to Southeastern Enlargement*" by ELIAMEP and CAP, 2002.

"*The Road to Thessaloniki: Cohesion and the Western Balkans*" by the European Stability Initiative, 2003.

"*The Balkans in Europe's Future*" by International Commission on the Balkans, 2005.

The Collection of Policy Reports of Analytica is published periodically. These collections draw upon the regular work done by Analytica's research fellows in various fields. The series are published in volumes comprising number of individual reports in thematic collections featuring contributions by leading think tanks, academics and practitioners in each of the fields researched by Analytica.

FOREWORD

Today, western Balkans states are a long way from where they were at the beginning of the decade. The Stabilization and Association process, which has just started in 2000, is almost completed as all the states have negotiated and signed the Stabilization and Association Agreements with the EU, the EU is negotiating visa liberalization agreements and all states are entitled to the new pre-accession financial assistance IPA, designed to address the strategic needs of the region. This progress, apart from the persistent efforts of the national governments and the EU administration, is also partly due to the visionary policy reports and recommendations of people and organizations working on the Balkans. We are convinced that their commitment to the region and the ability to look beyond the limitations of the immediate political context for lasting solutions makes them an irreplaceable item on every reading-list of both those who wish to study the Balkan region and those who aim to produce similar such reports addressing the present dilemmas and challenges for the western Balkan states.

"*The Enlargement of the EU to Balkans*" is a compilation of four reports on the Balkans published since 2000. They all concern the Balkan region and its prospects for the future – away from violent legacies towards peace, stability and European integration. As such, they are a valuable source for all those interested in and studying the recent political developments in this region, for these reports give an overview of the challenges that Balkans states faced on the start of their journey to European integration. We hope this collection of reports will become part of the curricula of schools and departments where Balkan politics, history and EU integration are taught.

From the multitude of reports, books and other works written on the Balkans, the reports that follow were not chosen accidentally. Rather, we aimed to include the most influential reports, those which had the greatest impact on the EU and international community's approach towards the Balkans, those with the most valuable recommendations concerning the features of EU's policy towards the Balkans. The results of in-depth field research and analysis of diplomatic relations in the region, these reports provided the most credible assistance to the European and other policy-makers when faced with the dilemma 'how to deal with post-conflict post-Milosevic Balkans?' By publishing their reports again, we also like to pay tribute to those people and organizations that made their most for Balkans to be found in EU integration map.

In this collection we feature: "*After Milosevic: a Practical Agenda for Lasting Balkans Peace*" by the International Crisis Group, "*The European Union and the Balkans: From Stabilization Process to Southeastern Enlargement*" by ELIAMEP and CAP, "*The Road to Thessaloniki: Cohesion and the Western Balkans*" by the European Stability Initiative and "*The Balkans in Europe's Future*" by International Commission on the Balkans.

"*After Milosevic: a Practical Agenda for Lasting Balkans Peace*" published by the International Crisis Group is a comprehensive analysis of the challenges and prospects faced by each of the Western Balkans states and the region as a whole after the fall of Milosevic regime in Serbia, as well as the international dimensions of the Balkan problems. Among the

other recommendations, the report stands strongly in favour of increased commitment of Europe to the Balkans through focused technical and financial assistance aimed at maintaining the reform momentum and institution-building.

"*The European Union and the Balkans: From Stabilization Process to Southeastern Enlargement*", a joint effort of ELIAMEP and CAP, calls for a consistent and transparent overall strategy with more coherent sets of policies and instruments providing concrete "stepping stones" - distinct intermediate incentives with immediate benefits. Published in 2002, when none of the western Balkans states had a candidate status awarded, the reports call for a 'paradigm shift' – looking at Balkan issues through the lens of EU integration rather then international intervention, a shift that is likely to produce better results and lead the region towards stability and prosperity.

"*The Road to Thessaloniki: Cohesion and the Western Balkans*" published in 2003 by the European Stability Initiative argues for cohesion as the guiding principle of European policy towards the Western Balkans, so that the widening gap between western Balkan and the other East and South East European states is covered through increased aid and assistance from the EU.

Finally, International Commission on the Balkans in 2005 published "*The Balkans in Europe's Future*" analyzes the best way to draw the western Balkan states closer to the European mainstream. The report reiterates the fact that EU integration for these states is not a question of 'if' they will join the EU, but rather 'how' to better realize goal through policy tools and practices adequate to the specific political and economic legacies of the region. This report calls for an active role of the EU in assisting the western Balkan states in their state-building efforts thus helping their transformation from nation states to EU member-states.

We hope you find our selection of reports a useful, interesting and enjoyable read. Analytica will continue to prepare Collection of Policy Reports on topics relevant to western Balkans politics, societies and development.

Analytica Team

AFTER MILOSEVIC

A Practical Agenda for Lasting Balkans Peace

ICG

international
crisis group

TABLE OF CONTENTS

FOREWORD

The October 2000 democratic uprising in Serbia gave the world new hope that the horror, chaos and misery that devastated the Balkans - through a decade of four wars, and of murder, atrocity and economic destruction on a massive scale - were finally at an end.

But the problems of security and stability in the region have not suddenly been solved by Slobodan Milosevic's defeat - or by his incarceration as this report goes to press. Nationalist sentiment remains pervasive; sovereignty issues remain unsettled; tens of thousands of refugees cannot return home; and war criminals remain unpunished. Political and other institutions throughout the region are fragile. Corruption is endemic, and the evidence of economic failure is everywhere. Unless these issues are addressed quickly and decisively, the potential for renewed conflict remains grave.

Serbia's political transformation has unleashed high expectations, but the peoples of the Balkans and the international community must take a comprehensive and forward-looking approach to the current situation if those expectations are not to remain dangerously unfulfilled. Fundamental institutional change is crucial, and final status issues have to be addressed sooner rather than later.

In this report, the International Crisis Group (ICG) makes many recommendations as to how best to move forward, some of them going well beyond the present cautious international consensus. The test for us in each case has not been what is currently acceptable in the diplomatic marketplace - though many of our recommendations should be - but what will contribute to lasting peace, bearing always in mind the need to apply consistent principles and to consider the wider consequences of every action. Some of our key recommendations are:

❑ For Montenegro, that it no longer be actively discouraged from seeking independence, and that the international community focus more constructively on helping Podgorica and Belgrade to find a mutually satisfactory basis for a new relationship.

❑   For Kosovo, that the reality, legitimacy and permanence of the split from Serbia be acknowledged; that early Kosovo-wide elections be held to establish a democratic leadership; that the final political settlement process then be commenced; and that the option of "conditional independence"be closely explored.

❑   For Serbia,that the embrace by the international community of the new government be less uncritical, with it being held to the same high standards demanded of other Balkans countries, notably Croatia, in particular on cooperation with the Hague Tribunal.

❑   For Bosnia, that a tough policy be maintained toward all extremist nationalists;that the secession of Republika Srpska not be contemplated; and that Dayton be vigorously enforced to create the conditions for ultimate acceptance of a more viable post-Dayton governance structure.

❑   For Macedonia, that the international community assist in every way necessary to maintain the territorial integrity of the country, but at the same time treat the basic problem as political rather than military, insisting on a serious and sustained effort to address the political and cultural concerns of ethnic Albanians.

This report is built on the experience of five years of field-based analysis by the ICG. Since our first project commenced in Sarajevo in 1996, we have produced on the Balkans three book-length reports and over 140 other reports and briefing papers. This is the first time we have tried to look at the region as a whole, addressing all the outstanding issues, applying experience learned elsewhere, and identifying wherever possible common policy themes and approaches. It is an approach we have long been urging upon governments themselves, who have too often responded in an ad hoc and piecemeal fashion to problems crying out for a comprehensive approach.

Our endeavour is ambitious: to analyse the sources of possible further conflict and offer practical policy measures - including on the critical and sensitive constitutional issues - to prevent that happening. We have sought to identify roles and responsibilities for both local actors and key players in the international community, including the European Union, United States and Russia.

Our focus in this report is not on the entire area that has historically or geographically been described as "the Balkans" but on the seven entities where the remaining problems - and potential for conflict - in the Balkans are

most concentrated, and where policy makers most need to focus their attention: Serbia, Montenegro, Kosovo (together making up the Federal Republic of Yugoslavia),Bosnia,Macedonia,Croatia and Albania.

Many friends,supporters and staff of ICG helped to shape this report, and I thank them all warmly for their contributions. They cannot all be named,but the members of the ICG team who contributed most directly to the writing and editing process over many gruelling months were Bob Churcher, Michael Doyle, James Lyon, Peter Palmer, Brenda Pearson, Louis Sell and Miranda Vickers of our Balkans field staff;Theodora Adekunle,Mark Pierce and,more recently, Mark Thompson from ICG's Brussels headquarters;and John Norris, who worked with me as coordinating editor.

Much remains to be done before the Balkans can shed the burden of the region's own divisions,and before peace and stability once and for all make the threat of violent conflict just an unhappy memory. It is our hope that this report will be seen as a timely and useful guide as to how policy makers can take major and lasting steps in that direction.

Gareth Evans
President

Brussels, 2 April 2001

EXECUTIVE SUMMARY

The Challenge of Achieving Lasting Peace

Slobodan Milosevic has gone, but he has left behind him in the Balkans a bitter legacy of death, destruction and distrust. His democratic overthrow was a watershed, but the potential for renewed conflict in the region remains dangerously high, and it is vital that there be forward-looking and comprehensive action by the international community to address the continuing sources of underlying tension.

Across the Balkans, security and stability continue to be undercut by lingering nationalism, fragile and unresponsive government institutions, underperforming economies, undelivered justice and the issue of unreturned refugees. Breaking the cycle of violence in the region will require shattering the hold on power of narrow and often anti-democratic political elites, and accelerating difficult transitions to lasting political and economic reform.

As recent outbreaks of violence in southern Serbia and Macedonia underscore, events in the seven countries and entities covered by this report - Serbia, Montenegro, Kosovo, Bosnia, Croatia, Macedonia and Albania - will move dynamically and unpredictably in the immediate term. Anticipating to the extent possible, and responding to, these events will be a continuing test of the transatlantic community's broader political aspiration: to socially and economically integrate the region into a democratic and peaceful Europe.

The international community's response to events in the Balkans has too often been reactive and ad hoc. The overwhelming need now is to set clear goals and pursue them consistently. And the foremost goal now must be to peacefully and enduringly settle unresolved political status and minority rights issues in all the areas, beginning with the Federal Republic of Yugoslavia and its component entities, where they remain most contentious.

Settling and moving past these difficult issues - not just hoping they will go away - will allow for much more rapid improvements in security, economic growth, regional integration and human rights across the entire western Balkans, as well as in a number of neighbouring states. Until the fundamental governing structures of these societies are clarified, all their institutions will remain built upon a foundation of sand.

The Future of the FRY

The stakes involved in resolving the final and future political status of the FRY are high, crucial in determining whether the region emerges into a new era of stability and relative prosperity or continues to be plagued by divisions capable of escalating into war. Until clear directions are set, the FRY's current constituent parts (Serbia, Montenegro and Kosovo) and much of the Balkans, will remain in an uneasy limbo. Foreign investors will be deterred by the continuing uncertainty, issues of ownership and other basic legal rights will remain clouded by muddy constitutional structures and politics will remain plagued by nationalism.

The constitutional and legal structures of the FRY were neither intended nor designed to meet the needs of any modern,democratic state. The time has come for the international community to assist in an orderly and democratic process to resolve future and final status issues. The task, particularly for Kosovo is huge: to confront the reality that the status quo is not sustainable; to identify processes that will move things forward constructively; and to find ultimate solutions that are principled and consistent, and don't make things worse,including within the wider region.

Hopes that the FRY can be reconstituted - on a transitional or permanent basis - as a loose federation or confederation with little or no power vested in central authorities - appear painfully detached from political reality. Both Montenegro and Serbia remain reluctant to enter into a revised federal arrangement as co-equals; Kosovo wants nothing to do with Serbia or the FRY at all.

Montenegro should no longer be discouraged, as it has been by the international community, from seeking independence. Concerns about this triggering internal conflict, negative impacts on Serbia and in Kosovo, and domino effects in Bosnia and elsewhere, have all been overstated. The departure of Montenegro from the FRY would not mean its automatic dissolution as a legal entity, nor effect the operation of United Nations Security Council Resolution 1244 in Kosovo.

There are a number of constitutional models available through which Montenegro and Serbia can retain some of their traditional ties and advance common interests. As Montenegro navigates its way through forthcoming elections and a possible independence referendum, discussions should be held with Serbia on a wide range of issues that must be resolved whatever structure formally binds them or not in the future, such as monetary policy, taxation, environmental regulation and cooperation over pensions, education and healthcare.

For its part, the international community - perhaps through mediating assistance from the Organisation for Security and Cooperation in Europe (OSCE) or Group of Eight (G-8) - should help Montenegro and Serbia to find a mutually satisfactory basis for this new relationship. The approach until now of seeking to pressure Montenegro into drawing back from independence has been both unconstructive and ineffective, and has discouraged Belgrade from engaging in meaningful dialogue.

In **Kosovo**, the profound gulf between Belgrade and Pristina has led many in the international community to assume that Kosovo's final status remains too explosive a subject to tackle in the near term. However substantial progress toward building a viable economy, deradicalising the province, and stabilising the neighbourhood (particularly in southern Serbia and western Macedonia) will be virtually impossible unless greater clarity is brought to the fundamental legal and constitutional framework in Kosovo.

The first step is to establish with no further delay a full system of democratic and autonomous self-government within Kosovo - the full set of "provisional institutions", legislative, executive and judicial, referred to in Resolution 1244 and described in more detail in the Rambouillet accords.

The second step should be to establish a focal point for Resolution 1244's "political process designed to determine Kosovo's future status". The most obvious candidate for that role is the "international meeting" (anticipated as occurring three years out by the Rambouillet negotiators in 1999) held under the aegis of the G-8 or the OSCE.

The third step would be for consultations to occur - preferably, but not necessarily, in the context of an anticipated international meeting of the kind just described - on the principles that might constitute the foundations for a final political settlement. In keeping with Helsinki Final

Act principles, a peacefully agreed adjustment of Kosovo's border (possibly involving both northern Kosovo and the Presevo valley) should not be ruled out as part of such a settlement. This would not be rewarding ethnic cleansing, and there are no relevant parallels with demands for partition in Bosnia.

The most appropriate status for Kosovo to emerge from such consultations may be "conditional independence",which could involve preconditions (e.g. minority rights protection) having to be satisfied for a period before all the benefits of recognition (e.g. UN membership) are granted; the permanent renunciation of some forms of action (e.g. territorial expansion);and a form of a period of international trusteeship,in which certain veto powers would qualify Kosovo's capacity to exercise complete sovereignty.

Serbia Internally

Even after Milosevic's departure,Serbia faces enormous challenges - resolving the constitutional relationship with Montenegro and Kosovo, restoring accountability and the rule of law, addressing an insurgency in the Presevo valley and bringing new life into an economy decimated by mismanagement and debt.

Reformers and hard-liners are struggling with each other to define Serbia's place in the world in a battle with high stakes, and the struggle between liberal European-style policies and holdover nationalist policies continues. The new leadership in Serbia will not necessarily embrace policies aimed at creating regional stability, and the embrace of the new government by the international community should be less uncritical: it should be held to the same high standards demanded of other Balkans countries,notably Croatia.

The international community must certainly continue to insist that Milosevic be tried not in a local court but under international law, in an international court, for the war crimes for which he has been indicted. A range of policies still supported by Belgrade are unacceptable, including its policies toward ethnic minorities, support for extremist elements in both Bosnia and northern Kosovo,and the continuing detainment of large numbers of ethnic Albanian "political prisoners".

The international community should closely condition financial assistance on Serbia's ability to meet clear benchmarks with regard to economic and democratic reforms and cooperation with the Hague tribunal. If the standards are met,both the European Union (EU) and U.S. should initiate a

comprehensive economic assistance strategy for providing the FRY desperately needed technical assistance to rapidly reform the old socialist economic laws and carry out privatisation.

The FRY government's reaction to insurgency in southern Serbia by ethnic Albanian guerrillas has been reasonably restrained. While that restraint and better Western policing and imaginative diplomacy may hold down the fighting, the situation in southern Serbia will remain dangerously unstable as long as Kosovo's status is unresolved.

Montenegro Internally

Over the past three years, Montenegro has increasingly come to operate as a separate state, and it continues to focus its energies on resolving its constitutional status within the FRY or outside it. Opinion polls persistently show that none of the various options for the republic's future status enjoys overwhelming support. Opposition to independence is strong, especially in parts of the north, but it does not appear severe enough to trigger violence or a counter separatist movement.

In order for the process by which Montenegro decides on its future status to have credibility, strict adherence to the Montenegrin constitution - which ultimately requires a two-thirds majority in parliament - is advisable, if the appearance is to be avoided of rules being manipulated at will in much the same way that Milosevic abused the federal constitution.

Beyond its status, Montenegro also needs to make progress in key areas of reform such as public administration and the judiciary. The United States and the EU will need to move from their earlier priority of direct budget support to supporting sustainable reform, including thorough overhaul of the party-state apparatus, and the networks of cronyism, nepotism and corruption that go with it.

Kosovo Internally

Kosovo is adrift, and real stability will continue to elude it and the adjoining areas in Serbia and Macedonia until substantial self-government is put in place and a process for resolving the province's political status is resolved. Renewed rioting in Mitrovica, violence in Serbia's Presevo valley, clashes on the Macedonia border and attacks on bus convoys escorted by the NATO-led Kosovo Force (KFOR) all served to drive home this point that while Kosovo is not out of control, violence is lurking near the surface.

Issues surrounding Kosovo's final status remain central to virtually all the challenges facing the province, from security to economic growth to basic governance. The lack of any foreseeable resolution of the status of Kosovo and the resulting continued insecurity for the people of Kosovo complicates almost every one of Kosovo's other problems, especially efforts to encourage reconciliation between Albanians and Serbs. As long as Albanians fear and Serbs hope that Belgrade's rule might return, each side will be preparing both psychologically and practically for the next war, deflecting attention from other pressing political, economic, and social problems.

KFOR and United Nations Interim Administration in Kosovo (UNMIK) can both take important steps to help destroy the illegal armed groups that operate among both the Albanian and the Serb communities. This will require a more focused and aggressive posture against both ethnic and political violence. A critical element in dealing with the Serbs of Kosovo, and indeed in preserving Kosovo as a single entity, is regaining control of Mitrovica.

The municipal elections of October 2000 were an important symbolic step in demonstrating Kosovo's commitment to democracy. By and large, Albanian political parties, candidates, and media behaved in a responsible fashion. UNMIK should have then moved quickly to begin the complicated and potentially dangerous process of creating the provisional democratic institutions specified in Resolution 1244. Unfortunately the reasons for inactivity and caution are clear. Without strong international support, the UN administration is afraid any progress or decision may be seen as prejudicing the question of final status, and disturb the new government in Belgrade. Again new clarity of thought, and a new direction are required from the major international actors.

Bosnia

Bosnia is still burdened by the legacy of war and trapped by the contradictions of the Dayton Peace Agreement. Bosnia's nationalist politicians have preserved considerable populist appeal, often paying little more than lip service to Dayton and have devoted their energies over the last five and a half years thwarting reform, with the most recent challenge coming from the Croat hardliners. Any move now toward international disengagement or outright partition of the country would be disastrous - risking undoing all the gains to date and potentially triggering renewed conflict.

Since 2000, the international administration has been more active in breaking down the influence of nationalist extremists, and building up Bosnia's state institutions. But if the international community walked away tomorrow those institutions would crumble. Even with more cooperative governments now at state and Federation levels, more vigorous enforcement measures remain necessary for Bosnia to achieve stability. The enforcement mechanisms granted by the Dayton Agreement must be used to further strengthen Bosnia's central institutions while eroding the power base of factions that oppose the development of a functioning, democratic state and the reintegration of Bosnia's ethnic communities.

Effectively implementing, a landmark Constitutional Court ruling against ethnic discrimination may be the key to achieving a smoother transition to a more viable post-Dayton governance structure. While building Bosnia's central institutions, the High Representative must use his authority to eliminate political party control over pension funds, publicly-owned enterprises, the judiciary, the civil service and police; trace the funding mechanisms and patronage networks of political parties; and enable the local judiciary to prosecute corrupt officials. The OSCE, OHR, UN and all other international agencies in Bosnia, under the direction of OHR, must develop a detailed plan for pushing the full implementation of the Constitutional Court decision on the constituent peoples of Bosnia. In particular, the OSCE should investigate voting rules and governing structures that violate the decision.

Sooner or later the representatives of these communities will have to replace the Dayton governing structures with something more viable, but this will only be productive after Bosnia's numerous constitutions and laws have been amended in line with the Constitutional Court's ruling. The logical end-point for reform of the Dayton structure would appear to be a strengthened central government, with reduced or no roles for the two present "entities" (Republika Srpska and the Federation), replacement structures for the cantons (resembling the pre-war "okruzi", with reduced fiscal and administrative powers),and enhanced powers for the municipalities.

Croatia

Croatia continues to make impressive strides in distancing itself from its nationalist past. Its restraint in dealing with Bosnian Croat hard-liners and continued willingness to move toward international standards are welcome. However, it still has to tackle difficult issues of economic reform,and to make further progress with regard to the return of refugees and its treatment of the Serb minority:the Tudjman legacy dies hard.

Since parliamentary and presidential elections in Croatia in early 2000, Croatia has taken major strides in strengthening democracy and the rule of law. It has also played an increasingly constructive role in the region, particularly by its refusal to support or encourage Croat nationalist extremists in Bosnia. This progress has been warmly received by the international community, as reflected in the country's admission to NATO's Partnership for Peace program, the ending of the Council of Europe's monitoring regime and the November 2000 initiation of negotiations for a Stability and Association Agreement with the European Union.

Macedonia

Recent violence has made clear the need not only to contain conflict in the short-term but to bring greater energy to the underlying political task of improving civil rights and relations between the country's Macedonian-speaking and Albanian-speaking communities. It has also reinforced the need to speed progress in Kosovo toward self-government and resolution of its final status. Much remains to be done in Macedonia to reduce corruption, remove other impediments to economic growth and improve the quality of governance.

In late February 2001, violence flared in villages in northern Macedonia close to the border with Kosovo and in mid-March, the fighting spread to Macedonia's second largest city, Tetovo. Whatever the rebels' intentions, they clearly tapped into the frustrated local demands for basic minority rights: citizenship, ownership, education, language and representative government. The Macedonian government should accept, and the international community continue to insist, that the primary focus in resolving Macedonia's internal security problems must be political rather than military. A serious effort must be made by Macedonian-speakers to address the reasonable political, cultural and economic concerns of the Albanian-speaking community. The international community should help to broker talks on minority rights and hold the government to higher democratic standards over elections and human rights.

NATO's role in containing guerilla activity from the Kosovo side of the border is crucial. Within Macedonia it should continue its existing training and support programs, and be prepared to consider an active role in support of the Macedonian security forces against further rebel activity if the country's government so requests. But the NATO allies must recognize the need to maintain primacy for a political rather than military solution.

Albania

Albania's preoccupations are internal, as it struggles to establish the rule of law, battle   endemic corruption, restructure its economy and build the basic institutions of governance. Western efforts in support of strategies to stem the flow of illegal weapons and other forms of trafficking are essential.

While Albania has made important strides in restoring essential order, the central challenges facing Albania include restructuring an economy severely hampered by outdated and obsolete industry; filling the social vacuum left by the collapse of a rigid authoritarian state; combating crime and corruption and disarming the civilian population; and balancing the newly enhanced sense of Albanian national consciousness throughout the southern Balkans with respect for the multi-ethnic nature of the region and the integrity of surrounding states.

Albania's neighbours - Greece, Bulgaria, Turkey, Macedonia and Italy - and the administrators of Kosovo, should take urgent steps to strengthen their cooperation, in particular in closer border monitoring, over the problem of illegal trafficking of people, drugs and weapons through Albania. The provision of logistical and communications equipment for use against illegal trafficking, and help in establishing a regional centre against illegal trafficking in Albania, would be particularly valuable.

Regional Cooperation and the Stability Pact

For the foreseeable future, regional cooperation in the Balkans is more likely to develop incrementally, from the ground up rather than architecturally, from the top down. There is an ingrained suspicion of grander regional organisations - but plenty of scope for bilateral and small group multilateral cooperation in a variety of economic areas (especially infrastructure, border controls and trade agreements), while security arrangements and cross-border cultural ties are also fertile areas for such programs.

The Stability Pact for South Eastern Europe, welcomed in 1999 by some as a latter day Marshall Plan, was meant to improve coordination of international assistance while emphasising regional cooperation. But, without significant resources or much planning or implementation capacity of its own, the Pact has so far failed to live up to expectations. For the Stability Pact to play a more effective role in building regional growth and cooperation it will need to focus its efforts better and determine where it offers a comparative advantage.

Europe

Europe is well positioned to take a coordinated and forward-looking approach to the Balkans, but it cannot simply hope that a "common European home" will cure all the region's ills. Both the EU and the Balkan countries face much steeper challenges than they have publicly acknowledged in working toward eventual accession, and the EU will need to closely focus its immediate assistance to generate tangible benefits and maintain the momentum for reform. Washington's increasingly distant approach to Balkans diplomacy gives the Europeans new opportunities to set the necessary conflict prevention agenda, but it is hard to break old habits of doing too little too late.

The major European countries and institutions, like other key international actors, should adopt a less negative approach toward the holding of final and future status discussions in the region, and be more open-minded about possible outcomes. By continuing to insist upon the retention of the FRY in some form and to oppose the creation of any newstates, the major European actors are jeopardising their role as honest brokers in such discussions.

If the U.S. seeks to continue to limit its military engagement in the region, Europe will need to establish just how much it is prepared to do in the region, either by assuming a larger role in the NATO operation or considering an operation that is not strictly NATO-led - a dangerous path. NATO, the OSCE and the EU need to work collaboratively to help militaries in the region reduce troops strength, improve equipment, professionalise, move toward partnership with Western military structures and become partners with a stake in regional security.

In terms of membership of the EU, there needs to be a clearer and more realistic acknowledgment on both sides of the enormous difficulties involved for the Balkans countries in meeting EU accession criteria. The EU should focus on efforts that have the best prospects for generating job creation and short-term economic growth in the region to maintain the momentum for reform, including clarification of property rights, a decision to relax the rules on investment guarantees for new investments in the Balkans and organising standard rules on dispute settlement.

The United States

The U.S. has been a periodically reluctant, but often indispensable, force in the Balkans. More vigorous U.S. diplomatic and military leadership proved essential in transforming the disastrous international community policies of the early- and

mid-1990s into the far more effective approaches of the last several years.

The current U.S. approach to the Balkans - seemingly designed with limiting diplomatic and military engagement in the region as a central goal - risks both alienating allies and creating a more dangerous situation on the ground. Washington should not become so obsessed with avoiding "mission creep" that it compromises the ability of its forces in the region to effectively prevent renewed conflict. Given its immediate interests in the region, and the scope of American military capabilities, the continuing deployment of U.S. forces in the Balkans is a modest investment.

The next round of NATO expansion will carry great political import in the region, and U.S. views toward expanding the alliance will be viewed as a barometer of Washington's willingness to reach out to South Eastern Europe. The U.S. should maintain pressure on Belgrade to reject unacceptable policies such as its support for extremist elements in Bosnia and a continuing pattern of discrimination against minorities, while developing a comprehensive economic assistance strategy for providing the FRY technical assistance to carry out privatisation and other reform efforts. The U.S. should also reconsider its blanket rejection of potential joint KFOR-FRY patrols in southern Serbia.

Russia

Russia's engagement in the Balkans during the last decade has proved a decidedly mixed blessing for all parties involved, often deeply complicated by Russia's own social and economic transformation. While Russia's resources are more limited at this juncture than that of the EU and the United States, it can still play an enduring and positive role in the region.

Russia should take an active role in encouraging Montenegro, Serbia and Kosovo to resolve their final and future status issues peacefully, with protection for minority rights and a shared understanding by parties to a settlement that the territorial integrity of new states must be respected. Russia should also maintain its peacekeeping presence in the region, and take great care to ensure that its assistance to Macedonia, whatever form it takes, does not inadvertently exacerbate tensions between Macedonia's Slav and Albanian communities.

The United Nations

The Balkans have been a difficult crucible for the United Nations. In many ways, the events over the last decade have cut to the very core of the role the international community wants the UN to play in the modern world.

The UN's relative effectiveness in carrying out its civil administrative duties in Kosovo, and its more limited role in Bosnia, will have a positive impact on the future of these societies. While these tasks rarely draw the same international attention as the use of military force, they are every bit as important in establishing the underlying conditions for regional stability. The UN still has a considerable way to go in developing effective and streamlined methods for getting such important operations quickly up to speed, and developing more important systems along these lines will be vital to the success of future operations.

NATO

While NATO only entered the Balkans militarily with reluctance, since the war in Bosnia it has become a cornerstone for maintaining stability in the region. NATO's military muscle made peace possible on the ground in Bosnia and Kosovo, and has been essential in keeping Macedonia from descending into wider conflict. One can also make the argument that the successful NATO military intervention in Kosovo during 1999, for all the controversy it generated, helped speed the demise of former Yugoslav President Milosevic, and put Serbia on a much faster track to normalisation.

There is increasing European concern that the Bush Administration is eager to distance U.S. forces from the Balkans, while expressing reluctance to see NATO robustly exercise its respective mandates in the region. Any NATO force reductions in its peacekeeping commitments should occur only within the context of regular NATO reviews as has been the case with all previous force reductions.

The U.S. should clearly understand that even relatively small deployments of its peacekeepers send out a larger and more powerful message to actors in the Balkans (and to NATO allies as well), regarding the U.S. commitment to regional stability and the ability to dominate any escalation in the conflict. It would be unfortunate if the Bush Administration desire to minimise foreign "entanglements" ultimately helps create the conditions that lead to a need for greater U.S. military involvement on the ground to stem renewed conflict.

NATO's long-term effort to partner with militaries in the region is also a vital part of regional stability. Efforts to help shape smaller, more professional and civilian controlled militaries throughout South Eastern

Europe has been of great utility, and the efforts should continue and intensify efforts to rid the region of the paramilitary forces that have been a source of so much destruction and violence over the last decade.

The International Financial Institutions

The international financial institutions, especially the World Bank, have both the authority and capability to exercise critical leverage over the Balkan States' economies. Their actions could determine not only direct access to concessional finance, but also the success in mobilising supplementary financial resources, their ability to manage economic reform and their credibility in seeking to attract private investment. While EU association remains a relatively long-term project, building a constructive relationship with the international financial institutions will need to be an important short and medium term dimension of the Balkans' international engagement and their attempts to stabilise their economies. Without stabilisation,there will be no economic growth.

Towards a Lasting Balkans Peace

The international community has a vital role to play in assisting the forces of peace, and must avoid the temptation to let its attention drift at a time when the foundation for a more lasting peace is possible but far from completed. There is a dangerous tendency in Western capitals to marginalize, postpone or just ignore those issues not currently dominating the headlines.

Slobodan Milosevic was not the only source of instability in the Balkans region. Efforts to deal with the underlying sources of tension are key to keeping conflict from erupting and spreading. And no task is more central or profound for the international community than peacefully guiding the process to resolve final status issues for the FRY, and putting Bosnia and Macedonia on sounder constitutional footing. While policymakers often wince at the intractability and complexity of these issues, such fundamental structural challenges are the great unfinished business that Yugoslavia's dissolution set in motion.

PART I.

MILOSEVIC'S BITTER LEGACY

THE BALKANS

Source: United Nations

1. The Challenge of Achieving Lasting Peace

Although Slobodan Milosevic has left the stage - with terrible devastation his most lasting legacy - the potential for renewed conflict in the Balkans remains clear.   Comprehensive and forward-looking action by the international community to address the sources of underlying tensions in the region, including final status issues, is vital.

A.   Milosevic's Legacy

In 1989 Yugoslavia was one of the wealthiest and most open countries in the communist world. But ten years of war, ethnic hatred and mismanagement have left its economy devastated and its infrastructure in tatters. The price of Yugoslavia's destruction has been staggering:

❑   more than 200,000 dead;[1]

❑   some 3 million people forced to flee their homes;[2]

❑   material damage estimated at between $20 billion and $60 billion;[3]

❑   more than 1,000 United Nations (UN) peacekeepers killed or wounded;

❑   more than 3 million landmines scattered throughout the region;[4]

❑   real GDP in the region less than half its 1989 level;and

❑   more than 300 suspected mass grave sites in Bosnia and Kosovo yet to be investigated by the International Criminal Tribunal for the former Yugoslavia (ICTY)[5] or relevant local authorities.

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1 The figures quoted are an approximation based on data from the World Bank Group country briefs, available at www.worldbank.org and from Stockholm International Peace Research Institute (SIPRI) Yearbooks 1991-2000, Oxford University Press,Oxford.
2 United Nations High Commissioner for Refugees (UNHCR) "Refugees and Others of Concern to UNHCR", *1999 Statistical Overview*, available at www.unhcr.ch
3 EU estimation of cost,cited in "Picking up the Pieces",*ABC News*, 13 June 1999.
4 Landmine Monitor Report, *Human Rights Watch*,August 2000.
5 At least 98 individuals have been indicted by the ICTY for war crimes since 1993;the expectation is that that number will be more than doubled by the time the Tribunal has completed its present work.

The four Balkans wars since 1991 - in Slovenia (1991), Croatia (1991-1995), Bosnia (1992-1995) and Kosovo (1998-1999) - have redrawn the political and social map of the region and left searing ethnic divisions, bitter recriminations and massive reconstruction needs. Factories, homes, national monuments, and cultural sites have been destroyed. The region's industrial base has badly decayed, and war capitalism and racketeering have established themselves as fixtures of the economic and political landscape.

As if the perils of war were not enough, the people of the former Yugoslavia have also lost a precious ten years of opportunity for reform, modernisation and integration with the structures of Europe. As we have seen across Central and Eastern Europe, overhauling state economic and political structures is a Herculean task in its own right. In the Balkans, the lasting distrust and ruin of war have only complicated this effort.

The culpability should not be over-simplified. No political party or ethnic group had a monopoly on the violence, greed, and short-sighted policies that have made "Balkans" synonymous with division and unrest. The crimes and atrocities, including widespread "ethnic cleansing", could not have been carried out without broad organisation and high levels of local acceptance. No individual or institution was the sole source for the calamities visited upon the region.

Nevertheless, Slobodan Milosevic came to publicly embody the collective leadership failure of the former Yugoslavia. Milosevic bears heavy personal responsibility for having exacerbated ethnic hatreds and religious tensions in the old federation, stoking military confrontation, wrecking his own country and largely destroying the regional economy.

All the more welcome, then, that in September and October 2000 the Serbian people risked their lives to ensure that the President for whom a majority had voted on 24 September, Vojislav Kostunica, would be permitted to take power. No other single event could have broken the logjam in Serbian politics and regional affairs, or have provided such a needed sense of catharsis to people throughout the Balkans. President Milosevic's defeat, and his subsequent arrest on 1 April 2001, have opened up dramatic opportunities for economic, political and social renewal.

However, as events in Macedonia this year show, the international community still faces substantial danger of renewed conflict in the Balkans. Inter-communal tensions, unresolved and conflicting issues of political legitimacy, extreme economic dislocation and disputes over territory, individual rights and the structures of power all have the potential to spark the first Balkan war of a new century.

Milosevic's departure means that events in the region will move dynamically and unpredictably in the immediate term. Excepting Croatia, the countries of the western Balkans all remain at an unstable threshold between what they were and what they hope to become, faced with a variety of fundamental structural issues.

The Federal Republic of Yugoslavia (FRY) consists of a more democratic but still disconcertingly nationalist Serbia, linked with an independence-minded Montenegro and a deeply hostile Kosovo whose population remains overwhelmingly committed to independence. Serbia faces insurgency in Albanian-majority areas adjoining Kosovo and Macedonia. All three entities need to bring new clarity to their constitutional structures.

❑ Despite recent progress in cobbling together moderate political alliances in Sarajevo, Bosnia remains largely paralysed by weak central institutions and systematic obstructionism by ethnic political elites, exacerbated by divided priorities among the international organisations implementing the Dayton Peace Agreement.

❑ Macedonia's two predominant nationalities (Macedonian and Albanian) continue to wrangle over a wide range of issues that define their coexistence in a state highly vulnerable to external and internal security pressures. Macedonia's future will depend very much on how sensitively the government addresses the demands of its ethnic Albanians, how measured is its response to Albanian guerrilla attacks, and how Kosovo's political status is settled.

❑ Albania is struggling to recover from economic collapse and curb the pervasive lawlessness, corruption and organised criminality that keep it from functioning as a normal state.

❑ Croatia has made commendable strides in moving beyond a nationalist agenda, but still confronts the challenges of advancing broad economic reform and overcoming the legacy of its late President Franjo Tudjman.

B. The Role of International Actors

The international community faces stern challenges in a region where it has repeatedly struggled to prevent and mitigate conflict. Until very late in the day, the collective effort of the transatlantic community to address strife in the Balkans left much to be desired. From the hastily improvised recognition of Slovenia and Croatia, through the blunders of the United Nations Protection

Force (UNPROFOR) leading to the tragedy of Srebrenica,and the vain attempt of the Organisation for Security and Cooperation in Europe (OSCE) to prevent full-scale combat in Kosovo,the West learned hard lesson after hard lesson.

The first United Nations sanctions (an arms embargo) were imposed in September 1991, more than nine years ago, and some specifically targeted measures such as the "outer wall" of financial sanctions against Serbia and Montenegro were later put in place. Another major international instrument, the (ICTY), was established in February 1993. While these efforts were well intentioned,they did little to stop the spread of state-sponsored chauvinism, corruption and violence.

Western policy in the Balkans during the last ten years was for too long reactive, cautious and improvised. Russian policy was usually intended to maintain Moscow's separate profile and prestige, rather than pursue just and viable solutions. Responses were driven event-by-event,with little long-range strategic planning and even less appetite for confronting military aggression head on. Over time, the conscience of Western public opinion, as well as increased understanding that Balkan instability threatened to undermine the fundamental security order in Europe, forced a change.

Belatedly and tentatively, the international community came to take more direct action in the Balkans. Robust North Atlantic Treaty Organisation (NATO) military action helped bring Bosnia's conflicting parties to the negotiating table, resulting in the 1995 Dayton Peace Agreement. The 1999 NATO air campaign eventually reversed a massive campaign of "ethnic cleansing" in Kosovo. Discussions within the Group of Eight (G-8) were crucial in forging the UN Security Council Resolution (1244)[6] that constituted the basis for a peace agreement in Kosovo and the subsequent wholesale return of refugees. The debate about UN-NATO military intervention has evolved from earlier arguments about minimising involvement to the current position where over 60,000 NATO-led European and U.S. troops are deployed with vigorous rules of engagement to keep the peace in Bosnia and maintain a de facto international protectorate in Kosovo.

The international community has made great progress in the Balkans. Equally important work still remains. It must address the underlying tensions that could fuel new conflicts. This demands a comprehensive understanding of

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6 United Nations Security Council Resolution 1244 (1999) on situation relating to Kosovo, available at www.un.org/Docs/scres/1999/99sc1244.htm, hereinafter UNSCR 1244.

the challenges the region faces and the tools best utilised by the international community to secure its goals. A key objective of this report is to outline the basis for more sustainable policies in the Balkans that would be both credible and creditable. The need, simply put, is for a more comprehensive and coherent policy approach, more far-sighted in its assessment of impact and more timely and targeted in its delivery.

The nineteen NATO countries and their allies on both sides of the Atlantic have strong but sometimes divergent stakes in developments in the Balkans. Whether or not the Balkans move forward must be seen as a fundamental test of NATO's credibility. The alliance has only launched direct military action twice in its more than half-century existence - both times in the Balkans. A failure to act to address concerns such as refugee returns, the apprehension of war criminals or violence in northern Kosovo, southern Serbia and Macedonia could be divisive within the NATO alliance and undercut its effectiveness as an organisation. Further turmoil would diminish alliance credibility throughout Central and Eastern Europe and place peacekeepers at greater risk. Continued regional instability would also be tragic for the frontline states - Romania, Bulgaria, Albania and above all Macedonia - that provided NATO with stalwart support for its military objectives during the Kosovo war of 1999.

The Balkans also represent a fundamental test of the transatlantic community's broader political aspirations: to expand a Europe that is democratic, peaceful and committed to closer social and economic integration. If the Balkans can eventually be brought into the mainstream of Europe in such a fashion, it will send a powerful message that North American and European dedication to this goal is more than simply rhetorical. By contrast, if the Balkans again descend into renewed strife, the region will be relegated to a new European "grey zone" - neither East nor West, neither integrated nor self-sufficient. The region will continue to bleed lives and resources and the international community will look dangerously ineffectual.

Other international actors also have vital interests in the region. Russia enjoys close historic and cultural ties with Serbia and Montenegro, as well as Bulgaria, and it has a vested interest in seeing a growing zone of peace and prosperity develop near its southern flank. Stability in the Balkans would promote broader regional security, a precious commodity for the Russian Federation across Central Europe to the Caucasus. Further, the international community as a whole has a tremendous stake - in terms of precedent - in seeing the peoples of the Balkans resolve their territorial and constitutional disputes peacefully and through the instruments of self-governance. Ethnic

tensions and irredentism are by no means exclusive to the Balkans, and the world has looked to the Balkans to see how basic issues of sovereignty, human rights and self-determination will be resolved.

The international community should and must embrace clear goals for the Balkans and help make them reality. First and foremost,international actors should help to peacefully and enduringly resolve political status and minority rights issues where they are most contentious: Serbia, Montenegro, Kosovo, Macedonia and Bosnia. Moving past these difficult issues would allow for much more rapid improvements in security, economic growth, regional integration and human rights across all of the seven entities covered in this report, as well as in a number of other neighbouring states. Until the fundamental legal mechanisms and governing structures of these societies are clarified,all their institutions will remain built upon a foundation of sand.

In looking at the tools that the international community has for working with the people of the Balkans - from troops,to assistance,to technical expertise, to the panoply of regional and global organisations active in the region - none is more important than its collective will. Although the task is extremely difficult,the West must make it a priority to resolve final status issues. It must also remain deeply engaged in the region. Many foreign ministries will prefer to put such issues off for another day, and avoid the challenge of completing as peacefully as possible the reordering set in motion by the dissolution of the former Yugoslavia. To yield to such preferences would mean replicating the international failures of the early 1990s.

The international community has important "sticks and carrots"to facilitate this difficult process. Across the Balkans, one desire is near unanimous: to participate in the European mainstream. Europe must make realisation of that aspiration contingent on the peaceful resolution of final status issues conducted through democratic dialogue under international oversight - and Balkan residents will respond by supporting the process of resolution.

A number of other important challenges are intertwined with this overarching agenda - continuing progress in reconstruction efforts, fundamental institutional and economic reform, the return of refugees, improved security, development of functioning systems of justice and headway in forging the basic instruments of self-governance and civil society.

The international community needs to use its good offices, conditional assistance,the promise of regional integration,a robust security presence,the power of media and persistent advocacy. There is no substitute for a hands-

on approach, and only a combination of tough-mindedness, resolve and continuing commitment to the region will help it move beyond conditions that are a prescription for chronic instability and underdevelopment. At the end of the day, this is the only sound exit strategy.

C. This Report

The subject of this report is the area known in European Union parlance as the "western Balkans", comprising the former constituent parts of Yugoslavia minus Slovenia, plus Albania. (Slovenia's relative progress over the last decade has removed that country from risk of conflict, while Albania's many challenges are inextricably linked to the other entities included in this report.) Within this grouping, our focus is on Serbia, Montenegro and Kosovo (all three comprising the Federal Republic of Yugoslavia or FRY); Bosnia and Herzegovina (henceforth Bosnia); Croatia; Macedonia (officially "the Former Yugoslav Republic of Macedonia" or FYROM); and Albania.

As the potential for disruption and conflict in the Balkans is concentrated in these seven entities, this is where policy makers must focus attention. In discussing each of these entities in turn in Parts II and III, we consider the key issues as they now stand in each of the four critical areas of security, governance, human rights and the economy. The report offers important proposals relating to the final status of the FRY and Bosnia, and deals also with issues of regional integration and the broad role of the key actors of the international community.

We have attempted to provide a comprehensive framework for analysing the sources of renewed Balkan conflict and offer realistic policy alternatives to prevent it. We offer policy options for local actors, regional institutions and the major international players - the Europeans, the United States and Russia. The importance of fundamental institutional change in the region is central to this work, and we have sought systematically to identify roles and responsibilities for the prominent players currently operating in the Balkans. This report is not designed as a detailed development blueprint, nor does it offer cures for all Balkan ills. It is intended rather as a thorough and broad analysis, grounded in extensive field research, of the complex interaction currently driving tensions in the region, and of what is necessary to prevent renewed deadly conflict

In trying to bring a comprehensive perspective to bear on the Balkans, this report draws heavily on scores of earlier, specific reports from the field offices and analysts of the International Crisis Group produced since we

opened our first project office in Sarajevo in early 1996. During that time, ICG has published three book length reports and 140 other reports and briefing papers. A good many of those earlier assessments, particularly the more recent ones,provide the essential grounding for the conclusions in this report; they are the product of detailed work in the field, thorough knowledge of local languages and environments and intensive comparative research.

In addition, much of our work builds on the labours of various government and intergovernmental sources, including the World Bank, the International Monetary Fund (IMF),the European Union (EU), NATO, the Organisation for Economic Cooperation and Development (OECD),the UN and its respective agencies, the OSCE, the Stability Pact secretariat, and the Swedish Government's Kosovo Commission. We have also referred to reports from colleague non-governmental organisations, including Transparency International, the Institute of War and Peace Reporting, the European Policy Centre, the Centre for European Policy Studies and the European Stability Initiative.[7]

While many analysts have proposed that a comprehensive solution be found to the problems of the Balkans, few have produced far-reaching reports on regional problems.[8] Two in particular do,however, serve as models for their scope and completeness. The U.S. Centre for Preventive Action 1996 report, "Towards Comprehensive Peace in Southeast Europe", did an excellent job detailing the importance of external engagement in the region. Another report of general scope which remains pertinent and valuable is "Unfinished Peace:The Report of the International Commission on the Balkans"(1996), a joint product of the Aspen Institute and the Carnegie Endowment, chaired by former Belgian Prime Minister, Leo Tindemans.

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7 Centre for European Policy Studies (CEPS) *Perspectives for the Balkans and a Wider European Order*, 29 November 1999; *A Comprehensive Trade Policy Plan for the Western Balkans:A Bold Initiative to Bring More Stability and Prosperity to South Eastern Europe*, Working Document 146,September 2000, available at www.ceps.be; European Stability Initiative (ESI) *Re-Shaping International Priorities in Bosnia - Part One*, October 1999; *Re-Shaping International Power Structures in Bosnia - Part Two, March 2000; Turning Point - The Brussels PIC Declaration and a State-Building Agenda for Bosnia and Herzegovina*, June 2000; *Autonomy, Dependency, Security: The Montenegrin Dilemma*, August 2000; *The Stability Pact and Lessons from a Decade of Regional Initiatives*, September 1999,all available at www.esiweb.org; Institute of War and Peace Reporting, *IWPR Balkan Crisis Reports;Out of Time:Draskovic, Djindjic and Serbian Opposition Against Milosevic*, 2000, available at www.iwpr.net;Transparency International, *Stealing the State and Everything Else:A Survey of Corruption in the Post-Communist World*, TI Working Paper; *Fighting Corruption:What Remains to be Done at European Union Level*, TI Working Paper, November 1999; *Corruption Perceptions Index 2000*, available at www.Transparency.de.

8 Christopher Bennett, *Yugoslavia's Bloody Collapse*, C. Hurst & Co., London, 1995; David Dyker and Ivanjvoda (eds) *Yugoslavia and After*, Longman,London,1996;Misha Glenny, *The Balkans*, Granta Books,London,1999;Branka Magas, *The Destruction of Yugoslavia:Tracking the Break-up*,Verso,London,1992;Noel Malcom, *Bosnia:A Short History*, Macmillan, London,1996,and *Kosovo:A Short History*, Macmillan,London,1998; Viktor Meier, *Yugoslavia. A History of its Demise*, Routledge,London & New York,1999;David Owen, *Balkan Odyssey*, Harcourt Brace & Co.,San Diego,1995;Laura Silber and Allan Little, *The Death of Yugoslavia*, Penguin Books,London,1996;Chuck Sudetic, *Blood and Vengeance*,W.W. Norton & Company, 1998;Mark Thompson, *A Paper House:The Ending of Yugoslavia*,Hutchinson and Vintage,London 1992, Pantheon, New York 1992;and *Forging War:The Media in Serbia,Croatia,Bosnia and Herzegovina*,Article 19,London,1999;Miranda Vickers, *Between Serb and Albanian*, C. Hurst & Co.,London 1998. For policy discussions see *Beyond Kosovo:A Regional Approach to the Balkans*,The Atlantic Council, June 1999; *The Balkans and New European Responsibilities*, Bertelsmann Stiftung, June 2000;Ivo H. Daalder & Michael E. O'Hanlon, *Winning Ugly: NATO's War to Save Kosovo*, Brookings Institution Press,Washington D.C,2000; *Toward Comprehensive Peace in Southeast Europe*, Council on Foreign Relations,Twentieth Century Fund Press,1996.

2. COMMON PROBLEMS

Across the Balkans, security and stability continue to be undercut by lingering nationalism, fragile government institutions, underperforming economies, undelivered justice and the issue of unreturned refugees. Breaking the cycle of violence in the region will require shattering the hold of narrow political elites on power and beginning the difficult transition to lasting economic and democratic reform.

This report deals in depth,in Parts II and III,with the particular problems of Serbia, Montenegro, Kosovo, Bosnia, Macedonia, Croatia and Albania. However, a number of major problems and challenges are common to most, or all, of these seven entities. Five broad issues deserve particular consideration - unsatisfied nationalism, unresponsive government institutions,underperforming economies,undelivered justice and unreturned refugees and displaced persons.

Dealing with these overarching concerns remains a fundamental key to preventing conflict in the Balkans. Obviously these issues must be addressed within a local context,as is done throughout this report. However, there is also merit in analysing broader themes from a regional perspective to gain more comprehensive insight into the situation in the Balkans today.

A. Unsatisfied Nationalism

Nationalist impulses are still fuelled by divisions over competing territorial claims, final political status and minority rights, as well as wholesale economic dislocation across the region. Seeing no hope of protection within weak, poorly functioning states, and lacking confidence in the ability of institutions and laws to provide security, many people continue to turn to ethnic parties promising to defend their interests.

The fear and insecurity surrounding the breakdown of communist Yugoslavia set the stage for rabid nationalism in the 1980s and 1990s. In a climate of dissatisfaction and deep uncertainty brought on by economic crisis and the

disintegration of communist rule, political leaders seized upon appeals to nationalism as a powerful mobilising tool. This is not to say that nationalist aspirations and grievances were not keenly felt. However, these sentiments were whipped up and manipulated by political leaders. This served the tactical purpose of generating popular support, but at the extraordinarily high cost of precipitating a bloodbath.

Communist ideology claimed that equality among the Yugoslav peoples had been achieved through the liberation struggle of World War II. The reality was different. Yugoslav President Josip Broz Tito maintained control through authoritarian state structures, an aggressive police presence and cynical regional and ethnic power-sharing arrangements.

As the communist propaganda of "brotherhood and unity" became discredited by the end of the 1980s, there was no other basis for the accommodation of competing national demands. The communists claimed to have settled the national question, but in fact simply drove it underground, where it was left to fester. This was especially the case after the communist party purges following the suppression of the "Maspok" (Mass Movement) in Croatia at the beginning of the 1970s. Following this, attempts to accommodate legitimate national aspirations over which the communists did not have full control were abandoned, and nationalist sentiments were suppressed. In the climate of the early 1990s, with little room for meaningful dialogue or compromise, many Yugoslav leaders focused on settling old scores and securing "ethnic territory" instead of uniting to tackle the problems facing their society.

The first leader openly to break the communist taboo on nationalism was Slobodan Milosevic of Serbia, who came to power in 1987. Throughout the 1980s, Serbian resentment had risen over the privileges enjoyed by its two autonomous provinces, Vojvodina and especially Kosovo, fuelled by reports in the Serbian press of harassment and pressure by ethnic Albanians against Serbs in Kosovo. In championing the Kosovo Serbs and the reintegration of "divided Serbia", Milosevic found a means of fomenting a nationalist frenzy and in winning for himself, at the end of the 1980s, a unique level of popular support in the federation's biggest republic.

Resurgent Serbian nationalism at the end of the 1980s, and the fear it engendered, also helps explain the forceful resurgence of Croatian nationalism. These sentiments were exploited and manipulated by Franjo Tudjman's Croatian Democratic Union (HDZ), which won power in Croatia's first multi-party elections in April and May 1990. Such strident nationalism was in its nature undemocratic, refusing to account for the desires and aspirations

of others. This was notably the case with Serb nationalism, whose core aim was the unification of all Serbs in one state. This effort was, at best, insensitive to the wishes of other peoples that lived in the same territories and, in its most violent expression, pursued the eradication of non-Serb populations. It was also the case with Croat nationalism, whose insensitivity to the fears and insecurities of Croatia's Serb population in 1990 greatly assisted Belgrade's efforts to whip up tension among Serbs across Yugoslavia.

A similarly undemocratic nationalism is evident in a lack of tolerance among Kosovo Albanians towards non-Albanians - Serbs, Muslims, Roma - living in their midst. The elusive quest for national unification has preoccupied many ethnic Albanian academics, intellectuals and, when playing the nationalist card, politicians. Despite being cut off from each other for almost a century, ethnic Albanians from Albania, Kosovo, Macedonia and Montenegro never lost a sense of shared national consciousness, underpinned by a perception of an unjust allocation of borders by the Great Powers in the declining years of the Ottoman Empire. But the decades of separation produced three distinct Balkan Albanian entities: Albania, Kosovo and western Macedonia. Despite recurring efforts to stir "Greater Albania" or, more recently, "Greater Kosovo" sentiment, these centres of Albanian population have experienced such diverse development that any pan-Albanian nationalism will likely remain relatively muted for the foreseeable future, as these communities struggle with more pressing social problems. Whilst the top priority for Kosovo Albanians is to see an independent Kosovo, the main goal of Macedonia's Albanian population seems, on balance, likely to remain achieving a marked improvement in their status within the Macedonian state, which would end their perceptions of being second-class citizens.

Meanwhile, Albania's own inhabitants remain deeply traumatised by the events surrounding the 1997 uprising and the 1998 attempted coup d'état. The "national question" was brought squarely to international attention by the Kosovo war in 1998 and 1999. The sudden arrival in Albania of tens of thousands of Kosovo Albanian refugees and guerrilla fighters brought the Kosovo issue into the home of every Albanian. For that brief period from the spring of 1998 to the end of the conflict in the summer of 1999, a true sense of pan-Albanian solidarity prevailed, and the world was presented with a united Albanian front. However, as soon as the refugees and Kosovo Liberation Army (KLA) guerrillas left Albania, the grim realities of life in that impoverished country pushed the "national question" to the perimeter of general debate.[9]

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9 For convenience and familiarity to an international readership, the English terminology Kosovo Liberation Army (KLA) is used throughout the report. The Albanian Terminology is Ushtira Clirimtare e Kosoves (UCK).

Taken as a whole, the world saw communist rule disintegrate in the late 1980s and the full force of nationalism - exclusive, intolerant and violent - explode on to the scene with a vitriol greater than had been the case in the admittedly highly troubled pre-World War II Yugoslavia. Yugoslavia was ultimately torn apart at such cost because the use of force as a means of achieving nationalist goals was legitimised. This was first explicit in the case of Serb nationalism. It started with violence against the political and constitutional system, when Belgrade orchestrated political coups in Vojvodina, Kosovo and Montenegro in 1988 and 1989. Then, with the connivance of the Yugoslav People's Army (JNA), it escalated as Serb paramilitaries in Croatia and Bosnia accumulated arms, using them first to threaten and later to seize control of territory they claimed.

Serb nationalists were not the only ones to view force as their preferred means of negotiations. The Slovene defence minister at the time of Slovenia's brief war in 1991 planned a violent confrontation with the JNA, believing that such a strategy would most quickly secure international recognition of Slovene independence and the JNA's withdrawal from Slovenia.[10] Similarly the strategy of the KLA in the late 1990s was to provoke, through attacks on Serb security forces, Yugoslav Army (VJ) retaliation and the internationalisation of their cause.

Today, effectively undermining destructive nationalism requires addressing the underlying causes of the fear and insecurity that have been exploited by nationalist leaders. Croatia offers an interesting example in that regard. Having won its independence, Croatia re-established control over its territory through the military campaigns against the Serb-controlled regions in 1995 and through the United Nations Transitional Administration in Eastern Slavonia (UNTEAS), which ended in 1998. While the right wing in Croatian politics, including Tudjman himself, did not give up its obsession with the lands inhabited by ethnic Croats in Bosnia, territorial claims against Bosnia never had widespread popular support in Croatia. After 1995 a more normal, healthy political environment evolved, in which the nationalist right led by Tudjman and the HDZ was progressively less able to mobilise the population against international pressure for democratic reform as the price of European integration. Following Tudjman's death in December 1999, the HDZ was heavily defeated in elections in 2000.

A number of major issues concerning territorial claims and political status in the region remain unresolved, inflamed by nationalism and economic hardship, each of them offering the clear potential for renewed conflict. Montenegro has

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10 See Janez Jansa, *The Making of the Slovene State*, Ljubljana, 1994.

yet to resolve its constitutional relationship with the FRY, with a significant proportion of Montenegrins eager for independence; Kosovo's ethnic Albanian majority, residing in a province that is currently a de facto international protectorate while de jure still part of the FRY, remains determined to sever Kosovo's ties with Serbia and gain control of their own affairs; violence continues to roil the Presevo valley in southern Serbia; discontent, amounting potentially to separatist pressure, continues to be rife among the Albanian language speakers of western Macedonia; and Bosnia struggles to define the nature of its state beyond communalism at a time when the constitutional structures created by the Dayton Peace Agreement are under severe stress.

All these issues will be daunting to resolve. They revolve around thorny issues of history, self-interest, bare-knuckled politics, culture, ethnicity and economics. In each case, there is a clear need for a democratic dialogue to peacefully resolve outstanding issues of territorial claims and political status. The principles on which that dialogue should proceed are summarised in the recommendations at the end of Chapter 65, *"The Futur of the FRY"*.

B. Unresponsive Government Institutions

Across the Balkans, problem after problem can be traced back to public institutions that fail to provide for economic, legal and security needs of citizens. Almost all state institutions in the Balkans are fragile, a large number are corrupt and a great many are discredited. Throughout much of the region, anti-democratic forces maintain a stranglehold over political, military and economic power in these societies. Breaking this legacy - one nurtured under Tito, and further exacerbated by the upheaval and violence of the last decade - is crucial to reducing tensions and preventing conflict.

While international assistance has produced a patchwork of projects to address a variety of problems at different stages using different means, the essential challenge is almost invariably the same, that of institution building. For example, the continuing strength of stridently nationalist parties in some parts of the Balkans, such as Bosnia, often reflects the weakness and lack credibility of the state structures among the population, particularly in providing basic security.

Throughout the region, anachronistic and authoritarian communist institutions did not make the transition to democracy and a free market that occurred in the rest of Central and Eastern Europe. Instead, public institutions in the Balkans were largely driven backwards - directing, and being consumed by, four wars, massive refugee flows, destruction of infrastructure, communal hatreds, the collapse of established trade and the demise of law and order.

Political, economic and military power in the Balkans still remain largely synonymous, dominated by the expectation that public office and state-dominated assets should - and will - be exploited as a source of power and patronage. Elites continue to use their positions to favour family and friends, intimidate opponents,divert funds to consolidate their political bases,impose corrupt conditions on new enterprises and treat investors as short-term hard-currency cash-cows. Across the Balkans, already scarce public resources continue to be directed to partisan advantage and personal gain.

The institutions of the most significance to the people of the Balkans are those related to the security and stability of daily life. Those institutions are of three broad kinds - those which ensure personal and communal security (including a conscientious and impartial judiciary, backed up by a reliable police force); those which give substance to the transition to democracy (including parliament,political parties and electoral commissions);and those which encourage and regulate economic activity. Later sections in this chapter focus on frail economic and judicial institutions; the present emphasis is on the problem of institutional frailty as it affects security, governance and public life.

More effective and integrated institutions are needed at the larger European level,at the inter-entity level and within each of the seven entities covered in this report. Unless progress is made in reshaping institutions, the goal of broader integration both within the Balkans,and between the Balkans and the rest of Europe,will remain daunting. This discussion is developed in Part IV.

Ultimately, not all countries in the Balkans need - or want - the same kind of institutions. As the experience of the United Nations Interim Administration Mission in Kosovo (UNMIK) is demonstrating, particularly with regard to dictating the pace of establishing democratic institutions, many sorts of Western imposition will be resented and undermined. Assistance through provision of models and mentors may be more effective, with one recent example being the EU's help to the Balkans in drafting a standard, regional Investment Compact through the Stability Pact mechanisms.

To succeed,the process of institution building will have to be owned by local communities. As institutions develop form and force,so will the commitment of the Balkan communities to those institutions. Institution building must take account of peculiarities in constitutional as well as economic circumstances in each location. In Bosnia, as the experience of developing border police demonstrates,central state institutions need to be designed to give the three major communities the habit of working together on practical

projects where a sense of common interest and purpose can more easily be identified.   In Montenegro, the local government has built up parallel institutions,as a function of tensions with Serbia and its exclusion from FRY governing structures.   In Kosovo, the institutions of the international protectorate need to be adjusted to encourage more participation and ownership from the local communities, including the Serb population, pending a decision on the final status of the area. In Macedonia, institution building needs to broaden the basis for dealings between the Albanian and Macedonian communities.

Regarding security institutions, a number of practical and common sense steps can be pursued.   Civilian control over the military must be strengthened.   Further, militaries in the region have to be encouraged to engage in even modest confidence-building measures already underway, including information-sharing on potential mobilisations. All the countries in the region have participated in the work of the OSCE, including some Confidence and Security Building Measures (CSBM) providing for the exchange and verification of information regarding the participating states' armed forces and military activities. This includes an annual exchange of military information and modest risk reduction measures. The aim of these measures is to promote mutual trust and dispel concern about military activities by encouraging openness and transparency.   Furthermore the OSCE's politico-military code of conduct commits participating states to maintain only such military capacities as are commensurate with individual or collective legitimate security needs, although it also stresses the right of each participating state to freely determine its security interests and to choose its own security arrangements - including treaties and alliances.

It is clear that a considerable gulf still exists between rhetoric and practice with regard to military matters in the region. Over time, force levels should be reduced and the internal security and paramilitary forces that have been so abusive over the last decade should be disbanded. Support for training and professionalisation through NATO's Partnership for Peace will augment the OSCE efforts and help return these militaries to the role of national defence and away from explicitly political agendas.

As justice and policing go hand in hand, the training of local police forces should be a central goal in the security arena, and continued international supervision of these police forces should be maintained.The European Union has made improving its ability to support civilian police efforts a central goal for improving its crisis management capabilities. By 2003,EU member states hope to be able to volunteer up to 5,000 police officers in a regional crisis,

with 1,000 of them to be deployable within 30 days, for international missions across the full range of conflict prevention and crisis management operations.[11] These are welcome steps, and come partially in response to the slowness with which effective police presences have been developed in the Balkans. However, much more still needs to be done in the Balkans - much sooner than 2003 - to develop professional local police forces. General precepts need to be backed up with specific, practical help on institution building. In Bosnia, for instance, much effort has been devoted to training and equipping border police. This program should pay dividends in increasing state revenues, in improving control over sovereign territory, in reducing crime and smuggling, and helping better relations between the Bosnian communities

Managing the process of democratisation poses its own problems. The usual place to start is with the calling of elections. However, successful elections in the Balkans, as elsewhere, depend on prior institution building at a community level if the elections are not simply to consolidate the power of ethnically-based groups and therefore to confirm social divisions. Parties have to be created, informed and encouraged. Freedom of the press must become an accepted norm, and civil society will have to develop stronger roots through the development of more active interest groups and non-governmental organisations. Freedom of association needs to be established as a routine, and the role of extreme nationalist parties will have to be marginalised.

Nurturing a free, vibrant and independent media will be a vital part of this effort throughout the region. In many of the countries covered in this report, the media has made impressive strides over the last decade. However, in too many cases state-run or state-dominated television stations and newspapers offer ruling parties a distinct advantage.

Corruption continues to be a central problem cutting across the variety of Balkan institutions. All the entities in this report suffer pervasive corruption that discourages investment, stifles normal democratic expression, discourages judicial impartiality, subverts security structures for political purposes and erodes trust in government institutions and the administration of laws. Indeed, the FRY finished ahead of only one country - Nigeria - in an index of corruption in 90 states world-wide. The World Bank has also argued that corruption remains the principal impediment to doing business in the Balkans.[12]

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11 EU member states currently have about 3,500 police internationally deployed.
12 *The Road to Stability and Prosperity in South Eastern Europe*, The World Bank, March 2000, pp 94-108.

Table 1. Corruption Indicators

Countries	2000 Corruption Perception Index Score (Index ranges from 1-10, with 1 the worst score)	Country Rank (Among 90 countries rated)
Nigeria	1.2	90
FRY	1.3	89
Bulgaria	3.5	52
Croatia	3.7	51

Source: *The 2000 Corruption Perceptions Index. Transparency International,* www.transparency.de

Institutional changes to combat corruption will need to be reinforced by the emergence of a free media able to expose corrupt officials, a firm message from the international community and investors that corrupt practices will not be countenanced and,the strengthening of anti-corruption norms in civil society.

The starting point need not be new laws. The rule of law is discredited by the Balkans habit of passing laws that are not fairly and honestly applied but often designed just to impress donors. Ensuring that the law is applied fairly and rigorously means making sure that officials are sufficiently well-paid that they do not regard taking bribes as an essential livelihood. It also entails training officials to ensure that they are aware of their obligations and responsibilities - and of the penalties for corrupt practices. The international community, where it has the power, and local governments should move to sack corrupt or partial judges and vigorously prosecute corrupt firms and officials, not least for the demonstration effect. This should be part of a larger effort to remove bias toward friends and clients in the application of everything from tax laws to customs duties.

Conclusions and recommendations on government institutions

❑ *A central goal of policy makers should be to break the stranglehold of small elites over political and economic power in the region.*

❑ *International funding should heavily focus on institutional strengthening, particularly measures that will allow democratic governments in the region to become increasingly self-supporting, with less control of revenues by political parties and more by professional civil services.*

❑   *Effective, long-term institution building in Serbia, Montenegro, Kosovo and Bosnia depends on clarifying the underlying constitutional structures that provide the legal framework for these societies.*

❑   *Civilian control over the military should be strengthened, and paramilitaries should be disbanded; the OSCE should intensify its efforts to engage in confidence building measures between militaries in the region; and NATO should explore - through its Partnership for Peace program - how to augment these efforts.*

❑   *Ending state control over media outlets in line with Council of Europe norms will help develop more robust regional democracies, and allow corruption to be addressed more effectively. The European Union and other donors should maintain pressure and support for media reform.*

C.   Underperforming Economies

None of the Balkan economies has made an effective transition from state-dominated economic control to market management. Indeed, many have gone backwards. Unless the peoples of the Balkans themselves address these issues, assisted by the international community, there is no realistic prospect of attracting major investment or sustaining growth.

Broader Balkan integration within the European Union will remain a mirage without major institutional reforms. Most of the people of the Balkans are eager to take their place in Europe. However, such Europe-wide cooperation will work only if those involved from the outside - funding agencies, investors, lenders, consultants and government officials - know that they can rely on the institutions being developed in the Balkans countries. Without a solid foundation in institutions, law will remain unpredictable and capricious, crime and corruption will flourish, legal judgements will be ignored, cronyism will be the norm, and government administration will remain skewed to the benefit of one ethnic group at the expense of others. Failure to improve economic conditions or move forward with broader integration into Europe will provide a recipe for continued tensions, extreme nationalist politics and potential conflict.

In sharp contrast, the majority of economies of central Europe have modernised and diversified. They have largely abandoned the heavy-handed, bureaucratic state control of their former communist regimes. They have pursued radically different economic policies, encouraging investment, commencing privatisation, liberalising economic policies, and seeking to

align standards and practices with those of the EU. This process is not yet complete and there have been serious hardships and difficulties along the way. Nonetheless,liberalisation is well under way.

Those options may not have been open to the Balkans in 1989,or at any time since - but they are open now. To make the jump, the Balkans need much more than they could possibly raise from their own resources alone, by way of capital, skills, technology, distribution and marketing know-how, and workforce training. The western Balkans need both to attract and to absorb substantial amounts of foreign assistance,while avoiding the risk of becoming aid-dependent, over-reliant on both donor funds and their advice. Similarly, these countries have to find ways to encourage foreign investment. That requirement,like any plans for affiliation with the EU, will necessitate facing difficult and disruptive structural change. That change, in turn, will entail confronting powerful vested interests, those opposed to any liberalisation and determined to maintain control of their own corrupt, crony-ridden economic sectors.

The solution to this problem does not lie in ever more assistance, but in regenerating economic activity through internal reform,and expanding trade with Europe and the rest of the world:as to trade,see further the discussion in Part IV. Harmonising customs procedures and standardising technical regulations would be logical areas for early regional cooperation. Internal reform requires adherence to the rule of law and the elimination of corruption, a commitment to liberalisation (including privatisation in ways that ensure economic activities are not sold to the same corrupt hands now in control), and a willingness to undergo even more economic hardship. Foreign investment can only follow internal reform;it cannot precede it.

While the state control economic model has been utterly discredited, its vestiges linger - including its mindset. The dead hand of intrusive, over-regulated management impedes economic development. The region's former comparative advantages have been lost, and new market niches have not been established. Only Croatia has so far demonstrated an unequivocal political determination to open up its market, and not even Croatia has shown the technical economic competence to do this. Credible economic teams are nowhere in place.

Above all,the governments in the region need to recognise how serious their problems are. That involves avoiding any temptation to convince themselves that they can be completely bailed out,in the short-term by donor assistance, in the medium-term by "quick fix" remedies (poorly designed privatisations,

for example), and in the longer term by affiliation with the EU. External support and assistance will certainly be helpful - e.g. the EU's decision in June 2000 to further open markets to western Balkan countries, bringing up to 95 per cent the proportion of imports from these countries given duty free access.[13] The necessary internal reform momentum ultimately has to come from within. Governments need to set firm, clear, properly designed programs for economic liberalisation - and stick by them. That will be difficult, because economic reform threatens strong vested interests.

Privatisation, while not a panacea, will be key to reform efforts. The process of privatisation will reduce the scope for arbitrary, capricious and corrupt government-party interventions in business management. In addition, privatisation strikes directly at some of the entrenched and corrupt vested interests in the Balkans economic systems. If former state assets are privatised, new sources of capital will be injected into the economy, government finances strengthened and new jobs will be created. But - and it is a crucial but - Balkan governments need to make sure that they fix a fair price for their assets, particularly in circumstances where their value may have been understated and the assets themselves badly run down. They need to carefully manage the pace and scope of privatisation, avoiding either a "fire sale" to cronies or a process so disruptively slow it will undercut the momentum for reform.

Handling privatisation may be the biggest - and hardest - economic decision that this generation of Balkans leaders has to address. They may not be well placed to take that decision alone. Bad past habits, combined with current skills shortages, make it difficult for Balkans leaders to address simultaneously all the economic problems they need to resolve. In managing privatisation, there is therefore a case for taking more outside advice than usual, in a more hands-on way than is customary (especially for questions that relate so directly to state sovereignty). Outside advisers could help to strike fair market values for assets, evaluate independently tenders and assist in rewriting property laws.

The dilemma for Balkans governments as they move forward with reform will be to find ways to reduce chronically high levels of unemployment. It

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13 "Commission proposes increased market access for products from Western Balkans", European Commission Press Release IP/00/586, Brussels, 7 June 2000. Duty free access was widened further in September 2000.

will be easy for critics to argue that structural change entails unacceptable levels of dislocation, and therefore an intolerable increase in unemployment, but delaying change is not a realistic option. Reconstruction, too, will offer new job opportunities, especially in the construction sector itself. In addition, a number of local industries will survive, whether by making themselves competitive in export markets, or by using their advantages of price, location and customer base to maintain their local markets against outside competition. Small business can serve as the main economic motor, and source of employment, for the indefinite future. Free of oppressive regulation, small business can flourish.

A genuine commitment to structural reform would also give Balkan leaders enough flexibility to introduce some bolder economic policies. Some of the most successful economic policies in the region have involved leap-frogging over established practices and entrenched obstacles. One example is the creation of the Central Bank of Bosnia, and its success in establishing a currency board, controlling inflation, and introducing a new currency, the convertible Mark. Another is the UNMIK-inspired replacement of Yugoslav currency in Kosovo with the German Mark, now emulated in Montenegro.

Conclusions and recommendations on internal economic reform generally

❑ *The solution to Balkans economic underperformance is not ever more financial assistance, but in regenerating activity through internal reform and external trade.*

❑ *Foreign and domestic investment in Bosnia, Serbia, Kosovo and Montenegro will remain limited until basic legal structures, property rights and constitutional arrangements are finalised.*

❑ *Governments need to set firm, clear programs for economic liberalisation - and stick by them.*

❑ *Privatisation, guided by international assistance and norms, should move ahead expeditiously, with donor guidance and conditionality important in ensuring that these efforts don't become a "fire sale" to the politically well connected.*

❑ *Harmonising customs procedures and standardising regulations are logical areas for early regional cooperation.*

D.   Undelivered Justice

Reliable, impartial and timely delivery of justice is a key to progress in the Balkans. The quality of justice, especially in settlement of property claims and dispute settlement procedures, is one crucial variable in determining prospects for foreign investment. Perceived ethnic or nationalist bias in the judicial systems reinforces the fears and hatreds which fuel unsatisfied nationalism. Failure to establish claims, and to obtain and trust the protection of the law, critically limits the flow of refugee returns.

The essential problem with the judicial systems lies not so much in the enactment of appropriate laws, as in making sure those laws are applied fairly and with reasonable alacrity.[14] Balkans governments introduce new laws as though this in itself would reform their systems of government. In too many cases, those laws are of notional effect only, contradict other pieces of legislation, are undermined by administrative discretion and are not policed rigorously.

A number of steps can be taken to strengthen the judicial system generally, including removal of corrupt judges; more objective processes for the appointment and dismissal of judges; better training for judges and advocates; possible establishment of separate commercial courts; introduction of standard dispute settlement procedures for investment cases; and, early simplification of the currently labyrinthine maze of property laws.[15]

The issue of war criminals remains far more contentious and complicated.[16] Bringing war criminals to justice goes to the heart of international law, morality and the ability to assign blame for Europe's worst atrocities in the second half of the 20th century. Only by bringing the perpetrators of such acts to justice, and removing them from involvement in the day-to-day affairs of the Balkans, can the stigma of collective guilt begin to be lifted from the peoples of the region, allowing them to embrace a larger and more lasting sense of reconciliation. The role of the ICTY is crucial in this respect, and a number of measures to strengthen its effectiveness are spelt out in the recommendations below.

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14 For an overview and discussion of the weaknesses in the judicial system in Bosnia see ICG Balkans Reports No. 72, *Rule over Law:Obstacles to the Development of an Independent Judiciary in Bosnia and Herzegovina*, 5 July 1999; For Albania, see ICG Balkans Report No. 87, *Albania:State of the Nation*, 1 March 2000.

15 ICG Balkans Report No. 84, *Rule of Law in Public Administration:Confusion and Discrimination in a Post-Communist Bureaucracy*, 15 December 1999; ICG Balkans Report No. 86, *Denied Justice:Individuals Lost in a Legal Maze*, 23 February 2000.

16 For the handling of the case against Slobodan Milosevic himself, see Chapter 3 on *Serbia*.

Other measures can and should be taken at country level, including investigation by police and tax officials of the possibility of seizing the assets of publicly indicted war criminals.

Pursuing war criminals alone does not guarantee the wider objective of entrenching justice. Nor does any other single component in strengthening the Balkans judicial systems. All the reforms proposed in this report are designed to be cumulative and complementary in their effect, and must be supported by broader efforts to educate the public and reconcile communities.

However, without pursuit of war criminals, refugee returns will be inhibited, multi-ethnic confidence in the justice system will not develop and criminals will continue to flout the law with impunity. Criminals still at large make a mockery of the justice system, continue to propagate extremist political views and help control local militias and political parties. The international community should take great care not to let its enthusiasm for recent democratic progress in Serbia lessen its commitment to seeing Belgrade cooperate with the Tribunal. Croatia in particular, which has cooperated to a considerable extent with ICTY, would be deeply angered if the international community instituted a double standard.

The War Crimes Tribunal in The Hague has publicly indicted 98 persons since its inception in 1993, of which only four have so far been convicted.[17] A much larger number of known or suspected war criminals remain as yet un-indicted by state courts or by the ICTY.[18] The ICTY could make greater progress by using available procedures to try selected war crimes suspects in the region itself, with proceedings fully translated and locally transmitted. With a substantial portion of its proceedings moved from The Hague to local settings, the ICTY might develop much greater legitimacy in the eyes of the general ex-Yugoslav public. These proceedings should be televised at prime time throughout the countries of the ex-Yugoslavia in the local language. Through such efforts the people of the region are more likely to come to grips with their history. Of course, providing adequate security for justices, witnesses and indictees would be a key element of holding trials in the region, and the difficulties of doing so cannot be underestimated. Most if not all these problems could probably be managed with appropriate budgetary support.

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17 Of the rest, twenty were acquitted or had all charges dropped; nine died; 38 have proceedings still on foot; and 27 remain at large. See ICTY website www.un.org/icty/glance/keyfig-e.htm
18 For a comprehensive discussion see ICG Balkans Report No. 103, *War Criminals in Bosnia's Republika Srpska: Who are the People in Your Neighbourhood*, 2 November 2000. ICG has been told by ICTY sources that the number of persons ultimately expected to be indicted is of the order of 250.

Conclusions and recommendations on justice generally

❑ *Justice systems should be strengthened, including by improved procedures for the appointment and dismissal of judges, better training for judges and advocates, and the removal of corrupt judges.*

❑ *The ICTY should be strengthened by:*

- *NATO raising the priority given in the Kosovo Force (KFOR) and Stabilisation Force (SFOR) to apprehension of suspected war criminals;*

- *The international community being firm and consistent in imposing penalties, either in terms of direct assistance or in access to international financial institution support, for non-cooperation with the ICTY;*

- *The Tribunal expanding its numbers of judges, having more with direct, practical experience in trying cases, and holding more trials simultaneously; and*

- *The Tribunal using available procedures to the extent practically possible to try selected war crimes suspects in the region itself, with proceedings broadcast locally in appropriate languages.*

❑ *Police and tax officials should investigate the financial activities of publicly indicted war criminals to determine if their assets and/or money should be seized in accordance with existing laws.*

E.   Unreturned Refugees and Displaced Persons

Of the three million Internally Displaced Peoples (IDPs) and refugees created by war in the Balkans, only 38 per cent have been able to return to their pre-war homes.[19]   The 1,926,000 people remaining displaced throughout the region and in third countries, unable to return to pre-war homes, remain a serious impediment to broader stability. The suffering and legitimate security concerns of these civilians stand as stark testament both to the horror of successive Balkan wars and the continuing

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19 "Refugees and Others of Concern to UNCHR,1999 Statistical Overview",UNHCR.

difficulties of post-conflict transition in these societies. The prospect of improved relations among the successor states of the former Yugoslavia has opened up new opportunities for the remaining refugees and displaced people who wish to return, but various administrative and political obstacles remain.

Table 2. Refugees and Internally Displaced Persons in the Western Balkans

Country	Total Population (millions)	Internally Displaced Persons	Refugees
Bosnia	3.8	809,500	65,000
Croatia	4.5	52,400	28,400
Macedonia	2.0		21,200
Albania	3.4		3,900
FRY	10.6	234,900	500,700
Refugees outside the region			210,000
Total:	24.3	1,096,800	829,200

Source:UNHCR, *Refugees and Others of Concern,1999 Statistical Overview;Update on Durable Solutions for Refugees and Displaced Persons in the context of the Dayton Agreements*,Humanitarian Issues Working Group,29 November 1999.

Table 3. Returned Refugees and Internally Displaced Persons

Country	Returned Internally Displaced Persons	Returned Refugees
Bosnia	73,000	161,000
Croatia	63,600	35,000
The FRY	168,000	755,000
Total:	304,600	951,000

Source: *UNHCR,Refugees and others of Concern,1999 Statistical Overview.*

The right of return for refugees and IDPs in the Balkans is entrenched in four major agreements that provide for freedom of movement and settlement and spell out the legal basis for refugee return. These are the Washington Agreement, which created the Bosniak-Croat Federation in Bosnia in 1994; the Erdut Agreement for eastern Slavonia in Croatia; the

Dayton Agreement for Bosnia in 1995; and UN Security Council Resolution 1244 for Kosovo in 1999. The five basic barriers to wide-scale repatriation are security, property laws, discrimination, bureaucracy and limited international support.[20]

Personal security, as in almost all refugee situations, remains the largest impediment to large-scale returns. Despite the presence of peacekeeping forces, many individuals are rightly concerned that they may still be targets of intimidation and violence. The pattern of returns in some parts of the region shows that many refugees are prepared to return to areas where they will be in a minority, so long as they can feel secure.[21] Adding to the sense of insecurity has been the relatively slow progress by local and international officials in apprehending and bringing to justice accused war criminals. Further, continuing official corruption and the presence of powerful criminal organisations spur fears of reprisal attacks among refugees.

The current state of property law across much of the Balkans has also prevented higher rates of refugee and IDP returns. Attempts by returnees to use the courts to evict temporary occupants (often themselves refugees) from their homes and regain rightful property have often ended in frustration rather than re-possession. In many cases, laws either provide inadequate protection of property rights or were framed to deter potential returnees and disadvantage those who do return, as for example under the former Tudjman government in Croatia. Barriers include difficulties in establishing tenancy rights over formerly socially owned property, the main form of property holding in former Yugoslavia; the absence of legal documentation; and continued obstructionism by local authorities. The problem of refugees and IDPs reclaiming their property, usually apartments, has been particularly acute in urban areas. Political pressure to relocate other families in apartments has often obstructed returns and little progress has been made in revising the legal rights of urban tenants.

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20 ICG has published sixteen reports over the last five years on refugee return. See ICG Balkans Report No. 2 *Security Repatriation, Elections and Reconstruction*, 1 April 1996; ICG Balkans Report No. 23. *Going Nowhere Fast: Refugees and Internally Displaced People in Bosnia and Herzegovina*, 1 May 1997; ICG Balkans Report No. 24, *House Burnings Obstruction of the Right to Return to Drvar*, 9 June 1997; ICG Balkans Report No.29, *A Hollow Promise? Return of Bosnian Serb Displaced Persons to Drvar*, 19 January 1998; ICG Balkans Report No.30, *Rebuilding a Multi-ethnic Sarajevo: The Need for Minority Returns*, 3 February 1998; ICG Balkans Report No. 33, *Minority Returns or Mass Reallocation*, 14 May 1998; ICG Balkans Report No.34, *A Tale of Two Cities: Return of Displaced Persons to Jajce and Travnik*, 3 June 1998; ICG Balkans Report No. 35, *The Konjic Conundrum: Why Minorities have Failed to Return to a Model Open City*, 19 June 1998; ICG Balkans Report No. 37, *The Western Gate of Central Bosnia: The Politics of Return in Bugojno and Prozor-Rama*, 31 July 1998; ICG Balkans Report No. 40, *Impunity in Drvar*, 20 August 1998; ICG Balkans Report No. 49, *Breaking the Logjam: Refugee Returns to Croatia*, 9 November 1998; ICG Balkans Report No. 68, *Balkan Refugee Crisis*, 1 June 1999; ICG Balkans Report No. 73, *Preventing Minority Return in Bosnia and Herzegovina: The Anatomy of Hate and Fear, 2 August 1999; ICG Balkans Report No. 84, Rule of Law in Public Administration: Confusion and Discrimination in a Post-Communist Bureaucracy*, 15 December 1999; ICG Balkans Report No. 86, *Denied Justice: Individuals Lost in a Legal Maze*, 23 February 2000; ICG Balkans Report No. 94, *Bosnia's Refugee Logjam: Is the International Community Ready?*, 30 May 2000.
21 See ICG Balkans Report No. 95, *Bosnia's Refugee Logjam: Is the International Community Ready?*, 30 May 2000.

In some areas, refugee and IDP returns have shown a promising upturn, even in some hard-line areas in Bosnia and Croatia. Unfortunately, the UNHCR has often lacked funding to facilitate individuals. Given the emphasis that the international community has placed on preserving the multi-ethnic character of communities in the Balkans, it would be a tragedy if it failed to deliver the relatively modest financial support needed to assist displaced individuals willing to brave returns.

General discrimination also continues to thwart returns. Unequal treatment in the provision of basic services, repatriation assistance and employment, and the property laws mentioned above, are all designed to send a powerful signal that returnees are not welcomed. Discrimination in the provision of reconstruction assistance has been a major problem in Croatia, where it was enshrined in law.

Local bureaucracies throughout much of the Balkans continue to obstruct repatriation. Among the frequent tactics used to discourage returns are failing to implement court decisions establishing minority returnees' title to their property; dubious application of the law; and systematic delays in legal procedures.

The goal of preserving and restoring multi-ethnic societies has been a cornerstone of Western policy in the Balkans. Except within Bosnia, Western policy-makers rightly refused to reward "ethnic cleansing" by redrawing maps along ethnic lines. However, while some groups want to return, and others cannot return, others still may opt to stay in their areas of displacement. Peace has come too late for some refugees who are well integrated into their new local communities and for a variety of reasons, including economic factors, wish to remain there. This, for example, is the case for a significant proportion of Bosnian Croat refugees in Croatia, as well as many of the 500,000 or more IDPs and refugees in the FRY. For those who fall into these categories, normalisation of citizenship laws will need to be the principle motor in formalising relations so as to integrate the population into the community. In Croatia, most Bosnian Croats have been granted citizenship, and in the FRY recent amendments to the citizenship law will impact on the legal status of this significant caseload.[22] It is important to stress that integration in the host country cannot include long-term occupation of someone else's home. Lead agencies, such as the UNHCR, should continue to earmark donor funds to support local integration.

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22 For a fuller discussion see UNHCR "South-eastern Europe Information Notes", Issue 8, 28 February 2001.

Facilitating returns requires the removal of the administrative and bureaucratic obstacles to return, ending the culture of impunity vis-à-vis known or suspected war criminals and the adoption of non-discriminatory property laws. In that regard, the High Representative's new property laws in Bosnia can serve as a regional template to facilitate and speed up eviction and repossession. The Property Law Implementation Program has been effective in Bosnia because it has identified key points where international pressure can be brought to bear on local authorities and has given international officials the latitude to enforce implementation - two integral elements for success.

However, evictions alone will not solve all the returns issues; a sizeable amount of new housing stock will need to be built throughout the region and donor funded projects are critical in meeting these needs. Additionally, the question of return sustainability - pivotal to ensuring the long-term success of repatriation - will need to be properly treated. Return sustainability is about creating the right social and economic conditions for returnees. It also includes access to health, education and basic services, and is linked to reform in other areas - eradicating corruption, promoting good governance, and long-term economic regeneration of the region.

Conclusions and recommendations on refugee returns generally

❏ *Donors should increase support to the UNHCR for facilitating the return of refugees and IDPs to formerly frontline areas.*

❏ *Wherever indicted war criminals have been arrested, or surrendered, to the ICTY, refugees have subsequently returned home. More aggressive pursuit of indicted war criminals, and efforts to disband paramilitary groups, would greatly improve the prospects for refugee return.*

❏ *The problem of refugee and IDP return to apartments in urban areas has been particularly acute, and the international community needs to focus on making progress in revising and enforcing the tenant rights of urban dwellers.*

❏ *Bosnia's new property laws, established by the High Representative, should serve as a regional template to facilitate the eviction and repossession process.*

❏ *Discrimination against returnees in the provision of basic services, repatriation assistance and employment, reconstruction assistance, and in the administration of the law generally, must be ended.*

PART II.

SERBIA, MONTENEGRO AND KOSOVO

3. SERBIA

Deep strains of nationalism run through a Serbia facing enormous challenges - resolving the constitutional relationship with Montenegro and Kosovo, restoring accountability and the rule of law, addressing an insurgency in the Presevo valley, and bringing new life into an economy decimated by mismanagement and debt. Reformers and hard-liners are struggling with each other to define Serbia's place in the world in a battle with high stakes. The embrace of the new government by the international community should be less uncritical: it should be held to the same high standards demanded of other Balkans countries, notably Croatia.

A.   Introduction

As of April 2001, the coalition of parties still called the Democratic Opposition of Serbia (DOS) had secured its hold on the organs of both the Federal Republic of Yugoslavia (FRY) and its main constituent unit, the Republic of Serbia. The danger of the return of Slobodan Milosevic has passed with his arrest on 1 April, and Yugoslav President Vojislav Kostunica and Serbian Prime Minister Zoran Djindjic are attempting to help their battered country emerge from its thirteen-year twilight of war, sanctions, economic collapse and destructive ultra-nationalism.

International sanctions - with the exception of travel bans and financial restrictions against certain Milosevic cronies - have been lifted, and the world has rapidly welcomed Kostunica's FRY back into key international organisations such as the United Nations (UN), the Organisation for Security and Cooperation in Europe (OSCE), the International Monetary Fund (IMF) and the Council of Europe.[23] The Serbian people have seen firsthand the benefits of cooperating with the international community and committing themselves to meet internationally acceptable standards of behaviour.

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23 The FRY has been granted special guest status at the Council of Europe. *See also Federal Republic of Yugoslavia Sanctions Briefing*, ICG Balkans Briefing, 10 October 2000.

But many questions remain about the future of both Serbia and the FRY. The most basic question centres on the FRY and its future. This is discussed in this and the next two chapters from the perspective of Serbia, Montenegro and Kosovo. The elements of the argument are then brought together, and conclusions offered, in Chapter 6, The Future of the FRY. Failing to set these respective societies on a sound legal, constitutional and institutional footing will be a recipe for a great deal more trouble. The international community, working with Serbia, Montenegro and Kosovo, must put in place an orderly process for resolving final status questions and do so in relatively short order. With Serbia central to the regional equation, much will hinge on Belgrade's willingness to look to the future and not to the past.

Many of Milosevic's policies, which helped sow despair throughout the 1990s, have yet to be significantly altered at the federal or republican level. Ending the FRY's international isolation may have been the easiest step in repairing a country whose economy is in ruin and where politicians, the police and criminals have long been entwined in a Gordian knot of lawlessness and corruption.

With the exception of a relatively small elite within the DOS coalition, the great majority of Serbs have shown no signs yet of reassessing the xenophobic philosophy of their previous leadership or the methods used to pursue its war aims. Indeed, the DOS victory in the 24 September 2000 Federal election, and Milosevic's overthrow on 5 October 2000, should not be read as a rejection of strong nationalist sentiments. The DOS won not because the Serbs had become liberal, but because the mainstream opposition parties finally united, partly due to international guidance and pressure, behind a single candidate, and because Milosevic lost the support of the main strongholds of nationalism - the Yugoslav Army (VJ), the Serbian Orthodox Church and the Serbian Academy of Arts and Sciences. This loss of support seems to have had much more to do with Milosevic's failure to win his wars, than any revulsion at Serbia's belligerence as such.

Since assuming power, Kostunica and Djindjic have taken strikingly divergent positions on reform, with Djindjic appearing more progressive. International policy makers have begun to realise that new leadership in Serbia will not necessarily embrace policies aimed at creating regional stability. The struggle between liberal European-style policies and holdover nationalist policies continues. But if the old policies are not revisited, they will certainly sustain, and possibly significantly increase, the current instability.

Movement toward economic and social reform will entail considerable dislocation. The DOS could face a significant backlash from citizens frustrated with continued suffering, with some of the DOS's faint-hearted members turning back to nationalism in an effort to curry favour with a disgruntled electorate. The basic lesson for the international community is that it must channel policies and assistance toward those forces pulling toward integration, and discard those carrying the baggage of virulent nationalism.

Table 4. Serbia at a glance

Population:9.8 million
Elections: Parliamentary elections held on 23 December 2000,presidential elections due September 2002.
President:Milan Milutinovic
Prime Minister:Zoran Djindjic

Source: *Economist Intelligence Unit (EIU)*

B. Security

There are four security issues generating concern both within Serbia and the wider international community. First, there is the fundamental question of Serbia's relationship with Montenegro within the FRY and with Kosovo as part of Serbia itself. Secondly, there is the ongoing conflict with ethnic Albanians in southern Serbia. Thirdly, Serbia's relationship with Bosnia, in particular the Republika Srpska, remains crucial to both countries. Lastly, there is the crucial internal issue of control of Serbia's state security services.

Relations with Montenegro and Kosovo

The political gulf between Serbia and Montenegro has continued to widen since Milosevic's defeat,with even Montenegrins not enthusiastic about their government seeing and resenting a persistent strain of condescension emanating from Belgrade. The amendment of the Federal constitution by Milosevic in 2000 to effectively abolish Montenegro's equality with Serbia within the FRY was the culmination of a series of events leading Montenegro to argue,with some credibility, that the FRY has effectively ceased to exist.[24] Without a transformation in Belgrade - and perhaps even with it - the momentum towards independence is likely to continue in Montenegro.

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24 See ICG Balkans Report No 101,"Current Legal Status of the Federal Republic of Yugoslavia (FRY) and of Serbia and Montenegro",19 September 2000.

Would the FRY - a federation consisting of the two republics, Serbia and Montenegro[25] - continue to exist if Montenegro left it? As a practical,political matter there is not much doubt that a FRY without Montenegro would be so empty a shell that the continuation of federal institutions,including the office of federal president now occupied by Vojislav Kostunica,would be untenable. There seems to be reasonably clear acceptance of this in Belgrade, and an expectation that Kostunica would seek to continue his role by standing for the post of president of the republic of Serbia in the election due by September 2002.

But as a matter of law, it needs to be understood that there is nothing automatic about the dissolution of the FRY in the event that Montenegro should leave it. A FRY that continued to be described in its Constitution as a federal state but consisted only of Serbia would certainly be an odd legal beast. But it would be entirely a matter for Serbia itself, as the remaining republic, to determine whether the FRY continued in existence or not. If through some legislative, executive or judicial process Serbia decided not to continue to recognise,or to participate in, federal institutions,that would be a death-blow for the FRY, but in the absence of any such process those institutions would continue, in parallel with Serbia's own. No international law principles would apply to the contrary.

It has also been suggested that there are some implications for Kosovo if Montenegro were to become independent. UN Security Council Resolution (UNSCR) 1244 explicitly treats the FRY - not Serbia (of which Kosovo remains part) - as the relevant Serbian stakeholder for the purposes of that resolution, which establishes an interim administration (pending a final political settlement) giving Kosovo "substantial autonomy within the Federal Republic of Yugoslavia". One argument is that Montenegro's independence would, insofar as it dealt a deathblow to the FRY, add another element to the Kosovo Albanians' arguments for recognition as an independent state. Insofar as the FRY continues in legal existence, as we have just stated it could do, that argument would have no weight. But even if Serbia chose to kill off the FRY, as it could after a Montenegrin secession,that would have no impact on the continuing applicability of Resolution 1244,which refers throughout to "the Federal Republic of Yugoslavia" rather than Serbia. Just as it was well understood that the 1991 Security Council arms embargo which originally applied to the former Yugoslavia continued to apply to each of the states into

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25 The FRY Constitution states in Article 1 that "The Federal Republic of Yugoslavia is a federal state founded on the equality of
    ...member republics" and in Article 2 that it "consists of the Republic of Serbia and the Republic of Montenegro as republic
    members". There is no provision for secession,and nothing in the text as to the implications of a declaration of independence
    by one or other of the constituent republics.

which that country then fragmented, so too would it certainly be held that Resolution 1244 resolution continues to have effect, and to create binding obligations,notwithstanding that there may no longer be a FRY in existence.[26]

Should Montenegro secede, the northern pro-Serbian elements in Montenegro - erstwhile pro-Milosevic and current Socialist People's Party (SNP) supporters - have threatened to retaliate by seceding from Montenegro. Although this fear seems to have been overstated in Belgrade to discourage independence,any radical resistance that Montenegrins might generate in the north of the republic could have important ramifications in the Sandzak region, a Muslim Slav enclave straddling the Serbia-Montenegro border.[27] In the face of Serbian nationalism,many of Sandzak's residents have looked to their co-religionists in Bosnia to provide a sense of identity, so much so that the Sandzak Muslims have openly revived the traditional term "Bosniak" to describe themselves. Should Montenegro secede, Serbian Sandzak could present a potential for instability - particularly if the Muslim population continues to suffer broad discrimination.[28]

Kosovo itself presents more formidable difficulties. President Kostunica - backed by the nationalists, the Yugoslav Army (VJ), police, and Milosevic's Socialist People's Party (SPS) - continues to demand that Kosovo remain a part not just of the FRY but of Serbia. In contrast to Milosevic,he appears willing to offer some sort of autonomy to the province's ethnic Albanians,but as this would be extremely limited,falling short even of that enjoyed under the 1974 Yugoslav constitution,it would be unacceptable to Kosovo Albanians.

Kostunica also appears to have continued Milosevic's policy of aiding Serb extremists in northern Mitrovica,from whom he received significant electoral support. This includes working actively against Kosovo Serb moderates seeking common ground with the United Nations Mission in Kosovo (UNMIK). Kostunica is unwilling to cooperate meaningfully with UNMIK. Belgrade's support for anti-UNMIK elements in Mitrovica has not stopped, and Kostunica has called publicly for the return of FRY police and soldiers.

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26 The indication in UNSCR 1244 that the FRY is the holder of the sovereignty within which Kosovo is to have "substantial autonomy"is in any event applicable only to the "interim"period:when it comes to the final political settlement phase,the resolution is quite silent on the sovereignty question,and who has to agree to what. See further Chapter 6, *The Future of the FRY.*

27 Since 1991,the Sandzak Muslims have lived in a tense coexistence with their Serb and,to a lesser degree,Montenegrin neighbours. Beginning in 1992,the Serbian authorities began open discrimination against the Sandzak Muslims,dismissing some from state-owned enterprises,"ethnically cleansing"villages along the border with Bosnia,and subjecting the population to arbitrary arrests and discriminatory administrative measures. At the same time,the Serbian authorities attempted to settle Serb refugees from Bosnia and Croatia in the region to dilute the Muslim population. As a result,many Muslims who made up around 70 per cent of the 500,000 population in the Sandzak fled to Bosnia,both during and after the 1992-95 war, and once again during the 1999 NATO bombing. Since 1998 the Montenegrin government has adopted a policy toward national minorities that gives the Sandzak Muslims far greater rights than their co-nationals in Serbia.

28 This in turn might have ramifications for neighbouring Bosnia's Muslim population and its relations with Bosnia's Serbs and other Serb nationalists,who have for long speculated about the so-called "Green Transversal",i.e. an imputed strategy to connect Muslim-majority territories between the Adriatic and Black Seas.

Although the return of "hundreds,not thousands"of FRY troops and police is provided for in UNSCR 1244,the Kosovo Force (KFOR),the UN and Kosovo Albanian representatives all agree that returning any Serbian forces would be impossibly destabilising. The border demarcation with Macedonia was negotiated without informing UNMIK or the Kosovo Albanians, let alone consulting them. In sum, Belgrade's approach unquestionably has made progress on reconciliation,refugee returns and discussions of final status even more difficult than they need be.

While privately a number of DOS politicians acknowledge that Kosovo has been lost,and that the VJ and police will likely never return to ethnic Albanian controlled areas, it remains politically impossible for a Serb politician to mention publicly the possibility that Kosovo should gain broad autonomy or independence. As a result, there is no real effort to move towards a resolution,or even begin a dialogue.

Most Serbian politicians fail to grasp the depth of change in Kosovo since June 1999, reflecting a broader unwillingness to face up to the reality of systematic persecution and "ethnic cleansing" of Kosovo Albanians prior to the North Atlantic Treaty Organisation's (NATO) arrival. Serbian politicians seem unimpressed that Kosovo Albanians are unanimous in their refusal to submit again to Serbian rule. Even should their authority somehow be restored, these politicians have yet to think through the numerous and far-reaching implications of Serbian sovereignty over Kosovo - not least the voting impact of approximately one million ethnic Albanian voters on the composition of the Serbian Parliament.

Should the international community push for an early resolution of Kosovo's status,as this report argues it should,there is some risk that nationalist forces may again assume a more prominent role in domestic Serbian politics,where they are currently nominally held in check by more liberal factions within DOS. Belgrade might also encourage the authorities in Bosnia's Republika Srpska to press for partition of Bosnia to "compensate" Serbia for lost territories. At best, given the continuing turbulence in Serbia, the liberal elements inside DOS could well need considerable assistance to ride out the political storm that would accompany such events.

Southern Serbia

A small-scale war has been raging for a year in the Presevo valley area of southern Serbia,where ethnic Albanians make up an overwhelming majority of the valley's 100,000 people. The towns of Presevo and Bujanovac lie in the

Morava river valley above the route of the main north-south road and rail corridor joining Central Europe to the Aegean. The road through the valley directly connects Belgrade with the Macedonian capital of Skopje and the Greek port of Thessaloniki. Belgrade fears that loss of Bujanovac and Presevo would virtually cut Serbia off from Macedonia and Greece and give Albanian forces a possible wedge to use in any demands against the Serbian and Macedonian governments.

But the question of southern Serbia goes beyond severing a strategically important route. In a 15 January 2001 report on southern Serbia, the UN Special Envoy for the Balkans,Carl Bildt warned that any escalation in fighting could lead to renewed "ethnic cleansing"of non-Serbs from Kosovo,as well as drag in the tense Albanian-majority regions of northern Macedonia. Given the spread of armed rebellion in February and March, Bildt's warning proved prescient. The potential for escalating regional conflict is obvious.

The situation in southern Serbia is providing a rallying point for nationalist passions on both sides of the ethnic divide. Over the past year fighting between the approximately 700 to 1,000 Albanian guerrillas and Yugoslav security forces has been confined largely to skirmishes with infantry weapons. Belgrade was unwilling to provoke a KFOR or other international response by sending the VJ into the five kilometre-wide buffer zone created by the June 1999 military-technical agreement with KFOR, which only permitted police with small arms inside the buffer zone, forbidding all VJ forces and heavy weapons. Given the reluctance of the police to incur losses in frontal infantry assaults without artillery support, the ethnic Albanian guerrillas in the region successfully seized large parts of the buffer zone. To date there have been numerous casualties on both sides and several dozen deaths.

Extremist factions within Serbia may be using the Presevo issue to discredit the government. Serbian media have presented the clashes as part of an irredentist movement intent on carving out sections of Serbia to form a greater Albania or greater Kosovo, with the Albanian forces portrayed as "terrorists". For their part, the local Albanians who form the guerrilla Liberation Army of Presevo,Medvedja and Bujanovac (UCPMB),have been all too willing to provoke the VJ and police and to respond in kind to provocation,hoping to draw in KFOR and internationalise their struggle. The UCPMB has been encouraged by the success of their fellow fighters in Kosovo during 1999,particularly in achieving a NATO intervention, and they have been funded and supported by former Kosovo Liberation Army (KLA) fighters and commanders and diaspora.

UCPMB is by all accounts a rather loose confederation of groups - there are two political parties and probably three armed groups under its umbrella title - and it is not an organised united force in the generally accepted sense of an army. While numbers are difficult to estimate, informed Western military sources place the UCPMB troop strength at 600-700. However, it might be fairly easy for them to get very strong reinforcements quite quickly from former fighters in Kosovo. NATO is also keen that all three groups are represented in any talks,in order that they should be fully committed to any possible settlement or plan.

Yet Albanian success in Kosovo, and fantasies of expansion, are not the only reasons for the uprising. As in Kosovo,the Albanians of southern Serbia - who make up the majority in this specific area - have legitimate grievances. The Serbian authorities have long subjected the ethnic Albanians to widespread official discrimination and persecution. For much of the last decade,Serbia excluded Albanians from the education and health care systems, and dismissed them from jobs in state-owned companies, the police and other public sector jobs, and limited access to Albanian-language media. Coupled with the perceived Albanian victory across the administrative border in Kosovo,it was only a matter of time before the situation boiled over.

The FRY government's reaction to the situation has been reasonably restrained. It adopted a Presevo peace plan in February 2001 developed by Serbian Deputy Prime Minister Nebojsa Covic. The three-part plan seeks to address the situation by emancipating the Albanians and reintegrating them into Serbian political, social and economic life. This plan would combine a series of confidence-building measures, which include reintroducing Albanians into the local police force, combined with a gradual phased disarmament plan,with economic aid for job creation. While the Covic plan is the first serious step taken by a Serbian politician to address one of the underlying sources of regional tension and instability, and a basis for further discussion,a lasting settlement in the area is probably some way off.

Kostunica suggested that the ground safety zone be narrowed or eliminated, and policed by joint Serbian and KFOR patrols on both sides of the administrative border (the Kosovo - Serbia border). Following discussions between the FRY and NATO, NATO agreed to allow the limited, but expanding, reintroduction of Serb forces into the Ground Safety Zone. This decision seems to have been driven both by a reluctance on NATO's part to have KFOR take a military role in southern Serbia, and growing frustration within the alliance at ethnic Albanian violence in both southern Serbia and Macedonia.

As of March 2001, both the FRY and the respective UCPMB elements had signed separate NATO-brokered cease-fire agreements, and NATO had facilitated the first talks between the two sides. However, accusations and counter accusations of cease-fire violations and hostage taking have threatened to derail discussions even as they were initiated. In addition, a European Union Monitor Mission Regional Office has been established in southern Serbia. Some 25 monitors will be deployed under this plan, but given that there were already reports as of March 2001 that these monitors had been fired upon, security for these monitors will obviously be an ongoing concern.

While Belgrade's restraint, better Western policing and imaginative diplomacy may hold down the fighting, the situation in southern Serbia will remain dangerously unstable as long as Kosovo's status is unresolved. This matter is discussed in detail in Chapter 5, Kosovo and Chapter 6, The Future of the FRY. But other measures are also needed:

❑ The international community should maintain pressure on both the FRY and the UCPMB guerrillas to conduct face-to-face talks.

❑ KFOR should more robustly enforce the Kosovo-Serbia border to stem the flow of weapons and personnel involved in the conflict.

❑ The EU should ensure that its monitors in southern Serbia have the proper skill set and language skills for such a demanding task.

❑ KFOR should agree to serve as an extraction force for these monitors if they are under threat.

❑ Concrete measures to be put forward in the peace negotiation should include mutual demobilisation and the creation of a police force which represents the local populations proportionately, and incorporates former rebels to ensure their compliance.

More controversially, the question of a possible exchange of territory should not be dismissed out of hand. The borders around Kosovo are relatively recent creations, and Presevo, Medvedje and Bujanovac transferred out of what is now Kosovo in 1947. Leposovic, to the north of Mitrovica, was transferred into Kosovo in 1951. Since the first are largely Albanian inhabited, and Leposavic is largely Serb[29], an exchange of territory might well provide a

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29 Apart from one now largely cleansed and isolated Albanian pocket.

more lasting solution. However, any possible land swap would also be deeply intertwined with the issue of Kosovo's final status: the issue is addressed in that context in Chapter 6.

Bosnia

Although Kostunica has officially re-established diplomatic relations with Bosnia and visited the country three times, in important regards his policy toward the neighbouring country is no better than Milosevic's and may be worse. His first visit to Bosnia was to attend the reburial of a Serb poet in Republika Srpska, prior to the establishment of diplomatic relations with Sarajevo. A diplomatic fiasco was narrowly averted by the intervention of the head of the UN Mission in Bosnia (UNMIBH), Jacques Klein, and High Representative Wolfgang Petritsch.

Kostunica's rise to power accompanied a significant increase in FRY support for the Serbian Democratic Party (SDS) the extremist Bosnian Serb party, in blatant disregard for international community policies aimed at weakening nationalist forces. In the campaign leading up to Bosnia's November 2000 general elections, officials of Kostunica's Democratic Party of Serbia (DSS) openly campaigned for the SDS inside Bosnia.

Kostunica's support for the SDS has encouraged that party, which continues to represent a significant and serious obstacle to implementing Dayton. He has refused to apologise for war crimes committed by FRY and the Serbs, while reiterating his belief that the Serbs were primarily victims in the recent wars. He has never spoken out openly against Republika Srpska joining Serbia, as Croatian President Mesic has done over Bosnian Croat interest in joining Croatia. Kostunica has also failed to sever the FRY's financial support of the Bosnian Serb army (VRS),intelligence services and police. In short,his Bosnia policy will add to Western frustration over implementation of the Dayton Agreement.

Serbia's State Security Services

The VJ and police must be brought under civilian control. The Serbian security forces, particularly the police (MUP) and state security (DB), remain highly compromised by their criminal activities under Milosevic, including political assassinations, smuggling, car theft, prostitution, extra-legal actions against the opposition and media, as well as "ethnic cleansing" and the actions of their special paramilitary forces in Croatia, Bosnia and Kosovo.

The battle for control of the security services has become a litmus test within the DOS movement. Kostunica and his sympathisers turned toward the old guard for support, while Djindjic appears to wish to gradually weed out the old elements in favour of newer, more compliant ones. Djindjic appears to have succeeded in placing his candidate - Dusan Mihajlovic - as Republic Minister of the Interior. The position, however, appears to be interim, perhaps reflecting the lack of consensus in the DOS on the matter.

The extent to which the police have been comprised is seen in Interior Minister Dusan Mihajlovic's controversial appointment of police General Sreten Lukic as head of all non-secret police units. Lukic - who received support for this position from the VJ and DB - is reported to have commanded Serb police units in Kosovo from early 1998 until June 1999, during which time significant "ethnic cleansing", expulsions and massacres occurred, including the Racak massacre. In May 1999, just days before the International Criminal Tribunal for the Former Yugoslavia (ICTY) indicted Milosevic and four of his closest associates, Milosevic presented a medal to Lukic and promoted him. Given his position in the chain of command, Lukic may be a candidate for ICTY indictment. His appointment demonstrates the difficulties of making a clean break with the former regime. However, until this happens, minorities across the FRY will fear that little has changed. This in turn will further subject the entire society to a degree of lawlessness that will delay reform, discourage foreign investment and heighten the already considerable social tensions. That said, the willingness of police forces to arrest Milosevic on 1 April 2001, despite some initial resistance, may signal an increased awareness in the security services that power is shifting to democratic forces.

C. Governance

This section addresses political issues both in Serbia, and in the larger FRY federation of which it is part: in Belgrade the two institutional systems are inextricably connected. Today's FRY is a relatively weak political entity, possessing formal authority primarily over foreign affairs, the military and the central currency. The federal government has essentially ceased to exist in Montenegro, and has been suspended by UN Security Council Resolution 1244 in Kosovo. In Montenegro, the only federal institutions that continue to function are the Yugoslav military and air traffic control. All other functions have been usurped by Milo Djukanovic's Montenegrin Republic government or shut down. Even within Serbia, the Federal government operates largely at the mercy of the Serbian Republic government. This is due to the nature of the Serbian constitution, which gives Serbia the power to contravene federal authority in certain instances.

Table 5. Main Political Parties in Serbia

Political Party	Political Alignment
Democratic Opposition of Serbia (DOS)	The loose governing coalition of eighteen parties, from across Serbia's political spectrum. Principally democratically oriented, anti-Milosevic parties. DOS won a two-thirds majority in the 250 seat Assembly with 65 per cent of the popular vote in the December 2000 Serbian elections.
Democratic Party (DS)	The party of Serbian Premier Zoran Djindjic. The DS is considered to be relatively liberal and reformist in orientation. It is currently not associated with strong nationalist sentiments. One of the two leading parties in the DOS coalition.
Democratic Party of Serbia (DSS)	Led by FRY President Vojislav Kostunica, formerly a gathering point for ultra-nationalist intellectuals, the DSS is currently the most popular party in Serbia thanks to Kostunica's personal prestige. Second influential party in the DOS coalition.
Socialist Party of Serbia (SPS)	Slobodan Milosevic's unreformed former communist party. The largest opposition party, it holds - in coalition with the JUL - 37 out of 250 seats in the Serbian Assembly, and 44 out of 138 seats in the federal lower house.
Party of Serbian Unity (SSJ)	A hard-line ultra-nationalist party founded by the late war criminal Zeljko "Arkan" Raznatovic. The party was founded on Arkan's notorious paramilitary group, the Serbian Volunteer Guard also known as the "Tigers". It was a surprise winner of 14 seats in the December 2000 Serbian elections.
Serbian Renewal Movement (SPO)	An ultra-nationalist party founded by the charismatic Vuk Draskovic. It failed to receive significant votes in either the September 2000 FRY or December 2000 Serbian elections, and now has only one upper house federal seat.
United Yugoslav Left (JUL)	The political party/movement of Slobodan Milosevic's wife, Mirjana Markovic. Previously a haven for die-hard communists and political opportunists looking to profit from the Milosevic regime.
Serbian Radical Party (SRS)	Led by Vojislav Seselj, the SRS was the strongest ultra-nationalist party for most of the 1990s. After a poor showing in the December elections, its future is unclear.

Table 6. Party Representation by Seats in Serbian and FRY Parliaments

Political Party	Serbian Parliament	FRY Parliament	
	Unicameral Chamber	Chamber of Citizens (Lower House)	Chamber of Republics (Upper House)
Democratic Opposition of Serbia (DOS)	176	58	10
Socialist Party of Serbia and United Yugoslav Left (SPS/JUL)	37	44	7
Socialist People's Party (SNP) (Montenegro)		28	19
Serbian Radical Party (SRS)	23	5	2
Party of Serbian Unity (SSJ)	14		
Serbia People's Party (SNS)		2	1
Serbian Renewal Party (SPO)			1
Alliance of Vojvodina Hungarians (SVM)		1	
Total Seats	250	138	40

Source: *Federal Republic of Yugoslavia Ministry for Foreign Affairs, available at www.mfa.gov.yu;Centre for Free elections and Democracy (Belgrade). Figures are those following the September 2000 FRY and December 2000 Serbian elections.*

Much of the character of the federal government is currently dictated by Vojislav Kostunica's personality and nationalist ideology. Prior to taking power, Kostunica was the leader of one of Serbia's smallest opposition political parties,the Democratic Party of Serbia. He was not known either for his charisma or organisational skills, and his meteoric political rise did not occur until the election campaign in the summer of 2000.As a candidate with strong nationalist credentials but no association with Milosevic, Kostunica was uniquely well positioned for success in that effort. He is the most popular political figure in FRY at this time, with moral authority that far outstrips the weak formal power of his office.

To all appearances, Kostunica is an ardent nationalist, very conservative and a man of deep convictions. As a university teacher, he was removed for his objection to clauses in Tito's 1974 constitution giving increased rights and

autonomy to Yugoslavia's national minorities. As a politician in the 1990s,he refused to enter into coalition with Milosevic. On the political spectrum, Kostunica's views are far closer to those of ultra-nationalists such as Vojislav Seselj and Dobrica Cosic than most Western officials are comfortable admitting. He has gone on the record for the restoration of the Serbian monarchy and the creation of a Greater Serbia,and has called for the West to give war reparations for the NATO bombing.[30] He continues to denounce the ICTY as being "political"and practising selective justice,biased against Serbia. He favours strengthening ties between the Serbian Orthodox Church and the state,including religious instruction in public schools. He is frequently seen in the company of Patriarch Pavle, and the Federal Minister of Religion Bogoljub Sijakovic suggested that all government ministers seek the Patriarch's blessing for their decision-making.

However, Kostunica has continued to live much as the Serbian "everyman" - residing in his old apartment just down the street from the National Theatre, eschewing the Presidential palace, dressing modestly and driving a battered old Yugo automobile. His positions on public policy appear to mirror those held by a significant majority of the population.

Both Kostunica and his circle appear to have little practical experience of economic reform or international affairs, and Kostunica's political skills remain raw. His convictions served him well during his pre-election campaign, but may ultimately prove a liability. The president's lack of pragmatism since taking office has created a political perception both at home and abroad of a man struggling to reach beyond his ideology. Nonetheless, he has begun to show some ability to compromise, but only when pressured by members of the DOS and the international community,as seen by his support for the Covic peace plan for southern Serbia, and his willingness to incarcerate Milosevic.

While the DOS-controlled Serbian government did not officially come into existence until 25 January 2001,it has (in various versions) been running the country since the 5 October revolution in a tense cohabitation with Milosevic's SPS. It is the real source of power in today's Yugoslavia, and Serbian Prime Minister Zoran Djindjic holds a more substantial position than President Kostunica in many respects. Djindjic has called many different political alliances home over the years. He is a student veteran of the "Praxis"

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30 In 1994,Kostunica criticised "the old,irrational myth that...Serbia up to the [river] Drina...is a just and sufficient Serbia.Surely from the moment that Yugoslavia disappeared,Serbia was one indivisible territory on both sides of the Drina.... Whatever foreign and domestic 'peace-lovers'think or say peace is only possible once this natural fact is acknowledged rather than rejected." Quoted in Robert Thomas, *Serbia under Milosevic. Politics in the 1990s*, Hurst & Co.,London 1999,p.223. The river Drina has marked the border between Serbia and Bosnia since Serbia's emergence as an independent entity two centuries ago.

movement of reform-minded socialists, and wrote articles and essays criticising communism during the 1970s. After graduating from the University of Belgrade, Djindjic lived for over ten years in Germany, where he took a PhD at Konstanz University. He then went on to create a combined business-academic career in Germany. Returning to Serbia in 1989, he entered politics within the Democratic Party (DS).

Djindjic's views can be characterised as pragmatic and pro-European. His business experience gives him certain practical insights into the functioning of the economy and the necessity for rapid and far-reaching reforms, but also has left him vulnerable to charges of associating with criminal elements. He does not appear to be saddled with the self-destructive philosophies of Serbian nationalism; however during the war in Bosnia he had close ties to the Serb side, including indicted war criminal Radovan Karadzic. Although credited with being the strategist and chief organiser behind the 24 September 2000 elections and the mastermind behind the events of 5 October, Djindjic falls far behind Kostunica in popularity, with his negative ratings nearly equalling his popularity.

In Serbia, the DOS leadership has established a government that functions as a corporate governing body. In order to form this system, the DOS pushed a law through the Serbian Parliament that created the post of six Vice-Presidents, who come from the largest parties in the DOS coalition. These Vice-Presidents act as the Board of Directors of a corporation, in concert with Djindjic acting as Chairman of the Board. In this system, the cabinet ministers are weak in comparison to the Vice-Presidents. Within the new government DOS has reduced the number of ministries to seventeen and abolished the numerous minister-without-portfolio positions that existed during the Milosevic regime.

The Serbian government has not yet begun to make substantive changes in many policies from the Milosevic era, and such revisions will require consensus among the members of the "Board of Directors" and the "Chairman of the Board". Nonetheless, the new government has started to work on a number of serious issues, including pensions, economic reform, the judiciary, media censorship, privatisation, education, financial reform, southern Serbia, and taking control over the security forces which appear deeply intertwined with criminal elements.

One basic difficulty is that deep rifts continue within the DOS on important issues, particularly cooperation with the ICTY and control over the police and military. Because of the federal government's control over the VJ, foreign

policy and a police force (albeit small and relatively weak in relation to the Serbian police),the DOS coalition faces daily strains between the liberal and nationalist members of the coalition. The nationalist faction, headed by Kostunica himself, refuses to cooperate with the ICTY. This same faction draws much of its support from the VJ and the Federal police, bodies that appear to support Kostunica fully. The liberals - backed primarily by Djindjic - have pushed for rapid reform of Milosevic era policies and a more European orientation.

These disagreements could tear DOS apart. The threat by Federal Deputy Prime Minister Miroljub Labus to resign over Kostunica's opposition to cooperating with the ICTY is one indication of the severity of these splits. Other issues that could divide DOS are the pace and scope of economic and social reform, criminal prosecutions and retribution against Milosevic cronies. These disagreements will continue for the foreseeable future and may provide a major stumbling block to broader international cooperation with the FRY. Relations with Kosovo Albanians, Bosnia, Croatia and Montenegro are all strained by the abiding suspicion that Milosevic's opportunistic nationalism has been replaced by Kostunica's heartfelt variety, and that apart from the withdrawal of the direct military threat, little fundamental change has occurred in Belgrade. Given the significant power granted to the structures of the Serbian Republic, Djindjic's pro-Western reform sentiments could gradually prevail over some of the more conservative ideas emanating from the Kostunica cabinet. But fundamental change could well take some time as the people of the FRY adjust to the challenge before them, and at this stage it is simply too early to predict whether nationalism will continue to dominate,or reform will prevail.

One relatively minor security issue with a regional dimension that could be resolved quickly, given sufficient will in Belgrade, is the Prevlaka peninsula. This uninhabited spit of land, some four kilometres in length by half a kilometre wide,forms the southern tip of Croatia,but it dominates the mouth of the Bay of Kotor, which lies inside Montenegro. This bay houses most of the FRY naval assets, including shipyards. Prevlaka has been occupied by a dozen unarmed UN peacekeepers since the negotiated withdrawal of the VJ in autumn 1992. Milosevic and his allies in Montenegro maintained a territorial claim to the peninsula, arguing FRY's overriding security need to control access to the bay. Under Djukanovic, the Montenegrin government has dropped this preposterous claim. However, as Croatia and FRY are the parties to the UN deployment, only Belgrade can negotiate a settlement. While no lives are at risk around Prevlaka, a peaceful solution would build confidence in the region and set a positive example. Neither the UN

Secretariat nor the Security Council has tried to push the parties to negotiate. This should change. The international community should require the Federal government to emulate Podgorica's sensible position on Prevlaka, and then pressure Belgrade and Zagreb to settle the issue through bilateral demilitarisation,along the lines proposed by Croatia in 1998.

Western policy on the ground - and Western stamina in tackling apparently intractable problems - will be crucial. The international community will need to approach Kostunica's policies with a sharper eye. Hoping for change and achieving change are quite different things. The international community should understand that a significant majority of the Serbian electorate supports Kostunica's approach, as do conservative elements in the VJ and police. But it is clear that as long as Kostunica and the Serbian leadership maintain these policies,the Balkans will continue to be unstable.

D.   Human Rights

Serbia's human rights problems have not disappeared since October 2000. The main issues are minority rights,media freedom,the independence of the judiciary, and above all,the handling of Milosevic-era war crimes.

Minority Rights

President Kostunica has yet to institute serious reforms. The newly appointed Federal Minister for National and Ethnic Communities is Rasim Ljajic, a Muslim from Sandzak. His ministry has relatively circumscribed powers,and the DOS's political will to tackle ethnic issues has been limited. Some members of Kostunica's DSS party,such as Gordana Vukovic,a member of the Federal Parliament,oppose the official use of the Latin alphabet even though large numbers of FRY citizens,including many Serbs,speak languages that use the Latin alphabet. Both the FRY and Serbian Republic still maintain policies of discrimination against Albanians in southern Serbia, Vojvodina's Hungarian population, Sandzak Muslims and smaller national groups such as Macedonians,Bulgarians and Roma.

Further, Kostunica has pursued policies that contribute to continued ethnic discomfort. He has discussed returning confiscated property to "Crown Prince" Alexandar Karadjordjevic, stimulating fear in some quarters that Serbian monarchism (currently marginal, but associated with nationalist chauvinism) will be boosted. Kostunica's strong support of the Serbian Orthodox Church has fuelled concerns about reviving religious education in the public schools and re-establishing the Church as the state church. Both

measures would further alienate Serbia's national minorities and exclude them from full participation in state institutions. The constant emphasis on defining Serbia as a state of Serbs has left precious little room for minority groups within public life, and does nothing to persuade Montenegro and Kosovo to seek their future within the FRY.

The Media

Further improving the media environment in the FRY will also be crucial to improving the overall human rights environment. Milosevic's abuses of the media are well documented, but Serbia's media are struggling to find a post-authoritarian role. Both Radio-Television Serbia (RTS) and the Politika newspaper group reacted to the October changes by switching sides, literally overnight. These and other state-controlled outlets cannot reform themselves without material and political support for democratisation, neither of which are yet forthcoming. The politically independent private outlets are exhausted after a decade of struggle against increasingly dictatorial repression. Few of them are objective about the new governments. Some are lobbying for a thorough investigation into a large number of dubious property and licensing decisions that favoured pro-regime outlets over the past decade. They also demand that their colleagues in the state media should be accountable for their offences against the ethics of journalism: a process that neither their colleagues nor the DOS leaders seem interested in launching.

In this embittered and also impoverished atmosphere, it is no surprise that Serbia's media have yet to show enthusiasm for exploring the difficult questions that will help citizens to come to terms with the events of the last decade and their role in Yugoslavia's destruction. Although the faces have changed much of the message remains the same, and the Serbian media has yet to break decisively with the nationalist legacy of the past. More dynamic and independent reporting will be essential to guiding a fragile democracy through a very difficult transformation.

The new authorities in Serbia are unwilling, and perhaps unable, to encourage a clear process of democratisation in the media. The international community can best assist by coordinating strong support for the reform of state-controlled broadcasting in line with Council of Europe norms, and the adoption of liberal media laws and regulations. The OSCE mission in Serbia may serve as a focal point for such dialogue and assistance, with active input from the key embassies in Belgrade as well as the Council of Europe. At the same time, international support to independent media of proven quality and influence should be maintained.

Judicial Reform

Addressing human rights concerns will require the overhaul of a judicial system that was almost completely discredited and deprofessionalised under Milosevic. Serbia's police or judiciary did not respect basic human rights,and many members of the senior judiciary were intimidated or simply became compliant actors in a ruling criminal class.

Even today the danger to the judiciary continues. On 7 November 2000 Investigative Judge Nebojsa Simeunovic disappeared, and was found murdered. Simeunovic had refused to move against the miners at the Kolubara open pit mine for sabotage and striking illegally in the days leading up to the 5 October revolution. These miners were vital in breaking the Milosevic regime,and the judge's murder was likely retribution for his role in this,and several other, politically charged cases.

Serbia today needs a new law on the court system and to begin the creation of a truly independent judiciary. The DOS government seems to be moving in this direction, particularly with the removal of several key judges. Nonetheless,this change was not structural in nature. Judges salaries remain far below those of other functionaries,making them easy targets for bribery. In December 2000 the government increased judges'salaries by 30 per cent in an effort to alleviate the problem,but they are still too low.

Yet there are some encouraging signs. The Yugoslav Constitutional Court recently ruled unconstitutional measures imposed under the Milosevic regime that restricted civil rights and moved to limit current police powers of detention in certain cases. The Court also overturned the powers of the Serbian interior minister to restrict movement in public places under specific circumstances, a measure that had been used to prevent demonstrations under the Milosevic regime. And it ruled that the Serbian Supreme Court does not have the authority to authorise checks on private correspondence, declaring that such matters should be regulated under federal and not Republic law.

Some progress has also been made on another vital issue. The Federal authorities had been under international pressure to amnesty the approximately 630 Kosovo Albanians who had been detained in Kosovo in 1999, tried in a blatantly irregular manner, and sentenced to long prison terms, some 200 of them for terrorism.[31] On 26 February 2001,the Federal

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31 See ICG Balkans Report No. 85, *Kosovo Albanians in Serbian Prisons: Kosovo's Unfinished Business*, 26 January 2000.

Parliament adopted an amnesty law. However, as it excluded more than half of the 630 from release, this law seems unlikely to have much positive impact on Serbian-Albanian relations.[32]

Milosevic-Era War Crimes

Cooperation with the ICTY is widely viewed as a litmus test for Belgrade's willingness to break with the past. It has now been half-heartedly promised for lesser figures but not, so far, for the primary architect of the last decade's tragedy, former president Milosevic himself. Wider cooperation with the ICTY must be forthcoming. This is not an issue on which the international community can give up: it must insist that Milosevic be tried under international law, in an international court, for the war crimes for which he has been indicted. The issue was not pressed hard, even by the Tribunal itself, before the 23 December 2000 election in Serbia. But if the international community is serious about putting the horrors of the 1990s behind it, the claims of justice cannot any longer be shelved.

President Kostunica has been ducking and weaving on the issue, his nationalist instincts at odds with international obligations and demands. He maintains that the Tribunal is politicised, biased and anti-Serb. He also claims that it imposes collective guilt on the Serbs, seemingly oblivious to the argument that only through the ICTY process can the Serbs be relieved of such a burden. His meeting with Milosevic in early 2001 and failure to inform his DOS coalition partners and the public fully created an impression that he was protecting his predecessor. The January 2001 visit to Belgrade by ICTY Chief Prosecutor Carla Del Ponte also went badly, with Kostunica first refusing to meet on the ground that she was too junior, then insisting he was too busy, before acquiescing under fierce pressure from members of his own DOS coalition and foreign diplomats. This behaviour signalled that unwillingness to cooperate with ICTY was federal policy. In March 2001 Kostunica seemed to moderate his position slightly by indicating that it was up to the "courts to decide" on the matter of transferring Milosevic to The Hague, but the next month he was still saying "It should never happen".[33]

On the other hand, Federal Deputy Prime Minister Miroljub Labus, Serbian Prime Minister Djindjic, Serbian Minister of Justice Vladan Batic and Federal Minister of Justice Momcilo Grubac all appear to favour transferring Milosevic at some point. But these DOS politicians are a minority. Djindjic

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32 The law also exonerated some 28,000 young Serbs and Montenegrins who had refused to fight in Croatia, Bosnia or Kosovo.
33 "Yugoslav Chief Says Milosevic Shouldn't Be Sent to Hague", Interview with Steven Erlanger, *New York Times*, 3 April 2001.

is aware that at present domestic political forces oppose transferring Milosevic to The Hague. Yet he also fears that both the U.S. government and the EU will continue to restrict Yugoslav membership and participation in key international organisations, such as the IMF or the World Bank, should the FRY not cooperate.[34]   On 14 February 2001 the Federal government adopted a platform of official cooperation with the ICTY.   However, immediately prior to and following this turn-around, both Kostunica and Federal Prime Minister Zoran Zizic announced that cooperation did not mean extraditing indictees or turning over documents to the ICTY. This performance naturally aroused concern that the authorities wanted to reap the international benefit of cooperation without incurring its cost.

Notwithstanding these various reasonable grounds for concern about Belgrade's performance, the U.S. administration certified on 2 April 2001 that Yugoslavia was cooperating with the war crimes tribunal at The Hague and the international community's efforts in Bosnia, thus allowing American economic assistance to continue, although this was accompanied by language stating that Belgrade still needed to fulfil its intention to "cooperate fully" with the Tribunal.[35] The U.S. Congress appropriated $100 million for Yugoslavia last year, roughly half of which would not have been disbursed without this certification.[36]

The fact that the FRY turned over Milomir Stakic, the former Bosnian Serb mayor of Prijedor, to the ICTY and called for the voluntary surrender of other suspects were exceedingly modest steps toward genuine cooperation, and clearly designed as tokens to allow certification to move forward.   Similarly, the recent amnesty law that still leaves significant numbers of Kosovo Albanian political prisoners jailed in Serbia can only be seen as very partial step toward the respect for minority rights as called for in the certification legislation. However, visits by Grubac and Batic to The Hague, and Milosevic's arrest (albeit only on local charges) shortly thereafter, may have been useful steps forward. But Belgrade's continued sustenance of nationalist elements in Bosnia, and obvious reluctance to cooperate fully with the ICTY, make clear how far the FRY still has to go toward meeting the spirit of certification. President Kostunica's own, and often contradictory, statements on everything from Milosevic's extradition to Serbian nationalism call into question the fundamental intentions of the new government.

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34 The FRY is not currently a World Bank member, but had begun the negotiating process for membership as of March 2000. The FRY will also likely need assistance from both the World Bank and the IMF in restructuring its current debt.
35 "As Expected, Belgrade Wins 'Cooperative' Seal From U.S.", *New York Times*, 3 April 2001.
36 106th Congress Report, House of Representatives 2nd Session, 100 997, "Making Appropriations for Foreign Operations, Export Financing, and Related Programs for the Fiscal year ending September 30, 2001, and for other purposes", Section 594.

The overall political judgement in Washington appeared to be that cutting off assistance was simply too draconian a response to the FRY's mixed progress at this juncture and would have been difficult to publicly justify given Milosevic's detainment. While the certification process sparked considerable debate, two important facts linger: Serbia and the FRY still have a considerable way to go in distancing themselves from their past behaviour and the international community, particularly because of the FRY's crushing debt burden, still has considerable leverage. This leverage was clearly seen in last minute political scrambling within the FRY, which resulted in Grubac and Batic visiting The Hague, one individual voluntarily surrendering to the ICTY under pressure from the Serbian government, one being arrested and forcibly extradited, and finally the Milosevic arrest. This leverage should be exercised and as the certification process makes clear, Western pressure can produce results.

There is near unanimous agreement among Serbia's politicians - Kostunica included - that Milosevic be tried in Serbia for certain crimes committed during his regime. Serbs wish to see Milosevic arraigned before the courts on charges of corruption and abuse of power. Such a trial would be an important, but far from sufficient, step forward for Belgrade. It could serve to open a discussion on responsibility and recent history among the Serbs, and would allow some of the political passions surrounding Milosevic's fate to cool over time. The international community should not discourage this process, but it should continue to make absolutely clear that it does not replace the obligation to make Milosevic face the ICTY charges.

The question then becomes how best to move forward with an ICTY trial of Milosevic. A central goal of this process should be not only to deliver justice, but also to create the opportunity for the Serbian public to come to terms with the events of the last decade. Any real attempt at truth and reconciliation in the Balkans will require the Serbian public to be fully and truthfully informed about the events of 1991-2000, and the ICTY proceedings should serve as a kind of morality play to achieve this goal. The Tribunal's public education efforts throughout the Balkans have been sorely lacking, but the need is greatest in Serbia.

To date, the only contact the average Serb has with the proceedings of the ICTY are occasional short television news stories, which show video footage of the accused wearing headphones, sitting in front of a panel of robed judges in a foreign court setting. During the Milosevic era these news clips were usually accompanied by heavily propagandised commentary. Today these stories - although somewhat better than under Milosevic - are still quite

critical of the ICTY and are often accompanied by a local politician attacking the Tribunal. Kostunica's own disdain for the ICTY is widely publicised. However, a February 2001 poll showed encouragingly high levels of support both for Milosevic's arrest and extradition to The Hague. Sixty per cent of respondents indicated that Slobodan Milosevic should stand trial for war crimes, and more than half believed he should hand himself over to the ICTY.[37]

Transferring Milosevic to The Hague has always been - and should remain - the avenue of choice for bringing Milosevic and other indicted war criminals to justice.[38] But one alternative for dealing with him that may become worth exploring would be to permit him to face the ICTY charges in Belgrade itself. This would serve the goal of educating the Serbian public while meeting the demands of justice. Although the ICTY's Charter places the tribunal seat in The Hague,its rules authorise it to "exercise its functions at a place other than the seat of the tribunal if so authorised by the President in the interests of justice".[39] The rules also provide for proceedings to be conducted in other than the official working languages of English and French, and the ICTY already maintains a battery of interpreters to translate all the proceedings into Serbo-Croatian.[40]

There are obvious practical difficulties with the "Hague-on-the-Danube" option, in particular the extensive security required for judges, prosecutors and especially for witnesses. Given the lawlessness and criminality in Serbia, as well as the powerful and prominent positions inside the VJ and police of many of the indictees, the ICTY could experience significant difficulties maintaining security for witnesses - many of whom would be war victims from Croatia,Bosnia and Kosovo. These problems are not seen by the ICTY itself[41] as insurmountable provided the Tribunal were given sufficient additional budgetary support, and there were clear understandings with Serbian officials regarding the high international costs that would be involved in less than fully cooperative behaviour.

A further difficulty could be objections from Croatia and Bosnia,which have taken pains to cooperate in different degrees with the ICTY, and which see themselves as the first victims of Milosevic's war-mongering. Governments in these countries might seize the opportunity to demand that all future trials of

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37 Poll conducted by the Argument research agency, 12-19 February 2001 on a sample of 910 Serbian voters in 26 municipalities.
38 Given the sensitivity of dealing with Milosevic,the FRY authorities might be well advised to start by transferring the three JNA officers - Mrksic,Radic and Sljivancanin - indicted for crimes committed in Vukovar in 1991.
39 Statute of the International Tribunal,adopted 25 May 1993,amended 13 May 1998,Art.31,and Rules of Procedure and Evidence (IT/32/REV.18),Rule 4. Available at www.un.org/icty
40 Ibid.,Rule 3.
41 Discussions by ICG with senior ICTY officers in October 2000 and March 2001.

their indicted citizens must take place on home soil. Unless the ICTY alters its overall approach to extradition and trial location,it may be preferable - for these and the other reasons mentioned - to treat the Belgrade trial possibility as a fallback rather than front-line option.

Continuation of the FRY's limited cooperation with the ICTY will not only create serious splits within DOS, but also encourage extremist forces in Croatia and Bosnia. Already Croatia's government is under pressure from the far right to halt war crimes trials and cooperation with the ICTY. Setting a double standard for the FRY would undermine many of the international community's hard-won gains elsewhere, and sow the seeds of future regional instability. Until those guilty of violations of international law are brought before a court of international justice, Serbia's neighbours will remain deeply wary of Serbia, and relations with Bosnia, Croatia and Kosovo will see little progress. Further, as long as those indicted for war crimes remain at large,Serbia's political scene will remain unsettled and unstable, and the DOS will have difficulty consolidating its hold on power and introducing the reforms necessary to pull Serbia out of the Milosevic-induced chaos.

E. Economy

During his thirteen years in power, Slobodan Milosevic destroyed an economy which had been among South Eastern Europe's most promising. Under cover of war, economic sanctions, shortages and hyperinflation, Milosevic and his henchmen looted much of the country's hard currency reserves,private savings, and a good deal of the FRY's mineral, agricultural and industrial wealth. Serbia today must overcome the triple challenges of making the transition from a command economy to a market economy, undertaking post-war reconstruction and dismantling a kleptocracy.

Beginning in February 1992, the FRY suffered a protracted period of extreme hyperinflation - with monthly inflation reaching triple-digit levels after December 1992. By October 1993, inflation was occasionally reaching triple digits on a daily basis, and in early January 1994 it hit a one-day record of 328 per cent. The situation was so bad that in 1993 the FRY government funded 99 per cent of its budget simply by printing money.

Public expenditures plummeted, resulting in a significant fall in the standard of health care, education and in agricultural output. Unemployment ran well over 30 per cent, while crowds of people gathered day and night in front of Western embassies, seeking visas. Pensions - often

late by four or more months - were rendered almost worthless by hyperinflation. Many of the FRY's most capable citizens simply fled, depriving the country of some of its best human capital.

Economically, the FRY retained many of the worst elements of communism while adding a pernicious criminal element. The NATO bombing in the summer of 1999 then destroyed significant portions of Serbia's heavy industry and infrastructure that, according to the independent group of economists G-17, could cost as much as $4.1 billion to repair. By 1999, the Gross Domestic Product (GDP) had fallen to approximately 57 per cent of its 1989 level. In real terms, approximately 40 per cent of Serbia's population survives on $15 per month.

In spite of generous international aid since the October revolution, power cuts still occur, caused in part by the inability of the electrical grid to handle the required load, as well as by the inability of Serbia's poorly maintained power plants to meet demand. Had Serbia not enjoyed an exceptionally mild and prolonged autumn, which reduced demand for heating and electricity, the power cuts would have been far more widespread. In colder weather, the heating systems are taxed to their limit, caused in part by restricted gas flows from Russia because of Serbian non-payment. The country could face increased power cuts during the 2001-2002 winter, caused in large part by the inability of the distribution network to handle the demand.[42]

Milosevic left the FRY saddled with $12 billion in external debt, nearly equal to the FRY's 1999 GDP of $14.2 billion.[43] The National Bank of Yugoslavia governor Mladjan Dinkic is uncovering new debts - both foreign and domestic - every day. Resolving the debt burden is critical to the DOS government, which has extremely low foreign exchange reserves of approximately $525 million and only minimal revenue collection. The government is hoping to reduce the foreign debt by at least $6.1 billion, through negotiations with the IMF, London Club and Paris Club: this is a major source of policy leverage for the international community.

Internal debt is also massive. As of December 2000, the FRY banking sector had approximately $4.81 billion in accumulated uncovered losses, equal to over 40 percent of the country's gross domestic product. This excludes the additional $3.2 billion owed to citizens by both the banks and the government for hard currency savings frozen by the Milosevic regime in the

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42 *Elektroprivreda Srbije.*
43 All economic statistics are taken from *BILTEN G-17*, No. 11, November 2000, and the G-17 web site, www.g17.org.yu/

early 1990s. Such enormous levels of indebtedness block payments and stifle economic activity and new investment. The banking sector is further hampered by the existence of the old Yugoslav payments bureau that monopolises most banking services while controlling access to most of the country's financial assets.

At the end of 2000 there were 31,850 insolvent firms in FRY, but instead of closing the large inefficient firms that traditionally employed the largest number of workers, Milosevic permitted firms to default on tax payments and gave soft loans to avoid social unrest. Consequently, healthy companies subsidised under-performers. Similarly, prices of goods and services were artificially depressed to maintain social peace. As a result 54 per cent of companies are selling goods and services at prices below their manufacturing or acquisition cost. Only 8.3 per cent claimed to make a profit on business transactions. The remainder barely broke even.

The upshot is that the FRY will at some point be forced to raise costs to consumers, who are already struggling with the consequences of last year's 113 per cent inflation. The government has a publicly announced inflation target of approximately 25 per cent for the current year. Yet public pronouncements mask planning in higher government circles, where a more realistic figure of 50 to 60 per cent is forecast. Even with that high an inflation level, prices are still far short of their appropriate levels, and the government plans to permit gradual price liberalisation throughout 2001. Given the low standard of living, high unemployment and low earning power, these price increases - particularly in energy and food - will create tremendous hardship, perhaps causing social unrest and jeopardising DOS's chances for real reform.

The chief result of Serbia's catastrophic economic state is that the government must operate under severe financial restrictions and is unable to resolve energy, infrastructure and social problems. Little money is available to repair the transportation and power infrastructure, or in social services, health or education. Privatisation threatens to dislocate large numbers of redundant workers.

The FRY's economic condition gives Montenegro yet another reason to go its own way. Montenegro has over the past 18 months moved much farther with economic reforms, making its economic and financial system incompatible with Serbia's. Montenegro also feels it will have better chances of obtaining international financial aid as an independent state, not an unreasonable assumption given that constraints on World Bank and other institutional lending to non-sovereign entities would no longer be applicable.

In an effort to demonstrate to Serbian voters the immediate rewards of choosing the democratic option, the EU gave DOS a 200 million Euro "peace dividend" to help it through to the December elections. This included a continuation of the EU "Fuel for Democracy" and "Asphalt for Democracy" programs. The U.S. also announced a $100 million aid package, including direct purchases of imported electricity for the Serbian grid. So too the German government has announced 100 million German Marks in aid. Before the December elections, this aid was largely unconditional.

The main question now facing international policy makers is how can the international community best use the leverage and influence it has at its disposal to influence Serbian politicians to implement constructive economic policies that create genuine stability in the Balkans. Except for emergency and humanitarian aid, the international community should apply a system of rewards for positive policy choices. In the event that rewards for good behaviour prove unproductive and Serbia's nationalist forces gain the ascendancy over the more reform-minded liberal elements in DOS, the international community should consider moving from carrots to sticks. Options include reimposing partial or full sanctions on a recidivist government in Belgrade, and sharply reducing or suspending international financial assistance.

The FRY's needs are so sweeping that the international community has significant leverage. International aid will be vital in the energy field, both in terms of electricity imports and reconstruction of the electrical grid, as well as assistance with heating fuel during the winter months. Debt relief remains an area of significant international community clout. Without full participation in international financial institutions, including international bank clearing mechanisms, many Serbian products would not be competitive in world markets. The FRY's participation in international bank clearance mechanisms was only made possible through a recent loan. The FRY is currently an IMF member, but that status will not prove meaningful without significant debt rescheduling or forgiveness, and talks on membership with the World Bank are ongoing as of March 2001. Participation in these institutions could be offered as a reward for successful implementation of difficult policies. Access to EU markets, World Trade Organisation membership, and full Council of Europe membership could also be conditional on Belgrade implementing positive policies and pursuing domestic reform.

The EU and the Council of Europe have both stated that Serbia's cooperation with the ICTY would be a prerequisite for eventual membership. Access to EU markets is a powerful incentive for Serbia given its potential to be a major exporter to the EU market.

If stability and peace in Serbia are a precondition for stability and peace in the wider Balkans, then the international community has to make the plans to support Serbia's fledgling democracy and enable the liberals inside DOS to not be overborne by the nationalists. In spite of the sudden influx of foreign aid, international organisations and financial institutions, the international community will be severely challenged in helping Serbia's reform-minded politicians make real progress while maintaining sufficient popularity and social peace to prevent the resurgence of the nationalists. Neither the EU nor the U.S. has put more comprehensive economic assistance packages on the table. Rather, much of the assistance seems to be going toward the most seriously threatened social categories, such as refugees, pensioners, and in broad social assistance in areas such as infrastructure and energy. Although this aid is welcome and necessary, the DOS governments desperately need technical assistance to reform rapidly the old socialist economic laws and carry out privatisation, while re-ordering the financial sector and creating job growth. The future of DOS reform efforts and Balkan stability may rest on the success of such efforts.

Conclusions and recommendations on Serbia

❑ *Serbia and the international community need to recognise that early clarification of the legal and constitutional structures of the FRY and the final status of both Montenegro and Kosovo is in the best interests of all parties.*

❑ *The international community should make clear that a range of policies still supported by Belgrade are unacceptable, including its policies toward ethnic minorities, support for the SDS party and VRS forces in Bosnia and aid to Serb extremists in northern Kosovo.*

❑ *Nationalism is still a powerful political force in Serbia, and the international community should closely condition financial assistance on Serbia's ability to meet clear benchmarks with regard to economic and democratic reforms and cooperation with the ICTY, including trying Milosevic and others for war crimes.*

❑ *Both the EU and U.S. should develop a comprehensive economic assistance strategy for providing the FRY desperately needed technical assistance to rapidly reform the old socialist economic laws and carry out privatisation, while setting the financial sector in order and creating job growth.*

❑ *The international community should coordinate strong support for the reform of state-controlled broadcasting in line with Council of Europe norms, and for the adoption of liberal media laws and regulations, while continuing support to independent media of proven quality and influence.*

❑ *In relation to the situation in southern Serbia:*

- *The international community should maintain pressure on both the FRY and the UCPMB guerrillas to conduct face-to-face talks.*

- *KFOR should more robustly enforce the Kosovo-Serbia border to stem the flow of weapons and personnel involved in the conflict.*

- *The EU should ensure that its monitors in southern Serbia have the proper skill set and language skills for such a demanding task.*

– *KFOR should agree to serve as an extraction force for these monitors if they are under threat.*

– *Concrete measures to be put forward in the peace negotiation should include mutual demobilisation and the creation of a police force which represents the local populations proportionately, and incorporates former rebels to ensure their compliance.*

❑ *The Montenegrin government has rightly disowned any territorial claim to the Prevlaka peninsula, at the southern tip of Croatia. The international community should urge Belgrade to do likewise, and then encourage it and Zagreb to settle the Prevlaka issue through bilateral demilitarisation, along the lines proposed by Croatia in 1998.*

YUGOSLAVIA

HUNGARY

CROATIA

ROMANIA

BOSNIA AND
HERZEGOVINA

BULGARIA

MONTENEGRO

KOSOVO

ALBANIA

THE FORMER
YUGOSLAV REP. OF
MACEDONIA

Adriatic
Sea

International boundary
Republic boundary
Autonomous boundary
National capital
Administrative capital
Town
Highway
Main road
Secondary road
Railroad
Canal
Airport

4. MONTENEGRO

Montenegro continues to focus its energies on resolving its constitutional status, within the FRY or outside it. President Djukanovic has committed to a public referendum on the question of independence following parliamentary elections scheduled for 22 April 2001 - assuming the result is politically supportive - and Montenegro will need to handle this process transparently, democratically and on the basis of the rule of law. In the post-Milosevic environment, international assistance should be shifted from unconditional budget support toward conditional support for sustainable reform.

A.   Introduction

For the last three years, political life in Montenegro has been dominated by the question of the republic's relationship with Serbia. Still a part of the FRY, Montenegro has, since the ruling party split in 1997, increasingly distanced itself from Belgrade. As the Montenegrin government adopted a pro-Western stance in opposition to Milosevic, the United States (U.S.) and the European Union (EU) provided substantial political and financial assistance. While the primary purpose of this support was to shore up President Milo Djukanovic, Western countries also provided advice and technical assistance for wide-ranging reforms promised by Djukanovic, with the aim of transforming Montenegro into a democratic, law-governed republic with a functioning market economy.

While the U.S. and the EU supported Montenegrin moves to distance the republic from the Milosevic regime in Belgrade, Djukanovic's Western backers were consistent in opposing any move toward a formal break with the Yugoslav federation for fear of handing Milosevic a pretext for military intervention. However, following the events of October 2000, rather than rebuilding bridges with Belgrade, as many in Serbia and internationally had expected, the Montenegrin government was further emboldened to pursue independence. Djukanovic opted to formalise the independence that Montenegro had in practice established, and to seek, following a referendum,

international recognition of Montenegro as a fully independent state. Having distanced themselves from Belgrade, and with the risks associated with an independence move now considerably diminished, Djukanovic and the Democratic Party of Socialists (DPS) were loath to go back.[44] Yet this remains contentious, both domestically, where a significant proportion of the population favours a reformed union with Serbia, and among an international community afraid that Montenegrin independence will upset current prospects for peace and stability in the region.

In Chapter 6, The Future of the FRY, we argue that the risks of Montenegrin independence have been overstated and that the international community should not discourage Montenegro from seeking it, but that Podgorica and Belgrade should certainly be encouraged to put an orderly process in place for resolving the issue of political status, as well as a number of lesser issues. Given the speed with which events are unfolding in Montenegro, this effort will need to move forward expeditiously.

Table 7. *Montenegro at a glance*

Population:680,158
Elections:Local elections held on 11 June 2000. Parliamentary elections to be held on 22 April 2001,presidential elections due in 2003.
President:Milo Djukanovic
Prime Minister: Filip Vujanovic

Source: *Economist Intelligence Unit (EIU)*

B. Security

Since 1997, the potential for a violent crackdown by Belgrade cast a pall over almost every aspect of Montenegrin life. Milosevic's defeat has considerably diminished, if not eliminated, the threat of direct aggression by Belgrade, and the possibility that Montenegro can now decide its fate free from intimidation has greatly increased.

Tensions between Serbia and Montenegro reached their height during the NATO bombardment of Yugoslavia in 1999, when the Montenegrin government refused to recognise emergency measures adopted by Belgrade. Despite a number of potentially explosive stand-offs between the VJ and the Montenegrin police, a clash was avoided.

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44 Djukanovic has repeatedly asserted that the most logical resolution of the question of Montenegro's relationship with Serbia would be to affirm the existing de facto separation of the two republics. See, for example, *Vijesti*, 16 November 2000.

During the months that followed, tensions for the most part subsided, although there were frequent small incidents, any one of which could have spun out of control. The presence of the VJ on Montenegrin territory was a constant source of consternation, and repeated threatening statements by senior VJ officers maintained a highly charged atmosphere of potential crisis. In response, the Montenegrin government built up its own large paramilitary police force, ready to meet a VJ challenge.

Further fuelling concerns, Montenegro has experienced a number of gangland or political killings of the kind that have plagued Serbia. The assassination in May 2000 of a key adviser to the president was followed in June by the attempted assassination in Montenegro of the prominent Serbian political figure Vuk Draskovic. In January 2001 a senior Montenegrin Interior Ministry official, Darko Raspopovic, was gunned down in central Podgorica.

The uneasy atmosphere has an extra edge of bitterness because Montenegrins are sharply divided about their future. Indeed, they have been divided over their relationship with Serbia since 1918, when, at the end of the First World War, with Serbian troops present in Montenegro, a slim majority opted in a referendum for union with Serbia. This decision was followed by a long, low-level civil war between pro-independence "Greens" and pro-Serbian "Whites", named after the colours of the ballot papers used in the referendum.

Just as Montenegrin politics are polarised, so Montenegrins have been divided over the role of the VJ in their republic. The defining feature of the main pro-Belgrade Montenegrin party, the Socialist People's Party (SNP) and its supporters, is their self-identification as Yugoslav patriots. From this point of view, it was inconceivable that the VJ could present a threat to its own people. Rather, the SNP threw back the accusation at the government, pointing to its formation of paramilitary units as the real threat to peace. Particularly menacing from the perspective of the government and its supporters was the formation of the Seventh Battalion of the VJ military police, recruited mainly from among SNP supporters and regarded by Djukanovic's ruling "For a Better Life" (DZB) coalition as a political force, whose purpose was to foment trouble prior to a crackdown.

Since Milosevic's departure, Belgrade has taken steps to reassure the Montenegrin government. On 25 December 2000, Djukanovic attended a session of Yugoslavia's Supreme Defence Council, comprising the federal president and the presidents of Serbia and Montenegro, for the first time since 1998. At this meeting, a number of personnel changes were made in the

military stationed in Montenegro,including the removal of the commander of
the Second Army (whose area of responsibility includes Montenegro),
General Milorad Obradovic.   Reportedly the disbanding of the Seventh
Battalion was ordered.[45]   VJ chief-of-staff General Nebojsa Pavkovic has
asserted that the army will not interfere in Montenegro's decision over its
future status.[46]

If Montenegro were to opt for independence,some opponents in the country
might refuse to accept it and try to resist. Yet,as further discussed below,the
prospects for successful resistance appear poor. The main pro-Serbian parties
in Montenegro have stressed their intention to work within the constitutional
framework. Local SNP leaders in areas where the party is strong are scornful
of the notion that they might operate in any way other than politically, and
are adamant that there will be no sanction for any kind of violent opposition
to independence. Any effort to resist an independence move would in any
case prove futile without active support from Belgrade. The commander of
the Seventh Battalion unit in Bijelo Polje (the largest town in the north) has
stated that the unit will not be a de-stabilising factor in the region.[47] With the
prospect of VJ intervention probably gone,the only serious military force in
Montenegro is the large paramilitary police force, which is loyal to
Djukanovic.   However, given the Federal authorities' opposition to
Montenegrin independence and the VJ's record over a decade,an element of
uncertainty must remain.

C. Governance

Relations with Serbia and the FRY

Over the past three years,Montenegro has increasingly come to operate as a
separate state. This process was in large part a response to actions by
Milosevic that ended meaningful Montenegrin participation in joint
institutions.[48]   Following Montenegrin parliamentary elections in 1998, in
which the three-party DZB coalition was victorious,Belgrade did not accept
the nomination of new Montenegrin representatives to the federal Chamber
of Republics.   In response, DZB ceased all participation in the federal
parliament, with only the pro-Milosevic Montenegrin parties continuing to

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45 *VIP Daily News Report*, 27 December 2000.
46 *VIP Daily News Report*, 17 January 2001.
47 Statement by Captain Rade Anicic,commander of the Seventh Battalion in Bijelo *Polje*. Polje magazine,30 January 2001.
48 On the process and legal effects of Montenegro's exclusion from federal institutions and its disassociation from Yugoslavia,
    see ICG Balkans Report N.101, *Current Legal Status of the Federal Republic of Yugoslavia (FRY) and of Serbia and
    Montenegro*, 19 September 2000.

participate. Following his split with Djukanovic's DPS, former SNP leader Momir Bulatovic was appointed as federal prime minister. Bulatovic, acting as a Milosevic puppet, served in this post until his master's defeat in September-October 2000. During his term, the ruling coalition in Montenegro was excluded from power at the federal level. Djukanovic was excluded from meetings of the Supreme Defence Council from 1998 until the end of Milosevic's rule, preventing the Montenegrin authorities from decision-making regarding the VJ.

Montenegro's posture during the NATO bombardment in 1999 led to a virtually complete rupture with Belgrade. Montenegrin officials were excluded from the work of the Yugoslav central bank, leading Podgorica to introduce the German Mark as a parallel currency and to takeover control of foreign currency policy. For its part, Belgrade terminated electronic payments between the two republics through the centralised payments system. Since November 2000, only the German Mark is legal tender in Montenegro.

As Montenegro's institutional ties with the federation eroded, the Montenegrin government refused to recognise the jurisdiction of federal institutions in the republic. It has maintained its own foreign relations and has explicitly denied the right of Yugoslav diplomatic representatives to speak for Montenegro.[49] The Montenegrin authorities control Montenegro's borders and collect customs duties at them. In contrast to Serbia, Montenegro does not impose visa requirements on foreign visitors. Following changes to the federal constitution pushed through by Milosevic in July 2000, which diminished Montenegro's equal status in the federation, the Montenegrin government opted to boycott the federal elections in September 2000. Due to the DZB-led boycott, only 20 per cent of the Montenegrin electorate turned out to vote.

However, pro-Milosevic parties in Montenegro, including the SNP, did participate in those elections. Because of the disproportionate Montenegrin representation in the federal parliament, after the election the SNP held the balance between the victorious Democratic Opposition of Serbia (DOS) and Milosevic's left bloc, made up of his own Socialist Party of Serbia and his wife's Yugoslav United Left. According to the federal constitution, if the president, like Kostunica, is a Serb, then the prime minister must be Montenegrin. Given the SNP's numerical strength in the new parliament, the new federal president, Vojislav Kostunica, and DOS decided to appoint as the new federal prime minister Zoran Zizic, a vice-president of the SNP. This

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49 For example, statement by Montenegrin Foreign Minister Branko Lukovac, reported in *Vijesti*, 25 October 2000.

appointment was made over objections from the Montenegrin government that the SNP could not legitimately represent Montenegro in federal institutions.

Thus, while welcoming Milosevic's defeat, the Montenegrin government recognises neither Kostunica as a legitimate representative of Montenegro nor the federal constitution under which he was elected. As federal institutions lack participation by legitimate Montenegrin representatives with the support of a majority of the Montenegrin electorate, Kostunica and the new federal government are inevitably regarded - not only by the government and its supporters - as representing Serbia. The authorities remain determined to continue to take responsibility for their own affairs and to represent the interests of Montenegro internationally.

In an effort to put the basis for Montenegro's relationship with Serbia on a new footing, the Montenegrin government in August 1999 adopted a "Platform" which proposed transforming FRY into a loose confederation of two equal partners.[50] According to this proposal, the two republics would each be "sovereign",but with a single UN seat between them,and linked by a common currency and some joint responsibilities for foreign affairs and military matters.[51] Even in areas left to the federation, powers were to be strictly limited.The president of each republic would command military units stationed there and appoint their commanders.

Following the changes in Serbia, two of the parties in Montenegro's ruling coalition,Djukanovic's DPS and the Social Democratic Party (SDP) prepared a revised Platform,which was officially adopted on 28 December 2000.[52] This new Platform is similar to that of August 1999 in that it envisages a loose association with Serbia, with joint institutions, a common currency and cooperation in foreign affairs and defence. However, unlike its predecessor, this document envisages a union between two fully independent states,each with its separate international identity and UN seat.

Officials in Belgrade reacted negatively to the new Montenegrin Platform,and on 10 January 2001 Kostunica published his counter proposal, envisaging federal institutions with responsibility in such areas as defence,foreign affairs,

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50 The Basis for Defining the New Relationship between Montenegro and Serbia.
51 The term "sovereignty"in this context did not mean recognition as a fully independent international entity. "Sovereignty"in the former Socialist Federal Republic of Yugoslavia (SFRY) context refers to the sovereign power which each of the constituent republics had theoretically exercised in freely choosing to enter the Yugoslav federation. The former SFRY constitution,confusingly, also referred to the location of sovereignty in the constituent peoples that made up the SFRY. However, this latter definition was explicitly rejected when the European Community chose to recognise only the right of former Yugoslav republics to exercise their sovereignty, and not peoples.
52 Platform of the Government of Montenegro for Talks with the Government of Serbia on New Relations Between Two States. Available at www.ceps.be

the economy and communications.[53]   Pro-independence parties in Montenegro quickly rejected Kostunica's plan, while the DOS in Serbia endorsed it.

Table 8. Main Political Parties in Montenegro

Political Party	Political Alignment
For A Better Life Coalition (DZB) Democratic Party of Socialists (DPS)	Governing coalition: Comprised of the DPS, SDP and NS,until the NS's departure in December 2000. Headed by President Milo Djukanovic. The DPS - a communist successor party - forms the core of the governing coalition and has moved to a pro-independence position.
Social Democratic Party (SDP)	A pro-independence, pro-Western party, led by Zarko Rakcevic.
Liberal Alliance for Montenegro (LSCG)	The most consistently, radically pro-independence party, led by Miodrag Zivkovic.
Socialist People's Party (SNP)	Pro-Yugoslav Montenegrin Party opposed to independence. The SNP split from the DPS in 1999. Predrag Bulatovic has headed the SNP since February 2001.
People's Party (NS)	A pro-Serbia, anti-Milosevic, anti-independence party led by Dragan Soc. The NS left the DZB coalition in December 2000 due to the latter's pro-independence stance.
People's Socialist Party (NSS)	Pro-Yugoslav party that split with the SNP in February 2001 after the SNP forced former leader Momir Bulatovic to resign.

The Internal Politics of Independence

With the publication of the revised Platform proposal,and Belgrade's reaction to it, the Montenegrin government was quickly plunged into crisis, as the third partner in the DZB coalition,the People's Party (NS),withdrew from the government. The NS largely speaks for people who consider themselves as Serbs, but were opposed to Milosevic. Faced with a choice of turning for support to the Liberal Alliance of Montenegro (LSCG), the most consistent advocate of Montenegrin independence over the past ten years,or calling a parliamentary election,Djukanovic opted for the latter course.

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53 Yugoslav President's Proposal for the Reconstruction of Yugoslavia, *Tanjug*, 10 January 2001.

The SNP had previously demanded elections before any independence referendum. While it rejected Djukanovic's initial proposal of elections by the end of March, a compromise agreement was reached that elections would take place on 22 April 2001. The possibility of the SNP and NS boycotting parliamentary elections appears to have been removed by this agreement, but the possibility that they would sit out a referendum on independence is still a distinct possibility. Much room for discord remains, especially over state media coverage, which the SNP and the NS complain is heavily biased in favour of independence, and over the rules for a referendum.

Impatient to hold a referendum and formalise the break with Yugoslavia as soon as possible, the SDP was unhappy with the decision to hold elections first. However, its insistence on a commitment in advance that a referendum be held by the end of June at the latest was rejected by the DPS as well as the SNP, the former apparently anxious to reach a compromise that would secure SNP participation in the electoral process. Djukanovic reassured his SDP allies that, following an expected election victory for the pro-independence parties, he would speedily call for the promised referendum.[54]

Election results and opinion polls over recent years point to a steady increase in pro-independence sentiment, as patience with Belgrade's bullying has worn out and as the republic has managed successfully to cut many of the cords that bound it to Serbia. Djukanovic's policy of caution and patience won widespread support with Milosevic in power. But with Milosevic gone, supporters of independence argue that so too has the reason for patience. However, Montenegrins remain deeply divided over the future status of their republic, and opinion polls persistently show that none of the various options for the republic's future status enjoys overwhelming support. Polls taken in the period January-March 2001 gave the results indicated in Table 9.

The data from the three public opinion polls presented here all show a preference of around 50 per cent of the sample for either one of the pro-independence options, whether outright independence or the union of two independent states proposed in the Montenegrin government's December 2000 Platform. Indeed, the CEDEM poll, taken in January 2001, shows that if asked a straightforward question, for or against independence, a small majority would opt in favour (49.8 per cent were for, as opposed to 39.8 per cent against).

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54 *Vijesti*, 25 January 2001.

Table 9. Montenegrin Opinion Polls on Preferred Status Options[55]

	Opinion polls		
	CEDEM	Medium	Institute for Social Research
Option	%	%	%
Fully independent state	36	32	30
Union of two independent states,with two UN seats	15.2	19	19
Loose confederation of two republics with one UN seat	18.5	21	30
Revived federation of two republics	16.1	24	15
Unitary Yugoslav state	7	-	-
No reply given	7.2	4	7

While such a referendum question would appear likely to produce a pro-independence result, it seems clear that a broad consensus is lacking. Opponents of independence argue, probably with reason, that if a different question were asked which did not suggest an independence outcome, a positive result could also be obtained. The opinion-poll evidence presented above supports the contention that there is a broad support in Montenegro for some form of future association with Serbia.

Much uncertainty remains, but the opinion poll evidence suggests that the pro-independence parties combined would probably win a parliamentary majority. The result may depend on what, if any, coalition agreements are reached before the election. Much speculation has focused on whether the NS, whose support appears to have risen lately, might,having left the former ruling DZB coalition,reach an arrangement with the SNP. The SNP has tried to distance itself from its former support for Milosevic, and following a meeting of the party's Main Board on 29 January 2001 Momir Bulatovic was pressured into resigning as party leader.[56] At a party congress on 24 February, a party vice-president called Predrag Bulatovic (no relation) was elected to succeed Momir, whose supporters broke away to form the People's Socialist Party (NSS) two days later. While Predrag Bulatovic enjoys strong popular support, and is regarded as more moderate and less compromised than his predecessor, the split in the SNP's ranks may harm the pro-Yugoslav vote in April.

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55 Public opinion poll carried out by the Damar agency for the Centre for Democracy and Human Rights (CEDEM), Podgorica, 12-19 January 2001. The polling results from the "Medium" agency and the Institute for Social Research,both based in Belgrade, relate to research carried out in February 2001,and were carried in *Vijesti*, 15 March 2001.The last two polls did not include the option of a unitary state.
56 *Vijesti*, 30 January 2001 and 1 February 2001.

The possibility of a damaging boycott of an eventual referendum by the pro-Yugoslav parties remains real.[57]   The SNP and the NS argued that Montenegrins living in Serbia should be able to vote in the referendum, rejecting the stipulation proposed by the pro-independence parties that only Montenegrin citizens resident in Montenegro for at least two years may take part. The pro-Yugoslav parties also asserted that a majority of the whole electorate should be required for a pro-independence decision to be carried. The pro-independence parties have asserted that a simple majority of those who vote would suffice, provided that at least half of the electorate takes part. The pro-Yugoslav position has apparently been supported by the U.S., whose ambassador to the FRY reportedly informed the Montenegrin government on 5 March 2001 that the referendum law was problematic, suggesting that Montenegrins in Serbia should be allowed to vote, and that more than a simple majority should be required in order for a pro-independence vote to be valid.[58]

The chances of the referendum producing a vote in favour of a continued union with Serbia would on balance be slim unless the rules were changed along the lines that the pro-Yugoslav parties have urged. The Organisation for Security and Cooperation in Europe's (OSCE) Office for Democratic Institutions and Human Rights (ODIHR) provided expert advice on the referendum law. Citing relevant international standards, this advice did not support the issues objected to by the SNP and the NS.[59] The inclusion of Montenegrin voters resident in Serbia for more than two years would be hard to justify, particularly since Serb voters resident in Montenegro for the stipulated two years will be able to participate. The proposal that a majority of the whole electorate take part in a referendum for an independence decision to be valid does, however, have much to commend it, as it would ensure that any move toward independence would be based on a reasonable consensus among the population. A referendum boycott would be highly damaging and potentially destabilising, sending as it would a message to opponents of independence, some of whom might be prepared to struggle other than through political means, that the referendum was illegitimate.

A referendum result in favour of independence does not automatically determine that outcome.   Although the referendum law adopted in February 2001 states that decisions made by referendum shall be binding,[60]

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57 The NS leader, Dragan Soc, warned on 30 January 2001 that if state television's editorial team were not replaced, the NS would not participate in a pre-referendum campaign. *Vijesti*, 31 January 2001.
58 *Vijesti*, 6 March 2001.
59 OSCE Office for Democratic Institutions and Human Rights, *Assessment of the Draft Referendum Law for Conducting Referendum Elections in the Republic of Montenegro*, Warsaw, 22 January 2001.
60 The federal Constitutional Court has said that a referendum decision should not be binding on parliament, but only of an advisory character *Vijesti*, 15 March 2001.

according to the Montenegrin constitution, such a change in the status of the republic would need to be proposed by a two-thirds majority of parliament: that proposal would then need to be put to a referendum, and following a referendum decision in favour of independence, there would need to be further parliamentary elections,[61] and a two-thirds majority of the new parliament would then be required to confirm the independence decision.[62]

The question of the procedure for confirming an independence decision has aroused some debate within Montenegro, especially as it is far from clear that a two-thirds majority of the seats in parliament could be secured by the pro-independence parties. Various ways around this problem have been suggested. These include the suggestion that a referendum decision in favour of independence would represent a revolutionary situation, and would be the one circumstance in which the constitutional strictures need not, and should not, apply. Another suggestion argues that as the FRY constitution has for some time been inoperative, due to the abuses of the Milosevic regime which made it impossible for Montenegro to exercise its constitutional rights as an equal member of the federation, articles of the Montenegrin constitution that refer to Montenegro's place in the FRY have also lost their force. Another argument is that as the current status quo is an unsustainable state of constitutional paralysis, there would be no sense in adhering strictly to constitutional principles that would mitigate in favour of the maintenance of that very status quo.

Despite calls from Kostunica for Montenegro to abide by the federal constitution in determining its future status,[63] the argument that the FRY constitution has already lost all force or meaning is compelling.[64] However, in order for the process by which Montenegro decides on its future status to have credibility, strict adherence to the Montenegrin constitution is advisable. Otherwise it would appear that constitutional rules and procedures could be stretched and manipulated at will in much the same way that Milosevic abused the federal constitution to suit his political ends.

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61 In case Montenegrins were not already weary of voting, Djukanovic has indicated that he would also submit himself to an early presidential election: *VIP Daily News Report*, 26 January 2001.
62 Constitution of The Republic of Montenegro.
  Article 1 states that Montenegro is a part of the FRY.
  Article 2 states that the status of Montenegro cannot be altered without the prior holding of a referendum.
  Article 117 states that a proposal for a change to the constitution must be adopted by a two-thirds majority of all parliamentary deputies. If it is not adopted, then the same proposal cannot be repeated for one year after its rejection.
  Article 118 states that a change to the constitution must be ratified by a two-thirds majority of all parliamentary deputies.
  Article 119 states that in the case of a fundamental change to the constitution, including a change to the status of Montenegro, on the day of the adoption of a proposal for the constitutional change the parliament must be disbanded, and a new parliament called within 90 days. The new parliament must then ratify the proposed constitutional change (and it must be the specific proposal adopted by the previous parliament) by a two-thirds majority of all parliamentary deputies.
63 *Vijesti*, 4 January 2000.
64 See ICG Balkans Report N. 101, Current Legal Status of the Republic of Yugoslavia (FRY) and of Serbia and Montenegro, 19 September 2000.

The Risk of Unrest from Independence Moves

The issue of Montenegro's future status is unquestionably highly divisive in Montenegro. Opposition to independence is strong, and in some areas of the republic, especially in parts of the north, but also in the coastal region of Herceg Novi, near the border with Croatia, the pro-Yugoslav, anti-independence SNP is in power at the local level. The question is whether the divisiveness is enough to generate conflict.

While Milosevic was in power, there were serious fears that Belgrade might seek to exploit divisions within Montenegro in order to foment unrest prior to an army crackdown against the troublesome, pro-Western Djukanovic administration. Such fears were in part based on concerns that the tactics that Milosevic had employed earlier in Croatia and Bosnia were being repeated in Montenegro. In Montenegro, as in Croatia and Bosnia, local supporters of Belgrade were mobilised to oppose the legally constituted government. In 1999, concerns were raised by the holding of rallies, the so-called tribal assemblies, at which declarations were issued that independence moves would not be accepted.

The prospects for any domestic opponents of Djukanovic who might have been prepared to stir up unrest in Montenegro in any case always depended on support from Belgrade and from the VJ in Montenegro. Since Milosevic's departure, such support has virtually disappeared. It is most likely that Belgrade, including SNP figures based in Belgrade, stood behind activities such as the tribal assemblies, which were clearly intended to intimidate the authorities in Podgorica.[65] Without Belgrade's support for such activities, there is little prospect of provoking serious unrest.

Since the tense days of 1999, relatively little has been heard of the tribal assemblies. In March 2001 the Council of Peoples' Assemblies announced that it would not recognise the result of an independence referendum unless Montenegrins in Serbia were allowed to participate.[66] This declaration lacked the menace of earlier pronouncements in 1999, reflecting not only the changed environment since the departure of Milosevic, but the lack of support among serious political forces in Montenegro to opposition to independence moves other than through legal, political means.

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65 Several sources in Montenegro have asserted to the ICG that many of the participants at the tribal assemblies were in fact people of Montenegrin origin from Serbia.
66 *VIP Daily News Report*, 6 March 2001.

It had been apparent since early 2000 that differences of perception and approach had opened up between leading SNP figures who were based in Belgrade and others who were based in Montenegro, with the local party participating pragmatically and increasingly constructively in Montenegro's political life.[67] The readiness of senior SNP figures such as Predrag Bulatovic to participate constructively on the Montenegrin political scene was also seen in the framing of electoral legislation prior to the municipal elections in Podgorica and Herceg Novi, which was adopted by consensus among the main parties.[68] Such positive participation has been an important factor in calming what has often been a tense political atmosphere.

The generally constructive participation that has characterised the SNP's activity at the central level can also be found among SNP leaders at the local level, including in Pljevlja, despite the resolution of October 1999 mentioned above. Senior SNP figures in Podgorica and in northern Montenegro have emphasised to the ICG that their opposition to Montenegrin independence will be solely political, and they will in no way give approval to any attempt to resist violently. Further, a commander of the Seventh Battalion unit in Bijelo Polje has insisted that the unit will not be a destabilising factor in the region.[69] All these assurances do not guarantee that there will not be instances of people trying to stir up trouble. However, without the support either of Belgrade or of the main pro-Yugoslav political forces in Montenegro, any such incidents would be dealt with easily by the Montenegrin police, and would not constitute a serious threat.

Other Governance Issues

In terms of the democratic participation and the development of civil society within Montenegro, there have been undoubted advances since the government turned away from the Milosevic regime and embraced reform. However, these achievements have been somewhat constrained by a highly abnormal political environment, in which, until recently, the overriding concern has been to survive in the face of the perceived threat from Belgrade.

Key areas in which reforms are urgently needed, and in which the government has promised action, are public administration and the judiciary. The system of administration inherited from the communist era lacks the

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67 On the SNP, see ICG Balkans Report N . 92, *Montenegro's Socialist People's Party: A Loyal Opposition?*, 28 April 2000.
68 OSCE Office for Democratic Institutions and Human Rights, "Statement Of Preliminary Findings and Conclusions on the municipal elections in Podgorica and Herceg Novi", 11 June 2000.
69 Statement by Captain Rade Anicic, commander of the Seventh Battalion in Bijelo Polje. *Polje* magazine, 30 January 2001.

capacity to carry out the type of far-reaching reforms that Montenegro requires, while much of the administrative structure is infused with a culture of non-transparency that is not at all conducive to efficiency. The judiciary functions poorly, and will require wholesale reform and retraining if it is to meet up to the challenges of a democratic state and an efficient market economy.

That reforms have been slow is in part explained by the fact that, in the fraught atmosphere since the Kosovo conflict, in which so much political energy has been devoted to the vexed question of Montenegro's troubled relationship with Serbia, such matters have understandably assumed a lower priority. However, the real commitment of the authorities to reform is also open to question. Djukanovic came to power in 1997-1998 with the backing of the majority of the existing party-state apparatus, which the DPS had inherited from the former communists. In the often-tense political environment in Montenegro, Djukanovic has continued to depend on the support of that same, deeply entrenched elite.

In addition, the circumstances of war and international sanctions presented considerable advantages for personal enrichment for well-connected individuals through a variety of semi-legal or outright criminal practices, including large-scale smuggling. Many members of the ruling elite, right up to the highest levels, as well as their families and associates, have hugely exploited such opportunities.[70] For all the democratic forms and rhetoric, Montenegro's political life is in practice dominated by a narrow oligarchy which does very well out of the current, unreformed system. For this reason too, the situation is perhaps not conducive to a declared reformer such as Djukanovic sweeping away the privileges of an elite upon which he depends and to which he himself belongs.

D. Human Rights

The position of minorities is, by the standards of the region, remarkably favourable, and Montenegro has escaped extreme polarisation among ethnic groups. The government includes members of ethnic minorities in senior positions and the ruling coalition receives considerable support from members of ethnic minorities. Montenegro's largest minorities, Muslims and

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70 In January 2001, the Italian Finance Minister, Ottaviano del Turco, in an interview in the Italian press, accused Djukanovic of involvement in cigarette smuggling and of being closely connected with the Italian Mafia. Reacting to these claims, Montenegrin officials have pointed to cooperation between Montenegro and Italy against Italian criminals sheltering in Montenegro and have denied mafia links. These officials also suggest that the timing of del Turco's remarks signified a coordinated international effort to deter Montenegro from moving toward independence. See "Carobni metak", *Monitor*, 26 January 2001, and "Duvanska veza", *Vreme*, 18 January 2001, interview with Montenegrin Assistant Interior Minister Vuk Boskovic.

Albanians, making up 14.6 and 6.6 per cent of the population respectively, are mainly concentrated in the north-east and close to the Albanian border.[71] So far, in marked contrast to other parts of the region, most of them have voted for mainstream Montenegrin parties, and not for narrowly ethnic parties. Leading figures from minority groups complain of under-representation in local government and the police, even where they form a substantial part of the population. However, the government has emphasised its determination to build Montenegro as a multi-ethnic society. The republic's openness to refugees has also won international praise. During the Kosovo conflict, tens of thousands of Kosovo Albanian refugees were accommodated in Montenegro.

The constitution does provide for full guarantees and protection of minority rights. However, the task of bringing Montenegrin legislation up to European standards has barely begun. In this regard, the engagement of the Council of Europe and the OSCE in Montenegro are particularly important.

Another area in which there is room for improvement is freedom of the media. There is some diversity in the print media, with two dailies, Pobjeda and Vijesti, tending toward the government, and one, Dan, supporting the SNP. There is also a wide availability of Serbian newspapers in Montenegro. The picture regarding electronic media is more problematic. The ODIHR election-monitoring mission noted in June 2000 that the state media, operating in a highly regulated environment, gave the incumbent administration a distinct advantage in terms of quantity of coverage in news broadcasts. Thus although state television respected election rules guaranteeing each party its own slots on television, the preponderance of positive news stories concerning the ruling coalition in the news broadcasts gave it an unfair advantage over opposition parties. The only alternative view available on television was YU Info, which, broadcasting from sites under VJ control, supported the SNP. Generally, the issue of pro-government bias in the state media remains highly contentious.

E. Economy

The economic situation is difficult. The unemployment rate was estimated at 29.7 per cent in the second quarter of 2000, up from 27 per cent in the same period in 1999.[72] The Centre for European Policy Studies and the Institute for Strategic Studies and Prognoses stressed rapidly increasing labour costs as

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71 SFRY 1991 Census Figures.
72 Economic data from Montenegro Economic Trends (Monet) 4, published by the Centre for European Policy Studies (CEPS, Brussels) and the Institute for Strategic Studies and Prognoses (ISSP, Podgorica), January 2001 (hereinafter *Monet*).

one reason for rising unemployment.[73] The total labour cost, including all social contributions, rose from 342 German Marks in January 2000 to 472 in October 2000. The slowness of economic restructuring has largely preserved Montenegro from mass layoffs, but there is significant under-employment within enterprises and opportunities for entry into employment for new workers are few.

In order to avoid rising labour costs many employers and individuals opt instead to work in the grey economy. In the second quarter of 2000, according to Monet's estimate, the share of unrecorded economic activity in the total labour force was around 31 per cent, indicating that, in conditions of considerable economic hardship, a significant part of the population relies on the informal economy. The importance of the grey economy is also indicated by a survey carried out by the UN Office for the Coordination of Humanitarian Affairs (OCHA) and Belgrade's Economics Institute, according to which 21 per cent of adults in Montenegro acknowledged receiving some income in the grey economy.[74]

The average disposable monthly wage fell as low as 117 German Marks at street value in September 1999, before the introduction of the German Mark as the parallel currency. Since then it has increased, and in October 2000 stood at 203 German Marks. As an indicator of poverty, the report revealed that some 30 per cent of households had not made any purchases of new clothing or footwear during the previous year.

The increase in wages has not been matched by a corresponding increase in purchasing power, as inflation has continued to be relatively high. Following a jump in prices at the end of 1999, the inflation rate dropped from an average monthly increase of 20.6 per cent in the last quarter of 1999 to an average 2.6 per cent in the first quarter of 2000 and 1.3 per cent in the third quarter. While an improvement, the rise in retail prices of 21.7 per cent from December 1999 to November 2000 is still high. In November 2000 the monthly rate was 2.5 per cent.

Prices are generally higher in Montenegro than in Serbia. In part, this is because in Montenegro a much smaller range of goods is available at government-controlled prices than is the case in Serbia, and the controlled prices are lower in Serbia. One effect of price controls in Serbia is that it is more afflicted by shortages of certain goods, which is not the case in Montenegro. Non-controlled prices are also generally higher in Montenegro, but so are wages.

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73 *Monet* 3.
74 *Income & Expenditures in Montenegro*, a personal and household survey conducted by the UN OCHA Sub-Office in Podgorica and The Economics Institute, Belgrade, December 2000.

Monet 2 provides a partial explanation as to why relatively high inflation has continued in Montenegro since the introduction of the German Mark. Before its introduction, the currency black market meant that, whereas prices in German Marks at the official dinar exchange rate were artificially high, at the black market exchange rate they were artificially low. In other words, for someone exchanging German Marks for dinars at the black market rate, prices were very low. However, having introduced the German Mark, prices gradually rose to their realistic German Mark level. In the short-term this results in a period of rising prices. But in the longer term, the greater transparency that this entails, the end to artificial exchange controls and manipulation can be expected to deliver a healthier economy.

The introduction of the German Mark can now be counted a notable success. For political reasons, so as not to provoke the VJ, which paid its way in dinars, the German Mark was initially introduced in parallel with the dinar, which continued to be legal tender. However, the dinar was rapidly supplanted in almost all transactions, and in November 2000 it was withdrawn.[75] A law on the central bank was passed in November 2000. Given that Montenegro uses the currency of another country, it has in effect opted not to run its own, independent monetary policy. Nevertheless, the new law is an important step in ensuring sound regulation of a sector whose health will be key to future economic development.[76]

Fiscal policy is rather more worrisome, with revenue collection well below target in 2000. In the first eleven months of the year the budget deficit reached 82 million German Marks. For the time being, this deficit is financed by foreign assistance, but such practice is not sustainable. In the longer term greater order and transparency will need to be brought to government finances.

The privatisation process has been proceeding since 1991, but in recent years slowed almost to a halt. In 1998 the government opted for a program of mass voucher privatisation. It is also envisaged that there would be a number of international tenders of individual enterprises. The privatisation process contains serious dangers, particularly given that the perceived high political risk associated with Montenegro means that foreign investment is likely to be limited for some time to come. With the help of international advisers, the government plans reforms to make the business environment more attractive to foreign firms. However, a major problem for Montenegro is that as long as

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75 *Bloomberg* News, 9 November 2000.
76 Discussion of the Central Bank Law in *Monet* 2, July 2000 and *Monet* 4, January 2001.

the question of its relationship with Belgrade is not resolved, the continuing uncertainty over jurisdiction will deter many foreign companies from investing. In practice, privatisation may, as in several other transition countries, enable people close to the ruling elite to gain control over, or confirm their control over economic assets. In that event, privatisation would not herald deeper restructuring of enterprises or the introduction of new expertise or investment. Thus reform may serve to solidify the control of the ruling oligarchy over the economy, much to their own benefit, but not to the benefit of the economy or society.

Faced with a Montenegrin government turning toward the West, promising democratic reforms and threatened by the aggressive Milosevic regime, international support for Montenegro was unprecedented. Determined to avoid again being left to react after a war had already broken out, the United States and the EU in 1999-2000 implemented a conflict prevention strategy designed to shore up the Djukanovic administration, with a speed not seen elsewhere in the region. The priority was explicitly short-term, designed to stabilise the position of the government and ensure its survival. Thus the bulk of international assistance was in the form of direct budget support. Nevertheless, a secondary international aim from the beginning was to promote and nurture the reform process in Montenegro. In the context of the very real threat posed by the Milosevic regime, the international stress on stabilising Djukanovic's position with few strings attached was understandable.

Following the changes in Belgrade and the diminution of the threat to Montenegro, it is likely and quite correct that the emphasis of the international community should shift. International support for peacefully resolving Montenegro's constitutional status should be a particular priority and is dealt with in Chapter 6. Western governments should avoid any tendency, in the rush to help rebuild Serbia, to neglect Montenegro. Rather, attention should be switched from unconditional budget support toward sustainable reform, including a thorough overhaul of the party-state apparatus, together with all the networks of cronyism, nepotism and corruption that go with it. The conditionality attached to Western assistance should be applied more rigorously in the new environment, where expectations of real progress can legitimately be greater.

Conclusions and recommendations on Montenegro internally

❑ *In order for the process by which Montenegro decides on its future status to have credibility, strict adherence to the terms of the Montenegrin constitution would be highly desirable.*

❏ *State influence over the media must be reduced, and new media legislation prepared and adopted in consultation with the media community, and in line with Council of Europe standards.*

❏ *International assistance should be shifted from unconditional budget support toward conditional support for sustainable reform, including thorough overhaul of the party-state apparatus and bringing greater transparency and efficiency to government finances.*

KOSOVO REGION

5. KOSOVO

Kosovo is adrift, and real stability will continue to elude it and the adjoining areas in Serbia and Macedonia until substantial self-government and a process for resolving the province's political status are in place. The international administration should set an early date for Kosovo-wide elections, while continuing to act to improve the security environment and set the framework for a stronger economy.

A.   Introduction

Kosovo was relatively quiet during the year 2000. Killings of Kosovo Serbs, Roma and other minorities greatly decreased, local elections were held peacefully. The government was democratically changed in Belgrade. The impression in the international community was that if Kosovo was not going well, at least it was not going badly. However beneath this surface the province is troubled, as outbreaks of violence in early 2001 made clear. Renewed rioting in Mitrovica, violence in Serbia's Presevo valley, clashes on the Kosovo-Macedonia border and the attacks on bus convoys escorted by the NATO-led Kosovo Force (KFOR) all served to drive home this point.

Issues surrounding Kosovo's final status remain central to virtually all the challenges facing the province, from security to economic growth to basic governance. The position taken in this report is that almost two years after the end of the war in Kosovo it is time for the international community to acknowledge that it cannot rule Kosovo as a protectorate forever. Much more rapid progress needs to be made toward establishing the provisional institutions of democratic self-rule called for under United Nations Security Council Resolution (UNSCR) 1244, and by setting forth a clear and transparent process spelling out how the issue of final status will be resolved. Elections for some form of assembly need to be held soon, and the best way to do this will be to set a date, as was done for the local elections. Time is a luxury the international community does not enjoy in the province. With Kosovo's final status deeply uncertain, the Kosovo Albanians remain united in their desire for independence and fearful of a re-imposition of Belgrade's rule.

The arguments for and against different final status options, and the process by which the status issue might be resolved with internationally assisted negotiations, are addressed in Chapter 6, The Future of the FRY. This chapter deals with the internal situation in Kosovo. While the security, governance, human rights and economic issues here are all ultimately interconnected with the status issue, and this point will be repeatedly made, it is necessary to give them detailed attention in their own right.

The lack of clarity concerning Kosovo's political status is thwarting the international community from making greater progress on a number of internal fronts. Many economic and legal issues cannot be solved since there is a fear of "pre-judging final status" and destabilising the new authorities in Belgrade. Justice and policing remain ineffective, with no clear laws on many issues or an effective court system in place. Indeed, the geographic integrity of the province remains in question, with Belgrade effectively running the province north of Mitrovica, against the will of the international community. This uncertainty encourages ethnic Albanians - whether in Macedonia or the Presevo region of Serbia - to reason that if Serb violence in Mitrovica is rewarded, it should be a viable option for them as well.

The international community's major preoccupation in Kosovo is not final status but security. In contrast, the agenda of Kosovo Albanians continues to be heavily driven by efforts to avoid Belgrade's rule. These twin concerns of security and status are inextricably linked. The approximately 42,500 KFOR troops provide reliable external security against the forceful return of Serbian troops. But KFOR and the approximately 4,000 United Nations (UN) police have been less effective in providing internal security. Despite some recent improvements, the police have not been able to stem either inter-ethnic violence or political and criminal violence and revenge within the Albanian community.

The lack of any foreseeable resolution of the status of Kosovo and the resulting continued insecurity for its people complicates almost every one of Kosovo's other problems, especially efforts to encourage reconciliation between Albanians and Serbs. As long as Albanians fear and Serbs hope that Belgrade's rule might return, each side will be preparing both psychologically and practically for the next war, deflecting attention from other pressing political, economic, and social problems. The international community must avoid creating a situation where Kosovo's citizens view violence as the most viable means to secure their goals.

Despite ongoing security problems, the international mission has pressed ahead with building institutions to pave the way for a transfer of power to local structures, and elections for local authorities were held in October 2000. Unfortunately, progress has been slow. At the end of 2000 efforts to build effective institutions of governance, a functioning judicial system and the legal and institutional environment necessary for a modern market economy all remain in their infancy, bedevilled by the lack of final status. Kosovo still lacks a constitution. It appears to be impossible to settle important questions of ownership or law in any stable way when the final question of even the most basic structures of governance remain at issue. The international community's seeming determination to establish fully the powers of a provincial-wide legislative body before starting preparations for such an election has slowed progress toward Kosovo-wide elections.

Table 10. Kosovo at a glance

Population:2.2 million (1998 pre-conflict estimate)
Elections: Municipal elections held on 28 October 2000. Assembly elections expected later this year.
United Nations Special Representative of the Secretary-General (UNSRSG):Hans Haekkerup

Source: *EU/World Bank Joint Office, available at* www.seerecon.org

B.   Security

As long as Milosevic remained in power, it was impossible to rule out the renewed use of military force in Kosovo by Belgrade, either through direct incursions or continual low-level guerrilla attacks aimed at creating a climate of instability. Providing that the new democratic regime in Belgrade remains in power and consolidates its control over the Serbian military and police, overt use of force to regain control of Kosovo is unlikely. But Kostunica and his supporters have been just as rhetorically insistent in defence of Serbian national interests in Kosovo, calling for the return of Serbian troops and access to patrimonial sites,both provisions that are contained in UN Security Council Resolution 1244. This has heightened suspicions among Kosovo Albanians that despite the democratic developments in Serbia, Belgrade remains hostile,both to them and to their aspirations.

While the possibility of direct military action has indeed diminished,Serbia's relative military strength has clear strategic implications. As the inheritor of much of the weaponry of the former Yugoslav People's Army (JNA),Serbia is, at least on paper, the major power in the western Balkans. Kosovo Albanians

understand that the independent Kosovo they desire could never stand up militarily to Belgrade, and so they seek a more or less permanent NATO presence. The long-term resolution of political status will have to be forged with this fundamental military imbalance in mind. Arms control and confidence-building measures are part of the answer but are unlikely to be enough. The only lasting solution lies through building constructive relations between Pristina and Belgrade.

Kosovo's internal security difficulties stem largely, but not solely, from communal violence between the Albanian and Serb communities and from the existence of armed underground political and criminal groups affiliated with both communities. The inability to prevent Albanian revenge attacks against Serbs and minorities, which began as soon as Albanian refugees returned to Kosovo hard on the heels of entering KFOR troops,has been the most serious internal security failure of the international mission in Kosovo. Initially these attacks were a spontaneous response to the brutality of the Serb campaign against the Kosovo Albanian civilian population. Soon, however, the attacks assumed,it is widely alleged,a systematic and organised character, aimed at driving the Serb population out of Kosovo. An Organisation for Security and Cooperation in Europe (OSCE) report on the violence found that the evidence pointed "to a careful targeting of victims and an underlying intention to expel". The report also contained references to "numerous witness statements testifying to the alleged involvement of former members of the Kosovo Liberation Army (KLA)".[77] More than 100,000 Serbs - half of the claimed Kosovo Serb population - are alleged by Belgrade to have left the province,(though most of the population movement came as KFOR entered the province). However, the UNHCR has only registered 25,000 internally displaced Serbs as having left Kosovo.

Hamstrung by concerns about casualties and careful to act within the bounds of internationally recognised human rights standards, the UN-led international mission in Kosovo (UNMIK) has struggled to counter the perpetrators of violence. In a practical sense,without any clear vision of the future of law, justice, ownership or governance, the military and civilian peacekeeping presence has been unable to change the pervasive political culture of violence on the ground. Instead of declaring martial law and using force - if necessary lethal force - against those responsible for the killing,the burning,and the intimidation,KFOR troops are often alleged to have failed to take decisive action.   Suspects were often released either because the absence of a functioning judicial system made it impossible to bring charges

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[77] *Kosovo/Kosova:As seen,As told*, OSCE,1999,p. xii, available at www.osce.org

against them or because there were insufficient regular detention facilities. This early failure to move against the violence established a climate of impunity that still prevails.

Even after many Serbs remaining in Kosovo had moved into de facto enclaves, neither KFOR nor the UN police were able to stop the violence against the Serbs. Over the year 2000, roughly twice as many Albanians were killed as Serbs, but this still represents a very unfavourably high risk for Serbs. Fortunately the rate of incidents greatly decreased in the latter half of the year, but inter-ethnic hatred and desires for revenge remain very much in being. There has been a major and admirable reduction in violence across the province from the 1997-1999 period, but with roughly twenty times more Albanians than Serbs living in Kosovo, a Kosovo Serb was ten times more likely to be killed in ethnic violence than a Kosovo Albanian. The violence has fuelled charges by Kostunica and other members of the new Yugoslav government that the international mission in Kosovo is not doing its job and is skewed toward the interests of the Kosovo Albanians, and bolstered demands for the return of Serbian troops and displaced civilians to the province.

February 2001 saw two serious attacks against KFOR escorted Kosovo Serb convoys heading for shopping or visits to Serbia. These attacks appear to be different from previous revenge attacks against neighbours, and may represent a direct political thrust by ethnic Albanian extremists to keep the lack of progress in Kosovo at the forefront of the international community's thinking.

It is unfortunately very unlikely that an international military or international police force will solve these security problems, though concrete steps by KFOR against the extremists would be welcome. Only a local police force, with local knowledge, acting under local political direction - backed by international support - will stand a chance of protecting the remaining Serbs from further revenge attacks over time. The creation of an indigenous government whose international survival depends on establishing peace and security will be key to stemming violence.

But communal clashes are not the only type of violent activity in Kosovo. Armed groups operate beneath the surface in both the Serb and the Albanian communities. Under Milosevic, Serbian security and intelligence forces appeared to operate throughout Kosovo. After withdrawing from Kosovo at the end of the war, Serbian police, including the State Security Service (DB), the secret police, established an active base in Raska, 35 kilometres north of

the border with Kosovo. Anti-Milosevic activists said that DB personnel operated routinely in the north of Kosovo, and residents of the enclaves have also reported their presence. It was also widely believed that some of the so-called "bridge watchers" - young thugs who guarded the Serb side of the line in the divided city of Mitrovica - were employed by the Belgrade police authorities. This charge was lent credibility when some of the "bridge watchers" - until then under the partial control of the charismatic leader of the Mitrovica Serbs, Oliver Ivanovic - were used by the Milosevic regime to drive Kostunica from the podium during a campaign visit to Mitrovica. On 25 January, the bridge watchers seriously assaulted a Russian staff member from the OSCE, setting off a tit-for-tat series of incidents culminating in serious rioting by both sides. This resulted in a virtual re-run of the February 2000 riots in Mitrovica, with KFOR reinforcements again brought in to take on serious rioting and civil disorder.

Further, the leaders of a moderate Serb faction centred around the monastery in Gracanica, Bishop Artemije and Father Sava, were reported to have received death threats from Belgrade in the summer of 2000, and just before the 24 September FRY elections a substantial arms cache was found in the vicinity. It remains to be seen whether the new authorities in Belgrade will be able or willing to stop this kind of activity.

Political, criminal and personal violence within the Albanian community has also periodically assumed dangerous proportions. In the months before the municipal election campaign got underway in September 2000, violence in the Albanian community escalated dramatically. Many of these attacks were against individuals associated with the Democratic League of Kosovo (LDK), led by Ibrahim Rugova. Several LDK activists were killed, others were shot or intimidated and a number of LDK offices were ransacked, although at least some of these disputes related to actions or inaction during the war. Surprisingly to most observers violence then sharply decreased in the run up to elections. There have also been a number of highly visible killings in which the victims - prominent figures - were apparently killed in response to actions which appeared to threaten the economic or political interests of underground criminal or political structures. Many other instances of violence can also be attributed simply to personal disputes and vendettas in the wake of the 1999 conflict.

The KLA, never a very structured organisation, formally disbanded in the fall of 1999, but many observers believe it continues to maintain a loose underground structure. Armed groups associated with the former KLA - understanding that the KLA was always composed of disparate groups with

different agendas at respective local levels - have been reported to be associated with the violence against the LDK. There is also the possibility that some of this is connected with internal disputes within the LDK. Some senior figures within the LDK believe the killings to be connected with Serbian state security organs, pointing out that not even they believe these killings are in the interest of their ethnic Albanian political rivals.

However, ex-KLA elements are suspected to be behind much of the criminal violence as well. The pattern of violence would appear to demonstrate that at least some of the groups behind it have an effective system of command and control and a relatively sophisticated sense of political timing. Political violence against the LDK dropped shortly after the beginning of the municipal election campaign in the autumn of 2000, showing a conspicuous awareness of the negative international publicity associated with these attacks.

Albanian concerns over Western responses to the new government in Serbia could also have an impact on violence in Kosovo. As the new Kostunica government in Belgrade trumpeted its intention to return Serbian control to Kosovo, many Albanians - including former senior KLA commanders - warned that if the international community tilted too far toward Belgrade, Albanians might "return to the hills" to prepare for another round of conflict.

Although much of the violence in Kosovo is reported to be linked with groups associated with the former KLA, there are apparently other even more shadowy armed Albanian extremist groups also operating in the province. Albanians involved in the 1999 war against the Serbs told ICG in the autumn of 2000 that a group of ex-KLA fighters, many of them former political prisoners with ties to Albania, broke apart and formed an armed, extremist underground group in order to prepare for any future conflict resulting from a Serbian return. These men are angry in equal measure with the international community for continuing to entertain FRY sovereignty over Kosovo and Albanians they see either as "soft" on Serbia or covertly associated with Serbia.

This group was reportedly responsible for the murder on 15 September of Selim Broshi, who until 1988 headed the Yugoslav secret police in Kosovo. The "New KLA" is said to be beyond the control of former KLA leaders, such as Hashim Thaci, in part because they view him as too close to the international community and out of anger at the widespread corruption for which they blame Thaci and others.

KFOR and the UN police have undertaken some measures aimed at curbing the worst violent excesses. Beginning in September, they adopted a series of "Special Local Security Measures" (SLCM) in areas where Serb communities are located. SLCM include mobile police stations manned by UN police, KFOR troops, and by Albanian and Serb personnel of the newly established local police force, the Kosovo Police Service (KPS). This effort has also entailed fixed and mobile checkpoints in Serb areas, heightened vehicle checks including the use of surveillance cameras and the targeting of international intelligence, surveillance and criminal investigative assets on areas where Serbs live. In reality this has only succeeded in institutionalising what are now in effect Serb enclaves. These measures were deeply unpopular with the Kosovo Albanian parties, who saw them as "special treatment".

Efforts against organised criminal activity and some of the figures associated with it have also been stepped up. In mid-October, KFOR international police officers and British marines raided thirteen homes, bars and brothels, arresting 25 people. The raids were directed against properties owned by the Geci clan, a well known criminal family and former KLA fighters who are widely believed to control an extensive criminal network in Pristina and its vicinity.[78] KFOR also announced plans to rotate the regional leaders of the Kosovo Protection Corps, the civil defence organisation founded out of the KLA, some of whom were widely suspected of turning their commands into local fiefdoms where they engaged in a variety of illegal fundraising activities.

By the end of 2000, there were tentative indications that these stepped up security measures were having some effect. Some of the most visible political violence declined as the municipal election campaign moved into full swing, although lower-level intimidation continued. For example, in the strong-hold of Thaci's Democratic Party of Kosovo (PDK) at Skenderaj, local shop keepers complained to ICG in October 2000 that they were forced to display PDK campaign posters and that those who refused were subjected to threats of violence. Attacks against Kosovo Serb communities also seemed to decline almost totally in communities where the new security measures (SLCM plan) were being implemented.

A deeply instilled culture of intimidation, fear, silence and resentment of any foreign government, and any police, including that of the United Nations Missions in Kosovo (UNMIK), combine to make it extremely rare for victims or witnesses of criminal and communal violence to come forward to cooperate with authorities. Ultimately, as noted above, the only answer to

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78 "UN and NATO Move to Curb Kosovo Crime", *New York Times*, 15 October 2000.

political and organised criminal violence in Kosovo will be the more rapid creation of an effective and legitimate system of Kosovo self-government, and the formation under that government of a professional and politically neutral police force, secure in its future. This will not be easy, especially in view of the reported presence in the Kosovo Police Service of significant numbers of officers loyal to various political factions. Nevertheless, stronger self-government is as the only feasible long-term approach to improving security in the province while allowing the international community to move out of its role as a de facto, and often ineffective, police presence.

KFOR and UNMIK can both take important steps to help destroy the illegal armed groups that operate among both the Albanian and the Serb communities. This will require a more focused and aggressive posture against both ethnic and political violence. Mobile patrols and quick reaction counter-violence teams, which the international mission began to deploy in defence of some threatened Serb areas in the autumn of 2000, are part of the answer. The development of effective intelligence will require breaking the code of silence that inhibits both victims and witnesses from coming forward with evidence. Penetrating and destroying underground groups will also require local support and informants, which will require enlisting local security forces in the struggle, and Kosovo Police Service officers of Albanian and Serb nationality will need to be included in the fight against violence in their respective communities. KFOR should also continue vigorous efforts to locate covert weapons caches and those responsible for them should be held accountable.

The fight against violence requires that the ultimate sources of the violence be identified and countered. On the Serb side, this means drying up Belgrade's ability to operate in Kosovo, through tough controls over the entry of people and material into Kosovo from Serbia. On the Albanian side it means a willingness to identify and take action against political and economic interests or groups identified with the aims and objectives of those carrying out the violence. However, tougher military and police measures alone are not enough to defeat the violence and improve the internal security situation in Kosovo - creation of a functioning and impartial judicial system is also an essential component of such a strategy. There will not be an end to the violence until victims, perpetrators and witnesses understand that those guilty of crimes will be apprehended, detained and convicted.

UNMIK should make the establishment of a functioning judicial system its highest priority in the area of local administration. Recognising that a functioning judicial system will have to rely primarily on local personnel and

institutions,UNMIK should immediately raise the salary of local judges,with the salaries of other judicial personnel raised commensurately. The international mission should continue to closely monitor the performance of Kosovo judicial personnel,and judges and other personnel who demonstrate ethnic bias in the performance of their duties should be disciplined,including by removal if necessary (as has already been done in some cases). Work on introducing modern criminal and civil law codes should be accelerated with the objective of having them in place no later than the introduction of the first Kosovo-wide interim government. This will need strong support from the international community as a whole,since the whole question of whose justice, and what law, is intertwined with that of movement toward final status. Without clarity on the key questions "whose law" and under what sovereignty - establishing a fully functioning independent judiciary will be impossible.

Beefing up the capabilities of both the UN police and the Kosovo Police Service (KPS) is an important element of the internal security struggle in Kosovo. The international mission should establish a date - for example 12 June 2002,three years after the entry of the international mission - at which time primary responsibility for policing Kosovo will be assigned to the KPS, under continued international supervision. The international mission should focus on providing the KPS with the training, street experience, and equipment needed to accomplish this task. As a first step in that direction, the pay of KPS officers should be significantly increased. In the interim,the international community should provide the UN police with the equipment and specialised personnel it needs to function as a modern police force with the expectation that this equipment and the expertise of the specialised personnel will be available to the KPS as the role of the UN police gradually diminishes.

KFOR and UNMIK also need to develop a coordinated and consistent policy for dealing with the Kosovo Protection Corps (KPC). Financing of the KPC has been regularised by including it - beginning in 2001 - as part of the Kosovo consolidated budget. The international donor community should also provide the funds and equipment necessary to allow the KPC to carry out its missions of disaster relief and civil defence. KFOR and UNMIK should work with the KPC leadership to end improper activities. This should include such measures as raising the salary levels in the KPC to at least those of equivalent civilian employees of the Kosovo government and banning so-called "donations"(little more than local extortion) as a vehicle for financing. KFOR and UNMIK should vigorously investigate allegations of improper activities by some KPC leaders,and prompt action should be taken against those who

are found to have engaged in improper activities. Over the longer term - and linked to resolving Kosovo's final status - the international community should work with local representatives to shape the KPC's role in Kosovo's future defence and its relation to any ongoing peacekeeping presence.

It has been standard international theory and practice in post-conflict situations to convert former fighters into defence forces, with international supervision and training. Unfortunately in Kosovo this meant creating an unarmed, ill-equipped and mostly unfinanced civil defence corps, the KPC, providing jobs for only a few ex-fighters. It is hardly surprising that this has not entirely succeeded in transforming former KLA fighters into model fire fighters and ambulance persons. In addition, the KPC is currently being considerably reduced in strength,which will create more unemployed former fighters with time on their hands, with a possible spill-over into both southern Serbia and Macedonia

A critical element in dealing with the Serbs of Kosovo, and indeed in preserving Kosovo as a single entity,is regaining control of Mitrovica. Despite recognising the problem, the UN administration on the ground has failed to heed recommendations to provide the UN administrators in Mitrovica with adequate powers or budgets to make any progress in what are exceptionally difficult circumstances.[79] As a result, three well-known and respected international figures have held the post for six months in turn and left. The de facto partition of Mitrovica and northern Kosovo has been the result of a tacit decision by the French-led KFOR elements in the area not to use force in reuniting the city. One consequence of this stalemate is probably the rebel activity in the Presevo valley of southern Serbia,adjoining Kosovo,where the Albanian majority has been alienated by years of Serbian misrule.

To overcome the problem, NATO governments will have to be prepared to move against the "bridge watchers" in northern Mitrovica and, when that is accomplished, be prepared to prevent returning Albanians from driving out Serb civilians residing in Mitrovica. This must be followed by a coordinated campaign of political and economic measures aimed at reuniting Mitrovica, protecting the Serb and the Albanian populations, and giving the Serbs political and economic incentives to remain within Kosovo. While UNMIK has announced plans to do this, it remains unclear if there is any serious intention to implement them. Almost two years on,and three distinguished administrators later,the UN head in Mitrovica still has little power or budget. This is in sharp contrast to other divided cities such as Mostar or Brcko

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[79] ICG Balkans Report No. 95, *Kosovo's Linchpin:Overcoming Division in Mitrovica*, 31 May 2000.

(comparably "difficult" towns in Bosnia). If this is not done promptly, the Ibar River is likely to become a permanent partition, whatever other intentions final status negotiators may have.

C.   Governance

Establishing Democratic Institutions

UN Security Council Resolution 1244, adopted on 10 June 1999, creates Kosovo's present "interim" system of government - effectively an international protectorate, administered by the United Nations Interim Administration Mission in Kosovo.[80] It authorises the establishment of "an international civil presence ...to provide an interim administration ... under which the people of Kosovo can enjoy substantial autonomy within the Federal Republic of Yugoslavia".[81] As well as performing "basic civilian administrative functions where and as long as required", the UN administration is given responsibility (albeit not in very precise terms) for overseeing a four-stage process of political development:

❑ First, "Organising and overseeing the development of provisional institutions for democratic and autonomous self-government pending a political settlement, including the holding of elections";

❑ Secondly, "Transferring, as these institutions are established, its administrative responsibilities";

❑ Thirdly, "Facilitating a political process designed to determine Kosovo's future status, taking into account the Rambouillet accords"; and

❑ "In a final stage, overseeing the transfer of authority from Kosovo's provisional institutions to institutions established under a political settlement".[82]

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80 Full text available at www.un.org/Docs.scres/1999/99sc1244.htm. The Resolution, the terms of which were negotiated by the G-8 (Canada, France, Germany, Japan, Italy, UK, USA and Russia) was based on the Ahtisaari-Chernomyrdin peace plan, presented by Finnish President (and now ICG Chairman) Martti Ahtisaari, representing the EU, and the Russian President's special representative Viktor Chernomyrdin, to the FRY leadership on 3 June 1999 - and accepted both by the federal government and the Serbian Assembly. Elements of it drew in turn from the draft Rambouillet Interim Agreement for Peace and Self-Government in Kosovo of March 1999, initiated by the Contact Group (the informal group constituted initially to deal with Bosnia, comprising the G-8 less Japan and Canada) and accepted in the event by the Kosovo Albanian delegation but not by the FRY: text available at www.usip.org/library/pa/kosovo_rambtoc.html The relevant documents are conveniently gathered or summarised, and the history discussed, in *The Kosovo Report*, Independent International Commission on Kosovo (Co-Chairs Richard Goldstone and Carl Tham), Oxford University Press, Oxford, 2000.

81 UNSCR 1244, Article 10 .

82 UNSCR 1244. Article 11(c)-(f). See also Annexes 1 and 2, which both refer to the need for "A political process toward the establishment of an interim political framework agreement providing for substantial self-government for Kosovo, taking full account of the Rambouillet accords and the principles of sovereignty and territorial integrity of the Federal Republic of Yugoslavia and the other countries of the region and the demilitarisation of UCK [KLA]". Annex 2, Principle 8 adds "Negotiations between the parties for a settlement should not delay or disrupt the establishment of democratic self-governing institutions".

While the roadmap and timetable for achieving these goals is left largely unspecified in the UN resolution, its clear intent is to promote a high degree of democratic self-governance in Kosovo. But by April 2001, some 22 months after the end of the war, even the first stage of this process remains incomplete.

While municipal elections on 28 October 2000 began the process of creating democratic institutions on the local level, the municipal assemblies established by this vote have only limited powers and are subject to veto authority by local international officials. After the October municipal elections, UNMIK should have moved quickly to begin the complicated and potentially dangerous process of creating provisional democratic institutions. Unfortunately the reasons for inactivity and caution are clear. Without strong international support, the UN administration is afraid any progress or decision may be seen as prejudicing the question of final status, and disturb the new government in Belgrade. That strong support has been denied - as a result of divisions in the international community on the status issue and over how much support the new governments in Belgrade require.

The process of creating the local assemblies established under the October elections has required that local leaders associated with the ex-KLA - who in 1999 had moved in quickly after the departure of the Serb authorities to establish their own administrative structures - surrender local control to the newly elected party representatives.[83] This is currently happening, albeit slowly, but has encountered a number of difficulties. The newly elected LDK representatives have often refused to share power with other elected parties, and the local assemblies remain almost moribund. Concerns over independence dominate local politics, and with the exception of the Alliance for the Future of Kosovo (AAK), no political parties seem very interested in supporting what are seen as largely powerless local structures.[84]

The next and most complicated step was to introduce what amounted to an interim constitution for democratic, Kosovo-wide institutions. This process, which the Special Representative now describes as producing a "basic legal framework", is again proceeding very slowly. Moreover, "legal framework" is itself a controversial choice of words with Kosovo Albanians, who feel that since Kosovo had a constitution in 1974, they cannot - if they are to maintain the momentum for independence - accept any lesser term

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83 ICG Balkans Report No. 79, *Waiting for UNMIK:Local Administration in Kosovo*, 18 October 2000.
84 The AAK is the second, and smaller, party to be formed by ex-KLA fighters led by Ramush Haradinaj.

now. One of the key substantive decisions to be made is the choice of an appropriate electoral system. In this respect, if speed is a major consideration, as it is, it would make more sense to opt for a province-wide electorate using a proportional representation system with party lists, rather than any multi-district system.

The remaining step is for the international mission to set a date for general elections to Kosovo's provisional institutions, an event which Kosovo Albanians have demanded should occur no later than the spring of 2001, but which Kosovo Serbs and some members of the international community would like to see delayed. UNMIK has indicated that general elections in Kosovo will be held no sooner than the fall of 2001, and there is increasing concern that the date will slip well into 2002. Moreover, the handling of the issue has been contradictory. Although the new Special Representative, Hans Haekkerup, has confirmed his wish to have elections as soon as possible (a reversal of his initial stance), he has also said that all the proper structures and procedures - not just the electoral system - must be in place first for this to take place, including the framework for the future powers of a Kosovo-wide parliament. As a result, there is growing concern that the UN's current approach is a recipe for an almost indefinite preparation period, since the OSCE estimates it needs two months to recruit the staff for an election, and then six months to prepare for any substantial new system.

Governance Generally

Even before Milosevic's departure, Kosovo Albanians were increasingly doubtful of the UN's ability to administer the province. Difficulties in providing a number of social services - ranging from delays in rubbish collection to repeated interruptions in power and water - underscored the often cumbersome bureaucratic process of UN administration. Slowness in creating a functioning and impartial judicial system has also been one of the biggest gaps in the UN's interim administration. An OSCE study of the criminal justice system in Kosovo found it to be "failing the impartiality test". Even after a prolonged period of review by UN officials, the OSCE study found that "there are a number of significant cases that have raised real concerns as to the actual bias of the courts."[85] Equally the whole legal structure gives rise to doubts. There is no law of "habeas corpus", enabling apparently indefinite detention at times, and no clear property law. Law in Kosovo is not decided locally at all, but is at the mercy of UN lawyers in

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85 *Kosovo:A Review of the Criminal Justice System;1 February 2000 - 31 July 2000*, OSCE,p. 61.

New York, whose main concern appears not to be so much following the guidelines established in UNSCR 1244, as not in any way risking pre-judging final status. Neither the law nor the judiciary will become effective without genuine state institutions, and that in turn entails making progress on the status issue.

President Kostunica's electoral victory brought the issue of independence back to the forefront of debate among Kosovo Albanians. While virtually all Kosovo Albanians believe that Kosovo must someday become independent, these aspirations had been somewhat restrained by the belief that the international community was heading in that direction. But with the Kostunica government vocally reasserting its intention to maintain Serbian sovereignty and return a limited government presence to Kosovo, every major Kosovo Albanian leader has publicly reiterated his support for independence as the only acceptable outcome.

Kosovo Albanians understand that independence remains a longer-term goal and they are willing to exercise some patience - provided they do not come to believe that the international community has foreclosed that option. However, Kostunica's rhetoric has forced Kosovo Albanians to confront their own powerlessness under their current status as an international protectorate. Delays in establishing interim institutions has left Kosovo Albanians with no legitimate, democratic representation to present their interests to either Belgrade or the international community.

When former UNMIK chief Bernard Kouchner attempted to begin his own direct dialogue with Kostunica, Kosovo Albanians quickly and rightly made it known that neither Kouchner personally nor the UN as an institution had proper authority to represent their interests in Belgrade. Kouchner's successor, Hans Haekkerup, has announced his intention to open an office in Belgrade, and this has again triggered debate amongst Kosovo Albanians as to his intentions. Put another way, as long as Belgrade remained an international pariah, Kosovo Albanians were willing to be treated as wards of the international community. However, as Serbia re-emerges as an active member of the international community, Kosovo Albanians also expect a seat at the table.

Internal Politics

The municipal elections of October 2000 were an important symbolic step in demonstrating Kosovo's commitment to democracy. By and large, Albanian political parties, candidates, and media behaved in a responsible

fashion. The political parties devoted considerable effort to getting their messages to voters, the media reported extensively (if not always accurately or impartially) on the campaign, and the people of Kosovo turned out massively and peacefully to vote. Political violence - a major concern at the campaign's onset - abated considerably as it progressed. Kosovo Albanians voted overwhelmingly in support of Rugova's LDK, a party that has long advocated non-violent resistance to Serb domination, and in most areas rejected parties associated with the former KLA. Statements by the leaders of the two largest parties after the election also showed a willingness to act responsibly. The losers, Hashim Thaci and Ramush Haradinaj, promised to respect the results of the ballot, while the winner, Ibrahim Rugova, has moved cautiously.

Table 11. Main Political Parties in Kosovo

Political Party	Political Alignment
Democratic League of Kosovo (LDK)	The LDK is the largest established Kosovo Albanian political party. Under its President, Ibrahim Rugova, it followed a line of peaceful non-cooperation, running a parallel government structure throughout the last decade. During the October 2000 local elections it gained around 60 per cent of the vote. Widely regarded as the leading moderate party, it remains totally committed to full independence for Kosovo.
Democratic Party of Kosovo (PDK)	The PDK headed by Hashim Thaci is the second largest party in Kosovo and was founded by members of the former KLA.
Alliance for the Future of Kosovo (AAK)	A new Kosovo political coalition/movement led by Ramush Haradinaj, a former KLA fighter from Dukagjini, where it has a strong base, taking over 13 per cent of the overall vote in Kosovo. Parties in the coalition include: the People's Movement of Kosovo (LPK), Albanian Unification Party (UNIKOMB), Albanian Christian Party (PSHDK) and Alliance for Citizens of Kosovo (AQK) also led by Ramush Haradinaj.
Parliamentary Party of Kosovo (PPK)	The PPK was born out of the student movements of the 1980s. The party was led by Veton Surroi until 1994, and now by Bajran Kosumi. Until the October 2000 elections, the party was a member of the AAK coalition.

National Movement of the Liberation of Kosovo (LKCK)	The LKCK was an illegal political movement for ten years. The party was a member of the AAK until the October 2000 elections. It remains an important if small party.
People's Movement of Kosovo (LPK)	The LPK was one of the first political groupings in Kosovo to advocate armed resistance to Serb rule from Belgrade. During the war some of the most prominent politicians in Kosovo were LPK members. It remains an influential,if small party.
Albanian Unification Party (UNIKOMB)	Born out of the Albanian resistance movement,the UNIKOMB has always advocated Albanian unification. A member of the AAK coalition.

Some international observers have criticised Albanian parties and leaders for focusing on independence at the expense of local issues. Such criticism would seem to ignore the difficult cultural experience the Kosovo Albanians have suffered over the last decade, while underestimating the importance of resolving final status. Kosovo Albanians are no longer prepared to wait for the international community to sort out its own disagreements before democratic institutions are introduced across Kosovo. Nor should they be required to.

Kosovo Serbs and the Political Process

Kostunica's victory is also having an impact on the mood and political alignment within the Kosovo Serb community. In the September 2000 FRY elections Kosovo Serbs voted in substantial numbers for Milosevic, and in the December 2000 elections most also voted for the more extreme nationalist parties. This was not necessarily just out of enthusiasm for Milosevic personally, but rather because Belgrade's instruments of coercion and propaganda remained effective and many Kosovo Serbs saw it as directly in their security interests. To a certain extent, Kostunica's ability to control developments within the Kosovo Serb community will depend on how promptly and how effectively he takes charge of the propaganda,police, and financial instruments Milosevic used to maintain his control among that community.

The initial effect of Kostunica's victory was to enhance the stature of Kosovo Serb politicians associated with him - who had refused to cooperate with the international mission in Kosovo - and to diminish the stature of the moderate "Gracanica Serbs" who had cooperated with the UN. Oliver Ivanovic, leader of the Mitrovica Serbs, who endorsed Kostunica during the election campaign and stood by Kostunica when rock-and-vegetable-throwing Milosevic thugs

forced him off the podium in Mitrovica, has emerged as a more prominent leader of the Serb community throughout Kosovo. Another beneficiary of the new regime is likely to be Marko Jaksic, Kostunica's representative in Mitrovica. Immediately after Kostunica's victory, Ivanovic and other Kostunica supporters hinted at a more cooperative stance toward the international mission. However, by early November 2000 Ivanovic was backing off, telling the press, for example, that it would be premature for Kosovo Serbs to participate in the local assemblies to be established by the international mission on the basis of the October municipal elections. As a result UNMIK has been reluctant to recognise him as a legitimate representative in the current Mitrovica talks. Now it has become clear that with the appointment (by Belgrade) of Momcilo Trajkovic, leader of the Serbian Resistance party, as the leader of Kosovo Serbs, Ivanovic's power is waning. Trajkovic, who shared the podium with Kostunica in Belgrade the night of Milosevic's fall has also exhibited a more moderate stance, and some very slight progress may be visible here.

As a community, Kosovo Serbs have not been willing to work within the institutions of the autonomous Kosovo called for by UNSCR 1244 on an interim basis, let alone consider more sweeping final status talks. Almost all Serbs refused to register and vote in the October 2000 municipal elections in Kosovo, and few Kosovo Serb leaders have been willing to work with the Kosovo-wide interim institutions established by the international mission. However, some Kosovo Serb leaders have cooperated on a local level with the international mission. Kosovo Serbs should be encouraged by the international community and UNMIK to take part in the self-government efforts.

The international community needs to develop a comprehensive strategy for dealing with the Serbs that is clearly understood and implemented by both communities. This should include three elements:

❏   continuing integration of Serbs into municipal administration following the appointment of Serbs to municipal assemblies in the wake of the October elections;

❏   creation of institutions to allow Serbs in the enclaves to control their own local affairs; and

❏   adoption and implementation of a plan, which the UNHCR is currently working on, to complete the return of all Serbs who wish to do so over a three-year period.

For their part, Kosovo Serbs need to do more to demonstrate their willingness to live in a democratic Kosovo and to cooperate with the institutions set up by the international mission. UNMIK should make clear that Serbs who have not registered as residents of Kosovo in the civil registration being conducted by the UN, and who have not obtained the Kosovo identity document that such registration makes possible by an agreed date, will not be allowed to participate in self-government or enjoy other special arrangements that the international mission has set up for Serbs.

D.   Human Rights[86]

The inability either to fully protect Serbs or have them included in Kosovo's emerging administrative structures remains the most serious human rights issue in Kosovo,and the precarious status of Serb communities continues to undermine broader progress in peacefully resolving final status issues. Serb communities are directly dependent on the protection of KFOR and assistance from the international mission for their immediate survival.

The approximately 90,000 Serbs remaining in Kosovo live completely separately from their former Albanian neighbours. Some 40,000 live in several dozen de facto enclaves scattered across the southern and central part of Kosovo,their security and every aspect of their daily life provided for by KFOR and other elements of the international mission. Approximately 50,000 live compactly in a purely Serb zone that stretches from the northern part of the divided town of Mitrovica to the border with Serbia proper about 40 kilometres to the north.

Serbs in the enclaves lack almost all the basic preconditions for a normal life. They cannot work,shop,or receive basic social services outside the enclaves. Travel among the enclaves or between the enclaves and Serbia is accomplished on special bus lines or on a daily train that runs between Kosovo Polje, near Pristina, and Mitrovica. Convoys of cars and trucks run regularly between the larger enclaves and Serbia, the source of most of the supplies for the enclaves. This travel is only possible under KFOR escort. Serbs in the enclaves cannot use Albanian medical facilities and depend on treatment in Serbia or at clinics established under international auspices. There is almost no economic activity in the enclaves other than individual agriculture,small-scale trading and cafes.

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86 For earlier ICG discussions of human rights and minority protection in Kosovo see ICG Balkans Report No. 74, *The Policing Gap:Law and Order in the New Kosovo*, 6 August,1999;ICG Balkans Report No. 78, *Violence in Kosovo:Who is Killing Whom?* , 2 November, 1999; *Reality Demands:Documenting Violations of International Humanitarian Law in Kosovo 1999*;ICG Balkans Report No.97,*Elections in Kosovo:Moving Toward Democracy*,7 July 2000;ICG Balkans Report No. 100, *Kosovo Report Card*, 28 August,2000.

Before Milosevic's fall the institutions of the pre-war Belgrade regime continued to function underneath a thin veneer of international presence throughout the Serb-inhabited areas of Kosovo. In the primarily Serb municipalities of the north, pre-war Serb mayors and local administrations occupied their former offices and continued to carry out their functions in accordance with the directives of Belgrade. These local administrators received salaries both from both the UN administration and Belgrade. Even in the enclaves, Belgrade continues to pay the salaries and pensions and to provide a certain amount of social services. Schools throughout the north and in the enclaves are run according to the Serbian curriculum, and Belgrade has forbidden Serb teachers to sign UNMIK contracts.

The international mission in Kosovo has failed to come up with an effective strategy for dealing with the two key issues regarding Serbs in Kosovo: first, how to allow expelled Serbs to return to their homes; and secondly, how to integrate Serbs within the interim institutions of administration established by the UN Mission. In the spring of 2000, after Bishop Artemije visited Washington, the United States began to push energetically for the quick return of a substantial number of Serbs to some villages in the north-western part of Kosovo, from which they had fled shortly after the 1999 war. The U.S. initiative met with considerable scepticism from much of the international community, which pointed out that the Serb villages initially proposed as sites for return had been totally destroyed and were surrounded by hostile Albanian villages, meaning any returning Serbs would require permanent KFOR protection. A committee was established to coordinate preparations for return, but ultimately the U.S. initiative was stillborn.

The only instance where the international community has succeeded in encouraging Serb returns has been "Operation Trojan", begun by British forces in Kosovo in spring 2000. Working on a local level with Serb communities to improve security and living conditions, British and associated units deployed in the vicinity of Serb communities and adopted an active and aggressive security patrol posture. They also mobilised and coordinated international donor support to provide Serb villages in the Trojan zone with elementary schools and primary medical care facilities, and then to link groups of villages through road projects, clinics, high schools and even a projected Serb university.

By September 2000 about 40 Serbs had returned to the village that was the centre of Trojan, and perhaps two hundred had returned to the region as a whole. Although Trojan shows what can be accomplished through a consistent and well thought out policy at the local level, it probably owes

some of its success to the isolated nature of the mountainous region where it was conducted, which facilitates providing security and reduces pressure from Albanians. Although UNMIK is now taking over Trojan from British KFOR, it is thus not likely to serve as a model in the densely populated Kosovo plain,let alone in cities such as Pristina from which as many as 25,000 Serbs may have fled,and KFOR lacks the manpower and resources to conduct any such operation so widely. Lasting security - and, eventually, reconciliation - can only be achieved through a broader stabilisation of the political environment. In other words,Serbs will not return until they know what they face in Kosovo;this,in turn,depends on Kosovo Albanians knowing what the future holds for them.

E.   Economy

Activated by entrepreneurial instinct and fuelled by money from the international community and the Albanian diaspora, the small business sector in Kosovo is flourishing. Former UNMIK chief Kouchner, despite opposition from the UN bureaucracy in New York, took an essential first step toward Kosovo's economic recovery in September 1999 by establishing the German Mark as Kosovo's legal tender, an act that gave Kosovo a stable currency and opened it to trade with the outside world.

By the end of 2000 UNMIK had also put together the skeleton of some government economic institutions. Tax policy is an area where the international mission has made some progress in developing a practical long-term plan. The "emergency" customs regime (consisting of a 10 per cent tariff and 15 per cent sales tax) put in place after the war will be slowly phased out over the next eighteen months in favour of a more equitable policy passing the burden on to businesses and individuals. A tax on revenue for hotels, restaurants, and bars making more than 10,000 German Marks per month was implemented in February 2000. Compliance in the autumn of 2000 was around 40 per cent. The Year 2000 budget projected 50 per cent of government expenditure being met from internal revenue (i.e. taxation). In fact there was a surplus over this figure, but there is some evidence that legal commerce is increasingly going underground to avoid taxes.

Seventy per cent of reconstruction funds for Kosovo have come from EU member states. In order to administer reconstruction activities funded by the European Commission, Brussels established the European Agency for Reconstruction (EAR) in Pristina. In 1999, the EAR allocated 127 million Euros for Kosovo reconstruction and 180 million Euros in 2000. In 2000, the EAR's highest priorities were housing and rebuilding energy, transportation, and

water infrastructure. However, its success in these areas has been distinctly mixed. By the autumn of 2000 a reasonable portion of the planned road reconstruction had been either completed or was under way. These efforts, however, touched only part of Kosovo's rapidly crumbling road network. Complaints were also rising about slowness in housing reconstruction. And despite tens of millions of dollars spent on utilities reconstruction, Pristina and other parts of Kosovo continued to experience regular prolonged power and water cuts, which in the case of electricity were only prevented from being worse by major and expensive imports of electric power. In mid-June 2000, the senior British commander in Kosovo, Brigadier General Richard Shirreff, voiced public frustration at the EU's slowness in actually getting promised reconstruction projects up and running, lamenting, that "the EU seems incapable of getting anything done without a bureaucratic wrangle."[87]

The continuing struggle to define the basic nature of Kosovo's public institutions has also severely hampered prospects for creating a modern economy able to attract vital domestic and foreign investment. The remnants of Yugoslavia's legal and regulatory framework are largely unsuitable for such a market system. Delays in establishing the institutions of a regular economic system have also given succour to a flourishing grey economy that feeds much of the violence and corruption continuing to disrupt Kosovo's political, economic, and social life.

In May 2000, UNMIK Pillar Four (Reconstruction and Economic Development, managed by the European Union) drafted a White Paper on managing Kosovo's transition to a market economy, which called for a two-stage process of verifying the ownership of Kosovo enterprises and then privatising the bulk of those that appeared to be economically viable.[88] This effort would have both tremendous economic utility, and represent an important step in breaking the nexus between the monopoly of economic and political power in the province. The development of a more independent business class, not directly associated with government structures, would represent an important step in the development of Kosovo's civil society.

In the first stage of privatisation, an independent Ownership Adjudication Commission would have determined the ownership and legal status of medium and large-sized enterprises in Kosovo on an accelerated basis. In the second stage, a Kosovo Privatisation Agency would have restructured the enterprises to enhance competitiveness and increase attractiveness to

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87 *The Times*, 18 June 2000.
88 *Enterprise Development Strategy*, European Agency for Reconstruction, May 2000.

prospective buyers. Privatisation was to be carried out through a competitive bidding process open to domestic and foreign bidders. Twenty per cent of the shares in an enterprise to be privatised would be reserved for employees and managers, in return for which workers would renounce any claims toward the enterprise. Proceeds from privatisation would go into the Kosovo budget.

The White Paper ran into opposition from some parts of the UN bureaucracy in Pristina and New York and from some Security Council members worried that proceeding with privatisation now could be seen as undermining Belgrade's sovereignty over Kosovo. There is some nervousness about pre-judging the question of who owns such assets — the Belgrade government, Belgrade banks who had made loans, foreign companies who had taken part in Milosevic's "clientelist" scams, or numerous other claimants, including pre-communist owners. There was also concern about controversies over ownership, and that the UN might face lawsuits from Serb directors currently recognised by the FRY as owners. And there was concern that few legitimate investors would be attracted if privatisation were carried out before the rule of law had been secured and before the real value and status of the assets to be privatised had been established. In the end, the whole idea was in effect shelved. This lack of sense of ownership will in turn likely seriously deter both investment and much needed efforts toward job creation.

Pending resolution of the issue of privatisation and market reform, UNMIK came up with an interim scheme. In June 2000, an agreement was announced regarding an investment program for the reconstruction and renewed operation of the Sharr cement plant in Kacanik, near the border with Macedonia. The agreement guaranteed the foreign investor a ten-year period of full control and management of all matters relating to operation of the plant. In September 2000 UNMIK announced a tender for a second such interim management contract, for the Ferro-Nickel metallurgical enterprise, although as of March 2001 there were no bidders. Investment under such interim schemes is likely to be applicable in a limited number of situations where investors can be confident of obtaining a profitable return over a relatively short period. In the longer term such schemes are no substitute for far-reaching economic re-structuring.

It should be possible to find more imaginative and effective ways for privatisation, and the economic stimulation that should come with it, to proceed. One way might be to put any proceeds from sales into a trust fund, pending resolution of ownership. Another, more radical notion would be to declare that since Kosovo is to enjoy a substantial degree of autonomy, under

the usual international conventions the former provincial state assets (which were provincial assets prior to Milosevic's illegal constitutional changes) will belong to the autonomous province.

Normal life will not return to Kosovo until the local economy begins to function in a more regular fashion. The international mission in Kosovo must move immediately to address the large and growing disparity between Kosovo's flourishing small business economy and the absence of activity in the "official", formerly state or socially owned economy. Managing Kosovo's transition from a socialist to a market system is the highest priority task of economic policy, without which all other aspects of reconstruction will only serve as stop-gap measures. The international mission should quickly set up the Ownership Adjudication Commission called for in the UNMIK white paper, "Enterprise Development Strategy", or an equivalent body to resolve property ownership issues, as a prelude to privatisation of Kosovo's large and medium-sized enterprises, which should begin in 2001. Drawing on appropriate models from countries that have successfully gone through the transition process, UNMIK should as an urgent priority put in place the commercial law codes and other economic legislation needed for a modern market economy.

The international mission in Kosovo also needs to work with appropriate international and local institutions to draw up a development strategy for Kosovo, including plans for attracting international, domestic, and diaspora capital. As part of this strategy, the international community should direct the attention and planning of Kosovo leaders away from the "socialist dinosaurs" of the past, but on which they remain fixated, toward the development of modern economic institutions capable of creating much needed jobs for a young growing population. Here too, however, the final status question intrudes. For foreign private investment cannot be secured without a dependable legal framework.

Conclusions and recommendations on Kosovo internally

❑ *UNMIK should greatly increase the intensity of its efforts to develop self-governing Kosovo-wide provisional institutions with minority participation.*

❑ *UNMIK should, in cooperation with the local parties, immediately identify a suitable initial electoral system for elections to a Kosovo provincial assembly: the most quickly and easily implemented system probably being a province-wide electorate, using a proportional representation system on party lists.*

❑ *UNMIK should set an early firm election date to enable OSCE to start serious preparations for an election.*

❑ *KFOR should continue to take more effective steps to protect Serb civilians, especially convoys, including crackdowns on illegal Serb and Kosovo Albanian paramilitary and intelligence forces, and more robustly patrol the border with southern Serbia.*

❑ *The international community must take control of the situation at Mitrovica. KFOR and UNMIK police should act, with legal force if necessary, against the "bridge watchers", increase the size and effectiveness of the zone of confidence there, and work harder at the so-called joint institutions, such as health and hospitals.*

❑ *UNMIK and UN New York should increase the powers and finance available to the UN Administrator in Mitrovica.*

❑ *UNMIK should increase the salary of local judges as an anti-corruption measure, and take steps to devolve the issue of local laws from the UN in New York to an independent judicial commission composed of a small number of international jurists.*

❑ *The KPS and KPC should be given more intensive training and better equipment, and a firm date should be set for KPS to takeover most policing duties.*

❑ *UNMIK should move forward with its privatisation plan as outlined in the White Paper.*

❑ *The international community needs to develop a comprehensive strategy for engaging Kosovo Serbs in the governance of Kosovo including:*

    - *The continuing integration of Serbs into municipal administration following the appointment of Serbs to municipal assemblies;*

    - *Creation of institutions to allow Serbs in the enclaves to control their own local affairs; and*

    - *Adoption and implementation of a plan, which the UNHCR is currently developing, to enable the complete return of all Serbs who wish to do so.*

6. THE FUTURE OF THE FRY

The constitutional and legal structures of the FRY were neither intended nor designed to meet the needs of any modern, democratic state. The international community needs to confront the reality that the status quo is not sustainable; to identify processes that will move things forward constructively for all three entities; and to find ultimate solutions that are principled and consistent, and don't make things worse, including within the wider region. In resolving final and future status issues for Montenegro and Kosovo either the G-8 or OSCE could play a useful facilitating role.

A.   Introduction

Serbia and Montenegro, and Kosovo as part of Serbia, are bound together as the Federal Republic of Yugoslavia under a 1992 constitution that has never functioned effectively, is widely regarded as illegitimate, and to which all three have objections. There is no popular support in Kosovo for the continued existence of the FRY. A majority in Montenegro appears to favour reform so profound that, if implemented, the association with Serbia would survive only as a union of two sovereign states. Political and public opinion in Serbia itself seems more favourable to salvaging the FRY, yet, significantly, Belgrade has produced no blueprint for achieving this on terms acceptable to Montenegro, let alone Kosovo. In short, no comprehensive or credible proposals for reviving the FRY have been presented.

The stakes involved in resolving the final political status of the FRY are high, crucial in determining whether the region emerges into a new era of stability and relative prosperity or continues to be plagued by divisions capable of escalating into war. Until, at the very least, some process is set in train for resolving these matters, the FRY's current constituent parts and much of the Balkans, will remain in an uneasy limbo. Foreign investors will be deterred by the continuing uncertainty, issues of ownership and other basic legal rights will remain clouded by muddy constitutional structures and politics will remain plagued by nationalism. It is difficult to imagine

serious strides toward reform or reconciliation in any of these societies unless clarity is brought to the basic legal principles around which they are organised.

This is not to suggest that all the remaining status issues in the region need to be settled in a precipitate fashion. Nor is it to suggest that it is possible at this point to draft a complete constitutional blueprint that would address and resolve all outstanding issues. But it is time for the international community to recognise that these issues cannot be wished away, and that time will not by itself wash them away. There does have to be some significant forward movement, and sooner rather than later.

The following guidelines should govern the overall process of democratic dialogue between the parties:

❑   Contentious issues should be resolved exclusively by peaceful means and without threats of violence.

❑   Negotiations on final status issues should be based on the rule of law and conducted wherever possible within the emerging democratic frameworks of these societies.

❑   Changes to established borders should only be made by mutual agreement. Under no circumstances should ethnic cleansing be rewarded.

❑   The relationship between majority and minority populations within any entity should be reciprocal and unconditional. Full individual rights and protection before the law should be guaranteed to the minority, with respect paid to its collective identity and culture; the minority, thus protected, owes the larger entity respect for both its laws and its identity.

❑   The international community should play an active role in advancing political status and rights issues, including by hosting and facilitating talks, and also by offering economic incentives and, where appropriate, security guarantees.

There are a number of technical arguments already in play as to whether or not the FRY exists now as a legally recognisable entity, and whether it would if Montenegro were to secede. The formal destruction of Montenegro's role and status within the FRY made it possible to argue, certainly after the Milosevic-driven constitutional amendments in 2000, that the FRY was in the

process of dissolution - if not already dissolved.[89] The argument that the FRY would automatically dissolve if Montenegro were to leave it has been addressed (and rejected) earlier in this report, in Chapter 3 on Serbia. Whatever the FRY's status is or might be,so far as Kosovo is concerned any constitutional competence the FRY might have had to govern the province has in any event been suspended by Security Council Resolution 1244,[90] which put in place a UN-run civil administration for Kosovo (UNMIK). While that resolution implies that the FRY, so long as it exists, is the relevant sovereign entity of which Kosovo is part during the present "interim"phase, it leaves quite open who might exercise sovereignty after a final political settlement is reached.

While policy makers will need to take account of the technical constraints, such as they are,posed by the existing constitutional rules governing the FRY and its constituent parts, these should not be regarded as determining outcomes. Experience shows that such constraints cannot be absolute when momentous change is afoot.   In considering the pros and cons of independence or new forms of association of the entities in the FRY, the process will necessarily be far more political than legal in character. Partly that is because of the limits of the legal process: even the 1992 Yugoslav constitution,other than declaring equality between the Republics, was silent on any mechanism for possible secession.

The task confronting internal and international actors is a huge one:to accept that the status quo is not sustainable; to identify processes for both Montenegro and Kosovo that will move things forward constructively;and to pursue ultimate solutions that are realistic and do not make things worse, including within the wider region.

Some international hopes seem to be pinned on the possibility that the FRY can be reconstituted - on a transitional or permanent basis - as a loose confederation with very little power vested in central authorities, and each entity largely autonomous. Yet, even these hopes appear to be painfully detached from political reality on the ground. There has not been a glimmer of debate in Podgorica, Belgrade and Pristina about conducting three-way talks to strike such an arrangement, nor is there likely to be any for the foreseeable future. The three-way federal or confederal model breaks down when considered in a practical light. Both Montenegro and Serbia remain reluctant to enter into a revised federal arrangement where they would be roughly co-equals, as is discussed in more detail below. The notion that

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89 See ICG Balkans Report No. 101, *The Current Legal Status of the FRY*, 19 September 2000.
90 See Chapter 5, *Kosovo,* for a discussion of the relevant provisions.

Montenegro, Serbia and Kosovo would willingly enter into an arrangement where central authority was split in thirds simply lacks credibility. Further, given UNMIK's slow progress in establishing self-government in Kosovo, a loose confederation would lash together three different societies at very different stages of democratic development. While the international community using all its leverage might be able to impose such an arrangement on an interim basis, this would do little to stabilise these societies,and indeed might have the opposite effect.

Table 12. FRY at a glance

GDP per capita :$1,643
Population:10.6 million (Serbia,Montenegro and Kosovo)
Elections:Presidential and parliamentary elections held on 24 September 2000.
President:Vojislav Kostunica
Prime Minister:Zoran Zizic

Source: *Economic statistics from the G-17 available at www.g17.org.yu;*
Economist Intelligence Unit (EIU)

B.   Montenegro and the FRY

The Options

Broadly speaking,five options for the future relationship between Serbia and Montenegro can be envisaged:

❏   Two separate, independent, sovereign states, without any power-sharing institutions or arrangements between them.

❏   Two independent, sovereign states, in a loose union or association with some shared institutions, along the lines proposed in the Montenegrin government's revised Platform of December 2000.

❏   A single sovereign state, in the form of a "thin" federation or confederation,[91] along the lines envisaged in the Montenegrin government's original August 1999 Platform, with few powers being exercised by the central government.

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91 Any federation involves a distribution of powers between centre and regional entities within a single sovereign entity. Existing federations around the world spread across a continuum of such arrangements,from those where most power is exercised by the centre,to "thinner" federations where much more authority is exercised by the constituent regional entities than by the central government.The expression "confederation"is sometimes used to describe federations at the "thinnest" end of the federal spectrum,but is more often used these days to describe a group of sovereign entities who agree to pool or share certain of their powers in the common interest - e.g. the European Union.

❏   A single sovereign state, in the form of a more traditional federation, along the lines envisaged by the DOS proposal of January 2001, with a wider range of powers being exercised by the federal government than under the August 1999 Montenegrin platform proposal (though not as many as under the 1992 Yugoslav Constitution).

❏   A single, sovereign, unitary Yugoslav state, with all significant powers being exercised by the central government.

Opinion poll evidence for Montenegro over a period of several months, as discussed in Chapter 4, shows that the last of these options should be discounted, as having only negligible support among the Montenegrin population. Neither is any serious political force in Montenegro, or Belgrade itself, proposing a resurrection of the FRY as it was after 1992.

It is clear that between the second, third and fourth options there is considerable room for common ground, and this is further discussed below under the heading "Moving Forward". The Democratic Opposition of Serbia (DOS) has indicated its willingness to compromise over the nature and competencies of common institutions.[92] Whether within a single state, or in a loose union or association of two independent, sovereign states, it should be possible to find a large measure of agreement over how common institutions would function in practice.[93]

The Issues

The international community has repeatedly made clear its opposition to Montenegrin independence. On 22 January 2001 the European Union (EU) Council of Ministers urged a solution of Serbian-Montenegrin relations within the framework of Yugoslavia. In this regard it welcomed what it described as the readiness shown by Kostunica to play a constructive role to that end. In remarks clearly aimed at Montenegro, it urged that no unilateral steps should be taken. A few days later the US State Department supported the EU's stance, Secretary of State Colin Powell declined to meet with Djukanovic when he was in Washington in early February 2001, further signalling Washington's reluctance to revisit political status issues in the region. The EU's clear expression of support for the DOS position

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92 Serbian Prime Minister Zoran Djindjic has stated that while there can be no compromise over the principle of a single, common state, there is room for compromise in many areas, including the type and competencies of the joint organs. *Vijesti,* 7 March 2001.
93 Discussions of the future relationship between Serbia and Montenegro concentrating on the practical questions of how a proposed union, whatever its form, would function include the European Stability Initiative, "Sovereignty, Europe and the Future of Serbia and Montenegro: a Proposal for International Mediation", Berlin, 12 February 2001; and CEPS, "A European Solution for the Constitutional Future of Montenegro", Michael Emerson, Brussels, 23 February 2001.

on the future relationship between Montenegro and Serbia was only slightly ameliorated by a statement by the spokesperson of the external relations commissioner, Chris Patten, that ultimately the wish of the people of Montenegro, expressed in a referendum, would be respected.[94]

Western worries about the potential consequences of a Montenegrin independence move have focused on four particular concerns:

❑   that, given the divisiveness of such a step within Montenegro and the continued strength of opposition to independence, particularly in certain areas of the country, such a radical step might have destabilising consequences for the republic, and could even lead to violent conflict;

❑   that the break-up of the FRY at this stage might undermine the fragile development of democracy within Serbia;

❑   that the end of the FRY will complicate efforts to resolve the status of Kosovo and might lead to unilateral steps by Kosovo Albanian leaders to confirm the province's own independence; and

❑   that Montenegrin independence might trigger a "domino effect", in which first Kosovo, and then Macedonia and Bosnia would suffer negative consequences. More specifically, the worry is that precipitate moves towards Kosovo independence will encourage separatism among Macedonia's large Albanian minority and among the Serbs of the Republika Srpska.

Each of these concerns appears to be overstated, neither individually nor collectively sufficient to justify the active discouragement of Montenegrin independence aspirations in which the West has so far engaged. The question of the likely extent of unrest and conflict within Montenegro has been addressed already in Chapter 4. What of the other fears?

The Impact on Serbia. While the authorities in Belgrade would not welcome Montenegrin independence, it seems unlikely that such a step by Montenegro would seriously undermine the development of democracy in Serbia. Senior figures in Belgrade have, in March 2001, indicated to the ICG that the authorities there, however reluctantly, accept

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94   Reported in *Vijesti*, 24 January 2001, citing a report by the *SENSE* agency. The same report quotes Swedish foreign minister Anna Lindh, on behalf of the EU Presidency, as saying after the Council of Ministers statement that "the final solution must be found within the framework of the existing system".

the likelihood of Montenegro's departure. Both Djindjic and Kostunica have said that Belgrade would accept the will of the Montenegrin people.[95]

It is true that Montenegrin independence would, to the extent that this resulted in the destruction of the FRY as a constitutional entity (and we have already argued in Chapter 3 that this would not automatically follow) deprive Kostunica of his position as federal president. However, following the victory of DOS in December 2000 parliamentary elections at the republic level in Serbia, the ending of the FRY need not represent a reversal for DOS. On the contrary, in putting an end to the constitutional paralysis that exists in the FRY, Serbia as well as Montenegro could actually be better placed to tackle the task of building a functioning state. And President Kostunica has an obvious new role to play as the next president of Serbia, should he choose to run for that office when it falls due in September 2002 or earlier.

None of this is to say that independence is the only possible satisfactory outcome. Of key importance is that the relationship between Serbia and Montenegro should be redefined in a mutually acceptable way, by negotiation and agreement, whatever the outcome. What should be avoided is an acrimonious split that could poison relations between the two republics for years to come.

The Impact on Kosovo. Of particular concern to the international community appears to be the fear that independence for Montenegro would complicate matters for Kosovo. The linkage between the fates of Montenegro and Kosovo is vigorously rejected in Montenegro.[96] The difficult question of Kosovo's future is a matter that the international community is going to have to address at some stage, whatever solution is found between Serbia and Montenegro.

A widely held assumption seems to have been that early Montenegrin independence, to the extent again that it resulted in the end of the FRY, would force the issue of Kosovo's status to the top of the agenda before the international community is ready to tackle it. This, it is argued, follows from the fact that UN Security Council Resolution 1244, which established the UN protectorate in Kosovo, states that Kosovo remains a part of the FRY, but does not refer to Kosovo as a part of Serbia. We have already argued (in

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95 Stated, for example, by Kostunica in an interview for *Vijesti,* 16 October 2000.
96 In a speech at a conference in Brussels on 26 February 2000, on the future of Montenegro, Djukanovic, referring to the problem of Kosovo, said that "it would be politically immoral and unjust to tie the destiny of a people, in this case the people of Montenegro, to this regional problem for which no one has a solution at this time".

Chapter 3, Serbia) that Resolution 1244 would continue to have force, and apply to whatever entities into which the FRY dissolved,whatever happened to the FRY. But fears have also been expressed that Kosovo Albanian leaders might, in the event of Montenegro becoming independent, take some unilateral action to affirm their claim to independence, which is something that the international community is unready at this stage to accept.

Mainstream Kosovo Albanian leaders generally accept that Kosovo has to go through a process of preparation before its final status can be resolved. That process involves building functioning institutions that can take on the responsibility of governing. They insist that the final status must be independence, and that there is no possibility of a continued union with Serbia. However, while they might welcome the independence of Montenegro and the end of the FRY that that would imply, they see no practical consequences for Kosovo,which would still have to go through the same process, irrespective of what solution Montenegro arrives at with Serbia. On the question of possible unilateral moves, one senior Kosovo Albanian figure made the point to the ICG that Kosovo's Albanians already declared independence in 1992. There would be no purpose in making another unilateral declaration. Rather, the point is to gain international recognition of their independence.

To discourage Montenegrin independence out of fear of possible consequences for Kosovo actually makes little sense. The idea that Kosovo and Montenegro could in future form a loose three-republic federation with Serbia is, whatever its theoretical attractions, wholly unrealistic. Kosovo's Albanians reject any form of continued state union with Serbia. A continued form of federal union between Serbia and Montenegro, within a single state, would have no prospect of being seen by Kosovo Albanians as an attractive model for their future relationship with Serbia. Rather, the kind of loose association between independent, sovereign states, as now envisaged by the Montenegrin government, in which members would cooperate as much as they perceived to be in their common interest, might be a type of relationship that could serve as a model more widely in the region,including Kosovo.

The Domino Effect. The international community's fear of spreading instability in the Balkans is understandable enough given recent events. With violence flaring in southern Serbia and Macedonia, and with the Bosnian Croats challenging the Dayton settlement, the last thing that the region needs, some might argue, is for Montenegro too to press its claims for separation. However, such reasoning is again mistaken. It starts from the

premise that a Montenegrin independence move would encourage unilateral steps by Kosovo's Albanians, and that that in turn would encourage ethnic-Albanian separatists in Macedonia and Serbia and ethnic-Serb and Croat separatists in Bosnia to follow suit. There is no direct parallel between Montenegro on the one hand and, for example, ethnic-Albanian inhabited areas of Macedonia or the Republika Srpska in Bosnia on the other. Montenegro was a fully-fledged constituent republic of the former Socialist Federal Republic of Yugoslavia (SFRY), and its case is, rather, analogous to that of other ex-Yugoslav republics, such as Slovenia and Croatia. And as has already been argued, Montenegrin moves are unlikely to have direct consequences for Kosovo.

The violence in the southern Balkans and the continued resistance to the integration of Bosnia are serious enough problems for the international community. But the answer is not to delay a settlement between Montenegro and Serbia, which can be reached relatively easily and painlessly in comparison with some of the more intractable problems in the Balkans. Rather the international community needs resolutely to tackle the serious problems that it faces in the region, neither putting off questions that need to be addressed nor seeking scapegoats for inaction.

Moving Forward

Many uncertainties exist as to the political course of events ahead - whether the pro-independence parties will win the April election in Montenegro, and if so by what political margin; whether they will win any subsequent referendum; and if so whether that will be by the necessary technical margin to ensure that the change can be achieved within the framework of Montenegro's own constitution. While these issues are working themselves out, there is no reason for the Montenegrin and Serbian authorities to delay in exploring practical matters and seeking solutions acceptable to both. There is no sense in leaving such important details as citizenship, a single market (which both say they want), a unified monetary policy, taxation matters, competition and environmental regulation, cooperation over education and healthcare provision and a host of other matters to the end of the process. It is precisely such matters which should be at the heart of the process of defining how a new relationship will work.

Montenegro and Serbia need to begin by defining what key interests each of them needs to ensure in any future relationship. Only then will it be possible to identify ways of finding common ground. From the perspective of Montenegro, key interests include the following:

❏ Montenegro should have control of all security forces on its territory, including the military. (The Yugoslav navy should be reduced and reformed to suit Montenegro's needs.) While the present authorities in Belgrade appear relatively benign, Montenegro needs to be assured that never again will it face threats from its bigger neighbour.

❏ The Montenegrin government has signalled its readiness to have a common monetary policy. The mechanisms for this would need to be such as to ensure that Montenegro will never again be subject to the kind of irresponsible monetary policy that has repeatedly been practised by Belgrade in the past decade.[97]

❏ The Montenegrin government is concerned that it should have direct access to international financial institutions, fearing that its needs will be inadequately served if contact with the IFIs is through the medium of Belgrade.

❏ Montenegro should be able to pursue its own foreign relations, including with its other neighbours, and in areas such as foreign economic relations. This need not preclude joint foreign policy initiatives in areas of mutual interest.

❏ Montenegro has introduced a highly liberal, open foreign trade regime, with simpler procedures and lower tariffs than those currently employed by Serbia. As a small economy with limited diversity, such an open economy is in Montenegro's best interest. Any future arrangement with Serbia should not jeopardise Montenegro's approach in this area.

❏ Montenegro, in contrast to Serbia, does not impose visas on foreign visitors. Given the importance attached to reviving Montenegro's tourism industry, it is vital that this policy is continued for EU and other European visitors.

❏ Any future arrangement should guarantee complete freedom of movement, without the need of passports, and employment for citizens of Serbia and Montenegro, throughout both republics. Whatever state structure is adopted, citizenship of either republic should not be a bar to full equal rights in the other.

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97 For the time being, this would probably mean that Montenegro should retain the German Mark/Euro as its currency. A medium-term solution might be the adoption of a currency board, as already employed in, for example, Bulgaria.

❑   Property rights of individuals and enterprises in each republic should be
    guaranteed (while giving due attention to restitution claims for property
    confiscated under communism). Just arrangements should be made for
    the division of federal property in both republics.

In addition,there are numerous practical areas of common interest for which
arrangements will need to be made,whatever the future relationship. These
include:

❑   *Pensions.* Already Montenegro has had to take on the payment of the
    pensions of former federal employees who had been left un-provided for
    by Belgrade. The position of people who earned their pensions in one
    republic but who now reside in the other is complicated by the fact that
    Serbia and Montenegro now use different currencies.

❑   *Healthcare.* Each republic should pay for medical treatment of its citizens
    in the other. Given Montenegro's small size and limited capacity to
    provide specialist treatment, it is important that a mechanism be found
    that would allow Montenegrins to continue to travel to Serbia for
    treatment, and which would ensure appropriate compensation for the
    Serbian healthcare service.

❑   *Higher education.* Many Montenegrin students study in Serbia, and as
    domestic students do not have to pay. Arrangements should be made to
    ensure that Serbian higher educational establishments receive appropriate
    compensation   for   admitting   Montenegrin   students,   enabling
    Montenegrins who choose to study in Serbia to continue to do so.

For its part,the international community should help Montenegro and Serbia
to find a mutually satisfactory basis for their new relationship.   The
international approach until now of seeking to pressure Montenegro into
drawing back from independence has not worked and has not been
constructive. Neither is it necessary given that,as has been argued here,the
consequences of Montenegrin independence need not be seriously
destabilising. This approach has actually discouraged Belgrade from engaging
in meaningful dialogue,believing that it had the international community on
its side.

The international community might also be able to offer its services as a
mediator or facilitator in attempts to bring the Serbian and Montenegrin
positions closer together. Such a service is unlikely to be useful until it is
clearer what Montenegro's opening negotiating position will be, following

elections and a possible referendum. But this should not stop Belgrade and Podgorica from immediately beginning to discuss the practical arrangements of their future arrangement, as already stressed. It is precisely in such details that Serbia and Montenegro may find the common ground that will make it easier to resolve the status issue. And the international community may be able to assist in proposing arrangements in many areas.

The success of any international mediating or facilitating role would depend on the real will of both Belgrade and Podgorica to resolve the issues between them in a satisfactory manner. The EU may not be best placed to fulfil this mediating or facilitating role. In part this is because it does not include the United States or Russia, both key players in the Balkan region, and in part because since the Council of Ministers decision of 22 January 2001 the Union is widely perceived in Montenegro as having lost credibility as a neutral player. Rather, the appointment of an individual, high profile, experienced mediator, backed by a small team with relevant expertise, may be the most effective way for the international community to facilitate negotiations between Serbia and Montenegro. Such an effort could potentially be placed under the auspices of the Organisation for Security and Co-operation in Europe (OSCE), which would give it the weight of that organisation and its member states, including the EU countries, the United States, Russia and all the neighbouring countries in the region. The G-8 would also be credible in this role.

C.   Kosovo and the FRY

The differences between Montenegro and Kosovo are stark. In Montenegro, the question of independence is divided along political lines, and is controversial within communities. The situation in Kosovo is totally polarised. While Kosovo's remaining Serbs want the province to stay in the FRY, among Kosovo's ethnic Albanians support for independence is universal. The option of any substantive link has been foreclosed by all Kosovo Albanian leaders and by the people they represent. The Kosovo Commission put the point bluntly: "The simple truth is that no Kosovo Albanian will accept to live under Serb rule, however notional, ever again".[98]

The situation in Belgrade is equally clear. As was noted in Chapter 3, Serbia, while it easy to find DOS politicians willing to concede privately that Kosovo is lost, and certainly that the VJ and police are never likely to return to Albanian controlled areas, it is politically impossible for them to say so

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[98] *The Kosovo Report*, Independent International Commission on Kosovo (Co-chairs Richard Goldstone and Carl Tham). Oxford University Press, Oxford, 2000, p. 271.

publicly. The popular mood, still not able or willing to acknowledge the nature and scale of the discrimination and persecution against Kosovo Albanians which led NATO to intervene, is overwhelmingly against independence.

The profound gulf between Belgrade and Pristina has led many in the international community to assume that Kosovo's final status remains too explosive a subject to tackle in the near term. However as we have made clear in Chapter 5, Kosovo, and elsewhere,[99] substantial progress toward building a viable economy, deradicalising the province, and stabilising the neighbourhood will be virtually impossible unless greater clarity is brought to the fundamental legal and constitutional framework in Kosovo. This is not to suggest that Kosovo should become independent overnight. At the very least, this would be impermissible under the terms of UN Security Council Resolution 1244 - and thus make international recognition effectively impossible - until after a provisional Kosovo assembly has been elected and an executive constituted. But we do argue here that it is time to move forward, and that the international community should support an orderly process that can produce a final political settlement sooner rather than later.

Moving Forward

As was described in Chapter 5, Resolution 1244 lays out - albeit without much detail or clarity - a four stage process for the development of governance in Kosovo. The "international civil presence" - now UNMIK, headed by the Secretary-General's Special Representative Hans Haekkerup - is required to oversee or facilitate: first, the establishment of provisional democratic institutions; secondly, the transfer of responsibilities from the UN administration to those institutions; thirdly, the political process designed to determine Kosovo's future status; and finally, "the transfer of authority from Kosovo's provisional institutions to institutions established under a political settlement."

Resolution 1244 refers elsewhere to Kosovo's "substantial autonomy within the Federal Republic of Yugoslavia"[100] and to the political process "taking full account of...the principles of sovereignty and territorial integrity of the Federal Republic of Yugoslavia".[101] But the surrounding language in each case makes abundantly clear that the matter of FRY sovereignty is addressed only

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99 See also Chapter 3, *Serbia,* on the Presevo valley situation, and Chapter 9, *Macedonia,* on the relationship between Albanian guerilla activity there and the unresolved situation in Kosovo.
100 UNSCR 1244, 10 June 1999, Article 10 and Annex 2, principle 5. For the full text of the resolution see www.un.org/Docs/scres/1999/99sc1244.htm
101 UNSCR 1244, Annex 1 and Annex 2, principle 8.

in the context of the "interim administration" and "interim political framework":when it comes to the political process associated with the final settlement stage, 1244 is absolutely silent on this question (as are the Rambouillet accords).[102]

The carefully vague language of 1244 was the product of intensive negotiations among G-8 members as they sought to conclude the 1999 Kosovo crisis. It is clear enough that the responsibility for advancing all of the four stages of the process set out lies with "the international civilian presence",but no detailed guidance is given as to mechanisms. On the critical final political settlement stage, the only reference is to the international civil presence "Facilitating a political process designed to determine Kosovo's future status, taking into account the Rambouillet accords".[103]

The Rambouillet accords, to which Belgrade never consented, were only marginally more forthcoming,providing that:

"Three years after the entry into force of this agreement, an international meeting shall be convened to determine a mechanism for a final settlement for Kosovo, on the basis of the will of the people, opinions of relevant authorities, each Party's efforts regarding the implementation of this Agreement,and the Helsinki Final Act..."[104]

A Kosovo-wide referendum was seen as the likely means to establish the "will of the people"in such a case. But it was also clear that the referendum itself was just one of the factors that the international community would consider, and would not itself have been binding.[105]

What,then,can and should be done to now move the process forward?

❑ The first step is to establish with no further delay a full system of democratic and autonomous self-government within Kosovo - the full set of "provisional institutions",legislative, executive and judicial, referred to

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102 Interim Agreement for Peace and Self-Government in Kosovo, final draft text of 23 February 1999, available at www.usip.org/library/pa/kosovo/kosovo_rambouillet.htmlThere are several references to FRY sovereignty in the text,but none which address or foreclose the issue at the final settlement stage. The accords were only ever signed by the Kosovo Albanian representatives (their signatures in turn witnessed by the EU and U.S.):such formal status as they still have is a product only of the various references in 1244 to "taking the Rambouillet accords into account" .
103 UNSCR 1244,Article 11 (e).
104 Rambouillet Interim Agreement,Chapter 8,Article 1 (3).This is the only substantive provision in the Chapter. It concludes with the words (not applicable now in the absence of a signed Agreement) "and to undertake a comprehensive assessment of the implementation of this Agreement and to consider proposals by any Party for additional measures".
105 The concept of a referendum was crucial in getting the Kosovo Albanian delegation to accept the agreement. As the Goldstone/Tham report describes it:"The United States made a last and,as it turned out,successful effort to get the Kosovars to sign by a side-letter which confirmed that Kosovo could hold a referendum on independence after three years,but not however saying that that referendum would decide the issue. The KLA statements at the end of February confirmed its 'independence position.' The international community still lives with this ambiguity." - The Kosovo Report,Oxford University Press,2000,p. 155.

in Resolution 1244 and described in much more detail in the Rambouillet accords. That is not only the precondition for having a genuinely representative Kosovo voice at the table in any subsequent negotiations, but also - as suggested above - for relieving the sense of drift and frustration now evident, and dampening some of the inflammatory momentum now developing,among ethnic-Albanians.

❑ The second step should be to establish a focal point for 1244's "political process designed to determine Kosovo's future status". The most obvious candidate for that role is the "international meeting"contemplated by the Rambouillet accords as occurring three years after those accords were intended to come into force (if there had actually been an agreement signed by all relevant parties), i.e. in the first quarter of 2002. International meetings of this kind don't normally come about until there is some prospect of a useful purpose being served,but the setting of even a notional date,and the process of even very preliminary preparation for them, can be a very useful way of concentrating attention on issues that might otherwise continue to drift: in international relations the urgent always tends to drive out the important. A high powered working group representing the key participants at Rambouillet itself - the Contact Group states, Pristina and Belgrade - could certainly do much to explore and clarify the issues,and it would be appropriate for such a meeting to occur shortly after elected Kosovo representatives were in place. The issue of which hat Belgrade's representatives would wear - the FRY, Serbia or both - is essentially immaterial, for reasons argued elsewhere.[106]

❑ The third step would be for consultations to occur - preferably, but not necessarily, in the context of an anticipated international meeting of the kind just described - on the principles that might constitute the foundations for a final political settlement. The list of general principles set out in Chapter 2, and repeated at the outset of this chapter, might be a useful place to start. Not all of them are bland or easy to apply: giving content to the principle of minority protection would not be easy in the present environment either north or south of the Ibar River, and the question of border changes - even by peaceful means and by agreement, as required (and allowed) by the Helsinki Final Act[107] - is always immensely sensitive. Among the other matters that might be explored in such consultations are the kind of "trusteeship"arrangements that might be part of a "conditional

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106 See the discussion in Chapter 3,*Serbia,* in the context of Serbia's relations with Montenegro and Kosovo,of the implications for Resolution 1244 of the FRY possibly ceasing to exist.
107 The Helsinki Final Act of 1975 provides in Article 1 (a) that "[The participating States] consider that their frontiers can be changed,in accordance with international law, by peaceful means and by agreement." It will have been noted that the Chapter 8 Rambouillet accords quoted above refer specifically to the Helsinki Final Act.

independence" solution (discussed further below as a future status option). Yet another, which could prove quite productive in moving the present situation forward, is the possibility of a "negative guarantee" being given to the Kosovo Albanians to the effect that they would never again be subjected to the uninvited presence on their soil of Serb military or police (or, going further still, government) personnel: the idea is that it may ultimately be easier to reach agreement about how things will not be than how they will be.

The border issue. This is likely to arise in almost any conceivable final settlement negotiation, and it will be important to be clear from the outset about the basic principles and issues involved. In Belgrade, consideration has long been given to partitioning Kosovo, with everything north of the Ibar River going to Serbia; and it has often been suggested elsewhere that a possible trade-off for that might be control over the Presevo valley of Southern Serbia, with its increasingly volatile ethnic-Albanian majority.

If it were ever possible for Belgrade and Kosovo to reach agreement along these lines - and that is a very big if - then there would be no reason in principle for the international community not to accept it. The Helsinki Final Act, as just noted, allows such peaceful agreements, and there would be no question here of ethnic cleansing being rewarded by territorial gains. The big difference between Kosovo and Republika Srpska, for example, as we note in Chapter 8, is that the current ethnic identity of Republika Srpska was achieved by an attempted genocide, whereas Kosovo's overwhelmingly Albanian character was achieved in no such way, and long predated the conflict of the 1990s.

Agreement would certainly not be easy. The vast mining complex to the east of Mitrovica in the north of Kosovo, famous since Roman times, has traditionally been the basis for much of Kosovo's economy, and has great symbolic significance for both Serbs and Kosovo Albanians. However badly run-down the Trepca mine may be as a result of under-investment and over-exploitation, and however unlikely its rehabilitation,[108] it will not be given up lightly. Similarly, the road through the Presevo valley has been seen for centuries as Serbia's lifeline to the Mediterranean: although the ethnic-Albanians who live on the high ground alongside the road and rail line are seen as capable of strangling it if lost to Serbian authority, this is more a symbolic than a practical problem in the modern military age (when gun emplacements on high ground do not quite have the immunity they might have had in an age before aircraft).

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108 See ICG Balkans Report No. 82, *Trepca: Making Sense of the Labyrinth*, 26 November 1999.

Facilitating Negotiations. If progress is to be made in bridging the present gulf between Pristina and Belgrade,some international negotiating assistance is going to be required. For the moment the head of the UN civil presence, whose responsibility under Resolution 1244 this is, is showing no great enthusiasm for the task. In any event,the United Nations may not be the best vehicle for facilitating progress in a highly politically charged negotiation. Although special representatives of the UN Secretary-General have done important work around the globe and could lead such talks,the buy-in of the major powers is really necessary if the talks are to have a chance of success, and the P5 group of permanent members is not an easy institutional vehicle to engage in an extended mediation. Neither is the EU ideally suited to facilitate such a dialogue because the United States and Russia are not institutionally represented. Talks could be better conducted under the aegis of G-8 (which seems to have now largely superseded the Contact Group[109] - the G-8 less Japan and Canada) or the OSCE, with whatever decision is ultimately reached being ratified by the Security Council.

The G-8 played an instrumental role in ending the 1999 conflict in Kosovo and establishing the terms that were later codified as UNSCR 1244. Given its membership,it is unlikely any agreement that this group could reach on final status issues would be blocked at the level of the Security Council (China is the only Security Council member who is not a G-8 member as well.) Because the Russian Federation is a member of the G-8,Belgrade would likely feel that its interests were well defended by the body facilitating such talks. Given the rather elite basis of its membership,the G-8 would allow for a unique mix of international authority on a small enough scale to avoid making representation at the talks unduly cumbersome. Because the G-8 represents the major industrialised economies,it would also be in a key position to wield a sound balance of "carrots and sticks" to help bring the parties to an agreement. Talks could be managed at the G-8 political directors level,with the Foreign Ministers finalising any potential agreement. In helping to forge UNSCR 1244 the G-8 pledged "to collaborate closely to ensure the United Nations'success in carrying out its complex mission". That complex mission will not be completed until final status issues are resolved and the G-8 could usefully again be called on to lend its good offices to helping promote stability in the Balkans.

The OSCE has a far broader membership - not least in Europe itself - than the G-8, and has taken a very active and credible role in monitoring and mitigating sources of conflict in the region. It enjoys a wealth of practical

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109 A grouping of the U.S.,UK, France,Italy, Germany and Russia.

field experience in the region combined with a broad institutional perspective. The FRY was readmitted into its ranks on 10 November 2000. Given the high stakes involved in peacefully resolving the final status issues, OSCE member states clearly have a vested interest in taking a lead role. The OSCE Secretary General could appoint a high level working group - whose representation should include both the U.S. and Russia among its other members - to facilitate final status talks between the entities that currently make up the FRY. Given also that the OSCE can reach decisions by "consensus minus one", the FRY could also be prevented from playing a purely obstructionist role by dint of its membership. Given the far ranging membership of the OSCE, it is also unlikely that the UN Security Council would block any agreement that it could successfully broker.

Future Status Options

In considering what could be the ultimate outcome of the kind of process described above,there are four principal options that require consideration.

Maintaining the Protectorate Indefinitely. If Kosovo's current status as a de facto international protectorate were to be maintained for the indefinite future, it would enjoy "substantial" autonomy as well as the protection of KFOR. The presence of NATO troops would help ensure that outbreaks of violence were containable, and Kosovo's democratic institutions would be given greater time to mature and develop. The international community would give civil society in both Serbia and Kosovo longer to mature, and tamp down fears in Macedonia of the creation of a "Greater Kosovo". "Creating a new Cyprus" this may be: but maybe some conflicts can be avoided in no other way.

But that is about as much as can be said for this approach. First, the notion that avoiding resolution of final status issues is a sound approach to regional security may be fundamentally flawed, as this report has argued. Neither Serbia nor Kosovo will be able to operate as modern economies or political entities without clarity being brought to their fundamental legal underpinnings. In addition, leaving these important political matters unresolved may encourage extremism,with nationalists on both sides of the debate seeing violence as the best means to achieve their aims within an otherwise static environment. Further, continuing progress in "substantial self-government" could well place Kosovo's emerging democratic institutions firmly at loggerheads with the UN civil administrator over time. Given the UN's performance to date in the province, it is also a fair question as to whether its prolonged international management would be effective in meeting the needs of Kosovo Albanians.

In addition, indefinite extension of de facto protectorate status would also run directly counter to the intentions of the authority that helped create the international presence in Kosovo. Both the Rambouillet accords and UN Resolution 1244 were clear in articulating that they were defining a transitional process, not the creation of a formal protectorate. If the international community truly wants Kosovo to indefinitely exist as a formal protectorate, a new mandate is called for.

Autonomy within the FRY. What of the notion of reaffiliating Kosovo and Serbia - or Kosovo, Serbia and Montenegro - in a very loose or "thin" federation in which no significant sovereign powers would be exercised by the central authority, but the appearance of common sovereignty would be maintained? While appealing to any number of Western foreign ministries, it is fraught with practical problems. Unless UNMIK - backed by KFOR- were to force such an arrangement on Kosovo, it is difficult to imagine that any majority of Albanians would ever accept such a deal on anything more than, at best, a short transitional basis (which is how they see their present status) and probably not even then. For any UNMIK administrator to pursue an objective that contradicted the wishes of most citizens of Kosovo in such a fashion would be rash as well as undemocratic. Such a move would also likely create a significant backlash, and KFOR peacekeepers could quickly find themselves the object of attacks.

Full Independence. Full and unconditional independence for Kosovo remains, for all practical purposes, an end state that could only come as the result of a larger process, such as one detailed earlier in this chapter. No new unilateral declaration of independence would be likely to win widespread recognition, and there is certainly scant prospect that the UN Security Council, with Russia and China among its permanent members, would recognise Kosovo as a sovereign state without there having been a broader understanding with Belgrade as to the ground rules for such a "divorce".

The argument that Kosovo would not be able to defend itself is irrelevant as a precondition for recognition as a sovereign state: there are many other independent states in that situation. But as a practical matter, that again limits its freedom of action: whatever its final status, Kosovo will need international security guarantees for the indefinite future.

Conditional Independence. The option of Kosovo being given this status has been proposed by the Kosovo Commission,[110] and it has been widely seen - including by us - as an attractive outcome, not least given the obvious

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110 See *The Kosovo Report*, International Independent Commission on Kosovo, Oxford University Press, Oxford, 2000, pp.271-9.

difficulties with each of the alternatives. But "conditional independence" is not a term with any previous pedigree, and the Kosovo Commission itself never seems entirely clear whether the conditionality involved is a matter of preconditions having to be satisfied before sovereign independence is recognised; or of some continuing limitations or qualifications being imposed on the extent to which sovereign independence can be enjoyed even after recognition; or both.

There is a good case for saying that Kosovo's recognition as a sovereign, independent state should be made conditional in three different ways:

❑ First, the international community has a profound interest in ensuring the full protection of minority rights, and it is reasonable to insist that proper standards be met for a period of time before all the benefits of international recognition (including membership of international organisations like the UN, and access to international financial institutions and trade arrangements and the like) are awarded.

❑ Secondly, Kosovo could be required as a condition of recognition to permanently renounce some kinds of action which would normally be within the competence of a sovereign independent nation. While we have described elsewhere as overstated the fears often expressed that independence for Kosovo would increase the threat of a "Greater Kosovo", the international community would also be in a position to require a binding commitment that it would not seek to expand its regional boundaries.[111]

❑ Thirdly, and most far-reaching, a form of trusteeship could be imposed on Kosovo by the UN, under which, for the duration of that arrangement, its government - while exercising all normal day to day government powers, and not subject to either FRY or Serbian sovereign authority - would be subject to the exercise of veto powers by the trusteeship representative, either at large or in certain defined areas. The notion here is that such powers would be exercised with a lighter touch than under the present protectorate arrangements in both Kosovo and Bosnia, but in a way that retained ample leverage for the international community.

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111 An intriguing parallel has been drawn here with Austria's commitment under the Austrian State Treaty of 1955 not to enter a union with Germany, and Cyprus's under the Treaty of Guarantee of 1959 not to engage in any activity promoting either union with another country or partition of the island. See "Three Thoughts on Kosovo", Nicholas Whyte, Centre for European Policy Studies, Paper delivered at ICG Roundtable discussion of Kosovo Commission Report, 17 January 2001.

Conclusions and recommendations on the future of the FRY

❑ *The constitutional and legal structures of the FRY were neither intended nor designed to meet the needs of any modern, democratic state. The international community needs to confront the reality that the status quo is not sustainable; to identify processes that will move things forward constructively for all three entities; and to find ultimate solutions that are principled and consistent, and don't make things worse, including within the wider region.*

❑ *In resolving final and future status issues for Montenegro and Kosovo either the G-8 or OSCE could play a useful facilitating role.*

❑ *The following guidelines should govern the overall process of democratic dialogue between the parties:*

    - Contentious issues should be resolved exclusively by peaceful means and without threats of violence.

    - Negotiations on final status issues should be based on the rule of law and conducted wherever possible within the emerging democratic frameworks of these societies.

    - Changes to established borders should only be made by mutual agreement. Under no circumstances should ethnic cleansing be rewarded.

    - The relationship between majority and minority populations within any entity should be reciprocal and unconditional. Full individual rights and protection before the law should be guaranteed to the minority, with respect paid to its collective identity and culture; the minority, thus protected, owes the larger entity respect for both its laws and its identity.

    - The international community should play an active role in advancing political status and rights issues, including by hosting and facilitating talks, and also by offering economic incentives and, where appropriate, security guarantees.

❑ *The international community should not discourage Montenegro from seeking independence, instead it should help Montenegro and Serbia find a mutually satisfactory basis for their new relationship.*

❏ *For Kosovo*

    - *The first step must be to establish with no further delay a full system of democratic and autonomous self-government within Kosovo.*

    - *The second step should be to establish a focal point for 1244's "political process designed to determine Kosovo's future status" in the form of an "international meeting" as contemplated by the Rambouillet accords.*

    - *The third step would be for consultations to occur - preferably, but not necessarily, in the context of an anticipated international meeting of the kind just described - on the principles that might constitute the foundations for a final political settlement.*

❏ *The most appropriate of the options for Kosovo's status as determined in a final political settlement may be "conditional independence".*

PART III.

BOSNIA, CROATIA, MACEDONIA AND ALBANIA

Map No. 3729 Rev. 2   UNITED NATIONS
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7. BOSNIA AND HERZEGOVINA

Bosnia is still burdened by the legacy of war and trapped by the contradictions of the Dayton Peace Agreement. Since 2000, the international community has been more active in building up Bosnia's state institutions and breaking down the influence of nationalist extremists.   But, even with more cooperative governments now at state and Federation levels, more vigorous enforcement measures remain necessary for Bosnia to achieve stability.   Effectively implementing a landmark Constitutional Court ruling may be the key to achieving a smoother transition to a more viable post-Dayton governance structure - built not around the entities, but stronger central plus community-sensitive local institutions.

A.   Introduction

Bosnia and Herzegovina (henceforth "Bosnia") in its present form was negotiated into existence by the country's nominal, Muslim-led but internationally recognised government and its two powerful neighbours, Croatia and Serbia,at the Wright-Patterson Air Force Base in Dayton,Ohio in November 1995. The negotiations were forced forward by the United States, with representatives of the European Union acting in support.   The representatives of the Bosnian Serbs and Bosnian Croats were subsumed in the delegations of their 'mother'countries,and were not effective parties to the Dayton Peace Agreement (DPA),signed the following month in Paris. The DPA created a state with one weak central government,a strong Serb "entity" (Republika Srpska), a tenuous Bosniak (i.e. Muslim) and Croat entity (the Federation), populated overwhelmingly by these two groups), and three "constituent peoples"(Bosniaks,Serbs and Croats). The Federation is further subdivided into ten "cantons",each enjoying substantial powers.

Ultimate authority in Bosnia lies with the NATO-led Stabilisation Force (SFOR) and the Office of the High Representative (OHR), the latter being responsible for implementing the civilian aspects of the Dayton Peace Agreement.   The High Representative can impose measures, including legislation, which have been blocked or rejected by Bosnia's own

legislatures.[112] The OHR is assisted by a range of international organisations, including the Organisation for Security and Cooperation in Europe (OSCE), the United Nations Mission in Bosnia and Herzegovina (UNMIBH),the United Nations High Commissioner for Refugees (UNHCR), and the European Commission.

Since 1995, the international community has devoted more than $5 billion to reconstruction, peacekeeping and establishing functioning institutions in Bosnia. This effort has brought a number of successes. Bosnia has many new roads,schools,hospitals,bridges,houses, and power lines. NATO's presence has enabled the military disengagement of the opposing forces in Bosnia and prevented further conflict.

Progress has been made in creating some of the common institutions and the attributes of a common state. Bosnia now has a central bank and common currency, vehicle licence plates, passports and state symbols. The EU's Customs and Fiscal Advisory Office (CAFAO) has made progress in reforming the customs service, and several key laws have been passed and are slowly being implemented, including those relating to citizenship, telecommunications, freedom of information, and property (crucial for refugee returns).[113] Refugee returns as a whole, although still far below desired levels, appear to be on the upswing.[114] The Office of the High Representative is making gradual headway with reforms in education, election campaign financing, restructuring the broadcast media and creating economic transparency. The long-delayed privatisation process, although still burdened by corruption,appears finally to be moving forward, accompanied by other financial sector reforms.

These successes have one thing in common: the international community drove them through,politically and financially. Bosnia's stability still depends on international support because, whatever it's form, it is still divided in substance into three ethnically defined systems with largely separate institutions, services, cultures of informal power, patronage and corruption. This renders the state politically and economically unworkable.

Within this framework, Bosnia's nationalist politicians have preserved considerable populist appeal, often paying little more than lip service to Dayton while blocking the provisions that threaten their own power. Operating in a

112 The High Representative is nominated, and in effect mandated, by the Peace Implementation Council. The Peace Implementation Council,established by and from the 55 states,international organisations and agencies attending the December 1995 London Peace Implementation Conference, gives political guidance to the High Representative through a Steering Board,consisting of the G8 countries,EU, EC and the Organisation of the Islamic Conference (OIC),which has recently been meeting with increasing frequency.
113 PIC Steering Board Meeting, *OHR Press Release*, 12 July 1999.
114 ICG Balkans Report No. 95,*Bosnia's Refugee Logjam:Is the International Community Ready?*, 31 May 2000.

quasi-protectorate, local officials enjoy the luxury of posturing before citizens without being held accountable for avoiding the difficult reforms needed to bring the country through the double transition out of war and communism. On the contrary, these elites have devoted their energies over the last five and a half years to thwarting reform. What the Peace Implementation Council (PIC) concluded in May 2000 could have been said at any time since Dayton was signed: "narrow nationalistic and sectarian political interests have impeded everything from refugee return to economic reform to the functioning of government institutions."[115]

Frustration at the lack of fundamental progress has led some international commentators to propose international disengagement or outright partition as the most realistic routes to stability. These approaches would risk undoing all the gains to date and potentially trigger renewed conflict. The international community must use the enforcement mechanisms granted by the Dayton Agreement to strengthen Bosnia's central institutions while reducing bureaucratic layers and eroding the power base of factions that oppose the development of a functioning, democratic state and the reintegration of Bosnia's ethnic communities. Sooner or later the representatives of these communities will have to replace the Dayton governing structures with something more viable, but this will only be productive after a longer period of vigorous Dayton implementation.

Table 13. Bosnia at a glance

GNP per capita*:$920
Population:3.8 million
Elections: Municipal elections held on 8 April 2000, followed by 11 November 2000 elections for representatives at the state level parliamentary assembly and entity parliamentary assembly level, and cantons within the federation. Presidential elections due before September 2002.
Presidency: Elected in September 1998, two members changed in March 2001. Beriz Belkic (Bosniak), Zivko Radisic (Serb), Jozo Krizanovic (Croat).
High Representative:Wolfgang Petritsch

*World Bank Atlas methodology.
Source: *The World Bank;Economist Intelligence Unit (EIU)*

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115 Declaration of the Peace Implementation Council, Brussels, 23/24 May 2000, available at www.ohr.int. For one interpretation of the Brussels Declaration,see "Turning Point:The Brussels PIC Declaration and a state-building agenda for Bosnia and Herzegovina", *European Stability Initiative*, 7 June 2000, available at www.esiweb.org

B.   Security

Five years after Dayton, Bosnia faces no significant external security threats, but its long-term stability is threatened by the continued existence of separate armies (two on paper, three in practice) within its borders.

The current Federation Army consists of an uneasy alliance formed in 1994 between the Armija BiH and the Croat Defence Council (HVO), now subsumed as the Bosniak and Croat components of the Federation Army. These components operate in parallel, reflecting the origins of the HVO in the early 1990s as an extension of the Croatian Army (HV), directed from Zagreb. Last year's change of government in Croatia (coupled with that country's pressing economic difficulties) has led Zagreb to express new-found respect for Bosnian sovereignty and cut off of its funding to Bosnian Croat separatists.

Nevertheless, the desertion of substantial numbers of Croat soldiers from the Federation army in March 2001, at the "request" of the so-called Croat National Council (HNS), demonstrates the continued links between the nationalist political parties and the armies. This political control stems from the control of financial resources and the ability to pay salaries. The HNS has reportedly offered to pay Croat soldiers who agree to leave their Federation barracks a monthly salary of 500 German Marks. The ability of the HNS to establish parallel structures shows how much the international community still has to do in terms of limiting the ability of nationalist parties to control public revenues.

Democratic changes in Serbia have yet to push the Army of Republika Srpska (VRS) into some form of a unified command structure. Within the Republika Srpska, civilian and military officials are unanimous in their defence of the inalienable right of Serbs to maintain a separate military.[116] The VRS continues to receive funding and material from Belgrade while being directly linked to the Yugoslav army chain of command. Yugoslav President Kostunica has openly championed the nationalist aspirations of the separatist Serb Democratic Party (SDS) in Bosnia. Given such a dynamic, it will be difficult to engage the VRS in more unified military structures without significant international pressure on both Republika Srpska and the Federal Republic of Yugoslavia (FRY) to change their ways.

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116 See Interview with the Minister of Defence of Republika Srpska, "Neka bude smena", *Reporter*, 26 July 2000, p. 11.

The existence and potential rivalry of three separate armies that were at war a few years ago represents an ongoing security risk, as does the continued presence of persons potentially indictable for war crimes within their ranks.[117] Under international guidance, Bosnia's militaries have already begun the process of significant force reductions, and this effort should be intensified. In addition to regular military units, the international community must address the security threat of about 15,000 special police troops under the entity Ministries of Interior.

Disbanding paramilitary organisations should be seen as an integral confidence building measure within this process. Threats and violence against returning refugees and displaced persons also continue. Extremists - often funded and organised by political parties - still bomb and torch the homes of returning refugees. Police and the judiciary, often powerless or sympathetic to the political goals of extremists, do not provide sufficient protection.[118] Part of the responsibility lies with the UN's International Police Task Force (IPTF), which has failed in large measure to fulfil its mandate to create professional local police forces. The fact that a number of individuals allegedly involved in "ethnic cleansing" continue to serve as officers is sufficient indication of the local police's willingness to provide security for minority returnees.[119]

In 2000, over 400 incidents against minorities throughout Bosnia were reported to the IPTF.[120] With the reconstruction of returnee homes in the Srebrenica and Bijeljina municipalities, the Republika Srpska witnessed an upsurge in return-related violence, including the burning of more than ten returnee homes, mob violence, bomb attacks, beatings and a murder.[121] Violence directed against minorities at the end of last year occurred twice as frequently and at more severe levels in the Republika Srpska than in the Federation, with the majority of incidents in the Federation occurring in Croat-majority areas. In both Srpska and Croat-majority regions, the presence of indicted war criminals in the police force and the continued existence of paramilitary organisations intimidate minority returnees.[122]

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117 Ibid.
118 "Following investigations of various incidents, the international community concluded that many incidents, like those that occurred in the Eastern Republika Srpska municipalities, were not spontaneous, but instead were organised and carried out by followers of various political factions". *Human Rights Quarterly Report*, May 15-August 31 2000.
119 Ibid. See ICG Balkans Report No. 103. *War Criminals in Bosnia's Republika Srpska: Who Are the People in Your Neighbourhood?*, 2 November 2000.
120 *Human Rights Quarterly Report*, May 15-August 31 2000 and *Report from Human Rights Task Force Meeting*, 5 February 2001.
121 Ibid.
122 See *War Criminals in Bosnia's Republika Srpska*.

SFOR has often failed to provide adequate protection to refugee returnees in hard-line areas. Italian and Russian units stood by while mobs attacked members of minorities in Janja and Bratunac. All these factors have combined to prevent greater numbers from returning to their homes, while cementing the results of wartime "ethnic cleansing" and the hold of the ethnic-cleansers on power. The establishment of a U.S. Army base in Bratunac, announced in early 2001, should improve the security situation for returnees to that area of eastern Republika Srpska. Wherever war criminals have been apprehended, refugee returns have later accelerated. The IPTF must redouble its efforts to establish a professional police force, and SFOR must provide maximum protection to returnees and apprehend war criminals.

For the time being, deployment of a large-scale international security presence, including NATO forces, remains essential to keep the peace. No responsible exit strategy can be framed before the fundamental and structural sources of insecurity, including constitutional arrangements, have been addressed.

C.   Governance

The international architects of the Dayton Agreement seem to have hoped that the entity structure would facilitate reconciliation among the "constituent peoples" over time. However, the hope behind the DPA, and the reality in today's Bosnia, are quite different. The nationalist parties have always had another view of Dayton. For them, the Dayton structures legitimised their war-time territorial gains and supported the ethnic segregation of Bosnian politics and society. Bosnia still consists of three substantially mono-ethnic systems, with separate education, health care, pensions, power generation, communications, military and police.

Consequently the central government is virtually powerless, and serves as little more than a figurehead. The entities were granted virtual statehood under the Dayton constitution, with strong sway over internal affairs, the maintenance of separate armies and the collection of revenue, and have assumed powers even more sweeping over time by largely ignoring the central government. Unfortunately, the Constitutional Court, charged with resolving disputes between central government and entities, lacks any mechanism to enforce its rulings.

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123 Croat-controlled "Herzeg-Bosna"', Republika Srpska, and the Bosniak-controlled "Republika BiH".

The Role of the International Community

The only Dayton mechanism capable of ensuring viable state institutions is the internationally appointed High Representative, the final authority in theatre to interpret the civilian aspects of the peace agreement. Thus the functioning of the central government and the protection of many of the rights of Bosnia's citizens depend on the ability and willingness of the OHR, along with other international organisations, to use their Dayton-prescribed powers. This applies above all to SFOR, which is authorised to support civilian implementation tasks, but,notoriously, is not obliged to do so.

For much of the past five and a half years, the international community has been loath to exercise its powers,preferring to negotiate with the strongest parties, which had an interest in obstructing the central government and refugee return, and maintaining the status quo. The continued ability of these nationalists to finance themselves, their paramilitary and military structures through patronage and corruption means they have been far better equipped to obstruct than the international community has been to overcome their efforts. Genuine reform will not come without undercutting these vested interests, by:

❑ eliminating political party control over pension funds, publicly-owned enterprises, the judiciary, the civil service and police;

❑ tracing the funding mechanisms and patronage networks of nationalist political parties, including illegal monetary flows and links to black market activities, and enabling the local judiciary to prosecute corrupt officials;

❑ implementing a multi-ethnic state border service and other institutions to ensure the collection of revenues directed to support state institutions;

❑ a greater willingness on the part of international organisations to use the sweeping powers that they have been mandated to counter these individuals and parties; and

❑ boosting international security efforts to support the ICTY, including accelerated arrests of indictees.

After four more or less timid years, however, an international strategy emerged in 2000 to build up Bosnia's central institutions and undercut the

nationalist parties.[124] This new strategy has been signalled by OHR actions earlier in the year. Recognising that the state of Bosnia cannot function without dependable revenue, and that control of the borders by the three nationalist regimes supports the financing of parallel institutions, the High Representative imposed a law creating a state border service in January 2000. The Bosnian parliament had earlier failed to adopt the law due to significant obstruction from the Serb delegates.[125]   However, owing to lack of international financial support,the new border service has taken control of only a few of Bosnia's 420 road border crossings.

In February 2001,the High Representative also established a special auditor for the Cantons of the Federation,with the authority to conduct full financial reviews of any institutions, ministries, companies, government agencies and "extra-budgetary funds established by law".[126] According to the OHR, the auditor will bring much needed transparency to the collection, custody and expenditure of public revenues. The auditor has the authority to unravel many of the illegal connections exploited by extremist political parties. Companies closely connected to the Croat Democratic Union (HDZ) and Party of Democratic Action (SDA), such as Aluminj in Mostar and Elektroprivreda in Sarajevo, as well as special funds such as those ostensibly for war veterans should be targets for early investigation.

The international auditor must also focus on ministries and public companies, working with the existing governmental Supreme Audit Institution of the Federation. Given the deep roots of Bosnia's patronage system, the auditor will need expert staff and strong support of all other international actors to be effective. Unfortunately, the absence of such an auditor in the other entity raises questions about international resolve to clarify the financing structures of the SDS, and their links to Serbia. Appointing an auditing institution in the Republika Srpska should be an urgent priority for the OHR.

The imposition of the state border service law and appointment of the special auditor were two examples of the OHR's increasingly proactive role. Some have criticised this approach as a "creeping protectorate". Rather, the OHR - sometimes backed by SFOR - appears to be using these robust enforcement measures as a means to the right end: namely, the creation of legitimate and self-sustaining structures that could survive international disengagement.

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124 The key document is the Brussels Declaration of the Peace Implementation Council, 23/24 May 2000, available at www.ohr.int
125 Office of the High Representative,Decision Imposing the Law on State Border Service,13 January 2000.
126 Office of the High Representative, Decision on the Special Auditor for the Cantons of the Federation of Bosnia and Herzegovina,5 February 2001.

The Constitutional Court Decision

The Bosnian constitution provides for a Constitutional Court of six Bosnian and three international judges with jurisdiction to determine if entity laws and constitutions are in violation of Bosnia's constitution. In February 1998, the Court was asked to scrutinise fourteen provisions of the Republika Srpska constitution and six provisions of the Federation constitution for compliance with the Bosnian constitution. These provisions dealt with the political and legal concept of the "constituent peoples" of Bosnia, as well as portions of the Republika Srpska constitution implying the sovereignty and independence of that entity. While the Bosnian constitution defines Serbs, Croats, Bosniaks and others as having equal rights, the disputed clauses of the entity constitutions grant the Serbs a privileged status in Republika Srpska, while Croats and Bosniaks are likewise privileged in the Federation. [127]

After a highly politicised 28-month process of deliberation, the Constitutional Court ruled that these provisions of the entity constitutions were indeed in violation of the Bosnian constitution because they failed to grant equal status to Serbs in the Federation and to Bosniaks and Croats in Republika Srpska.

This ruling strikes at institutional discrimination in law, education, the police, the work place and the provision of basic social services. While it does not question the existence of the entities, it challenges their ethnically weighted structures. First, the entity constitutions would have to be amended. In principle, the structure of the entity parliaments would have to be changed, as well as the voting procedures, since rules about who can vote and run for office were ethnically defined in a prejudicial manner. Secondly, numerous entity laws would also have to be reviewed and changed in light of the new equal status of all three ethnic groups within the entities. [128] For example, Federation courts, under the entity constitution, "shall have equal number of Bosniak and Croat judges. Others, too, should be represented appropriately at each of those Courts." But if Serbs have the same status as Bosniaks and Croats in the Federation, this provision would likely also be deemed unconstitutional.

In the long term, the reforms entailed by the Court decision should make the institutions and governing structures of the two entities more similar, with a broad unifying effect. This in turn would set the stage for the

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127 "Bosniaks, Croats, and Serbs, as constituent peoples (along with Others), and citizens of Bosnia and Herzegovina hereby determine..." The General Framework Agreement for Peace in Bosnia and Herzegovina, Annex Four ("Constitution of Bosnia and Herzegovina"), Preamble.

128 The Federation Deputy Minister of Justice remarked to ICG that in the Federation alone, about 3,000 laws would have to be amended to abide by the Constitutional Court decision.

emergence of post-Dayton constitutional structures. However, as noted, the Constitutional Court lacks enforcement mechanisms to back its decisions. Enforcement depends on the will of the entity governments to recognise the court's authority and comply with the provisions - an unlikely outcome given the power of nationalist parties. By January 2001, a full six months after the decision, the entities had taken no action on it.

At this point the High Representative intervened and established Constitutional Commissions in the Republika Srpska Assembly and Federation House of Representatives. Each commission consists of sixteen members - four Bosniaks, four Croats, four Serbs, and four "others" - selected by the OHR. The Commissions were tasked to prepare proposals by 15 March 2001 for revising the entity constitutions. In addition, they would have power to review and block entity legislation that might be judged discriminatory.[129]

Election Results and a Constitutional Crisis

The State. The first chance to judge public reaction to the more robust international agenda of state-development and to the end of the Milosevic era came in November 2000, when general elections gave a majority in the state parliament to a coalition of moderate parties, the "Alliance for Change". The Alliance duly formed a central government without any of the main nationalist parties. Bosnia is now governed, for the first time, by parties apparently dedicated to the welfare of the whole country. The Alliance also governs one of Bosnia's two entities, the Federation, which had hitherto been run as a condominium of Bosniak and Croat nationalist parties, the SDA and HDZ.

The existence of non-nationalist governing coalitions at state and Federation levels may represent a turning point, but only if the Alliance, backed by the international community, can overcome nationalist obstruction. For international pressure was instrumental in forming the Alliance, and nationalist majorities retain the power to obstruct progress in the Federation (at both entity and cantonal levels) and in the Republika Srpska.

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129 To avoid these commissions holding up legislation, they would have three days to reach judgement on proposed legislation, after which the High Representative would determine the outcome. OHR, Decision establishing interim procedures to protect vital interests of Constituent Peoples and Others, including freedom from Discrimination, 11 January 2001. Predictably, the Commissions missed the March deadline.

Table 14. Main Political Parties in Bosnia

Political Party	Political Affiliation
Republika Srpska	
Serb Democratic Party (SDS)	Hard-line nationalist party. Won the Presidency and Vice-Presidency posts in Republika Srpska. Part of the governing coalition.
Party for Democratic Progress (PDP)	Moderate party led by Mladen Ivanic.
Serbian Radical Party (SRS) Socialist Party of Republika Srpksa (SPRS)	Nationalist parties working against implementation of DPA.
Federation	
Croat Democratic Union (HDZ) in Bosnia and Herzegovina	Right-wing Croat nationalist party, founded by party of same name in Croatia.
Party of Democratic Action (SDA)	Bosniak (Muslim) nationalist party, led by Alija Izetbegovic.
SDP (Social Democratic Party) NHI (New Croat Initiative) Alliance for Change	SDP is led by current Foreign Minister Zlatko Lagumdzija. NHI is a Croat centrist party, led by former HDZ leader, Kresimir Zubak. The Alliance for Change is a coalition led by these two parties.
Party for Bosnia and Herzegovina (SBiH)	Mainly Bosniak party led by long-time Foreign Minister Haris Silajdzic, campaigns under slogan "For a Bosnia without Entities".
HNS (Croat People's Assembly)	Grouping of Croat nationalist parties, led by HDZ.

The Federation.   In the Federation, the Alliance government faces an even more dramatic challenge than at the state level. This challenge is led by a grouping of hard-line Croat parties, led by the HDZ and calling itself the Croat People's Assembly (HNS). On 3 March, the HNS declared withdrawal from Federation structures and the formation of "Croat self-government", linking Croat-majority cantons and municipalities, and parallel structures in areas where Croats are outnumbered by Bosniaks.

This decision had been brewing since July 2000, when HDZ hard-line war veterans such as Ljubo Cesic-Rojs, Stanko Sopta and Slobodan Praljak strengthened their positions in the party, leading in September 2000 to the defection of the pragmatic Foreign Minister Jadranko Prlic. The defeat of HDZ in Croatia had not moderated the sister party in Bosnia.

The development which more than any other had angered the HDZ was an October decision by OSCE (still responsible for elections) to adopt new rules and regulations for the November elections. The changes were somewhat transparently designed to undermine the nationalist parties' ability to control membership of the Federation House of Peoples (the upper chamber) and the appointment of Federation leaders.[130] The HDZ exploited concerns among Croats to whip up electoral support. Their campaign was marked by dire warnings about the extermination of Croats in Bosnia, and culminated in a "referendum" on their status. The HDZ was opposed by more moderate Croat parties such as the New Croat Initiative (NHI), and in some instances by the Catholic Church hierarchy, but it won an overwhelming majority of Croat votes, above all in western Herzegovina.

The HDZ attempted to thwart the formation of governments led by the Alliance for Change, accusing it of being "anti-Croat", since it did not include the party with the majority of Croat votes. The cynical partnership between nationalists from all three groups surfaced again in February 2001, when Bosnia's three-person presidency, all from nationalist parties, nominated HDZ member Martin Raguz as prime minister of the country. This was rejected by parliament, which was dominated by the Alliance for Change coalition.

Eventually, the Serb and Bosniak members of the presidency agreed to back the Alliance nominee, Bozidar Matic, a Croat in the SDP. The HDZ announced it would boycott parliament. It also delayed the formation of a Federation government by refusing to participate in naming representatives to the Federation House of Peoples. When it lost the struggle to block a non-nationalist government in Sarajevo, it pulled out of the Dayton structures. The High Representative responded to HDZ leader Ante Jelavic's declaration by removing him from his post as the Croat member of Bosnia's presidency and banning him from further public political activity.

In this context, it is clear why the Alliance for Change has openly appealed for international assistance in combating the influence of extremist political

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130 This rule altered the method of election to the Federation Parliament's House of Peoples, a body designed to protect the "vital interests" of ethnic groups. See ICG Balkans Report No. 106, *Turning Strife to Advantage: A Blueprint to Integrate the Croats in Bosnia and Herzegovina*, 15 March 2001.

parties. The Alliance recognised that Bosnia can only function within the Dayton framework with the full use of the High Representative's powers. But Alliance members also set conditions for their compliance. A key member of the coalition, Haris Silajdzic made it clear that his Party for Bosnia and Herzegovina (SBiH) would withdraw if the international community did not vigorously implement Dayton by setting deadlines for the return of refugees and displaced persons, the functioning of state institutions, and economic reforms

The crisis precipitated by the HDZ reflects both the structural flaws in the Dayton settlements,and the belated success of the international community in undermining nationalist power bases. The ease with which the HNS has formed the structures of self-government in western Herzegovina reflects the fact that parallel Bosniak and Croat budgets and administrations already existed,but the international community never mustered the political will to dismantle them.

As for the international success, there are several reasons why the Croat nationalist leadership in Bosnia was more threatened by the OHR's pro-active implementation than the Bosniak or Serb leaderships. First, the Croat community is by far the smallest of the three "constituent peoples". Secondly, it is not protected by size (as the Bosniaks are) or by its own entity (as, in effect,the Serbs are). Thirdly, the changes in Croatia in early 2000 brought an end to the flow of financial and political support from Zagreb. Lastly,the HDZ had been losing ground in mixed communities in central and northern Bosnia. Unlike in the Croat heartlands of western Herzegovina, where civil servants, public companies and customs authorities supported the declaration of 3 March 2001, it is reported that none of the Croat police in the Central Bosnian canton have withdrawn from the multi-ethnic police force. In addition, while several thousand HVO troops in Mostar and Vitez readily abandoned Federation barracks at the HNS behest,Croat forces in the Posavina region (northern Bosnia) announced they would remain in the Federation army.

Against this background,the party's bold declaration of "self-government" was clearly a stratagem to preserve the existing parallel institutions in Herzegovina ("Herzeg-Bosna") while unifying the party and forcing out the moderates. The HDZ's indifference to protecting Croat rights throughout Bosnia was seen by the fact that the Croat judge in the Constitutional Court dissented (albeit under pressure) from the decision. The HDZ also refused to participate in naming representatives to the recently created Constitutional Commissions, even though these bodies were designed to address

discrimination against ethnic groups and individuals. In this, the HDZ was true to the record of nationalist opposition to measures that would define the concept and delimit the application of national rights.

So far, the main Bosniak nationalist party has not followed the HDZ into boycotting government bodies which it cannot influence. But this may yet happen. On 30 March 2001, SDA Vice President, Sulejman Tihic, threatened that his party would consider withdrawing from the state and Federation parliamentary bodies if its demands for a share of leadership positions were not met.[131]

Republika Srpska. Discontent among Bosnia's Croats has been fuelled by the abysmal lack of progress in Dayton implementation in Republika Srpska, and the fact that the international community has consistently applied a more lenient standard in that entity.

Backed by the Kostunica government in the FRY, the SDS won the presidency and vice-presidency in the Republika Srpska, and the largest number of seats in the entity parliament. Although the international community threatened to cut aid to Republika Srpska if the SDS was allowed to participate in the government, the OSCE, SDS and Mladen Ivanic, leader of the moderate Party for Democratic Progress (PDP), quietly agreed that government ministers from the SDS would declare themselves as independent "experts" rather than members of any party. Also, as a result of the April 2000 municipal elections, the SDS controls the majority of municipalities in Republika Srpska.

Under threat of losing international aid, the SDS announced it would use its position in government to support Dayton, facilitating minority return and implementing property laws. Yet the leading political parties in Republika Srpska continue to act whenever possible as if their entity were a sovereign state next door to Bosnia, rather than a unit within Bosnia. Both Kostunica and several Bosnian Serb politicians have gone as far as to suggest that eastern Republika Srpska would have to join Serbia if Kosovo were to become independent.

Throughout the Republika Srpska, potentially indicted war criminals continue to influence and control political and economic life, particularly on the municipal level, where many of them are police chiefs, mayors, municipal councillors and directors of public companies.[132] Under their tutelage, the

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131 "OSCE Condemns SDA Walkout Threat", OSCE Mission to Bosnia press release, Sarajevo, 30 March 2001.
132 See *War Criminals in Bosnia's Republika Srpska*, 2 November 2000.

Republika Srpska continues to oppose fulfilling the most elementary conditions of Dayton, while still blatantly opposing most efforts to increase refugee return and implement property laws.

The March 2001 signing of a parallel relations agreement between Yugoslavia and Republika Srpska highlighted the fact that this entity remains politically oriented more towards neighbouring Serbia than towards the Bosnian state. While the DPA allows for such agreements, it is ironic that Kostunica and the new Republika Srpska government chose to sign such an agreement just as Croatian authorities were deciding to provide support for Bosnia's Croats exclusively through the mechanisms of the state.

In any case, the international community must begin to hold the Republika Srpska and FRY authorities accountable for implementing Dayton. Under the previous government, led by Milorad Dodik, the international community provided support for the Republika Srpska, despite its poor record, not wanting to put political pressure on another "moderate"administration. This mistake must not be repeated. Continued aid should be strictly set to concrete benchmarks, particularly in refugee return and support for central institutions. At the same time, the FRY and Serbian governments must be pressured to develop trade and other relations with Republika Srpska through the state of Bosnia.

D.   Human Rights

While the Dayton agreement and the Bosnian constitution provide a framework for protecting human rights, politicised institutions, frequent disrespect for the rule of law and rampant corruption present major challenges to enforcement. Individuals not in the current "majority" group, especially returning refugees, are subject to systematic discrimination in terms of education, employment and a range of other social and economic and rights. These problems are particularly acute in parts of the Republika Srpska and Croat-majority areas in the Federation. Although the Constitutional Court decision on constituent peoples and a number of laws imposed by the High Representative have begun to chip away at the legal framework of official discrimination, the full implementation of these decisions will require continuous effort from the international community.

Bosnia's judiciary and police suffer from persistent political interference. Despite some progress in unifying Bosniak and Croat elements of the police and courts, and integrating the police forces, ethnic divisions cut through the

justice system. Last year, the OHR imposed a law creating a state-level court, which had not existed previously, and the international community has been working closely with local courts and police to promote their independence. Several crucial steps in this regard were taken in 2000. The Law on Judicial Service, securing a greater independence of the judiciary is now in place in both entities. In addition, the material status of judges and prosecutors has been substantially improved, reducing opportunities for corruption. An eighteen-month vetting process of judges and prosecutors, aiming for full compliance with professional standards, has been applied since June 2000 in both entities.

The right of refugees to return to their pre-war homes and reclaim their property remains the most pressing human rights issue. The war created about 1.3 million internally displaced people and 1.2 million refugees (in a total population of 4.3 million), and increased returns are fundamental to establishing a stable, democratic society.[133] The international community waited four years to seriously pressure and enable local authorities to support the return of displaced populations, in fact discouraging return by allowing displaced populations to vote in their current places of residence. (And after years of living in ethnically separate enclaves, it seems logical that Bosnia's populations have been slow to drop their support for nationalist parties.)

Significant progress has, however, been made through the Reconstruction and Return Task Force[134] and the inter-agency Property Law Implementation Plan (PLIP). The year 2000 saw a breakthrough, including, albeit marginally, in hard-line political regions. In a May 2000 report, the ICG called attention to an unprecedented level of spontaneous return, that is return without international assistance, particular in parts of Republika Srpska where return had previously been non-existent or negligible.[135] The main success story, however, is Middle Bosnia in the Federation, where significant returns and property repossessions have now taken place, local SDA and HDZ officials have moderated their positions, demonstrating the positive political effects of minority return. Nevertheless, concerns that international donations for reconstruction were insufficient to support the level of interest in return were reiterated by UNHCR at the end of 2000 in a call for increased donor support.[136]

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133 Update of UNHCR's Position on Categories of Persons from Bosnia and Herzegovina in Need of International Protection, UNHCR, August 2000. Today, over 800,000 persons remain internally displaced within Bosnia and Herzegovina
134 The Reconstruction and Return Task Force (RRTF) coordinates the international support for the return of refugees and displaced persons in Bosnia. Comprising the OHR, UNHCR, OSCE, UNMIBH, SFOR, the World Bank and other international organisations, the RRTF has proven to be one of the most successful practical efforts at international coordination in the Balkans.
135 See ICG Balkans Report No. 95, *Bosnia's Refugee Logjam Breaks: Is the International Community Ready?*, 30 May 2000.
136 "2000-Minority Returns: The Highest Number Since Dayton", *UNHCR Press Release*, 6 February 2000.

While there is ground for optimism,Annex Seven ("Agreement on refugees and displaced persons") of Dayton is still far from fulfilment. First of all,the country-wide rate of 20 per cent for the processing claims for return of pre-war property reflects a much higher success rate in specific areas. Meanwhile, the level of implementation remains almost negligible in HDZ-controlled areas of Herzegovina and in parts of eastern Republika Srpska. According to members of the RRTF, the rate of property law implementation can be expected to slow down again, as the easiest cases have now been resolved. At the same time,the international community must address some of the more systemic social and economic issues which continue to discourage return or render it unsustainable. These include lack of access to educational opportunities and employment, administrative discrimination against returnees,unequal access to the privatisation process.

In addition, the donor community should be prepared to continue, if not increase, support for housing reconstruction. Such continued support is justified by the fact that recent political developments as well as the success of the PLIP, have finally made the implementation of Annex Seven more than a remote possibility.

The general reluctance of local authorities to respect the rule of law has been most vividly demonstrated in their failure to implement property laws and procedures for reclaiming housing abandoned during the war. While continuous pressure by the international community has produced gradual improvement,only 20 per cent of claims filed with local housing authorities have resulted in a resolution for the pre-war occupant.[137] Housing authorities in Croat-controlled areas such as west Mostar, Capljina, Stolac, Drvar and Glamoc,and in eastern Republika Srpska,have the worst records in property law implementation, well below 10 per cent.[138]

The basic difficulties which minorities face in reclaiming their property are compounded by the fact that returnees are denied equal access to employment, health care, pensions, education and other social rights upon return. Pupils study under three separate,ethnically defined curricula, with returnee children often segregated from the dominant ethnic group. The Republika Srpska Minister of Education and Croat Federation Minister of Education recently blocked the implementation of an education agreement providing for all schools in the country to devote 40 hours per year to common modules on language, literature, culture and culture of religions.

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[137] *Human Rights in Bosnia and Herzegovina,Priorities for 2001*,Human Rights Coordination Centre,5 February 2001
[138] *Human Rights Quarterly Report*,May 15-August 31,2000,Human Rights Coordination Centre,a cooperative effort of OHR, OSCE,OHCHR,UNMiBH,and UNHCR within the Office of the High Representative.

Although the Ministers had agreed to the measures earlier, they reneged on their earlier commitments, arguing that such a harmonisation of curricula would harm their ethnic identities.[139]

Freedom of the media and expression in Bosnia continues to be hampered by persistent politicisation and the intimidation of journalists. In the second half of 2000, the OSCE's free media help line received 39 cases of incidents against journalists, sixteen involving explicit threats. The most disturbing aspect of these data is that since the hotline began operation in November 1999, the highest number of perpetrators were local government or party officials.[140]

The OSCE has done other good work in assisting the preparation of media legislation and building journalists' associations. The OHR, meanwhile, has launched and overseen the highly complex transition of the state-controlled broadcasting networks into public service broadcasters for both entities and - to the dismay of all three nationalist regimes - for Bosnia as a whole. These are essential institution building projects, extending the frontiers of Dayton implementation. They will take years to complete, and indeed never will be completed without strong and sustained international support.

Trafficking in women for prostitution is another serious human rights problem. From May to August 2000, 43 women were repatriated to Moldova, Romania, Ukraine, Belarus and Serbia, having been freed from various bars and cafes during local police raids.[141] Usually local police only carry out such raids under the insistence of IPTF. Most of the women were lured from Eastern Europe with the promise of legitimate work, only to arrive and have their passports confiscated by bar owners. Bosnia's police and judiciary have been unwilling or unable to bring those responsible to justice.

E.   Economy[142]

Bosnia's economy is in dire straits, and deeply dependent upon donor support. Were it not for direct and indirect donor expenditure - which may account for as much as 25 per cent of official gross domestic product (GDP) - economic growth would probably be negative.[143] The fact that the Federation's increase in GDP over the previous year slowed from 51.9 per cent in 1997 to 10.6 per

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139 Ibid.
140 Human Rights Quarterly Report, May 15-August 31 2000, Human Rights Coordination Centre, a co-operative effort of OHR, OSCE, OHCHR, UNMiBH, and UNHCR within the Office of the High Representative.
141 Ibid.
142 Statistics from the Republika Srpska are difficult to obtain and not released in a timely manner. Data in the Federation is more accurate, although all figures should be treated with extreme caution, as significant economic activities occur in the "black" economy, where they are untaxed and unregistered. In Republika Srpska, this proportion may be well over 50 per cent.
143 See ICG Balkans Report No. 64, *Why Will No-one Invest in Bosnia and Herzegovina?*, 21 April 1999.

cent in 1999 indicates a correlation between declining economic growth and the decrease in donor support. Industrial production is also slowing, as imports outpace exports in the Federation and Republika Srpska by about three to one.

According to official statistics, unemployment in the Federation was 39 per cent in November 2000, with 412,799 employed and 265,971 unemployed.[144] As more than 52,000 employees are on "waiting lists" for defunct state-owned enterprises, actual unemployment in the Federation runs to some 47 per cent, although significant business activity in the "grey" market still takes place.[145] The average wage, about $208 a month, remains slightly lower than the average cost of a basket of necessary products for a household.[146] Even more disturbing is the fact that only about 5,000 additional jobs were created between 1999 and 2000, a 1 per cent increase.[147]

In the Republika Srpska, where data is much more difficult to come by, there are officially 157,026 unemployed registered with the Employment Bureau. This amounts to an official unemployment rate of roughly 40 per cent. In reality, the Republika Srpska figure may run as high as 60 per cent.[148] The average monthly wage in the Republika Srpska is about $130.[149]

Bosnia continues to be an unattractive investment climate, suffering from strangling bureaucracy, excessively high taxes, corruption, a slowly reforming financial system and a wholly inefficient legal system.[150] Another major obstacle to successful private investment is the extremely porous nature of Bosnia's borders, which places all legal business operating in Bosnia's highly taxed and heavily regulated business climate at a distinct competitive disadvantage. The problem lies in large part with police, customs agents and politicians at the highest levels involved in black market dealings. In October 2000, then Prime Minister of the Federation and SDA politician, Edhem Bicakcic, signed a waiver dropping legal charges and customs duties against the owners of about 900 cars, which had been smuggled into the Federation using forged papers. The High Representative was forced to annul this decision and censure the Prime

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144 'Statistical data on economic and other trends,' Number 8, January 2001, Federation Bureau for Statistics.
145 'Statistical data on economic and other trends,' Number 8, August 2000, Federation Bureau for Statistics. Figures of waiting lists not provided in this edition, over 52,000 persons were on the waiting lists in June of that year and other employment statistics did not change significantly between June and November.
146 "Statistical data on economic and other trends," Number 8, January 2001, Federation Bureau for Statistics.
147 Ibid.
148 *OHR Economic newsletter*, June 2000, Volume 3, Issue 5. Unemployment statistics as published on the OHR web site claim that unemployment in Republika Srpska was approximately 39 per cent. This is obviously false, given that unemployment in Republika Srpska is higher than in the Federation, and that economic production has yet to recover from the side effects of the NATO bombing of Yugoslavia. In any event, the OHR and Republika Srpska have not published unemployment statistics for Republika Srpska since 1999. See ICG Balkans Report No. 71, *Republika Srpska in the Post-Kosovo Era: Collateral Damage and Transformation*, 5 July 1999.
149 OHR Economic Newsletter, Vol. 3, Issue 6, October 2000
150 "Podijeljeno trziste - brana stranom kapitalu," *Oslobodjenje*, 9 February, 2000, p.7.

Minister, in a January 2001 decision.[151] The corrupt and selective monitoring of Bosnia's border constitutes a major loss of revenue for the central government and contributes to its general ineffectiveness.

The active involvement of officials in illegal activities has also contributed to an environment conducive to the trafficking of women for prostitution and large-scale smuggling of high tariff goods such as cigarettes, weapons, and drugs, as well as illegal aliens. Bosnia's inability to control its own borders has broad economic and social repercussions that undermine its very viability as a state.

At the end of 2000, the High Representative imposed a series of necessary economic reform measures in both entities, relating to pensions, the employment bureaux, social security for the unemployed, laws on payments and financial operations in the Republika Srpska and amendments to the Federation laws on Wage Tax and Contributions. Additional significant reform will be needed to stimulate investment, create jobs, and curb the corruption that is crippling the country's economy.

Privatisation has been slow, fraught with corruption and disappointing in its results. This is largely due to two factors: a poorly designed privatisation program and obstruction by Bosnian politicians. In general, privatisation unaccompanied by meaningful structural reforms will only solidify the control of political elites over economic assets, as it has already done in a number of cases.

Because of the skewed political control over the process, privatisation of public enterprise to date has overwhelmingly favoured the majority ethnic group in any particular area, more specifically consolidating the power of nationalist parties controlling privatised companies. A revolving door between elected office and management in public or privatised companies continues to be the norm in Bosnia. Recent cooperation between the U.S. Agency for International Development and the German Gesellschaft f_r Technische Zusammenarbeit have shown promise for a more coherent and rapid privatisation approach.

The international community has been successful in reforming payments bureaux.[152] This effort culminated on 5 January 2001, when a new payment system, via commercial banks, began. To ensure a smoother transition to this

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[151] On 23 February 2001, High Representative Petritsch removed Bicakcic "from his position as Director of Elektroprivreda" for corruption during his term as Prime Minister of the Federation. (OHR Press Release, 23 February 2001.)

[152] All public and private financial activity, including payment transactions, savings, tax collection, tax distribution, treasury functions, and private and public expenditures were controlled through a monopoly institution, subject to exclusive party control, known as a Payments Bureau (PB). Each ethnic group maintained its payments bureau (ZPP for Bosnia, under Bosniak control, ZAP in Herzegovina, under Croat control, and SPP in Republika Srpska). These organizations engaged in corruption, drove much of the economy underground, and drained working capital from business and the commercial banking sector. The HNS plans to reinstate the payments bureau system in areas of "Croat self-government".

system, the High Representative imposed three new laws in Republika Srpska and two amendments to laws in the Federation.[153]   Ironically, this success occurs against the backdrop of the impending failure of several of Bosnia's principal commercial banks, which service the majority of businesses in the relatively productive Tuzla region. This may, in turn, seriously affect the country's few healthy businesses.

The severe economic downturn, negative GDP growth and cuts in donor assistance may generate sustained social unrest. Pensions are months in arrears and social discontent has already burst into the open, with demonstrators regularly blocking highways and buildings. Continuing stagnation, partly caused by the paralysing and unsustainable complex of governing structures, could also ultimately undermine the fragile achievements in implementing the DPA.

F.   Beyond Dayton?

Should the international community persevere with its efforts to implement difficult aspects of the peace accords, reckoning they will overcome Bosnia's disintegrative forces in the end? Should the extreme measure of simply walking away from Bosnia be contemplated? If not, has the time at least come to seriously consider other solutions, such as partition, or revising the whole Dayton constitutional structure?

While it has been possible for some time to argue that Dayton has been failing,[154] to claim that the agreement has simply "failed" would be premature, since for the first four years the international community did not try hard to make it work. Initial fumbling in implementation was exacerbated by the reluctance to arrest indicted war criminals and tackle parallel structures and their funding sources. Equally important, if less spectacular, was the lack of international attention to building up the central organs and competencies of the state. Not until 2000 did the international community shift the burden of its expectations from the entities to the state level.

But there are glaring flaws in the agreement, and they are partly responsible for Bosnia's continuing fragility. Insofar as it accommodated the separatist aims of two signatories, and the nationalist exclusivism of all three, Dayton provides great scope for obstructing the common institutions of the state. The devolution of authority from a dysfunctional state to a nearly sovereign

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153 OHR economic newsletter, Volume 4, No.1, January 2001.
154 See ICG Balkans Report No. 80, *Is Dayton Failing? Bosnia Four Years after the Peace Agreement*, 28 October 1999.

Republika Srpska has been the aim of the SDS Serbs. Meanwhile, the HDZ Croats counted on the further devolution of power from a toothless Bosniak-Croat Federation to ethnically determined cantons.

Outspoken criticism of the Dayton structures has become increasingly common among international officials and local politicians, both in Bosnia and in neighbouring Croatia. This new frankness should be welcomed. In this section, we review some of the more obvious structural problems with the DPA,and discuss the various options for moving forward.

The Problems

Too many levels, too many borders. Thirteen of Bosnia's various levels of government have their own constitutions and the authority to pass major legislation:the state,the two entities,and the ten Federation cantons. Two of the cantons contain parallel Bosniak and Croat governing structures. In Cantons Seven and Nine, a level of government exists between the Canton and the municipality, the "cities"of Mostar and Sarajevo.[155] There are at least 181 ministers serving a population of approximately 3.5 million.

The problems caused by this density of governing structures are compounded by the problem of internal borders. The Washington, Dayton and other agreements have confirmed entity, cantonal and municipal boundaries drawn according to the logic of "ethnic cleansing",i.e. intended to define ethnically homogeneous voting blocks. Many areas previously linked by geography, natural resources,trade and other economic factors now suffer the social and economic consequences of arbitrary separation.

As one example, until 1992, a group of about 20 municipalities gravitated toward Sarajevo, drawn by education, employment opportunities and trade. Four of these municipalities, closest to the centre of the town, now form a political unit:the "city"of Sarajevo. Likewise,these four municipalities,plus six others, form the "canton"of Sarajevo. Others of these 20 municipalities are now Bosniak-majority municipalities in the Bosniak-Croat Middle Bosnian Canton,while yet others have Croat majorities and orient themselves toward Travnik,Zenica or Mostar. Gorazde is a separate canton essentially consisting of a single municipality. Finally, many of the municipalities formerly oriented toward Sarajevo,such as Pale and Sokolac now belong to Republika Srpska. A number of pre-war municipalities have been split by the inter-entity boundary line (IEBL) dividing the Federation from the Republika Srpska.

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155 The internationally-run Brcko District is a case apart. A contested town in the north-east of Bosnia,Brcko is currently run by the OHR as "a single administrative unit under the exclusive sovereignty of Bosnia and Herzegovina".

Given the saturation of political structures with ethnocentric provisions, the strength of ethnically-based patronage, the weakness of central authority and the illogic of internal borders, Bosnia is both ungovernable and economically unsustainable.

Any new constitutional arrangements should abolish mono-ethnic veto power within the central organs of state, reduce bureaucracy, and also consider solutions that allow regions to cooperate according to economic and social forces, rather than ethnic gerrymandering. Recent moves by the OHR to create a Sarajevo Economic Region across current canton and entity lines, acknowledge that re-establishing shattered economic links is a sensible way to overcome divisions imposed by violence. With this idea in mind, some prominent local politicians have suggested that an independent team of local and international experts (lawyers, economists, geographers) should conduct a study to establish criteria for determining municipal and cantonal boundaries according to natural and economic factors. Implementation of this idea could form one element of adequate reform of the Dayton architecture.

Powers of the Entities. Under the current structure, Bosnia is at the mercy of the entities and even of the cantons. Under the constitution, domestic policy devolves to the entities, including law enforcement, education and several other competencies not explicitly assigned to state institutions. Beyond their powers to govern internally, the entities have the right to enter into parallel relations with neighbouring states, and into other types of agreements with other states and international organisations. In the Federation, the cantons enjoy almost equivalent powers.

Under the current governing structure, the first obstacle to an empowered central government is the collection of taxes and control of finances by the entities and cantons. While the Dayton constitution provides for the state to determine "customs policy", the international community has only recently begun to empower the central government in this regard. As long as entity customs administrations collect these revenues, the state budget will remain a hostage of entity goodwill.[156]

Besides the challenge that the entities - and their separate armed forces - pose to the sovereignty of the country of which they are parts, the Republika Srpska has a negative effect on the perceived position of Croats. As long as the Serbs have "their" entity, the Croats will view the Federation as a Bosniak domain in which they are a threatened minority.

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156 See ICG Balkans Report No. 106, *Turning Strife to Advantage: A Blueprint to Integrate the Croats in Bosnia and Herzegovina,* 15 March 2001, for further detail on how to reform customs and border control.

Calls to abolish the entities have found no significant international support, and any moves in that direction would unite the Republika Srpska in defiance. The simplest way for the international community to erode the abuse of entity prerogatives is by pushing refugee return. Other than that, rigorous implementation of the recent Constitutional Court ruling on the "constituent peoples" would - as further discussed below - dismantle the ethnic bias of entity institutions. Eventually, if a single economic space can be created in Bosnia, the population should come to see that economic development, and all that goes with that, depends on turning the entities into symbols, or empty shells.

"Vital Interests". The vague notion of "vital interests", with regard to Bosnia's three main national communities, has been given fatal authority by the Dayton Agreement. In the state constitution, "a proposed decision of the Parliamentary Assembly may be declared to be destructive of a vital interest of the Bosniak, Croat, or Serb people by a majority of, as appropriate, the Bosniak, Croat or Serb Delegates".[157] The content of these interests is nowhere defined. In practice, elected members of one or another political party have obstructed legislation required for the benefit of all Bosnians, on the ground that it would violate the "vital interest" of one or another nationality.

Such confusion is also exploited at the level of the Federation, where, for example, the construction of a road was recently blocked on the ground that it violated a vital interest.[158] During the recent deadlock between the presidency and the parliament on the selection of a prime minister for the central government, Ante Jelavic claimed that by refusing to back the HDZ candidate, the parliament was harming Croat "vital interests", since the majority of Croats voted for the HDZ.

Also, this provision relegates Bosnia's "Others" (those who do not identify themselves as Bosniaks, Serbs or Croats) to second-class rank; not only are they hostages to the nationalist parties' conception of "vital interests", they also lack the means to assert "vital interests" of their own.

The successful exploitation of these concepts by nationalist politicians points to people's genuine fear for their ethnic security. Any future constitutional arrangements must address these fears. The future lies in a system with strong protection of individual rights, that acknowledges the need for ethnic

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157 The General Framework Agreement for Peace in Bosnia and Herzegovina, Annex Four ("Constitution…"), Article 4, paragraph 3, subparagraph e.
158 ICG interview with a member of the Federation parliament.

security without yielding, as Dayton unfortunately does, to the supposition that ethnic groups have objectively competing and mutually exclusive interests.

"Vital interests" should be explicitly and narrowly defined, relating, for instance to questions of language and education. The International Task Force, appointed by the OHR to guide the entity Constitutional Commissions, has suggested the following reasonable definition: "the capacity of the Constituent Peoples of Bosnia and Herzegovina and the Others to maintain and develop their culture and to preserve the essential elements of their identity, namely their religion, language, traditions, and cultural heritage". In addition, new permanent bodies within the state parliament and the Republika Srpska, akin to the Constitutional Commissions, could ensure that laws were neither discriminatory, nor threatening to the "vital interests" of any group. These bodies should be competent to review legislation which may be discriminatory or violate individual human rights. The Constitutional Court would have jurisdiction to strike down laws in violation of these protections, as well as to decide on the content and limits of vital interests.

The Options

Withdrawal. Bosnia's nationalist forces have been counting on the fact that the international community will not stay in Bosnia forever, seeking to preserve their war gains until the international commitment waned beyond the point of being able to undermine them. This waiting game has been predicated on the assumption that SFOR, OHR and other international agencies would never make full use of their Dayton powers to weaken the nationalist hold.

Disengaging from Bosnia would be a drastic move with equally drastic consequences. It would represent an intolerable admission of failure in combating the forces of nationalism and communal hatred. Following such a step, Bosnia could well revert to conflict and violent partition.

International disengagement could encourage Serbian nationalists in Belgrade to press Bosnia's Serbs to hold a referendum on secession. The result of a pro-secession referendum among Bonsia's Serbs would likely be positive. Such a result would evoke a strong response from the Bosniaks, who would view secession as a violation of Bosnia's territorial integrity, the legitimation of "ethnic cleansing", and a breach of the DPA. A Bosniak military response

could not be ruled out, particularly since Serb secession would include taking a number of cities that had a Bosniak majority prior to the atrocities of 1992, such as Zvornik, Srebrenica, Visegrad, Foca, and Vlasenica.

In sum, premature withdrawal would carry high social, political, economic and military costs. It would represent a loss of the monetary and human resource investment of the international community to date. Finally, pulling out of Bosnia would amount to a final acceptance of ethnic cleansing and the abandonment of the idea that the international community has a moral obligation to protect human rights. The belated intervention of 1995 would be exposed as futile. Even if conflict were avoided, long-term regional instability would ensue, with Bosnia becoming a haven for criminal activity and, quite possibly, terrorism.

Partition. The destruction of Bosnia by forcible partition was the purpose of the Serb attack that started the war in 1992. Croat forces later joined in, intending to coerce the Bosniaks into a small enclave in central Bosnia. The end of hostilities did not put paid to Serb and Croat blueprints for partition, involving the secession of parts of Bosnia and their annexation to the Croatian and Serbian "motherlands". Advocates of this position usually argue that a single Bosnian state is unworkable for whatever historical or national reasons so the existing de facto partition should be ratified.

The notion that partition would produce regional stability, still propounded by local extremists and a few international pundits, is fundamentally flawed. Partition would only complicate the problem of attempting to ensure refugees and displaced persons had the right to return home. Presumably, a partition would mean that Bosniaks from eastern Republika Srpska and Herzegovina, Croats from central Bosnia, and Serbs from anywhere but eastern Republika Srpska would have to abandon hope of returning to their homes. From both a moral and legal perspective, this would be unacceptable.

Further, the suggestion that Bosnia can be neatly carved along ethnic lines does not conform to demographic reality even after the war. Given the significant pockets of various ethnicities, any partition would trigger further clashes over territory and population movements.

By destroying the hope of a democratic, multi-ethnic Bosnia, and potentially forcing the Bosniaks into a mini-state surrounded by a greater Serbia and Croatia, the international community would not only reward the war aims of Tudjman and Milosevic. It would also run the risk of radicalising a formerly secular population of Bosniak refugees, with grievous consequences for regional security.

Moreover, the partitionist agenda has been dropped by neighbouring Croatia. At a roundtable of Bosnian Croat and Croatian experts and politicians held in February 2001, shortly before the declaration of "Croat self-government" in Mostar, the Croatian participants (who included President Stipe Mesic) agreed that Bosnian Croats must look to Sarajevo and defend Croat interests throughout Bosnia, not in terms of some ethnically pure enclave.[159]   The reality is that Croatia is no longer willing to finance the separatist aims of Bosnian Croats.

The situation in Republika Srpska is quite different, with FRY President Kostunica apparently supporting the separatist Bosnian Serb SDS and linking the final status of Kosovo with the status of Republika Srpska. While some have expressed concern that resolving Kosovo's final status on terms acceptable to its Albanian population will spur Serb separatism in Bosnia, the two cases are wholly unlike. For a start, if all the refugees and displaced persons from the territory of Republika Srpska were able to return home, the entity would have only a slender Serb majority. The current ethnic identity of Republika Srpska was achieved by an attempted genocide, whereas Kosovo's overwhelmingly Albanian character was achieved in no such way, and long predated the conflict of the 1990s.

Beyond that, international law and precedent are clear that a region such as the Republika Srpska has no vested authority to pursue its sovereignty. In contrast, both UN Security Council Resolution 1244 and the Rambouillet Accords (which 1244 references) made clear that the international community would play a role in resolving Kosovo's status, and that this effort would include an expression of the will of the people of Kosovo, such as a referendum, and the development of substantial self-government over time.

Rewriting Dayton: A New Governance Structure? Although there has been no shortage of frustration with the present two-entity constitutional structure, there has been to date very little serious or sustained debate about what could replace it that would be acceptable in principle, capable of winning strong international support, and have some chance of ultimate political acceptance - if not in the present highly charged climate - by the different communities.

The only proposal for potentially democratic revision of the Dayton agreement that has gained any currency inside and outside Bosnia goes by the name of "cantonisation". The idea was first floated in the early 1990s by

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159 "Entiteti nisu buducnost BiH", *Oslobodjenje,* 7 February 2001.

liberal-minded Bosnian Croats. Its best known advocate since Dayton has been Haris Silajdzic, whose SBiH party campaigns under the slogan "For a Bosnia without Entities":the proposal is to drop the entities and form cantons similar to those in the current Federation, across the entire territory of Bosnia.

Any proposal which involves bypassing the entities in favour of a stronger-state plus-community-sensitive local institutions has obvious attractions,but there are some real problems with this one. The most obvious are straightforwardly political. First, Republika Srpska politicians have become the loudest defenders of the Dayton structure, realising that any alternative arrangement will reduce the quasi-sovereign attributes of their entity. No leadership of the Republika Srpska in the present climate could be expected to support an erosion of their remarkable prerogatives. Secondly, there is no sign at present of the international community having the collective will to tackle the entity problem head on.

The more substantive problem is that Bosnia's existing cantons are part of the problem and not a model to be emulated. Under the Washington Agreement, which created the Federation in 1994, the cantons have their own constitutions, executive branches and legislatures. They establish cantonal police,determine education and housing policy,run public-service media,and most significantly collect their own revenues. It is through these powers that the Bosniak and Croat elements of the Federation maintained de facto separate institutions.[160]

Accordingly, an effective option for reform would eliminate the Federation cantons as a level of governance, on the grounds that they needlessly encumber the operation of a small state, siphoning revenue from the municipalities below and the central government above.

There is a variation on the cantonisation proposal, however, that deserves further serious discussion, even if the climate is not now conducive to its implementation. Units akin to the pre-war "okruzi"(literally, circles) could be established in place of cantons. Still in place in the Republika Srpska, the okruzi are loose regional groupings serving a primarily administrative function. They include a level of the judiciary between the municipalities and the entity. While Federation cantons would be in effect demoted, the Republika Srpska okruzi could be elevated somewhat by the devolution of some government powers.

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160 The HDZ's new-found interest in cantonisation may be explained by its wish to restore the *status quo ante* in relation to the changes to the electoral rules and regulations imposed by the OSCE in November 2000.

Below this level, the municipalities could exercise greater power. Major policy would be created by the central government,but municipalities would collect their own revenue and resolve existential issues on the local level. With political decisions affecting citizens' everyday lives being made by their municipality and not by the entity or canton government, voter attention could be focused more towards existential and less towards ethnic issues.

Working within Dayton. Maintaining and applying the Dayton agreement in its present form in perpetuity is not a credible option. A full-scale international protectorate of the kind now in place, with governmental powers so undemocratically concentrated in an unelected international official,and with such a major commitment of resources involved, is simply not sustainable in the long term,either in principle or practice. International impatience at the snail's pace of political progress is increasing,especially in the U.S. As already indicated,Bosnia's disintegrationists have always believed - and they are right - that the international community is not prepared for an indefinite commitment to guarantee Bosnia's overall security, subsidise post-war reconstruction and build up core institutions.

That said, how can one reconcile this reality with - as just argued - the impossibility of the international community's now withdrawing from Bosnia,the unacceptability of the partition,and the unachievability, at least for the time being, of a radical new governance structure for the country? The answer is to continue to work within the existing Dayton framework for the time being, but enforce it even more vigorously than has been the case in recent times.[161]

The primary purpose in this period of more vigorous implementation must be to implement fully the integrative aspects of the Dayton Peace Agreement, particularly refugee return and the strengthening of central institutions,while applying the same standard to all parties, based on their concrete performance. Some of the most urgent and crucial tasks are finally abolishing the system of dual financing within the Federation,[162] and the further

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[161] Observing the ever-increasing use of mandated powers by the OHR and other international organisations,the European Stability Initiative argues in the latest in a series of notable reports that the international community has gone too far in the exercise of "protectorate-type"powers. Arguing that the international community has now laid the essential groundwork for Dayton implementation,the ESI addresses the real risk that local authorities and institutions have become too dependent on the OHR to make tough decisions,and suggests the time has come to begin a serious dialogue with Bosnia's ethnic groups about more sustainable constitutional structures. However, while the Alliance for Change victories are obviously hopeful signs,the report rests on questionable assumptions.The first is that changes in Croatia and Serbia have forced local politicians to orient themselves towards the Bosnian State. In the Republika Srpska,the opposite appears to be the case. In the Federation,the loss of revenues and other support from Croatia has radicalised the HDZ. With the establishment of a "Croat self-government"capable of paying salaries,at least for the moment,it is clear that the HDZ still commands both substantial public revenues and extensive Croat support for its anti-Dayton agenda. See European Stability Initiative, *Reshaping International Priorities in Bosnia and Herzegovina, Part Three, The end of the nationalist regimes and the future of the Bosnian state*, 22 March 2001.

[162] See ICG Balkans Report No. 90, *Reunifying Mostar: Opportunities for Progress*, 19 April 2000,analysing the parallel administrations and financial systems of Canton 7.

centralisation of border and customs policy leading as soon as possible to a single,central,state-level customs administration.[163] While working within the current framework,the OHR and Bosnia's elected governments can begin the structural adjustments that will both highlight the points where the Dayton framework must be reformed,and also set the stage for a smoother transition to a post-Dayton arrangement.

The real key for getting out of the Dayton trap with minimal disruption lies in robust implementation of the Constitutional Court ruling in the constituent peoples' case. As noted in the discussion of this case earlier in this chapter, the High Representative has now established two Constitutional Commissions to assist him in this respect. It is crucial that they now come up with appropriate reform proposals - and that if they do not, the High Representative be prepared to act anyway to bring the entities' constitutions and laws in line with the Constitutional Court's 2000 ruling.

The International Task Force appointed by the OHR to guide the commissions has proposed certain amendments,demonstrating the types of change which the ruling must entail. In Republika Srpska, removing clauses which define the entity exclusively as a Serb homeland will not be sufficient. Clauses will have to be added which mandate that non-Serbs "are fairly well represented in the Government as well as in the conduct of public affairs at every level, including in the public administration,the law enforcement agencies and the judiciary".[164] Logically, the very name of the entity may come into question.

In addition,some permanent body for the protection of the "vital interests" of Croats,Bosniaks and "Others" will have to be created in the Republika Srpska. Whether this should involve establishing a body akin to the House of Peoples in the Federation,or turning the temporary Constitutional Commission into a permanent body, is open to debate. In both entities, the concept of "vital interest" should be better defined in any new constitutional changes, as discussed above.

Much legislation will require revision in both entities. In Republika Srpska, this would include laws mandating that there be a certain percentage of non-Serb ministers. In short, the international community must make it clear to Bosnia's Serb politicians that their entity will no longer be tolerated as a territory outside Bosnia, which privileges Serbs and systematically discriminates against other groups.

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163 See ICG Balkans Report No. 106, *Turning Strife to Advantage:A Blueprint to Integrate the Croats in Bosnia and Herzegovina*, 20 March 2001 for further discussion on how to reform border and customs control.
164 International Task Force,Constitutional Court Decision Implementation,Guidance and Options,6 March 2001.

Tackling the institutionalised discrimination in the Republika Srpska will be a crucial element in building confidence inside the Croat community that it has a promising future in Bosnia. In this context, the implementation of the Constitutional Court decision is of central importance to helping the country's transition into a post-Dayton arrangement. Given the inevitability of an eventual revision of Dayton, Bosnia's Serbs must realise that their entity can only survive over the long term if it changes radically.

In tandem with driving through changes to the entity constitutions, the international community should ensure that the administrative capacity of the state government is expanded so the state can play a coordinating role between the entities on economic policy, law enforcement, refugee return and other issues. These competencies were foreseen by the Dayton agreement but never developed in practice. With the change in the composition of the central government, such capacity-building is now possible. The same holds for the creation of a single economic space. Apart from strengthening integrative dynamics, this is absolutely essential for economic sustainability.

With the Alliance for Change running the state and Federation governments, Bosnia has for the first time a group of leaders actually interested in making the system work. It is not unrealistic to hope that when Dayton has been honestly and comprehensively tried, with effective international support, an indisputable case for structural reform will be able to be made to, and by, the international community and local leaders. Whatever final constitutional settlement emerges, it will require the consensus of Bosnia's major ethnic groups. So long as disintegrationist parties such as the SDS and HDZ are able to dominate the political representation of Serb and Croat "interests", a dialogue on post-Dayton structures cannot begin in earnest. The international community can play a major role in shaping the conditions for lasting peace in Bosnia, as elsewhere in the Balkans, not least here by systematically undermining the power and authority of the extremist nationalists, but ultimately the future of the country lies in the hands of its own people.

Conclusions and recommendations on Bosnia

❑ *The international community must use more vigorously the enforcement mechanisms granted by the Dayton Peace Agreement to strengthen Bosnia's central institutions while reducing bureaucratic layers and eroding the power base of factions that oppose the development of a functioning, democratic state and the reintegration of Bosnia's ethnic communities.*

❑ *The integrative aspects of the Dayton Peace Agreement must be vigorously implemented, particularly refugee return and the strengthening of central institutions, while applying the same standard to all parties, based on their concrete performance.*

❑ *The implementation of a single, unified, multi-ethnic customs agency under central government control, and the final abolition of the system of dual financing within the Federation, are urgent priorities.*

❑ *Working within the current framework, the OHR and Bosnia's elected governments - controlled, for the first time, by anti-nationalist parties - can begin the structural adjustments that will both highlight the points where the Dayton framework must be reformed, and also set the stage for a smoother transition to a post-Dayton arrangement.*

❑ *While building Bosnia's central institutions, the High Representative must use his authority to eliminate political party control over pension funds, publicly-owned enterprises, the judiciary, the civil service and police; trace the funding mechanisms and patronage networks of political parties; and enable the local judiciary to prosecute corrupt officials.*

❑ *The OSCE, OHR, UN and all other international agencies in Bosnia, under the direction of OHR, must develop a detailed plan for pushing the full implementation of the Constitutional Court decision on the constituent peoples of Bosnia. In particular, the OSCE should investigate voting rules and governing structures which violate the decision.*

❑ *The logical end-point for reform of the Dayton structure would be a strengthened central government, replacement structures for the cantons (resembling the pre-war "okruzi") with reduced fiscal and administrative powers), and municipalities with enhanced powers. The constitution and laws would provide strong protection of individual rights while acknowledging people's need for ethnic security without, however, reflecting the supposition, as Dayton does, that ethnic groups have objectively competing and mutually exclusive interests.*

❑ *The international community must hold the Republika Srpska and the FRY or Serbian authorities accountable for implementing Dayton and the international community must put pressure on both the Republika Srpska and FRY governments to sever the military links between Republika Srpska and Belgrade.*

❑ *The High Representative should appoint a special auditor for Republika Srpska, equipped with an expert staff, to uncover money flows that continue to support nationalist parties.*

❑ *The international community must address the systematic social and economic factors which continue to discourage refugee returns, including lack of access to educational opportunities and employment, administrative discrimination against returnees and unequal access to the privatisation process.*

❑ *International donors should increase assistance to Bosnia for housing reconstruction and sustainability initiatives linked to refugee returns.*

❑ *Bosnia's militaries should continue the process of significant force reductions, and disbanding paramilitary organisations should be seen as an integral confidence building measure within this process. The international community must address the security threat of about 15,000 special police troops under the entity Ministries of Interior.*

❑ *The IPTF must redouble its efforts to support the establishment of a professional police force, and SFOR must live up to its obligations to support the wider humanitarian and institution building objectives of Dayton, including the provision of maximum protection to returnees and the apprehension of war criminals.*

8. CROATIA

Croatia continues to make impressive strides in distancing itself from its nationalist past. Its restraint in dealing with Bosnian Croat hard-liners and continued willingness to move toward international standards are welcome. However, Croatia still has to tackle difficult issues of economic reform and make further progress with regard to the return of refugees.

A.   Introduction

Since parliamentary and presidential elections in Croatia in early 2000, Croatia has taken major strides in strengthening democracy and the rule of law. It has also played an increasingly constructive role in the region. This progress has been warmly received by the international community, as reflected in the country's admission to NATO's Partnership for Peace program, the ending of the Council of Europe's monitoring regime and the November 2000 initiation of negotiations for a Stability and Association Agreement with the European Union.[165]

The government's condemnation of the Bosnian Croat leadership's withdrawal from the Dayton Agreement structures, on 3 March 2001, reconfirmed Zagreb's rejection of the late President Franjo Tudjman's foreign policy legacy. Domestically, however, the Tudjman legacy continues to weigh heavily on refugee and displaced Croatian Serbs who want to return to their pre-war homes, and on the application of law to potential war criminals. In effect, a perceptible gap has opened up between Croatia's progressive regional role and its relatively unimproved treatment of its Serb minority. This reservation notwithstanding, Croatia's hopes for integration into European structures have been a major spur to efforts to build democracy and a law-governed state. Largely internally stable and with settled borders, Croatia is now better placed than ever to move forward in realising its ambition.

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165 Strategy Paper, Regular Reports from the Commission on Progress toward Accession by each of the Candidate Countries, European Commission,8 November 2000.

Table 15. Croatia at a glance

GNP per capita*:$4,520
Population:4.5 million
Elections: Parliamentary (lower chamber) and presidential elections held in January and February 2000. Elections to the House of Counties (upper chamber of parliament) scheduled for June 2001. Elections to House of Representatives (lower chamber of parliament) due in 2004.
President:Stjepan (Stipe) Mesic
Prime Minister:Ivica Racan

• World Bank Atlas methodology.
Source:The World Bank;Economist Intelligence Unit (EIU)

B.   Security

With the end of war on its soil and in neighbouring Bosnia in 1995, and with the peaceful reintegration of the Danube Region in Eastern Slavonia at the beginning of 1998, Croatia's territorial issues (with the minor exception of Prevlaka, on the border with Montenegro) were laid to rest. The resolution of the country's major outstanding security issues was crucial in enabling Croatia to move beyond an agenda driven by wartime nationalism and to focus on more normal peacetime priorities such as the economy, social welfare and good governance. As regards internal security, tension between ethnic Serb and Croat inhabitants (including Croat refugees from Bosnia) in the formerly Serb-controlled areas of the country has been a continuing concern, including serious intimidation and violent attacks against ethnic Serbs and their property in those areas. Nevertheless, the termination in October 2000 of the Police Monitoring Group as a separate component of the OSCE Mission in Croatia recognised the overall improvement in the security situation in that still troubled region.

Another internal security issue which has concerned the government that took office following parliamentary elections in January 2000, relates to the activities of far-right groups, particularly in opposition to cooperation with the International War Crimes Tribunal (ICTY) in The Hague and to moves against Croat war crimes suspects by domestic courts. The most serious incident was the murder, in August 2000, of an ethnic Croat who had cooperated with the ICTY over alleged war crimes against Serbs. The authorities have periodically been troubled by right-wing demonstrations in support of Croat war crimes suspects. Most seriously, February 2001 witnessed mass demonstrations and road blockages in various parts of the

country in support of General Mirko Norac, who was under investigation by domestic courts for his alleged part in the wartime murder of Serb civilians.[166] The government has at times wavered in its support for the ICTY, burdened by divisions within the ruling coalition and fearful of public opinion.[167] President Stjepan Mesic, by contrast, has been consistently clear and unambiguous in insisting that Croatia must not be a safe place for any war criminal.

At the end of September 2000, a group of twelve generals joined the Croatian Democratic Union (HDZ) leadership in writing controversial letters that accused the authorities of undermining the legitimacy of the Homeland War (as the recent war in Croatia is known) and appeared to call for their removal. However, the shock with which this was greeted in the media quickly dissipated when Mesic retired the seven of the twelve generals who were still serving. The president's actions were greeted with widespread public approval. The episode underscored the extent to which the HDZ has moved to the margins of Croatian political life and demonstrated that democratic change in Croatia may well be more robust than many may have believed.

As regards regional security, the new government has played a significantly more constructive role in the region than its predecessor. Croatian state transfers to the Bosnian Croats have been transparent and above board and relations with Bosnia set on a correct state-to-state footing. The previous government's practice of supporting, if not instigating, the anti-Dayton activities of the Bosnian HDZ has ended. The governing coalition also appears ready to abolish or drastically curtail the controversial "diaspora" voting rights and members of parliament, which have been a cause of aggravation between Zagreb and Sarajevo.[168]

The Croatian authorities took early steps to explore ways of setting relations with the Federal Republic of Yugoslavia (FRY) on a normal footing following the defeat of Milosevic. As Croatia's participation in the Stability Pact has shown, it is ready to play a constructive role in international efforts to bring stability to the region. Croatia's active support for arms-control and demining projects within the Stability Pact is particularly commendable, and deserves international support.

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166 *Globus,* 9 February 2001; Republika, 11 February 2001.
167 In Croatia as in Serbia, however, public opinion appears less squeamish about cooperating with ICTY than politicians suppose. A recent poll in Croatia for the International Republican Institute found 70 per cent of respondents favouring cooperation with the Tribunal, including 59 per cent support even among war veterans. *Jutarnji list,* 21 February 2001.
168 See, e.g. interview with Deputy Speaker Mato Arlovic in *Jutarnji list*, 13 March 2001. In practice, the "diaspora" voting mechanism served to enfranchise Bosnian Croats with dual citizenship who have never resided in Croatia.

C.   Governance

The government that took over in Croatia following elections in January 2000 faced an array of tasks arising out of the legacy of the former government of the HDZ. Under HDZ rule the development of democracy had been severely stunted. Dissatisfaction with the failure of Croatia's former government to fulfil its international obligations - in areas such as refugee returns, minority rights, the implementation of the Dayton Agreement for Bosnia, freedom of the media and cooperation with the ICTY - led to sustained Western pressure and international isolation. Nevertheless, the key factors that drove political change in Croatia in 2000 were more domestic than international.

Table 16. Main Political Parties in Croatia

Political Party	Political Alignment
Social Democratic Party (SDP)	Party of Prime Minister Ivaca Racan. The successor of the former communists, the SDP is centre-left leaning and is the largest party in the six-party governing coalition, formed on 27 January 2000.
Croatian Social Liberal Party (HSLS)	A centre-right party with moderate nationalist profile led by Drazen Budisa. The HSLS, alongside the SDP, forms the core of the governing coalition.
Croatian People's Party (HNS)	Formerly the party of President Stipe Mesic, until his election as president. A centrist party whose support increased after Mesic was elected in February 2000, the HNS is a member of the governing coalition and is led by Vesnia Pusic.
Istrian Democratic Council (IDS)	Regional party dominant in Istria led by Ivan Jakovcic. Member of the governing coalition.
Croat Peasants' Party (HSS)	A successor of the dominant pre-1945 party, led by Zlatko Tomcic. The HSS is a moderate, conservative party within the governing coalition.
Liberal Party (LS)	A centrist off-shoot from the HSLS, led by Zlatko Kramaric. Member of the governing coalition.
Croatian Democratic Union (HDZ)	Right-wing, nationalist party founded by late President Franjo Tudjman, and now led by Ivo Sanader, following Tudjman's death in December 2001. Since 2000 the party's support has declined considerably. A sister-party to the HDZ in Bosnia.
Croatian Party of Right (HSP)	Extreme right-wing nationalist party led by Anto Djapic.

The HDZ, led by the late president, Franjo Tudjman, came to power in 1990 on a wave of nationalist sentiment fuelled in large part by fear of the aggressive regime of Slobodan Milosevic in Serbia. Over the next five years, the HDZ was legitimised in the eyes of many Croats by its record of confronting Milosevic's aggression, securing the country's independence and restoring its territorial integrity. However, during peacetime, the HDZ quickly saw its popularity begin to wane. In successive elections since November 1995, opposition parties, notably the former communist Social Democratic Party (SDP) of current Prime Minister Ivaca Racan, won an increasing share of the vote. His success can be explained by a number of factors:

❑ Alone among the opposition leaders, Racan positioned his party with a platform that gave priority to issues such as prosperity and social welfare - a program increasingly in tune with the popular mood.

❑ Numerous scandals involving corruption, non-transparency and abuses of the intelligence services marred the HDZ administration. Collectively, this fed the impression of a political, economic and criminal elite, prepared to resort to all manner of undemocratic measures to hold on to power while the majority of the population languished in poverty. The high incidence of such scandals in the late 1990s provided fertile material for independent media that, although under pressure from the authorities, remained unbowed.

❑ Croatia's international isolation was deeply resented among a population that views its rightful and historical place as being in Europe's mainstream. As the HDZ's unpopularity grew, the government was increasingly blamed for strained relations with the international community.

❑ In 1998 Racan reached agreement with Drazen Budisa, the leader of the centre-right Croatian Social Liberal Party (HSLS). These two parties formed the nucleus of a group of six opposition parties ("the Six") which opposed the HDZ in the parliamentary elections in January 2000. While relations within this coalition were frequently troubled, a united front was key in capitalising on the widespread dissatisfaction with the HDZ.

The impact on the election result of President Tudjman's death in December 1999 is hard to estimate. It certainly exacerbated divisions within the HDZ and hastened the party's disintegration, although the popularity of the HDZ and of Tudjman had already considerably diminished. Tudjman's death also

put to rest fears that, following an opposition electoral victory, the Six's take-over of power might be resisted. The election of a president, Mesic, from among the opposition coalition, signalled a complete break with the HDZ era.

Since the elections of January and February 2000, the political climate in Croatia has improved notably. This can be seen in regard to the media and in the performance of the state-owned broadcaster, Croatian Radio-Television (HRT). HRT's political coverage during the presidential election campaign and subsequently has become generally more balanced. The government, in consultation with independent domestic and international experts, including from the Council of Europe, drew up a new Law on HRT, designed to cement the state broadcaster's freedom from political interference. After months of sharp controversy inside and outside Parliament, a new law was adopted in February 2001. While the new law does widen the gap between HRT and elected politicians, it leaves ample scope for a determined government to influence senior personnel appointments and hence editorial output.

Harassment of independent media journalists, through court cases, police surveillance and occasional questioning has ended. Legal provisions allowing for special, urgent court proceedings in defamation cases against journalists have been abolished, as have requirements that criminal action be taken against anyone deemed to have defamed certain top state officials.

Following Tudjman's authoritarian leadership, an important plank of the Six's election campaign was to alter the Constitution to shift the balance of power away from the presidency and toward the government and parliament. Deliberations over the constitutional changes proved highly controversial, with bitter sniping between President Mesic and senior members of the government. Nevertheless, the government, in November 2000, achieved the necessary two-thirds majority for changes that will reduce the power of the president, strengthen regional government and enhance the voting strength of minorities. A second round of constitutional amendments at the end of March abolished the upper chamber of Parliament (the House of Counties), devolving some its powers to the counties themselves. Along with a package of laws to strengthen local authorities, this measure should accelerate meaningful decentralisation.

One cause of controversy has been over responsibility for oversight of the intelligence services. Under Tudjman, these were persistently manipulated and abused to serve the ends of the ruling party or individuals within it. The importance attached to control of the security apparatus is perhaps indicative

of the fragile state of Croatia's democratic development and fears of a return to more autocratic ways. Nevertheless, since the new government took office, the judicial authorities have moved fairly rapidly against a number of former high officials in the intelligence services, and the clear impression is of authorities intent on bringing the security services under democratic control. Changes are also being applied to the Ministry of Interior, and, following a Constitutional Court judgement, parliament has introduced oversight by a parliamentary committee over the minister's discretion to order wiretapping or surveillance.

Croatia still needs to make progress in addressing the poor functioning of the court system. A long-standing shortage of judges has led to a huge backlog of court cases, officially estimated at around one million. The large backlog has had a deleterious effect in a number of areas, including the economy, as the extended delays have held up the resolution of commercial disputes.

While the outside world has generally viewed Croatia as making important strides since the recent elections, the perspective in Croatia's media has often been more jaundiced. A series of episodes since the new government took office have, as reported in the media, given the impression of instability in the government and of a risk of a right-wing coup engineered by far-right parties, remnants of the HDZ, army generals and war veterans groups. Many of the stories have been grossly exaggerated by the press, but they have succeeded in maintaining an atmosphere of ongoing crisis with concerns that recent gains might be rolled back by a resurgent political right, working with its allies in the security and intelligence services.

While such speculation is sensationalist, the governing coalition has suffered its share of internal tensions. "The Six" has always been somewhat unwieldy, and while it was assembled for the urgent purpose of fighting the HDZ, it includes parties with divergent political views and clashing personalities. The SDP and the HSLS, standing together with a joint list, won the highest share of the vote in the January 2000 parliamentary elections, and have divided up the majority of ministries between themselves. A perception that ministries belong to particular political parties has undermined any sense of collective government responsibility and created a counter-productive impression of jealousy and lack of coordination between ministries.

A particular cause of tension in the ruling coalition has been the issue of war crimes prosecution and cooperation with the ICTY. The HSLS has in general adopted a more nationalist stance than the SDP, and was particularly sensitive to reports that the ICTY might move against a number of senior Croatian

military officials, including army chief of staff General Petar Stipetic and retired General Mirko Norac. As a result, the government drew up a list of conditions for further cooperation with the ICTY. Norac defied a judicial summons related to crimes against Croatian Serb civilians in 1991. A massive demonstration of support for Norac in the coastal city of Split was seen as the gravest challenge that the government had faced. For a period at the end of 2000 and the beginning of 2001 it appeared that Racan might be forced to choose between abandoning cooperation with the ICTY, with highly negative consequences for Croatia's international position, or risking the fall of his government. However, in the event a visit by the ICTY chief prosecutor, Carla Del Ponte, in mid January 2001 signalled an end to pressure on Stipetic, the Racan government and Croatia for the time being.[169] Norac soon afterwards turned himself in, and faces trial along with four others (the so-called "Gospic group") in a Croatian court for war crimes against Serb civilians in 1991. Also, a modality was agreed for Stipetic to provide testimony to the ICTY as a suspect in connection with three military operations in 1993 and 1995.

There have also been problems with the four smaller parties within the coalition. The Croatian People's Party (HNS), following the victory of its candidate, Stjepan (Stipe) Mesic, in the presidential election, has seen its popularity rise, most notably in Zagreb municipal elections. Apparently with its eye on the next election rather than the success of the present government, it has frequently operated like an internal opposition within the government. When a bank close to one of the other members of "the Six" - the regional Istrian Democratic Council (IDS) - got into difficulties, largely due to its over-exposure to the IDS-controlled city of Pula, the party threatened a government crisis unless the government caved in to demands (against the sound advice of the central bank) to bail out the owners.

As a result of these divisions within the ruling coalition, the SDP frequently perceives itself as taking sole responsibility for the business of government, while the other parties busy themselves with striking postures designed to enhance their future electoral prospects. Adding to Racan's problems, especially in the early period of the new government, was a widely reported controversy between himself and Mesic over the scope of the president's powers. In addition, the president and his team of advisers have been accused of forming a "government in waiting", proposing alternative policies in areas such as the economy that the government considers its proper domain.

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169 *Reuters*, 12 January and 15 January 2001.

Seeing their place as firmly within Europe's mainstream, Croats tend to be sensitive toward any suggestion that their country might be consigned to the Balkan (even the "western Balkan") region. This sensitivity explains Croatia's wary response to regionally directed international initiatives. Nevertheless, Croatia has participated actively and constructively in the Stability Pact for South Eastern Europe. The participation of Slovenia and Hungary in this initiative - countries that are more advanced than Croatia along the path to European integration - has been useful, emphasising that constructive engagement in the region does not mean relegation to the European slow lane.

However, Croatia objects to any notion that regional integration would mean that the Balkan countries would approach integration at the European level as a bloc. Any suggestion that Croatia's progress toward EU integration could be slowed to the rate of the less developed Balkan states would be terribly demoralising to Croats, and might result in less constructive engagement by Croatia in the region.

This sensitivity over regional integration explains the strongly negative response in Croatia to a paper written by the United Nations (UN) Secretary General's special envoy for South East Europe, Carl Bildt, which recommended an integrated international approach to solving the problems of the western Balkans. Publicity surrounding Bildt's paper coincided with an article in the Financial Times which stated that the European Union (EU) "intends that the countries of the former Yugoslavia, excluding Slovenia, should prepare for eventual succession - and that, unusually, they should do so as a group."[170] Following the strong reactions in Croatia to Bildt's paper, EU representatives stressed the EU policy that relations with countries in the region would be pursued individually, and that each, including Croatia, would be treated on its own merits.[171]

D.   Human Rights

HDZ rule left an unsatisfactory legacy in the realm of human rights, minority protection and the return of refugees. Some positive legislative steps have been taken under the new government, but much remains to be done, particularly on matters concerning returning Serb refugees.

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170 "Closer ties with west hinge on relations with neighbours", *Financial Times*, 8 October 2000.
171 Statements by Christina Gallach, spokesperson of the EU foreign policy representative, Javier Solana, and by the head of the European Commission's delegation in Zagreb, Per Vinther, cited in *Slobodna Dalmacija*, 10 October, 2000.

In 1998, the previous government had promised to remedy a number of discriminatory laws that placed citizens of Serb ethnicity at a distinct disadvantage in comparison with their ethnic Croat compatriots. In June 2000, a law amending the 1996 Law on Reconstruction was passed, following extensive consultation with international representatives in Croatia (notably the OSCE Mission). However, the law as later passed contained amendments designed to placate critics who were determined to retain discrimination in favour of Croats. The Minister of Public Works, Reconstruction and Construction was called on to issue instructions on eligibility for reconstruction assistance in accordance with the earlier Law on the Rights of Croatian Homeland War Defenders and their Family Members. The instructions, when issued, ensured that discrimination against ethnic Serbs in this important area will remain. Amendments to a second discriminatory law, the Law on Areas of Special State Concern, have removed discriminatory provisions. The OSCE Mission to Croatia, however, assessed that the amended law will have a "negative effect on the return of property". The Mission has rightly concluded that the government "must adopt a uniform and comprehensive legal regime governing the repossession of property in accordance with international standards".[172]

A third law identified in 1998 as discriminatory, the Law on the Status of Expelled Persons and Refugees, was amended by the previous government in November 1999. The amendments eliminated discrimination in favour of one category of displaced persons, "expellees" ("prognanici", almost always Croats), at the expense of other displaced persons ("raseljene osobe", almost always Serbs). However, the practical discriminatory effects of the law remained, as people retained the status and benefits that they had received under the original law, to the advantage of some (mostly Croats) and the disadvantage of others (mostly Serbs).

The new government quickly made positive statements and adopted measures which improved the climate for return, including a proposal to hasten the return of 16,500 Serbs who had applied to return, for which Stability Pact funding was sought. However, as discussed, returning Serbs still face discrimination over the provision of reconstruction assistance. Difficulties over the repossession of property also remain a serious obstacle to sustainable return. As of 1 February 2001, government figures showed that around 78,400 ethnic Serbs had returned to their homes in Croatia, of whom almost 56,000 had returned from the FRY and Bosnia, the rest being

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172 *Report of the OSCE Mission to the Republic of Croatia on Croatia's Progress in meeting International Commitments since November 2000*, 12 March 2001.

internally displaced Serbs returning from the Danube Region to other parts of Croatia.[173] However, OSCE monitoring in the field suggests that significant numbers of these Serb returnees do not stay permanently. Reasons for this include difficulties in repossessing property and securing reconstruction assistance.

The government's Return Program - adopted in June 1998 after extensive consultations with OSCE, UNHCR and Western embassies - has proved largely ineffective. Lacking legal status, it represented only a political commitment on the part of the government, which, in HDZ times amounted to little more than empty rhetoric. Numbers of organised returns under the program have been small, and given its lack of legal force, the complex bureaucratic procedures it established for property returns have proved wholly inadequate in the face of laws under which property has been allocated to others (often Bosnian Croats). Most sustainable returns that have occurred have involved relatively easy cases of family reunification or returns to vacant properties.

The new government has thus far failed to end obstruction of return at the local level, and the Housing Commissions set up under the program have been ineffective in most areas. Lack of alternative accommodation for temporary occupants of properties owned by returning Serbs also remains a real problem. The authorities have failed to act against the high incidence of multiple occupancy of properties by temporary ethnic Croat occupants. In August 2000 the OSCE Mission presented the government with a list of 88 clear-cut cases that could easily be resolved given the will. As of February 2001, few of these cases were reported to have been resolved.

Another thorny issue concerning discrimination against returning Serbs is that of occupancy or tenancy rights to so-called socially owned property. This was the main type of property right in urban areas under communism. During the war, the process by which occupancy rights were converted into private property discriminated against Serb refugees, and this discrimination was reinforced by a decree by the previous government in November 1999, which preserved the occupancy rights of people who had fled the Danube Region (mainly Croats). Meanwhile, such rights continue to be rejected outside that region, largely to the detriment of ethnic Serbs whose former flats have been allocated to others. Non-governmental organisations estimate that some 50,000 to 60,000 households lost their rights through

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173 Information from the Ministry of Public Works, Reconstruction and Construction, Department for Expellees, Returnees and Refugees, 1 February 2001. According to the UNHCR, in 2000 there were around 300,000 Croatian Serb refugees in the FRY and some 30,000 - 40,000 in Bosnia.

discriminatory laws and practices.[174] The international community rightly continues to insist that the government is obliged to resolve the issue of occupancy rights.

Another factor inhibiting return has been the inconsistent implementation of the 1996 amnesty law, which grants reprieve to those who participated in armed uprising against the state,but not for war crimes. This inconsistency, combined with serious doubts about the fairness and impartiality of war crimes trials under HDZ rule, discouraged Serbs from returning. The new government established a working group to consider issues connected with the amnesty law, and senior officials, as well as the Supreme Court, have rejected any notion of collective guilt. However, the OSCE Mission has noted that the Government's working group did not address such difficult amnesty-related issues as cases of war crimes charges following an earlier granting of amnesty. In addition,some ethnic Serbs were convicted for war crimes in a highly politicised environment under HDZ rule,and remain behind bars.

In September 2000 the Minister of Justice revealed that between 1991 and 1999, 554 persons were convicted for war crimes, the majority in absentia. All but two of them were ethnic Serbs. However, in 2000,in the face of fierce right-wing political opposition, investigations have begun into alleged war crimes committed by Croats against ethnic Serbs. The new government has also increased Croatia's cooperation with the ICTY.   In April 2000, the parliament adopted a declaration affirming Croatia's cooperation and acknowledging the ICTY's jurisdiction over the military operations against Serb-controlled territories in 1995. ICTY forensic experts have been given access to exhumation sites, and there have been arrests of individuals suspected of war crimes in Bosnia. In certain respects, such as the handing over of sensitive documents to the ICTY, Croatia's cooperation,while much improved, has been incomplete.   Nevertheless, despite the domestic sensitivity of the issue,described above,Croatia stands out as much the most cooperative of the countries covered by the ICTY.

E.   Economy

The greatest domestic challenge facing the Racan government is the sickly state of the Croatian economy. There is a widespread public perception of an economy in a dire state and a government that has failed to act decisively to improve matters. Rising unemployment has been a key factor feeding the

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174 *Report of the OSCE Mission to the Republic of Croatia on Croatia's Progress in meeting international commitments since November 2000,* 12 March 2001.

perception of significant hardship. Official unemployment has risen from 240,601 in 1995, to 287,762 in 1998 to 321,866 in December 1999 to 378,544 in December 2000. In December 2000, the rate of unemployed persons as a proportion of the total active population was 22.6 per cent, up from 20.8 per cent in December 1999.[175]

Unemployment would be even more severe were it not for the fact that high numbers of people took early retirement during the 1990s. Pensioners currently form an unusually high proportion of the population and, while the average earnings of those in employment have increased over recent years, pensioners have been left behind.[176] These pensioners also represent an important electoral constituency that the government can ill afford to ignore.

Despite the perception of severe hardship, Croatia's economic development is relatively advanced by the standards of South Eastern Europe. In 1998, GDP per capita stood at $4,833. Real GDP, after a sharp contraction early in the 1990s, picked up between 1994 and 1997, with annual growth rates of around 6-7 per cent. However, recently Croatia's economic performance has faltered, with growth falling to 2.5 per cent in 1998 and a contraction of 0.3 per cent in 1999. An improvement is forecast for 2000, and data for the first two quarters of the year show growth of 4 per cent and 3.7 per cent respectively in comparison with the same periods in 1999.[177]

Successive governments have made price and exchange rate stability a priority. Retail price inflation was 3.5 per cent in 1996 and 3.6 per cent in 1997, and jumped to 5.7 per cent in 1998, mainly due to the introduction of a value-added tax, before falling off to 4.2 per cent in 1999. In 2000 inflation rose sharply, and in November 2000 the year-on-year inflation rate was 6.0 per cent.[178] This increase has been due to a combination of factors, including rising oil prices and administered prices (notably for electricity).

The slight but steady increase in prices over recent years, combined with a relatively stable exchange rate against the German Mark/Euro (Croatia's trade is heavily weighted toward the Euro zone), has led many to conclude that the kuna is over-valued. Among the loudest complainers have been exporters. Indeed, exports were, in dollar terms, stagnant at around $4.3-$4.6 billion

175 Unemployment data from the State Statistical Office's *Monthly Statistical Report*, no. 11,2000 and *Reuters*, 26 January 2001.The unemployment rate according to the Labour Force Survey (according to the International Labour Organisation's definition),also shows a steep increase in recent years,up from 11.6 per cent in the second half of 1998 to 15.1 per cent in the first half of 2000.
176 According to the Croatian National Bank Bulletin of September 2000,average net wages were increasing at an annual rate of 8.9 per cent in June 2000,having risen by 14 per cent in 1999.
177 Data on GDP from the Croatian National Bank Bulletin December 2000 and the State Statistical Office's *Monthly Statistical Report*, no. 11,2000. Data for 1998 and 1999 are preliminary.
178 Data on prices and exchange rates from the Croatian National Bank Bulletin December 2000.

between 1994 and 1999, and, preliminary data for the first nine months of 2000, showing exports of $3.4 billion, do not suggest that there was a significant improvement in 2000. The current account deficit reached 11.6 per cent of GDP in 1997, and has dropped off since (it stood at 7.3 per cent of GDP in 1999) partly due to the economic slowdown in 1998 and 1999, which resulted in lower imports. Croatia's current account deficit has in part been financed by a ballooning external debt, which rose from 24.2 per cent of GDP in 1996 to 48.4 per cent at the end of 1999.[179]

Croatia's external position appears to have improved in 2000, and preliminary data for the first nine months suggest a significant drop in the current account deficit. A variety of factors have contributed to this, notably a sharp increase in receipts from tourism. Tourism is a key sector for Croatia, with its long Adriatic coastline. While numbers of tourist nights had picked up since the end of the war (from 12.9 million in 1995 to 31.3 million in 1998), they were still well below pre-war levels (61.9 million in 1989). The 1999 season proved a bitter disappointment (26.6 million tourist nights) owing to the Kosovo crisis. Thus the pick-up in 2000 was greeted with great relief, with numbers of tourist nights in the first nine months of the year up some 45 per cent on the same period in 1999.[180]

A public debate on exchange rate policy was sparked by the contention of the president's economics adviser, Stjepan Zdunic, that the kuna should be devalued. The central bank, supported by the IMF, has been adamant that it will stick to its stable kuna policy, fearing that its abandonment would merely spark inflation, and the president himself has more recently said that he does not favour devaluation.[181]   However, the interventions of the presidential office in this sphere may have served to foment doubt as to whether the government and central bank will indeed maintain the value of the kuna.

There has been, since the new government came to power, a loosening of monetary policy, with bank reserve requirements and interest rates coming down. In addition, and of key importance, the government has striven to reduce its domestic debt, injecting liquidity into the economy and alleviating a severe payments crisis which had constrained economic activity toward the end of HDZ rule. Fiscal policy has been more confused, in large part due to a lack of coordination among parties in the ruling coalition (the finance

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179 Balance of payments and external debt data from the Croatian National Bank Bulletin of December 2000.
180 Tourism data from the State Statistical Office's *Monthly Statistical Report*, no. 11,2000 and from the *Statistical Year Book* for 1999.
181 *Jutarnji list*, 13 October, 2000.

minister is from the SDP and the minister for the economy from the HSLS). Divisions came into the open at an economic summit in August 2000, at which ministers from the HNS and the IDS, as well as Zdunic, criticised Finance Minister Mato Crkvenac for not doing more to stimulate growth.

Problems with fiscal policy were a key reason for delays in reaching a standby agreement with the IMF in late 2000, which was finally concluded in December, after the government adopted a tighter 2001 budget.[182] As of September 2000, the budget deficit stood at $428 million.[183] A major reason for Croatia's fiscal problems is the weakness of the two main off-budgetary funds, for health and pensions, both of which have had to be supported by transfers from the central budget, and both of which are in urgent need of reform. The need for the government to tighten fiscal policy, as required by the IMF, may well bring the government under further strain, as trade unions, the opposition, some coalition parties and the broader electorate will demand more action to alleviate hardship.

A further problem with government finances is that considerable reliance is placed on privatisation receipts. The delay of the second phase of the privatisation of the state telecommunications company in 2000 necessitated further borrowing, and the 2001 budget too envisages a significant contribution from privatisation receipts. Privatisation in Croatia, as in a number of other countries in transition, is contentious due to the perception that earlier phases of privatisation resulted in people close to the government, and sometimes with the help of compliant banks, picking up assets and growing rich in the process. The government is receiving international advice on the privatisation of certain high profile state-owned companies, but a bigger problem lies in the fact that a large number of enterprises, many of them defunct, remain on the books of the government's privatisation fund. This is an issue that the government is committed to resolving, but it is sensitive given the unemployment that inevitably results. Here too, the painful measures that the government has to adopt threaten to strain its support and its unity.

In order to promote sustainable recovery, more fundamental changes are required than have so far been implemented. A priority is to promote investment. An investment law has been introduced, providing for incentives such as tax breaks to foreign investors. Foreign direct investment (FDI) in Croatia has through most of the 1990s been low in comparison with more

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182 *Reuters*, 20 December 2000.
183 Information from the Ministry of Finance.

favoured countries in transition to the north. This is part reflected the
perception of Croatia as a country of high risk in a war-torn region. Indeed,
FDI has picked up somewhat in recent years, from $115 million in 1995 to
$898 million 1998 and $1.4 billion in 1999.[184] Nevertheless,Croatia needs to
attract much higher levels of investment,and simply providing incentives is
not sufficient if deeper problems are not addressed. At present,the business
environment is fundamentally unfavourable. Excessive red tape,corruption,
the poor functioning of the courts and widespread confusion over property
rights combine to deter would-be investors and banks from granting loans.

So far the government has been slow in addressing such fundamental
problems. What is perhaps more worrying is that it has failed to present a
clear message as to how it will help deliver the greater prosperity that the
electorate demands. Instead, different parties and ministries have often
seemed to be pursuing their own agendas without any over-arching strategy,
often appearing more interested in gaining political advantage for individual
parties rather than actually developing a successful government policy. Thus
the recent IMF deal may not only be helpful in boosting outside confidence
in the government, but in forcing all of the parties in the government to
commit themselves to a single,coherent policy.

For Croatia,as for several other countries in the region,the Stability Pact has
so far been a great disappointment. Political changes in Serbia offer an
opportunity for the promise of the Stability Pact to be fulfilled for Croatia too.
Efforts to improve communications and promote economic links around the
region will be of great economic benefit to Croatia, as well as helping to
normalise relations with former enemies. As a stable, relatively advanced
country, Croatia could be a natural base for international companies doing
business in the region. However, if Croatia's full economic potential is to be
realised, technical help and advice will be needed to turn Croatia into an
attractive destination for foreign investment, especially by making the legal
environment more conducive. Every effort should be made to increase the
speed and effectiveness of programs being implemented through the Stability
Pact.

Announcements of significant international assistance for the new
democratic government in Belgrade following Milosevic's defeat triggered
consternation in Croatia and charges of a double standard by the
international community. Where Croatia endured years of international
isolation on account of its failure to meet international obligations in areas

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184 Croatian National Bank Bulletin December 2000.

such as democratisation and cooperation with the ICTY, Serbia appeared to be receiving immediate rewards despite not fulfilling those same conditions. Croats also argue that in contrast to the significant assistance being offered to Serbia, international aid to Croatia has been sparse. While some Croatian commentators have noted that the changes taking place in Serbia are ultimately in Croatia's best interests, it is indeed reasonable to ask if Serbia will be held accountable for its deeds. Further, to avoid creating a backlash, Croatia must continue to see tangible returns for the progress that it makes in meeting its international commitments.

Conclusions and recommendations on Croatia

❏ *International pressure on Croatia should be maintained in relation to its promises on refugee returns, property rights and equal access to reconstruction assistance. At the same time, international assistance should focus on helping to create conditions for sustainable return to the war-affected areas.*

❏ *OSCE monitoring of the reintegration of war-affected areas should be continued.*

❏ *The international rush to embrace the new authorities in Belgrade has created concerns in Zagreb that Croatia has been held to far higher standards - in terms of democratisation, and cooperation with the ICTY - than Belgrade. The international community should indeed demand accountability from Serbia while showing Croatia tangible return, such as assistance through Stability Pact programs, for its continued cooperation.*

9. MACEDONIA

Recent violence has made clear the need not only to contain conflict in the short-term but to bring greater energy to the underlying political task of improving civil rights and relations between the country's Macedonian-speaking and Albanian-speaking communities. It has also reinforced the need to speed progress in Kosovo toward self-government and resolution of its final status. Much remains to be done in Macedonia to reduce corruption, remove other impediments to economic growth and improve the quality of governance.

A.   Introduction

In late February 2001, violence flared in villages in northern Macedonia close to the border with Kosovo. In mid-March, the fighting spread to Macedonia's second largest city, Tetovo, and the world was again confronted with another Balkan country that seemed to be lurching toward broader conflict. The ethnic Albanian guerrillas involved in the clashes claimed to be an indigenous movement fighting for their national rights and defending themselves against Macedonian security forces. Lacking a central command structure, the rebels were apparently a cluster of loosely coordinated cells of experienced ethnic Albanian fighters, primarily from Macedonia but with some from Kosovo and elsewhere. Whatever the rebels' intentions, they clearly tapped into the frustrated local demands for basic minority rights:citizenship, ownership,education, language and representative government.

The coalition government in Skopje promptly raised the alarm, blaming Kosovo Albanian elements for exporting rebellion to Macedonia, and calling for the Kosovo Force (KFOR) to seal the border. The international community reacted swiftly and unanimously with support for Macedonia and its elected government, and condemnation of the guerrillas. Several countries offered direct military assistance; Ukraine supplied helicopter gunships,which were promptly sent into action against the rebel positions around Tetovo.

On 21 March 2001,the government gave the guerrillas a 24-hour deadline to lay down arms, or face a full-scale offensive. The rebels initially responded with a unilateral cease-fire that was rejected by the government, and the Macedonian military launched an offensive on 25 March. The following day, the government announced that the rebels had been flushed out of a string of villages above the city, but sporadic fighting continued as of late March 2001. The international community quickly encouraged the government to start a political process that addressed minority grievances. While the government seems to realise that this is inevitable,it also appears tempted to pursue resolute military action - an approach with a high potential for backfiring and creating more civilian deaths and sympathy for the insurgents.

Among the countries that broke away from former Yugoslavia in the early 1990s,Macedonia was unique in that it did so without bloodshed. Internally, Macedonia is also distinguished from other countries in the region by the fact that representatives of both the Macedonian-speaking and Albanian-speaking populations have continued to participate in political life within the framework of the country's established institutions. Nevertheless, the country's course since independence has been fraught with peril,from both within and without. Each of the countries bordering Macedonia has in the past harboured designs on its territory. In the decade since its independence, Macedonia's neighbours have treated it with everything from benign neglect to open hostility. Open territorial claims against Macedonia by its neighbours have been officially put aside, but the violence in early 2001 has again exposed the country's inherent weaknesses. Until two months ago,matters ranging from the country's name to disputes over language and cultural heritage were contentious. Now,the very stability of the state,and long-term prospects for accommodation with Albanians both inside and outside the country, are in question.

Macedonia survived relatively unscathed the massive influx of some 400,000 Kosovo Albanian refugees during the North Atlantic Treaty Organisation's (NATO) 1999 bombing campaign against Yugoslavia. The eventual resolution of Kosovo's status remains of great concern,especially given that any decision regarding independence for Kosovo might be seen by many ethnic Albanians in Macedonia as a precedent regarding their own status.

Macedonia's difficult external and internal relations have exacerbated already trying economic conditions, with hardships intensified by the former international sanctions on neighbouring Serbia - a key trading partner. Further,criminal elements within Macedonia have become more powerful by exploiting smuggling routes into the Federal Republic of Yugoslavia (FRY).

Overall, Macedonia remains fragile, vulnerable to both internal and external turbulence. International support, in terms of both funding and security, has been, and will be, crucial in bolstering the country. The presence of Western military forces, first under the UN banner and later under NATO, have contributed significantly to pre-empting the kinds of widespread conflict that have devastated the region, but which Macedonia has so far narrowly avoided.

Table 17. Macedonia at a Glance

GNP per capita*:$1,290
Population:2.0 million
Elections: Parliamentary elections to be held in 2002, with presidential elections in 2004.
President:Boris Trajkovski
Prime Minister:Ljubco Georgievski

*World Bank Atlas methodology.
Source: *The World Bank; Economist Intelligence Unit (EIU)*

B.   Security

The greatest threat to Macedonia's security turns on the unresolved question of Kosovo's political status and its impact on relations between the Macedonian- and Albanian-speaking communities. Albanians form a compact majority in western areas bordering on Kosovo and Albania, as well as a significant proportion of the population of Skopje. Following the end of the 1999 Kosovo conflict, and given the international commitment to Kosovo, the threat of a spill over of instability from Kosovo into Macedonia was suspended but has resurfaced in February-March 2001 as guerrilla fighting continues along the Kosovo border. Concern about security remains high. The fear among Macedonian-speakers is that eventual independence for Kosovo will lead to pressure for a breakaway of Albanian-speaking areas of Macedonia. The tendency to view Albanians as a factor potentially threatening the territorial integrity of the state has further eroded trust between the country's two largest groups.

Recent fighting reinforces fears that Macedonia could draw the rest of the region into a renewed conflict involving ethnic Albanians, Macedonia and Serbia. In the usual Balkan fashion, various reasons have been offered for the outbreak of violence in March, from the Macedonian army killing an unarmed Albanian potato farmer; the government provoking an incident

to distract from a domestic wire-tapping scandal; a reaction against the recent border demarcation agreement between Macedonia and Serbia that was reached without consulting the Kosovo Albanians; and the desire of the local underworld to keep the borders porous in order to continue a very lucrative cigarette smuggling business.

Warming relations between Macedonia and the FRY certainly contributed to the rising tensions. In late February 2001, a decade after Macedonia became independent, and after fourteen rounds of negotiation, the two countries reached agreement on the demarcation of their joint border. The agreement covers the whole 260 kilometres dividing the two countries, including the so-called "problematic" spots, such as the Prohor Pcinski Monastery and the "Sara Triangle". The village of Prohor Pcinski will remain in Serbia as a cultural and historical monument, although both countries will contribute to maintenance of the cemetery where both Macedonians and Serbs are buried. The Shara Triangle was one of the most problematic areas.

The Secretary General of the Democratic Party of Kosovo (PDK), Jakup Krasniqi, warned that "the Macedonian government was sticking its nose where it should not", and suggested that the joint commission could discuss only the border with Serbia. In response to accusations by the ethnic Albanians that the border demarcation with Kosovo was illegal, Macedonian negotiator Viktor Dimovski responded that the United Nations Security Council Resolution (UNSCR) 1244 clearly defined which authorities were allowed to determine the state border, a dubious claim.

The Border Demarcation Agreement between Macedonia and the Federal Republic of Yugoslavia was ratified by the Macedonian Parliament on 2 March 2001. The Party for Democratic Prosperity (PDP) parliamentary group and the two MPs of the soon to-be-established National Democratic Party (NDP) voted against ratification, claiming that it was "immoral" to negotiate the border between the two countries without the participation of Kosovo political leaders and the United Nations Mission in Kosovo (UNMIK).[185] This resentment at the exclusion of ethnic Albanians from the demarcation negotiations forms part of the background to the Tetovo crisis.

The recent hostilities also have their roots in a series of unresolved bomb attacks against police stations throughout the country early in 2001. The

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[185] UNMIK sources confirmed to ICG that the mission was neither consulted about the border demarcation by the FRY authorities,nor informed of the agreement until after its adoption in Belgrade and Skopje.

22 January 2001 terrorist attack on a police station in Tearce (a village near Tetovo) killed one police officer and wounded three others. This attack consisted of two hand rockets and automatic guns; it followed bombings in Oslomej on 20 January 2001, in Kumanovo on 30 January 2000 and in Tetovo on 8 March 2000. The incidents were initially dismissed as criminal revenge attacks for police raids on smuggling operations and brothels in western Macedonia. A more likely explanation points to elements associated with the Liberation Army of Medvedza, Presevo and Bujanovac (UCPMB), which was formed in January 2000.

The Macedonian government, including Arben Xhaferi, leader of the Albanian party in the coalition government, the Democratic Party of Albanians (DPA), maintained that the attacks were not carried out from organisations abroad but by radical individuals engaged in terrorist activities in southern Serbia.[186] Several of the previously dormant smuggling channels traversing Macedonia and Kosovo that were used by the KLA have been reactivated. The UCPMB separatists in southern Serbia are supplied with munitions from Macedonia, purchased by Albanian supporters in west European countries. There is still no official explanation for the bombings, but many believe the attacks are retaliation for undelivered supplies.

The Macedonian government insists that the present troubles are the result of aggression planned and led from Kosovo, and that the Kosovo invaders enjoy little or no support amongst ordinary Albanians in Macedonia. This claim does not stand up. While a core of guerrillas had fought with the KLA in Kosovo, and may have been born there, many of the fighters around Tetovo were what they claimed to be: from Macedonia. Rather than being part of some grand master plan for ethnic Albanian domination of the region, the movement gains its impetus from continuing concerns over the legal rights of ethnic Albanians in Macedonia.

However, while there is no direct linkage between the terrorist activities in the Tanusevci area and the Presevo valley, they cannot be viewed as unrelated. In both instances, the ethnic Albanians sought international support to further their goals of border changes and to force Serbia and Macedonia to accommodate Albanian demands for greater recognition and acknowledgement of their civil rights and legal status. The guerrillas claim to number about 4,000 supporters in Macedonia, alone. The

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186 *Makedonija Denes*, 31 January 2001, p. 1.

Macedonian government, however, puts the figure in the 300-500 person range. What is clear, however, is that Macedonia is ill equipped to combat terrorist attacks on its own, without significant support from NATO. The international community should actively support a political solution to the current crisis. Unlike in Kosovo, the international community has spoken in one voice, and it should make clear that the government should avoid a large-scale military offensive that is likely to inflict heavy civilian casualties, which, in turn could cause ethnic Albanians in the country to support the guerrillas. Further:

❑ As well as maximising its efforts in Kosovo to control the border with Macedonia, NATO - while recognising the need to maintain primacy for a political rather than military solution for Macedonia's security concerns - should continue its existing training and support programs in Macedonia, and be prepared to consider an active role in support of the Macedonian security forces against further rebel activity if the country's government so requests.

❑ KFOR should be commended for its recent efforts to tighten control of the Kosovo-Macedonia border, and troop-contributing countries who responded to the NATO Secretary General's appeal for more troops should also be commended.

❑ Given that the guerrillas are receiving a degree of logistic and perhaps financial support from inside Kosovo, recent discussion of trimming back the Kosovo Protection Force (KPC) should be discouraged, as this would increase the pool of unemployed former members of the Kosovo Liberation Army (KLA) and heighten the security risks to Macedonia (as well as in Kosovo itself).

❑ The Macedonian government should consider the formation of a national unity coalition government that would include at a minimum the principal opposition parties, the Social Democratic Alliance of Macedonia and the Party for Democratic Prosperity. This unity government would be charged with improving inter-ethnic relations including through government decentralisation, new electoral procedures, and strong anti-corruption measures. All citizens of Macedonia must be regarded and protected as equal before the law.

❑ Efforts should be made to reduce the proliferation of weapons in the region. A staggering quantity of weapons has been hoarded, from Kalashnikovs, hand grenades and machine-guns to mortars and anti-

tank launchers. Although, the climate may not ripe for voluntary compliance, the international community nonetheless must begin developing mechanisms to reduce the proliferation of weapons. Consideration should be given to extending the United Nations' "Weapons in Exchange for Development"project to Macedonia.

❑ The guerrillas fighting in Macedonia are financed from funds collected abroad. The international community must begin a crackdown on illegal funding of guerrilla movements in Macedonia and in the region at large.

❑ Tensions in northern Macedonia - as also in the Albanian-majority districts of southern Serbia - are fuelled by uncertainty over Kosovo's future. This uncertainty should be removed insofar as possible, along the lines discussed in Chapters 5 and 6. The United Nations-led mission in Kosovo should set an early date for Kosovo-wide elections to a provisional assembly, give force to the international promise of substantial self-government, and commence the process that will eventually lead to a final political settlement.

While the threat to Macedonia's stability stemming from Kosovo's uncertain future remains, international concern that conflict in former Yugoslavia might spill over into other countries in the southern Balkans has eased somewhat over time. In 1992, international fears that an outbreak of violence in Kosovo might draw in Macedonia, Albania, Bulgaria, Greece and even Turkey, either directly or indirectly, led the UN Security Council to authorise a ground-breaking "preventive deployment" of some 1,200 peacekeeping troops to monitor Macedonia's borders - the United Nations Preventative Deployment Force (UNPREDEP) mission. This deployment, while not equipped to suppress conflict was a welcome demonstration of international resolve to prevent it. While it is impossible to say how events would have developed if the UN deployment had not been made, the action nevertheless represents a rare international success in pre-emptive action. The force was gradually reduced, and then terminated when China blocked the renewal of its UN mandate in Macedonia because of the wholly unconnected issue of Skopje's decision to establish diplomatic links with Taiwan. (The termination was not lamented by Macedonia's ruling coalition at the time because the force's presence was seen as compromising its nationalist credentials in the lead-up to the 1998 parliamentary elections). The UN troop presence was soon replaced by a NATO contingent in northern Macedonia, which provides logistical support to KFOR troops in Kosovo and remains there today playing to some extent the same role as UNPREDEP.

Macedonia's relations with its neighbours remain problematic. Stronger ties to Bulgaria and Greece, instead of being seen as an effort to improve regional cooperation, are viewed by many Macedonians through a complex, conspiratorial fear of irredentist aspirations. The Bulgarians and Greeks have not always acted to reduce those tensions. For example, while Bulgaria quickly recognised Macedonia's independence, it only recently acknowledged the existence of a distinct Macedonian people or language. As the main governing party, the Internal Macedonian Revolutionary Organisation-Democratic Party for Macedonian Unity (VMRO-DPMNE), has distanced itself from Serbia and sought closer relations with Bulgaria, the political pull to the north has lessened. Relations between the two countries may have improved under the present coalition government in Macedonia, but many in Macedonia remain suspicious of Bulgaria's ultimate intentions.

Greek animosity toward Macedonian statehood was expressed more directly. Greece campaigned fiercely against and successfully delayed Macedonia's widespread diplomatic recognition after it declared independence in 1991. Greece claimed that Macedonia's name, flag and some provisions of its constitution implied territorial claims on northern Greece. Macedonia only gained international acceptance and UN membership under a provisional name, the Former Yugoslav Republic of Macedonia (FYROM), which continues in official use to this day. Greece also pressured European countries and international organisations to withhold recognition of Macedonia until December 1993, and blocked Macedonia's membership of the Conference on Security and Cooperation in Europe (the precursor to the Organisation for Security and Cooperation in Europe) until October 1995. These efforts did nothing to improve Macedonia's security and probably injured its efforts at economic reform.

Macedonia and Greece have resolved many of their disputes, but the name issue lingers on; direct talks between Macedonia and Greece have continued intermittently on this issue since 1993. In late January 2001, Greek Foreign Minister George Papandreou's comments that Greece would block Macedonia membership in NATO and the European Union (EU) created a frenzy of anti-Greek sentiment in Macedonia. The Foreign Minister also proposed to freeze 22 bilateral agreements until the name dispute was resolved.[187] The Greek government disavowed the comments

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[187] Macedonia National Radio broadcast, 25 January 2001, reporting on the Foreign Minister's comments before the Greek Parliamentary Council of Foreign Affairs.

and asserted that they were not reported in a proper context. Despite the improved commercial ties, normalised relations between the two countries seem a long way off. Ironically, the business interests of Greek investors may ultimately prove the decisive factor in breaking this diplomatic logjam.

Relations with Albania have long been problematic and were especially so in the mid-1990s. Former Albanian President Sali Berisha's attempts to play a role in ethnic Albanian politics in Macedonia resulted in severe friction among both Macedonia's ethnic Albanian politicians and between Skopje and Tirana. Following Albania's collapse into anarchy in 1997, relations with Albania became worryingly unpredictable. However, ties between Albania and Macedonia have improved considerably in the past three years due to four factors: the election of a government in Albania that seems less inclined to meddle in Macedonian affairs, the fall of the Milosevic regime, the victory of the VMRO-DPMNE-led coalition, and the election of Boris Trajkovski as president. The outstanding stumbling block to stabilising relations with Albania will probably not be removed until Kosovo's final status is determined.

Macedonia has close cultural, political and economic links with Serbia. During the conflict in Kosovo, the Macedonian Parliament passed a declaration that forbade the NATO troops based on its soil from taking direct action from Macedonian territory without their approval. Macedonia maintained this officially neutral stance even after Yugoslav forces drove nearly a quarter of a million Kosovo Albanians refugees into Macedonia. Although many viewed this as an attempt to destabilise the country, a majority of Macedonian-speakers sympathised with Serbia. Former Yugoslav President Slobodan Milosevic and his party retained some contact and influence over the small pro-Serbian political forces in Macedonia,particularly the Socialist Party.

While the country officially welcomed the fall of Milosevic, Serbia's political upheaval was also greeted with a degree of unease. Many feared that Serbia would overtake Macedonia as a regional leader and key partner to the West, with foreign assistance being redirected from Skopje to Belgrade. Soon after his election, Kostunica attended a mid-October Balkan summit in Skopje that was hosted by Trajkovski, the first visit by a Yugoslav head of state in more than a decade. But improvements in relations between Macedonia and Serbia still have some way to go. They signed an agreement on 28 February 2001 that resolved the contentious border issue, but Skopje is still waiting to achieve a settlement on the

final division of gold reserves and hard currency of the former Yugoslav federation. The governors of the national banks of Macedonia, Croatia, Bosnia and Herzegovina, Serbia and Slovenia have met three times since November 2000 to discuss the division of these remaining financial assets.

That Macedonia has been able to escape serious conflict despite the intense regional turmoil of the last decade has been in no small measure thanks to the international assistance with economic and security support. As long as the question of Kosovo's final status remains unresolved, inter-ethnic tensions in Macedonia will remain a cause of serious concern, and ongoing international support remains essential. Macedonia's membership in the Partnership for Peace program has been beneficial, but the country has exceedingly high expectations that full-fledged NATO membership beckons. If ambiguous Western promises of closer European and NATO integration prove illusory, the risk is real that Macedonia's ethnic divisions could develop into a more serious conflict.

C.   Governance

The development of strong democratic institutions and civil society in Macedonia continues to be undercut by the lack of a professional civil service and a pervasive political culture of patronage, nepotism and party loyalty. Given such realities, the credibility of governing institutions is low. Administrative reforms, especially at the local level, are critically needed, with many of the poor and minority groups lacking full access to benefits and services. Ensuring equitable right to take advantage of public services and economic opportunities is an important challenge that requires constant attention to public spending and investment policies.

Macedonia's lack of decentralisation and self-financing at the local government level also reinforces these problems. The country needs radical decentralisation to move political power closer to citizens. Within the former Yugoslavia, Macedonia had only 34 local municipalities, in a system designed to ensure the centralisation of political power and patronage. Legislation passed in 1996 created 124 new local municipalities, but did not give these new bodies power to raise revenue or otherwise be self-supporting. Local governments will remain politically

polarised and dependent upon the national spoils system until meaningful reform is implemented. Draft laws on local self-government have languished in parliament for more than five years.[188] Meaningful local government reform will go a long way to build confidence in government's impartial and equal application of the law, allow communities to manage their own schools,hospitals,public services,and determine whether minority languages will be used in addition to Macedonian.[189]

Institution building has often been overlooked as a priority, and public institutions are widely seen as both unaccountable and insufficiently committed to the defence of individual rights. Minorities often complain that they are subject to systematic discrimination, and the lack of political cooperation among the country's ethnically based political parties reinforces the notion that politicians and state institutions represent only a certain ethnic constituency and not the collective rights of all citizens. The lack of a better functioning legal and judiciary system has also forced many citizens to rely on whatever group protections they can find.

There is a widespread fear by Macedonians that elections in their country will always be irregular and subject to international scrutiny, leaving the country typecast in the "Balkan mould" of corruption,communal violence and fraudulent ballots. The increased despondency of the electorate is evidenced by the lowest ever voter turnout for the local elections held in 2000. The electorate has been through three bruising electoral campaigns in the past two years: parliamentary elections in 1998, presidential elections in 1999 and local government elections in 2000. All three contests were clashes between two blocs of political parties: on the one hand, VMRO-DPMNE in coalition with the Democratic Alternative (DA) and the Democratic Party of Albanians (DPA); and on the other hand, the Social Democratic Alliance of Macedonia (SDSM) in alignment with the local Albanian Party of Democratic Prosperity (PDP) and a host of smaller, left-leaning parties.

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188 There are four key pieces of legislation:Law on Local Self-Government,Law on Self-Financing,Law on Territorial Division and Law on Rule of Skopje.
189 ICG Interview on 23 March 2001with Minister of Local Self Government,Xhemail Saiti,who said the new law would allow for the legal adoption of minority language use provided that at least 20 per cent of the population is a "significant minority". Otherwise if minorities comprise more than 50 per cent of the municipal electorate,the legal use of a second language is automatic. Currently about 35 of the 124 local municipalities have ethnic minority mayors, which implies that the electorates there are more than 50 per cent minority composition.

Table 18. Main Political Parties in FYR of Macedonia

Political Party	Political Alignment
Internal Macedonian Revolutionary Organisation - Democratic Party for Macedonian Unity (VMRO-DPMNE)	The main governing party in Macedonia, led by Prime Minister Ljubco Georgievski. Currently holds 46 of the 120 parliamentary seats. The party traditionally draws from a right-wing nationalist constituency.
Democratic Party of Albanians (PDSH) (Albanian) (DPA) (Macedonian)	The DPA is the largest Albanian party and serves in the three-party government coalition. Headed by Arben Xhaferi, the party has gained significantly in international stature during his leadership.
Liberal Party (LP)	The smallest party in the coalition led by Speaker of Parliament, Stojan Andov, which provides the critical votes needed for the parliamentary elections.
Social Democratic Alliance of Macedonia (SDSM)	Largest opposition party, headed by Former Prime Minister Branko Crvenkovski. Party has unsuccessfully tried to force early elections by repeatedly calling for the resignation of Prime Minister Georgievski.
Democratic Prosperity Party (PDSH) (Albanian) (PDP) (Macedonian)	Second largest ethnic Albanian Party.
Democratic Alternative (DA)	Previously part of the governing coalition. The majority of its members defected when the DA's leader, Vasil Tupurkovski, tried unsuccessfully to challenge VMRO-DPMNE.
National Democratic Party (PDK) Albanian (NDP) Macedonian	A new Albanian party formed on 12 March 2001 which acts as the political wing of the National Liberation Army (NLA) rebels.

In general, the campaigns have not focused on issues. The OSCE election observer missions noted that recent elections consistently fell short of international standards for balloting in that they were not free from violence and intimidation and did not safeguard the secrecy of votes.[190] All three elections were marred by reports of widespread ballot stuffing, multiple voting, verbal and physical intimidation inside polling stations,

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190 OSCE/ODIHR Election Observation Mission:The Former Yugoslav Republic of Macedonia Municipal Elections:Statement of Preliminary Findings and Conclusions,11 September 2000.

and overt partisan manipulation by members of election commissions. Fierce hostilities among party supporters during local election polling resulted in the violent death of an ethnic Albanian voter, and indeed, many of the more obvious electoral irregularities occurred in predominately ethnic Albanian areas. The international community has unintentionally contributed to an environment of mistrust by endorsing election outcomes notwithstanding these irregularities. The international community should not lower the bar for democratic standards in Macedonia, or else it risks further undermining government legitimacy.

The ruling VMRO-DPMNE has been stung by accusations among its own rank-and-file that it is over-indulgent to ethnic Albanians,especially after a government agreement - following lengthy negotiations and a good deal of international pressure - to create a privately funded university at Tetovo, with some classes taught in the Albanian language. Many of the charges of excessive concessions to minorities stem from opposition charges that President Trajkovski owes his election to the strong support of the Albanian speaking electorate. SDSM Presidential candidate Tito Petkovski portrayed VMRO-DPMNE supporters as Macedonians "who sold their country and identity to the Albanians in an effort to stay in power."[191] However, the ethnic Albanian support for Trajkovski came as no surprise in light of Petkovski's own harsh anti-Albanian and anti-minority campaign rhetoric.

Ethnic Albanian support for the ruling coalition has fuelled vociferous speculation among the opposition parties regarding the alleged existence of a secret pre-poll agreement between the governing VMRO-DPMNE and the DPA to essentially govern the country along ethnic lines. Opposition parties led protests against Albanian speakers, their alleged involvement in election irregularities and their presumed collaboration with ethnic Albanian political leaders in Kosovo and Albania.

The ruling coalition is a hybrid of nationalist political parties created out of necessity. After the 1996 local elections, both the nationalist right party, VMRO-DPMNE, and the Albanian leftist party, DPA, emerged as strong winners. Their electoral successes exposed the weaknesses of the SDSM-led coalition and foreshadowed its downfall in the 1998 parliamentary elections. The overwhelming victory of DPA over the incumbent PDP party of ethnic Albanians was particularly surprising. PDP, in a clear

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191 Approximate English translation of SDSM party stump speeches given during the height of the electoral campaign in late November 1999.

acknowledgement of defeat, later submitted a joint proportional list for the 1998 parliamentary elections. The PDP agreed with DPA to put up only one ethnic Albanian politician - a DPA candidate - rather than have a poor showing of their own PDP candidate. The 1996 poll proved that the electorate, regardless of ethnic background, was ready for change.

VMRO-DPMNE initially approached the Liberal Democratic Party; a coalition party led by the familiar faces of Petar Gosev and Stojan Andov.[192] More than anything, hubris seemed to account for their refusal to back a VMRO-DMPNE coalition. Political insiders repeatedly dismissed rumours of secret negotiations in late 1997 between Ljubco Georgievski from VMRO-DPMNE and Arben Xhaferi of DPA. In fact, Georgievski had decided to form a coalition with Xhaferi but knew that he still had two problems: first, he might not win enough parliamentary votes to form a new government, and secondly, he needed a buffer between VMRO-DPMNE and DPA. He then approached the mercurial Vasil Tupurkovski; Macedonia's last representative to (and youngest member of) the collective presidency of the former Yugoslavia.

Tupurkovski is a large figure among the rather bland ex-communists in Macedonia. His intellect and wily skills make him a formidable, if uneven, politician. Tupurkovski, with his newly formed party, the Democratic Alternative, extracted a heavy price for his participation in the 1998 elections, with the DA receiving many of the choice government ministries such as foreign affairs, justice, economy, transport and communications, and the agency responsible for coordinating foreign assistance. Many long-time members of the VMRO-DPMNE executive body were incensed at the DA receiving such important posts despite their rather flimsy electoral showing. The ongoing tension between VMRO-DPMNE and DA routinely erupted and fell into a predictable pattern. DA habitually threatened to leave the coalition, called for a press conference, and then announced its intentions to remain in government after being placated by Georgievski.

Meanwhile, behind the scenes, Arben Xhaferi of the DPA began to deliver on his campaign pledges to the ethnic Albanian communities. An amnesty law was passed in order to release two DPA mayors who had been imprisoned in 1997 for inciting protests and violating constitutional law for flying Albanian flags in defiance of legislation that defined under what circumstances such actions were lawful. Under Xhaferi's leadership, the

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192 VMRO-DPMNE and Goshev's Democratic Party ran as a coalition in the 1996 local elections but Goshev later abandoned VMRO-DPMNE and formed a joint coalition with Andov's Liberal Party in 1997. This merger was partly the reason for the break-up of the Goshev-Georgeivski partnership.

DPA accelerated the placement of ethnic Albanians in government posts - including some traditionally held by ethnic Macedonians - and succeeded in establishing the new Tetovo university.

Xhaferi has also unfailingly supported his VMRO-DPMNE partners,as part of a DPA political strategy that appears to based on achieving steady, if slow, gains in placing strong ethnic Albanian party supporters in critical public and economic institution posts that they have often been denied. The back room manoeuvring needed to sustain such a political strategy suits both Georgievksi and Xhaferi well. As long as Xhaferi quietly goes about his business,the more xenophobic voices of VMRO-DPMNE remain muted.

The greatest source of tension in the ruling coalition has been between the VMRO-DPMNE and the DA. The DA made its last bid to break the ruling coalition, leaving on 23 November 2000. However, the DA and the SDSM failed in their attempt to topple the government and replace it with a government of technocrats that would rule until new elections. The subsequently restructured government now contains the VMRO-DPMNE,the DPA and a host of smaller parties such as the Liberal Party and "independent" members of Parliament who defected from the DA and the PDP, another ethnic Albanian party. The coalition could well become stronger freed of the disruptive influence of the DA leader Vasil Tupurkovski, but it remains stretched across a number of party alliances,always a challenge to manage.

Macedonia became a member of the Council of Europe on 9 November 1995, which has helped to raise the benchmarks that Macedonia will have to live up to in areas such as bilingual education, citizenship requirements, police enforcement and due process. One of the most important achievements gained through the process of closer European integration has been the Council's evaluation of how Macedonian legislation and institutions compare to those of Europe. The Council of Europe has pushed hard for legislation on NGOs and media freedom. Outstanding issues include decentralisation, public administration reform and adhering to European standards for elections.

Among the emphases of the international community in Macedonia is to strengthen institutional capacity by reforming public administration. The Macedonia government estimates that about 3,500 redundant personnel in the state administration will need to lose their jobs.[193] The $40 million World Bank loan for public administration is predicated on meeting this target. In

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[193] Government Spokesman Antonio Miloshoski in a press conference on 30 January 2001.

addition to World Bank assistance,the EU and the UK's Know-How Fund are working on public administration reforms. U.S.-funded decentralisation projects through United States Agency for International Development (USAID) and EU Phare/OECD programs also provide important technical assistance.

D.   Human Rights

The war in Kosovo seriously strained the already difficult relations between Macedonia's two largest groups,and many Macedonian-speakers continue to be very nervous about the territorial aspirations of Albanian-speakers. Ethnic Albanians, by contrast, tend to be more optimistic, seeing the end of Belgrade's rule in Kosovo, and the province's prospects for independence,as positive developments. Macedonia's Albanians also view Kosovo's potential independence as strengthening their effort to gain more political power either within Macedonia or through a possible ethnic union with Kosovo.

Macedonia's ethnic split is a persistent topic of intense controversy and high political stakes. According to the government's 1994 census, Albanians comprise 23 per cent of the population;they claimed at the time to make up approximately one-third of Macedonia's population. Albanian leaders charge that there was intentional bias in counting Albanians in both the 1991 and 1994 censuses,and accuse the government of undercounting them in order to present an "acceptable" demographic balance. The Albanian-speaking population has also, by most accounts, been growing faster (due to higher birth rates) than the Macedonian-speaking community.

A new census is scheduled for April 2001. If the results are accepted by both the Macedonian and Albanian communities, it could set the stage for far-reaching agreements on contentious issues ranging from constitutional rights to education, federalisation and public-sector employment. In a society that still views itself through an ethnic prism,the census is vital because it directly affects debates over the number of minority language schools,the number of hours of minority-language television and radio programming,employment in the state sector, the use of national symbols and many other daily issues. Albanian leaders are not optimistic that the census will be conducted fairly. They suggest that some 100,000-117,000 Albanians residing in Macedonia lack citizenship documents.[194] A restrictive citizenship law adopted in 1992 set a deliberately high bar for Albanians. Citizens were required to meet a

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[194] ICG interviews with Arben Xhaferi,President of the Democratic Party of Albanians and Imer Imeri,President of the Party for Democratic Prosperity, 27-29 October 2000. Interior Minister Dosta Dimovska stated in a 6 September 2000 letter to ICG that only 11,151 ethnic Albanians lack proper documentation.

fifteen-year continuous residency requirement, when it was widely recognised that many ethnic Albanians had worked in different parts of the former Yugoslavia. According to the Interior Ministry, progress is being made on drafting a more equitable citizenship law in order to bring Macedonian law into line with European standards, including the European Citizenship Convention.

The State Statistical Office has rebuffed ethnic Albanian party demands that the new census use minority languages in addition to Macedonian, declaring that the 1994 census law - which allowed the use of minority languages - was determined to be unlawful by the Constitutional Court in 1995.[195] The international community, primarily the OSCE, has offered to assist the country in its efforts to recruit qualified enumerators who are native speakers of minority languages. The international community must encourage full participation in the census if it is to carry any real meaning or acceptance by the country's minorities. Some success has been made in that the Statistical Office bowed to outside pressure to employ its first ethnic Albanian in a senior management position. The forthcoming census should be postponed until late autumn, so that it can be conducted openly and as accurately, in line with internationally accepted criteria of residency. This may require international assistance, not only in processing the census results but also in preparing it and supervising its conduct.

According to the 1994 census figures, other minorities such as Turks, Roma, Vlachs and Serbs together account for 11 per cent of the population.[196] They often complain of disproportionate attention and state benefits given to ethnic Albanians. Aside from the ethnic Albanians, there is a sizeable Roma community, largely integrated into society and politically very active. A Roma holds one seat in Parliament, one was elected as a mayor and there are now nine city councillors who identify themselves as Roma.

The Labour Minister and the Deputy Minister of Justice are customarily drawn from ethnic Albanian coalition parties. These two ministries have long been of key importance for ethnic Albanian leaders. In general, the legislation and regulatory procedures concerning such matters as property registration and university enrolment for minorities are not blatantly discriminatory but are, however, selectively interpreted. The same holds true for minority participation in public administration. For example, the percentage of Albanians in the civil service has only recently increased from 4 per cent to

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195 *Dnevnik*, 17 January 2001, page 2.
196 According to the 1994 census, ethnic Macedonians comprise 66 per cent, ethnic Albanians 23 per cent, Turks 4 per cent, Roma 3 per cent, Serbs 2 per cent and Vlachs and others 2 per cent.

about 7-8 per cent since 1997,according to statements made by DPA. In the armed forces,Albanians comprise 40 per cent of enlisted soldiers, but no Albanian is among the 600-strong elite Wolves and Scorpio units. NATO could play a stronger role in encouraging greater minority representation throughout the military command structure.

In general, minorities in Macedonia enjoy more rights and are better assimilated than in much of the region. However, the constitution still contains a number of problematic provisions,and many minorities view it as less equitable than the old Yugoslav constitution. Representatives of all minorities object to the preamble to the 1991 constitution, which defines Macedonia as a "national state of the Macedonian people, in which full equality as citizens and permanent coexistence with the Macedonian people is provided for Albanians, Turks,Vlachs, Roma and other nationalities". The country's minorities see this statement as implying that ethnic Macedonians have a higher constitutional status, placing minorities at the margins of society. Minority representatives also object to the constitutional status of Macedonian as the sole official language and to the special recognition granted to the Macedonian Orthodox Church.[197]

The constitution guarantees the right to primary and secondary schooling in minority languages,but makes no reference to higher education.[198] The near-total absence of higher education in the Albanian language has dominated the ethnic Albanian national struggle for nearly a decade. In 1995, ethnic Albanians established their university when the government refused to introduce Albanian-language instruction at the state universities in Bitola and Skopje. The new Tetovo university was largely financed by the Albanian diaspora and became a lightening rod for nationalist rhetoric on both sides. The OSCE High Commissioner on National Minorities, Max van der Stoel, mediated on the issue for more than five years. He eventually proposed limited international funding for a new private university to replace the university in Tetovo. A significant number of Macedonians bitterly oppose the establishment of an Albanian-language university and criticise President Trajkovski for agreeing to establish a new multi-lingual university in the Albanian-inhabited region of the country. Its curriculum will focus on teacher training, business management and public administration, and will include

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197 Articles 7 states that "the Macedonian language,written using the Cyrillic alphabet,is the official language in the Republic of Macedonia".Article 19 states "the Macedonian Orthodox Church and other religious communities and groups are free to establish schools and other social and charitable institutions, by ways of a procedure regulated by law".

198 Article 48 states "Members of nationalities have a right freely to express, foster and develop their identity and national attributes.The Republic guarantees the protection of the ethnic,cultural,linguistic and religious identity of the nationalities. Members of the nationalities have the right to establish institutions for culture and art,as well as scholarly and other associations for the expression, fostering and development of their identity. Members of the nationalities have the right to instruction in their language in primary and secondary education,as determined by law. In schools where education is carried out in the language of a nationality, the Macedonian language is also studied".

courses in the Albanian,Macedonian and English languages. Still,it is unlikely that the university will become financially sustainable in the absence of international fundraising efforts or without reaching some agreement on future public funding.

Macedonia has made much progress in building a civil society in the short time since independence. There are more than 1,000 registered Non-Governmental Organisations (NGOs),many of which are active in seeking to foster better inter-ethnic relations and media freedom. The early 1990s saw an explosive growth in media outlets. By 1997 there were 210 registered broadcasters - numerical pluralism that exceeding anything in Croatia or Serbia. Although the great majority of stations showed only music videos, commercials,light entertainment or pornography,there were also some high-quality outlets such as A1 television and Kanal 77 radio. Nevertheless, the state-controlled network, *Macedonian Radio-Television (MRTV)*, easily dominates the broadcast sector, and remains firmly under government control. In the print sector, the giant state-owned *Nova Makedonija* group, comprising newspapers, magazines,print-works and a distribution network, dwarfs everything else on the market. Its products reflect government policy. Leading positions at MRTV and Nova Makedonija are political appointments. While their audience share and readership have declined drastically during the past decade, these unreconstructed, publicly subsidised giants skew the market,making it hard for better products to achieve commercial viability.

The government-owned and private media must play a more responsible and constructive role in presenting the country's multi-ethnic character. Media coverage of the March 2001 violence in Tetovo by outlets in both languages contributed to an atmosphere of collective hysteria. The EU, the U.S. and international organisations should facilitate a dialogue between the Macedonian and Albanian representatives on improving media portrayal of all nationalities and minorities,and should require Macedonia to undertake the same reforms in the media sphere that have been expected of Croatia and Bosnia.

On more than on occasion, the private media have complained of intimidation and obstacles to their work. *Sitel TV* experienced power cuts during its coverage of election irregularities; *Makedonija* Denes newspaper had its bank account blocked after publishing a series of unflattering articles about the alleged money laundering in the humanitarian activities conducted by the wife of the Prime Minister. An unknown gunman fired shots at the front door of the apartment of the news editor of *A1 Television*. There has not been enough substantiated proof to directly tie these actions to the

government. There are also signs that government attempts to influence the media have been increasing: it is more difficult to obtain licenses; public subsidies are awarded according to partisan criteria; and the government mostly controls distribution and circulation.

On 1 February 2001, the three largest private television and radio stations stopped broadcasting regular programming for 24 hours. The stations inserted a message that read, "Dear viewers, this is the future of your medium as a result of the monopoly of the Macedonian state television." The three concessions claim that state-owned Macedonian Television (MTV) receives 65 per cent of total available public funding despite having an extremely low percentage of audience viewing and that MTV routinely exceeds the legal time limits for advertising.

Public faith in the government's media policy was further rocked when Branko Crvenkovski, leader of the largest opposition party, SDSM, accused the government of wire-tapping the telephone conversations of more than 100 public figures. Crvenkovski alleged to have in his possession hundreds of pages of transcripts taken from the electronic eavesdropping of 25 prominent journalists, members of Georgievski's own cabinet and conversations between Trajkovski and a local Albanian journalist.

The timing of the tapped conversations coincided with two government crises, the campaign period prior to the September local elections and the power struggle between the government and the opposition. The government clumsily attempted to blame others, such as the Ministry of Defence and SDSM, of ordering the wire tapping in order to trigger a government crisis. The ongoing investigation by the specially appointed parliamentary commission has so far produced little evidence indicating who or what authority authorised the illegal wiretapping. Most in Macedonia are sceptical that the truth will be revealed anytime soon.

In late February 2001, the government sent a draft Law on Public Information to parliament. If adopted, this draft would have reversed some of the gains Macedonia has made toward building a strong and vibrant civil society. It contained highly restrictive provisions that would place unnecessary and unwarranted restrictions on freedom of expression. Although the government had consulted with media experts from renowned international organisations, their recommendations were not to be found in the draft law.[199] Adoption was only averted by a campaign of protest orchestrated by

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[199] See ICG Press Release, *Macedonia's Public Information Law is a Backwards Step*, 23 February 2001.

international NGOs, led by the Open Society Institute. These NGOs noted that the Council of Europe had accepted an invitation from the government to discuss the draft confidentially in autumn 2000.The resulting fiasco should serve as a warning to inter-governmental organisations not to engage in private negotiations on human rights issues, excluding both Macedonian and international groups.

This episode illustrated the peculiar place that Macedonia occupies,in terms of international assessments of human rights in the Balkans. The international community has, predominantly through the OSCE and Council of Europe, repeatedly urged successive governments in Skopje to improve its treatment of ethnic minorities,practice good governance and avoid irregular, violence-prone elections. The government generally respects the human rights of its citizens,but the application of the law is at times arbitrary and often to the detriment of minorities. However, there has been a reluctance in Western capitals to draw the sorts of far-reaching lessons from this patchy record that have been drawn in, for example,Croatia and Serbia. In short,Macedonia has hardly been subject to international pressure over its human rights record. A double standard is often applied, holding up Macedonia as the region's only multi-ethnic success story while overlooking the heavy-handed tactics that the government claims are necessary to protect national security.

In March 2001,the human rights deficit was cited by Albanian rebels fighting in pockets of northern Macedonia, along the Kosovo border. Asked by the international media why they had taken up arms, they said they were campaigning for full civil rights for Albanians. Despite the undoubted inequalities in the treatment and status of the country's minorities, this sounded more like an astute use of language designed to appeal to Western and local audiences than like a genuine explanation of insurrection. In any event,the human rights deficit cannot condone the armed uprising. Should the fighting in the north continue and spread to the interior,the human rights situation for both majority and minorities will deteriorate and the fragile gains made in developing a civil society in Macedonia will erode.

E.   Economy

The Macedonian economy has hardly flourished since independence but it has proven remarkably stable - despite a steady increase in the current account deficit and the regional upheaval of the last decade. The country achieved nearly 3 per cent annual growth in 1999, and the second half of 2000 was characterised by steady economic growth that resulted in a 5 per

cent GDP increase. While prices for petrol, electricity and bread have increased dramatically since VMRO-DPMNE took office in 1998, prices overall have been stable, with an annual inflation rate of about 2.2 per cent.

In a January 2001 press conference, Minister of Finance Nikola Gruevski and Prime Minister Georgievski claimed that macro-economic indicators showed the highest improvement in a ten-year period and a budget surplus is projected for the second year in a row.[200] According to Gruevski, the 2001 budget is projected to be just under $1 billion with $0.9 billion based on state income and the remaining $85 million on foreign loans. The government hopes to shift spending from traditionally high public administration expenses to development of infrastructure. The surplus funds will be earmarked for poverty alleviation, repayment of frozen individual hard currency savings accounts, unemployment benefits, delayed pensions and government issued bonds. A small "rainy day" fund has also been set aside to cover any dips in macroeconomic stability and balance of payments.

Not all in the country are benefiting from the "new economy". Like much of former Yugoslavia, Macedonia has experienced a very significant drop in living standards in the decade since independence. It continues to suffer high levels of poverty and debilitating unemployment. According to the June 2000 preliminary Poverty Reduction Strategy Paper (jointly prepared with the World Bank and the International Monetary Fund), more than 20 per cent of the population lives below the level of poverty on about 160 denars per day or $2.[201] Large rural households and those with minimal education are especially vulnerable. About 56 per cent of the population have less money in real terms than they did a decade ago.

Nearly every family has first-hand experience of unemployment. In July 2000, the European Statistics Bureau and the International Labour Organisation found that 257,485 people of a total working population of 802,553 were unemployed. More than half of the 32 per cent of people who are unemployed are young and have never held a job; 170,000 of the unemployed are between the ages of 15 and 29. These figures, however, are likely to be exaggerated due to the currently strong financial incentives to register as unemployed.

In early 2000, the Macedonian government made a pledge to complete its privatisation process by the end of the year, and it nearly succeeded in that goal. Out of the 1,600 companies scheduled for privatisation, nearly 1,500

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200 *Utrinski Vesnik*, 29 January 2001, p. 1.
201 In Macedonia the currency is denar, in Serbia the dinar.

companies, employing some 217,000 people, were sold last year. The total value of the privatised companies was about $2 billion. There are cur rently around 50 companies listed on the Macedonian Stock Exchange in which the government is the partial or majority owner. The Privatisation Agency is authorised to sell these shares on the Stock Exchange. If the Agency cannot sell the shares at their nominal value,they can be sold at an auction with a predetermined discount. If the Privatisation Agency owns at least 50 per cent of the shares of the package they can sell them via a block transaction (all of the shares at one go),but there must be more than one investor.

The privatisation of state assets has not been universally popular in Macedonia. The government faces charges that a lack of transparency in economic policy has led to dishonest sales of state assets. For many years, government officials or party supporters have bought depreciated public companies at artificially low prices, which, in turn, undermined the privatisation process. Recent purchases of the country's Okta oil refinery, Buchim Radovish gold mine,Balkan Steel,Stopanska Bank and USJE cement factory by foreign companies - Greek especially - have led to charges made by the opposition that the government is interested only in financial commissions rather than preserving the country's vital resources and industries. These same accusations were made against the previous government.

There has been some progress in consolidating and privatising the country's chaotic banking system. The government will need to implement difficult reforms if sustainable growth is to be achieved. It needs to make a level playing field for foreign investment and to establish consistent business practices. Issues needing to be addressed in tackling Macedonia's economic problems are the same ones afflicting the entire region: lack of financial discipline; ineffective bankruptcy legislation; weak enforcement of creditor and shareholder rights; and a bloated,ineffective public administration. The government has reduced through privatisation the number of large, state-owned loss making enterprises, but eight remaining major loss-making enterprises were required to have been privatised or liquidated by 31 March 2001 as part of the conditions for release of the second installment of the World Bank FESAL II loan.

A major problem facing Macedonia is widespread corruption, which was exacerbated by the international sanctions imposed on neighbouring Yugoslavia in 1992. Macedonia became a key transit country for breaking international sanctions and the previous government is assumed to have taken a large commission. There is increased evidence of organised crime, most

visibly revealed by garish displays of quickly obtained wealth. Rumours persist of vast corruption networks involving police. A spate of bombings in Kumanovo, Stip and other primarily eastern cities in the past couple of years are probably tied to local gangs, police and disputes over smuggling profits. On 15 November 2000 police confiscated nearly $3.5 million worth of Turkish high-grade heroin in a village near Struga that was bound for European markets. UN and other NGO reports on the networks of human trafficking, drugs and weapons smuggling that use a Macedonian transit route are incomplete and only hint at the possible levels of "official" Macedonian involvement.

The ever more apparent linkage between politics and organised crime has also eroded popular confidence in Macedonia's leadership. It is an open secret that many current and former members of government have enriched themselves illicitly. Perennial accusations of government corruption, and institutional support for smuggling networks, sharpened after the opposition parties' most recent failure to topple the government, last November. There were venomous attacks on public officials and a barrage of accusations that the government was not competent to confront the threats to the country's security. This, in turn, increased a sense of popular insecurity. Political corruption has, in turn, opened the political space for more radical or nationalist political parties. On the VMRO-DPMNE side, there has been a gradual splintering that led to the creation of VMRO-VMRO, directed by parliamentary Boris Stoymenov. The Democratic Alternative has also fragmented, with many former party members citing vast corruption as the reason for their dissension.

Integration into Western structures remains a key priority for Macedonia's leaders. The help that Macedonia has received notwithstanding, Macedonia leaders complain that the West has neglected the country and its needs. They contend that Macedonia should be rewarded for the positive and peaceful role it played during the decade of regional war. A general sentiment of dissatisfaction accompanies discussions about relations between Brussels and Skopje. The EU is accused of keeping Macedonia at arm's length and trying to put the country in a type of regional ghetto.[202]

Carl Bildt, UN special envoy for the Balkans, provoked a highly negative reaction when he appeared to suggest that countries of the western Balkans, including Macedonia, should focus on integration within regional structures before aiming to integrate into Europe.[203] This idea was widely viewed in

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202 ICG discussions with parliamentarians Jordan Boshkov, Ferhat Dinosha, Nano Ruzin, and Rizvan Sulejmani, diplomats Sami Ibrahimi and Dimitar Mircev; Mavrovo, Macedonia, October 21-22, 2000.
203 Carl Bildt, "A Second Chance in the Balkans", *Foreign Affairs*, January/February 2001, pp.148-158.

Skopje as relegating Macedonia to a second tier or "poor-man's" Europe. Bildt's suggestion was disavowed by the EU, which has emphasised that efforts to build regional cooperation will not alter the principle that each country will approach the EU on its individual merits.

Macedonia signed a Stabilisation and Association Agreement with the EU, at the EU summit in Zagreb on 24 November 2000, ahead of the other countries of the western Balkans. Many political figures regret that the country did not drive a harder bargain over the conditions for the agreement, although Macedonia will clearly benefit from the new trade provisions. About 80 per cent of its exports are allowed free access to the EU member states, and new EU allowances will increase exports of many agricultural products, and likely boost both production and foreign investment.

Macedonian expectations of further international integration are high. The international community has a critical role to play in assisting Macedonia in reforming its institutions and economy. So far, there has been much disappointment on the Macedonian side. Many of the Stability Pact's promised "quick-start" projects in the country, such as transit for KFOR into Kosovo, are widely viewed as serving international rather than local needs. The Stability Pact is generally viewed with great disappointment. The two structures that carry real meaning and expectations are NATO and the European Union. The presence of international peacekeepers is essential to guarantee the security and stability of Macedonia. According to most Macedonians, the European Union will need to find a more efficient way of bringing Macedonia and the other South Eastern European countries into EU structures if this large economic and political umbrella is to hold any meaning.

Conclusions and recommendations on Macedonia

❑ *The Macedonian government should accept, and the international community insist, that the primary focus in resolving Macedonia's internal security problems must be political rather than military. A serious effort must be made by Macedonian-speakers to address the reasonable political, cultural and economic concerns of the Albanian-speaking community.*

❑ *The Macedonian government should consider the formation of a national unity coalition government charged with improving inter-ethnic relations including through government decentralisation, new electoral procedures, and strong anti-corruption measures.*

❑ *The Macedonian government should avoid large-scale military offensives likely to inflict heavy civilian casualties and further erode support for political solutions.*

❑ *As well as maximising its efforts in Kosovo to control the border with Macedonia, NATO - while recognising the primacy of political over military solutions to the country's security problems - should continue its existing training and support programs in Macedonia, and be prepared to consider an active role in support of the Macedonian security forces against further rebel activity if the country's government so requests.*

❑ *Recent discussion of trimming back the Kosovo Protection Force (KPC) should be discouraged, as such steps would increase the pool of unemployed former members of the Kosovo Liberation Army (KLA) and heighten the security risks to Macedonia.*

❑ *Consideration should be given to extending the United Nations' "Weapons in Exchange for Development" project to Macedonia.*

❑ *The international community must begin a crackdown on illegal funding of guerrilla movements in Macedonia and in the region at large.*

❑ *Macedonia will require extensive assistance to successfully fight internationally organised crime, particularly trade in drugs, illegal immigrants, weapons, prostitutes and cigarettes.*

❑ *The international community should revitalise stalled initiatives to radically decentralise political power and move it closer to citizens in Macedonia. Meaningful local government reform will go a long ways to build confidence in the government's impartial and equal application of the law, allow communities to manage their own schools, hospitals, public services, and determine whether minority languages will be used in addition to Macedonian.*

❑ *The international community should not lower the bar for democratic standards in Macedonia, or else it will risk further undermining the government's political legitimacy.*

❑ *The forthcoming census should be postponed until late autumn, so that it can be conducted openly and as accurately, in line with internationally accepted criteria of residency. This may require international assistance, not only in processing the census results but also in preparing it and*

supervising its conduct. The international community should financially support the hiring of individuals fluent in minority languages as enumerators, and ethnic minorities should be given a stronger role in the Statistical Office.

❑ *The Council of Europe and NGOs such as the Open Society Institute, Article 19 and Freedom House have significant roles to play in promoting media development and reform. Given the recent experience with the aborted draft Law on Public Information, and the loss of public trust in government respect for free media, the international community and the EU in particular should put more teeth into their recommendations and offer a serious program for restructuring the state-controlled outlets.*

10. ALBANIA

Albania's preoccupations are internal, as it struggles to establish the rule of law, battle endemic corruption, restructure its economy and build the basic institutions of governance. Western efforts in support of strategies to stem the flow of illegal weapons and other forms of trafficking are essential.

A.   Introduction

Like most countries in Eastern Europe, Albania has sought to establish a free market economy, implement widespread privatisation and embrace new foreign, defence and internal security policies. However, history offers a shaky foundation upon which to build the structures of a modern state. Apart from a six-month experiment in 1924, Albania has never before had a parliamentary government. Consequently, the understanding of modern political parties and their role in a pluralist state remains severely limited.

Hard-line communist rule from 1944 to 1991 profoundly, and negatively, affected the social and economic development of the Albanian people. This rule relied heavily upon a small, powerful elite based in Tirana, and post-communist governments have had difficulty breaking the hold of undemocratic senior cliques on public institutions. The destruction of Albania's one-party state has also revived many older and unsavoury aspects of Albanian life, including blood feuds and elements of traditional Gheg-Tosk, north-south rivalries.

The breakdown of communist control resulted in major social disorientation. This upheaval was most devastatingly manifested in Albania's degeneration into anarchy during the winter of 1991, and a virtual state of civil war triggered by the collapse of extensive pyramid banking schemes in 1997. The attempted coup of 1998 further underscored Albania's fragility. It is against this background that the Socialist-led government, which came to power following the 1997 uprising, has struggled to combat lawlessness and rebuild authority.

In the aftermath of the Kosovo war, the "Albanian National Question" has dominated Albania's foreign policy, and the country has begun to play a prominent role in future pan-Albanian aspirations. However, many Albanians fear continued regional instability due to Kosovo's uncertain political status.

While Albania has made important strides in restoring essential order, the central challenges facing Albania include:

❑   restructuring an economy severely hampered by outdated and obsolete industry;

❑   Filling the social vacuum left by the collapse of a rigid authoritarian state;

❑   Combating crime and corruption and disarming the civilian population; and

❑   Balancing the newly enhanced sense of Albanian national consciousness throughout the southern Balkans with respect for the multi-ethnic nature of the region and the integrity of surrounding states.

Table 19. Albania at a Glance

GNP per capita*:$810
Population:3.4 million
Elections:Local elections held on 1 October 2000. Parliamentary elections called for June 2001.
President:Rexhep Meidani
Prime Minister:Ilir Meta

*World Bank Atlas methodology.
Source: *The World Bank; Economist Intelligence Unit (EIU)*

B.   Security

Since the attempted coup d'état in September 1998, the restoration of law and order has been the Socialist-led government's main priority. State authority has now been re-established throughout much of the country, and in central and southern Albania, the security situation has seen dramatic improvements. However, the population is still deeply traumatised as a result of the violence of 1997 and 1998, and the perception of insecurity remains high.

Parts of northern Albania still suffer from endemic crime and banditry beyond its major towns and cities. The violent settling of accounts among gangs of traffickers, smugglers and other criminals has terrorised many locals into silence. The situation in the northern region of Tropoja remains particularly volatile, in an area where the government is attempting to rebuild the local police force amid tightly knit clan allegiances and hostility to interventions from Tirana. Many police officers have direct links to criminal activity, and others are reluctant to apprehend criminals for fear of becoming involved in blood feuds. According to the U.S. State Department, one of the most serious problems involving public order and internal security is the fact that police officers are largely untrained and often unreliable: "Unprofessional behaviour and corruption remain a major impediment to the development of an effective, civilian police force".[204]

Weapons continue to proliferate in Albania. Army depots were widely looted during the chaos of 1997 and, according to the Ministry of Defence, some 656,000 weapons, 3.5 million hand grenades, half a million land mines and 1.5 million rounds of ammunition were stolen. Efforts to disarm the population have borne little fruit to date because they have generally lacked sufficient financial resources to be effective. The pilot United Nations Weapons in Exchange for Development project in the Gramsh district has been a successful first step in beginning the collection of arms, with over 5,700 weapons and 100 tons of ammunition and explosives voluntarily turned in. Many of the weapons handed in, however, have been old military rifles, many dating back to the First World War. In November 2000 Defence Minister Ilir Gjoni announced an ambitious plan to find and destroy more than 100,000 looted weapons. A Norwegian weapons collecting project in the northern Dibra district, was relatively successful. Although other such initiatives are planned, the wider extension and intensification of such projects to reclaim weapons looted during 1997 would be highly beneficial.

Albania is situated on a prime smuggling route for both drugs and people between Turkey, Asia, the Middle East and Western Europe. The country has become an important transit for would-be refugees, and the Albanian Mafia is increasingly strong in Italy. A growing number of Albanians, particularly in Southern Albania, are involved in narcotics as farmers, traders or couriers, and crime has offered attractive income in a region otherwise lacking industry. An anti-smuggling unit has been set up under

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204 U.S.State Department Annual Report on Albania, February 2001, available at www.state.gov

the European Union's Italian-run Customs and Financial Assistance Office (CAFAO) in Albania, but progress will remain difficult until realistic economic alternatives are locally available.[205]

Trafficking of people is rapidly expanding. Italian authorities intercepted more than 40,000 people attempting to enter Italy from Albania in 1999 alone. Many thousands more are surely entering undetected. Only 7,000 of those apprehended were Albanians, illustrating Albania's growing use as a transit point. For about $1,000 per head, organised gangs smuggle people to the coast and place them on speedboats bound for Italy. Given that the average police wage in Albania is only about $150 a month - rising to $500 after overtime - officers and port officials are highly susceptible to bribery from the lucrative trade. There is a joint Italian-Albanian initiative to create a Centre Against the Trafficking of Immigrants, but finance is needed to build reception centres for illegal migrants awaiting repatriation. A new law enables the police to confiscate speedboats that are used in illegal activities and those that are unregistered. Despite such initiatives, however, a serious lack of resources and police corruption, greatly hinders attempts to curb human trafficking.

The government has pledged its determination to fight illegal immigration but has put the onus on the West to help. At the beginning of February 2001, Prime Minister Ilir Meta said he welcomed help in the fight against illegal immigration but said it would be a struggle until Albania's western neighbours gave the country the logistical and communications equipment he had requested. Meta argued that more sophisticated equipment was needed rather than more foreign police to tackle the problem. Meta also pointed out that his suggestion for a regional centre against illegal trafficking to be set up in Albania had not been taken up. "We have asked in the context of the Stability Pact to build such a regional centre", he said. Meta added, "I have had a positive response from Italy, Greece and Germany and I have even put a building at their disposal. But again, we need the right equipment and the modernisation of the building".[206] Given its strong interest in this matter, the West should give logistical and communications equipment to assist Albania in the fight against illegal trafficking and help Albania establish a regional centre to monitor illegal trafficking.

Over the past year, smuggling has also blossomed along the Albania-Kosovo border. Police chiefs in northern Albanian border areas have criticised the United Nations Mission in Kosovo's (UNMIK) police for failing to arrest several

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205 European Commission Report on the Feasibility of Negotiating a Stabilisation and Association Agreement with Albania, Brussels, 24 November 1999, p14.
206 *Reuters,* 6 February 2001

wanted men who have fled to Kosovo during the last two years, alleging direct cooperation between smugglers from Albania, UNMIK police and Kosovo customs officials.[207]   Only a handful of Albanian criminals have been apprehended in Kosovo and returned to stand trial in Albania, and cooperation with UNMIK was suspended after the Kosovo Force (KFOR) discovered the involvement of Albanian police with criminal gangs from the Kukes region. For their part, Albanian border police have been criticised for not controlling their side of the border, and the shortage of trained personnel remains a major problem.[208] As a whole, the geography of the border region is forbidding and both locally recruited border guards and police are fearful of revenge attacks. Recruitment of more personnel from other regions for use in policing the border might help alleviate this problem - as would increasing their salary.

The international community has rightly pushed Albania to address law and order, making clear that further assistance will be conditional upon improved security. Inadequate policing lies behind much of the problem, especially in rural areas, where citizens are forced to endure what is essentially a self-imposed curfew - fearing travel after late afternoon. This pattern has reinforced the image of a central government divorced from the actual needs of the people, and made breaking regional and district loyalties more difficult.

Since 1997 internal security has noticeably improved. The government has instigated a series of measures to strengthen law and order including, on advice of the Western European Union (WEU), a three-year strategic plan for restructuring the police. Since 1997, a WEU Multinational Advisory Police Element training mission has been helping to improve professionalism and restructure the Ministry of Public Order, which has drafted its own follow-on Strategy for the Reform of the State Police for the period 2000-2003.

The police have had some success in tackling common crime, and since autumn 1999 a series of operations across the country has sought to wrest control from armed gangs. However, far less headway has been made in tackling organised crime. With more than 120 police murdered during the last three years, morale is low. Tackling organised crime requires a comprehensive overhaul of the justice system, in which corruption is deeply rooted. Corruption is endemic. According to the Albanian Centre for Economic Research, Albanians, Bulgarians and Macedonians consider giving bribes an effective way to solve a problem, and doubt the ability of their states to fundamentally combat corruption. Customs officers are considered to be

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207 *Koha Jone*, 6 September 2000.
208 In mid-September 2000 the commander of the Italian zone in Kosovo complained that the Albanian border with Kosovo is the most problematic as regards smuggling. *Albania Daily News*, 9 September 2000.

especially mendacious, followed by tax authorities, police, lawyers and doctors. The government has pledged to tackle corruption through an Anti-Corruption Program agreed with the World Bank.

Lack of cooperation between prosecutors and police has been blamed for the poor performance against organised crime. The main objective is the fight against drugs. U.S. representatives in Tirana have promised to strengthen cooperation with the Public Order Ministry and the General Prosecution in the fight against organised crime through the Tirana Mission of the International Criminal Investigative Training Assistance Program (ICITAP). The U.S. assistance program aims to give priority to the training of various jurists and specialists from the Prosecution and the Ministry of Public Order.

The unsettled situation in Kosovo and lingering tensions in Macedonia and Montenegro continue to cause grave concern. Albania fears that another conflict in the former Yugoslavia might again propel major numbers of refugees into Albania. The government has ordered its north-western Shkoder army division to avoid border incidents,and the level of insecurity is such that President Rexhep Mejdani has asked NATO to establish bases on Albania's northern borders as well as in the south of the country.

Whilst welcoming the fall of Milosevic, most Albanian authorities have reacted to his successor, Vojislav Kostunica, with scepticism, viewing his policies toward Kosovo as little different than Milosevic's. The fear that Yugoslav troops and police could again be posted in Kosovo remains. Following an approach from the Yugoslav government on 17 January 2000, Tirana re-established diplomatic ties with Belgrade.[209] To calm nationalist objections that the move was premature, the Albanian government assured Kosovo Albanian leaders that by having a voice in Belgrade,Tirana could argue more effectively over issues of concern in Kosovo, such as the return of prisoners and missing persons and self-determination for Kosovo. In the wake of the political differences that emerged amongst the pan-Albanian political elite in the early to mid 1990s, it is acknowledged that no Albanian voice can speak on behalf of the nation. In this context Albania is now seeking a role as a regional,but politically separate hearth for ethnic Albanians living in neighbouring countries.

Albania's authorities welcomed NATO intervention in Kosovo, and saw it as a positive step to stabilise the region. However, they have been dismayed at the slowness of the United Nations-led international

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209 Diplomatic ties with Yugoslavia were severed in March 1999 due to Albania's support for the NATO bombing campaign.

administration in Kosovo to establish democratic institutions, revive the economy and tackle the matter of Kosovo's final status. Unless this is peacefully resolved, Albania's security will remain directly at risk, with Kosovo Albanian insurgent groups stockpiling weapons and seeking recruits inside Albania. The threat of renewed violence in Kosovo, southern Serbia, and Macedonia also continues to discourage foreign investment.

Albania has been an active participant in regional initiatives such as the Summit of Balkan leaders, the Black Sea Initiative and Corridor Eight, all of which aim to improve regional cooperation. It has sponsored bilateral and trilateral meetings together with Macedonia and Montenegro, and particularly good relations have been established with the Montenegrin government of Milo Djukanovic. Albania and Montenegro have cooperated in combating the illegal trafficking of drugs, weapons and people. What is needed, however, is a strong, concerted region-wide effort to tackle this phenomenon.

A South Eastern European regional peacekeeping force was established in January 2000, and is scheduled to be fully operational by the end of 2001. The force, comprising Italian, Greek, Macedonian, Albanian, Turkish, Romanian and Bulgarian elements, will be available for use under UN or NATO mandates. The force's first exercises were held in September 2000 in Bulgaria, with further exercises scheduled for November 2001 in Albania. The South Eastern European Defence Ministerial Group (SEDM), launched in 1996 in Tirana - comprising Albania, Bulgaria, Macedonia, Greece, Italy, Romania, Slovenia, Croatia, Turkey and the United States - also aims to promote defence relations in the Balkan region. Broader defence relationships throughout the region are useful in confidence-building, encouraging greater integration and professionalising these forces.

Albania remains vulnerable to both internal shocks (such as the attempted coup in 1998) and external ones (the still unsettled situation in the Albanian-inhabited regions of the former Yugoslavia). The stabilisation of its economy and the beginnings of a recovery are heavily dependent on international assistance, and cannot as yet be described as self-sustaining.

Against the backdrop of conflict in the former Yugoslavia, Albania's leadership has acknowledged the complexities arising from the multi-ethnic nature of the Southern Balkans and the threat this poses to the socio-economic and political development of Albania and the region as a whole. Partly as a result, all but a very few of the political and intellectual

elite have adopted a relatively responsible attitude towards nationalism.[210] The media portray events in Kosovo as "foreign" rather than "domestic" affairs, while people in general discuss Kosovo in relation to the level of violence in the province as it affects the Kosovo Albanians' relations with Belgrade and the international community rather than Tirana. The current priorities of the leadership in Albania on one side, and the leaders in the former Yugoslav countries on the other, are quite different. The foremost goal of the latter is independence from the Federal Republic of Yugoslavia (FRY), while the former concentrates all efforts on integration with European structures and institutions.

Consequently, in the context of an unstable region, Albania has been keen to demonstrate that it can be a responsible factor for stability. Albanian leaders in Kosovo and Macedonia expect Albania to play an important role in raising its voice in international circles in favour of independence for Kosovo. However, despite Western concerns regarding possible demands for a "Greater Albania", Albania's leadership has adamantly opposed the notion of a unified Kosovo and Albania. This is not just because Albania wants to comply with the wishes of the international community. Nearly 90 years of separation have given Albania a very distinct and diverse historical development from the Albanian communities of former Yugoslavia. Recent developments have further emphasised the differences. Although within Albania there is almost universal support for Kosovo's "struggle for self-determination", i.e. independence, the strongest national sentiment remains focused on the internal development of Albania. It seems generally accepted that for the foreseeable future it is Albania's national interest to remain politically separated. Instead, Tirana advocates closer political, cultural and economic ties among Albanians in the region, hoping to diffuse irredentist pressures among ethnic Albanians outside Albania.

C.   Governance

In marked contrast to its diplomatic maturity, Albania's internal politics remain divisive and confrontational. Many leaders of the opposition Democratic Party (DP) are unlikely ever to accept the legitimacy of the present Socialist-led government, and will continue to undermine and disrupt the political process. Settling past accounts remains high on the agenda.

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210 The very few Albanians that still actively uphold the "unification of all Albanian-inhabited lands" can be found within the tiny Kosovo political groupings: the People's Movement for Kosovo (LPK) and the National Movement for the Liberation of Kosovo. Both were underground movements in Kosovo during the 1980s, whose members fought with the KLA during the 1999 Kosovo conflict. The latter remains the most radical force in Kosovo, with strong moral and financial support from the diaspora in the U.S. and Switzerland.

Albania's current political tensions can in large part be traced to the authoritarian rule of ex-President Sali Berisha and his Democratic Party that came to power in 1992. Berisha conducted the May 1996 parliamentary elections in a climate of manipulation and intimidation. The overwhelming majority of international monitors agreed that serious irregularities occurred during polling. The Democratic Party declared victory, despite Western pleas to re-run at least part of the election. Public anger mounted over both the conduct of the elections and Berisha's increasingly authoritarian rule.

For the six months that followed, civil unrest was forestalled due only to the population's belief that instant wealth was achievable by sinking their savings into pyramid investment schemes. The sudden and dramatic collapse of these schemes, and the violent uprising it precipitated, forced Berisha to call new elections and then reluctantly concede defeat by the Socialists, under Fatos Nano.

Table 20. Main Political Parties in Albania

Political Party	Political Alignment
Socialist Party (SP)	Successor to the former communist party (Party of Labour), now primary party in the present governing coalition led by Fatos Nano.
Democratic Alliance (DA)	Part of the governing coalition led by Neritan Ceka.
Social Democratic Party (SPD)	Part of the governing coalition led by Skender Gjinushi.
Union of Human Rights Party (PBDNJ)	A government coalition partner, which primarily represents the ethnic Greek minority led by Vasil Melo.
Democratic Party (DP)	Headed by Sali Berisha since 1990. In February 2001, a splinter group formed a new political party, the New Democratic Party led by reformists concerned over the DP's commitment to democratic reform. These developments could affect the DP's standing in the forthcoming June 2001 national elections.

Any hopes of rapid reconciliation collapsed in September 1998 when a popular founding member of the Democratic Party, Azem Hajdari, was assassinated. There followed an attempted coup d'état by Berisha's party,

which once again pushed the country to the brink of chaos.[211] A bitter personal feud between Nano and Berisha added fuel to the fire. Berisha imprisoned Nano,a Prime Minister in the first post-communist government in 1991, in 1993 for allegedly misappropriating state funds. Supporters freed Nano during the 1997 uprising that forced Berisha from power. The anger, confusion and social disorder of these serial upheavals have scarred every facet of Albanian life.

Albania now finds itself trying not only to shed the difficult legacy of one of the most repressive communist regimes in Europe,but also to recover from the disintegration of political power that occurred twice in the 1990s. Public trust in the institutions of law and justice is low, and a climate of apathy, lawlessness and weak state institutions has weakened the political centre at the expense of regional loyalties. In less than a decade Albanians have been catapulted from extreme collectivism to extreme individualism. The subsequent lack of trust in institutions has created a population with little notion of civic pride or responsibility. Consequently, people take little responsibility for what happens beyond the confines of their families and homes. There is a strong psychological gap to be overcome before ordinary people can be persuaded that any investment in their community will pay dividends for the future well being of their families.

The practice of political pluralism is not well embedded. On the basis of the constitution adopted in 1998,Albania has embarked on a substantial overhaul of its institutions and legal system - in cooperation with the OSCE and the Council of Europe - to implement actual separation of powers. Some progress has been made through the European Union (EU) supported comprehensive State Institutions and Public Administration Reform Programme. However, state institutions and the civil service remain weak and unstable,and public administration functions poorly at all levels.[212]

The remnants of the one-party state have also left civil society and self-government weak at the local level. In June 1992,the government approved a law that for the first time granted political, administrative and economic autonomy for local government. Since then,a number of initiatives designed to strengthen local governance have been attempted. The Albanian Non-Governmental Organisation (NGO) Forum is working with the state secretary for local government and the Association of Albanian Mayors in a Dutch-

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211 Azem Hajdari was shot dead by unknown gunmen whilst he was leaving the Democratic Party headquarters on 12 September 1998. His funeral two days later turned into an attempted coup d'état when DP supporters stormed government buildings and temporarily occupied the Prime Minister's office and the State Television centre.
212 European Commission Report on the Feasibility of Negotiating a Stabilisation and Association Agreement with Albania, Brussels,24 November 1999,p5.

sponsored project entitled Strengthening Local Government and Citizens' Participation. At the end of 2000, the government also endorsed a packet of laws aimed at strengthening and transforming local government. With the support of the Council of Europe, a three-year strategy will train specialists in local governance and training centres will be established for elected local officials.

The process of bringing internal democracy to the major political parties has begun with younger reformist factions challenging the older party leaderships. Previously, such dissenters would have been automatically expelled from the party. Both main parties are gaining a growing number of young recruits who have no recollection of the communist system, which may be contributing to the development of a new political culture. The 1 February 2001 announcement of the formation of a New Democratic Party (NDP) is an encouraging sign. The new party, made up of reformists within the opposition Democratic Party and two parties formed by former Democrats, aims to break the stifling bipartisan arrangement.

There is little doubt that the authorities are committed to the concept of decentralisation. However, increasing participation in local government will require raising public consciousness and addressing the impoverished state of many regions that obstructs decentralisation and local control. Progress has been painfully slow, and continues to clash with the suspicion of almost any form of authority.

D.   Human Rights

Albania's only sizeable minority is ethnic Greek. In the past, Greece has claimed part of the territory where this minority lives. Greece and Albania have set starkly different estimates as to the size of this minority, with Tirana claiming it totals around 70,000, and Athens citing a far higher figure of 200,000-400,000.

There are also some 15,000-20,000 Slavic-language speakers in Albania, mostly in the east, near Lakes Ohrid and Prespa, and the Peshkopia region. Roma number around 50,000, and there are about 80,000 Vlachs. A small community of Montenegrins and Serbs, numbering around 1,500, are found between Shkoder and the Montenegrin border.

Under communism, political organisation by minorities in Albania was forbidden, although officially sponsored cultural and educational activities were tolerated at a local level. Following the collapse of the one-party state

in 1991, the human rights organisation Omonia was founded to promote the interests of the Greek minority, and although the Albanian Orthodox Church was quickly able to regain its surviving buildings, there were, as in other denominations, almost no indigenous clergy available. Consequently, priests were brought in from Greece and Cyprus. This led to a conflict between the minority and the government when the Orthodox Ecumenical Patriarch in Istanbul appointed an ethnic Greek, Yannulatos, as head of the Albanian Church. However, Yannulatos's sensitivity towards Albanian concerns helped defuse the crisis, and he has made the education of ethnic Albanian priests a priority.

In April 1994, violence broke out when paramilitaries allegedly from the Greek minority attacked a military post near Gjirokaster, killing two Albanian soldiers. An Amnesty International report condemning an alleged pattern of abuses committed by the Albanian police against the Greek minority was also issued. At the same time, the Tirana government began encouraging landless Muslim peasants from the north of the country to occupy vacant ethnic Greek land and villages in the extreme south, which ethnic Greeks attacked as "ethnic cleansing". A purge of Greek lawyers and military professionals continued under Berisha, and members of the minority were prominent in organising the rebel committees that took over in the south of the country during the 1997 uprising.

Unemployment has hit the community badly, and emigration has been high. The granting of highly valued Greek visas to minority members in preference to their Muslim Albanian neighbours has not helped interethnic harmony. Relations between the minority and the government have improved under the current government, but the future is unclear. Although a number of new schools have been offered to the Greek minority, there is an acute shortage of pupils, most of whom are living and studying in Greece. Throughout the Greek-inhabited areas there are very few young people, and for most of the year only a few elderly people live in the southern coastal villages, with the rest of the population living and working in Greece. In the long-term, this is likely to result in a demographic shift, as landless northerners seek to establish themselves on abandoned Greek-inhabited land.

Relations between the Socialist Party and the Union of Human Rights Party have been very tense since the start of the October 2000 electoral campaign, which was marked by strong nationalist overtones from both parties. In a letter to Prime Minister Ilir Meta, the Greek Foreign Minister denounced the manipulation of the electoral process in the Himara district, where the two

parties were in competition. In mid-December, the chairman of Omonia, Vangjel Dule, criticised the government for sidelining minority demands on land ownership and representation in the armed forces. Dule claimed,"the government is also reluctant to respect the quota of Greek minority representation in the police and army structures".[213] Many in the Albanian political leadership from both the right-wing alliances and the Socialist Party believe the Union of Human Rights Party and the Greek minority NGO gather funds from Greek-nationalist lobbies to "Hellenise" the southern Albanian coast.

In November 2000, after Greece had complained to the European Union about the mistreatment of the ethnic Greek minority, Albania pledged to improve its citizens' rights legislation. There have not been many other reports of widespread minority rights violations. A number of projects by human rights groups and NGOs work to educate Albanians on the concept of human rights. These include the Helsinki Committee, the Albanian Human Rights Group, and the Centre for Human Rights. These organisations run projects to increase citizens' awareness of human rights in schools, colleges and amongst those arrested or detained by the police, as well as developing a curriculum on human rights specifically aimed at police officers.

E.   Economy

The difficulties that Albania faces in transforming itself into a modern market economy are uniquely daunting. Communist Albania's economy was rigidly centralised, with fixed prices, state or cooperative ownership of all means of production and planned regulation of output. The result was an acute shortage of skilled manpower, a decline in labour productivity due to absenteeism and low morale, outdated, inefficient enterprises and a chronic lack of consumer goods. Following the collapse of the one-party state in 1991, all the main political parties were committed to a radical transformation of the economic system, including large-scale privatisation and the introduction of a market economy. Such a policy, however, has not been easy to implement.

Although human resource development, economic restructuring, political realignment, legislative reform and new social freedoms represented the outward superstructure of economic transition, Albania's hopelessly inadequate infrastructure still presents a major obstacle to progress.[214]

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213 *Albania Daily News*, 18 September 2000.
214 Derek Hall, *Albania and the Albanians*, Pinter   Publishers, London, 1994, p233.

Wages and salaries of the most skilled and professional strata remain extremely low, partly as a function of this economic dislocation. However, a new class of small entrepreneurs, mainly in the retail and agricultural sectors, has emerged as an economic power.

The collapse of the pyramid investment schemes, and subsequent economic meltdown of 1997, painfully illustrated the complete inadequacy of Albania's institutional and legal framework. Since July 1997, the Socialist-led government has made considerable efforts to stabilise the economy and address its structural deficiencies. As a result of these efforts, and with the support of international financial organisations, the Albanian economy has made the beginnings of a successful recovery. Structural reforms have been progressing in line with an International Monetary Fund (IMF) program, and advances have been made in privatising small and medium-sized enterprises.

In general, structural reform is helping Albania's economy slowly emerge from its deeply dysfunctional state. Prices are stable and the economy is currently growing at a rate of around 7 per cent, admittedly from a low base. Tax revenue increased by 33 per cent in the first half of 2000, and foreign investment is increasing. The Bank of Albania, in a report published on 6 October 2000, said the economy was reviving, with growth in agriculture and state-run industrial production, in the construction sector and in private investment. Foreign trade has also gradually been increasing, and inflation is modest with Albania's Central Bank lowering its 2000 inflation forecast from 4 per cent to 2 per cent because prices have been falling consistently.

Overall the economic outlook remains positive. At the end of January 2000, the International Monetary Fund gave a clean bill of health to the Albanian economy, releasing $6 million in fresh loans. Shigemitsu Sugisaki, the IMF deputy managing director, said "The Albanian authorities have been successful in maintaining macroeconomic stability, and the government had made progress in reducing the budget deficit, improving tax collection, and devising a strategy to reform the country's electricity".[215]

Officially, unemployment stood in September 2000 at 228,000, or 18 per cent of the total population, down from 20.7 per cent in September 1998 and 28 per cent in September 1997. The Ministry of Labour estimates that up to 200,000 people are employed in the grey economy. With the lowest

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215 *Reuters,* 27 January 2000, 17:40.

level of development in Europe (GDP per capita of about $830 in 1998), Albania is a predominantly rural economy, with 54 per cent of GDP generated by agriculture, 21 per cent by services, 13 per cent by construction and 12 per cent by industry.

Most people in employment work in small family businesses or on family-owned smallholdings. Of all registered companies, only 0.2 per cent employ more than one hundred people, with 79 per cent of all registered companies having just one employee. Wages are often not sufficient to live on. For example, a senior polytechnic maths teacher earns $85 per month. Many earn extra money through a second job. According to the World Bank, around 20 per cent of the population is living below the poverty line of $25 per week. The government, World Bank and IMF recently signed a three-year poverty reduction program aimed at raising living standards, especially in rural areas.

Remittances from emigrants have provided a vital economic lifeline for many families. The opening of several, mainly Greek, private banks, has facilitated these remittances. Thanks to returning Albanian emigrants, foreign exchange deposits in the banks increased in 2000, and remittances from emigrants were expected to be more than $400 million by the end of the year - about a sixth of the gross domestic product, and an increase of $100 million over the previous year.[216] The emigrants' deposits have played an important role in the development of small- and medium-term businesses.

The lack of adequate housing is a major problem. Albania currently has 54,000 families (approximately 230,000 people) registered as being without shelter. The Ministry of Transport and Housing has announced an ambitious strategy to alleviate this problem, which aims to house a third of all homeless within the next three years.

Despite cheap labour and access to Western markets through its main trading partners, Greece and Italy, Albania has attracted few investors. Foreign investors started to appear in Albania in 1990, when the communist government eased the ban on foreign investment. Since then, an estimated 500 Italian and 200 Greek-owned businesses have been established. However, foreign direct investment remains erratic, standing at $32 million in 1992, increasing to $97 million in 1996, and then stalling at around $98 million because of the violent uprising during 1997, and halving over the next two years, due to the attempted coup in 1998 and the Kosovo crisis in

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216 Central Bank of Albania statement, 16 September 2000.

1999.[217] Although 2000 brought a three-fold increase to $143 million, the international perception of Albania's political risk and corruption repel investment.[218]

Tourism development has attracted only small investors. Apart from the poor security situation and regional instability, tourism is also hampered by inadequate infrastructure. Government-led efforts to sell off state-owned hotels have largely failed, despite generous fiscal incentives. Much of the new construction is illegal. The Committee for Tourism Development announced priorities for the sector in 2000, including twenty investment projects involving the construction of tourist complexes in the south. Most of the investors are Albanian private firms. However, they are hampered by a lack of bank credits.[219]

The Socialist-led government has stressed its determination to achieve sustained economic stability and far-reaching structural reforms. However, this will require a long-term commitment. One of the main challenges is to stabilise the government's own finances, mainly through an increase of tax revenues after a period of continuous decline. The government is placing great emphasis on strengthening the fiscal administration in order to improve tax and customs revenue collection and to clamp down on tax evasion. To improve customs administration, measures are being adopted to upgrade the professional level of customs officers and to offer special bonuses or rewards as an incentive to collect customs revenue. Measures to improve the customs administration include a revised customs code and the recruitment of new anti-smuggling officers. However, the capacity to deal with fraud and corruption needs to be reinforced.[220] Both the IMF and the government have expressed satisfaction with the functioning of the Foreign Debt Management Unit, set up under a United Nations Development Programme (UNDP) project, to strengthen the debt management capacity within the Ministry of Finance. A group to monitor the implementation of the Stability Pact's anti-corruption plan has been set up.

Progress in restructuring and privatising large-scale enterprises in strategic sectors has so far been disappointing. Of the total number of companies registered, only 10 per cent are in industry, while most of the rest are engaged in importing. Of the many companies privatised in 1993-1995, the

217 *Albania Daily News,* 10 September 2000.
218 *Albania Daily News*, 10 September 2000.
219 *Albania - 2000 Country Investment Profile*, European Bank for Reconstruction and Development, May 2000, p.19.
220 European Commission Report on the Feasibility of Negotiating a Stabilisation and Association Agreement with Albania, Brussels, 24 November 1999, p.4.

majority have ceased manufacturing. They immediately sold off the equipment as scrap and then used the warehouses for trading. There is little incentive to invest in manufacturing. The government's privatisation program, stalled by the conflict in Kosovo, is back on track, with sales of the mobile telecommunications company, the main mining enterprises, a major bank and the oil and gas industry due to go ahead.

Besides land distribution, market liberalisation has contributed to the recovery of agricultural production. Small rural agro-processing plants and agricultural services have been privatised. However, Albania's arable land is limited, farms are small (on average 1.5 hectares) and there is an acute shortage both of technology and of capital to buy it. Further limitations are imposed by a lack of fertilisers and pesticides, and inadequate irrigation. Modernisation of the sector will depend upon attracting foreign investment in production and processing.[221]

Since the end of the Kosovo conflict, Albanian companies have been rushing to the Kosovo market. The Albanian Institute for Social Insurance (INSIG) was the first to discover the market, to be followed by many other companies such as branches of Coca Cola, and the Tepelena and Glina mineral water firms, and Albanian Airlines, which now flies to Pristina five times a week.

The most important contribution to promoting economic recovery would be to ensure law and order. The country is receiving a wide range of practical assistance to fight corruption and build efficient institutions. Since Albania's most recent breakdown of law and order in 1997, much progress has been made in rebuilding a functioning state, restoring security and stability. However, the achievement remains fragile.

Another priority is to press ahead with a legislative framework to protect investment and provide for a soundly regulated, functioning financial sector. The revision of banking legislation and of the supervisory framework, as well as the privatisation or liquidation of the remaining state-owned banks should be accelerated, as should the privatisation of public enterprises and utilities. The government and the Bank of Albania are determined to address the structural weaknesses of the financial sector, specifically through privatisation, which it is hoped will improve low standards and high bad debt ratios. With the support of the IMF, the World Bank, the International Finance Corporation (IFC) and the European Bank

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[221] Albania, 2000 Country Investment Profile, EBRD Country Promotion Program, May 2000, p.18.

for Reconstruction and Development (EBRD), they have embarked upon a policy aimed at: restructuring and privatising the state banks by the end of 2001; opening up the market to private banks supported by reputable strategic investors, and establishing a competitive and well-regulated domestic financial market operating under the close supervision of an independent central bank.[222]

Apart from Kosovo, a top foreign policy priority is to further Albania's integration into the EU. The authorities are under no illusions as to a fast track path for entering the EU. As early as 1995, Albania requested the opening of negotiations for an association agreement. Draft negotiating directives were prepared but no formal recommendation was adopted by the European Commission because of the flawed parliamentary elections in May 1996 and the breakdown in 1997. The EU has pointed out that further strengthening of contractual relations would depend upon effective progress in stabilisation and recovery. The ultimate test will be Albania's own ability to maintain the work initiated by the international agencies.[223]

However, eventual accession remains important as a goal and a tool for setting standards for which to aim. The prime minister has set a Stabilisation and Association Agreement with the EU as the current priority.[224] Albania has benefited from EU assistance through the PHARE program (since December 1991) and from the generalised scheme of trade preferences (GSP since February 1992). Implementation of nearly all the "Quick Start Projects" in Albania, under the Stability Pact for South East Europe, is expected to have begun by April 2001. Albania's transport infrastructure will be reconstructed under the program, made up of seven projects, at a cost of $112 million.

Conclusions and recommendations on Albania

❑ *Albania's neighbours - Greece, Bulgaria, Turkey, Macedonia and Italy - and the administrators of Kosovo should take urgent steps to strengthen their cooperation, in particular in closer border monitoring, over the problem of illegal trafficking of people, drugs and weapons through Albania. The provision of logistical and communications equipment for use against illegal trafficking, and help in establishing a regional centre against illegal trafficking in Albania, would be particularly valuable.*

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222 Albania - 2000 Country Investment Profile,ERBD Country Promotion Program,May 2000,p.27.
223 Albania - 2000 Country Investment Profile,EBRD, May 2000,p.4.
224 *Albania Daily News*, 11 September 2000.

❑ *The international community should provide logistical and communications equipment to border police, and Albania should recruit personnel from non-border districts for use in policing the border.*

❑ *Projects to reclaim weapons looted during the anarchy of 1997 should be extended and intensified.*

❑ *More resources could usefully be directed by international donors to establishing local conflict resolution centres in northern Albania, to tackle the issue of blood feuds.*

❑ *The revision of banking legislation and of the supervisory framework, as well as the privatisation or liquidation of the remaining state-owned banks, should be accelerated, as should the transparent privatisation of public enterprises and utilities.*

❑ *Business advice centres could be established in all major cities where owners of small businesses could learn basic business administration skills.*

PART IV.

INTERNATIONAL DIMENSIONS

11. REGIONAL COOPERATION AND THE STABILITY PACT

In the immediate term, regional cooperation in the Balkans is more likely to develop incrementally, from the ground up rather than architecturally, from the top down. Economic and trade areas, infrastructure, security arrangements and cross-border cultural ties are all fertile areas for such programs. The Stability Pact for South Eastern Europe, welcomed in 1999 by some as a latter day Marshall Plan, was meant to improve coordination of international assistance while emphasising regional cooperation. While it seemed like a good idea at the time, the question is whether the quality of its implementation can be improved before key participants totally lose interest and confidence in it.

A.   Cooperation from the Ground Up

Since the traumatic dissolution of the former Yugoslavia, "regional cooperation" has become a loaded term in the Balkans. Suspicions are common that regional cooperation might serve as a Trojan horse for reconstituting Yugoslavia and infringing upon hard-won sovereignty. Indeed, while most of the countries in this report are eager for greater forms of association with major regional and super-national bodies such as the EU and NATO, they remain distinctly wary of closer ties to some of their own neighbours.

In many parts of the world, regional cooperation is highly institutionalised affair, with many regional institutions - not least the EU itself - developing on a "top-down" basis after initial agreements at high level meetings. The environment in the Balkans is, however, not very conducive to that approach at the moment. This perspective was underscored by the near-universal condemnation in the region that greeted the January 2001 suggestion by UN Special Envoy Carl Bildt that the EU consider the Balkans "en bloc" for membership.[225] There is a broad view in the region that if the Balkans is

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[225] Carl Bildt, "A Second Chance in the Balkans", *Foreign Affairs*, January/February 2001, pp.148-158.

treated as a group, progress will move forward at the pace of the slowest country, producing lowest common denominator change while giving international organisations such as the EU a convenient excuse to defer membership. Many also fear that major efforts to more closely integrate the Balkan states with each other will divert energies and resources away from the primary goal of securing some form of association with the EU.

Against this background,it is difficult to see support building rapidly for the ambitious proposal of the Soros Foundation in February 2001 for the creation of a "common economic space" for South Eastern Europe. The idea included creating a Balkans task force that would oversee the creation of a customs union between the EU and the countries of the region negotiated on a regional basis; the introduction of the German Mark, then the Euro,as legal currency with or without a local currency;and coordination of local reforms. Clearly efforts to improve customs procedures, the investment climate and financial discipline are of vital importance and widely shared by the international community. A greater spirit of cooperation has much to offer, and significant efforts are being made to stimulate it through the Stability Pact for South Eastern Europe, discussed fully below, the Southeast European Cooperative Initiative (SECI),and a range of World Bank and OECD programs that are included under the umbrella of the Stability Pact. The "common economic space"concept is entirely consistent with those kinds of efforts.

Given that the countries and entities covered by this report all have struggling and fragile economies, are deeply dependent on trade and suffer from cross-border crime and sporadic instability, regional cooperation has obvious potential. If the countries of the Balkans are developed as economic, social and cultural islands,all will experience difficulty generating the critical mass needed for a lasting recovery. Further, without rudimentary regional collaboration, the task each country faces in preparing for some form of affiliation with the European Union will only be complicated and delayed. Most of the countries in the region recognise these facts.

Even taken together, the Balkans economies are small and underdeveloped. The populations of Bosnia, Serbia, Kosovo, Montenegro and Macedonia (16.8 million) amount to less than one fifth of the population of Germany. The GDPs of those five entities combined (totalling $24.9 billion) come to much less than half the GDP of Ireland, which has less than a quarter of their population. The per capita GDP of Bosnia is less than one thirtieth of the per capita GDP of Germany.[226] Luxembourg, covering an area of only

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226 $920 and $28,860 respectively.

2,586 square kilometres and with a tiny population, has more than half the GDP of the five core entities combined.[227] All of these countries can benefit from pooling skills, experience and best practices.

The change of the government in the FRY may speed these efforts. The biggest obstacle to normalised relations in the region was eliminated in November 2000 when the FRY accepted that it was not the sole successor state of the former Yugoslavia. This new stance broke the impasse that blocked the division of property and hard currency reserves. The Governors of the five National Banks have met three times since November 2000 to discuss the division of the 46 tons of gold in the Bank for International Settlements in Basel. The division of the hard currency reserves of the former Yugoslavia is just the first in a series of divisions of the property of the Federation, and further progress in this vital area would do much to build confidence in the region.

All that said, it is much more likely for the foreseeable future that any improvements in trade liberalisation or facilitation, or in other macro- or micro-economic policy coordination, will grow out of a patchwork of bilateral and limited multilateral agreements and arrangements rather than any comprehensive new regional architecture. Cooperation is most likely to occur in areas where collaboration can be quickly implemented, with few political overtones and with tangible short-term benefit to the participating parties. This "bottom up" approach is not to be scorned, in relation to economic or any other form of regional cooperation. It is possible in this way to make progress on many substantive fronts, while at the same time gradually developing habits of contact and cooperation more generally, which cannot be anything other than helpful in re-establishing a more civilised political climate in the region.

Some of the economic and trade areas obviously worth pursuing in this way are:

❑ *Infrastructure development.* Transport, communications and energy supply needs invariably spill over state borders, and are the most visible candidates for early joint action. This is beginning to happen on a significant scale. For example, in February 2000, Macedonia along with Albania, Bosnia, Bulgaria, Croatia and Romania signed a Memorandum of Understanding to establish a regional program to improve trade and transport in South Eastern Europe. Montenegro demonstrates the wide

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227 Luxembourg's GDP of $14.7 billion equals 58 per cent of the five entities combined GDP.

variety of possible infrastructure projects that could improve regional prospects for economic growth, and the following projects would be of great benefit.

❑ *Border controls.*   Macedonia and Bulgaria have instituted a customs regime that could serve as a regional model:the two countries agreed to set up a single customs collection and inspection border post rather than maintaining two separate and competing customs posts kilometres apart. That simple example could be followed with rather more ambitious projects (for which funding is readily available) such as better coordinating efforts to track and document corruption at the Balkans borders; synchronising and streamlining border procedures building on the work of the SECI initiative in this area;and using the EU's Customs and Fiscal Advisory Office (CAFAO),which has been effective in Bosnia,to play a useful role in the region in helping to improve efficiency and reduce corruption in the customs service.

❑ *Trade agreements*. Some bilateral free trade agreements in the region are already in place - Croatia with Slovenia and Macedonia, and Macedonia with Croatia,Slovenia,the FRY, Bulgaria and Turkey. Macedonia signed its first regional Free Trade Agreement with Slovenia nearly three years ago. Macedonia imported $47.7 million dollars worth of Slovenian goods last year and exported about $7.3 million in goods to Slovenia. Bosnia and Macedonia have made progress towards signing a Free Trade Agreement and hope to have one in hand by the end of the year. Currently Macedonia exports about $30 million in goods annually to Bosnia but hopes this will increase to $100 million after the agreement is signed. In energy, Montenegro has the capacity with its hydro-power to be a major regional supplier.

Economics and trade areas are not the only fertile ones for major cooperative efforts. Two others are particularly fruitful and should be intensely encouraged:

❑ *Cultural Cooperation.* Too often,people in the region have insisted that redrawing the map or creating ethnic enclaves are the only ways to preserve their heritage. Instead, the notion those communities can peacefully reach across democratic borders in cultural exchanges needs to take root. Another persistent challenge for the whole region is to ensure that a sense of shared culture and identity can be preserved across country borders and community lines. Many small scale cooperative projects can address these needs.

❑ *Security Cooperation.* Under the OSCE's program of confidence and security-building measures (CSBMs) a good deal of information exchange and verification activity is already going on. One of the Stability Pact's working tables - of which more below - also addresses military and security affairs in the region, and a number of projects are underway in that regard, most notably a regional arms control verification and information centre that opened in Zagreb last year, bringing together military experts from around the region. These larger canvas programs can readily be supplemented by more localised arrangements.

B. The Stability Pact for South Eastern Europe

The concept of a Stability Pact for the Balkans dates back to late 1998, but it was the 1999 crisis over Kosovo that generated support for a more coordinated regional approach to prevent further crisis and promote development in the region. On 10 June 1999, as a direct result of a German Presidency-led European Union initiative, the Stability Pact for South Eastern Europe was announced by Foreign Ministers meeting in Cologne. More than 40 countries and organisations agreed to take a "comprehensive and coherent approach" to bolster the countries of South Eastern Europe "in their efforts to foster peace, democracy, respect for human rights and economic prosperity in order to achieve stability in the whole region".[228] The idea was essentially to improve coordination of international assistance, while emphasising regional cooperation. While the European Union was credited with a "leading role", the enthusiasm of the Clinton Administration was an important asset from the outset.

Objectives

At a summit meeting in Sarajevo on 30 July 1999, the Pact was confirmed by Heads of State and Government, who reaffirmed their "shared responsibility to build a Europe that is at long last undivided, democratic and at peace". "Speedy and measurable progress" towards Euro-Atlantic integration was promised to all the countries in the region, linked to their respect for "the objectives of democracy, respect for human rights, economic and social development and enhanced security". The magnetic pull of international integration, culminating in eventual accession to the European Union, was

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[228] The Member States of the European Union, the European Commission, Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Romania, the Russian Federation, Slovenia, the former Yugoslav Republic of Macedonia (FYROM) Turkey, the United States of America, the OSCE Chairman in Office and the Council of Europe; and Canada and Japan, the United Nations, UNHCR, NATO, OECD, WEU, International Monetary Fund, the World Bank, the European Investment Bank and the European Bank for Reconstruction and Development, the Royaumont process, Black Sea Economic Cooperation Pact (BSEC), Central European Initiative (CEI), Southeast European Cooperative Initiative (SECI) and the South East European Cooperation Process (SEECP).

widely viewed as the cornerstone of the effort to provide the leaders and peoples of the Balkans with a clear alternative, and disincentive, to renewed conflict.

The pomp of the Sarajevo Summit encouraged many to hail the Stability Pact as signalling a strong, long-term political commitment by the international community to steer the Balkan countries firmly into the Western mainstream. However, there was also concern in some quarters about the general, often vague, language of the Pact documents, which were long on declaratory language and short on operational detail or potential. For example, while the European Union had agreed to provide the lion's share of resources needed to implement the Stability Pact, these resources were nowhere more closely defined.

There were also concerns that the Stability Pact would be prevented from living up to its own launch by lack of resources and structure. The Pact would not create a new international organisation, nor would it command independent financial resources or establish new implementing structures. The only staff position envisaged was a Special Coordinator to give political direction to the Pact's work. Bodo Hombach, a former German cabinet minister, was appointed to this position, reflecting Germany's driving-seat role in establishing the Pact.

Establishment of the Stability Pact appeared to demonstrate political will, based not only on formal consensus but also on a practical readiness by the EU and other participants, to match a general agreement on principles with specific commitments on funding. The involvement and funding of the U.S. also helped emphasise the international character and broad support behind the Pact. Continued support from the U.S. will be essential if the Pact is to be transformed into a more effective mechanism.

The Pact was premised on the idea that the countries of the Balkans needed "to develop a shared strategy for stability and growth of the region", and that by working together on "structural shortfalls and unresolved issues" the international community could facilitate both economic and democratic development. Local governments would commit themselves to meaningful reform, non-violence and the basic tenets of democracy and regional cooperation. The international community would underwrite this effort through assistance programs and its own commitment to open the doors for integration into the Euro-Atlantic community. This arrangement built on other successful foreign

assistance models in identifying "local ownership" (i.e. incremental commitment by the beneficiary countries themselves) as a key to enduring economic and political transformation.

The Pact set self-consciously ambitious economic objectives, with countries pledging to cooperate to establish "vibrant market economies based on sound macro policies, markets open to greatly expanded foreign trade and private sector investment, effective and transparent customs and commercial/regulatory regimes". The Pact also committed the countries of the Balkans to "developing strong capital markets and diversified ownership, including privatisation, leading to a widening circle of prosperity". Other agenda items include:"promotion of free trade areas;border-crossing transport; energy supply and savings; deregulation and transparency; infrastructure; promotion of private sector business; environmental issues", and more.

The Pact established three "Working Tables" under which the bulk of its work would be carried out: human rights and democratisation; economic reconstruction,development and cooperation;and security issues. Each table was charged with identifying priority projects and establishing working plans to achieve these objectives.

These tables were intended to help participants identify new opportunities for cooperation and improve the coordination of existing efforts. At the same time, a number of specific targeted actions were launched, such as the Stability Pact's Anti-Corruption Initiative; the Investment Compact; the Business Advisory Council; the Charter for Media Freedom; the "e-Balkans" initiative (recently renamed e-SEE), intended to accelerate the spread and commercial benefits of information technology; the Steering Committee on Refugee Returns,and others.

Initially, the Pact excluded the Federal Republic of Yugoslavia (FRY) because its government contravened the Pact's basic principles. Nevertheless, the Pact was instrumental in ensuring that some direct help reached municipalities in Serbia run by opposition parties, and independent media under heavy pressure from the regime. Montenegro, meanwhile, was made an "early beneficiary of the Pact"and given substantial aid until Milosevic was removed. This support continues, though some international institutions appear to have lost enthusiasm since the changes in Belgrade. The FRY was accepted as a full and equal participant into the Stability Pact on 26 October 2000 in Bucharest,only three weeks after Milosevic's fall. It was a creditably rapid response to democratic change. The FRY now has equal rights and duties under the Stability Pact,and the same conditionality.

Apart from its function as an umbrella for coordinating new and existing regional initiatives, the Stability Pact organised a Regional Funding Conference in Brussels in March 2000, when pledges amounting to 2.4 billion Euro were made in support of regional programs.

The Record

In every entity covered in this report, as well as in Western capital cities, the Stability Pact seems to have generated more frustration than satisfaction. The high-profile launch in Sarajevo in 1999 encouraged a misconception in the region that the Pact would serve as second Marshall Plan, bringing unprecedented levels of funding and efficiency. In fact, the Pact was not provided with independent funds, nor can it claim involvement in all the funding programs for the region by its own Western participants - the European Union and G-8 countries - and the international financial institutions.

The Pact will never become more effective than its participants - above all, Western governments - allow it to be. It depends on their financial resources, know-how and political commitment. Given the multiplicity of other organisations working in the Balkans that are also funded by these same Western governments, the Pact will always suffer from a reasonable cloudy and diluted mandate and must focus its efforts to where it has a comparative advantage.

The Stability Pact was established in something of a no-man's-land among existing international and state structures with responsibilities that seemed to stretch past its authority. Donor coordination is never easy, and many donors have been reluctant to compromise their prerogatives to enhance the effectiveness of the Stability Pact. So while it is easy to be critical of the performance of the Pact itself, much of the blame must ultimately rest with the governments that created it.

A perception of superfluous planning, unneeded preparatory reports by consultants, innumerable meetings, bureaucratic delays and a murky system for rewarding projects and programs - with relatively few successful projects originating in the Balkan countries themselves - has convinced many that the Pact's commitment to "local ownership" was largely rhetorical. There is a feeling that the Pact's potential was dramatically oversold in 1999, that confusion and competition among donors has mired progress in an interminable series of meetings and assessments, and that far more money was promised - or at least intimated - than has been delivered. Recipients

have not always done an effective job organising to receive assistance, and continue to over-estimate the local capacity to absorb foreign resources while ensuring that funds are properly spent and accounted for.

Donors themselves have been frustrated with the slow speed of actual reform, by governments' reluctance to challenge the vested interest of powerful local elites and by the same inflated expectations that they helped create. There is also continuing concern that many leaders in the Balkans view European integration as a cure-all for their problems when they should be making the hard decisions to overhaul their economic and political systems.

Given the Stability Pact's sweeping agenda, its broad participation and tendency toward committee-style management, these disappointments are hardly surprising. The pledges at the regional funding conference in 2000 were impressive, yet sceptics argue that this sum would have been made available for the same purposes if the Pact had not existed. Advocates respond that the value of the Stability Pact does not depend on fund-raising as such, but rather on sustaining a high profile for the region over a period of years. The High Level Steering Group - comprising G-8 Finance Ministers and IFIs, created as part of the Pact process - has decided that a second such conference will be held in autumn 2001. If this goes ahead, the scale of pledging will provide a better measure of the Pact's ability to mobilise funders.

The Stability Pact has registered its best results in issues relating to economic development and reconstruction. It is notable that most of the more successful initiatives take place outside the three-table structure that has proven a cumbersome instrument for operational activity. Efforts such as the Investment Compact, the working group on Trade, and efforts to clarify the location of the second bridge over the Danube between Romania and Bulgaria have all been constructive.

What the Stability Pact has not done is encourage significant progress in liberalising and reforming the economies of the region, so as to create a more favourable climate for foreign investment. The mechanisms of the Pact have so far proven too unwieldy for the demanding process of helping countries shed the burden of command economies and the legacy of Yugoslav "self-management" socialism. In particular, because the Pact is a conduit for other assistance efforts, it has not been in the position so far of effectively demanding the kinds of terms and conditionality that are required to secure lasting economic reforms. For example, both the EU and the

international financial institutions are far better positioned to demand specific reforms because neither EU membership nor continued access to lending will be made available to those countries not meeting specific benchmarks.

It is one thing to set an agenda of ambitious economic goals, but quite another to identify and implement an effective progression of steps to ensure that those goals can be approached and met. Real reform has yet to catch up with the lofty rhetoric expressed under the auspices of the Stability Pact by the countries of the region. While investors may welcome the countries' stated commitment to embracing free markets, the weakness of the rule of law, continued insecurity and political/economic cronyism have been enough to frighten most investors away.

While the Stability Pact is obliged to make extensive use of public financing, in the medium- term there is no alternative to private sector funding. This is well recognised by the Special Coordinator. At this stage, however, the Pact package offers investors one lucrative new area for involvement (in the process of privatisation), some guarantees about security of funds and repatriation of profits and a few token assurances relating to bribery and corruption. The consequence is that even the Pact's creative initiatives are trapped between, on one hand, Balkan states that do not reform themselves rapidly or convincingly enough to draw significant private investment, and, on the other hand, Western governments that are beginning to question the wisdom of allotting resources to a venture - the Stability Pact - that has limited "added value" to show after nearly two years.

The Investment Compact, for example, is intended to address many of these issues - commercial law, corruption, accounting regimes, small and medium-sized enterprise formation, public procurement practices and, most specifically, investment guarantees. Yet the Task Force on Good Governance, which should be playing a vital and active role in these essential questions of institution-building, has produced little. The Investment Compact is hence a hostage to the lack of actual reform in the Balkan countries but also to the ineffectiveness of other organs of the Stability Pact.

There is also a clear need to generate greater local ownership of programs. For example, the first regional funding conference in March 2000 saw a serious shortage of projects originating inside the countries that stood to benefit from them. This pattern is at odds with the discourse of "local ownership" often used in connection with the Pact. The next round of funding should break with this pattern.

Given the reluctance of Western states to create a new organisation, and given the lack of an independent budget, the Office of the Special Coordinator of the Stability Pact (OSCSP) cannot be effective as a would-be secretariat for overall assistance efforts to the region, let alone as an implementor of regional projects. The OSCSP has spent too much time in supervising projects and mechanisms that have been conceived by participants in the Pact, while failing to galvanise a broader approach to the tasks at hand. The efforts of the respective Working Tables has been quite uneven and until Task Force leaders are paid for their services, it seems unlikely that the Tables will achieve a satisfactory level of professionalisation. If this cannot be done, consideration should be given to reducing the number and range of Task Forces.

Given the scale and importance of the Pact's remit, and the inevitable complexity of its political context, much depends on the leadership role of the Special Coordinator and his office. It is their task to stimulate political leaders outside and inside the Balkans to take hard - and often expensive - decisions on coordination and reform. Unfortunately, under its current leadership, the Pact has yet to develop a clear identity or create an Office capable of producing ideas that can either mobilise regional leaders to take hard decisions, or impress donors and persuade them to change their habits.

Future

The Stability Pact could still become the central strategic political agreement that galvanises and orients the international community, including the region itself, to implement a common and sustainable policy for peace and stability in South Eastern Europe. For this to occur, however, a fresh start must be made. To begin with, the broad objectives outlined in the Pact's founding documents should be elaborated in a detailed operational strategy, commanding the support of all participants. Also, the Pact would have to be allocated sufficient funds to recruit appropriate staff and "seed" a number of regional projects.

The effectiveness of the Stability Pact could be improved in a number of other ways as well. Particularly in the sphere of economics, the EU and other participants should consider introducing benchmarks (the Investment Compact has them already) and deadlines. This would allow the rhetorical commitments to economic reform to be properly monitored, with public encouragement or reproofs to follow. This kind

of technique works in checking on candidate members'progress towards compliance with the acquis, and would be useful in helping the countries of the region better prepare for that process.[229]   Consideration should also be given to supplying incentives to encourage governments to persist with economic restructuring, and to softening the social impact of transition.

The Balkans countries might also look at one of the more old-fashioned devices for encouraging funding, a standard Investment Protection Agreement.   For the EU's part, some concessional arrangements for provision of export credits might be in order.   They could consider starting their economic work together by trying to curb corruption and smuggling at their borders.   They could attempt to provide credible assurances that projects to be funded with Stability Pact money will not be captured by the corruption, mismanagement, cronyism and organised crime now prevalent.   A much strengthened and really effective anti-corruption initiative should be a high priority.

On a broader level, the lack of any strategy linking the Pact's goals with specific actions is a major handicap. This outstanding failing, and others described above, point to an urgent need for a radical overhaul of the systems and structures at the heart of the Pact. Some important elements of change (relating to staffing, working methods, and general administrative quality at the centre) could be carried out autonomously by the Special Coordinator, if he were convinced of their necessity - as, until now, he apparently has not been. Other reforms will require clear-headed and determined engagement by the Pact's participants, from the EU to the G-8, the IFIs and the countries of South-Eastern Europe themselves.

Alternatively, or additionally, the Pact could take a short-cut to strategic significance by trying to connect up with the European Union's Stabilisation and Association Process (SAP). It was the European Union that took the initiative to launch the Stability Pact for South Eastern Europe.   Yet, relations between the EU and the Pact have not run smoothly. The origin of the sometimes vexed relationship between the Stability Pact and the European Commission can be traced to the Cologne document of June 1999. Paragraph 20 stated that "The EU will draw the

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229 The Cologne document of June 1999 foresaw that aspirants to EU membership would be evaluated on, *inter alia*, their contribution to achieving "the objectives of the Stability Pact,in particular progress in developing regional cooperation". In practice,however, the Stability Pact has no role in the Stabilisation and Association Agreement (SAA) process,which is considered in Chapter 13.

region closer to the perspective of full integration of these countries into its structures. ...this will be done through a new kind of contractual relationship taking fully into account the individual situations of each country... We note the European Union's willingness that...it will consider the achievement of the objectives of the Stability Pact...in evaluating the merits of such a perspective." The "new kind" of relationship crystallised as the Stabilisation and Association Process (SAP), discussed in Chapter 12. It seems likely that the launch of the Pact stirred the Commission's competitive spirit, accelerating the start of negotiations with Macedonia in June.

The SAP soon dwarfed the various initiatives under the umbrella of the Stability Pact. The gap has inevitably widened with time, yet there is one vital political aspect of "integration" where the Pact could and should make an essential contribution. This is the regional dimension, which has been marginalised by the necessarily strong bilateral focus of the SAP negotiations. One promising avenue would be to develop the Pact as a forum for the political resolution of issues with a regional scope, such as energy and transport. This role would make the Pact more relevant by bringing it within the orbit of the European Commission's integrative program, without however binding it to the Commission's relatively ponderous multilateral procedures. It would also enable the Balkan countries to have a clearer sense of the Pact's utility to them, giving a more concrete meaning to the term "local ownership".

Conclusions and recommendation on the Stability Pact for South Eastern Europe

❑ *The Stability Pact should more closely focus its agenda with a far more limited number of priorities. In areas where the European Commission or other bodies have already established an effective role, the Pact should let such institutions take the lead. Consideration should also be given to reducing the number and range of Task Forces.*

❑ *The broad objectives outlined in the Pact's founding documents should be elaborated in a detailed operational strategy. The Pact will need to allocate sufficient funds to recruit appropriate staff and seed a number of regional projects.*

❑ *Continued support from the U.S. will be essential if the Stability Pact is to be transformed into a more effective mechanism.*

❏   *There is a clear need to generate greater local ownership of programs, and it is crucial that the next round of funding should have greater design input from the region.*

❏   *The Stability Pact should be developed as a forum for the political resolution of issues with a regional scope, such as energy and transport. This would make the Pact more relevant by bringing it within the orbit of the European Commission's activity, without tying it to the Commission's relatively ponderous multilateral procedures. It would also give the Balkan countries a clearer sense of the Pact's utility to them, and hence strengthen local ownership.*

12. EUROPE

Europe is well positioned to take a coordinated and forward looking approach to the Balkans, but it cannot simply hope that a "common European home" will cure all the region's ills. Both the EU and the Balkan countries face much steeper challenges than they have publicly acknowledged in working toward eventual accession, and the EU will need to closely focus its immediate assistance to generate tangible benefits and maintain the momentum for reform. Washington's increasingly distant approach to Balkans diplomacy gives the Europeans new opportunities to set the necessary conflict prevention agenda, but it is hard to break old habits of doing too little too late.

A.   European Interests and Objectives

"Europe" is treated for convenience here as embracing all those European countries that are member states of either the European Union or NATO. This collective group of countries has come to understand that it has profound interests in the Balkans, and remains key in setting policy toward the region. Many of the EU's international ambitions - whether managing a coherent foreign policy, developing coordinated military policies, maintaining cohesion or establishing international credibility - have been sternly tested in South Eastern Europe. Likewise, NATO's basic credibility and effectiveness as a military alliance, its policies toward expansion and its new strategic concept have all been repeatedly on trial in the Balkans.

Over the last ten years,Europe has come to terms with the high price of failure in Balkans policy: massive refugee flows;crimes against humanity; spiralling relief and reconstruction costs; extended peacekeeping commitments; rising tensions with Russia; general lawlessness; the threat of broader war; and deep strains upon regional structures. Time and again, Europe looked nervously to the Balkans - seemingly amazed at the ability of events to move beyond its control. The wide impact of the Balkans on the social, economic and security fabric of Europe has become painfully self-evident. In short, Europe has discovered that if it

does not export stability to the Balkans, then the Balkans will export instability to Europe. There is no substitute for a peaceful, stable and democratic South Eastern Europe on the flank.

Europe's continued military and diplomatic involvement in the region is also part of a larger European political agenda of considerable importance. If the Balkan entities covered in this report remain dysfunctional, it will undermine the broader prospects for expanding the zone of European integration eastward, and undercut Europe's ability to establish itself as a global regional and security powerhouse able to stand toe-to-toe with emerging blocs in Asia and the Americas. It appears that Europe will continue to take on a more and more influential role with regard to the Balkans. This seems the only logical outcome in a situation where the U.S. is increasingly interested in "burden sharing" and Europeans are eager to lead on their own continent. The only factor likely to alter this dynamic would be a return to a situation where NATO exerted military force on a large scale. Ultimately, Europe's interests in the region lead to a rather simple question that these countries must face: what is the best way to create the conditions that will allow the Balkans to move beyond chronic instability?

In rhetorical terms, Europe has answered this question with a single word:integration. Language ranging from "a common European home" to "a new Marshall Plan" has created the appearance that simply bringing the region into mainstream European structures can solve the problems of the Balkan countries, by reducing the significance of the borders that divide them. Integration into the EU and other multilateral institutions is seen as a means to prevent violent conflict, attract foreign investment, eliminate trade and cultural barriers and provide employment opportunities. The EU itself has led the charge in promoting this expansive vision by repeatedly telling the Balkans countries that they should regard themselves as European and must adhere to all the standards required of a modern European state. The 24 November 2000 communiqué issued after the EU-Balkans summit talked about "rapprochement" between the Balkans and the Union, and declared that the opportunity was "open to all countries to move closer to the EU".[230] While the document's language contained some residual ambiguities, it provided a relatively straightforward promise that - provided that certain standards were achieved - the Balkans countries could expect to eventually gain EU membership.

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230 Zagreb Summit Final Declaration,Press Release,24 November 2000.

While integrating South Eastern Europe into the architecture of European security, economic and political structures is a viable long-term strategy for the region, it will have to be coupled with much more effective and immediate efforts in the short run. Emerging from bitter regional conflict and barely having begun the process of reforming communist economies, Croatia, Bosnia, Serbia, Montenegro, Kosovo, Macedonia and Albania all have more pressing concerns that will have to be addressed to prevent a return to conflict. Most important, fundamental constitutional and status issues in Kosovo, Montenegro, Serbia, Bosnia and Macedonia will have to be addressed if meaningful reform and long term integration are to take place. This will require tremendous European political will up front - not years down the road.

Some relatively simple, straightforward lessons on security matters have been learned over the past decade. In the Balkan conflicts, Western threats, admonitions, warnings and deadlines have been taken seriously only when backed up by a credible military deterrent. Hesitation and delays over introduction of troops have only exacerbated problems on the ground. Military initiatives in the region worked best when NATO members were able to forge a common vision for their efforts. That said, military planners have been right to be concerned about the open-ended nature of troop deployments amid uncertain political environments. On military matters, Europe has not acted as an independent actor from the United States, and decisions have been made within the strictures of NATO as an organisation. NATO has collectively set force levels, military aims and coordinated on the full range of planning that such efforts entail. In general, the use of military force and peacekeeping operations in the Balkans only became effective when these operations were NATO driven and dominated. That lesson is an important one, and both Europe and the U.S. should be careful not to excessively tinker with success as it tries to deal with the difficult issues still on the table.

That said, the European members of NATO should not be shy in pushing the alliance to take a forceful role in the region. Indeed, it seems a dangerous irony that while NATO as an organisation seems to have learned the value of taking early and robust action to deal with emerging issues such as unrest in southern Serbia or fighting on the Macedonian border - and seeking the troops and military commitment needed to back such an approach - the U.S. appears increasingly reluctant to see it play such a role. If the European members of NATO speak with one voice on such issues, it might be possible to help convince the U.S. to support more robust responses.

Table 21. The EU and European Members of NATO

European Union
Members
not in NATO

Austria
Finland
Ireland
Sweden

Members
of both
the EU and NATO

Belgium   Italy
Denmark   Luxembourg
France   Netherlands
Germany   Portugal
Greece   Spain
United Kingdom

European NATO
Members
not in the EU

Czech Republic
Hungary
Iceland
Norway
Poland
Turkey
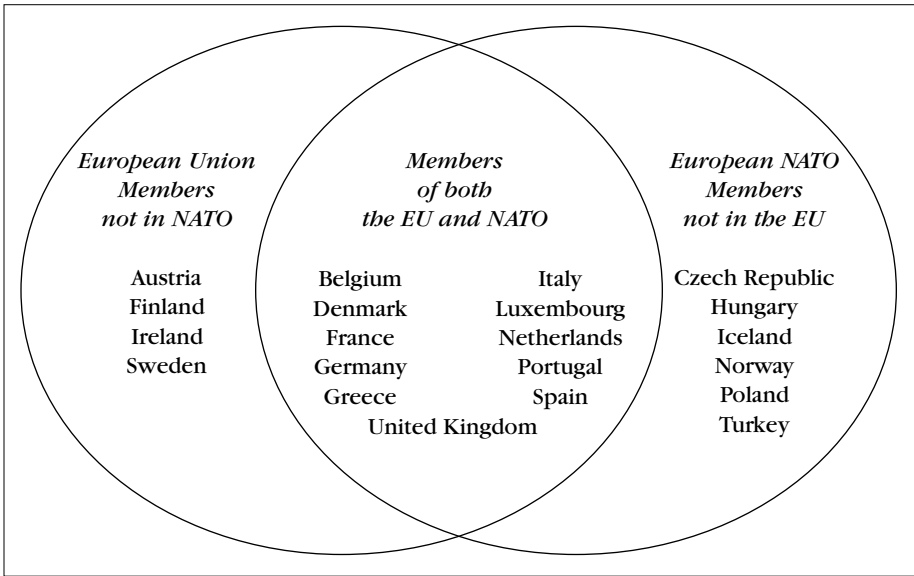
It is not clear how the EU's efforts to become a more important player in the security realm will play out against NATO's role in the Balkans. The continuing situation in the Balkans, and lingering tensions within the alliance, gave impetus to the EU's efforts to define a common security policy and establish a 60,000-member rapid reaction force by 2003. Given that some of the European members of NATO are not EU members, there is a clear concern that a greater EU security role could either come at the expense of those members or be a divisive force within the alliance - essentially creating an EU bloc within NATO, or a NATO bloc within the EU. Similarly, a variety of sometimes-contradictory statements from Washington regarding the U.S. interest in reducing its military presence in the Balkans has also complicated this debate. While expectations that the EU could forge a common foreign and security policy have always been modest, there has been considerable progress in recent years, and in many regards, the Balkans were the crucible that helped forge this approach.

The appointment of Javier Solana as High Representative for the Common Foreign and Security Policy was a wise choice. No other individual has a better institutional perspective on the challenges involved in forging a common security approach among the EU's diverse membership. Further, no other individual would have been as well positioned to reassure NATO

that EU structures would not become competitive and to work collaboratively with EU and NATO members alike. That said, Solana has continued to be concerned that the EU's foreign policy approach is excessively bureaucratic, overly cautious and unable to function effectively in real time. Old conflict prevention habits of doing too little too late die very hard.

B.   EU Membership: Dream and Reality

Helping the Balkan countries revive their moribund economies is fundamental to any sort of sustainable future for region. But economic progress has been mostly disappointing, reforms remaining superficial, brittle and reversible across virtually all of the entities covered in this report.

This comes as the European Union continues to work its way through a historic transformative process as it expands from its current fifteen members to what will likely eventually become twice that number. Already stressed by the challenges of bringing greater numbers of formerly communist Central and Eastern European countries toward EU membership, the organisation now finds itself committed to bringing Croatia, Macedonia, the FRY, Bosnia and Albania towards potential membership.[231] Expansion has been a mammoth undertaking, and has cut to the very core of how the EU views itself, identifies candidates for membership and works with them to achieve the criteria for accession. This remarkable period of expansion also comes against the backdrop of continuing tensions among current members about how best to structure representation and voting rights within the organisation.

The EU needs to address strategically how it will approach the task of moving these respective states through the waiting rooms for membership, while not sacrificing a genuine commitment to reform. All of these efforts naturally must also be viewed within the larger context of the widely shared goal of the EU to prevent a return to deadly conflict in the Balkans. The Balkans countries continue to be seized by the notion of joining the European Union, often feeling that such an association would remedy the host of economic ills they currently face. While the political elites and the people of the region appear to have convinced themselves that EU membership, and nothing less, will suffice to meet their needs,

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231 EU membership for Kosovo or Montenegro would require international recognition of sovereign status outside the FRY.

hard questions persist about whether they have come to terms with the extraordinarily difficult and lengthy adjustments they must undertake, if they are to progress from their ranks of pre-pre-accession to join the pre-accession candidates in Central and Eastern Europe.

The Process

The EU has now put into place a systematic process of association with the Balkans, one that has clearly been shaped by the regional conflict. This process envisages a series of unilateral trade concessions from the EU (as confirmed at the Zagreb summit),in a form and on a scale greater than those offered to other potential accession candidates. This generosity was made possible by the smaller economies of the Balkans countries,with their limited export potential. Each of the countries is expected to take preparatory steps toward economic reform - with economic stabilisation and industry privatisation two key bench-marks - accompanied by initial negotiations on agreements with the EU. The EU would then negotiate a Stabilisation and Association Agreement (SAA) with each country.

The SAAs are a new kind of contractual relationship offered by the EU to the Balkans countries,as a means of facilitating gradual rapprochement with the EU. Modelled on the EU's agreement with Slovenia,the SAAs are tailored to each of the Balkan countries according to their specific circumstances and are intended to provide strong guidelines and incentives for wide-ranging economic, social and political reform. The agreements will set demanding political and economic conditions, with a strong emphasis on cooperation with neighbouring countries. The conditions for opening negotiations on the Stabilisation and Association agreements include compliance with democratic principles, human rights, and the rule of law, respect for and protection of minorities,market economy reform,and regional cooperation. Once negotiations are formally opened the principle mandates for negotiation include:

❏   increasing political dialogue;

❏   provisions on the free movement of goods, workers,capital,and services;

❏   bringing local legislation into line with EU standards;and

❏   enhanced cooperation in a wide range of fields (economy, industry, customs,employment,justice and home affairs,social security, education, culture,transport,telecommunications,health,and   tourism).

After those conditions are met, an association agreement is reached.

Table 22. Progress Toward European Union Stabilisation and Association Agreements

Croatia	Negotiations for Stabilisation and Association Agreement opened in November 2000.
Albania	Feasibility study released in November 2000 highlighted additional reforms to be undertaken. A European Commission report will be submitted to the Council in preparation for the negotiation of a Stabilisation and Association Agreement in June 2001.
FRY	Following the confirmed prospect of the Stabilisation and Association Agreement with the FRY, a feasibility study is currently underway with a view to negotiating directives for a Stabilisation and Association Agreement.
Macedonia	Stabilisation and Association Agreement concluded in February 2001.

The European Commission reviews progress in fulfilling the SAA as the countries develop their governance and economies into rough conformity with the EU's *acquis communautaire*. The *acquis* comprises the entire body of legislation of the European Communities which has accumulated, and been revised, over the last 40 years, involving some 80,000 pages of material. It includes:

❑ the content, principles, and political objectives of the EU treaties;

❑ the legislation adopted in application of the treaties and the case law of the Court of Justice;

❑ the declarations and resolutions adopted by the Union;

❑ measures relating to the Common Foreign and Security Policy (CFSP);

❑ measures relating to justice and home affairs; and

❑ internal agreements concluded by the EU and among the Member States themselves in the field of the Union's activities.

Thus the acquis comprises not only EU law in the strict sense, but also all acts adopted under the second pillar (Common Foreign and Security Policy) and third pillar (Justice and Home Affairs) of the European Union, and above all, the common objectives laid down in the Treaties. Applicant countries have to accept the *acquis* before they can join the European Union. Exemptions and derogations from the *acquis* are granted only in exceptional circumstances and are limited in scope. As the guardian of the *acquis*, the European Commission is not prepared to soften these conditions, which will likely grow even more complex and demanding over time, for the Balkans countries. What it has done, acknowledging that fully conforming to the *acquis* will be beyond the capacity of Balkans economies and governments for some time, is to focus, through the SAAs, on core elements of the *acquis*, giving these countries a chance to swallow the formidable mass of conditions in more easily digestible pieces.

This would eventually pave the way for agreements between the EU and specific countries in the region on a timetable for accession negotiations and confirmation that the Balkans economies meet the Copenhagen criteria for EU membership, specifically the tests of political progress, economic growth and administrative competence.

EU membership would follow the successful conclusion of those accession negotiations. This approach avoids treating the countries in the Balkans as a group and recognises that progress toward meeting the criteria for membership will often be varied, and the EU has largely avoided setting deadlines for this process of membership. Indeed, the EU's existing Stabilisation and Association process confirms the need for differentiation. Those countries that are more successful in pursuing reform and difficult economic transformation should be rewarded, just as those taking a go-slow approach should be penalised. That is not to say however that some economic problems cannot best be tackled on a regional basis. Transport networks and corridors are the best example, but there are plenty of others, including energy supplies, telecommunications and border controls. There is, however, no good reason why the economies showing some promise should be hobbled by being forced to move at the pace of all the others. The Balkans governments still seem inclined to seek a quick fix or a short cut to EU membership. The EU's process demonstrates that no such option is available. It also reinforces other critical - but difficult - messages:

❑   Full-scale structural economic reform is - compellingly - in the interests of the Balkans countries themselves; and

❑   There is no lasting half-way house available on the way to setting up a free market economy.

Hard Realities

Simply put, recognising the amount of work involved in securing EU membership for the Balkans countries will be painful for all involved. From the EU side, the amount of funds required to ease the transition will be substantial, if relatively limited by the small size of the Balkans economies. Integrating the Balkan economies will not be a task on the magnitude of embracing Russia, Poland or Turkey, but nonetheless, EU assistance to the Balkans will be needed for decades to come. None of these economies would be as hard to digest in terms of scale. The Balkan economies are so decrepit that, if their geographic position was more distant or their security situation less pressing, the EU might well consider an extension of Lomé-type arrangements rather than extending EU membership. The real problem is in working out not the amount of money the EU may need to spend in any given year, but the number of years they would need to keep on spending. Certainly addressing the region's problems entails a major commitment - of funds, technical assistance, negotiating time and political will over time.

Such engagement also imposes opportunity costs, draining the EU's resources to deal with other types of crises elsewhere. If the Balkans countries were not geographically in Europe, then some quite different form of association - one more like the Cotonou Agreement with ACP developing countries - might seem more appropriate. As one index of the level of regional development, there are as yet few thorough estimates even of the first key economic threshold, the date when the Balkans economies might expect to return to their 1991 production levels. Some estimates have been made of the dimension of EU infrastructure assistance over the coming decade, but no comprehensive accounting has been conducted of the cost of closer ties (including the costs to the Common Agricultural Policy (CAP), to regional programs and to the cohesion funds). Further possible adjustments to the CAP would be a predictable cause of contention, but still an intense one, despite the fact that the Balkans accounts for only 0.16 per cent of the EU's agricultural imports. Critics will look at the future capacity of the Vojvodina grain fields, not their currently depressed levels of output.

The test for the EU is a matter of whether the organisation can persevere despite evident costs and risk, allocate sufficient resources to follow through on its commitments, and frame its policies boldly enough, and implement them thoroughly enough, to be effective. Resisting the introduction of a two-tier or three-tier membership system may be

difficult for the EU. Ensuring compliance with the proposed charter of fundamental rights might also involve regular interference in what the Balkans countries would perceive as their own legitimately internal affairs.

From the Balkans side, the promise of eventual EU membership is indispensable to generating optimism about the economic future. The EU link is seen as a way of consolidating, encouraging and rewarding economic reform. While the economic benefits of accession have been widely trumpeted, the adjustment costs of the accession process - as measured in lost jobs, closure of enterprises, the expense of retraining the workforce, import penetration, diminished flexibility in policy making and profound structural change - have not sunk in with the people of the region. Equally important, for the Balkans economies, movement toward the EU entails abandoning not only all the economic practices and policies of the past. That process also means challenging powerful vested interests in critical sectors of the economy, as well as the corruption, cronyism and criminality on which their power is based. Meeting the conditions for joining the EU will be felt acutely in the closed, protectionist, crony-run and unproductive sectors of Balkans economies. Many countries in the region have been sluggish in pursuing meaningful economic restructuring, despite the fact that it is an essential step in preparing to sign on to the EU's *acquis communautaire*. Indeed, we have seen far less commitment to economic reform in the Balkans than has been practised throughout much of Central and Eastern Europe.

In theory, the EU sequence makes good sense. In practice, Balkans governments may come to think that the path set by the EU is too long, its conditions too tough, the wait too frustrating, and the adjustment costs too high. There is a risk that the current structure and sequence will generate expectations that cannot be fulfilled, then disappointments that cannot be contained. There is cause for concern that, in assessing their links with Europe, as some of the present candidates, the Balkans countries do not appear to have acknowledged the economic costs and political risks entailed in trying to tie their economies to the EU. Rationalisation, restructuring, structural change and economic reform will all entail considerable economic and social dislocation in the Balkans. There is no alternative to giving up sectors of the Balkans economies that are now - and always will be - unproductive. The only issue is how slowly or quickly those sectors are abandoned, how drastic the change is, what social and financial safety nets are put in place for the workers involved, and where the economy is then refocused.

The EU association process will need to carefully gauge how best to blunt some of the shock from this process in countries that have already suffered so much upheaval by building in some early dividends that will reward Balkan governments for a commitment to economic reform and demonstrate that such reform can produce tangible benefits. The Stabilisation and Association agreements have set out a variety of common-sense, practical ways for assisting convergence with the *acquis*. They outline mechanisms for: training; modernisation; supervisory systems; regulation; institution building; good practice and exchanges of information. The agenda set in the SAAs also includes issues which worry the EU but which do not directly affect economic management. Crime is one, justice another. Reform of those sectors would consolidate economic change (by, for instance, ensuring a fair hearing in cases of dispute settlement), but adds another layer to an already daunting process.

Through the SAAs, the EU has focused on those areas of conformity with the *acquis* that are essential for effective trade and economic interaction, rather than on a comprehensive overhaul of the Balkans economies. Looking ahead, this is the approach with the best prospects for generating job creation and short-term economic growth in the region. What remains to be seen is if the EU can ensure that the momentum for reform needed to meet the more technical aspects of the *acquis* is maintained over time.

In this context, early dividends will be at a premium. In terms of early dividends from association with the EU (or structural change, more generally defined), then the best place to start may be with property rights. In the absence of clear title, established rights, secure tenure and free movement of capital and profits, investors will remain reluctant to spend money in the Balkans. Attracting some - short-term, opportunistic - investment is not that difficult. Attracting quality investment, the sort that generates jobs, transfers technology, expands the local economy, and facilitates re-structuring in other sectors, is a different matter.

Other, early steps - each of which could be designed to produce early dividends - could include:

❑ EU decisions to relax the rules on investment guarantees for new investments into the Balkans economies, in order to spread the burden of risk. If one EU country took a lead, since guarantees are administered on a national basis, then others would follow; and

❑ Organising standard rules on dispute settlement for foreign investors to provide some rudimentary basis of stability, fairness and predictability in the structure of economic rules through the Stability Pact.

The EU is extending the valuable work of the Customs and Fiscal Advisory Office (CAFAO) from Bosnia elsewhere in the region. The EU assistance program for the post-Milosevic governments in Serbia has been firmly based on a recognition of the need for a "quick start", for an early demonstration of the practical value of association with the EU. That principle should be applied to other sectors as well. Without a "quick start", there is no guarantee that the Balkans countries (in contrast with, say, Poland and Hungary) will stay the course of economic reform.

Unreciprocated tariff concessions comprised a good, first offer from the EU. What happens, though, if no significant trade flows, despite the concessions? Tariff concessions are based on the premise that the Balkans countries still retain some niche of comparative advantage and competitive efficiency. They may not. Their economic future may depend on dismantling much of their current economic plant, as well as demolishing all their current economic orthodoxies. Some local businesses will continue to enjoy residual advantages, those based on location, relatively low labour costs, or an established relationship with local consumers. Those businesses, however, will face difficulties in proving competitive in a wider market. Few of the traditional sectors of competitive efficiency in the Balkans (pharmaceuticals, resources processing) can readily be resuscitated. None of the plans for future growth (tourism, information technology, financial services) can be expected to deliver early results. An interesting area for the EU to consider assisting these countries may be in agriculture. These are societies with a heavy agrarian element, and early EU assistance in this area might help generate economic growth while addressing a sector that is often sticky for potential members.

The EU has developed several assistance programs to help the Balkans countries achieve reform and reconstruction, and to soften the social impact that reform is liable to have. Some of the countries benefited from the PHARE (Pologne Hongrie Assistance pour la reconstruction économique) program, designed to help economies in transition. The experience gained in the Central and Eastern European accession countries,including lessons learned from PHARE, and the effectiveness of those programs and their applicability in the Balkans, helped shape the OBNOVA program (1996-2000), and its successor, the CARDS program.

The element of regional conditionality built into the Stabilisation and Association process reflects the specific history of this region. The South Eastern European aspirants to European Union membership have to convince Western European public opinion that they can achieve normal relations among each other. Although some countries bridle at this element, it must not be diluted. Such dilution is a risk, for, notwithstanding the regional projects notionally agreed at Zagreb, the EU's proposals are based on a series of separate and distinct bilateral deals with individual Balkans economies. In some sectors, such as telecommunications, the burden of adjustment might be eased if it were coupled with moves to establish regional networks. The arguments which underpinned the EU's single market, freeing trade in goods, services, capital and labour, also apply - on a smaller scale, but in the same way - to the Balkans economies. More direct, hands-on assistance may also be necessary if the Balkans countries are to manage their current economic challenges effectively, particularly privatisation. The benefits of privatisation may have been over-stated, but the process is fundamental to any thorough-going renovation of the Balkans economies. The Europeans may need to do more, perhaps by proposing that independent, outside panels be used to evaluate tenders, or by calling on European experts to strike fair market values for assets, or by recommending that the Balkans apply more widely the approach used in Kosovo (offering a relatively free hand to investors to run former state assets, for a defined period but without settling questions of final ownership). The EU countries should not be perturbed about imposing conditionality of this kind. In fact, they should do more of that. Successive tranches of aid could and should be tied to progress made against agreed benchmarks. Without clear guidance and assistance from the EU, the Balkans governments may well sell many assets off at less than fair market value, perhaps to cronies and slow more meaningful reform. This kind of approach may be criticised as paternalistic. It would, however, work. The European Commission effort at "twinning"- detailing officials from EU member states to institutions in aspirant countries - could also be quite useful in this area.

All the Balkan entities covered in this report will need to understand that a great deal of the onus for the economic and political transformation that will make EU membership a reality rests on their shoulders. The essential points that the Balkans countries have to understand are simple ones. Structural economic reform is in their own best interest, and deserves support in its own right - not simply as a precondition of EU membership. There is no alternative to movement toward a free market and while movement toward market economies and European standards will entail considerable social dislocation, a failure to make hard reform choices will doom these countries to remaining outside Europe's mainstream.

The Balkan governments have some resource assets,skills in their workforce, natural linkages with Europe,and economic strengths. Over time,they may become credible candidate countries. In the meantime, they need other, more specific and more practical forms of assistance,to supplement the help provided under the EU's association schedule. There might also be a scope for greater EU involvement in the implementation of public administration reforms, designing management systems and training and equipping civil servants in the Balkans. This help would impose some additional demands on EU resources and funding in the short term,but with the substantial benefit of alleviating the risk of longer-term economic problems.

Critics of the EU are keen to suggest that the Union should do more in the Balkans - spend more, offer more, concede more and coordinate more. However, the question now is less of the EU's overall commitment to the Balkans,and more of its ability to build momentum for future progress. The idea behind the Stability Pact's "Quick Start" projects and the European Commission's small and medium enterprises programs (SME) is the right one, that more effort needs to be made to produce signs of initial progress,enough to give hope and confidence to policy makers and their electorates.

A "quick kick"like that would lend momentum,and credibility, to economic reform efforts,at a time when any reform will be bitterly opposed by strong vested interests,and when the Balkans countries need to make progress on many fronts at once. Organising a "quick kick" should be the EU's top economic priority. The speed with which assistance has flowed to Serbia helps demonstrate the point, since the Europeans' first post-election assistance package there has helped give Serbs the wherewithal - through reliable power supplies, heating oil and the provision of medicines - to get through their first winter under democracy. Without that "quick kick",other programs - perhaps better choreographed and better synchronised,will never get the chance to be effective.

Conclusions and recommendations on EU accession

❏ *There needs to be a clearer and more realistic acknowledgment on both sides of the enormous difficulties involved for the Balkans countries in meeting EU accession criteria.*

❏ *European Union member states need to recognise and rise to the challenge of institution building in South Eastern Europe. "Twinning" programs, placing civil servants from EU countries in Balkans ministries, should be boosted.*

❑ *The EU should make clear that it will hold Serbia to the same level of accountability it requires of other countries in the region, to be eligible for continuing assistance.*

❑ *The EU, to maintain the momentum for reform, should focus on efforts that have the best prospects for generating job creation and short-term economic growth in the region including clarifying property rights, relaxing the rules on investment guarantees and organising standard rules on dispute settlement.*

❑ *The EU should bring in privatisation experts to determine the fair market value of assets, use outsiders to evaluate tenders and set strict performance requirements for the new owners of enterprises.*

C.   Priorities

Given that so much of the instability in the Balkans flows from on-going disputes over political status and constitutional arrangements - in Montenegro, Serbia, Kosovo, Bosnia and Macedonia - it seems unavoidable that peacefully and democratically resolving these matters should be a high priority for Europe. However, there have been troubling signs that Europe is eager to avoid resolving matters of political status. On 22 January 2001, the EU Foreign Ministers made clear their preference for "maintaining an overall federal framework" in the FRY, and UN Balkans Envoy Carl Bildt told Reuters that the EU statement, "very clearly expresses that the international community has no interest in setting up new states in the region".[232]

The major European actors do not appear to be divided on these issues. The commonality of views and perspectives on the region is unusually high, and in many regards welcome. However this convergence of opinion does not necessarily mean that Europe is taking the soundest approach to resolving final status issues, and the illusion of consensus could well be quite shallow. Simply put, the major European actors will have a difficult time being viewed as an honest broker or facilitator for talks between Serbia and Montenegro, or Serbia and Kosovo, if they continue to insist that they favour retaining some revised form of the FRY over all other constitutional options. Indeed, this approach is not even viewed as entirely realistic in Belgrade, and this stasis in policy ignores the wider imperative. The Balkans will only embrace a lasting peace when it has achieved political arrangements through a peaceful, democratic dialogue that allows its citizens to feel they are secure and well served. If Europe simply

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232 *Reuters,* 23 January 2001.

dismisses such a challenge as too thorny, or lets itself be viewed in Podgorica and Pristina as favouring the retention of the FRY above all else, it will pay the costs for its lack of foresight for years to come.[233]

Some may use the recent outbreaks of violence in Macedonia to argue against resolving final status issues. The opposite would seem to hold true. The longer political status issues are left open, the more sway political extremists will think that they might have over any final decision, and the more likely they will be to take up arms. Bringing clarity and finality to constitutional arrangements and borders is a vital step in moving past resolving issues by means of violence. One of the lessons learned during the last decade has been that the problems in the Balkans cannot be effectively addressed by any European country acting alone. Dealing on an equal basis with the United States was, and will be, both simpler and more effective when Europe speaks with a generally unified voice. Synchronising diplomatic initiatives - especially on the terms of recognition or settlements - was essential to avoid the appearance of internal division and clumsiness. Assembling troops, assessing accession criteria, appraising economic needs, all those jobs were done better if done by the Europeans together. Europe should lead the way in galvanising the international community to tackle the most difficult issues facing the Balkans.

Beyond status issues, the situation in the Balkans will demand great persistence over time. Even if the flames of potential conflict are doused, Europe will have to address a region where slow economic growth, high unemployment and lingering social tensions are the norm. Democracy will remain fragile and efforts to move more fully to market economies will likely be very uneven. Discontent with the speed of expansion of the EU and NATO may also be widespread.

In assessing their interests and exercising leverage over the next few years, European countries will need to confront a range of complicated security problems in the Balkans. In particular:

❑   If there is not another major conflict, Europe will need to establish just how much it is prepared to do in the region, either by assuming a larger role in the NATO operation or considering an operation that is not strictly NATO-led. Because the Bush Administration continues to suggest that while it would like to reduce its role in the Balkans, it would only do so by agreement with its European NATO allies, there should be no rush to consider the non-NATO option.

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233 See Chapters 6, *The Future of the FRY* and 7, *Bosnia.*

❑ Within the context of NATO, Europe will need to establish how long its own forces will remain in Bosnia and Kosovo.

❑ Europe - again either within NATO or the EU - will have to consider if it wishes to take a military role in supporting whatever outcome can be secured from final status discussions between Serbia, Montenegro and Kosovo. Regardless of their precise constitutional status, some European military involvement could be helpful in securing the parameters of an agreement. Any plausible deployment or retention of peacekeepers or border monitors to underpin a final status agreement would have to be based on an open-ended promise to use sufficient force to respond to transgressions.

❑ The European members of NATO will have to emulate the U.S. in one respect, by starting to think about an exit strategy for their ground troops and how best to create the conditions that will allow the draw down of troops over time. Such planning should take place within the context of NATO and recognise that the costs of peacekeeping can often be modest when compared to the price of renewed conflict.

❑ The European members of NATO need to determine how best to use programs in which the Balkans countries are interested, such as NATO's Membership Action Plan and Partnership for Peace as mechanisms for setting appropriate troop levels throughout the region. NATO, the OSCE and the EU need to work collaboratively to help militaries in the region reduce troop strength, improve equipment, professionalise, move toward partnership with Western military structures and generally become modern military institutions that are constructive partners with a stake in regional security.

❑ Decommissioning militias and attempting to find and destroy illegal stocks of weapons and deter smuggling should also be intensified within the framework of these programs. The EU, for its part, should explore how similar military training and cooperation programs fit into their own view of a more robust effort to define a Common Foreign and Security Policy. All of these factors suggest that Europe should approach the final status questions for Serbia, Montenegro and Kosovo with greater urgency, not less. Unless Europe deals with the underlying sources of insecurity in the region, it will find itself policing the Balkans for years to come.

Progress in democracy, human rights and economics will be fundamental to this effort. A sense of the true value and meaning of democratic change underpinned Croatian voters' decision to rid themselves of the long-standing

HDZ government, the Serbian people's insistence that Kostunica's democratic victory over Milosevic be honoured, and support for moderate parties in Kosovo's October 2000 local elections.

Those are heartening examples, especially for the Europeans, but the comfort they give should not obscure real challenges in ensuring that there is no regression to habits of authoritarianism, aggression, unbridled nationalism and political corruption. The transition toward democracy promises to continue to be rocky in the Balkans. Commitment to democratic principles remains disturbingly shallow among many of the political elites in the region, and the organs of civil society - independent media and dynamic non-governmental organisations among them - remain underdeveloped. As a result, Europe will periodically encounter problems with accepting some of the expressions of the popular will in the Balkans. For example, when electorates vote for extreme nationalists or ex-Communists, Europe will find itself torn between support for democracy and fears of extremism. In a similar vein, Europe will likely suffer heartburn when the popular will in places like Kosovo and Montenegro for independence runs counter to its own preferred policy options.

European efforts to support justice system reform, and the rule of law generally, are also vital. These efforts will provide the key underpinning for lasting economic and democratic growth in the region, and their importance cannot be overstated. Profound institutional change is fundamental to peace. Two key sets of questions arise in Europe's approach to human rights in the region. The first goes to the matter of the pursuit and trial of war criminals. How rigorous will Europeans be in demanding accountability for all the crimes committed during the past decade? Clearly, in providing the bulk of international financial assistance to the region, Europe has unique leverage to assert pressure on the entities covered in this report. Equally clearly, Europe will need to balance a variety of its interests in determining the amount of pressure it will bring to bear. Accountability will be a key factor in restoring a sense of responsibility and normalcy in the region, but will often be low on the list for Balkans leaders more concerned with providing tangible signs of economic and social progress to their citizens, and eager to avoid stirring domestic political passions. Europe should take a position on this issue that is consistent across the region and demands that justice is fulfilled.

The second set of human rights issues centres around refugee returns. To what extent should the Europeans insist on full rights of return for all refugees, even in cases where that does not seem to be feasible? Obviously,

no returns should take place unless refugees can be reasonably assured of their safety and security. However, by any reasonable standard, if the entities in this report are to fulfil the conditions traditionally set for EU membership, the Balkan states would have to substantially revise many of the legal and administrative practices that currently stand in the way of more fulsome returns. Instead of simply resorting to compensation for refugees unable to return, the EU should continue to strive to provide the underlying conditions that would make these people again welcome in their own homes and communities.[234]

The OSCE, with its North American and Asian as well as European membership, will continue to play an import role in human rights and the promotion of democratic norms in the region, among its other responsibilities. As a relatively small organisation, it has more flexibility than many of its international counterparts. However, with still limited experience in field operations and implementation, the OSCE has often been thrust into taking an almost breathtaking array of tasks: the monitoring of elections, building confidence in a wide range of military affairs, human rights monitoring, early warning, crisis management, overseeing agreements and crisis prevention. The gulf between the OSCE's increasingly broad mandate, and its limited resources and rather ad hoc bureaucratic style, is reason for some caution about its effectiveness. It is also not clear how its largely consensus driven decision-making style will impact its operational effectiveness as it takes on these new roles. Because NATO, the UN and the EU still loom as much larger and more influential institutional structures on the continent, the OSCE's long-term effectiveness will probably depend on closer clarification of its role vis-à-vis these institutions.

Nudging the Balkans countries away from a single-minded focus on the EU and toward other "Euro-Atlantic structures" will also have some utility by putting less pressure on timetables and serving as an apprenticeship for the demands of both EU and NATO membership. The Council of Europe is the logical place to start. Albania, Croatia, Slovenia and Macedonia are already members of the Council of Europe; Bosnia has been accorded "special guest status" at the Council's Parliamentary Assembly since 1994, and on 22 January 2001 the Federal Republic of Yugoslavia was also given special guest status. The Council's Statute foreshadows not only discussion, but also common action among members "in economic, social, cultural, scientific, legal and administrative matters" as well as in "maintenance and further realisation of human rights and fundamental freedoms". For the countries of

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234 See Also: Chapter 2, *Common Problems*

the Balkans, the most useful "common action" would come in the form of practical assistance, comparative perspectives on policy, mentors for a range of programs, and a chance to inculcate the habit of cooperation.

Moreover, the Council imposes its own requirements and conditions, including the threshold obligation on members to accept the principle of the rule of law, and to guarantee human rights and fundamental freedoms to everyone under their jurisdiction. Again, the Europeans are faced with a difficult choice between retaining their existing standards, and therefore excluding the Balkans countries from closer association, or encouraging Balkans membership at the cost of diluting the conditions of participation which embody the common principles underpinning membership.

The Central European Free Trade Agreement (CEFTA) may also serve as a logical "waiting room" for countries wishing to join the EU. All CEFTA members have previously signed association agreements with the EU, and relations based on the principles of the progressive removal of trade barriers in keeping with GATT regulations. Countries that are WTO members and have signed the EU Association Agreement are eligible for membership, subject to approval by existing CEFTA members.

Conclusions and recommendations on Europe's role

❑ *Europe should adopt a less negative approach toward the holding of final and future status discussions, and be more open-minded about possible outcomes. By continuing to insist upon the retention of the FRY in some form and to oppose the creation of any new states, the major European actors are jeopardising their role as honest brokers in such discussions.*

❑ *If the U.S. seeks to continue to limit its military engagement in the region, Europe will need to establish just how much it is prepared to do itself, either by assuming a larger role in the NATO operation or considering an operation that is not strictly NATO-led.*

❑ *NATO, the OSCE and the EU need to work collaboratively to help militaries in the region reduce troop strength, improve equipment, professionalise, move toward partnership with Western military structures and become partners with a stake in regional security.*

13. THE US, RUSSIA AND OTHER MAJOR ACTORS

Lack of coordination among the myriad of external actors in the Balkans continues to be a problem, notably on conditionality issues. The UN, often marginalized by its membership divisions, and haunted by successive near death experiences, has improved its performance, but struggled to provide the necessary overall leadership. The U.S. must stay engaged in the Balkans: its leadership will be essential in shaping NATO's necessary military role, and helpful in the resolution of constitutional issues in Serbia, Montenegro, Kosovo and Bosnia. Russia's involvement has been a mixed blessing; its resources are limited, but it can play a positive and enduring political role and should be encouraged to do so.

A. A Crowded Arena

An incredible diversity of international institutions and actors, apart from the European states and institutions already discussed, are currently involved in the Balkans. It is beyond the scope of this report to do justice to the diversity and complexity of their contributions and interactions. The UN, NATO, the Contact Group, the G-8, the Stability Pact, the WTO, the World Bank, the IMF, many other intergovernmental organisations, numerous state and private donors, scores of international NGOs and a myriad of business interests all play a role of one kind or another. This chapter focuses on just a handful of the key state and intergovernmental actors, the United States, Russia, the United Nations, NATO and the international financial institutions.

An important issue raised by the proliferation of external Balkans actors is that of coordination. One of the greatest challenges for the international community as a whole, the lack of coordination is usually felt most acutely in efforts to condition assistance. Because such a wide variety of organisations and institutions insist on a wide variety of conditions, often including none at all, those demanding strict conditionality often find their positions undermined. Governments in the region are often left with the leverage to "shop" among the various international donors for the most favourable arrangements.

By setting benchmarks and deadlines for tangible progress by the Balkans countries as a condition of provision of further assistance, the international community can make clear that money will follow reform: those who produce will be rewarded, and those who do not will be left behind. This will help accustom the Balkans countries to the norms and procedures of the international community and can be a useful tool in helping forge a public consensus for the difficult choices that reform will often entail in these societies.

Fortunately, the international community has learned from some of its mistakes. The early stages of the operation in Bosnia offered a particularly striking model of how not to coordinate. The Office of the High Representative (OHR) and the Implementation Force (IFOR) did not work easily together, and the Dayton Agreement itself set up institutional structures that made collaboration quite challenging. Subsequently in Kosovo, the international community put a more logical system in place. KFOR and UNMIK have enjoyed a good working relationship from the beginning of the operation, and the UN was given a much clearer lead role in civilian affairs. UNMIK effectively brought under its wings the EU, the OSCE, the UNHCR and the other various elements of civil administration. Clearly this design is much superior to that initially put in place in Bosnia. However, both operations in Bosnia and Kosovo have made abundantly clear that without political will from the key governmental players, even the most effective coordination on the ground will not make for an effective operation.

B.   The United States

The United States has been a periodically reluctant but often indispensable force in the Balkans. More vigorous U.S. diplomatic and military leadership proved essential in transforming the disastrous international community policies of the early and mid-1990s into the more credible approaches of the last several years. U.S. strategy toward the Balkans became far more effective once the scope of U.S. interests in the region were seen with greater clarity.

First and foremost, the U.S. came to fully appreciate over time the security threats posed by continuing regional instability to U.S. interests and allies. The potential for a Balkans-wide war was genuine for much of the 1990s. Because of the prominence of the Balkan wars, the U.S. correctly recognised that direct military intervention was necessary to more widely deter aggression, establish that the international community would not turn a blind eye to crimes against humanity, and reaffirm the basic credibility of NATO in dealing with regional security threats.

In an even broader sense, Washington also came to appreciate that continuing instability in the Balkans threatened to fundamentally undermine its vision of a larger, and more inclusive, transatlantic community. If the former Yugoslavia and its offspring remained in chaos, it would not only doom the hopes of these entities for joining the ranks of modern Europe, but it could also undercut similar aspirations for any number of other states across South Eastern and Central Europe and the Caucasus.

The U.S. also saw the climate of its overall relations with Russia deeply impacted by developments in the region, and NATO's use of force both in Bosnia and Kosovo triggered considerable outrage in Moscow. While Russia has never been willing to sever its ties to Washington in protest over U.S. military activities in the Balkans, both Kosovo and Bosnia highlighted the potential for the Balkans to generate friction in U.S.-Russian relations. Conversely, both conflicts also demonstrated that the U.S. and Russia could work jointly to help stem further conflict.

Several points have become clear over the last several years:

❑ Constructive and vigorous U.S. engagement, in partnership with European allies, is critical if the region is to have any chance of lasting political stability or economic growth.

❑ Such engagement must include a sufficiently strong military component to render credible American threats of force.

❑ The cost of putting in place "shock absorbers", such as development assistance, conflict prevention efforts and peacekeeping deployments is minimal compared with the costs of another war like that over Kosovo.

❑ Success in the Balkans is vitally important to the cohesion and credibility of the United States' major global security alliance.

The Current Approach

The Bush Administration has clearly expressed an interest in eventually drawing down the U.S. presence in the Balkans. This is a legitimate goal, and well in keeping with U.S. interests, given the global scope of U.S. security commitments ranging from the Korean peninsula to the Middle East. However, the key question then becomes how can the U.S. best go about designing a general "exit strategy" while ensuring its goal of

maintaining stability in the region is met, and when as the recent unrest in southern Serbia and Macedonia has made clear, the time to declare "peace" may not yet be at hand.

The Bush Administration came into office promising much greater certainty and wisdom on when and how American power would be exercised. There was an explicit commitment to avoid "nation building" and mini-wars in the Balkans. U.S. troops would be pulled back from extraneous peacekeeping exercises where the energies could be better focused on major international security threats. The Bush Administration has thus far translated these promises into a persistent strategy of limiting U.S. and NATO engagement in dealing with the situations in southern Serbia, Kosovo and Macedonia, while dragging its heels on any effort that would resolve the political status of either Kosovo or Montenegro.

Some of the campaign rhetoric used by Bush officials during 2000 may have created high expectations within some U.S. defence circles that the current administration would quickly disengage its forces from the Balkans. While the Bush foreign policy team has worked to reassure its European allies that it will not "cut and run" from the Balkans, U.S. military officials may be slower to embrace this shift from rhetoric to policy. Further, divisions within the alliance about how to respond to the situation in the Presevo valley and Macedonia have also raised concerns in Europe that Washington is eager to distance itself from the Balkans. Concerns about force protection, burden sharing and exit strategies appear to be dominating much of the U.S. security perspectives toward the region. The speed with which NATO was positioned to respond to security concerns in southern Serbia and along the Kosovo-Macedonia border underscore the utility of a robust peacekeeping presence in the region, and make clear that preventing conflict in the region often will involve far fewer troops than would be necessitated if such situations grow out of control.

Both NATO as an organisation and its European members seemed far more willing to have NATO take robust military action to stop violence in the Presevo valley and along the Macedonian border. When NATO requested permission to explore moving KFOR into southern Serbia and suggested boosting troop strength along the border with Macedonia, Washington quickly made clear its antipathy toward both proposals. While NATO has wisely explored ways to bring Serbia and the guerrillas in southern Serbia to the negotiating table, and provided reconnaissance and intelligence information to the Macedonia government as it fought separatists along the border, Washington's actions send an increasingly dangerous message to

extremists: the U.S. military will not get involved. If that message gets transmitted loudly and frequently enough, it will only be a matter of time before violence again escalates in the region.

Although U.S. forces make up a small proportion of the peacekeeping contingents in either Kosovo or Bosnia, U.S. technology, advanced logistics networks and military hardware have made NATO's potential use of force consistently credible. The 11,400 American troops in Bosnia and Kosovo comprise just under one fifth of total troop deployments in those areas,and U.S. commitment to making NATO effective in its post-Cold War role has led to substantial U.S. involvement in the region. What the U.S. brings to the task of peacekeeping - and for which there is no substitute - is the ability to dominate any escalation in the conflict. But that requires real troops,visibly on the ground:not just forces assigned to communications and headquarters tasks.

The U.S. contribution of peacekeepers in KFOR and SFOR remains small as a percentage of these overall troop deployments,and Washington will surely consider its role in the Balkans within the context of larger debates within the NATO alliance - including controversial issues such as National Missile Defence and the Rapid Reaction Force. Efforts to forge a collective EU defence and security policy, when coupled with the discussions of a Rapid Reaction Force, have fuelled U.S. trepidation that Europe is taking its own steps toward "decoupling" the Alliance. It would be truly unfortunate if disputes over such broad stroke issues undercut the practical and effective NATO contribution to peace already in place on the ground in the region. Instead, U.S. interests in the Balkans,and in the transatlantic alliance,lead to a question quite similar to that faced by the EU:what is the best way to create the conditions that will move the region beyond chronic instability and allow U.S. troops a graceful exit?

Given that a great deal of the region's instability stems from ongoing disputes over political status and constitutional arrangements - in Montenegro,Serbia, Kosovo, Bosnia and Macedonia - it seems unavoidable that peacefully and democratically resolving these matters should be a high priority for the U.S. However, the Bush Administration seems thus far disinclined to tackle the difficult issues of political status. Secretary of State Colin Powell declined to meet with Montenegrin President Djukanovic when he was in the State Department in February 2001,and Administration officials made it clear that the Secretary's decision reflected a broader policy opposing Montenegrin independence. The Administration also weighed in with its opposition to specific provisions within Montenegro regarding voting procedures for a

potential referendum on independence. Prejudging its preference for Montenegro's ultimate status does not seem to be a constructive way to help initiate a dialogue at a time when even Belgrade seems to increasingly recognise that discussions will have to move forward. The Administration's lack of desire to deal with the difficult issues of Kosovo's final status have also been made clear, particularly through its acceptance of a go-slow approach to establishing the basic institutions of self-governance in the province.

The approach by the Bush Administration risks replicating some of the worst mistakes of the 1990s - the problems of the Balkans will not be solved by simply wishing they were not so or limiting Washington's engagement. The Balkans will only embrace a lasting peace when the region has achieved political arrangements through a peaceful, democratic dialogue that allow its citizens to feel they are well served.

The Challenge Ahead

Since Milosevic was so frequently identified in the U.S. as the ultimate source of Balkan conflicts, his departure from the scene may have created an unfortunate impression in parts of the U.S. that stability in the Balkans is now something of a foregone conclusion. Certainly developments in Serbia are a step forward, and should be credited both to the people of the region and NATO's resolve in ultimately confronting the former Yugoslav President. However, the political and security situation on the ground remains quite fluid and the potential for further upheaval will grow if the evolving situation is not handled adroitly by the international community, as recent events have only reinforced. All these factors suggest that the U.S. should approach the issues of political status in Kosovo, Serbia, Montenegro and Bosnia with more urgency, not less. Unless the U.S. helps unravel the underlying sources of tension in the region, it may find that any exit for its soldiers is painfully short-lived or comes at an unacceptably high cost. The U.S., in conjunction with its European partners, instead of discouraging dialogue, should facilitate talks on these matters to ensure that they are conducted fairly, transparently and without violence. If the U.S. simply dismisses such a challenge as too steep, or pre-emptively walks away from its security commitments in the region, it may well pay a high price in the final analysis.[235]

Given the vast size of its military, the continuing deployment of U.S. peacekeepers in the Balkans is a wise investment. A more immediate withdrawal would not seem warranted by the current situation on the

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235 See also Chapters 6-7, *The Future of the FRY*, and *Bosnia*.

ground in Bosnia, Kosovo, Serbia or Macedonia, and would substantially risk exacerbating already rising tensions within the Alliance. Further, Washington should not become so obsessed with avoiding "mission creep" that it compromises the ability of its forces in the region to effectively prevent renewed conflict. Indeed, as Bosnia illustrates, a more robust use of the military mandate to round up war criminal early in peacekeeping efforts would have reduced tensions and obstructionism over the long term and lessened the need for a prolonged peacekeeping presence.

Any U.S. force reductions should occur only within the context of regular NATO reviews, as has been the case with all previous force reductions. NATO periodically assesses how many forces it needs in the Balkans and makes adjustments as the environment allows. It also makes changes in the relative distribution among national contributions. It is very possible that over time the overall force levels will continue to come down, or be shifted, and that the U.S. percentage within overall levels will drop as well. This likely is the approach Washington will adopt in reducing the American contribution. However, the U.S. should also recognise that its relatively modest contributions in terms of peacekeeping forces in the Balkans send a far more powerful message about its commitment to both regional stability and the NATO alliance as a whole.

To its credit, the U.S. military has been quite active in working to professionalise the military structures across Central and South Eastern Europe, and continued progress in this direction is sorely needed in the Balkans. The U.S. needs to join its allies in determining how best to use programs in which the Balkans countries are interested, such as NATO's Membership Action Plan and Partnership for Peace as mechanisms for setting appropriate troop levels throughout the region. The U.S. needs to encourage NATO and the OSCE to work collaboratively to help militaries in the region reduce troops strength, improve equipment, professionalise, move toward partnership with western military structures and generally become modern military institutions that are constructive partners with a stake in regional security. Decommissioning militias and attempting to find and destroy illegal stocks of weapons and deter smuggling should also be intensified within the framework of these programs.

U.S. cooperation with militaries in the region may well be viewed by the Russian Federation with a jaundiced eye, particularly if these efforts are seen as grooming the entities covered in this report for eventual NATO membership. Countries in the region will be paying close attention to how the next round of NATO expansion is handled, and the potential membership

of Baltic states will be seen as a clear barometer of both Russia's sway over the process and NATO's intent to continue its eastward push. Given the highly responsible role played by NATO aspirants such as Bulgaria, Romania and Macedonia during the 1999 Kosovo conflict, there is reason to believe that continuing hope for NATO membership can help serve as a positive influence on countries hoping to enter the mainstream of the transatlantic community.

In the field of economics,the EU will have the greatest say over the shape of economic reforms and restructuring in the region. That is only appropriate. For future growth, encouraging private sector investment will be more important than maintaining public sector funding. Encouraging private sector engagement in the region is the real key to economic success, and therefore the foundation to success in any other field for the Balkans countries.

Like the Europeans,the U.S. will need to assess ways in which provision of export credits might be facilitated, in order to generate the investments needed for upgrading skills and technology, generating jobs and revitalising former state assets. Washington may also wish to explore possible grant of concessional market access to products from the Balkans,although (given its greater immediate interest in pushing through free trade policies in the Americas) it may be obliged to stop well short of the free trade deal now being negotiated between the Balkans and the EU. Generating sufficient political support for such measures could be an uphill climb. The U.S. will also be likely to continue to explore the possible imposition of conditions (specifically on Serbia) for access to IFI funding.

While the countries of the region will clearly reform their economies in keeping with the guidelines spelled out for eventual EU membership, U.S. technical assistance in the field of privatisation can also be tremendously helpful. The U.S. has gained important insight into this difficult process through its assistance programs throughout Central and Eastern Europe over the last decade. Washington is also positioned to learn from its mistakes in the field and help these countries avert a privatisation process that cements the control of small elites over political and economic power in societies that are already suffering from this condition. The U.S. should lead the effort to encourage financial assistance,including that from the international financial institutions,is rigorously conditioned upon social and economic benchmarks. Such "tough love"will be instrumental in breaking the hold of political elites in the region and the sway of U.S. leadership on other donors - from the UN to the World Bank - is considerable.

Given the scope of the Stability Pact, and the strictures established by the EU in terms of governance for potential members, Europe will be likely to continue to take a lead role in guiding assistance to reform governance in the Balkans. That said, the U.S. can also play quite an influential role. The U.S. government has gained valuable insight into carrying out assistance programs designed to encourage civil society and help societies make the transition from communism to democracy, and its assistance to the region has been generous.

The U.S. has made the promotion of democracy a strong tenet of its foreign policy in the region, both through support for elections and broader measures of civil society, such as the media. It may well find this policy tested if either or both Kosovo and Montenegro express support for independence at the ballot box. Similarly, the slowness with which the U.S. has allowed the UN Administrator for Kosovo to move forward toward "substantial autonomy and self-government" in the province also questions whether the U.S. support for democracy in the region stops where rhetoric meets policy preferences. Instead of trying to frustrate popular will, the U.S. may find itself far better positioned if it tries to deepen the democratic process in the region and establish broader mechanisms for democratic dialogue between the entities covered in this report.

The United States has been wise in not making the perfect the enemy of the good in the region. It has not sought ideal governance in the Balkans, just less corrupt, less belligerent and less xenophobic leadership. The U.S. wisely tendered assistance to the DOS before the Serbian elections in September 2000 in a low-key fashion, effectively avoiding making the assistance itself a campaign issue.

Progress toward more modern democracies will continue in fits and starts. Rhetorical denunciations of corruption, cronyism or criminality in the Balkans may prove less effective than modest, unobtrusive financial and technical contributions to programs designed to weaken the hold of Mafia-style political forces, backed by a commitment to direct money to those making progress. For some time to come, it will be vital for the U.S. to be judicious but firm in its approach to Serbia, given the extreme Serbian political sensitivities to U.S. involvement with that country over the last decade. It will be equally important to other countries in the region that the U.S. not be seen as giving Serbia a "free pass" with regard to internationally accepted norms of behaviour.

U.S. and European efforts to support justice system reform, and the rule of law generally, are also vital. These efforts will provide the key underpinning for lasting economic and democratic growth in the region, and their importance cannot be overstated. Profound institutional change is fundamental to peace. U.S. interests

and leverage in the human rights field concern the return of refugees, an end to discrimination and harassment directed at minorities, constitutional entrenchment of provisions for human rights, and the punishment of war criminals. As a rule of thumb, the U.S. has traditionally been slightly more emphatic on human rights issues in the Balkans than some, but certainly not all, of its European counterparts. It is unclear if this trend will continue under a new U.S. Administration. Continued U.S. expression of support for the importance of justice and accountability issues would prove quite useful. If the U.S. looks like it is walking away from the pursuit of war criminals,there will be far less pressure within SFOR to pursue indictees still at large in Bosnia; Serbia will be less likely to take meaningful steps toward real accountability and countries such as Croatia that have cooperated with the ICTY will be alienated.

Conclusions and recommendations on the United States' role

❑ *The current U.S. approach to the Balkans - seemingly designed with limiting diplomatic and military engagement in the region as a central goal - risks both alienating allies and creating a more dangerous situation on the ground. Washington should not become so obsessed with avoiding "mission creep" that it compromises the ability of its forces in the region to effectively prevent renewed conflict.*

❑ *Given its interests in the region, and the scope of American military capabilities, the continuing deployment of U.S. forces in the Balkans is a modest investment.*

❑ *The U.S., through the G-8 or the OSCE, should help guide an orderly and democratic process to resolve final and future status issue for Montenegro and Kosovo as discussed in Chapter 6.*

❑ *The U.S. should maintain pressure on Belgrade to reject unacceptable policies such as its support for extremist elements in Bosnia, and its lack of cooperation with the ICTY.*

C.   Russia

Russia's engagement in the Balkans during the last decade has proved a decidedly mixed blessing for all parties involved, often deeply complicated by Russia's own social and economic transformation. While Russia's resources are more limited at this time than those of the EU and the United States, it can still play an enduring and positive role in the region.

Moscow's policy toward the Balkans has often been quite divisive within Russian foreign policy and defence circles. Many of the splits in how to address issues in the Balkans reflect a wider division within Russia between relatively pro-Western reformers eager for integration and more conservative forces that remain deeply suspicious of Western policies and what they view as a U.S.-dominated agenda to isolate and weaken Russia. Putin has generally tacked between these two positions, eager to modernise the Russian economy while expanding Russia's influence in regional diplomacy.

Moscow's Record

Moscow should be credited for its constructive efforts in the trilateral diplomacy that set the terms for ending the 1999 NATO bombing campaign against the Milosevic regime. It should also be recognised that on many occasions, while Russia has resorted to colourful rhetoric about the West's involvement in the Balkans, it has actually taken a far more measured response. For example, although deeply opposed to the air attacks against Yugoslavia in 1999, then President Yeltsin did not pull his peacekeepers out of Bosnia at the time. Indeed, Russia's contribution of troops on the ground as peacekeepers in Bosnia and Kosovo as part of SFOR and KFOR respectively, offers an important sense of balance to both operations.[236] The fact that Russia has been willing to take such positive steps - despite intense domestic concern about NATO's military role in the region and close historic and cultural ties to Belgrade - offer forceful demonstration that Russia increasingly views itself as part of the European mainstream. It is hoped that President Putin chooses to continue and deepen this trend.

As former Russian Foreign Ministry official Oleg Levitin noted, "The Kosovo crisis also proved that it is worth trying to have Russia on board as long as possible, and that Russian intransigence can often be overcome through Western persistence. What is usually assumed to be Russia's principled opposition is sometimes more the result of inertia and incompetence. Sometimes it might not be so difficult to persuade Moscow - still basically opportunistic and lacking a clear vision of its own interests - to behave more constructively".[237]

Other aspects of Russian involvement in the region have been less salutary. Too often the relationship between Moscow and Belgrade during the Milosevic era took on the tenor of a client state relationship, with Russia's leadership eager to look beyond even the worst abuses by Milosevic, his

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[236] According to NATO, as of February 2001 Russia contributed about 1,200 troops to SFOR, which numbered approximately 20,000 forces, and some 3,150 troops to the 42,500-strong KFOR force.
[237] Oleg Levitan, "Inside Moscow's Kosovo Muddle", *Survival,* vol. 42, no.1, Spring 2000, pp.130-140.

cronies and his forces in the field. As many Serbs have rightly pointed out, the ultimate victims of Milosevic's failed policies were often the Serbian people themselves. Under Milosevic, Serbia was turned into an international pariah, living standards plummeted and hundreds of thousands of Serbs across the former Yugoslavia became refugees. Moscow was painfully slow to support democratic change in the region and sometimes resorted to pure obstructionism to defend its interests. As a result, Russia's credibility with actors throughout the region has been badly strained.

To better understand Russia's actions in the Balkans - both positive and negative - it is necessary to view them within the broader context of Moscow's legitimate strategic concerns. Russia remains:

❑ *Concerned about the Balkans as precedent.* The international community's use of force against a sovereign state as a means to resolve an internal conflict concerns Moscow at a time when it not only is mired in a bloody civil war in Chechnya but fears that it could soon face similar conflagrations elsewhere along its southern flank. Humanitarian intervention remains a hotly debated topic around the world and Russia's concerns about the matter cannot be dismissed out of hand. Similarly, fears that the international community could declare territories independent on a unilateral basis go to the heart of Russia's fears that it can hold together as a unitary state.

❑ *Nervous about NATO expansion and the Alliance's ultimate military intentions.* It remains difficult for much of Russia's senior leadership to view NATO in non-adversarial terms. Many in Moscow remain convinced that NATO activities throughout Central, Eastern and South Eastern Europe all are designed to ultimately weaken Russia's strategic position.

❑ *Troubled by the increasing marginalisation of the United Nations.* The fact that NATO launched military action against the FRY in 1999 without a UN Security Council mandate raised Russian fears that the strategic value of its seat on the Security Council was being severely diminished. While many, certainly including the International Crisis Group, viewed the military action as abundantly warranted by the severe human rights abuses being directed by Belgrade, NATO's actions challenged many traditional concepts of international law.

❑ *Fearful of Islamic extremism.* Given the situation in Chechnya, and nascent fundamentalist movements across much of Central Asia and the South Caucasus, some Russian strategic thinkers feel the greatest single

threat to Russia's continued existence within its current borders is a "green wave"of separatism and violence. While the merits of this view are better discussed elsewhere, the perception goes a long way toward explaining continued Russian hostility toward an independent Kosovo.

❑ *Eager to join mainstream European and transatlantic institutions.* Under the leadership of Presidents Yeltsin and Putin, Russia has made a strategic decision that it cannot prosper outside the global economic system. Russia values being taken seriously as a partner in the G-8, the Contact Group,the OSCE and other bodies.

When all of the above factors are considered in concert,and given the often-tumultuous state of the Russian domestic political scene, Moscow's sometimes seemingly contradictory behaviour in the Balkans, while not exemplary,takes on certain logic. The democratic uprising in Serbia provides Russia an opportunity to learn from its past missteps in Balkans policy and build on its previous contributions. Russia can,and should,take an active role in encouraging Montenegro, Serbia and Kosovo to resolve their final status issues the same way the Soviet Union largely did: peacefully, with the protection for minority rights and a shared understanding by parties to a settlement that the territorial integrity of new states must be respected.[238] As argued in Chapter 6, Russia should be given a seat at the table if the international community steps in to help mediate the final status of both Kosovo and Montenegro.

An Evolving Policy

The Foreign Policy Concept of the Russian Federation issued in June 2000 noted, "Russia will give an all-out assistance to the attainment of a just settlement of the situation in the Balkans, one based on the coordinated decisions of the world community. It is of fundamental importance to preserve the territorial integrity of the Federal Republic of Yugoslavia,and to oppose the partition of this State,something that is fraught with the threat of emergence of a pan-Balkan conflict with unpredictable consequences."

Russia was slow to acknowledge Kostunica's victory in the FRY, but has worked to soothe ties with Belgrade since that time. Central to that effort has been Moscow's unwavering opposition to any form of independence for Kosovo and calls for the international community to rein in Albanian "terrorists". After a Moscow meeting in October 2000, Russian President

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238 See Also Chapter 6, *The Future of the FRY.*

Vladimir Putin and his visiting Yugoslav counterpart Vojislav Kostunica issued a statement declaring a "new partnership" between their two countries. The joint statement also emphasised, "Russia and Yugoslavia regard full normalisation and the establishment of neighbourly relations between all the countries that emerged from the former Socialist Federal Republic of Yugoslavia as the main factor in stabilising the situation in the Balkans". The two countries also expressed support for full implementation of the UN Security Council Resolution 1244 on Kosovo, the early start of political talks and the signing of an agreement on Kosovo's final status. Russian Foreign Minister Ivanov indicated in January 2001 that Moscow is pleased by the progress in bilateral relations since Kostunica's reform-minded administration was swept to power and that "Yugoslavia's stability and prosperity is in Russia's interests. Yugoslavia must be an important factor of stability in the Balkans".

Russia would likely oppose independence for either Montenegro or Kosovo if Belgrade were united against such a possibility. However, alternatively, there may be no party better positioned than Moscow to help Belgrade accept certain political realities over time. For example, Russian acknowledgement that Milosevic should be handed over to The Hague's ICTY (which Russia's own vote in the UN Security Council helped establish) would be tremendously helpful, as would be recognition that more militant elements within the Republika Srpska need to fulfil the conditions established in the Dayton Agreement. If Russia does indeed want to be taken seriously as a regional player in the Balkans, it will ultimately have to deepen such a constructive role. Russia's political leverage is all the more important in light of its rather limited ability to offer financial assistance for relief and large-scale reconstruction in the region.

Russia can continue to play a key role in building a wider consensus on key security and strategic issues in the Balkans, and should choose to do so. Russia, like the Western community, has also been eager to support the Macedonian government as it has struggled to deal with recent separatist violence. However, Moscow should take great care to ensure that its assistance, whatever form it takes, does not inadvertently exacerbate tensions between Macedonia's Slav and Albanian communities. Macedonia and its international supporters need to continue to make clear that the issue is about supporting equal rights within a unified Macedonia - not about drawing dividing lines between communities. In that same vein, Moscow needs to do a better job of distinguishing between genuinely extremist elements within Kosovo, Macedonia and southern Serbia and mainstream,moderate populations that happen also to be Muslim. Labelling

all Muslim populations with blanket denunciations as "terrorists" will do little to improve the situation or will President Putin's comparisons between Chechnya and Macedonia.

Speaking in Skopje on 21 March 2001, Russian Foreign Minister Ivanov suggested that Western support for Kosovo Albanian rebels has helped fuel the conflict in Macedonia. Ivanov called for concerted international action in support of Macedonia and the disarming of the rebels, and proposed the signing of an accord, under which each Balkan state would pledge non-interference in the affairs of all the others. President Putin also raised such a proposal at the EU Summit on 23 March 2001, indicating that such an arrangement would guarantee each country's interests, current borders and provide a sense of mutual respect. While details of this plan remain sketchy, it appears to be an effort to foreclose any prospect that Kosovo might ultimately achieve independence.

Long term stability and prosperity in the Balkans would prove tremendously beneficial both to Moscow and all of Europe. Russian efforts to improve energy supplies and restructure the FRY's considerable - over $400 million - energy debts will also be important in helping Serbia's economy recover over the long term. Unfortunately, because of Russia's own considerable economic difficulties, Moscow's largesse will be somewhat limited in that regard. Given that President Putin has made a very active role to reach out to partners within Europe, Moscow may find that it is better positioned to work with the EU than the U.S. on some issues in the region. Russia's experience in transforming its economy to market structures, while not ideal, does offer a rich source of insight for policymakers throughout the region looking to shed the burden of state-dominated economies. Continued Russian participation in peacekeeping efforts in the region is welcome, and Moscow should fulfil its pledged contributions to the Stability Pact.

Conclusions and recommendations on Russia's role

❑ *Russia should take an active role in encouraging Montenegro, Serbia and Kosovo to resolve their final and future status issues peacefully, with protection for minority rights and a shared understanding by parties to a settlement that the territorial integrity of new states must be respected.*

❑ *Russian efforts to improve energy supplies and restructure the FRY's considerable energy debts will also be important in helping Serbia's economy recover over the long term.*

❑ *Russia should maintain its peacekeeping presence in the region.*

❑ *Moscow should take great care to ensure that its assistance to Macedonia, whatever form it takes, does not inadvertently exacerbate tensions between Macedonia's Slav and Albanian communities.*

D.   Major Intergovernmental Organisations

United Nations

The Balkans have been a difficult crucible for the United Nations. In many ways, the events over the last decade have cut to the very core of the role the international community wants the UN to play in the modern world. While recognising that the UN is no more than a reflection of the will, or lack thereof, of its member states, the Balkans presented the UN with several near death experiences - none more traumatic than its failure to prevent the genocidal carnage of Srebrenica.

During the last decade, many different organs within the UN have been engaged in the Balkans, including the UN High Commissioner for Refugees (UNHCR), the World Food Program (WFP), the United Nations Children's Fund (UNICEF), the UN Development Program (UNDP), the Office of the UN High Commissioner for Human Rights (OHCHR) and others. Many of the efforts of UN personnel and agencies were critical in bringing life saving assistance to hundreds of thousands of people in the region under the most demanding of circumstances. The UN Security Council also established the International Criminal Tribunal for the former Yugoslavia (ICTY) to bring perpetrators of war crimes in the region to justice, and its efforts are key to lasting accountability in the region.

However, no set of the UN's activities have been more controversial or critical than its peacekeeping operations. Again, this represents an array of efforts: the UN Protection Force (UNPROFOR) which was initially established in Croatia and later expanded to Bosnia and Macedonia, the UN Mission in Bosnia and Herzegovina (UNMIBH), the United Nations Preventive Deployment Force (UNPREDEP) that served as the successor to UNPROFOR in Macedonia; the UN Mission in Croatia (UNCRO), the small UN Mission of Observers in Prevlaka (UNMOP); the United Nations Transitional Administration for Eastern Slavonia, (UNTAES) and the UN Mission in Kosovo (UNMIK).

The high casualties and extreme ineffectiveness of UNPROFOR peacekeepers during the darkest days of the war in Bosnia convinced most Western officials that peace operations that were not dominated by NATO would simply not be up to the task in either Bosnia or Kosovo. The fact that NATO took the lead in peacekeeping in SFOR, IFOR and KFOR did indeed make all these operations far more effective. For all those hoping to see peace prevail in the Balkans, Western insistence that NATO command and control take priority over traditional UN arrangements was absolutely the right decision. However, the UN now must also accept that, at least when it comes to peace enforcement operations - with a military role going beyond the supervising, monitoring and verifying roles of traditional peacekeeping - the "blue helmeted" model has few friends and supporters in Western capitals.

In a similar vein, the larger role of the UN in authorising the use of force has been fundamentally challenged by events in the Balkans. The inability of the UN Security Council to agree to the use of force against the FRY during the Kosovo crisis has marginalised the UN's role to a certain extent. Recognising that both Russia and China would be likely to veto any robust use of force to bring Milosevic back to the negotiating table after the Rambouillet talks broke down, NATO went ahead with its military action. NATO member states argued that it would be unacceptable to stand by and do nothing as a humanitarian tragedy unfolded. While there are compelling arguments on both sides of this issue, the practical impact was to again underscore the notion that the UN was incapable of effective action at times when it was needed most. The deployments of peacekeepers in both Bosnia and Kosovo were authorised by the UN, but these authorisations came only after NATO had effectively been able to create facts on the ground. The preventive deployment of the UNPREDEP force in Macedonia was a rare bright spot in the UN's preventive efforts during the decade, as was the UNTAES in Eastern Slavonia.

While the series of Balkans crises has pushed the UN to the side when matters concerning the issues of force are at hand, it has tried different models for giving the UN a role in civil administration after the shooting has stopped. In Bosnia, the international community created a special body - the Office of the High Representative (OHR) - and an ancillary UN Office of Civil Affairs. The UN Office of Civil Affairs has often been marginalised under this structure, as has been the UN Mission in Bosnia (UNMIBH), with responsibility effectively only for policing. Lines of control and coordination for the entire international structure in Bosnia have often suffered from the lack of a clear hierarchy.

In Kosovo, the UN appointed special representatives have been given remarkably broad mandates and powers with a much clearer chain of command. In many ways, the situation in Kosovo represents an important test for the UN. If it proves ineffective in carrying out its mission, despite a broad mandate and clear lines of authority, the UN may see its role in civil administration pushed to the side just as was the case for peacekeeping. While the effectiveness of the UN obviously traces back to the political will of its members, that will not enable it to escape the blame for failed operations, as was the case for UNPROFOR.

In Bosnia, the High Representative, as detailed in Chapter 7, has taken a number of important steps in the right direction. Recognising that the only way to break the hold of extremist elements on the political process is by directly challenging them and strengthening central institutions, the High Representative has finally begun using a much wider range of his authorities as granted under the Dayton Agreement. This approach offers a welcome opportunity to break the continuing constitutional logjam in Bosnia and help to begin moving that country beyond its ethnic divide. The UN should embrace the wisdom of such a strategy in Kosovo. The UN special representative in Kosovo, as detailed in Chapter 5, needs to take a far more aggressive approach to moving forward with province-wide elections to establish a parliament for Kosovo. This step is both mandated by UN Security Council Resolution 1244 and is a fundamental measure not only in establishing substantial self-governance, but in creating the basis for a final resolution of the political status issue.

The UN's relative effectiveness in carrying out its civil administrative duties in Kosovo, and its more limited role in Bosnia, will have a tremendous impact on the future of these societies. While these tasks rarely draw the same international attention as the use of military force, they are every bit as important in establishing the underlying conditions for regional stability. The UN still has a considerable way to go in developing effective and streamlined methods for getting such important operations quickly up to speed, and developing more important systems along these lines will be vital to the success of future operations.

The UN will also be likely to face difficult questions concerning final and future status issues in the region with regard to both Kosovo and Montenegro. This report suggests that either the G-8 or the OSCE might be better equipped to take a lead role in assisting the parties to these talks. However, obviously whatever agreements can ultimately be reached will need to be ratified by the UN if they entail changes in borders or international recognition. The UN

should openly encourage such organisations to help forge an agreement that can be subsequently endorsed in New York. The G-8's role in helping forge the draft UN resolution 1244 can be seen as a model in that regard, setting a healthy precedent for the UN around the globe: if intergovernmental actors and organisations can reach consensus on such important matters in a transparent and democratic fashion, they should be encouraged in that effort. Such an approach would help set the UN up for success, not failure, as has often been the case in the past.

NATO

While NATO only entered the Balkans militarily with reluctance, since the war in Bosnia it has become a cornerstone for maintaining stability in the region. NATO's military muscle made peace possible on the ground in Bosnia and Kosovo, and has been essential in keeping Macedonia from descending into wider conflict. One can also make the argument that the successful NATO military intervention in Kosovo during 1999 helped speed the demise of former Yugoslav President Milosevic, and put Serbia on a much faster track to normalisation.

NATO's willingness as an institution to counter military aggression in the Balkans has proved a watershed for both the region and the organisation itself. While some of these actions have raised difficult questions surrounding the use of force and international law, it was abundantly clear that inaction in the face of such widespread provocations would have been both morally and strategically unacceptable. In finally taking more robust action in the region, NATO as an organisation sent a welcome signal throughout Central and Eastern Europe that it would defend the values of its member states while encouraging a more inclusive transatlantic community.

NATO's role also represents a rather profound organisational shift over the last decade, and many have given NATO credit for moving more quickly than the EU or other international organisations to define a new role and a new strategic concept for itself in the wake of the Cold War. While collective defence still lies at the heart of the Alliance's mission, it has also expanded that notion to include collective security for its growing membership. This has been accompanied by aggressive efforts to reach out to new partners and groom potential aspirants for membership through its Membership Action Plan, the Partnership for Peace and the Euro-Atlantic Partnership Council (EAPC). The cycle of crises in the Balkans have both shaped and tested NATO's new approach, as well as the willingness of the Alliance to use military force in out of area operations where there has not been a direct assault on one of its member states.

Immediate Challenges.   In many ways, NATO seems to be facing a fundamental fork in the road with regard to its peace operations. On one hand are the officers and member states who view a robust presence and aggressive steps to counter violence in the region as the soundest strategy to defend the alliance's interests. On the other hand are those who wish to see NATO increasingly limit and contain its active engagement in the region as the best means to avoid mission creep and extricate the alliance from open-ended troop commitment in the Balkans.

These sharply divergent philosophies are playing themselves out against the situations in Bosnia, Kosovo, Macedonia and southern Serbia. More activist elements within NATO were eager to pursue a preventive deployment of KFOR into southern Serbia, facilitate talks between Presevo valley rebels and the Serbian government, crack down on guerrilla elements within Kosovo (both Kosovo Serb and Kosovo Albanian), increase the number of NATO forces on the Macedonian border and pursue war criminals in Bosnia.

The "disengagement" faction within NATO has, by contrast, been eager to keep NATO troops out of the southern Serbia buffer zone and to have lightly armed Serb forces return to deal with the insurgency. This same faction has also made clear that it does not support increasing KFOR troop levels to deal with the unrest along the Macedonian border and has taken a far more hands off approach to stemming violence and the collection of weapons in Kosovo. In Bosnia, large numbers of war criminals have not be pursued by NATO forces even though their whereabouts are well known.

These are legitimate strategic and military debates about the scope of NATO's mandate and how best to improve the security situation on the ground. However, as noted earlier in this chapter, there is increasing European concern that the Bush Administration is eager to distance U.S. forces from the Balkans, while expressing reluctance to see NATO robustly exercise its respective mandates in the region, and any NATO force reductions in its peacekeeping commitments should occur only within the context of regular NATO reviews as has been the case with all previous force reductions. NATO will continue to periodically assess how many forces it needs in the Balkans and makes adjustments as the environment allows, including the relative distribution of national contributions. Overall force levels will likely continue to come down over time (hopefully as the situation warrants), and the U.S. percentage within those overall levels may drop as well. However, the U.S. should clearly understand that even relatively small deployments of its peacekeepers send out a larger and more powerful message to actors in the Balkans (and to NATO allies as well), regarding the U.S. commitment to

regional stability and the ability to dominate any escalation in the conflict. It would be unfortunate if the Bush Administration desire to minimise foreign "entanglements"ultimately helps create the conditions that lead to a need for greater U.S. military involvement on the ground to stem renewed conflict.

As NATO's recent role in dealing with the situations in the Presevo valley of Southern Serbia and along the Kosovo-Macedonia makes clear, prompt forceful action by the alliance can be invaluable in stemming potential conflict. The alliance should be applauded for its efforts to stem the tide of violence in southern Serbia by encouraging a direct dialogue between Belgrade and the rebels,and directly facilitating those talks. Such an approach would have been unthinkable even five years ago. Indeed,if the alliance had acted as decisively a decade earlier in similar situations, many of the worst horrors of the last decade might have been avoided.

Operationally, it seems that the alliance has learned a more adroit approach over the years. However, the real question remains: will NATO's political leadership allow it to effectively act where it has the capacity to do so? For example,the continuing reluctance by some of the allies to vigorously pursue indicted war criminals in Bosnia has made breaking the grip of nationalist extremists on the political process extremely difficult. Similarly, the reluctance with which KFOR has approached moving against the bridge watchers in Mitrovica has assisted more extreme forces in Kosovo in ensuring that the province remains deeply polarised along ethnic lines. NATO should understand that preventive actions,including the selective use of force,have tremendous utility. If the alliance unwittingly creates the impression that its foremost goal is simply keeping itself out of harm's way, other and far more unsavoury elements will quickly fill the military vacuum. Only by taking forceful action in the short-term - even though such actions may occasionally be politically unpopular and even risk casualties - can NATO speed the process by which it creates a truly stable environment where its peacekeeping presence is no longer needed.

NATO seems to recognise that its more than 60,000 peacekeepers currently on the ground in the region still have vital work to do. It is certainly hoped that the alliance does not move to suddenly draw down its presence in way that would prove destabilising to the situation. Indeed, as the region faces such potentially explosive issues as the final status of Montenegro and Kosovo,efforts to give the central government in Bosnia meaningful authority and continued insecurity in the Presevo valley of Serbia and Macedonia, this military presence provides a vital buffer. Without NATO on the ground, the battlefield could again become the court of first resort for disputes in the region.

Partnership and Membership. NATO's long term effort to partner with militaries in the region is also a vital part of regional stability. For example, NATO's work in training and upgrading the military in Bosnia, in keeping with international policy along those lines, has helped reprofessionalise these forces to the point where Bosnia could now contribute troops to other international peacekeeping missions. As a whole, efforts to help shape smaller, more professional and civilian controlled militaries throughout South Eastern Europe has been of tremendous utility, and the efforts should continue and intensify efforts to rid the region of the paramilitary forces that have been a source of so much destruction and violence over the last decade.

Many of the countries in the Balkans have expressed interest in eventual affiliation with NATO, and certainly South Eastern Europe is well within the organisation's potential ambit for membership. Like other potential NATO members, the countries of the region should be judged on their prospective merits and progress toward meeting the criteria that NATO has done an admirably clear job of establishing.

The Partnership for Peace is augmented by the Membership Action Plan (MAP), launched in 1999, an effort designed to give potential, and specific, roadmaps for NATO membership, and both efforts have become an important part of the developing security architecture in the region. NATO membership for any of the countries covered in this report will take a great deal of work and would only happen years down the road.

In the interim, almost all Balkans countries have signed up for MAP, including Albania, Bulgaria, Romania, Slovenia and Macedonia, with Croatia hoping to have a MAP in place this spring. All of these countries are also members of the Partnership for Peace. The obvious outsider is the FRY. However, attitudes in Serbia toward NATO are surprisingly benign given that the alliance was engaged in direct military strikes against the FRY in 1999. Indeed, surprising numbers of citizens in Serbia have notionally embraced the concept of some sort of eventual relationship with NATO. Obviously, this sentiment is far from universal and many Serbians are still very angry with NATO. However, some working relationship between Serbia and NATO, if the momentum for democratic reform can be maintained, could be quite useful in restoring a sense of professionalism to the Yugoslav army, bringing troop strengths down to a reasonable level and disbanding paramilitary groups.

Inclusion in the MAP implies acceptance of quite strict conditionality. Aspirant countries are expected to:

❑ settle any international, ethnic or external territorial disputes by peaceful means;

❑ demonstrate a commitment to the rule of law and human rights;

❑ establish democratic control over armed forces; and,

❑ promote stability and well being through economic liberty, social justice and environmental responsibility.

NATO explicitly states that membership of the MAP does not guarantee future admission to NATO. It is, however, a new, fast track. The 2002 review will be likely to conclude that the Balkans aspirants needed longer to meet the conditions included in the Plan, and could set an indicative deadline of some years later to consider again the question of actual NATO membership. Given the number of countries eager to join NATO throughout Europe, it is unlikely that the alliance will lower the bar on its conditions for membership simply to promote good will in the Balkans.

There may be value in emphasising more heavily the civilian component of the Partnership, in areas such as crisis management, civil emergency planning, and air traffic management. Reconfiguring some forces to serve as peacekeepers outside the region has been useful in Bosnia and might be replicated elsewhere. Eventual development of plans for phased force reductions,especially in the Serbian army, would be similarly productive. The value for local militaries of seeing NATO in action is immense. Across the region, local military commanders have been able to see modern, professional NATO forces at work. From communications, to civilian control, to planning, to inter-operability, NATO forces have been able to pass on the lesson that militaries need not be politicised or divided along ethnic lines. Over time, these contributions may prove every bit as important as NATO's use of force to keep the peace.

That said, there should also be a heavy element of realism injected into discussions about the potential for NATO expansion to include countries in the region. The Balkans countries discussed in of this report will find that NATO membership, like EU membership, is more a long-term goal than an immediate likelihood. NATO expansion continues to be a very controversial process within the alliance, and the Bush administration is more likely to take a "go slow" approach to expansion than its predecessor. The argument is essentially between those who see NATO

membership as mainly a political issue, and those who continue to see it in primarily military terms and worry about potential entrants' capability. In addition, enlargement also remains a contentious issue with Russia.

There is a dangerous divide in perception regarding the issue of expansion. While NATO has carefully hedged its approach toward Russia and aspirants by saying that NATO's "door remains open", many countries from the Baltics to the Balkans feel that with reasonable progress they should be guaranteed entry. NATO's decision on potential new members at its 2002 summit will be keenly watched throughout the region, and the alliance should not underestimate the positive influence potential membership has in reforming militaries and maintaining momentum for democratic change throughout Europe. Of the countries covered in this report, Croatia and Macedonia have made the most progress in meeting the requirements for membership, although they will find themselves competing with Slovenia, Romania, Bulgaria, Albania - and perhaps even Serbia at some juncture - within the region.

Conclusions and recommendations on NATO's role

❑ *NATO should continue and intensify its partnerships in the region as a means to professionalise militaries, ensure civilian control and reduce troop strength.*

❑ *In southern Serbia, NATO should more robustly enforce the Kosovo-Serbia border, and explore having KFOR serve as an extraction force for EU monitors on the ground, and continue facilitating talks between the FRY and the UCPMB guerrillas.*

❑ *KFOR should continue to take more effective steps to protect Serb civilians in Kosovo, especially convoys, including crackdowns on illegal Serb and Kosovo Albanian paramilitary and intelligence forces. KFOR and UNMIK police should act, with legal force if necessary, against the "bridge watchers" at Mitrovica.*

❑ *As well as maximising its efforts in Kosovo to control the border with Macedonia, NATO - while recognising the primacy of political over military solutions to the country's security problems - should continue its existing training and support programs in Macedonia, and be prepared to consider an active role in support of the Macedonian security forces against further rebel activity if the country's government so requests.*

❑ *SFOR must live up to its obligations to provide maximum protection to returnees and to apprehend war criminals in Bosnia.*

International Financial Institutions

The major international financial institutions, in particular the World Bank and IMF, and in the Balkans context the European Bank for Reconstruction and Development (EBRD), have both the authority and capability to exercise critical leverage over the Balkans economies. Their actions could determine not only direct access to concessional finance, but also the Balkans' success in mobilising supplementary financial resources, their ability to manage economic reform and their credibility in seeking to attract private investment. While EU association remains a relatively long-term project, building a constructive relationship with the international financial institutions will need to be an important short and medium term dimension of the Balkans' international engagement and their attempts to stabilise their economies. Without stabilisation, there will be no economic growth.

The World Bank has identified institutional weakness as one of the key constraints facing economies in the region.[239] The Bank notes, "The past decade of transition and conflict has left the region with a legacy of mediocre growth and declining living standards. The region has recovered only 75 per cent of its pre-transition GNP. Living standards, as evidenced by higher poverty, unemployment and inequality, have also deteriorated. The underlying reason is that, while considerable progress has been made with liberalisation, and in some countries with privatisation, progress in structural reforms has been slow in South Eastern Europe. This includes the privatisation of large key industries, as well as the imposition of financial discipline on enterprises and banks. Most importantly, the region has made little progress in establishing the legal and social institutions that underpin effective markets and provide the predictability, fairness and transparency required for private investment".[240]

Interestingly, the Bank hinges much of its hopes for positive economic progress in the region on the broader process of association and affiliation with the EU, "Success hinges critically on a credible and predictable path to integration with European and global structures, particularly the European Union. Such a path will anchor expectations and provide both an incentive for reform and intra-regional cooperation. The sustained commitments that

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239 See the "Brussels Discussion Paper: Stability, Institutions and European Integration", by the European Stability Initiative, 31 October 2000 for an excellent discussion of this approach.
240 'The Road to Stability and Prosperity in South East Europe', *The World Bank*, March 2000.

such a path requires will facilitate political and social changes, and discipline the formulation and implementation of domestic reforms in the SEE region".[241]

While the Bank has accurately identified the source of the continuing economic difficulties in the region, and rightly asserts that association with the EU will serve as an important engine for long term reform in the region, it is less clear about its own important role in the short and medium term in fostering economic change. The current programs put in place by the World Bank and the European Bank for Reconstruction and Development are generally well directed, but like many large scale financial projects aimed at promoting lasting economic reform, the real challenge for the international financial institutions will be to deliver tangible results, at an acceptable cost, within a reasonable time-frame.

While the Bank has stressed good governance and institutions as key factors in building economies in the region, the Bank as an organisation did not recognise the heavy role of transparency and good governance on economic performance until the mid- to late-1990s.[242] The Bank's ventures into post-conflict work are even more recent. While the Bank should be congratulated for moving in this direction, it clearly still has a ways to go. The Bank needs to further develop mechanisms that are fast, flexible and field driven in such settings, better coordinate its efforts with other donors and effectively use its considerable leverage as a means to secure meaningful political and economic reforms.

As noted, the Bank set out a regional strategy for the Balkans, in "The Road to Stability and Prosperity in South Eastern Europe". That report provides a practical agenda for economic policy makers, especially on renovation of infrastructure, regional cooperation, trade integration with the EU, social inclusion, and the establishment of transparent and fair economic structures. A number of supplementary proposals would help to make the work done by international financial institutions more effective. They include:

❑   engaging in more self-criticism, especially by avoiding the temptation to try to achieve results too quickly or to spread expertise too thin, over too many disparate projects;

❑   insisting on rigorous conditionality, in the form of deadlines and benchmarks for progress;

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241   Ibid.
242   "Preventing Deadly Conflict: Does the World Bank Have a Role?", John Stremlau and Francisco Sagasti, Carnegie Commission on Preventing Deadly Conflict, 1998, www.ccpdc.org/pubs/world/world.htm

❑ developing a distinctly hands-on approach to major reforms, particularly privatisation;

❑ setting a high bar for Serbia, not giving the new government a "free pass" by offering early access to IFI funding, but rather maintaining the same rigorous conditions applied to Serbia's neighbours; and

❑ synchronising funding with programs financed under the Stability Pact.

The Bank has begun to understand the scope of challenges involved in working in post conflict settings, and its efforts have drawn considerable attention. Key to such efforts will be developing a strong political consensus in the countries covered in this report for what World Bank President James Wolfensohn characterises as "home-grown" economic reform, backed up by a "broad buy-in" on the part of local interests groups. Again, while the EU membership process will be useful in encouraging such reforms, association is such an extended process that the Bank will have to supplement these efforts in the immediate term.

While international financial institutions cannot impose consensus, and wish to avoid running the risk of appearing patronising or domineering, local political support for the hard choices involved in much needed economic reform is essential. Thus it is incumbent upon the international community as a whole to make clear that supporting reform, while involving some dislocation, is in the long term interests of the people of the region. When individuals understand that everything from World Bank loans to EU membership potentially hinge on the willingness to enact meaningful reform, they are far less likely to turn their ire on politicians who are pursuing such a course. International financial institutions also need to ensure that their assistance is working to combat corruption and not unintentionally reinforcing existing systems of economic and political patronage, as has sometimes been the case. Without this broader framework of understanding, the countries in this report will never fully embrace the comprehensive economic overhaul necessary for long-term growth.

The international financial institutions can offer counsel, but only local leaders can make the hard political choices about economic policy. The key issues include:

❑ how to make substantial progress on the full range of new, difficult and complicated economic issues simultaneously;

❑ confronting deeply entrenched vested interests that regard economic reform as a direct threat to their power and wealth;

❑   the dearth of relevant, current skills in the Balkans labour force;

❑   lack of management skills or experience with privatisation;

❑   maintaining an adequate social safety net; and,

❑   obtaining early dividends from economic reform to maintain momentum for further institutional change.

All of these questions have been raised throughout this report. There are no easy answers. The projects supported by the international financial institutions underscore the scope of the challenge ahead. For example, the World Bank program in Albania ranges from institution building for both short-term (judicial reform, financial sector technical assistance) and long term needs (education reform), to emergency repair work (in rehabilitation of water supply and repair of roads). Efforts in no one area will be successful without concurrent progress in equally pressing areas of other need.

Given the size of these countries, and the toll that war and communism has taken on their economies, a strategy that shifts the Balkans away from traditional reliance on state-owned heavy industries to developing entrepreneurial small to medium sized enterprises would seem to make the most sense. In that context, the World Bank's Local Initiatives Project in Bosnia deserves acknowledgement for its relative success in providing access and credit for low-income micro-entrepreneurs. The World Bank claims that seven out of every eight businesses helped with its 35,000 loans have become "operationally self-sufficient", and if those figures are even close to accurate, the model is worth expanding. As a whole, the Bank will likely come to realise over time that smaller, more targeted and faster disbursing programs are more effective in building the momentum for peace and reform in post conflict settings than large top-down programs instituted through central governments.

The Balkan economies might also take some comfort in looking at how far a number of Eastern European Economies have come since the fall of the Soviet empire. Throughout most Eastern Europe, local economies are now almost back to their 1989 output levels but with economic systems far better positioned to nurture lasting growth. Poland is attracting fifty times the level of inwards investment it received a decade ago.[243]

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243 EBRD Transition report, November 2000

Conclusions and recommendations on the role of the International Financial Institutions

❏ *Funding should focus on institutional strengthening, particularly measures that will allow democratic governments in the region to become increasingly self-supporting, with less control of revenues by political parties.*

❏ *The World Bank needs to further develop mechanisms that are fast, flexible and field driven in post conflict settings, better coordinate its efforts with other donors and effectively use its considerable leverage as a means to secure meaningful political and economic reform.*

❏ *For the near term, small and medium sized businesses will be the engine for growth in the region and the international community should actively promote small business through deregulation, micro-enterprise lending and by using local firms to the maximum extent possible in reconstruction efforts. Accordingly, the Bank should explore smaller, more targeted and faster disbursing programs as a means for building the momentum for peace and reform in post conflict settings.*

❏ *Privatisation will also need to be a central focus, with particular care given to ensuring that these efforts don't become a "fire sale" to the politically well connected, and international financial institutions will need to better coordinate their programs with bilateral donors and the Stability Pact to establish firm deadlines and benchmarks for progress.*

❏ *International financial institutions should ensure that Serbia is held to the same high standards that Croatia has been in terms of cooperation with the ICTY and meaningful political and economic reform - a key factor considering Serbia's large debt burden.*

PART V.
CONCLUSION

14. TOWARD A LASTING BALKANS PEACE

The Balkans are not doomed by history or character to suffer perpetual conflict. Lasting peace is possible with practical steps, everyday actions and the will of the people to achieve it. But it will also require sustained attention by the international community, particularly the Western capitals, to building on the costly foundations that have been laid. Few tasks are more important than peacefully resolving outstanding final and future status issues in Kosovo, Montenegro and Bosnia, and ensuring that military conflict yields to political dialogue in Macedonia.

The Balkans, always viewed as one of the world's most unique and often explosive crossroads,now itself stands at a fork in the road. One way lies the path toward greater European integration, regional stability, economic growth and cultural tolerance. The other lies violent irredentism,virulent nationalism, persistent economic decline and despair. The path chosen by the people of the Balkans is up to them. No amount of international coercion, financial assistance or goodwill can substitute for commitment by the people of the region. The Balkans are not doomed by history or character to suffer perpetual conflict. Lasting peace is possible with practical steps, everyday actions and the will of the people to achieve it.

Extreme nationalism, and politics defined through the narrow prism of ethnicity and purely parochial interests, have brought only ruin to the people of the Balkans. There are some encouraging signs throughout the region that that message is at last being understood and accepted. As of 1 April 2001 Slobodan Milosevic sits behind bars. Throughout the region, most citizens are eager to leave war behind.

In Croatia, Serbia, Kosovo, Macedonia, Albania, Montenegro and Bosnia, extremists continue to suffer some important reversals. However, violent nationalists and a well-placed criminal class are still potent forces in these societies and, seeing their interests directly threatened, will become all the more dangerous for being wounded. In the period ahead, it is these

extremist forces that will use violence and other forms of intimidation to advance their short-sighted agendas - even at the risk of casting the region again into broader war.

The international community has a vital role to play in assisting the forces of peace. There is a dangerous tendency in Western capitals to marginalise those issues that do not dominate the headlines, and the international community must avoid the temptation to let its attention drift at a time when the foundation for a more lasting peace is possible but far from completed. Slobodan Milosevic was not the only source of instability in the region. Efforts to deal with the underlying sources of tension are key to keeping conflcit from erupting and spreading.

Few tasks are more central or profound for the international community than peacefully guiding the processes to address unresolved final and future status issues in Kosovo,Montenegro and Bosnia. While policymakers often wince at the complexity and intractability of these issues, such fundamental structural challenges are the great unfinished business that Yugoslavia's dissolution set in motion.

To ignore these issues or to reason that they are better left for another day is to risk pouring petrol on the lingering fires of nationalism in the region. Further, there is simply no way for these societies to emerge from chronic instability until some order and rationality is brought to their underpinning legal and institutional structures. The time has come to peacefully, transparently and democratically resolve final and future status issues in keeping with the rule of law and relevant international mandates. If the international community shirks this admittedly difficult work,history will not be kind.

Key to the efforts in this respect in Kosovo, Montenegro and Bosnia will be several broader notions that apply throughout this report. The international community will have to approach its work in the region within a general strategy to break the economic and political power of extremists. Broad economic restructuring, designed to generate tangible economic benefits in the near term, will be crucial. Efforts to restore the rule of law, bring perpetrators of war crimes to justice, build better functioning public institutions and return refugees to their homes will all be essential as well. All this calls for a level of international engagement in the region that is built around foresight, prevention and a willingness to aggressively counter nationalist forces. Indeed, having already tried a far more reactive, cautious and timid approach to the Balkans throughout much of the 1990s - with disastrous results - the international community has clear incentive not to resort to earlier habits.

This has a number of ramifications in practical terms. NATO should maintain a credible presence in the region, supported by all of the alliance's nineteen members, and should not shy from being prepared to use its military muscle for preventive purposes. The international community should encourage the UN representatives in both Bosnia and Kosovo to aggressively exercise their mandates. The UN and its member states should encourage a resolution of final status issues in keeping with international norms. The generous international assistance to the region should continue, but it should also be more clearly tied to meeting specific benchmarks such as meaningful economic reform, cooperation with the ICTY and full implementation of the Dayton Agreement. Both the EU and the Stability Pact will need to more closely focus their activities on a more narrow range of issues where meaningful progress can be made in generating jobs and economic growth within the context of lasting reform.

In terms of the entities profiled in this report, there are also a number of clear trends. Serbia, while to be applauded for its historic accomplishment in democratically removing Milosevic and putting him under arrest, still has many deeply nationalist elements. Only consistent international pressure and support will help Serbia come to terms with the events of the last decade and begin to define its place within the mainstream of Europe. The international community must insist that Serbia meets the same standards that it has expected and demanded from other successor states in the region.

Montenegro continues to be deeply preoccupied with its future status, and there is significant support for independence in a political process that will be more likely than not to gain momentum throughout 2001. The international community needs to take a more realistic approach to these unfolding events, and realise that it will be better positioned if it plays a constructive role in facilitating talks, and ensuring that Montenegro pursues its efforts in a transparent and principled way, instead of just hoping that a fragile status quo can be preserved.

Kosovo is coming to be even more embroiled by tensions surrounding its future. The slow pace with which the international community has approached the establishment of institutions of substantial self-government needs to be reversed. It will be these institutions, forged with the oversight of UNMIK, that will provide the basis for Kosovo to ultimately resolve its position within - or more likely outside - the FRY. Excessive heel dragging by the international community is only

encouraging more extreme elements within Kosovo, both ethnic Albanian and Serb, to resort to violence, and giving ever more momentum to extremists across the border in Macedonia and the Presevo valley.

Bosnia is again becoming a crucial test of the international community's resolve. While the UN High Representative has in recent times taken important steps to more forcefully apply his mandate, even bolder steps will be required. The Bosnian constitutional court made a historic decision in ruling significant portions of the entity constitutions as unconstitutional, and now the High Representative, backed by the will of the international community and the muscle of SFOR, must help Bosnia make the transition from being a society dominated by ethnic rights and priorities within para-states to a unified country built around respect for the rights of individuals. This process will require the exploration of further ways to meet the extremists head-on, strengthen the central government and bypass the entities created by Dayton, perhaps in favour of more appropriately structured local bodies.

In many regards, Croatia has made the most progress of all the Balkan actors covered by this report. The hold of nationalist parties on electoral politics has been largely broken, and the country's current leadership has disavowed Bosnian Croat separatist elements hoping to carve out a "third entity" in Bosnia or a Greater Croatia. However, Croatia is still struggling to assemble a credible economic reform agenda.

Macedonia continues to weather with some resilience its many storms, most recently along the Kosovo-Macedonia border and in Tetovo, but its long term stability still remains tied to its capacity to forge - through political dialogue, not war - a sound social contract between its Albanian and Macedonian-speaking communities. The conduct of Macedonia's upcoming census will be vital in that regard, as will be efforts to ensure all citizens are treated equally under the law.

Albania faces its greatest challenge in establishing an environment where the rule of law is respected, prospects for economic growth are meaningful, and civil society can operate in a more stable fashion. The country was blighted by decades of extraordinary isolation and repression under communist rule, and the upheavals of the last several years have been intensely further debilitating. Continued international assistance, particularly in combating the growing problem of organised crime and smuggling, will be essential.

The people of the Balkans, with the continued help of the international community, have the opportunity now to fundamentally alter the future of the region. From all the horrors, mistakes and missteps of the past decade, there has emerged a vision and commitment to allow peace to triumph over division and hatred. The stakes involved in this struggle are immense. There is no alternative but to summon the collective political will to tackle the outstanding issues while the chance to resolve them is real.

Too many have sacrificed too much to fail.

GLOSSARY OF ABBREVIATIONS

AAK	Alliance for Future of Kosovo
BiH	Bosnia and Herzegovina
CAFAO	Customs and Fiscal Advisory Office
CEDEM	Centre for Democracy and Human Rights
CEFTA	Central European Free Trade Area
CEPS	Centre for European Policy Studies
CoE	Council of Europe
CFSP	Common Foreign and Security Policy
CSBM	Confidence and Security Building Measures (OSCE)
DA	Democratic Alliance
DA	Democratic Alternative
DB	State Security (FRY)
DM	Deutcsh Mark
DPA	Dayton Peace Agreement
DPA	Democratic Party of Albanians
DPKO	Department of Peacekeeping Operations
DPS	Democratic Party of Socialists
DOS	Democratic Opposition of Serbia
DS	Democratic Party
DZB	For A Better Life Coalition
DSS	Democratic Party of Serbia
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
EIU	Economist Intelligence Unit
ESI	European Stability Initiative
EU	European Union
FDI	Foreign Direct Investment
FRY	Federal Republic of Yugoslavia
FYROM	Former Yugoslav Republic of Macedonia
G-8	Group of Eight
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
HDZ	Croat Democratic Union (Croatia)
HDZ	Croat Democratic Union (Bosnia)
HNS	Croatian People's Party
HRT	Croatian Radio Television

HSLS	Croatian Social Liberal Party
HSP	Croatian Party of Rights
HSS	Croat Peasant's Party
HVO	Croat Defence Council
ICG	International Crisis Group
ICITAP	International Criminal Investigative Training Assistance Program
ICTY	International Criminal Tribunal for the former Yugoslavia
IDP	Internally Displaced Person
IDS	Istrian Democratic Council
IEBH	Inter-ethnic Boundry Line
IFC	International Finance Corporation
IFOR	Implementation Force
IMF	International Monetary Fund
INSIG	Albanian Institute for Social Insurance
IPTF	International Police Task Force
ISSP	Institute for Strategic Studies and Prognoses
JNA	Yugoslav People's Army
JUL	United Yugoslav Left
KFOR	Kosovo Force
KLA	Kosovo Liberation Army
KM	Convertible Mark (Bosnian)
KPC	Kosovo Protection Corps
KPS	Kosovo Police Force
LDK	Democratic League of Kosovo
LKCK	National Movement of the Liberation of Kosovo
LP	Liberal Party
LPK	People's Movement of Kosovo
LS	Liberal Party
LSCG	Liberal Alliance for Montenegro
MAP	Membership Action Plan (NATO)
MAPE	Multinational Advisory Police Force
MRTV	Macedonian Radio-Television
MUP	Ministry of Interior Police (Yugoslavia)
NDP	National Democratic Party
NHI	New Croat Initiative
NLA	National Liberation Army
NATO	North Atlantic Treaty Organisation
NS	People's Party
NSS	People's Socialist Party
OAC	Ownership Adjudication Commission
OECD	Organisation for Security and Cooperation in Europe

OCHA	Office for the Coordination of Humanitarian Affairs
ODIHR	Office for Democratic Institutions and Human Rights
OHR	Office of the High Representative
OSCE	Organisation for Security and Cooperation in Europe
OSCSP	Office of the Special Coordinator of the Stability Pact
PBDNJ	Union of Human Rights Party
PD	Democratic Party
PDK	National Democratic Party
PDK	Democratic Party of Kosovo
PDP	Party of Democratic Progress (Bosnia)
PDP	Party for Democratic Prosperity (Macedonia)
PHARE	Pologne Hongrie Assistance pour la reconstruction économique
PIC	Peace Implementation Council
PKK	Parliamentary Party of Kosovo
RS	Republika Srpska
RTS	Radio Television Serbia
SAA	Stabilisation and Association Agreement (EU)
SBiH	Party for Bosnia and Herzegovina
SDA	Party of Democratic Action
SEDM	European Defence Ministerial Group
SECI	South East Europe Cooperation Initiative
SDP	Social Democratic Party (Bosnia)
SDP	Social Democratic Party (Croatia)
SDS	Serbian Democratic Party
SDS	Serb Democratic Party
SDSM	Social Democratic Alliance for Macedonia
SFOR	Stabilisation Force
SFRY	Socialist Federal Republic of Yugoslavia
SLCM	Special Local Security Measures
SME	Small and Medium Size Enterprises
SNP	Socialist People's Party
SNSD	Party of Independent Social Democrats
SP	Socialist Party
SPO	Serbian Renewal Party
SIPRI	Stockholm International Peace Research Institute
SPRS	Socialist Party of Republika Srpska
SPS	Socialist Party of Serbia
SRS	Serbian Radical Party
SSJ	Party of Serbian Unity
UK	United Kingdom
US	United States of America

USAID	United States Agency for International Development
UCPMB	Liberation Army of Presevo-Medvedja-Buganovac
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
UNIKOMB	Albanian Unification Party
UNMIBH	United Nations Mission in Bosnia and Herzegovina
UNMIK	United Nations Interim Administration Mission in Kosovo
UNPREDEP	United Nations Preventative Deployment Force
UNPROFOR	United Nations Protection Force
UNSCR	United Nations Security Council Resolution
UNSG	United Nations Secretary-General
UNSRSG	United Nations Special Representative of the Secretary-General
VJ	Yugoslav Army
VMRO-DPMNE	Internal Macedonian Revolutionary Organisation - Democratic Party for Macedonian Unity
VRS	Army of Republika Srpska
WEU	Western European Union
WTO	World Trade Organisation

ABOUT THE INTERNATIONAL CRISIS GROUP

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The European Union and the Balkans

From Stabilisation Process to Southeastern Enlargement

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Note on Contributors

The arguments and recommendations of the paper represent solely the views of the authors.

Executive Summary

THE FUTURE OF THE BALKANS: Historically, the term "Balkans" is widely associated with fragmentation, violent conflict, backwardness and misery. Only very recently, the region started to generate a common vision: the perspective of future EU membership. The EU perspective is emerging as the *Archimedean point* of the entire process of stabilisation and development for the region, providing both the peoples in the Balkans and the international community with a real prospect for a breakthrough that would lead the region *away* from the divisions and the conflicts of the past and *towards* stability, co-operation and prosperity. The 1999 Helsinki European Council gave the prospect for integration of the Western Balkans in EU structures a new geographic logic and strategic momentum, particularly as the existence of a Balkan enclave would refute the concept of a European territorial *finalité*. Moreover, basic preconditions for eventual EU membership, such as the Helsinki principles, the Copenhagen criteria and the adoption of the *acquis communautaire*, are more and more becoming the guiding principles and the role model for political and economic reform and institution building in the countries of the region. The EU countries have by now accepted that the entire region *is* already part of Europe, that its problems *are* European ones, and that any viable solution *has to be* a European solution.

Today, the European perspective is basically represented institutionally in the region by the Stabilisation and Association Process (SAP) as well as in some respects by the Stability Pact (SP). Although the EU's bilateral agreements with the Balkan countries were originally modelled along the lines of those for non-accession states, the SP and the European promise triggered a redefinition along the lines of Eastern enlargement, resulting in the Stabilisation and Association Process. Yet, there is heterogeneity within the region defying the pattern of conditionality and regionality as practised in Eastern enlargement. Unlike the case of East Central Europe, considerations of stabilisation and scale require that regional co-operation in South East Europe operates *prior to* and *parallel to* the EU integration process instead of being treated as its natural consequence and a *follow-up* to integration.

SP and SAP are not a perfect match and do not jointly provide a comprehensive framework for the European perspective in the region. Strategically, SP and SAP are based on contrasting contractual principles. The SP prioritises regional co-operation as a stabilising remedy for the structural deficits as well as recent conflicts in the region. The SAP prioritises the power of bilateral conditionality and consequently identifies regional co-operation as only

an auxiliary mechanism. The bilateral conditionality of the SAP or the pre-accession process causes a new fragmentation or divide within the region and competes with the SP's logic by promoting integration via Schengen borders and an internal market. By its very logic, conditionality rewards those countries that have successfully mastered the quantifiable and urgent challenges of political and economic reform rather than the less tangible long-term objectives of regional co-operation. In sum, while the European integration constitutes the Archimedean point for the region, individual weaknesses and fundamental tensions between the two main instruments of the European perspective in the Balkans persist. The complexity and unpredictability of the Balkans' road towards Europe calls for the re-thinking and re-arrangement of some of the available instruments for crisis management, conflict prevention, reform assistance, regional co-operation and European integration in the direction of strengthening the European perspective in the region.

CHALLENGES AND OPPORTUNITIES AHEAD: Many factors distinguish the development in the region from other regional transitions to pluralist democracy and market economy. It is even a bold hypothesis that the process of EU integration in the region would qualify automatically as a strategy for development, modernisation and transition, all in one. Unlike in East Central Europe, stabilisation predominated over reform assistance and pre-accession support. In sum, there are three specifics in Southeastern Europe that merit deeper attention in the process of defining objectives and strategies in support of the European perspective.

1   Modernisation and Transition: the *weakness of the state*, despite its strong pretences to sovereignty and ethnic statehood; the *weakness of civil society* with the excessive intertwining of economic and political power; and the *deficits of economic modernisation*, as the modernisation process has not yet reached its take-off phase in larger parts of the region.

2   Managing Ethnic Conflicts and Security: the *endemic crises* of the weak states in the region; *crisis management* of internal conflicts; and the *legacies* of ten years of inter-ethnic and inter-state conflict. The evident difference between the Balkans and East Central Europe is between ten years of *steady* transition in East Central Europe and ten *volatile* years of ethnic conflicts and instability in the major parts of South East Europe.

3   Duration and Heterogeneity: The last two distinctive features of the region as far as strategies of regional co-operation and EU integration are concerned involve the

projected *duration* of the integration process and the structural *heterogeneity* of the region as such.

Even in the best-case scenario, a set of strategies and institutions both qualitatively and quantitatively different from the ones employed in the enlargement process in East Central Europe are needed in the Balkans in order to cope with the specific requirements for stability in the region and in order to successfully complement the Stabilisation and Association Process towards EU integration. Overall, the integration process will be significantly more arduous, heterogeneous and asynchronous. A more realistic scenario for the Southeastern enlargement process after 2004 calls for a consistent and transparent overall strategy with more coherent sets of policies and instruments providing concrete "stepping stones" - distinct incremental incentives linked to tangible interim benefits. The paradigm for Southeastern Europe has irrevocably changed *from stabilisation to enlargement*. Thus, what is necessary today and will become an even more pressing need after Eastern enlargement is a comprehensive re-arrangement of existing institutions and policies in a single strategic framework: Europe and the region need now *an Agenda for Southeastern Enlargement.*

ENHANCED STRATEGIC COMPLEMENTARITY: Complementary strategies partly *precede* (in a logical rather than temporal sense) the actual Stabilisation and Association Process (e.g. the start-up assistance), partly *accompany* the SAP in parallel (e.g. regional co-operation) and partly *proactively* block interfering factors to the process (e.g. crisis management). In sum, bilateral conditionality and regional co-operation are separate strategic objectives promoting separate but equally important and complementary reforms and should not be allowed to emerge as competing agendas. The responsibility here lies both with the local political elites in demonstrating forward-looking leadership and with the EU in ensuring that regional co-operation is not construed (and thereby discredited) as a substitute to EU membership. For the issues this involves both a new quality of public policy in the region and a strategic prioritisation of functional forms of co-operation.

ENHANCED INSTITUTIONAL CONGRUENCE: The logical next question is about the congruence of the *institutions* to shoulder the tasks for assisting in the development and the implementation of these complementary strategies. In this regard, a major question is whether the current proliferation of international and regional initiatives and, particularly the pluralism that characterises the institutional interface between the EU and the region, is appropriate and helpful. Yet, since the current situation is not the result of a comprehensive international approach to the realities in the Balkans but rather, as usual, the outcome of the

well-known complexity of the international community and the *sui generis* set-up of the EU, the question is rather how to do better out of the available instruments and mechanisms currently employed in the region and not to try to reinvent the wheel. The obvious consequence of the requirement for enhanced institutional congruence under the current circumstances is the need *for a new deal for the current key initiatives in flexible arrangements under an informal common roof.*

AN AGENDA FOR SOUTHEASTERN ENLARGEMENT: Adopting an Agenda for Southeastern enlargement would therefore signify the progressive and balanced shift of the position of the international community and the local leadership: from stabilisation to enlargement; from international micro-management of the region to macro-management with greater local responsibilities; and from an international institutional proliferation to an integral institutional framework. The development of a flexible and informal common roof under which all current strategic objectives, actors and initiatives would be re-arranged to create dynamic synergies would be the acknowledgement of this paradigm shift. The above strategic complementarity and institutional congruence of the Southeastern enlargement process has to be consolidated in the next 2-3 years with the 2004/2005 Eastern enlargement as a deadline.

In conclusion, what may have worked reasonably well in Eastern enlargement process requires additional endeavours in the case of Southeastern enlargement due to the qualitatively and quantitatively different challenges this region poses. A consistent *Agenda for Southeastern Enlargement* after 2004, including the establishment of an *Informal Consultation Council* to provide the much-needed strategic and institutional coherence and orientation under EU leadership as well as an enhanced *Stabilisation and Association Process* will be needed *soon,* in order to secure a credible Balkan trajectory to Europe.

Policy Recommendations

For strategic complementarity and institutional congruence:

✓ Informal Consultation Council: The ICC ought to be enhanced and upgraded to become the common roof for consultation among key strategic actors for the Agenda of Southeastern enlargement: the EU Council Secretariat, the European Commission, the SEECP, the SP and the EU Presidency, the USA, SEECP, SP, SECI, World Bank, NATO as well as (temporarily) the SRSG for Kosovo and the HR for Bosnia-Herzegovina.

✓ SEECP: Regionalisation and true regional ownership require a SEECP with stronger capabilities – not necessarily institutionalised – including regular ministerial meetings in key areas of (potential) regional co-operation: security, economics and trade, energy, etc.

✓ Stability Pact: The Pact ought to define its own agenda selectively and offensively based on actual and potential added value in complementarity to the SAP. Consequently, its table structure has to be reconsidered and certain other tasks regionalised, transferred to the EU or phased out in the medium term. Thus, the strategic capacity of the Office of the Special Co-ordinator will have to be strengthened.

For Southeastern enlargement:

✓ DG Southeastern Enlargement: SAP and EU candidate status should be upheld as separate (albeit sequential) trajectories for EU integration. Yet, the EU perspective for the Balkans, the logic of regionality and the concept of SAP Plus imply that as of 2004 DG Enlargement takes responsibility for both the remaining candidates of Eastern enlargement and for the SAP states of Southeastern enlargement.

✓ Functional Co-operation: Without raising the spectre of virtual, partial or second-class membership, the EU might intensify co-operation in some policy areas (e.g. the fight against organised crime; environmental policies; and security issues). Functional co-operation would be beneficial for the entire region and for the EU too.

✓ Cross-Conditionality: Coherence of EU strategies for crisis-management, regional co-operation and integration implies that "cross-conditionality" can be applied more vigorously and transparently: Non-compliance with international obligations (ICTY, Res. 1244 or Dayton) could be linked to progress in the SAP.

- ✓ SAA Minus: In order to include all countries and entities of the region in the SAP and the SAA path, a special SAA minus has to be defined for those incapable of fulfilling the SAA admission criteria in the medium term, e.g. due to unresolved status issues. Once the constitutional constellation and the SAA procedure for Serbia and Montenegro has been arranged, Kosovo would be a prime candidate for a SAA minus with reduced conditionality and reduced but effective assistance and benefits.

- ✓ SAA Plus: Conversely, the logic of conditionality requires that each country's "graduation" from SAA to candidate status depends on the reform criteria of the SAA, not on the planned duration of the SAA. The separation and sequencing of SAA and candidate status, however, is not violated by selectively "mirroring" relevant pre-accession instruments and offering them to the more advanced SAA states, e.g. screening for the adoption of the acquis, certain economic instruments and assistance for administrative capacity-building. Eventually, this SAA Plus approach might significantly shorten the actual phase of accession negotiations and strengthen the country's "locomotive role" within regional co-operation.

- ✓ European Reconstruction Agency: In line with the paradigm shift from stabilisation and reconstruction to integration, the agency will have to be renamed and take responsibility for CARDS assistance and evaluations either for all or none of the Western Balkan countries and entities.

- ✓ Interim Incentives: The projected duration of the EU integration process for the Western Balkans requires stages within the SAP, marked by distinct reform conditions and interim incentives for individual SAA countries. Interim incentives might involve the lifting of visa regimes or specifics of the free movement of peoples, goods, services and capital.

- ✓ Pan-European Benefits: In view of a projected European *finality* including the Western Balkans, some exclusive EU benefits can be turned into "pan-European" benefits to strengthen regional and European solidarity, without violating SAP conditionality. Citizens from the region could qualify EU educational programs and for staff positions at the EU. Information campaigns on the EU ought to include the region on equal footing and observer status for the states in the European Parliament or the next Inter-Governmental Conference might be worth considering.

1   The Future of the Balkans: EU Integration is the Archimedean Point

Historically, the term "Balkans" is widely associated with fragmentation, violent conflict, backwardness and misery. Developments in the 1990s, particularly the violent disintegration of the former Socialist Federal Republic of Yugoslavia, including the subsequent crises in Kosovo and Macedonia, as well as the collapse of the Albanian state in 1997, have only painted in brighter colours the imagery of the Balkans as the land of perpetual instability, ethnic divisions and state fragmentation. Indeed, antagonisms rather than co-operation have generally so far marked the relations among the Balkan peoples (with external Great Powers contributing their share to divisiveness and conflict). They have rarely perceived themselves as a region and they have seldom felt a sense of unity. Even the recent term "Western Balkans" (coined by the 1998 Vienna European Council) and the wider term "South East Europe" (that includes the EU accession states of Romania and Bulgaria) apparently correspond to external perceptions rather than to a local sense of belonging.

Only very recently, the region started to generate a common vision: the perspective of future EU membership. Croatia and Albania, for example, may be miles apart in political and economic development, but both in Zagreb and in Tirana EU membership has become the political talk of the town. Kosovo Albanians and Serbs may disagree on almost every issue of political relevance, but neither of them seriously envisages a future *outside* the framework of EU integration. The EU promise for accelerating the process towards the European Union as a reward for compromise has been the catalyst in brokering the March 2002 Belgrade Agreement regarding the new state of Serbia and Montenegro which, arguably, has for the time being halted further disintegration and, possibly, further instability in the Balkans. Thus, the EU perspective is emerging as the *Archimedean point* of the entire process of stabilisation and development for the region, providing both the peoples in the Balkans and the international community with a real prospect for a breakthrough that would lead the region *away* from the divisions and the conflicts of the past and *towards* stability, co-operation and prosperity.

The perspective of EU membership for the states in the region was first promised in the founding document of the Stability Pact for Southeastern Europe (SP) in Cologne on 10 June 1999 - probably the most controversial clause in the entire declaration. After the Sarajevo Summit of November 1999, the promise was somehow toned down, but only temporarily. A month later, the Helsinki European Council decided to open accession negotiations with six

more candidates, including Romania and Bulgaria. This decision gave the prospect for integration of the Western Balkans in EU structures a new geographic logic and strategic momentum, particularly as the existence of a Balkan enclave would refute the concept of a European territorial *finalité*. The promise for an eventual European integration, as phrased in the Presidency Conclusions of the Feira European Council in June 2000, provided additional impetus. The EU countries have by now openly accepted that the entire region *is* already part of Europe, that its problems *are* European ones, and that any viable solution *has to be* a European solution.

The credibility of the European perspective has also significantly increased during the past 2-3 years in the Balkans. The EU and its member states, despite much criticism about slow bureaucratic procedures, have demonstrated a considerable readiness to pledge and commit substantial funds for the stabilisation of the Balkans, particularly at the SP funding conferences in Brussels (March 2000) and Bucharest (October 2001). In this respect, no other donor has even come close to the EU and its member states. Moreover, basic preconditions for eventual EU membership, such as the Helsinki principles, the Copenhagen criteria and the adoption of the *acquis communautaire*, are more and more becoming the guiding principles and the role model for political and economic reform and institution building in the countries of the region.

Furthermore, the gradual strengthening of the CFSP and the shifting priorities of the US foreign policy after September 11th away from the Balkans have also brought Europe to the forefront of political involvement and crisis management in the region, thereby only further enhancing the European perspective. Europe's continued central role in the peace-keeping forces of KFOR in Kosovo, SFOR in Bosnia-Herzegovina and Operation Fox in Macedonia are prominent examples of the presence and commitment of the EU in the region. The leading role of the EU in brokering the August 2001 Ohrid Agreement and the March 2002 Belgrade Agreement have only further strengthened the central role of the EU in conflict prevention and crisis management in the region. The prominence of the EU perspective in the Balkans over the last few years has been significantly enhanced by the efforts of some political, social and economic forces in the region to "re-dignify" the Balkans as a European region. The same applies to the growing recognition in the region that stability, development and the prospect for European integration rely on the Balkan peoples themselves becoming increasingly less part of the problems in the region and more part of the solutions. While the possibility of the region sliding back into open conflict cannot yet totally be ruled out, there is

a growing conviction both in Europe and in the region that the worst is over: Today the real challenge for the countries in the region is to catch up with the rest of Europe and eventually to become full members of the European Union.

Today, the European perspective is basically represented institutionally in the region by the Stabilisation and Association Process (SAP) as well as in some respects by the Stability Pact (SP). The concept of "association agreements" for the countries of the Western Balkans predated the SP and the more formal promise of a European perspective. Although these bilateral agreements were originally modelled along the lines of those for non-accession states, the SP and the European promise triggered a redefinition resulting in the Stabilisation and Association Agreements (SAA) in May 1999. By the time the first SAA was signed with Macedonia in April 2001, the EU had set up an SAP consisting of individual SAAs, a CARDS assistance program and a program of Autonomous Trade Measures (ATM). The model here clearly was the accession process for Eastern enlargement, with the SAAs resembling the Europe Agreements (EA) and with CARDS being the Southeast European version of PHARE. The main conditionality and reform stimulus in the SAP is located in the phase prior to the signing of the agreement. Typically, the individualised SAA phase would accelerate the subsequent phase of further reforms, acquis adoption and accession negotiations under the candidate status. Recently, the EU revisited its main instruments for the region in order to enhance strategic efficiency in respect to the ongoing process towards signing SAAs with all the countries of the region. First, it established an annual "progress report" for the countries of the Western Balkans along the lines of Eastern enlargement. Second, on the basis of the December 2000 CARD Regulation, five Country Strategy Papers and one Regional Strategy Paper, presented in early 2002, were conceived to provide a more comprehensive framework for EU assistance.

Yet, there is heterogeneity within the region defying the pattern of conditionality and regionality as practised in Eastern enlargement. First, this heterogeneity in the region is already partly institutionalised within the EU structures. Assistance to one half of the region (i.e. Serbia, Kosovo, Montenegro and Macedonia), which is troubled by unresolved status issues and still vulnerable to ethnic problems, is so far largely managed by the European Reconstruction Agency. The other half (i.e. Bosnia-Herzegovina, Albania and Croatia) is handled directly by the Directorate of Western Balkans of the DG External Relations of the European Commission. Second, while all states in the region experience similar structural developmental problems in varying degrees, some areas are still heavily affected by the

legacies of the past ten years of ethnic conflicts and unresolved status questions (Bosnia-Herzegovina, Kosovo, Macedonia, Serbia and Montenegro), and thus pose additional special challenges. Finally, considerations of stabilisation and scale require that regional co-operation in South East Europe - unlike in East Central Europe - operates *prior to* and *parallel to* the EU integration process instead of being treated as its natural consequence and a *follow-up* to integration. In short, the heterogeneity within the region poses special challenges and requires more than what the current EU assistance framework provides for the region.

The SP was established in 1999 primarily to provide to the countries in the region an alternative vision on how to achieve lasting peace and security, stable democratic institutions as well as sustainable economic and social development. It has by now also emerged as an additional key instrument to assist these countries' accession into the European Union. The SP is generally credited with success regarding the initiation of a political process towards regional integration, particularly in trade and security affairs. Conversely, from its very inception it has also suffered from a considerable lack of credibility, both among its local and among its international partners, particularly with respect to its role vis-à-vis the integration process of the countries of South Eastern Europe into the EU as well as into the Euro-Atlantic institutions in general. Even worse, often the SP and its regional approach have been perceived as a European delaying strategy or even as a placebo, compensating for perpetual non-integration in European structures.

In addition to these individual weaknesses, in more than one respect, SP and SAP are not a perfect match and do not jointly provide a comprehensive framework for the European perspective in the region. The SAAs were originally conceived as a contract of non-integration and were then remodelled as a long-term process towards integration along the lines of Eastern enlargement. The SP was conceived as a contract for stability and it has only in practice emerged as an instrument supporting the process towards European integration. The coexistence of SP and SAP is thus more or less a coincidence. Even more, until recently, the two strategies existed in parallel rather than in congruence. SP and SAP are also strategically based on contrasting contractual principles. The SP prioritises regional co-operation as a stabilising remedy for the structural deficits as well as recent conflicts in the region. The initial conditions for an SP recipient country are limited to the Helsinki principles, ICTY co-operation and the Dayton Agreement. The SAP prioritises the power of bilateral conditionality and consequently identifies regional co-operation as only an auxiliary mechanism, as indeed readiness to engage in regional co-operation would be quite an

awkward clause in the conditionality of a bilateral agreement. The potential strategic tension between SP and SAP as well as between regionality and conditionality will most likely become more evident soon: The bilateral conditionality of the SAP or the pre-accession process causes a new fragmentation or divide within the region and competes with the SP's logic by promoting integration via Schengen borders and an internal market. By its very logic, conditionality rewards those countries that have successfully mastered the quantifiable and urgent challenges of political and economic reform rather than the less tangible long-term objectives of regional co-operation.

In sum, while the European integration constitutes the Archimedean point for the region, individual weaknesses and fundamental tensions between the two main instruments of the European perspective in the Balkans persist. It is likely that the tensions will come to a head soon with the forthcoming decision on the 2004 round of Eastern enlargement. Moreover, "exogenous" factors, like the US (exit) strategies in the Balkans with possible consequences for the EU's policing and peace-keeping role in the region, the ongoing process of EU internal reforms and re-structuring with the possible outcome of the fusion of CFSP and External Relations as well as the yet unknown impact of Eastern enlargement on the Balkans and the general geopolitical malaise further add to the complexity and unpredictability of the Balkans' road towards Europe. The only certainty is the need for the re-thinking and re-arrangement of some of the available instruments for crisis management, conflict prevention, reform assistance, regional co-operation and European integration in the direction of strengthening the European perspective in the region is becoming ever stronger.

2 Challenges and Opportunities Ahead: The Road towards Europe

There are a number of challenges and opportunities regarding the process of integration of the Balkans in the EU. Indeed many factors distinguish the development in the region from other regional transitions to pluralist democracy and market economy. Some of them are structural and some of them are apparently more circumstantial. In fact, it is even a bold hypothesis that the process of EU integration in the region would qualify automatically as a strategy for development, modernisation and transition, all in one. Yet, the optimism of transitology still permeates EU thinking, even though the process of enlargement has turned out to be a much longer undertaking than expected in East Central Europe, and though further East in the Commonwealth of Independent States the results of transition have been ambiguous at best. Optimistic scenarios in the definition of their objectives and strategies tend to focus on the recent past rather than on the long-term structural deficits. These scenarios are typified by the frequent use of the terms "reconstruction" and "reconciliation". Evidently, the current situation is the outcome of centuries of complex interaction between regional developments, external power-projection and, more recently, assistance strategies. In these strategies, unlike in East Central Europe, stabilisation predominated over reform assistance and pre-accession support. In sum, there are three specifics in Southeastern Europe that merit deeper attention in the process of defining objectives and strategies in support of the European perspective.

1. Modernisation and Transition: Some of the structural deficits in the region are not linked mainly to the communist past. In that sense, they distinguish larger parts of Southeastern Europe from East Central Europe, while in some respects they present similarities with the CIS region. Yugoslavia's unique position in the Cold War has contributed to a process of economic modernisation and institution building that – despite a decade of disintegration and warfare – has some relevance for current reform potentials, albeit to widely varying degrees for the different successor states and entities.

   a. The first structural-historical deficit is the *weakness of the state*, despite its strong pretences to sovereignty and ethnic statehood. The lack of an efficient civil service, independent judiciary, accountable security and police forces and other modern state institutions predates the communist period. The process of modernisation of the state structures in Southeastern Europe is for the EU a considerably more demanding endeavour than the transition process in East Central Europe.

b. A related structural deficit concerns the *weakness of civil society* that also predates the communist period and is related to the consolidation of a nation state without a corresponding economic middle class and the excessive intertwining of economic and political power. Yet, neither the Europe Agreements in East Central Europe nor the SAAs for Southeastern Europe focus adequately on the development of civil society – NGOs, education, media, etc. Norm setting and guarantees for non-intervention by the state are currently major preoccupations of the EU's involvement in this area.

c. Finally, the *deficits of economic modernisation* that occurred prior to communism and that even the communist ideology of forced, accelerated industrialisation and urbanisation largely failed to overcome is another distinct structural deficit in the region. In many respects, "economic reconstruction" is a typical misnomer for large parts of the region, as the modernisation process has not yet reached its take-off phase.

2. Managing Ethnic Conflicts and Security: In addition to these structural deficits, the evident difference between the Balkans and East Central Europe is between ten years of *steady* transition in East Central Europe and ten *volatile* years of ethnic conflicts and instability in the major parts of South East Europe: conflict-prevention and post-conflict reconstruction versus transition policies and European integration. Still today the legacy of conflicts and the risks for renewed violence preoccupies considerably the political discourses in the region, albeit rather *within* and no longer *between* the states of the region. Hence, the distinctly complementary tasks of conflict prevention, crisis management and post-conflict reconstruction still remain high in the agenda of the relations between the EU and the countries in the region:

   a. There is a major auxiliary role for the EU in dealing with the *endemic crises* of the weak states in the region, as protracted crises typically encourage derailed or simulated reform and all forms of state capture.

   b. The EU and its High Representative for CFSP have come a long way to assume the leading role in *crisis management* of internal conflicts (e.g. Macedonia or Bosnia) and with regard to unresolved status questions (e.g. Montenegro or Kosovo). Yet, a more direct additional international presence and involvement continues to be

necessary as illustrated, for example, by the key political role of the High Representative in Bosnia and the UN Special Representative in Kosovo.

   c. Some of the *legacies* of ten years of inter-ethnic and inter-state conflict are not addressed adequately by the SAP in terms of comprehensive strategies and instruments. A key issue here is the return of refugees, which is currently a major obstacle for local and regional reconciliation and friendly relations between neighbouring states as well as for economic and social development.

   d. Last, but not least, the region, unlike East Central Europe, continues to require the presence of substantial numbers of international (and increasingly European) military and police forces to guarantee stability. While this aspect of the EU's *conflict-management* involvement remains a basic precondition for stability in the region, inevitably it is also in some respects incompatible with an ongoing process towards regional ownership and the normalisation of the overall situation in the region.

3. Duration and Heterogeneity: The last two distinctive features of the region as far as strategies of regional co-operation and EU integration are concerned involve the projected *duration* of the integration process and the structural *heterogeneity* of the region as such.

   a. Duration: Compared to the transition and accession process in East Central Europe, the integration process of the Southeastern Europe into the EU will in all likelihood be of a much longer duration, at least for some countries in the region. In that sense, the mere *duration of the integration process* increases the risks for societal and political fatigue and frustration and thus, the possibilities for setbacks, reversals and other destabilising effects.

   b. Heterogeneity: Some countries in the region have better potentials for political, administrative and economic reform than others. Some have a relatively straightforward and shorter road towards EU membership; some a correspondingly limited inclination towards regional co-operation and minor legacies of the recent past in terms of ethnic conflicts. Other countries and state-like entities have to cope with major modernisation deficits and weak state institutions; face a long and arduous road towards EU membership; need to depend more on regional co-operation and face major burdens in terms of sovereignty status, inter-ethnic relations and state consolidation.

Even in the most optimistic scenario, both Europe *and* the region will have to prepare themselves for a linear but much longer process towards EU membership than the one experienced by the states in East Central Europe. The expected duration of this "association phase" poses new challenges to Europe and the region alike. The historical-structural deficits and the specifics of the first ten years of post-communist transition in the region will likely further complicate this process, obstructing it by "state capture" through corruption and organised crime; the re-emergence of nationalist and populist movements, inter-ethnic conflicts or predatory elites; as well as processes of "simulated change" by local elites subverting the actual process of EU stabilisation, association and integration. Last, but not least, the very combination of massive international support (in terms of financial and human resources) and weak states causes a whole array of specific unintended consequences, ranging from aid-addiction and a lack of regional ownership to democratic de-legitimisation. Even in the best-case scenario, a set of strategies and institutions both qualitatively and quantitatively different from the ones employed in the enlargement process in East Central Europe are needed in the Balkans in order to cope with the specific requirements for stability in the region and in order to successfully complement the Stabilisation and Association Process towards EU integration. Overall, the integration process will be significantly more arduous, heterogeneous and asynchronous.

A more realistic scenario for the Southeastern enlargement process after 2004 includes enhanced tensions between European strategic instruments due to the divides within the region. In this case, both the process of managing ethnic conflicts and unresolved status issues and the challenge of modernisation and transition would solidify the dividing lines across the region, putting the inherently conflicting European approaches of regionality and conditionality under considerable additional strain in the medium term. A trajectory towards membership, that may be too slow for some, may be too ambitious for others. Thus, in order to avoid paralysis and destabilising setbacks, a more realistic approach would necessitate the adoption of a consistent and transparent overall strategy with more coherent sets of policies and instruments providing concrete "stepping stones" - distinct incremental incentives linked to tangible interim benefits in order to sustain the EU momentum.

In conclusion, the paradigm for Southeastern Europe has irrevocably changed *from stabilisation to enlargement*. While resisting the temptation to treat the Southeastern European enlargement as a historical inevitability for all the states in the region, today without doubt the European perspective *is* the Archimedean point of reference for all

strategies and policies in the region. Thus, what is necessary today and will become an even more pressing need after Eastern enlargement is a comprehensive re-arrangement of existing institutions and policies in a single strategic framework. Only such a consistent framework would be capable of managing the long road of the region towards European integration while safeguarding peace and stability, and ensuring smooth and sustainable transitions. In short, Europe and the region need now *an Agenda for Southeastern Enlargement.*

3 An Agenda for Southeastern Enlargement: Enhanced Strategic Complementarity and Institutional Congruence

A more coherent trajectory for the accession of the Balkans to the EU should have as its core strategy the SAP, since the SAP is today the most comprehensive partnership between the EU and the countries in the region in the process towards EU membership. In view of the SAP's genesis since 1999 and the shifting paradigms, such as the perspective for the Balkans, reform policies and regime changes in the region as well as the upcoming Eastern enlargement 2004, the SAP will have to evolve accordingly. Not unlike the case of the Eastern enlargement process, EU instruments will have to adapted and modified during the process without forfeiting credibility and reliability.

Other instruments and institutions may have to review their roles seeking complementarity to the SAP. Complementary tasks involving conflict-prevention and crisis-management should remain the primary responsibility of NATO and EU's CFSP/ESDP diplomatic and military capabilities. Complementary tasks involving mainly, but not exclusively, regional co-operation should remain a key role of the Stability Pact. The key objective should be the effort to articulate their respective roles in a more complementary manner in order to generate a truly comprehensive integration process. Thus, an Agenda for Southeastern Enlargement would require above all enhanced strategic *complementarity* and institutional *congruence*.

Complementarity should mainly be understood to refer to the need to avoid duplications and overlapping among the multiple strategic objectives and initiatives in and for the region and, thus, to help creating a coherent working space of international and local synergies. Complementarity implies that none of the individual strategic objectives and actors or initiatives can achieve alone what is needed, given the enormity of the task of European integration for the South East. Thus, while enhanced *strategic* complementarity points to the *need* for a skilful balancing of the various strategic objectives that promote the European perspective in the Balkans, enhanced *institutional* congruence points to the necessity for a more rational division of labour among the relevant actors and existing initiatives. In other words, some considerable pulling and pushing - involving both strategies and institutions - is needed to strengthen the European perspective in the region, while avoiding counterproductive duplications, multiple interfaces and, above all, time-consuming and resource-wasting conflicting policies and objectives.

3.1 Enhanced Strategic Complementarity

Complementary strategies partly *precede* (in a logical rather than temporal sense) the actual Stabilisation and Association Process (e.g. the start-up assistance), partly *accompany* the SAP in parallel (e.g. regional co-operation) and partly *proactively* block interfering factors to the process (e.g. crisis management). In sum, bilateral conditionality and regional co-operation are separate strategic objectives promoting separate but equally important and complementary reforms and should not be allowed to emerge as competing agendas. The responsibility here lies both with the local political elites in demonstrating forward-looking leadership and with the EU in ensuring that regional co-operation is not construed (and thereby discredited) as a substitute to EU membership. For the issues this involves both a new quality of public policy in the region and a strategic prioritisation of functional forms of co-operation.

Regionality and Conditionality: Strategic coherence today in the Balkans, first, requires squaring the need for a transparent differentiated process for each individual candidate towards EU membership (bilateral conditionality) with the prerequisite for enhanced regional co-operation among the various states and entities in the region (regional approach). Bilateral conditionality is necessary both as a stick and as a carrot. It is important, on the one hand, because it sets out clearly the benchmarks that the different local actors have to meet in order to fulfil the EU criteria for accession, thereby laying out the rules for the trajectory towards Europe. The strict but fair application and rigorous review of the various bilateral conditions can also ensure the credibility of the European model, for example, by discouraging simulated reforms and cheating. Moreover, a differentiated approach reflects the political, social and economic heterogeneity of the region and the necessity for tailor-made solutions to specific individual problems and challenges. Finally, it ensures that the region can move faster than the lowest common denominator.

Regional co-operation is not merely a precondition for EU membership. It is above all a prerequisite for peace, stability and prosperity and, thereby, a strategic objective on its own merit. Functional forms of co-operation make sense from a purely regional perspective, regardless the process towards EU integration. For example, regional co-operation in enhancing free movement of peoples, goods, services and capital is a must for economic and social development, while regional political co-operation in addressing international organised crime, corruption as well as problems related to refugees and internally displaced persons are necessary for stabilisation, normalisation and reconciliation. Yet, pragmatic and

local-driven regional co-operation could only complement efforts towards EU integration. Eventually, within an EU-32 the only significant voice the Balkan states will have, will be a regional voice. In this respect, one might distinguish three levels of regional co-operation:

1. *basic* forms of regional co-operation and co-existence as preconditions for normalisation and reform throughout the region, e.g. a regional political dialogue and confidence-building measures;

2. *functional* forms of co-operation building up on these preconditions are advantageous for all the regional partners, e.g. regional standardisation (visa regimes and free trade agreements) as well as improvement of regional transport and energy infrastructure; and

3. *instrumental* forms of regional co-operation, directly linked to the objective of EU integration, e.g. idem – standardisation and infrastructure.

The EU perspective in Southeastern Europe will remain a chimera if it is not backed up by sufficient basic regional co-operation as a precondition for reform and stability and by sufficient functional co-operation as a stimulus for state consolidation and economic development.

The Stability Pact should be refocused strategically to become an auxiliary instrument to the SAP. This new paradigm for the SP implies prioritisation instead of comprehensiveness and offensive rather than defensive programming. The different complementary tasks should follow different timeframes and set-ups. Regional political co-operation and dialogue should gradually be transferred to regional ownership under the South East European Co-operation Process (SEECP) in the medium term, which would have to develop appropriate mechanisms and procedures. With the conclusion of major infrastructure projects and initiatives like the free trade agreements, the SP's investment advisory should also be regionalised. The role of the SP in economic matters would be phased out. Justice and Home Affairs could be left to the relevant EU structures in the medium term, whereas security matters might have to be taken over by the regional dialogue under the SEECP. One long-term role of the SP would be to become the clearinghouse for civil-society initiatives and donors. Another important long-term role with a critical regional dimension also could be the active involvement of the SP in the thorny issues of reconciliation and refugee return. Other SP initiatives would stand on their own feet as regional centres for specific tasks. This refocusing of the SP implies that the structure of working tables, task forces and sub-stables becomes a liability and requires change: Many of the core regional tasks are by definition cross-cutting issues, particularly in

economic-reform matters. Comprehensiveness could remain a major SP asset only in the area of the First Working Table's civil-society initiatives. Here, the SP might increasingly become a valuable interface between the EU and bilateral donors and NGOs. As the very nature of donors, civil society and NGOs defies co-ordination, the SP would have to guide and prioritise by presenting consistent and convincing strategic visions. Thus, the strategic capacity of the Office of the Special Co-ordinator will have to be strengthened. The business advisory council, the specialised regional centres, regional dialogue, the co-ordination of regional initiatives and the free-trade agreements constitute inherent added values of the SP. In sum, the SP should partly be regionalised, partly be absorbed by the EU integration process, partly (in the medium term) phased-out, and partly continue as a long-term framework.

Functioning States and Status Issues: Enhanced strategic complementarity simultaneously addresses capacity-building for functional states and political entities at all levels to strengthen the effectiveness and legitimacy of state institutions and develops creative approaches to the unresolved status issues without sliding back to zero-sum conflicts and destabilising unilateral demands for territorial revisionism. Building functioning states is a *conditio sine qua non* both for stability and for the prospect of EU integration. Regardless of final status arrangements, the progress of states and political entities and their chances to advance towards EU membership will be conditional to their performance in capacity-building and reforms of state institutions such as the public administration, the financial regulatory framework, the judiciary and the police. The establishment of functioning state institutions is, perhaps, the single most important strategic objective for all actors in the region and must not be allowed to be taken hostage by unresolved status issues risking to delay reforms and betray expectations. Thus, the functionality of states and entities has to take precedence over questions of sovereignty. Even more, questions of unresolved status, such the question of Kosovo, will have a greater chance to be negotiated and resolved in a self-sustaining and constructive manner, if the actors concerned manage to build effective state structures and legitimate institutions capable to negotiate solutions. Conversely, a step-by-step peaceful and democratic process of negotiating political status issues can only strengthen the legitimacy and thereby the effectiveness of state institutions.

Sustaining this balancing act between building functional states and preparing final political arrangements is perhaps the most demanding challenge of our times in the Balkans. The two strategies are separate but mutually complementary and reinforcing. The starting point for creative politics in the region regarding unresolved status problems, particularly regarding the

local leadership, is the need to respect international obligations (e.g. Dayton Accords, UNSC 1244, Ohrid Agreement, Belgrade Agreement). The burden, however, for showing creativity in addressing complex questions such as, for example, how to fully engage Kosovo in the Stabilisation and Association Process without compromising the fragile equilibrium of Resolution 1244 lies mainly with the EU and the international administration in Kosovo (UNMIK). Whatever the exact mechanics for a solution to such a problem, pending final-status issues must not be allowed to delay the process of building functioning states in the region. Due to the conditionality principle, the EU cannot afford to accept the potential for (regional) destabilisation as an "asset" or a bargaining chip. Due to the regionality principle, the EU cannot afford to accept unresolved status issues as a reason for excluding the entity from the SAP. In sum, including all states and entities of the region in the SAP requires political will on the part of the national authorities to engage in political dialogue and to guarantee common markets within all states of the region. On the part of the EU, it requires a creative adaptation of the SAP to the deficits and capabilities of the laggards without forfeiting conditionality.

Enhanced strategic complementarity also requires balancing creatively the demands for greater regional/local ownership in the process towards EU integration with the inevitable EU intrusiveness, comprehensive norm-setting and the Brussels-imposed conditionality for EU membership. Local interest-driven initiatives carry greater chances to respond to real and immediate needs in the region. In the end, they will also carry greater weight in sustaining local support. Yet, EU intrusiveness and conditionality is also indispensable both because the attraction of the EU membership carries a great leverage for generating necessary support for unpopular reforms and other initiatives and, because a strict EU review process of bilateral conditionality will be necessary to ensure that reforms towards EU integration are genuine and self-sustaining. Similarly, enhanced strategic complementarity has to square an open process without fixed timetables with a concrete approach with verifiable benchmarks to ensure the credibility of the process and sustain popular support for the rather protracted trajectory to Europe. To that end, the benchmarks have be to linked to well-defined stages in the SAP involving tangible interim benefits on the basis of bilateral conditionality.

In conclusion, enhanced strategic complementarity recognises that addressing the complex and special challenges of the Balkans' path towards the EU integration requires a process-oriented approach. Seemingly incompatible strategies (bilateral conditionality versus regional co-operation; capacity-building of functional states versus unresolved status issues; regional

ownership versus international intrusiveness) have to tackled as mutually complementary processes that support rather than obstruct the road towards EU accession.

3.2 Enhanced Institutional Congruence

The logical next question is about the congruence of the *institutions* to shoulder the tasks for assisting in the development and the implementation of these complementary strategies. In this regard, a major question is whether the current proliferation of international and regional initiatives and, particularly the pluralism that characterises the institutional interface between the EU and the region, is appropriate and helpful. Yet, since the current situation is not the result of a comprehensive international approach to the realities in the Balkans but rather, as usual, the outcome of the well-known complexity of the international community and the *sui generis* set-up of the EU, the question is rather how to do better out of the available instruments and mechanisms currently employed in the region and not to try to reinvent the wheel. The obvious consequence of the requirement for enhanced institutional congruence under the current circumstances is the need *for a new deal for the current key initiatives in flexible arrangements under an informal common roof.*

Institutional complementarity here implies that the various actors should try to determine their priorities and set their policies by measuring the comparative advantages and added value of their institutional capacity and instruments in relation to those of the other actors, committing themselves to a more regular and systematic *consultation* and some degree of joint policy planning. In the same direction, it is also very important that each initiative and institution develops policies and sets priorities with clearer focus. Flexibility implies that *no question* of single leadership is raised and *no formal* institutional re-arrangements are sought but rather more systematic consultation as well as informal agreements for a more rational division of labour. Thus, a common roof does not refer to the creation of any new institution either, but rather to the need to pull all main current initiatives into a more integrated strategic framework, that promotes the common goal of Southeastern enlargement. A number of issues concerning institutional congruence have not been adequately addressed so far, despite some initial efforts in the right direction, such as the establishment of the Informal Consultative Committee involving the EU Council Secretariat, the European Commission, the SEECP, the SP and the EU Presidency (November 2001). Three specific issues have to be resolved:

1. **SP and SAP:** The complementary tasks of the SP listed above (regional dialogue, regional co-operation, clearing house for civil-society initiatives and donors) require a more integrated co-ordination with the responsible offices in the European Commission.

2. **SAP and CFSP**: Similarly, the short-term crisis management of CFSP ought to tally in a more systematic manner with the medium-term requirements of workable arrangements for the SAP.

3. **SEECP and SAP/CFSP/SP**: The SEECP should progressively become the voice of the region and an equal partner in decision-making regarding the affairs of the region, in the context of CFSP as well as in SP and SAP. Given the necessary capabilities and political will, in a number of issues the lead role might even be transferred to the SEECP.

Stability Pact and SAP: The future role of the SP and the prospect for an enhanced complementarity between SAP and SP are central issues here. A pivotal assumption behind the need for moving from stabilisation to integration and adjusting the EU involvement in the region to the new realities is that the SP should become institutionally, strategically and operationally synchronised with the overall EU framework for the region. As a new paradigm, such a tighter and clearer SP-EU nexus and enhanced complementarity between SP and SAP carry the potential to alleviate some of the Pact's original problems, improve its effectiveness and help to cope with the new challenges in the region. This change of orientation also implies the need for the consolidation of the SP's objectives, institutions, strategies and timeframes. The reorganisation of the SP aims to turn an initiative created primarily for regional stabilisation into a full-fledged instrument for European integration. Complementarity here should *not* be defined as the full set of existing institutional structures and possible policy areas minus those covered by the SAP. Other policy areas and institutional ties may also have to be identified.

Crisis-Management and EU-Integration: Another issue here is the need for enhanced complementarity within the EU structures, for example, between the initiatives and the role of the EU High Representative for CFSP (EUHR) in the region and the role of the European Commission-led SAP process. The paramount consideration here is the need to ensure consistency of the EU involvement in the region. One major issue here is that the EU should ensure that it speaks with one voice and that it becomes fairly clear to local actors about who does what and who is responsible for what in the EU. For example, while the conflict prevention and management crisis role of the EUHR should be clearly distinguished by the

long-term enlargement role of the European Commission, the two should not be perceived as parallel (and thereby often competing) roles but rather as complementary ones. A recent illustration of the risks of undermining the credibility of the EU here is the turbulence, yet admittedly not a big one, caused in Montenegro in the summer of 2002 over the question of the status of the new constitutional set-up of Serbia-Montenegro. The European Commission presented a modified position that seemingly contradicted the initial position of the EUHR when he brokered the Belgrade Agreement in March 2002. The security role of the EU in the region, particularly as it is preparing itself to take over full responsibility for the international police presence in Bosnia-Herzegovina, is another important issue necessitating greater co-ordination within the EU.

SEECP and Regional Ownership: SEECP might become the voice of the region and an equal partner in decision-making regarding the affairs of the region, including true "regionalisation" in a number of issues. The capabilities to take on a lead role require not so much an institutionalisation of the SEECP, but rather a fair amount of political will and regular ministerial meetings in in key areas of (potential) regional co-operation: security, economics and trade, energy, etc. SEECP should be credited with the potential to become the voice of the region, but not be elevated to that position "by default".

3.3 An Agenda for Southeastern Enlargement after 2004

Adopting an Agenda for Southeastern enlargement would therefore signify the progressive and balanced shift of the position of the international community and the local leadership: from stabilisation to enlargement; from international micro-management of the region to macro-management with greater local responsibilities; and from an international institutional proliferation to an integral institutional framework. The development of a flexible and informal common roof under which all current strategic objectives, actors and initiatives would be re-arranged to create dynamic synergies would be the acknowledgement of this paradigm shift. More specifically, sooner than later, and certainly soon after the finalisation of the Eastern enlargement process, assigning the leading role for the Southeastern enlargement process to the European Commission would most likely be a formality. DG Enlargement would combine experience from ten years of Eastern enlargement with responsibility both for the accession negotiations with Romanian and Bulgaria *and* for the Stabilisation and Association Process of the Western Balkans. The question then would be how to better redefine responsibilities within the various EU instruments as well as with other actors that operate outside the EU framework such the SP and the SEECP.

DG Southeastern Enlargement: A schematic re-arrangement of roles promoting enhanced strategic and institutional complementarity would be based on two rules. Each actor and initiative develops a clearer focus of action taking into account the need for enhanced *strategic* complementarity. And all actors and initiatives commit themselves to enhanced consultation and co-operation, taking into account the need for enhanced *institutional* congruence. As of the day of the actual Central East European accession, the European Commissioner for Enlargement should become the Commissioner for South East European Enlargement. Thus, the region – i.e. the Western Balkans and, likely Romania and Bulgaria, should no longer be in the responsibility of the Commissioner of External Relations. The remaining funds previously earmarked for Central East European enlargement should be made available for the candidates of South East European enlargement. Accordingly, the promotion of some of the "associated states" to the status of "candidate states" should increase CARDS resources for the remaining countries in the SAP. Moreover, with SAP and pre-accession in one DG, the mismatch between Phare, Interreg and Tacis (especially in their cross-border dimensions) during Eastern enlargement can be avoided. The SAP (the name itself might fade out under a DG Southeastern Enlargement) should increasingly resemble Eastern enlargement with annual Progress Reports for each country (both candidates and associated states) plus a regional report for all of them. Accordingly, the European Reconstruction Agency would either be responsible for all or none of the CARDS countries rather than half of them. A renaming of the agency would also be appropriate. Nevertheless, SAP and EU candidate status should be upheld as separate (albeit sequential) trajectories for EU integration.

Informal Consultation Council: An Agenda for Southeastern Enlargement should not be seen as a new institution, but a forum of dynamic consultation and pragmatic co-operation for the relevant EU and non-EU institutions, an enhanced and enlarged Informal Consultation Council. The consultation ought to include CFSP, DG External Relations (Southeastern Enlargement as of 2004), SEECP, the USA, the SP, SECI, World Bank, NATO as well as (temporarily) the SRSG for Kosovo and the HR for Bosnia-Herzegovina. An Agenda for South East European enlargement as a flexible co-ordination mechanism would respond to two institutional problems: Firstly, the multiple interfaces and/or competing responsibilities of the Stability Pact with the SAP, SECI and even CFSP could be clarified and improved without major new institutional arrangements. Secondly, institutions that are non-EU or only partly EU could be integrated without excluding key partners like the US, SECI, NATO or the SP. This forum for consultation might also gradually replace the High Level Steering

Group/Task Force of EU and World Bank in strategic economic decisions. In sum, whereas representativeness is a key element in the SP's Regional Table, the ICC banks on strategic synergies of key the actors. The EU could chair the Pact's co-ordination sessions. Depending on the issues at hand, the HR for CFSP or the Commissioner for Enlargement, External Relations or Trade would represent the EU as chair, although decisions on these issues in any case will ultimately depend on the outcome of the internal restructuring of the EU in the years to come. Consequently, divergent messages to the region and strategic confusion or contradictions could be avoided to a much larger degree. Moreover, "cross-conditionality" could be applied more vigorously and transparently: Non-compliance with international obligations (ICTY, Res. 1244 or Dayton) could be linked to progress in the SAP.

Timeframes and Stages: The above strategic complementarity and institutional congruence of the Southeastern enlargement process has to be consolidated in the next 2-3 years. The 2004/2005 Eastern enlargement should be the deadline. The Agenda for Southeastern enlargement also implies the phasing out of certain tasks and corresponding institutions as well as the transfer of other tasks to institutions in regional ownership and/or to the "normal" process of EU integration which is currently represented by the SAP. Schematically, the completion of stabilisation and reconstruction process should be achieved first. Eventually, crisis management and conflict prevention should be to be phased-out or regionalised, while the SP's role in regional infrastructure and co-operation should follow suit later.

Regionality and Conditionality: Due to the internal divides and heterogeneity of the region, the Agenda for Southeastern enlargement will have to accept and cope with a region in which different states will be in different phases and contractual relations to the EU for a long period to come. The core challenge will be to uphold and implement regionality without sacrificing the conditionality drive of the regatta model. A major challenge here, particularly because of the heterogeneity of the region, is the need to clarify as soon as possible after the decision regarding Eastern enlargement the procedures and phases of the Southeastern enlargement process: flexible but consistent entry procedures and exit procedures for the SAP.

Five suggestions for creative policies between regionality and conditionality - with respect to individual countries on both ends of the scale and to the heterogeneous region as a whole:

1. SAA Minus: As only functioning sovereign states can become members of the EU, the trajectory of Southeastern enlargement also implies long-term exit strategies for

KFOR/UNMIK in Kosovo and OHR/SFOR in Bosnia. At a given point in time, the status issues will have to be resolved in a way that can ensure that all peoples in the region would be capable to join the EU. Yet, in the short and medium-run the participation of all peoples in the region in the SAP process should be ensured by creative solutions. Unresolved status issues must not be construed as obstacles to the participation of *certain* parts of the region in the SAP process, as it could undermine peace, stability and the very process towards European integration for the *entire* region. In order to include all countries and entities of the region in the SAP and the SAA path, a special SAA minus has to be defined for those incapable of fulfilling the SAA admission criteria in the medium term, e.g. due to unresolved status issues. Once the constitutional constellation and the SAA procedure for Serbia and Montenegro has been arranged, Kosovo would be a prime candidate for a SAA minus with reduced conditionality and reduced but effective assistance and benefits.

2. SAA Plus: It would be unrealistic and contrary to the principle of bilateral conditionality to expect the more advanced "association states" to remain in their SAA until *all* states of the region have completed the SAP. Therefore, a mode for the "promotion" from SAA to the status of "negotiating candidate" should be defined, based on fulfilment of all SAA criteria rather than pre-set timetables. A system of "sluices" with increasing levels of conditionality and assistance does not invalidate the logic of a single regatta. Assuming a time gap of at least ten years between the accession of the first and the last South East European state as well as that the EU will heed its preference for grouped accessions, for procedural and pragmatic rather than principled reasons, Southeastern enlargement will in all likelihood be completed in two rounds. The separation and sequencing of SAA and candidate status, however, is not violated by selectively "mirroring" relevant pre-accession instruments and offering them to the more advanced SAA states, e.g. screening for the adoption of the acquis, certain economic instruments and assistance for administrative capacity-building. Eventually, this SAA Plus approach might significantly shorten the actual phase of accession negotiations and strengthen the country's "locomotive role" within regional co-operation.

3. Interim Incentives: The projected duration of the EU integration process for the Western Balkans requires stages within the SAP, marked by distinct reform conditions and interim incentives for individual SAA countries. Such tangible stepping stones might be found in Justice and Home Affairs and Schengen policies (visa and border regimes), internal and

external security or economic and trade integration. The incentives might stimulate reforms beyond the criteria and benchmarks of the respective phase of the integration process.

4. Functional Co-operation: Regional co-operation should be made obligatory and instigated with vigour *only* in forms that are beneficial for both advanced countries and laggards – via SP and SEECP: regional infrastructure, energy networks, free movement of goods, capital and persons within the region, etc. In many issues of civil-society development, regional co-operation can be of added value, but it should not be directly implicated in the European conditionality. Accordingly, functional regional co-operation should be constrained less by the EU-made borders between members, candidates, SAP countries and non-members. Without raising the spectre of virtual, partial or second-class membership, the EU might intensify co-operation in some policy areas (e.g. the fight against organised crime; environmental policies; and security issues). *Functional* co-operation would be beneficial for the entire region and for the EU too.

5. Pan-European Benefits: In view of a projected European *finality* including the Western Balkans, some exclusive EU benefits can be turned into "pan-European" benefits to strengthen regional and European solidarity, without violating SAP conditionality. EU member states and the European public opinion may be already familiar and used to the complexity of the EU architecture and working methods. Generally, this does not apply to the Balkan states and their populations and, certainly, it does not mean that sending multiple and often diverse EU messages to the Balkans and the lack of clarity about EU priorities in the region is a minor issue which merits only minor attention. Moreover, familiarisation with the EU work methods and internal politics would also enhance the capability of the countries of Southeastern Europe to improve their co-operation with the EU institutions. Citizens from the region could qualify EU educational programs and for staff positions at the EU. Information campaigns on the EU ought to include the region on equal footing and observer status for the states in the European Parliament or the next Inter-Governmental Conference might be worth considering.

In conclusion, what may have worked reasonably well in Eastern enlargement process requires additional endeavours in the case of Southeastern enlargement due to the qualitatively and quantitatively different challenges this region poses. A consistent *Agenda for Southeastern Enlargement* after 2004, including the establishment of an *Informal Consultation Council* to provide the much-needed strategic and institutional coherence and

orientation under EU leadership as well as an enhanced *Stabilisation and Association Process* will be needed *soon*, in order to secure a credible Balkan trajectory to Europe.

The Road to Thessaloniki:
Cohesion and the Western Balkans

Berlin, 12 March 2003

As the political and economic map of Europe is redrawn in 2004, there is a growing fear among the countries of the Western Balkans that they will be left on the margins of the new and integrated Europe. There is a risk that, instead of catching up with the rest of the continent, the countries of the Western Balkans will fall further behind, and the goal of integration – and the promise of regional stabilisation this brings – will become even more distant.[1]

This discussion paper sets out an alternative scenario. The starting point for a new European approach is the reflection on the needs of the Western Balkans set out in a working paper of the current Greek EU Presidency in January 2003:

> "As the Western Balkan countries gradually move from stabilisation and reconstruction to association and sustainable development, policies pursuing economic and social cohesion at both national and regional levels become increasingly relevant, in particular having in mind the very high level of unemployment in most of them, as well as the social and regional dimension of ethnic problems. The Greek presidency intends to initiate a reflection on integrating the aim of *economic and social cohesion* into EU policy towards the region, and on ways and means, including financial, of promoting cohesion through the *Stabilisation and Association Process.*"[2]

This paper analyses possible ways and means for such a policy.[3] It recognises that Western Balkan countries today face very different threats and opportunities from those which existed

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[1] This risk is described in the ESI discussion paper *Western Balkans 2004 – Assistance, Cohesion and the new boundaries of Europe*, 3 November 2002. This is a follow up paper to the **October 2002 Wilton Park Conference**, which was supported by the *British Foreign and Commonwealth Office* and the *Government of Norway*. ESI's outreach activities in early 2003 were also supported by the *Open Society Institute*.

[2] Greek Foreign Ministry, *Working Document: Greek Presidency Priorities for the Western Balkans*, www.eu2003.gr/en/articles.

[3] This paper builds on numerous presentations by ESI which followed the October 2002 Wilton Park conference dedicated to the issue of a new European policy towards the Balkans. In December 2002

only three years ago. It notes that European policy instruments have not yet adapted sufficiently to meet these new challenges. There is a pressing need for new strategies to promote structural reform across the region, which is essential to reversing more than two decades of deep economic decline. The European Union, working through the European Commission, needs to build its capacity to bring about serious reform, such as reducing the cost of public administration, liquidating loss-making companies and initiating the retraining of workers left stranded by the collapse of old industrial complexes across the region.

EU Commitment to Western Balkans
Closing the gap ?

Romania & Bulgaria: 30.7 million people
Western Balkans: 24.7 million people
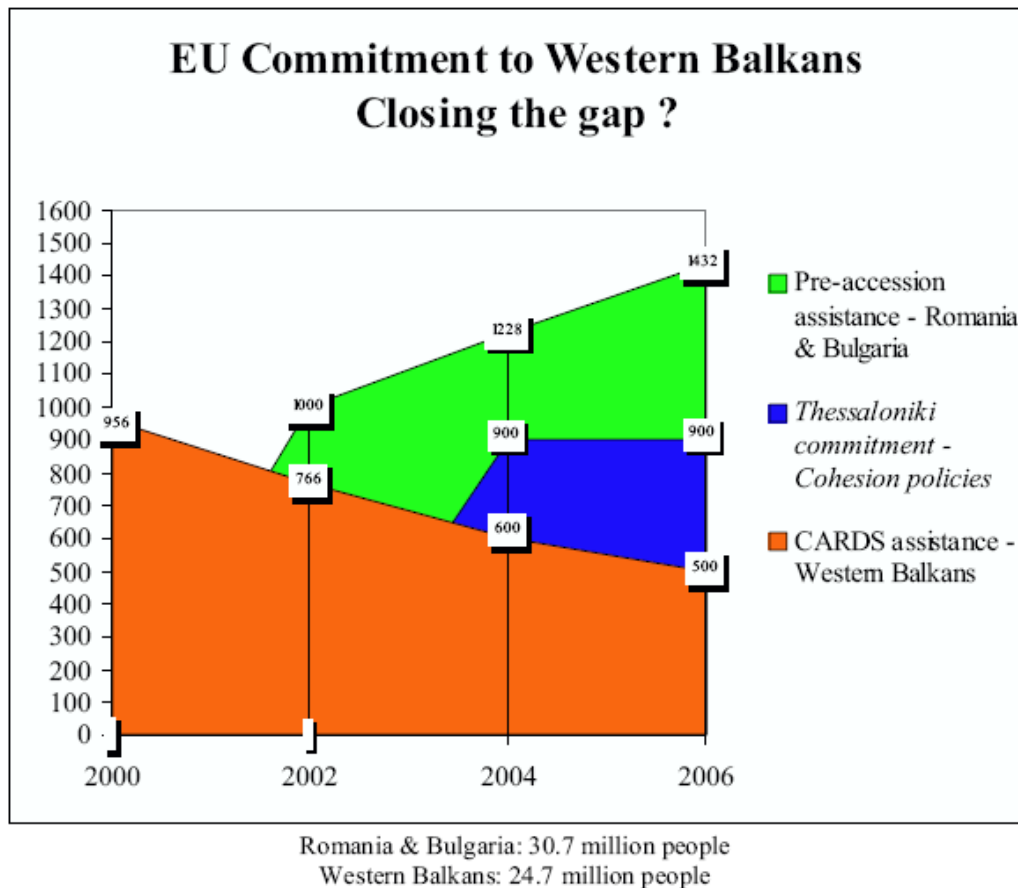
ESI director Gerald Knaus was invited to present ESI's analysis to the *European Commission Western Balkans team* at a brainstorming in Brussels, as well as to the *EU Council on the Western Balkans* (COWEB) at the invitation of the Danish presidency (Brussels). On 1 February 2003 ESI presented its analysis at a brainstorming held in the *Brussels Hotel Dorint* and chaired by former Finnish president Martti Ahtisaari and the Chairman of the Open Society Institute, George Soros. The brainstorming, attended by policy makers and experts from across Europe, including the Deputy Prime Minister of Macedonia and the Minister of Finance of Montenegro, was devoted to a discussion of the ESI November report. ESI also presented these ideas to members of the Bosnian, Croatian and Serbian governments, as well as to the Office of the High Representative (Sarajevo) and UNMIK (Kosovo). This was followed by another ESI presentation to the *COWEB* in Brussels at the invitation of the Greek EU presidency in early March and presentations at a regional meeting organised by the Macedonian Presidency on 16th March and at a Public Hearing of the *European Parliament* Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy in Brussels on 18 March 2003. FOR MORE INFORMATION ON THE 2004 CAMPAIGN PLEASE CONTACT ESI Berlin, tel: 49 30 53214455 or Gerald Knaus, mob: 00 49 173 6197797.

Moving towards a European cohesion policy for the Western Balkans need not be a costly undertaking. In 2006, the European Union promises to spend €1.432 billion to help Bulgaria and Romania prepare for accession and catch up with the rest of the continent. This is equivalent to 2.6 percent of the combined GDP of these two countries. At present, the European Union intends to allocate no more than €500 million in total assistance to the countries of the Western Balkans - equivalent to only 1 percent of their GDP. Narrowing the gap between the new member countries, the candidates states Bulgaria and Romania and the Western Balkans SAP countries would not involve a major new commitment of EU resources, beyond the budgets already foreseen for the CARDS programme and those available to support the pre-accession process after the accession of 10 new members in 2004.

The real challenge is to increase the impact of European aid to the Western Balkans by introducing new assistance strategies, based on the lessons and techniques of *European regional development policy*. Across the region, public administrations steeped in traditions of authoritarian, top-down development policies need to learn new techniques of supporting development under market conditions. They need to be encouraged to mobilise their own limited public resources to support development. They need to develop modern statistical systems to guide their policies, and to build new relationships between national, regional and local governments. These are precisely the kind of problems which European regional development assistance is designed address. Over the past decades, the European Commission has worked with economically peripheral regions of the European Union, and later with the accession candidate countries, to help them meet these challenges. The instruments and techniques which it has developed are directly relevant to the Western Balkans.

The central proposal for this paper is that, at the Thessaloniki Summit in June 2003, the European Union formally incorporates *cohesion* as a guiding principle of EU policy towards the region, broadening the Stabilisation and Association Process to include additional forms of pre-accession assistance. This would send a strong signal to the countries of the region that the EU is serious about helping them reach their European destination.

The uses of regional policy

The rationale behind regional policy is that economic geography and specific historical legacies have important consequences for patterns of development, and that *structural causes* of underdevelopment can determine the fate of entire regions, be they old industrial centres or peripheral rural areas. Given the prevalence of such structural economic problems in the Western Balkans, the experiences gained in implementing regional policy elsewhere in Europe are directly relevant.

Regional policy (also referred to as *cohesion policy* or *structural policy*) and the institutions to implement it were first developed within EU member states on a national basis, and later became a central policy goal of the European Union itself. The historical context which saw the emergence of a consensus about the importance of *national* regional policies was the social and economic crisis in Europe's oldest industrial society, the United Kingdom.

In the aftermath of the Great Depression of 1929-1932, it became apparent that some regions in the UK recovered relatively quickly while others did not. Those hardest hit were the older industrial regions and sectors: shipbuilding in Clydeside; coal, iron, steel and heavy industry in north-east England; cotton and engineering in Lancashire; export coal, iron and steel in south Wales.[4] In response to this, the British government appointed a *Royal Commission on the Geographical Distribution of the Industrial Population* (the Barlow Commission) to examine the problem and suggest a public policy response.

The Barlow Commission discovered what it called the "structural effect": the growth of the more prosperous regions was directly related to their more favourable industrial structures. In depressed areas, by contrast, industries were declining so rapidly that they were dragging the local economy down with them, such that "it would be necessary to make superhuman efforts just to keep the economy in the same place."[5] There were powerful, objective forces pulling new enterprises and investments away from the old industrial centres, which tended to be isolated from the main marketing centres, leaving large concentrations of stranded population and social capital. Economic adjustment under these conditions implied heavy social costs in the form of high levels of structural unemployment. As Peter Hall has noted, "The Barlow Commission could find no good cause why the patterns of forces, left to itself, should start working in a different direction."[6] The recognition of structural causes of regional underdevelopment became the intellectual foundation for British post-war regional policies. Indeed, it was the membership of the United Kingdom in the European Community in 1973 which triggered the creation of a *European Regional Development Fund* at the European level precisely to address the problems of declining regions and create the preconditions for new and viable sources of economic growth.

Emerging European regional policies also drew heavily on the French experience. In the French post-war tradition, a central planning institution (the *Commissariat general au plan*), working through a regional arm, coordinating regional agencies and administering regional development funds, was tasked to create incentives for a territorial redistribution of employment in manufacturing and services and support the creation of non-agricultural jobs in rural areas.

The principle of balanced economic development is as old as the European Economic Community, part of the Treaty of Rome of 1957. Regional development policy acquired a heightened significance during the late 1980s, however, with the accelerated development of a single market and monetary integration and the reforms carried out in the Commission headed by Jacques Delors. The key objectives of the Delors Commission were to eliminate the remaining barriers to a common European market and prepare for a common European currency.

There was a recognition, however, that the benefits of lifting trade barriers and enforcing monetary stability could have detrimental effects on economically marginal regions. In a well-known report published in 1987, the economist Tommaso Padua-Schioppa, today a member of the executive board of the European Central Bank, argued that market liberalisation could aggravate existing regional imbalances, requiring accompanying measures to promote the adjustment of weaker regions. It is today explicitly recognised among those dealing with regional policy in the European Commission that "closer economic integration

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[4] Peter Hall, *Urban and Regional Planning*, 4th ed., p. 56.
[5] *Ibid.*, p. 60.
[6] *Ibid.*

would not necessarily permit the reduction of regional disparities and could, initially at least, lead to them widening."[7]

By the late 1980s, European regional policy had been formalised into a formal commitment to *cohesion*, which was written into the Maastricht Treaty of 1991 as one of the central pillars of the new European Union:

> "In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion... The Community shall aim at reducing disparities between the levels of development of the various regions." (Article 158)

Ray Mac Sharry, a former finance minister of Ireland, one of the countries to benefit most visibly from European regional policy, has written that without the right balance between efficiency (the single market), stability (monetary union) and solidarity (the structural and cohesion funds), "the community would be unlikely to survive the social tensions generated by the introduction of the single market and single currency in such quick succession."[8]

Ireland remains the most outstanding success story of European cohesion policy. As Mac Sharry and the former head of the Irish Industrial Development Agency, Padraic White, noted, "if Irish economic history had ended in 1986, the verdict on national economic performance since Independence would be damning indeed... [I]t is difficult to avoid the conclusion that Irish economic performance has been the least impressive in western Europe, perhaps in all Europe, in the twentieth century."[9] However, Irish GDP has risen from two thirds of the EU average when it joined in the 1970s to 118 percent today. This rapid development was driven in part by a sharp increase in foreign investment, which in turn "benefited from almost every item of spending under transfers from what in the late eighties became the EU structural and Cohesion funds."[10] For instance, the training of Irish staff for foreign companies investing in the country was paid for by the Irish Development Agency, which recovered 75 percent of the costs from the European Commission.[11] As Mac Sharry put it, the role of the European Union in this process of catching up was crucial. The country's great economic leap since 1989 was "underpinned by the 17 billion pounds received in total EU support since 1989 – more than half of which came from the Structural and Cohesion funds."[12]

The impact of Europeanisation has also been striking in the Mediterranean countries. In Spain, Greece and Portugal, *per capita* GDP leapt from 68 percent of the EU average to 79 percent between 1989 and 1999, as these countries benefited from the combination of joining a large common market, the fiscal discipline inherent in moving toward monetary union, and a major injection of EU structural assistance.

The Marshall Plan, credited with dramatic successes in helping Europe recover from the effects of the Second World War, is often held up as the most successful example of structural

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[7]   Tommaso Padoa-Schioppa, *Efficiency, Stability and Equity: a Strategy for the Evolution of the Economic System of the European Community*, Oxford University Press, London, 1987.

[8]   Ray Mac Sharry, Pedraic White, *The Making of the Celtic Tiger – the Inside Story of Ireland's Boom Economy*, 2000, p. 168.

[9]   *Ibid.*, p. 40.

[10]   *Ibid.*, p. 179.

[11]   *Ibid.*, p. 181.

[12]   *Ibid.*, p. 154.

economic assistance working in the service of long-term stability and democratisation in recent history. The United States transferred resources equivalent to 2 percent of GDP in the recipient countries between 1948 and 1951, for a cumulative total of 8 percent. By comparison, the cumulative transfers from the EU structural and cohesion funds to Spain between 1986 and 1997 amounted to 9.5 percent of its GDP.[13] In the case of Portugal and Greece, the national figures are even higher.

However, the European Union has been much less effective at marketing the impact of its regional development policies as a manifestation of *European soft power* on the economic, social and institutional development of Spain, Portugal and Greece. As the Union enlarges, the tools of integration (common market, macroeconomic convergence and cohesion policies) will be applied to an even more diverse set of countries.

EU regional policy seeks to improve the long-term growth performance of recipient countries by targeting assistance to the supply side, with the bulk of its interventions focused on infrastructure and vocational training. The structural funds are intended to create "synergies and positive spin-offs through a series of co-ordinated measures to improve human capital, set up infrastructure and promote productive activity."[14] They must encourage investment over consumption within the recipient economy. It is assumed that EU grants can only have a positive impact if they add to, rather than replace national expenditure.

To ensure a positive impact, the EU has developed a number of operational principles to guide its interventions, including:

- **Additionality:** EU funds are added to domestically financed public investments, to avoid substitution; they also rely on mandatory co-financing on the part of recipients;

- **Development planning:** all projects supported by the EU must be embedded in long-term development programmes developed by the region/country, so as to increase spill-over effects. The EU procedures require the formulation of a hierarchy of planning documents, which ensure that each specific project is tailored to the needs of the community and the wider economic policy of the country concerned;

- **Partnership:** to ensure that the best interests of the recipient communities are reflected in the programming, the EU requires close partnership between the Commission and national and regional governments, who work closely together to design, implement, supervise and evaluate operational programmes. This reflects the EU principle of subsidiarity, and has directly contributed to strengthening regional governments in a number of member states.[15]

These assistance strategies are at present being expanded beyond the Union to the candidate countries. As the Directorate for Regional Policy noted in 2001, "the presence of new member states composed almost entirely of regions with a general need for support for economic development will necessitate a massive refocusing of the effort in order to achieve a

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[13] Horst Reichenbach, *The Implications of Cohesion Policy for the Community's budget*, in Jorgen Mortensen ed., *Improving Economic and Social Cohesion in the European Community*, CEPS, 1994.
[14] Goybet and Bertoldi, 1994, p. 229.
[15] Herve & Holtzmann, *Fiscal Transfers and Economic Convergence in the EU: An Analysis of Absorption Problems and an Evaluation of the Literature* (Nomos Verlagsgesellschaft, Baden-Baden, 1998), pp. 32-3.

significant catching up within a reasonable period."[16]   In 2006, the EU has budgeted €9 billion in structural actions for new EU members.

It is instructive to compare this experience to the way reconstruction programmes have be implemented in the Western Balkans in recent years, where projects have rarely be embedded in sound development strategies. As a result, much of the assistance has be poorly targeted, and recipient governments continue to lack the capacity or resources support private-sector growth or even to maintain public assets. Capital investment is alrea declining sharply with the end of the reconstruction programme.

Principles and strategies developed in connection with European cohesion policy would ha ready application to EU assistance to the countries of the Western Balkans, when adjusted local conditions. Conditionality could be used to encourage fiscal discipline and sou macroeconomic policy. The cohesion funds have been used to ensure that EU member sta developed economic convergence programmes in accordance with the Maastricht Treaty.[17] the Western Balkans, they could be used to encourage responsible economic policies whi support long-term development and EU convergence strategies. Conditionality could also used to encourage policy measures aimed at improving supply-side performance, for examp by reducing state aids to former socially owned enterprises and hardening budget constrai on loss-makers. Within an appropriate financial and institutional framework, the options encouraging improved economic management in the region would increase dramatically.

Structural problems in the Western Balkans

In economic, social and political terms, the Western Balkans is a highly diverse regio However, serious structural development problems are common to the region as a who visible legacies of a half century of (Yugoslav) socialist development followed by a l decade of war, sanctions and population displacement across the region. The two most visi of these are the extent of de-industrialisation and the enduring problem of large-scale ru underdevelopment.

An ongoing process of de-industrialisation has led in many areas to a catastrophic decline employment, which is not yet captured in official statistics. The successor states of t former Yugoslavia share a legacy of industrial companies established during the investme boom of the 1970s, when foreign capital was freely available. Job creation in socially own enterprises was the principal social policy of the socialist regime. In Bosnia and Herzegovi for example, new industrial employment was created at the extraordinary rate of 2,500 jo per month throughout the 1970s. The geographical spread of industry was dictated by soc rather than economic considerations, and much of the investment proved economically a technically inefficient. The industrial companies which resulted were rarely able to turr profit, and were already visibly de-capitalising during the 1980s.

Across the region, these old industries are declining rapidly. Large companies laden w debt, excess workers and outdated technology are proving impossible to privatise to credi investors. Many have already closed their doors; others are sustaining production or through accumulating heavy losses which end up on the public budget. The viability of ent

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[16]   European Commission, *Second Report on Economic and Social Cohesion*, January 2001.
[17]   Horst Reichenbach, *The Implications of Cohesion Policy for the Community's budget*, in Jor Mortensen ed., *Improving Economic and Social Cohesion in the European Community*, CEPS, 1994.

regions is now threatened by the collapse of these companies. De-industrialisation generates massive structural problems for the economy, from unused industrial capacity, to infrastructure which is too expensive for post-industrial communities to maintain, workforces which lack the skills required by the new private sector, and entire population centres whose economic rationale has disappeared.

An equally serious challenge is the existence of large areas of rural underdevelopment This is a result of decades of neglect of private agriculture and the countryside under the socialist system. As one economic historian has noted, in socialist Yugoslavia "productivity per active agriculturalist did not establish itself above 1939 levels (except temporarily) until 1963. In 1976-8, labour productivity in Yugoslav farming was but 10 percent that of Britain, 16 percent that of France and at about the same level as Pakistan. The large peasant farming sector never broke clear of its subsistence farming origins."[18]

Today, across Bosnia, Macedonia, Kosovo and parts of Serbia, the collapse of industrial employment has led to a return to subsistence farming among those forced out of the formal economy. Agricultural smallholders are working small plots of land with little mechanisation. With agricultural techniques which have changed little in fifty years, they produce little surplus for the market, and are therefore unable to make investments in improving productivity. The capacity of the agricultural sector itself to lift these rural areas out of their poverty is limited. There is a need not just for investment in agriculture, but for new, diversified rural development strategies. For the time being, however, inadequate transport and infrastructure and low skill levels among the rural population mean that private sector development in these areas remains extremely weak. In the absence of rural development, the best option available for the rural population is massive economic migration.

These twin structural problems have major consequences for governance in the region. Governments are faced with an inadequate revenue base to support modern, European-style administrations. One result is that the resources available to provide any form of social safety net to cushion the effects of employment losses are grossly inadequate.[19] Another result is that the infrastructure built up to support the needs of socialist industries is simply too expensive for post-industrial communities to maintain, leading to a steady de-capitalisation of public assets. In an environment of inadequate public resources, there is a tendency for the costs of sustaining the public administration to absorb a disproportionate share of the budget, crowding out the delivery of government services and investment. This creates a development trap: it both undermines the legitimacy and effectiveness of public institutions (with dangerous political consequences for new and often fragile states) and discourages private-sector growth. There is a clear need for different kinds of assistance which help to mobilise domestic resources, rather than substituting for domestic capital expenditure.

These are precisely the kinds of problems which regional policy in Europe was developed to overcome. Recognising that many of the basic problems of the Western Balkans are not fundamentally different in nature from those dealt with elsewhere in Europe opens the door to mobilising valuable lessons and expertise from the wider European experience.

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[18]   See: Michael Palairet, unpublished manuscript, *The mismanagement of the Yugoslav rural economy, 1945-1990*, p. 31. Palairet also refers to Veselinov, *Sumrak seljastva*.

[19]   In Bosnia and Herzegovina, for example, of 420,000 people registered as unemployed in 2001, only 4,900 unemployment benefits were paid out in any given month.

Pre-accession without negotiations

Until very recently, there has been a sharp division in European Union policy towards the European continent. On the one hand, for accession candidates, there exists a clearly articulated strategy for helping them through the accession process in parallel to accession negotiations. They receive the benefit of pre-accession funds drawn from a special EU budget line (chapter 7 of the EU financial framework), and are dealt with by a dedicated Enlargement Directorate, together with progressively intensifying engagement by other Directorates and EU institutions.

On the other hand, there is the "wider Europe", which falls into the same category as the rest of the developing world. The wider Europe is dealt with by the External Affairs Directorate and draws funds from the budget line for external actions (chapter 4 of the EU financial framework).

Until the end of 2002, this system appeared to be purely binary in nature: the countries of Europe were either candidates on the path to accession, or were consigned to the wider Europe. The states of the Western Balkans were offered a political commitment that, in due course, they would be able to graduate from the wider Europe and become EU candidates. However, for most of them, this prospect remains in the distant future.

In recent times, the distinction between the two camps has become blurred. Turkey was elevated to candidate status in 1999, together with Romania and Bulgaria. It became the responsibility of DG Enlargement, but continued to receive European assistance from the external affairs budget line. At the end of 2002, the decision was taken at the Copenhagen summit to take future assistance for Turkey from the pre-accession budget (chapter 7), even though accession negotiations are yet to commence. Turkey is now dealt with as though it were a full EU candidate, even though the decision on whether it meets the conditions to open negotiations will not be made until the end of 2004. It is even discussed in the 2001 EU Cohesion Report, where the Western Balkans are not mentioned. In short, Turkey now constitutes a new category: **pre-accession without negotiations**.

There are powerful strategic arguments for the European Union to treat Turkey in this way. It enables the EU to engage much more intensively in its development challenges, bringing new financial resources and institutional tools into play and encouraging its internal reform processes, without committing itself at this stage to a specific accession timetable.

There are equally powerful strategic arguments for **extending this new category to the Western Balkans: to treat these countries as pre-accession candidates without the obligation to open negotiations on membership until they are found to be fit by the Commission on their *individual* merits.**

The progress of each state through the stabilisation and association process and then the accession process is determined by individual circumstances and capacity. This differentiated approach is a key element of EU strategy in the region, and should be retained. At the same time, there is a strong EU interest in addressing the structural economic problems common to the region as a whole, which pose a continuing threat to the region's fragile political and social stability. It is in the EU's interest to bring its full range of financial and institutional tools to bear on these challenges as soon as possible, whatever the progress of particular states through the stabilisation and association process.

Extending this new, intermediate category – pre-accession status without negotiations – to the Western Balkans would resolve a number of tensions inherent in the EU's current strategy in the region. First and most importantly, it would help to prevent the region falling further behind in the fundamental development goals of European integration. The countries of the Western Balkans are unlikely to become credible accession candidates unless they manage to address their structural economic problems. Enabling them to access pre-accession aid while still in the Stabilisation and Association Process would provide immediate incentives for them to develop their own tools for regional development, while providing them with the technical and financial assistance to begin addressing their structural economic problems.

Second, this would help to prevent the accession process itself from creating new lines of division within the region. Croatia has recently submitted its application for membership. Once negotiations with Croatia begin, the gap between Croatia and its eastern neighbours would widen, creating further pressures in the region. However, *not* addressing the Croatian application for fear of its impact on other countries is not a credible policy option either, given the European Commission's commitment to judging membership prospects on an individual basis.

Indeed, the EU should be concerned that its current strategies may have created incentives for other countries in the region to submit their membership applications as soon as possible, to avoid missing the accession train and being consigned to a "wider Europe" which offers few perspectives. Such a rush towards formal accession would risk undermining the Stabilisation and Association Process. The best way to avoid this is to introduce forms of pre-accession assistance into the Stabilisation and Association Process.

Third, the provision of structural assistance in advance of the formal accession process would provide a major boost to present EU efforts to strengthen reform processes and governance capacity in the region. The strength of the assistance methodology developed by the European Commission through pre-accession funds and regional policies is its ability to deliver a **governance dividend** – that is, to provide aid in such a way as to build the incentives and capacity of national governments to carry out regional development, and to mobilise domestic resources through the principle of co-financing. A recent review of absorption capacity and transfers notes "the fundamental contribution of Structural Fund intervention to improve the effectiveness and efficiency of the public administration in Greece."[20]

Thessaloniki and the promise of cohesion

The Thessaloniki Summit planned in June 2003 offers a real opportunity to redefine the nature of the European engagement in the Western Balkans. It needs to send a strong signal that the promise of the Europeanisation for the region will not fade with the next wave of enlargement.

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[20] Yves Herve, Robert Holzmann, *Fiscal Transfers and Economic Convergence in the EU: An Analysis of Absorption Problems and an Evaluation of the Literature*, 1998, p. 73. The same review notes that, from the point of view of academic economics, "a conceptual framework for comprehensively assessing the issue of absorption problems related to large-scale fiscal transfers is largely missing." (p. 11)

Thessaloniki provides an opportunity for the EU to make a commitment to cohesion for the Western Balkans, beginning a process of engaging a new set of instruments and strategies to help the region reach the point where EU accession becomes a realistic possibility. The success of the Thessaloniki Summit could be measured by the following three benchmarks:

1. *A pledge to make cohesion an explicit EU objective in the Western Balkans*

   Cohesion is not an objective of the EU in the wider Europe or the rest of the world, but a specific aspect of EU integration. It requires a more significant commitment of resources, and more intensive involvement by European institutions.

   It return, it offers the EU significantly more leverage to bring about real change in the region. It would place the EU in a much stronger position to demand a credible commitment to the other pillars of EU policy: responsible fiscal policies and an open trade environment. Already today most countries of the region have reduced inflation. Some already use the Euro as official tender or have introduced currency boards. Across the region, bilateral free-trade agreements are reducing trade barriers with each passing year. By making a pledge to support cohesion on a regional basis, it would also place the EU in a strong position to demand a common Western Balkan effort along these lines.

   In effect, this means extending to the Western Balkans the category of "pre-accession without negotiations", along the lines of recent decisions on Turkey. It means that the EU makes a serious commitment to preventing the countries of the Western Balkans from falling behind the wider region, and helping them to reach a level of development where formal accession becomes a real possibility.

2. *A commitment to applying lesson from cohesion policy in the EU and the candidate countries to the Western Balkans*

   To use any funds more effectively, it would be essential to begin to employ new assistance strategies, applying the experiences gained from cohesion policy elsewhere in Europe as to how to mobilise domestic resources, build governance capacity and encourage the emergence of regional development policies. It may be appropriate at Thessaloniki for the Commission to undertake to examine how lessons from the cohesion funds can be applied in the Western Balkans, including co-financing, conditionality, regional development planning and partnership between the Commission and national and regional governments.

3. *A commitment to sustaining assistance levels so that the gap between present candidate countries, such as Bulgaria and Romania, and the countries of the Western Balkans does not widen further.*

   Making a serious commitment to cohesion in the Western Balkans is more about developing new assistance strategies, than about mobilising large new financial resources. However, the gap in resources envisaged to be spent past 2004 in Romania vs. Serbia, or in Bulgaria vs. Macedonia, raises obvious questions as to the credibility of European engagement in the region. To make a serious commitment to promoting cohesion in the Western Balkans, the European Union needs to stabilise its assistance levels and place them within a credible long-term strategy.

The sums of money required to achieve this are not as high as might be supposed. At present, the EU assistance planned for the Western Balkans in 2006 is €500 million, equivalent to only 1 percent of GDP. Bringing this commitment up to the level of 2 percent of regional GDP would still be less than the EU commitment to Bulgaria and Romania. It would also be consistent with the lessons on national absorption capacity that the Commission has learned in recent decades.

This would involve a commitment of some €1 billion in 2006 for the Western Balkans, a sum equivalent to what the EU has spent in the region in recent years. To finance cohesion policies in the period 2004-2006, the European Union could supplement the existing CARDS budget with pre-accession funds, beginning the process of moving the Western Balkans from appropriation 4 (external actions) to appropriation 7 (pre-accession aid).

The Balkans in Europe's Future

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former Minister of Foreign Affairs, Serbia and Montenegro

Richard von Weizsäcker
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Chairman, Centre for Liberal Strategies, Bulgaria
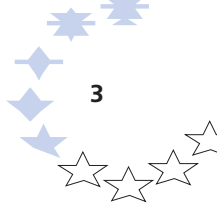
In 1996, the Aspen Institute Berlin and the Carnegie Endowment for International Peace published *Unfinished Peace,* the report of the International Commission on the Balkans which had been established at the initiative and with the support of European and American foundations in 1995. In his foreword to the report, former Prime Minister of Belgium Leo Tindemans, who served as Chairman of the Commission, stated that the objective of the Commission Members was "peace, a durable one, to pave the way to democracy, prosperity, well-being and a humane society". Dayton, which had been signed in November 1995, was only the point of departure as it "marked the end of the war, but only the beginning of the peace". The task for the international community at that point was to "help transform the proverbially chaotic, bloody and unpredictable Balkans of the past into a stable, peaceful and dependable Southeastern Europe of the future".

Two years before the establishment of the Commission, the Carnegie Endowment for International Peace had republished the results of its 1913 Inquiry into the Causes and Conduct of the Balkan Wars of 1912 and 1913 *(The Other Balkan Wars, 1993)*, the first International Commission on the Balkans presided over by the French Senator Baron d'Estournelles de Constant. Reports of atrocities occurring in the Balkans had prompted Nicholas Murray Butler, one of the Endowment's leaders and president of Columbia University to send a commission of six individuals for "an impartial and exhaustive examination" of the hostilities in the Balkans. It was much in the same spirit that the second Commission was created under the impression of the violent break-up of former Yugoslavia and the ferocity of the wars.

During its visits to the Balkan states during the second half of 1995 and the first half of 1996, the Commission was struck by the parallels between their impressions and the insights of the first Carnegie Commission of 1913/1914 as its haunting question was still pertinent: "Must we allow these Balkan wars to pass, without at least trying to draw some lessons from them, without knowing whether they have been a benefit or an evil, if they should begin again tomorrow and go on for ever extending?" The second Commission's report concludes "that turning a blind eye on the Balkans is no less a recipe for disaster at the end of the twentieth century than it was at its outset."

In the difficult context of the mid-nineties and the muddle of international efforts directed at the Balkans, *Unfinished Peace* was a remarkable document analyzing the causes of instability and conflict, assessing international responses and the lessons to be drawn, and suggesting a process and a framework for defusing and overcoming the conflicts in a broader regional context. We commend Leo Tindemans, Lloyd Cutler, Bronislaw Geremek, Lord Roper, Theo Sommer, Simone Veil and the late David Anderson for raising their voice in the cacophony of the time and offering their far-sighted analysis when the international community was still approaching the Balkans with a piecemeal approach. Unfortunately, the Commission's warnings were largely left unheard, and the international community had to undergo another painful lesson with the war in Kosovo and a more successful short-term conflict resolution in Macedonia before a more stable peace could be established.

Today, almost a century after the creation of the first International Commission on the Balkans, a third Commission on the Balkans is publishing its report. Different from the first two, this report is the first that is able to reach beyond war and peace. Almost ten years after the Dayton agreement, and almost five years after the fall of the Milosevic regime, the Western Balkans are a relatively stable region, the danger of war is no longer imminent, and the countries of the region have proven stable enough not to be thrown into chaos by political turmoil. Moreover, the European Union committed itself to integrating the countries of the region at the Thessaloniki Summit in June 2003. Why then, the reader might ask, do we need a third International Commission on the Balkans?

Despite the achievements to date, the stability of the region still rests on weak feet. Reform processes are hindered by the legacy of the past: immense structural challenges, constitutional problems, open status issues, a dire economic situation and political instability. Unprecedented amounts of reconstruction and development aid poured into the region could not lead to the desired results because of the chronic political instability and doubts about the future. How fragile even the peace is in some parts of the region was demonstrated by the violence which erupted in Kosovo in March 2004 - and the helpless response of the international community. Preserving the current status quo will not suffice to achieve lasting peace and stability, economic prosperity and to pave the way for European integration. Additional efforts and a shift in international and Brussels thinking in particular are required in order to solve outstanding issues and accelerate the transition process.

In order to induce these developments with new momentum, the Robert Bosch Stiftung, the King Baudouin Foundation, the German Marshall Fund of the United States and the Charles Stewart Mott Foundation in a concerted

transatlantic effort of private foundations decided to establish a new independent International Commission on the Balkans. We thank them for their inspiration and continuous support of our endeavor. Our task was to present results which will stir the debate on the future of the region and to ultimately develop a vision for the integration of the countries of Southeast Europe into the European Union.

The composition of our Commission reflected the changed situation in the Western Balkans and the different quality of cooperation that should guide the relations between the so-called "international community" and the region. It was a great pleasure and enrichment for me to work with 18 distinguished individuals both from the region and from outside the region who assembled such an array of expertise in matters Balkan, European and Transatlantic. In trying to understand the current situation in the countries of the Western Balkans, we relied on the analyses of experts who are familiar with the changing nature of challenges facing the region. We are especially grateful to James O'Brien, Srdjan Bogosavljevic, Jovan Teokarevic, Srdjan Darmanovic, Gerald Knaus, Stevo Pendarovski, Remzi Lani, Antonina Zheliazkova, Damir Grubisa and Josip Kregar whose contributions helped shape our opinions. Our intellectual and practical journeys through the region were prepared and guided by a conscientious and highly motivated staff.

Over the course of one year, we undertook four Study Tours to the countries of the Western Balkans which gave us the opportunity to exchange views with many individuals whose time is gratefully acknowledged. Unlike our predecessors, we did not have to face the immediate suffering and destruction caused by war. However, in many parts of the Balkans, the smell of violence is still in the air, and the distrust and hopelessness of people in view of the insecurity and dire economic and social situation is depressing. We left enclaves in Kosovo with the conviction that they will stand out as shameful symbols of the failure of international policy if the international community will not succeed in securing the basic rights of these people and establishing conditions for a better life.

During all of our visits, whether in Belgrade, Kosovska Mitrovica, Pristina, Sarajevo, Skopje, Tetovo, Tirana or Zagreb, the most memorable encounters were those with the youth and students, impressive young individuals who are trying to shape their future against bleak economic prospects in societies which have only begun to come to terms with their past. All of them see the future of their countries within the European Union. Understandably, most of them envisage their own immediate future abroad even though they are very attached to their homelands. We regard our recommendations as reaching out to these generations of potential leaders who are the future of the region and its hope for reconciliation. If the international community does not remedy the damage that some of its policies have done, we will see these young people leaving their countries in search of a better life.

Many will argue that the governments and the citizens of the region are responsible for the future of their own societies, and should bring their own houses in order. In view of the political and financial engagement since the beginning of the nineties and the responsibility the international community has assumed, such arguments are nothing short of cynical.

We do not cherish any illusions about the current political will among the member states of the European Union to make major new commitments. Enlargement fatigue hovers over the European capitals these days, the looming referenda on the European constitution question the future of the European project. In the absence of headline-grabbing violence, many European politicians and civil servants hold on to the hope that the status quo is working just fine. However, if the reform and transition process fails, the Western Balkans will become even more of an isolated ghetto, and loom as a threat to stability and peace. The international community and the European Union in particular have been engaged in the Balkans to an extent which is unprecedented so far, and should see this engagement to a successful end. It will take more than symbolic gestures and rhetoric to build the pro-European constituencies in the Balkans who will translate their dreams into votes for political elites to carry forward the reform processes. And it will take no less of an effort to communicate the Balkans as a future part of the European Union and the sense of urgency to the public in European Union member states.

If the EU chooses success over failure in the Balkans, the next two years could see the beginning of a long-term solution to the problems that would enable all parties to close the book on the Balkans' bloody twentieth century and to win the peace which has been established at such high human and financial cost. It would also mean that this was the last International Commission on the Balkans which had to be initiated.

Giuliano Amato
Chairman of the International Commission on the Balkans
April 2005

CONTENTS

It was in Sarajevo in the summer of 1914 that Europe entered the century of madness and self-destruction. The founding fathers of the European Union, Robert Schuman and Jean Monnet, were respectively 28 and 26 years old. But their dream of a united Europe, founded on shared values and institutionalised interdependence, can easily be traced back to that summer day in Sarajevo.

Eighty years later, in the early days of the siege of Sarajevo in the mid-1990s, a photo of a half-ruined post office with three items of graffiti written on its wall captured the imagination of the world. The first graffito read "This is Serbia!"; the second stated "This is Bosnia". And someone scrawled underneath, "No, you idiots, it's a post office!" But a European historian of the present added a line of his own, "This is Europe"[1]. Because all of the destruction in the Yugoslav wars has been done by Europeans to other Europeans in Europe. The line "This is Europe" embodies the European Union's moral imperative when it comes to overcoming the legacies of war and destruction in the Balkans. There is also a security imperative. Political instability in the Balkans threatens Europe with the prospects of never ending military conflicts, constant flows of immigrants, flourishing of Balkan-based criminal networks and the erosion of the EU's credibility in the world.

It is in Sarajevo in the summer of 2014 that Europe should demonstrate that a new European century has arrived.

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[1] Timothy Garton Ash, *Bosnia in Europe's Future*, New York Review of Books, December 21, 1995.
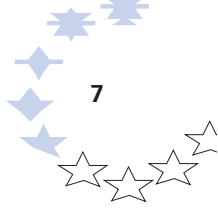
INTRODUCTION

Almost a decade after the Dayton Agreement, and almost five years after the fall of the Milosevic regime in Belgrade, the Western Balkans[2] are a relatively stable region with no military conflicts, no ongoing ethnic cleansing, where elections are free, if not always fair. In Thessaloniki in June 2003, the European Union committed itself to integrating the countries from the region. But what does this commitment really mean?

The region is as close to failure as it is to success. For the moment, the wars are over, but the smell of violence still hangs heavy in the air. The region's profile is bleak - a mixture of weak states and international protectorates, where Europe has stationed almost half of its deployable forces. Economic growth in these territories is low or non-existent; unemployment is high; corruption is pervasive; and the public is pessimistic and distrustful towards its nascent democratic institutions.

The international community has invested enormous sums of money, goodwill and human resources here. It has put 25 times more money and 50 times more troops on a per capita basis in post-conflict Kosovo than in

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[2] Since it first came into use at the turn of the 19th century, the Balkans have always been a fluid concept with countries being excluded and included regularly and not always for any discernible reason. The past fifteen years have seen the region go through more contortions of geographic definition. For the Commission's report, we have reduced the Balkans to include Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Serbia and Montenegro. Where we also wish to include Croatia, Romania and Bulgaria or any combination of the three, we have stated so explicitly. As we were working on this report, we had good reason to believe that Croatia was preparing to open negotiations with the European Union on the conditions for its accession.

post-conflict Afghanistan. But despite the scale of the assistance effort in the Balkans, the international community has failed to offer a convincing political perspective to the societies in the region. The future of Kosovo is undecided, the future of Macedonia is uncertain, and the future of Serbia is unclear. We run the real risk of an explosion of Kosovo, an implosion of Serbia and new fractures in the foundations of Bosnia and Macedonia.

The Commission acknowledges that there are no quick and easy solutions for the Balkans and that ultimately it is up to the people of the region to win their own future. But we are convinced that the international community and the European Union in particular has a historical responsibility to face and a decisive role to play in winning the future for the region.

The starting point of the International Commission on the Balkans is that the status quo has outlived its usefulness.

The starting point of the International Commission on the Balkans is that the status quo has outlived its usefulness. There is an urgent need to solve the outstanding status and constitutional issues in the Balkans and to move the region as a whole from the stage of protectorates and weak states to the stage of EU accession. This is the only way to prevent the Western Balkans from turning into the black hole of Europe.

At the same time, we are also convinced that the EU possesses the mechanisms and the requisite political skill to face up to the challenge which the region will present over the next three years in particular. There is no doubt that Kosovo and the resolution of its final status will be at the core of the political process in the months to come. However, it is essential to bear in mind when addressing this and other unresolved status issues that they must be placed within a broader context of the EU's explicit commitment to include the entire region as defined at the Thessaloniki Summit in June 2003.

Getting Incentives Right

The Balkans needs a new strategy if it is to translate Brussels' stated political aim to integrate the region into reality. Despite the commitment made at Thessaloniki, the dream of European integration has not yet proved powerful enough as a force for transforming the societies of the Balkans, especially if we agree that the basic indicator of success is the progress of each country on the road to the EU.

Of course, the EU itself faces a significant dilemma as it has the capacity to absorb only reasonably functioning and legitimate states. But now that Croatia appears on the verge of the full accession process, there are no

more of these left in the region. The classical enlargement model that worked for Central and Eastern Europe in 1990 simply does not fit the conditions prevailing in the Balkans. If this region is to become part of the EU, it needs to undergo significant changes. But success also requires a concomitant shift in policy thinking towards the region in Brussels.

As a matter of common sense, the international community must now address the unresolved status issues with the greatest degree of urgency and look for new constitutional solutions within the framework of European accession.

The question today is no longer, "What should be done?" We should clearly bring the region into the EU. Rather we need to establish the sequence of policy steps to be undertaken and the structure of the incentives that will make them work. We need policies so that the region can get on, get in and catch up with the rest of Europe.

The question today is no longer, "What should be done?" We should clearly bring the region into the EU. We need policies so that the region can get on, get in and catch up with the rest of Europe.

I. THE DANGEROUS STATUS QUO AND THE EU'S BALKAN DILEMMA

The absence of headline-grabbing violence in the Balkans has persuaded many in the international community that the status quo is working just fine. This illusion of stability governed international perceptions of the Balkans until the spring of 2004. But the March events in Kosovo in 2004 brought home to some in the international community what has been common knowledge in the Balkans for some time: that the status quo is not only unsustainable, it also might drive the region towards a new period of highly dangerous instability.

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Whether one views it with trepidation or with enthusiasm, the process of final status settlement in Kosovo has already begun. We have entered a most delicate phase in the struggle for a peaceful and prosperous Balkans. There is a good possibility that the international community and local political actors will succeed in this difficult quest to solve the status issues. Such an outcome would almost certainly break the logjam that is blocking political progress in the region, representing a major achievement of international diplomacy as well as conferring immense credit on local political forces.

But everyone should be aware that failure is also a very real prospect and that the consequences of failure could be grave indeed. If the EU does not devise a bold strategy for accession that could encompass all Balkan countries as new members within the next decade, then it will become mired instead as a neo-colonial power in places like Kosovo, Bosnia, and even Macedonia. Such an anachronism would be hard to manage and would be in contradiction with the very nature of the European Union. The real choice the EU is facing in the Balkans is: Enlargement or Empire.

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The signs of such a debilitating future are already visible in the quasi-protectorates of Kosovo and Bosnia. With no real stake in these territories, international representatives insist on quick results to complex problems; they dabble in social engineering but are not held accountable when their policies go wrong. If Europe's neo-colonial rule becomes further entrenched, it will encourage economic discontent; it will become a political embarrassment for the European project; and, above all, European electorates would see it as an immense and unnecessary financial and moral burden.

There are three major reasons that make us believe that the status quo is the problem and not part of the solution.

1. Expectations Gap

The status quo is a problem in part because the citizens of the region perceive it as such. A survey commissioned by the International Commission on the Balkans and conducted in November 2004 demonstrates that people in the region are overwhelmingly negative about the status quo and that there is an alarming distrust towards both government and the opposition *(figure 1-3).* The public rejects the status quo but has yet to see any credible alternative being offered in its place *(figure 4).*

When we compared our survey to a similar poll conducted in 2002[3], we observed a growing trend of public pessimism and dissatisfaction with the direction of political and economic developments. A loss of hope and perspective is the political reality of Western Balkans. And it is a dangerous one.

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[3] International IDEA, *South Eastern Europe Public Agenda Survey, 2002.*

2. The Development Gap

The status quo is also a problem because it has widened the gap between the economic and social performance of the region on the one hand and of the new EU members and Bulgaria and Romania on the other. The years lost in wars and half-baked reforms have widened the gap between the winners and losers in Balkan societies, making the demand for fairness and development stronger than ever.

As others have noted, if the status quo were to prevail, a new European ghetto would arise in the heart of an integrating continent. This ghetto would comprise most of the Balkans' peoples, herded behind a wall of visa restrictions that blocks a desperate population from seeking work elsewhere. There is a risk that, instead of catching up with the rest of the continent, the Balkan countries will fall further behind. The goal of integration which holds the key to regional stabilization will become even more distant. *(Table 1, 2)*

3. The Integration Trap

The consensus uniting governments and people in the Balkans is that the region cannot achieve prosperity and stability outside the process of European integration. At the same time, it is quite clear that the dysfunctional states and protectorates that characterise the region actively hinder the inclusion of the Balkans into the European mainstream. In this sense, the status quo is a problem because it is blocking the road to EU accession.
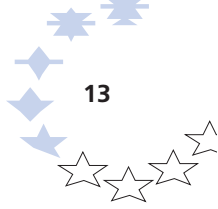
II. KEY ELEMENTS OF THE NEW POLICY FRAMEWORK

In the past decade, the international community has regarded the Balkans primarily as a post-conflict region. This has led to a raft of provisional solutions to constitutional problems and to policies based on what might be termed 'constructive ambiguity,' embodied in documents like the UN Security Council Resolution 1244 or the Constitutional Charter of Serbia and Montenegro. At the same time the international community has been working on the assumption that economic development would reduce the pressing need to solve the open status issues. Unfortunately, this assumption has turned out to be false.

Policies that focus only on outstanding economic and social issues while ignoring the unresolved status issues have failed to deliver. Policies that seek to resolve status questions to the exclusion of urgent economic and social issues are also doomed to fail. The Balkans need both.

For the EU, one of the greatest policy challenges emerges as a conundrum: how might one reconcile the regional approach that is essential for the stabilisation of the Balkans with the requirement of evaluating countries on the basis of their individual performances, a concept which lies at the heart of the EU accession process? The EU-initiated

Stabilisation and Association Process (SAP) tried to answer this by emphasising the central need for regional co-operation as part of the EU's 'contract' with individual SAP countries. The past four years, however, have demonstrated that this does not work. The answer to the riddle remains elusive. Now, the losers in the accession game - Bosnia, Serbia, Montenegro, and Kosovo - no longer perceive the SAP as a fast integration track. The programme lacks the requisite incentives to engage Serbia in co-operating over the Kosovo issue. It is striking that Partnership for Peace enjoys a higher public profile in Serbia than the Stabilisation and Association Process. Only real incentives can bring real reforms.

The new regional approach that the Commission advocates seeks to reintroduce the missing incentives. The interdependence of states is much more vital for the future of the Balkans than was the case in any other part of Europe. These are small and unattractive markets. Their economic sustainability depends on the creation of a common economic area that will attract foreign investors. In this sense, the regional approach is a necessary precondition for development.

In the Balkans, the accession strategy should be a mixture of classical state-building policies with those aimed at transforming nation states into member states. What we face in the Balkans is a need for a 'member-state building' strategy.

In the Balkans, the accession strategy should be a mixture of classical state-building policies with those aimed at transforming nation states into member states. What we face in the Balkans is a need for a 'member-state building' strategy.

The Stabilisation and Association Process is simply not strong enough as a framework for building member states. Neither does it reflect the intensity and breadth of practical EU involvement with the region.

This strategy would provide for three steps. First, we propose that in the autumn of 2006 the EU should sponsor a Summit that aims to present all Balkan countries with their accession road maps. The Summit should review the achievements of individual states in satisfying the Copenhagen criteria and on the basis of this, the EU will decide whether to start direct negotiations on membership or to sign a pre-accession Europe Agreement on member-state building with those countries that do not yet qualify for accession talks. In the view of the Commission it is realistic for these countries to start accession negotiations around 2009/2010, in the belief that the Europe Agreements will contribute to meeting the Copenhagen criteria. The objective of accession could be set towards 2014/2015.

The experience of Central and Eastern Europe illustrates best how the institutionalisation of the European perspective is the most efficient way to foster and accelerate the overall political, economic and administrative reforms in aspirant countries. This does not mean that all Balkan countries should

join the EU at the same time, but it does mean an end to the fears of some Balkan societies that they might be left out of the process altogether.

NATO membership is the second important pillar of our integration strategy. In our view, the NATO Foreign Ministers meeting in June 2005 should send a positive signal to the Adriatic Charter countries, Albania, Croatia and Macedonia. This gesture will improve the security of Balkan countries still outside the EU and will support reform in the security sector. We would envision these three countries receiving invitations to join at the NATO Summit in 2006, based, of course, on the progress of their Membership Action Plans. NATO played the role of a fast integration track for the Central and East European countries and it should do the same for the Balkans. Paradoxically, membership in NATO is the only available instrument for demilitarising this most militarised part of Europe. But in order for NATO enlargement to fulfil its regional role, the Alliance should offer membership in the Partnership for Peace program to Serbia and Montenegro and to Bosnia and Herzegovina as soon as possible.

NATO membership is the second important pillar of our integration strategy.

1. CONSTITUTIONAL AND STATUS ISSUES

1.1. The Current Constitutional Environment

After the Yugoslav wars of the 1990s, constitutions were written for several states and other entities in the region. But five years after the wars ended, the governments created by those constitutions remain weak, unpopular, and as yet unable to persuade either their people or the international community that they are ready to enter the European Union *(figure 17, 18)*.

The governments created by those constitutions remain weak, unpopular, and as yet unable to persuade either their people or the international community that they are ready to enter the European Union.

Between 1994 and 2002, international negotiators and local parties designed constitutional frameworks for the Federation of Bosnia and Herzegovina (1994), which was to become one of the entities within Bosnia; a constitution for Bosnia and Herzegovina itself, as part of the Dayton Accord (1995); changes to the constitution of the Republika Srpska (1996); a constitutional framework for Kosovo as requested by the Special Representative of the Secretary General (2001); Macedonia's new constitutional framework, known as the Ohrid Agreement (2001); and the new State Union of Serbia and Montenegro, negotiated with the intensive engagement of the European Union (2002).

These constitutional frameworks have several features in common.

First, they were shaped by elites associated with armed conflicts. The processes that led to the constitutions were not informed by popular

mandates but by hard-nosed trade-offs to persuade the elites to stop fighting or avoid other destabilising acts. Power-sharing, not the enforcement of rights, was the main principle.

A second similarity among the Yugoslav constitutional frameworks is that each allocates power by group affiliation. The groups are defined according to ethnicity, a tendency that reinforces claims that the societies themselves are riven by ethnic differences which help to undermine central state institutions. In the Bosnian Constitution, in the Ohrid Agreement, and in the Kosovo constitutional framework, members of various ethnic groups are assured specified quotas.

The hard truth is that without these allocations of jobs and decision-making powers, the peace agreements would have failed. The long-term consequences have been more subtle. Local elites attempted to exploit this to secure the primacy of their particular ethnic group in the constitutional outcome. There is a major gap between the rhetoric of civil society that is at the centre of international efforts to democratise the region on the one hand, and the struggle to enshrine the rights of ethnic groups that is at the heart of the adopted constitutional arrangements on the other.

Third, the constitutional frameworks created weak states. Each state must compete with strongly decentralised powers (especially in the case of Bosnia and Serbia and Montenegro); with parallel structures that are wholly unaccountable to the constitutional frameworks (particularly in Kosovo); and with intrusive international structures that have near monopolies of power which are nonetheless ill-defined in crucial state-building areas (for example, security in Bosnia and Kosovo). A consequence of the patchwork regulatory environment is that state actors became cumulatively weaker while powerful private actors, including political parties, oligarchs and criminal syndicates spawned by the wars of the 1990s, have remained influential and largely escaped scrutiny.

This means that non-state institutions provide many basic public services which would normally be the responsibility of the state. Some individuals receive pensions, health care and education from neighbouring states (the best example being the Serbs of northern Mitrovica who are subsidised by Belgrade). The emphasis on decentralisation in Kosovo may accelerate the trend.

State weakness is perpetuated in those states where there are influential international actors on the scene.

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The posts of High Representative in Bosnia and the Special

Representative of the Secretary General in Kosovo were established during crises. Years later, both continue to exercise extraordinary power, including the authority to override local decisions. Neither the reach of this power nor the occasions for its use are clearly defined or well understood. In both Bosnia and Kosovo, there is an often irresistible temptation for both international representatives and local governments to shift accountability onto one another. Citizens are left without a clear idea of who is responsible for what.

1.2. The Perceptions Map

Western governments have frequently argued that postponing the resolution of key status issues is the lesser of two evils. While they concede that the status quo is not ideal, they maintain that it is nonetheless essential to maintain regional peace and stability. The results of the survey commissioned by the International Commission on the Balkans and of the meetings held throughout the region show a more complex reality. The key findings show that Bosnia is no longer a highly contested state. Most Serbs in Serbia and almost half of the Serbs in Bosnia view the separation of Republika Srpska from Bosnia as both undesirable and unlikely. Paradoxically, Albanians in Albania and Kosovo are the only ones that favor such separation of Bosnia. The survey also indicated that there is no ethnic group intent on threatening the existence of the Bosnian state *(figure 5)*.

In our view, the nightmare of the international community that Kosovo's independence would automatically provoke the disintegration of Bosnia has no foundation in reality. That does not mean that Kosovo's independence will be a simple or uncontested process. Indeed if mismanaged, the process could have a most deleterious domino effect on the region. But independence per se is not the issue - the issue is how you get there.

But independence *per se* is not the issue - the issue is how you get there.

According to the survey, the breakdown of Macedonia and the establishment of a Greater Albania are two developments that could destabilise the region. The results of the survey show a relatively high acceptance of the idea of a "Greater Albania" among the Albanian populations of both Kosovo and Albania. As a whole, they differ from other groups in the region in their view that a future unification of Kosovo and Albania is both desirable and possible *(figure 6)*. This suggests that the process of nation-building among Albanian communities in the Balkans is still in progress. If the international community fails to offer a convincing European perspective to the region, it might bolster support for a Greater Albania or a Greater Kosovo among Albanians. The international community should send a clear message that Greater Albania or Greater Kosovo is not an option.

In contrast when it comes to the territorial integrity of the Republic of Macedonia, the survey shows that a great majority of Albanians in Macedonia reject the idea of dividing the country *(figure 7)*. 77.5% of ethnic Albanians (and 85% of ethnic Macedonians) support the territorial integrity of the Macedonian state.

Both the survey results and our talks in the region suggest that a peaceful separation of Serbia and Montenegro does not have the potential to destabilise the Balkans *(figure 8)*. An interesting point to emerge from the survey is that most Montenegrins oppose such a separation while the Serbian public is becoming less keen on retaining the present non-functional federation.

1.3. Facing the Status Issues

The unresolved status of Kosovo and the provisional constitutional frameworks in place elsewhere are among the major obstacles for the Europeanisation of the Balkans. While all states undoubtedly aspire to EU membership, we still have no clear idea how many will actually emerge from the current constitutional mess - in theory, Serbia and Montenegro could apply as one (the State Union of the present day), two (Serbia and Montenegro as separate states) or even three countries (adding Kosovo). The integration of the Balkans into the EU is unimaginable in the current circumstances of constitutional uncertainty.

The Commission advocates:

- **A four stage transition in the evolution of Kosovo's sovereignty. Kosovo's sovereignty should develop from the status quo as defined by Resolution 1244 (stage one) to "independence without full sovereignty" (stage two) (allowing for reserved powers for the international community in the fields of human rights and minority protection), to the "guided sovereignty" (stage three) that Kosovo would enjoy while negotiating with the EU and finally to "shared sovereignty" (stage four) inside the EU.**

- **In the case of Bosnia, after ten years since the Dayton Accords, passing from the Office of High Representative to an EU Negotiator. This implies jettisoning the Bonn Powers and shifting responsibility to the Enlargement Commissioner in Brussels.**

- **A decision on the State Union of Serbia and Montenegro made by its citizens. The Commission judges the current State Union as non-functional. In the view of the Commission, citizens of Serbia**

and Montenegro should choose between a functional federation
and functional separation by the autumn of 2006.

1.3.1. Kosovo's Final Status

Time is running out in Kosovo. The international community has clear-
ly failed in its attempts to bring security and development to the
province. A multi-ethnic Kosovo does not exist except in the bureaucra-
tic assessments of the international community. The events of March
2004 amounted to the strongest signal yet that the situation could
explode. Since then UNMIK has demonstrated neither the capacity nor
the courage to reverse this trend. Serbs in Kosovo are living imprisoned
in their enclaves with no freedom of movement, no jobs, and with nei-
ther hope nor opportunity for meaningful integration into Kosovo soci-
ety. The position of the Serbian minority in Kosovo is the greatest indict-
ment of Europe's willingness and ability to defend its proclaimed
values. Kosovo Albanians should receive a clear message that the use of
violence is the worst enemy of their dream for independence.

The lack of leadership in Belgrade has contributed to the plight of the
Kosovo Serbs, and the Serbian community in Kosovo has to a large
degree become hostage to the political struggles in the Serbian capital.
The Albanian leadership in Kosovo must also shoulder its part of the
blame for failing to show any real willingness to engage in a process of
reconciliation and the development of multi-ethnic institutions and struc-
tures. Our survey indicates that a majority of Kosovars is keen on living in
an "ethnically homogeneous Kosovo" *(figure 22).* Most Kosovo Albanian
politicians have done nothing to oppose this public mood which flies in
the face of everything that Europe believes in.

But a substantial share of the blame for the failure of the project of a
multiethnic society in Kosovo should be placed at the door of UNMIK
and the international community. Over the past few years UNMIK has
on several occasions been actively involved in a policy of reverse dis-
crimination in Kosovo. Under UNMIK's leadership the number of Serbs
employed in the Kosovo Electric Company has declined from more
than 4000 in 1999 to 29 now, out of total of over 8000 employees.
"The international community in Kosovo is today seen by Kosovo
Albanians as having gone from opening the way to now standing in
the way. It is seen by Kosovo Serbs as having gone from securing the
return of so many to being unable to ensure the return of so few."[4]
The failure of UNMIK can be explained but it should not be tolerated.
The social and economic situation in the protectorate is no less depress-

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[4] Kai Eide, *The Situation in Kosovo. Report to the Secretary-General of the United Nations,* Brussels, 15 July, 2004.

ing. Kosovo suffers endless disruption thanks to its regular power cuts. Some villages in the provinces are without electricity for periods of longer than a month.

The province never boasted a self-sustaining economy and there is no chance that it will develop one now. Currently, the unemployment rate is about 60 to 70% (almost 90% among minorities). The construction boom of the immediate post-war period has come to an end. Kosovo Albanians are frustrated with their unresolved status, with the economic situation, and with the problems of dealing with the past. The demand for sovereignty has not diminished; on the contrary, it has increased in the past year. UNMIK is perceived by the local public as corrupt and indecisive.

The Commission shares the judgment of the UN Secretary-General Kofi Annan that Kosovo has made insufficient progress towards meeting internationally agreed standards with regard to human rights, respect for minorities, and law and order. At the same time the Commission wishes to underscore the urgency of dealing with the final status of Kosovo.

We do not believe that Kosovo's independence will solve all the territory's problems, but we are concerned that postponing the status talks will lead to a further deterioration in the situation in the province.

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In our view Kosovo's independence should not be imposed on Belgrade. The 'imposition' of Kosovo's independence is not only undesirable, it is also unlikely to happen, bearing in mind that some members of the UN Security Council (Russia, China) are opposed to it. Moreover, if Belgrade opposes the process, it will significantly increase the chances of trouble breaking out elsewhere whether in Bosnia, Macedonia or Montenegro.

The Commission is also pessimistic about the possibility of direct talks alone between Belgrade and Pristina when it comes to solving the status issue. It is up to the international community to guide this process. In our view, negotiations on the status of Kosovo should concentrate on offering real incentives to Belgrade so that Serbia may find acceptable the prospect of an independent Kosovo as a future member of the EU. Persuading Belgrade to engage is difficult but not impossible. If anything can, the EU accession process can provide such incentives. Within this context, Kosovo's independence should be achieved in four stages.

The first stage would see the de facto separation of Kosovo from Serbia. In our view this stage is implicit in Resolution 1244, which trans-

formed Kosovo into a UN protectorate. This is despite the fact that the UNSCR 1244 deals with Federal Republic of Yugoslavia and not with Serbia. It is a dangerous illusion that Kosovo can revert to rule from Belgrade in any foreseeable future.
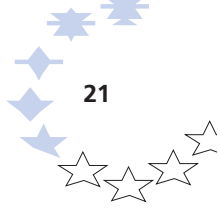
The second stage (independence without full sovereignty) should recognise in 2005/2006 Kosovo as an independent entity but one where the international community reserves its powers in the fields of human rights and the protection of minorities. Legally Kosovo will remain a UN protectorate but the Commission advocates transferring the UN's authority, as defined by Chapter 7, from UNMIK to the EU. KFOR should preserve both its mandate and its size.

Kosovo should be treated as independent but not as a sovereign state at this stage, allowing it to develop a capacity for self-government. All functions of a normal government that are currently performed by UNMIK or KFOR should be transferred to the government of Kosovo. This government will tax and police the population, regulate the economy and provide public services. The international community should reserve its power to intervene in those areas that are essential for meeting the Copenhagen criteria, namely human rights and minority protection.

In order for this policy to work, we should move away from a 'standards before status' policy and towards a 'standards and status' policy. Decentralisation, the return of refugees, and the clarification of property rights are the key questions to be addressed. At this stage the Commission advocates a special arrangement for the area around Mitrovica and a special legal status for the Serbian monasteries. A special administrative arrangement for Mitrovica (a transitional international administration along the lines of UNTAES in Eastern Slavonia) **should exclude the possibility of Kosovo's partition.**

The Commission advocates an internationally-supervised census in Kosovo, including of those who claim to hail from Kosovo, before we can start designing a programme of decentralisation. The definition of a 'Kosovo citizen' is of critical importance. The long-overdue census should be complemented by clearing up the property claims in the province. Disputed property rights are the major obstacle to economic development in the region. This is true for both private property and for the 'social property' from the Yugoslav period.

The returns policy introduced by the international community in Kosovo should be modelled on the successful returns policy applied in Bosnia. In our view, the implementation of the returns policy is of great impor-

tance. But our conversations with both Kosovo Serbs in Kosovo and in Serbia convinced us that the chances for a large-scale return are minimal. The international community should provide incentives for Kosovo Serbs to return even if they prefer to live in the mostly Serb-populated parts of the province and not in areas where they lived before the war. It should also take care of those who decide not to go back. A 'Palestinisation' of the refugees who decide not to return to Kosovo could be a major source of vulnerability for Serbia's democracy. This is why the Commission supports the establishment of an 'Inclusion Fund' to assist the integration in Serbian society of the Kosovo Serbs who have chosen to remain in Serbia. This fund should be financed by the European Union.

The decentralisation of power in Kosovo and guarantees of a normal life for Kosovo Serbs are a pre-condition for engaging Belgrade in a constructive debate with respect to Kosovo's independence. In the view of the Commission, some of the minority quotas provided for the Albanians in Macedonia in the Ohrid Agreement should also be given to the Serbs of Kosovo. Decentralisation should afford Serbian enclaves a real opportunity for self-government and development. It is essential to appreciate how Serbs believe that the social and economic difficulties they have experienced over the past five years amount to an intentional policy of discrimination and ethnic cleansing, designed by Albanians and underwritten by the international community. So, the European Union should develop special incentives for companies that employ citizens from ethnic minorities.

The need for policies focused on the needs of minorities should not obscure that the culture of civil society, and not the principle of ethnic separation, is at the heart of the European project. The 'ghettoisation' of ethnic minorities could promote institutional weakness and dysfunctionality in the future state.

The US's active engagement at this second stage is of critical importance for a successful outcome of the EU negotiating process.

The US's active engagement at this second stage is of critical importance for a successful outcome of the EU negotiating process. Kosovo Albanians view the US as a guarantor of their independence and an American disengagement or a split in the Euro-Atlantic community could quickly lead to trouble.

The third stage (guided sovereignty) would coincide with Kosovo's recognition as a candidate for EU membership and the opening of negotiations with Brussels. There is a real purpose to this stage as the EU cannot negotiate with itself (i.e. with a protectorate which it controls). During this stage the EU would lose its reserved powers in the fields of human rights and minority protection and would exercise influence through the negotiation process alone.
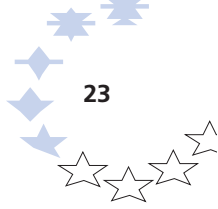
The fourth stage (full and shared sovereignty) will mark the absorption of Kosovo into the EU and its adoption of the shared sovereignty to which all EU member states are subject.

These stages would be an integral part of the overall process of Europe integration of the Balkans as suggested earlier.

The necessary precondition for both the Serbian government and the Serbian public is a fast track accession of Serbia to the EU together with international guarantees for the protection of the interests of Kosovo Serbs. Croatia provides a precedent in terms of such a fast-track approach. In our opinion, the fast track for Serbia is a sine qua non. The EU accession process is the only framework that gives Serbia real incentives if not to endorse then at least to consent to such a fundamental change in the status of Kosovo as independence represents.

1.3.2. Bosnia: From Bonn to Brussels

Since the signing of the Dayton Peace Agreement in December 1995, the international mission in Bosnia and Herzegovina has achieved some astonishing successes. It has disarmed roaming paramilitaries, reduced the size and influence of armies organised along ethnic lines, and overseen the restoration of freedom of movement across the country. The former military frontlines that divided the country into a patchwork of hostile ethnic enclaves have become largely invisible. In addition, Croatia and Serbia, ever more attracted by the prospect of European integration, have as a consequence ceased their attempts to subvert the domestic constitutional order over this period.

The effects of ethnic cleansing are being eroded through the restoration of property rights of the displaced, and the gradual reintegration of returnees has changed the environment across much of the country. More than 200,000 property claims for the repossession of houses and apartments of those who fled or were driven out during the conflict have been processed successfully. At the same time, Bosnia and Herzegovina is more internationally isolated today than it was five years ago. Together with Serbia and Montenegro, it is one of the last countries in Europe excluded from NATO's Partnership for Peace program, which, with members like Turkmenistan, Belarus and Tajikistan, does not traditionally enjoy a reputation of being an especially exclusive club. Bosnia and Herzegovina does not yet belong to the World Trade Organization, whose 147 members include Moldova and Angola. Even more depressingly, Bosnia has yet to open negotiations for a Stabilisation and Association Agreement. The only important European

organisation that Bosnia has been able to join is the Council of Europe. Yet in August 2004, the Parliamentary Assembly of the Council of Europe reviewed the quality of Bosnia's democracy and questioned "the extent to which the current role of the [High Representative] is compatible with membership of Bosnia and Herzegovina in the Council of Europe"[5].

The need for constitutional change is high on the political agenda. All agree that there are serious problems with the present system of federalism in Bosnia and Herzegovina. This is partly due to the absence of a coherent structure of regional government. It is also because of a tendency to see the federal system as a problem to be overcome, rather than as a promising model which allows ethnic communities to flourish side by side and facilitates healthy policy competition.

The present constitutional architecture is dysfunctional. What is important is a constitutional debate that accepts the need to facilitate and indeed drives forward a reform of the Bosnian constitutional system.

Along with the need for constitutional change, the main problem that Bosnia faces today is the transition from its current status as protectorate that is defined by the Bonn Powers to a sustainable self government guided by the process of EU accession.

The coercive authority of the High Representative (Bonn Powers) was originally developed in response to threats to the peace process. The international mission in Bosnia was designed for an unstable environment in the wake of armed conflict. When its intrusive powers to intervene in and overrule domestic institutions were developed in mid-1997, these were intended to head off threats to public order and attempts by the former warring parties to challenge the integrity of the state.

However, as the agenda of Bosnian politics has shifted to the very different issues of democratic consolidation and development, the powers and activities of the High Representative continue to dominate Bosnian politics. This has blocked the development of self-government which is a precondition to becoming an EU candidate state.

As long as the Bonn powers of the High Representative exist, they form the core of post-war Bosnia's unwritten constitution, and all political calculations are shaped by them.

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[5] Resolution 1384.
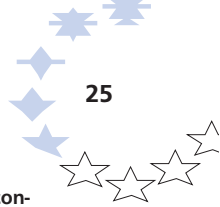
The talks in Bosnia convinced us that the OHR has outlived its usefulness. What Bosnia needs is an EU accession framework that will drive the constitutional debate in the country.

It does not need a new Dayton, but a framework that will permit genuine constitutional debate. The EU negotiation process can be this framework and the EU Negotiator can play the role of honest broker in the constitutional negotiations.

The Commission advocates the necessity of incremental change. Assuming that there will be no fundamental constitutional changes imposed by international decree, any process of constitutional development must necessarily begin with what is there at present. This means starting from the present reality of Bosnia's federal system of government. It also means acknowledging that constitutional change must take place in accordance with existing constitutional rules. State-building in Bosnia cannot be an open-ended process of centralisation and concentration of resources for basic constitutional and political reasons. What is essential, however, is a process of systematically clarifying responsibilities across all levels of government, and ensuring that (financial) resources are matched to these responsibilities.

The EU accession process will provide the requisite incentives for the strengthening of the state's federal structures and for the development of policy-making capacity.

1.3.3. Serbia and Montenegro: Functional Federation or Functional Separation

The constitutional charter of Serbia and Montenegro adopted on February 4, 2003 with the mediation of the EU reflects a painful compromise reached at a time of great uncertainty. The EU feared that independence for Montenegro would encourage Kosovo to declare its independence thus provoking a possible destabilisation of the whole region.

The State Union of Serbia and Montenegro is a loose one, with central functions largely limited to foreign policy. The two member republics maintain separate currencies, tax systems, and customs. In addition, according to the Charter, after a three-year period, either republic has the right to call a referendum on withdrawal from the union thereby unilaterally dissolving it.

Since the adoption of the constitution, the dynamics of federalist and anti-federalist sentiment in the two republics has been the subject of a

permanent if sometimes unenlightening debate. The survey commissioned by the International Commission on the Balkans demonstrates that support for independence is declining in Montenegro and that the Serbian elite is ever less inclined to pay the costs of this dysfunctional federation. At present, the ruling coalition in Montenegro is happy with the common state precisely because it is gridlocked while for the Serbian government the construct would only make sense were it to start functioning properly.

The EU's decision to adopt a dual-track approach with regard to the SAP for Serbia and Montenegro illustrates just how dysfunctional this federation has become. The State Union of Serbia and Montenegro is treated as one country with two separate accession processes.

In the view of the Commission, next spring's referendum should be used to identify each republic's preference: a functional federation or a functional separation. The Montenegrin government's policy of blocking the normal functioning of the Federation as a way to cause its disintegration should not be tolerated. It is up to the citizens of Serbia and Montenegro to decide on the future of their existing federation.

The Montenegrin government's policy of blocking the normal functioning of the Federation as a way to cause its disintegration should not be tolerated. It is up to the citizens of Serbia and Montenegro to decide on the future of their existing federation.

1.3.4 The Secret of Macedonia's Success

By rights Macedonia should have fallen apart by now. The survey commissioned by the International Commission on the Balkans indicates that in the eyes of its own citizens Macedonia is the most vulnerable place in the Balkans. A great majority of Macedonia's citizens is convinced that the crisis has not yet run its course *(figure 9)*. A staggering 76% expect new military conflicts there[6]. The social and economic situation is depressing.

And yet, Macedonia has survived all manner of threats, doggedly pursuing its goal of European integration. In contrast to several other territories, Macedonia was able to prevent a full-scale civil war through a process of negotiation between the parties and with the assistance of the EU and the United States. The former Albanian minority's insurgent leader, Ali Ahmeti, now heads one of the parties in the governing coalition while his Macedonian partner, Prime Minister Vlado Buckovski, was four years ago, at the time of burgeoning conflict, his resolute opponent when Minister of Defence. In February this year, however, Buckovski officially submitted to Brussels the answers to 4,000 questions that should help the European Commission form an opinion as to whether the country is ready to start accession talks with the Union.

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[6] Naturally, this figure represents only a snapshot of the critical situation around the referendum in November 2004.

So although in theory, Macedonia should not exist, it is actually a modest but significant success story. The country illustrates our thesis that a final and clear constitutional arrangement and the institutionalization of European perspectives are the two instruments that can work apparent miracles in the Balkans. The Ohrid Agreement was initially fiercely opposed by radical nationalist circles in Macedonia but the failure of the November 2004 referendum on the re-territorialisation of the country which was a *de facto* referendum on the Ohrid Agreement demonstrated that the majority of ethnic Albanians and ethnic Macedonians have now made their peace with the Ohrid Agreement which offers the best way of holding the country together.

The tragic death of President Trajkovski in February 2004 and the March events in Kosovo that year were litmus tests for the durability of the state and for the viability of the Ohrid process. Macedonian institutions and Macedonian society emerged stronger and with a greater legitimacy having met these challenges.

Macedonia's achievement in overcoming its crisis and its determination to apply for EU membership should have a powerful symbolic impact elsewhere in the region: it demonstrates how the solving of constitutional issues and a realistic, carefully-calibrated EU perspective has the capacity to transform Balkan societies.

At the same time the international community should not neglect the major problem facing Macedonia today. The country is in urgent need of economic growth and new jobs. The combination of cuts in the public administration and the appointment of ethnic Albanians to public sector jobs in accordance with the quotas agreed at Ohrid may lead to renewed tensions between the two communities if the unemployed are not absorbed elsewhere.

Macedonia's name is still disputed by Greece (an EU member state), along with the fact that the provisional authority in Kosovo refuses to recognise the demarcation of its border with Macedonia, are sources of instability in the republic. As elsewhere in the region, the state of political parties also gives cause for alarm. Macedonian politics have been subject to a process of criminalisation for many years and there is a pressing need to reverse this.

But despite all the risks and misgivings, Macedonia's progress since 2001 demonstrates that if the constitutional questions are resolved and if a tangible European perspective is on the table, then Balkan societies

But despite all the risks and misgivings, Macedonia's progress since 2001 demonstrates that if the constitutional questions are resolved and if a tangible European perspective is on the table, then Balkan societies have the potential to get out of the cycle of instability and uncertainty.

have the potential to get out of the cycle of instability and uncertainty. It is not by accident that Macedonia is a success in Europe's drive to promote multi-ethnic solutions in the region.

2. THE INTEGRATION CHALLENGE

The EU's decision to open negotiations with Turkey and Croatia and the accession of Bulgaria and Romania in 2007 mean that the remaining Balkan countries are the only missing pieces from those states that have been assured membership of the European Union. In contrast to the others, however, the Balkans contain the possibility of a genuine security threat in the next few years. Therefore there is a real imperative now to address the issue of integration for this region. Such a strategy would be significant not just practically but symbolically as well: for so long dismissed as Europe's powder keg, if the Balkans were successfully absorbed into the EU, it would finally banish the possibility of a revival of the type of conflict which so plagued the continent's 19th and 20th century history. Defusing the powder keg would be a landmark achievement for Europe.

In security, economic and political terms the Balkans are faced with a clear choice: to be part of the European Union or to be part of a marginalised ghetto.

The success of EU enlargement is one of the few unambiguously positive achievements of the post-Cold War world, indeed nothing short of a political miracle. In less than a decade, the prospect of EU membership succeeded in consolidating democratic and market reforms throughout Central and Eastern Europe. The accession process profoundly transformed societies as diverse as the Polish and the Bulgarian, the Romanian and the Slovenian. There is now a widespread consensus that it can do the same for the Balkans. There is, however, one critical difference this time round - the problem of weak states. The EU lacks experience in the integration of weak states and territories like Kosovo. So this next round of enlargement is clearly no longer just a matter of business as usual.

There is ample evidence suggesting that integration helps to stabilize a region. But there is also evidence indicating that a partial integration has the opposite effect - it can destabilize an area.

There is ample evidence suggesting that integration helps to stabilise a region. But there is also evidence indicating that a partial integration has the opposite effect - it can destabilise an area. As Bulgaria and Romania (followed presumably by Croatia) move on, there is the real danger that Serbia, Albania, Montenegro, Kosovo and Bosnia will cluster together to create a black hole on Europe's periphery - in fact that process is already underway. A visa regime that builds walls between

the Western Balkans on the one hand and accession states such as Bulgaria, Romania and Croatia on the other, acts as a strong disincentive to cooperation, leading to a further deterioration in the social psychology of an already depressed region.

2.1 Building Member States

In 1991 the people of the former Yugoslavia embarked on their march to independence, employing such ancestral European state-building practices as waging war and ethnic cleansing in the process. They could reasonably argue that by tradition this was part and parcel of Europeanisation - everyone else had their own nation states, so why couldn't the peoples of the former Yugoslavia? But in the eyes of the new EU-Europe these practices were, of course, abhorrent and the embodiment of a very un-European Balkanisation. Politically, the Yugoslav succession states and the EU were talking at cross-purposes and this turned out to be a major challenge for nation building in the Balkans. The Balkans are not simply populated by weak states and protectorates, they also suffer the legacy of failed nation-building projects. Building functional member states while integrating them into the EU is Brussels unique challenge in the Balkans. In our view, the EU should adopt a member-state building strategy that rests on three pillars:

- Developing functioning state administrations using the instruments of the accession process, also during the Europe Agreement stage;
- Creating a common economic space in the region;
- Constituency-building through an improvement in the quality of political representation and 'smart visa' policies.

2.1.1. Member-State Building as Institution Building

The member-state building strategy that is advocated here is quite distinct from the mechanisms deployed by the international community in other parts of the world and from the EU accession process as typified by the last wave of enlargement. The objective is not simply to build stable, legitimate states whose own citizens will seek to strengthen and not destroy them - rather it is the establishment of a state that the EU can accept as a full member with absolute confidence.

At present the negotiations and membership talks with the EU focus on the terms under which applicants will adopt, implement and enforce the *acquis* (i.e. the detailed laws and rules adopted on the basis of the EU's founding treaties), and, notably, the granting of possible transitional arrangements which are limited in scope and duration.

The experience of the most recent round of enlargement has made it clear that the biggest room for improvement lies in the process of implementation of the rules that make up the *acquis*. At the heart of the member state building strategy is the need to move on quickly from the formal adoption of legislation to the development of the capacity to implement it. The development of this policy capacity will be absolutely critical for the prospects of weak Balkan states in their aspiration to join the EU. The negotiating framework needs to be enhanced so as to include capacity building as its principal and explicit objective. This should take priority both during the pre-accession Europe Agreement phase and during negotiations themselves.

The transformation of the EU accession process into one of member-state building implies that the very negotiating process be fine-tuned with a view to encouraging institution building in the applicant countries.

The transformation of the EU accession process into one of member-state building implies that the very negotiating process be fine-tuned with a view to encouraging institution building in the applicant countries. EU accession involves the creation of new institutions and the strengthening of existing ones on a large scale in each candidate country. To do this, the EU has developed a 'screening' mechanism, effectively taking an X-ray of the state administration. This then results in the publication of hard-hitting annual progress reports that use the acquis as a benchmark, and National Development Plans which aim to buttress public investment strategies. It also involves substantial pre-accession assistance for rural development, and for the institution building needed to develop absorption capacity.

Of course, there is no single model EU member state and this presents a serious obstacle. The EU boasts a variety of practices and constitutional arrangements in the fields of justice or tax administration. This makes Brussels unwilling to recommend specific institutional solutions to EU candidate countries and so the EU has become a reluctant nation-builder. But in the case of the Balkans, the European Commission must assume the responsibility for some of the institutional choices that the applicants are forced to make. The introduction of the "benchmark" concept in the negotiating framework for membership talks with Croatia is undoubtedly a step in the right direction.

The most recent round of enlargement made it clear that institutional issues, administrative capacity issues and judiciary issues turned out to be the most challenging, and yet they were left until last. Our Commission suggests that instead of starting with the White Book on the Single Market, the countries of the Western Balkans would be much better served by a White Book on Freedom, Security and Justice Issues. In practical terms it means that assisting the countries from the region in the field of justice and home affairs will be the overriding priority for

the accession process and that the state of the rule of law will be the major criterion in evaluating the progress of Balkan countries on their journey to the EU.

2.1.2. The Regional Market

The establishment of a common economic space on the territory of the Western Balkans is the second pillar of our strategy. Before the opening of accession negotiations, free trade in the region, leading to a customs union with the EU, should be complete. This should be supported by the facilitating infrastructure. The common economic space should compensate for the costs related to the emergence of new, small and economically unviable states in the region.

Talk of economic integration has been fashionable in the region for some time but it has yet to develop beyond mere words. There are concrete fears and obvious short term costs that have blocked the idea ever since it was first mooted. More honestly, the Balkan countries are only likely to buy into the idea if they believe that it will accelerate their integration into the EU. If they suspect that regional integration is really a substitute for EU membership, it will be a non-starter.

The future EU members Bulgaria, Romania and Croatia can play a decisive role in making regional economic integration more attractive to the rest of the Balkans.

Our hypothesis is that countries in the region will open to each other only within a broader framework of opening towards the EU. So, there are four levels of regional integration that are critical for improving the growth potential of the region.

Our hypothesis is that countries in the region will open to each other only within a broader framework of opening towards the EU.

- Completion of free trade area in the region, leading to customs union with the EU (In the case of Turkey, customs union with the EU has proven its potential as an instrument for the Europeanisation of candidate countries.)
- Regional infrastructures, both physical and institutional, that facilitate trade and capital flows.
- Legal arrangements between countries that facilitate the handling of private or public claims against parties in other countries.
- Labour market and travel policies within the region that support regional economic integration. Differential speeds of EU accession should not impede this process.

Having said all this, however, the research from recent years suggests that while regional cooperation may be useful in promoting growth, impediments to growth in most countries of the region remain fixed firmly at the national level.

2.2. Member-State Building as a Constituency Building

A functioning state is not only an administrative entity, it is also a social phenomenon. The growing gap between the state and key social constituencies is regarded by the Commission as a critical risk for the success of the transformative politics of the EU. Reforms to public administration and signs of positive changes in the economy are not sufficient of themselves to bridge this gap. Political mobilisation and revitalisation of the political process is essential here. What is needed is a new generation of policies that focus on democratisation and on the quality of political representation which can consolidate and strengthen pro-reform and pro-European forces in the region.

2.2.1. Minority Rights and the Culture of Civil Society

There is an apparent tension between the rhetoric of the international community, which emphasises the desirability of multi-ethnicity, and its practice, which tends to place the emphasis on accommodating various group interests in the interests of security. In the past decade, the general legal and political environment for the harmonious development of interethnic relations has improved substantially in most parts of the Balkans. However, the reality of interethnic relations and minority rights varies greatly. War and ethnic cleansing have resulted in significant demographic shifts. While all countries of the Balkans still contain multiethnic areas, most countries are now nation states with a majority amounting to 80 % or more of the population. Albania, Croatia, Serbia (without Kosovo) and Kosovo (if considered a separate entity) have strong majorities where most minorities live in a relatively compact part of the country and account for 10 to 20% of the population. We can talk perhaps about multiethnic regions but no longer so much about multiethnic countries. Only Bosnia and Herzegovina, Macedonia and Montenegro are countries that are multiethnic as a whole but with no or no strong dominance by one community[7].

The results of the survey done for the International Commission on the Balkans powerfully confirm the thesis that interethnic relations are much better on the municipal level than on the level of the country as a whole. It is also important that with the exception of the Albanians in Kosovo and

What is needed is a new generation of policies that focus on democratisation and on the quality of political representation which can consolidate and strengthen pro-reform and pro-European forces in the region.

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[7] Florian Bieber, *Minority Rights in Practice in South Eastern Europe*, Discussion Paper, King Baudouin Foundation, 30 September, 2004.

Albania, no other community favours living in an ethnically pure state.

At the same time, we have to recognise that the newly fashionable pol-
icy of decentralisation increases the process of ethnic separation in cer-
tain parts of the region. In Macedonia in particular we can observe the
trend towards a consolidation of ethnically homogeneous regions,
resulting largely from the 2001 conflict. The argument for decentralisa-
tion is clear: with more competences exercised on a local level, minori-
ties are able to govern themselves to a larger degree, which in turn
should increase their loyalty to the state. The reality of decentralisation
and local interethnic relations is, however, far from being that straight-
forward. In many cases across the region, from disruptions of the return
of refugees to discrimination against Roma, local governments are
often the most serious violators of human rights. They are less suscep-
tible to international pressure and their actions could become a source
of tension and even destabilisation.

The international community is in need of a policy that will reconcile local
self-governance with the principles of multi-ethnicity. At present, the mon-
itoring of minority rights is focused at national level and on national minori-
ties. This has to change. In the view of the Commission what is important
is that minorities should be recognised not only at national but also at
municipal levels. The international community, for example, must monitor
the situation of the Slav Macedonian minority in Tetovo and the Albanian
minority in North Mitrovica as strictly as the situation of the Albanian
minority in the Republic of Macedonia or the Serbian minority in Kosovo.

2.2.2. Smart Visas, Smart Borders

Among the most discouraging findings of the Commission is that the
European generation of the Balkans, young men and women under 30
who share the values of Europe most keenly and who vote for pro-
European parties most regularly, are those who experience the great-
est difficulties in visiting the EU. More than 70% of students in Serbia
have never travelled abroad. The Commission believes that this should
change as a matter of urgency. This is most urgent for the youth of the
countries which have been most isolated from Europe: Serbia and
Montenegro, Bosnia, Albania.

Bulgaria and Romania have demonstrated that freedom of movement
within the EU is the strongest signal that the EU can send both to the pub-
lic and to governments in the Balkans. A smart visa policy of the EU that

**In the view of the
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opens its borders to Balkan youth and Balkan businesses while closing them for criminals should be at the very centre of policies that will mobilise popular support for building EU member states in the Balkans. The Schengen wall is the last wall that separates the Balkans from Europe. Knowing how sensitive this issue is for the EU member states, the Commission advocates a two-track approach.

The Amsterdam Treaty integrated EU visa policy into the legal framework of the Union. On the basis of this Treaty, the European Council adopted in 2001 a Regulation (EEC/539/2001) that includes Albania, Bosnia and Herzegovina, Macedonia and Serbia and Montenegro in the list of third countries whose nationals are subject to visa requirements. As long as the four Western Balkan countries remain on this list, any alleviations of the visa requirement system can be negotiated only on a bilateral basis.

On the level of the EU, the Balkan Commission proposes a Europeanisation of the visa issue. As a first step, the EU should announce that the four Western Balkan countries will be exempt from visa requirements once they have met specific conditions. This was promised to Romania back in 2001 and visas were effectively lifted at a later stage once the European Commission was satisfied that its concerns had been addressed. Such a policy sets tangible targets for the governments to work towards and to engage ordinary citizens in the reform process.

A smart visa policy suggests that member states should adopt preferential regimes for certain social groups from the Balkans. This policy was developed as a disincentive when Milosevic's collaborators were put on the EU black visa list. It is time to use the preferential treatment as a positive incentive.

> In the spirit of supporting the European generation of the Balkans, our Commission suggests that member states establish a Balkan Student Visa Programme for 150,000 full-time students in Serbia and Montenegro, Bosnia and Herzegovina, Macedonia, and Albania by June 2005.

In the spirit of supporting the European generation of the Balkans, our Commission suggests that member states establish a Balkan Student Visa Programme for 150,000 full-time students in Serbia and Montenegro, Bosnia and Herzegovina, Macedonia, and Albania by June 2005. Representatives of the Balkan business communities should similarly benefit from a smart visa policy.

2.2.3. The Hague Dilemma

As we approach the 10th anniversary of Srebrenica, the questions of justice and reconciliation should be higher than ever on the Balkan agenda of Europe. It is the proper time to evaluate the impact of International Criminal Tribunal for the former Yugoslavia.

The International Criminal Tribunal for the former Yugoslavia (ICTY) was established by Security Council resolution 827. This resolution was passed on 25 May 1993 against the background of grave violations of international humanitarian law that had been committed on the territory of the former Yugoslavia since 1991, and as a response to the threat to international peace and security posed by these violations. There are four central tenets to the ICTY's mission: to bring to justice persons allegedly responsible for serious violations of international humanitarian law; to render justice to the victims; to deter further crimes; and to contribute to the restoration of peace by promoting reconciliation in the former Yugoslavia.

The compliance of governments in the region with the ICTY is central to the development of good relations between the international community and the Balkans. The EU has defined compliance with ICTY as a threshold conditionality when it comes to the process of integration. The same holds for the Partnership for Peace and NATO. In addition, the EU regards the success of the ICTY as critical in its struggle to confer legitimacy on the International Criminal Court.

The Commission suggests full cooperation should remain mandatory for the opening of accession negotiations to the EU and NATO. But the existing levels of good cooperation with ICTY are satisfactory when it comes to joining PfP and to signing Europe Agreements.

So far, the Tribunal has played the decisive role in bringing the war criminals to justice, but it has failed to communicate its mission to the people in the region. A number of surveys made in the last year demonstrate that the Tribunal is distrusted by local people and that nationalist politicians like the Radicals in Serbia have exploited this resentment in order to fuel anti-European and anti-democratic sentiments.

In our view, the challenge facing the international community at present is how to translate the post-war conditionality of the ICTY which is charged with examining concrete crimes into one that looks forward and concentrates on the strengthening of European values across Balkan societies. ICTY threshold conditionality should move away from its focus on specific individuals to concentrate instead on the willingness of governments and societies to examine the causes and consequences of their troubled past. The focus should be much more on the ability of the domestic judicial system to deal with war-related crimes and on the effectiveness of the educational system to promote tolerance and reconciliation, than on "delivering" certain individuals.

What should be put on trial is the readiness of all social institutions from governments to churches and the history curriculum to deal with

The Commission suggests full cooperation should remain mandatory for the opening of accession negotiations to the EU and NATO. But the existing levels of good cooperation with ICTY are satisfactory when it comes to joining PfP and to signing Europe Agreements.

the crimes of the past. The success of this policy can obviously only be measured over an extended period of time. Coming to terms with the past is a long term problem for any society. That it is why compliance with ICTY should now be understood more broadly than simply the need to bring certain individuals to justice. ICTY should concentrate on its fourth major goal - to contribute to peace by promoting reconciliation on the territory of the former Yugoslavia.

III. CONCLUSIONS

The Commission is convinced that current status quo in the Balkans has outlived its usefulness. There is an urgent need to solve the extant status and constitutional issues in the Balkans and to move the region as a whole from the stage of protectorates and weak states to the stage of EU accession.

The Commission advocates the convening of an EU-Balkans Summit in the autumn of 2006. The Summit should present a 'Balkan audit' to demonstrate how much money EU countries are spending on the Balkans. It should put forward a consolidated 'Balkan Budget' that should in the future become an integral part of the Financial Perspectives of the Union. The EU would only convene the Summit after a resolution of all the status and constitutional issues that are currently open. At this Summit each Balkan country will receive its EU road map.

In the case of Kosovo, the Commission suggests a four-stage transition in the evolution of Kosovo's sovereignty. This should evolve from the status quo as set out in Resolution 1244 to "independence without full sovereignty" with reserved powers for the international community in

the fields of human rights and minority protection; onto "guided sovereignty" that Kosovo will enjoy while negotiating with EU; before finally arriving at "shared sovereignty" inside the EU. In the view of the Commission, the powers of UNMIK should be transferred to the EU.

In the case of Bosnia, after ten years since the Dayton Accords, the Commission envisions passing from the Office of High Representative to an EU Accession Negotiator. This implies moving Bosnia from "Bonn to Brussels" whereby the EU Negotiator will replace the OHR. Bosnia should join PfP as soon as possible.

In the case of Serbia and Montenegro, the Commission judges the current Federation of Serbia and Montenegro to be non-functional. The citizens of Serbia and Montenegro should decide by the autumn of the year 2006 whether to opt for a functional federation or functional separation. In the view of the Commission, the democratic future of Serbia is key to the progress in the region. The Commission therefore advocates that Serbia and Montenegro be extended an invitation to PfP immediately and that Serbia and Montenegro as one or as two countries should start negotiations or be offered a Europe Agreement at the Balkan Summit in the autumn of 2006.

The Commission regards the success of the Ohrid process in Macedonia as a model for other parts of the Balkans. Furthermore, it urges the European Commission to use the suggested Balkan Summit of the EU to start accession talks with Macedonia by the autumn of 2006 at the latest. In the summer of 2006, Macedonia should receive an invitation to join NATO. In the view of the International Commission on the Balkans, the dispute over the name of the Republic of Macedonia and the demarcation of the border with Kosovo are sources of potential instability in the republic. The international community should concentrate on resolving these two issues.

The Commission regards the decision of the EU to start negotiations with Croatia and the prospect of Croatian membership as central to the integration of the region as a whole into the EU. The Commission also envisions Croatia being invited to join NATO in the summer of 2006.

The Commission highly estimates Albania's contribution to the general stability of the region and thinks that Albania should be invited to join NATO in the summer of 2006 and be offered negotiations or a Europe Agreement by the autumn of that year thereby triggering the process of member-state building in the country.

The Commission urges the US government to play a more active role in the region. What the Balkans need most is Washington's political attention to the problems of the region. The Commission is convinced that only co-ordinated EU-US policies can help the region to get on, get in and catch up with the rest of Europe.

In the spirit of supporting the European generation of the Balkans, our Commission suggests that member states establish a Balkan Student Visa Programme for 150,000 full-time students in Serbia and Montenegro, Bosnia and Herzegovina, Macedonia, and Albania by June 2005.

After the success in drawing Romania, Bulgaria and possibly Croatia into the European Union, the logic for a further enlargement is compelling: without the Balkans in the EU, the process of unification will remain incomplete. Alternatively, the EU runs a serious risk of allowing a black hole to emerge on the European periphery that could inflict considerable harm on the European project.

2014 is the year and Sarajevo is the place where the European Union can proudly announce the arrival of the European century.

ANNEX

table 1　　　　　　　　　　　　**GDP per capita in EUR**

	1999	2000	2001	2002	2003
Bosnia	1234	1359	1475	1556	1611
Albania	953	1174	1484	1521	1709
Serbia-Mont	1950	3106	1581	1874	1949
Macedonia	1709	1921	1887	1981	2041
Bulgaria	1481	1674	1920	2101	2249
Romania	1491	1795	2002	2221	2316
Croatia	4102	4502	4998	5451	5747

Source: WIIW Balkan Observatory

table 2　　　　　　　　　　　**Foreign Direct Investment**
(Net FDI inflow, mln EUR)

	1999	2000	2001	2002	2003
Macedonia	30,4	190,1	492,2	82,5	83,5
Albania	39,0	155,0	232,0	143,0	158,0
Bosnia	165,9	158,6	132,8	281,8	337,6
Serbia-Mont	105,0	55,0	186,0	502,0	1197,0
Bulgaria	758,7	1099,7	892,6	951,1	1573,0
Romania	965,0	1161,0	1312,0	1194,0	1587,0
Croatia	1333,0	1177,0	1567,0	627,0	1688,0

Source: WIIW Balkan Observatory

KEY FINDINGS OF THE PUBLIC OPINION SURVEY[8]

Overall Evaluation
"How would you evaluate the situation in our country in general?"

fig. 1

				Mean Score
Kosovo	28%		9%	4.6
Albania	28%		6%	4.8
Montenegro	59%		5%	3.2
Macedonia	64%		3%	3.1
Serbia	71%		1%	2.7
Bosnia & Herzegovina	74%		1%	2.5

Excellent / Very Good (8+9+10)

Bad (1+2+3)
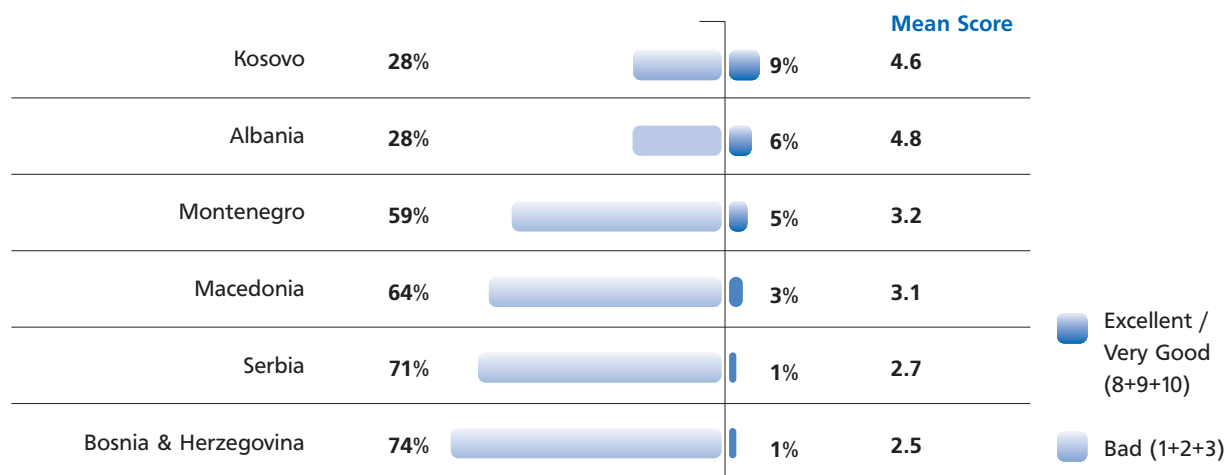
*10-point scale is used, where 10 means "Excellent/very good", and 1 - "Bad"

fig. 2

Trust in Government
"How would you evaluate the Government in our country at present?"
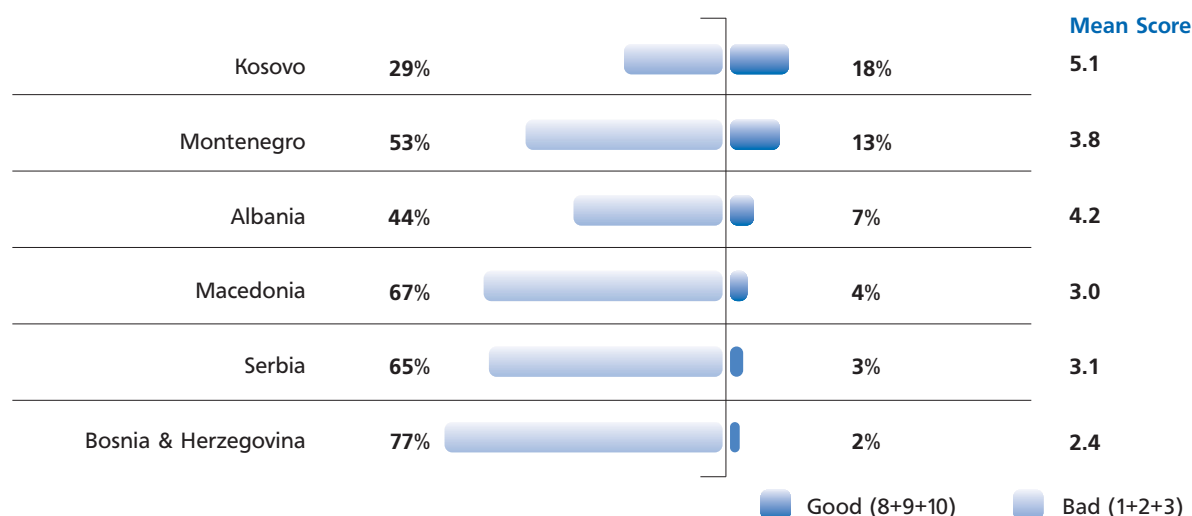
				Mean Score
Kosovo	29%		18%	5.1
Montenegro	53%		13%	3.8
Albania	44%		7%	4.2
Macedonia	67%		4%	3.0
Serbia	65%		3%	3.1
Bosnia & Herzegovina	77%		2%	2.4

Good (8+9+10)   Bad (1+2+3)

*10-point scale is used, where 10 means "Good", and 1 - "Bad"

fig. 3

Trust in opposition
"How would you evaluate the opposition in our country at present?"

Mean Score

Kosovo	26%	13%	4.8
Montenegro	64%	5%	3.1
Albania	44%	9%	4.1
Macedonia	72%	3%	2.8
Serbia	58%	8%	3.5
Bosnia & Herzegovina	71%	3%	2.8

● Rather Agree   ● Rather Disagree
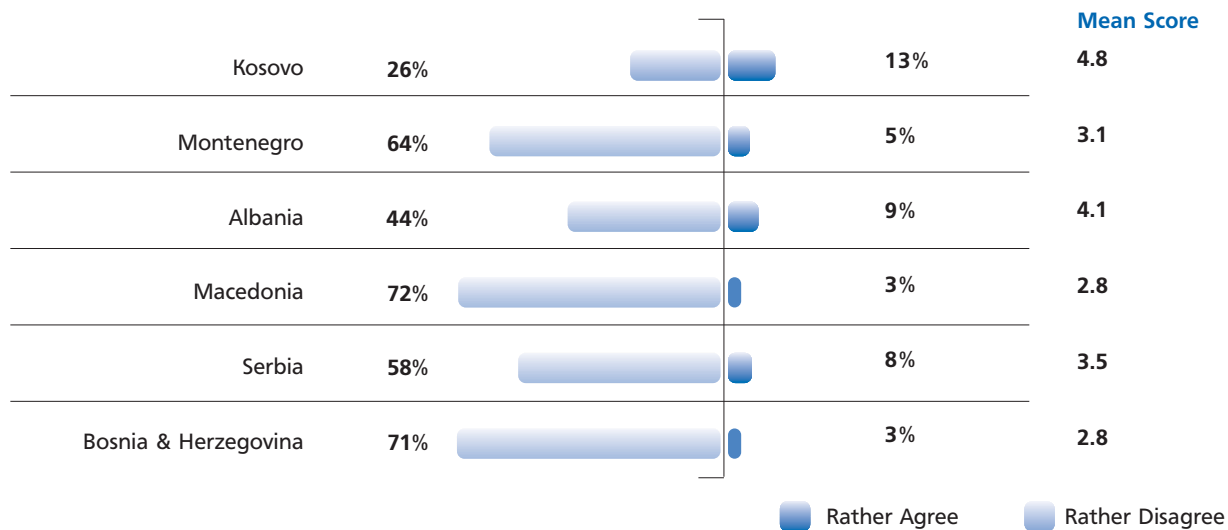
*10-point scale is used, where 10 means "Good", and 1 - "Bad"

fig. 4

Development Prospects (Optimism / Pesimism)
"In your opinion where is our country heading?"
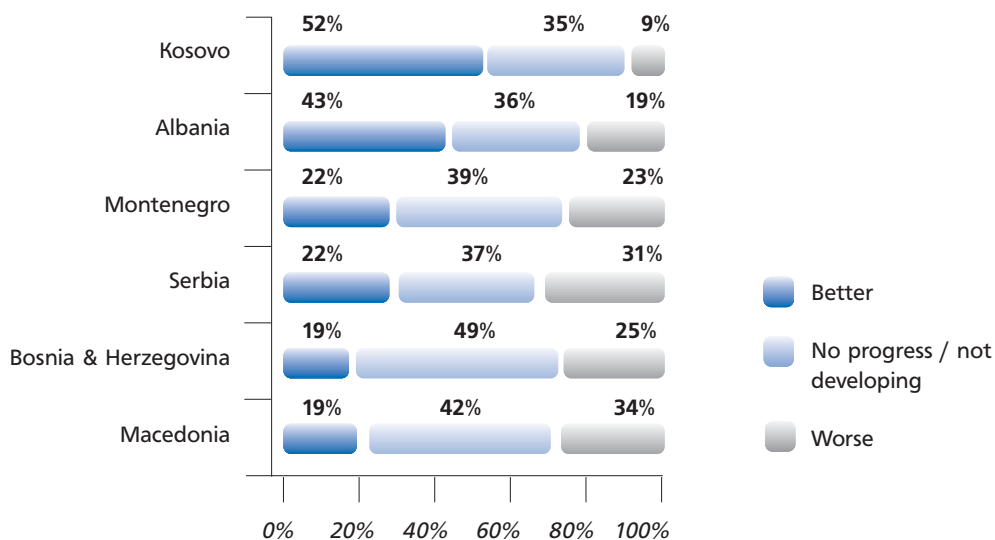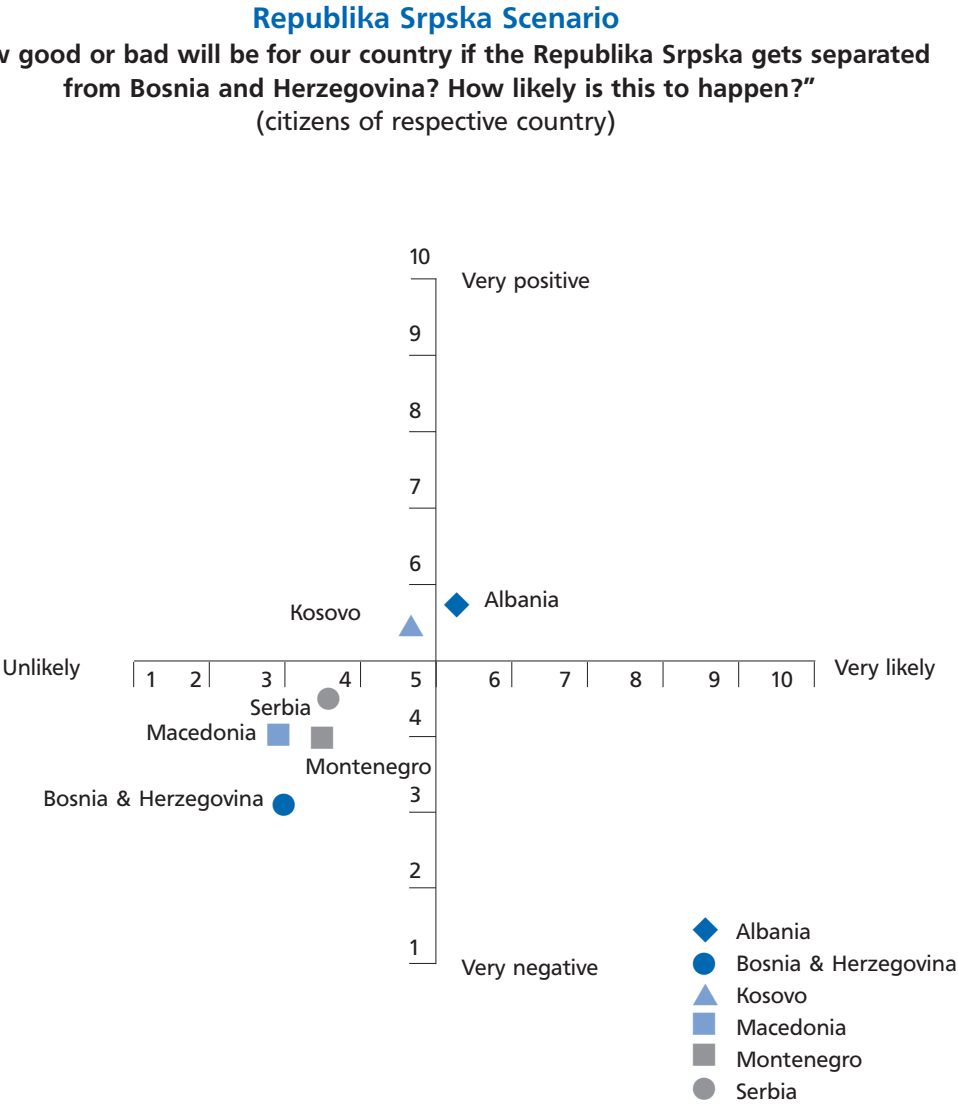
	Better	No progress / not developing	Worse
Kosovo	52%	35%	9%
Albania	43%	36%	19%
Montenegro	22%	39%	23%
Serbia	22%	37%	31%
Bosnia & Herzegovina	19%	49%	25%
Macedonia	19%	42%	34%

0%   20%   40%   60%   80%   100%

● Better

● No progress / not developing

● Worse

fig. 5

Republika Srpska Scenario
"How good or bad will be for our country if the Republika Srpska gets separated from Bosnia and Herzegovina? How likely is this to happen?"
(citizens of respective country)

10-point scale is used, where 10 means "Excellent/very good", and 1 - "Bad"
**10-point scale is used, where 10 means "Very likely / inevitable", and 1 - "Unlikely"*

fig. 6

Albania and Kosovo Scenario
"Do you think it is good or bad for our country if Albania and Kosovo unite in one country? How likely is this to happen?"
(citizens of respective country)
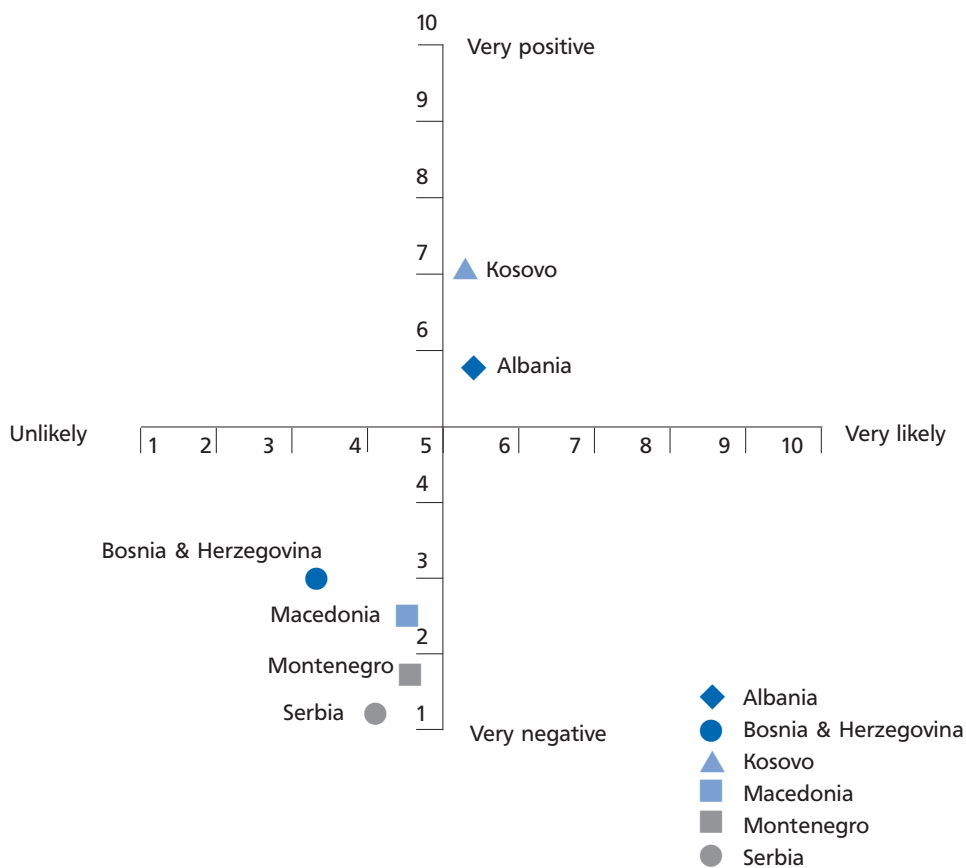
*10-point scale is used, where 10 means "Excellent/very good", and 1 - "Bad"
**10-point scale is used, where 10 means "Very likely / inevitable", and 1 - "Unlikely"

fig. 7

Macedonia Scenario

**"Would it be good or bad for our country if Macedonia is separated into
Albanian and Slavic parts? How likely is this to happen, in your view? "**
(citizens of respective country)

10-point scale is used, where 10 means "Excellent/very good", and 1 - "Bad"
**10-point scale is used, where 10 means "Very likely / inevitable", and 1 - "Unlikely"*

fig. 8

All countries' evaluation of each hypothetical scenario
"How good or bad for your country will be ... ?
How likely do you think is for this to happen?"

Scenario 1: Albania united with Kosovo

Scenario 2: Serbia and Montenegro split

Scenario 3: Republica Srpska set apart from Bosnia & Herzegovina

Scenario 4: Macedonia splits into two parts

*10-point scale is used, where 10 means "Excellent/very good", and 1 - "Bad"
**10-point scale is used, where 10 means "Very likely / inevitable", and 1 - "Unlikely"

fig. 9   **"There are still military conflicts to come in my country"**

Country	Rather Disagree	Rather Agree
Macedonia	19%	76%
Serbia	55%	29%
Bosnia & Herzegovina	60%	28%
Kosovo	76%	16%
Montenegro	72%	15%
Albania	80%	13%

Rather Agree   Rather Disagree
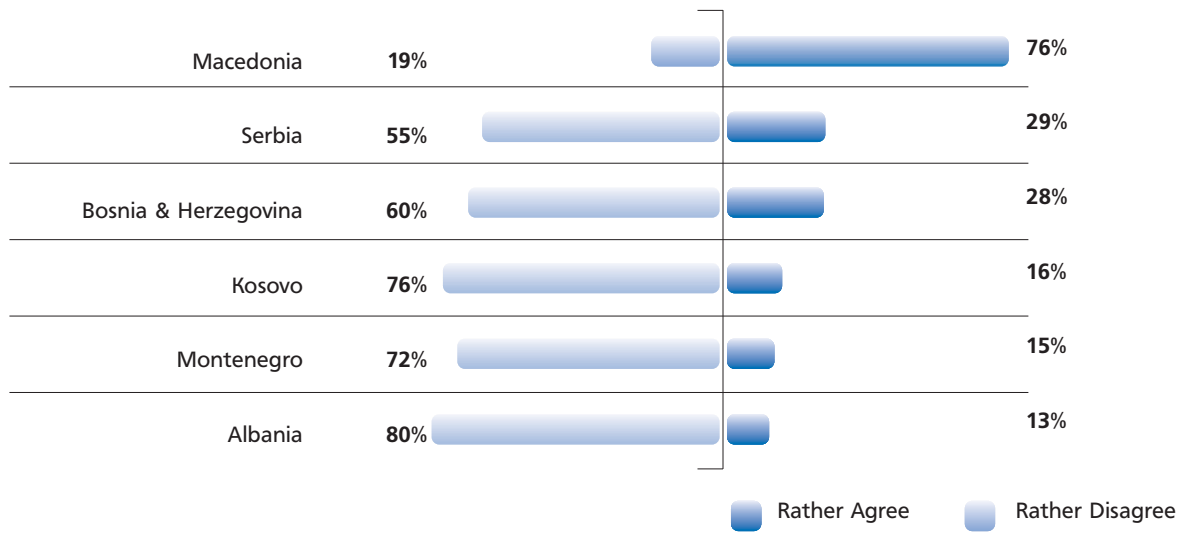
fig. 10   **Status Quo**

"Do you agree/disagree with the following statement: "There have been wars in the Balkans. It is best that everything stays as it is now and in the future. Otherwise it will just become worse"?"

Country	Rather Disagree	Rather Agree
Macedonia	28%	63%
Montenegro	23%	60%
Serbia	23%	59%
Bosnia & Herzegovina	30%	54%
Albania	43%	49%
Kosovo	43%	43%

Rather Agree   Rather Disagree
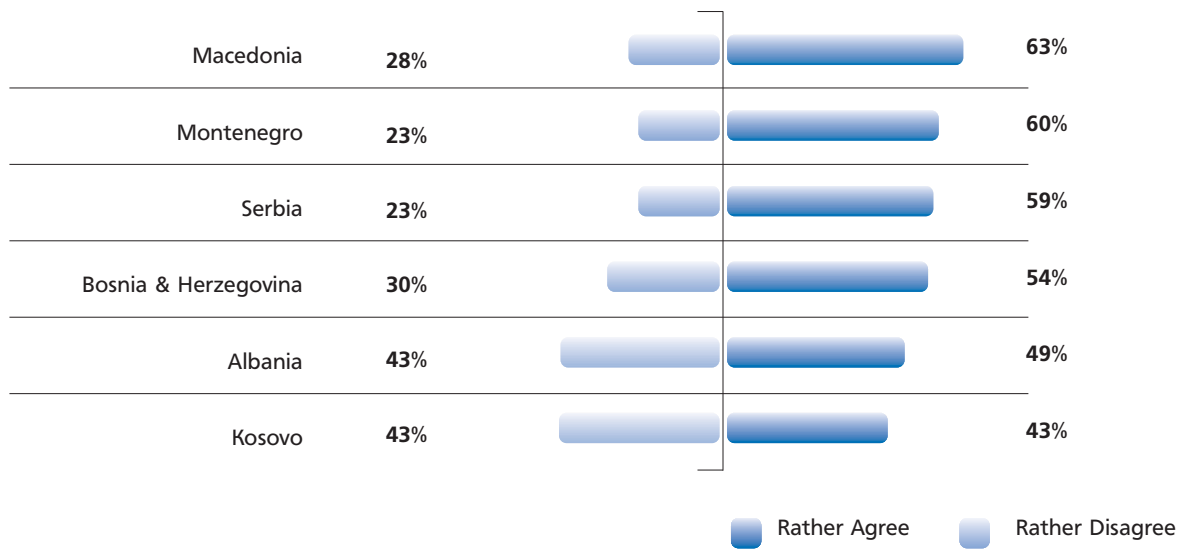
fig. 11

Changes of Borders

"Do you agree/disagree with the following statement: "Even if not desirable, changes of borders of the Balkan countries may be necessary"?"

Country	Rather Agree	Rather Disagree
Kosovo	25%	58%
Albania	31%	58%
Serbia	36%	36%
Bosnia & Herzegovina	45%	36%
Macedonia	46%	32%
Montenegro	39%	24%

■ Rather Agree   ■ Rather Disagree
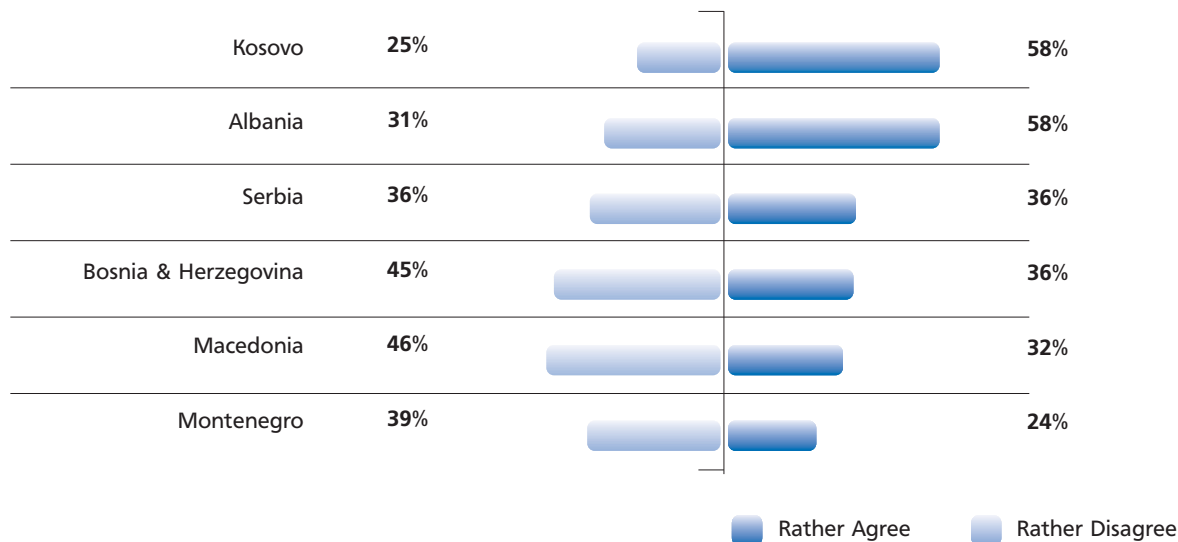
fig. 12

Multinational Countries

"Do you agree/disagree with the following statement: "Nationalities in our country can live together in one state, only if each nationality is in a separate region"?"

Country	Rather Agree	Rather Disagree
Kosovo	56%	31%
Albania	60%	25%
Serbia	62%	22%
Bosnia & Herzegovina	71%	17%
Macedonia	75%	15%
Montenegro	69%	12%

■ Rather Agree   ■ Rather Disagree

fig. 13

Importance of the Nation

			Mean Score
Albania	89%	8% 2%	9.3
Kosovo	88%	8% 3%	9.3
Macedonia	65%	28% 7%	7.8
Montenegro	61%	25% 13%	7.6
Bosnia & Herzegovina	51%	26% 21%	6.8
Serbia	50%	30% 17%	7.0

0%   20%   40%   60%   80%   100%

Nation is important to me (8+9+10)

Neither yes, nor not (4+5+6+7)

Nation is not important to me (1+2+3)

*10-point scale is used, where 10 means "The nation is very important to me" and 1, "The nation not important to me at all."

fig. 14

"My country is being injured by other countries. We have to seek justice, if necessary, through power and the army"

Kosovo	36%		55%
Macedonia	68%		24%
Bosnia & Herzegovina	66%		21%
Albania	74%		19%
Serbia	70%		18%
Montenegro	78%		8%

Rather Agree   Rather Disagree
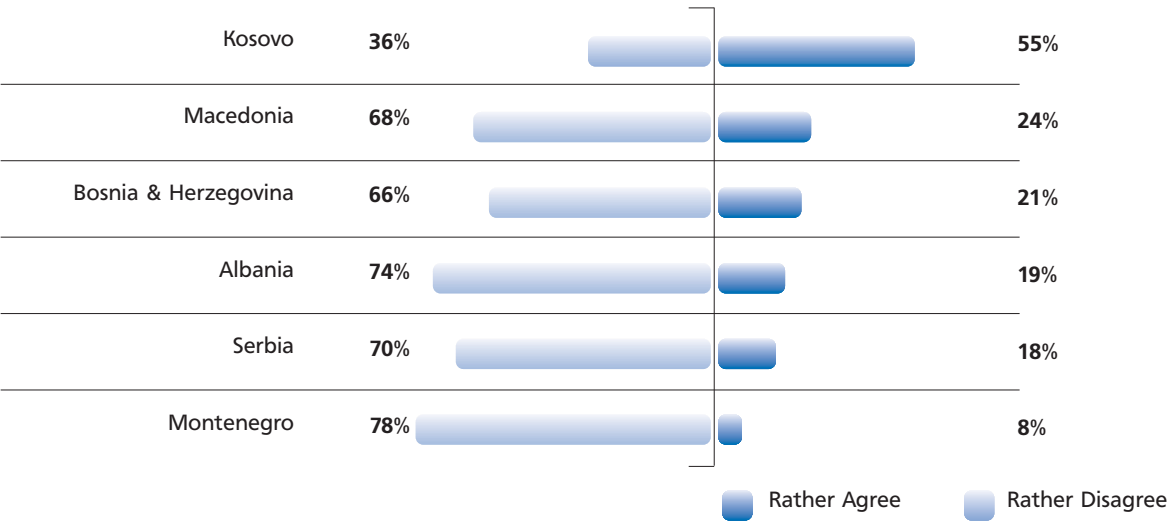
fig. 15

"The peoples of former Yugoslavia will never live in peace together again"

Country	Rather Agree	Rather Disagree
Kosovo	34%	55%
Albania	45%	38%
Serbia	53%	32%
Bosnia & Herzegovina	58%	29%
Macedonia	60%	27%
Montenegro	65%	19%

■ Rather Agree   ■ Rather Disagree
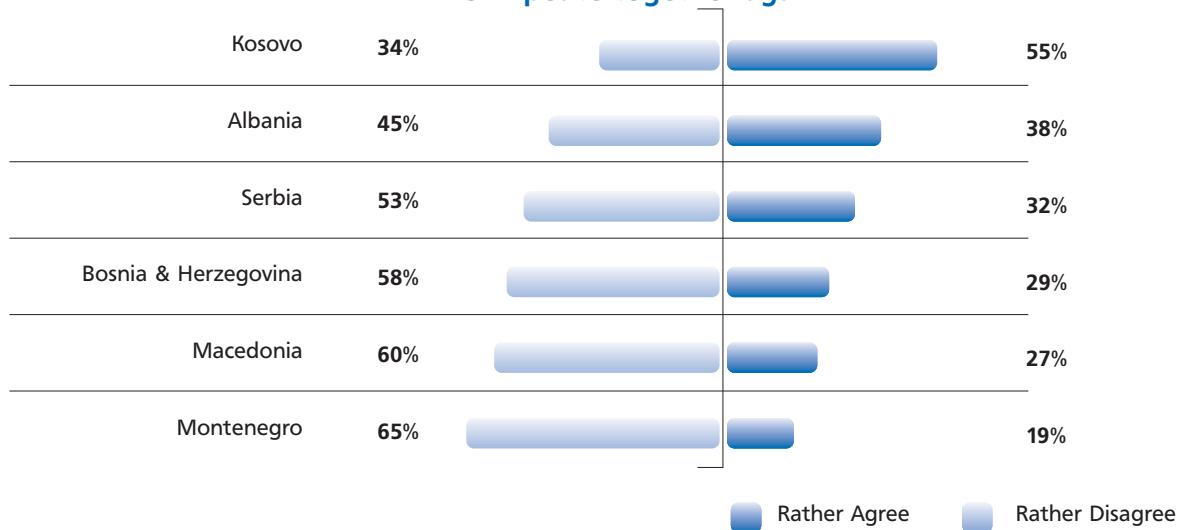
fig. 16

EU Integration
"How good or bad for our country will it be if the EU takes steps towards / makes its objective the accession of .... to the EU?"

	Excellent / very good (8+9+10)	Neutral (4+5+6+7)	Bad (1+2+3)	Mean Score
Bosnia & Herzegovina	51%	34%	9%	7.3
Albania	50%	21%	22%	6.8
Montenegro	47%	33%	15%	6.9
Kosovo	47%	19%	28%	6.4
Serbia	45%	31%	20%	6.6

0%   20%   40%   60%   80%   100%

■ Excellent / very good (8+9+10)
■ Neutral (4+5+6+7)
■ Bad (1+2+3)

*10-point scale is used, where 10 means "Excellent/very good", and 1 - "Bad"

fig. 17

EU Integration: Expectations

**"How likely is that in the next 5 years the EU initiates a procedure for
the accession of ... to the EU?"**

Mean Score

Albania	35% ... 25%	5.1
Bosnia & Herzegovina	29% ... 23%	5.2
Montenegro	33% ... 21%	5.0
Kosovo	44% ... 21%	4.4
Serbia	39% ... 20%	4.7
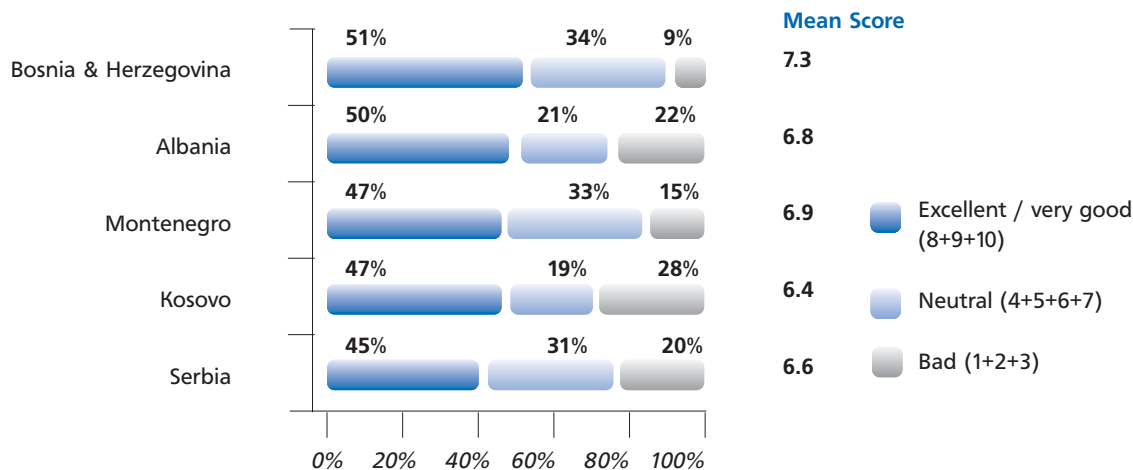
■ Very likely / Inevitable (8+9+10)

■ Unlikely (1+2+3)

10-point scale is used, where 10 means "Very likely / inevitable", and 1 - "Unlikely"

fig. 18

EU Integration: Evaluation
**"How good or bad for our country will it be if the EU takes steps towards / makes its
objective the accession of ... to the EU?
"How likely is it in the next 5 years that the EU will initiate a procedure
for the accession of ... to the EU?"**
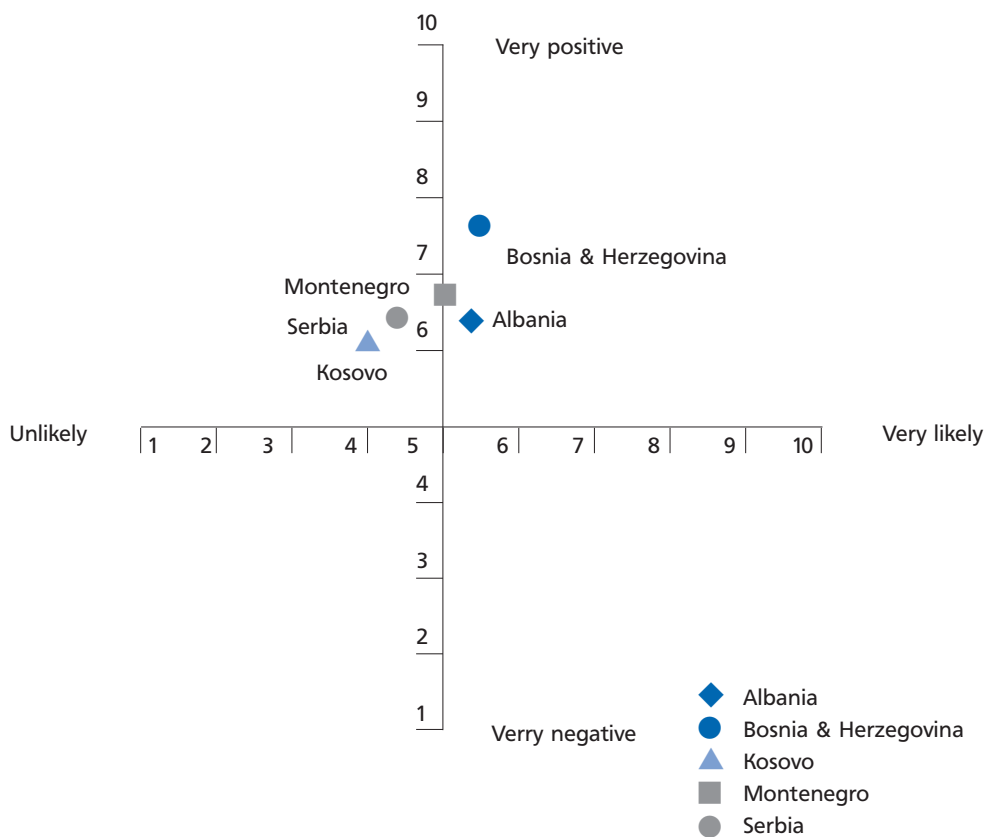
10-point scale is used, where 10 means "Excellent/very good", and 1 - "Bad"
***10-point scale is used, where 10 means "Very likely / inevitable", and 1 - "Unlikely"*
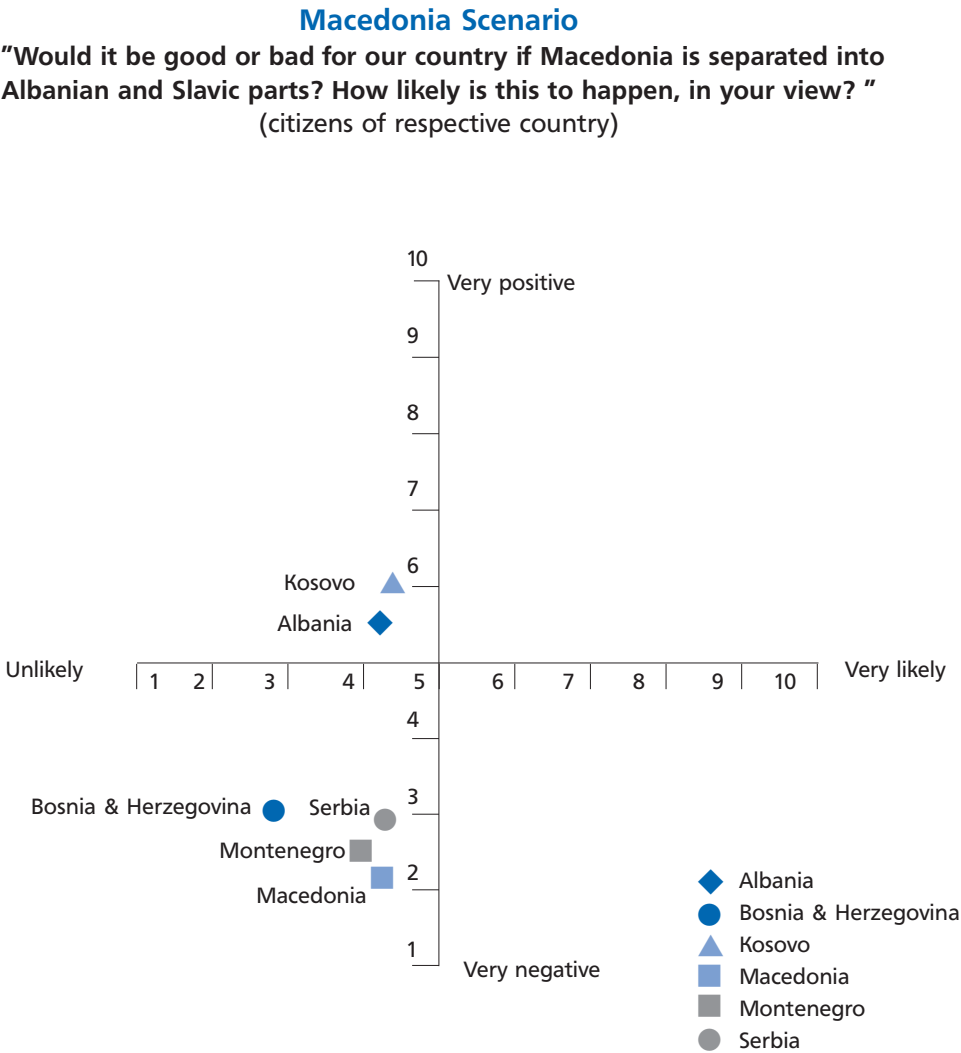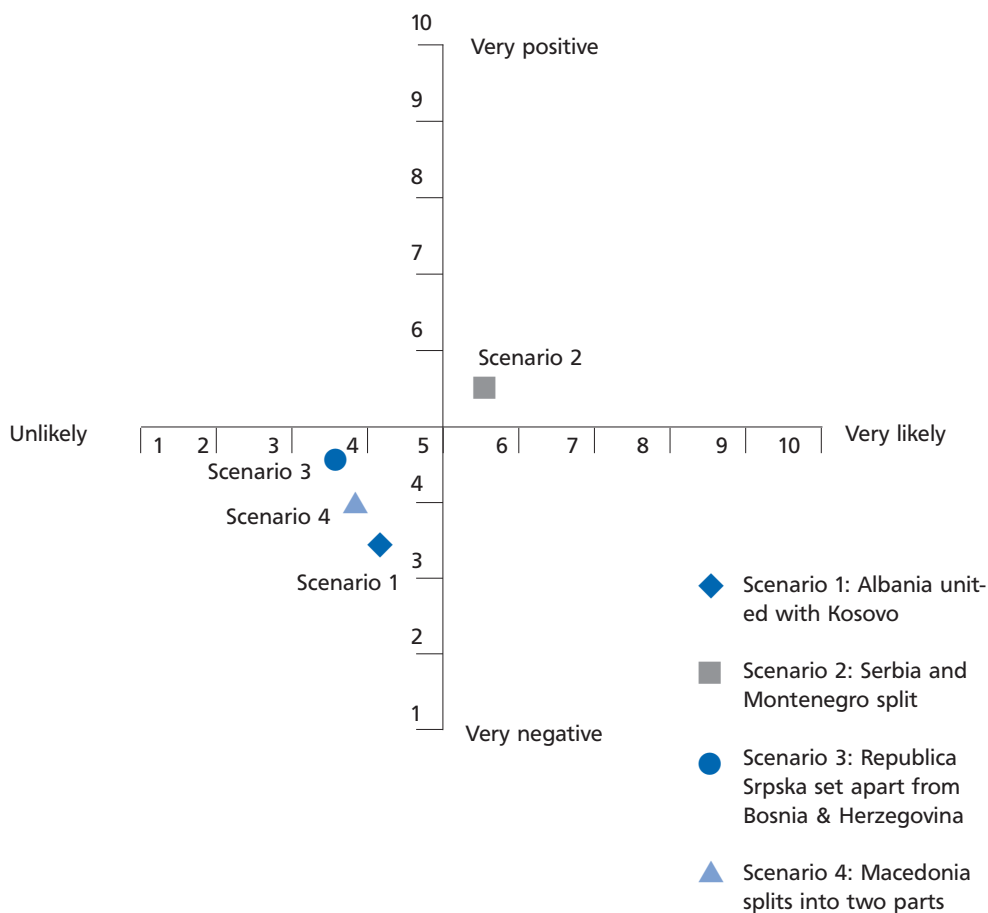
fig. 19

Attitudes to Europe

Country	Pro-European	Pragmatic	Anti-EU	Not sure
Albania	72%	8%	2%	18%
Kosovo	71%	10%	5%	14%
Bosnia & Herzegovina	62%	15%	8%	15%
Macedonia	56%	11%	4%	29%
Montenegro	54%	15%	5%	26%
Serbia	49%	16%	13%	22%
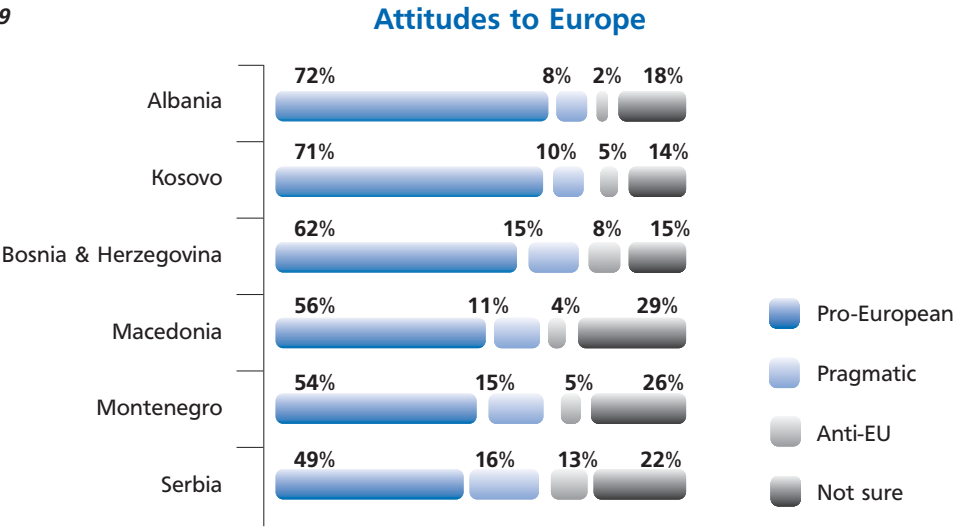
Definitions: Pro-European : Positive to the EU / come closer to the EUPragmatic: Come closer to the EUAnti EU: Negative To the EU / stay distanced

fig. 20

Attitudes to the US

Country	Pro-American	Pragmatic	Anti-American	Not sure
Kosovo	85%	6%	3%	6%
Albania	80%	4%	8%	8%
Macedonia	39%	0%	37%	24%
Bosnia & Herzegovina	35%	19%	24%	22%
Montenegro	26%	25%	16%	33%
Serbia	17%	27%	28%	28%
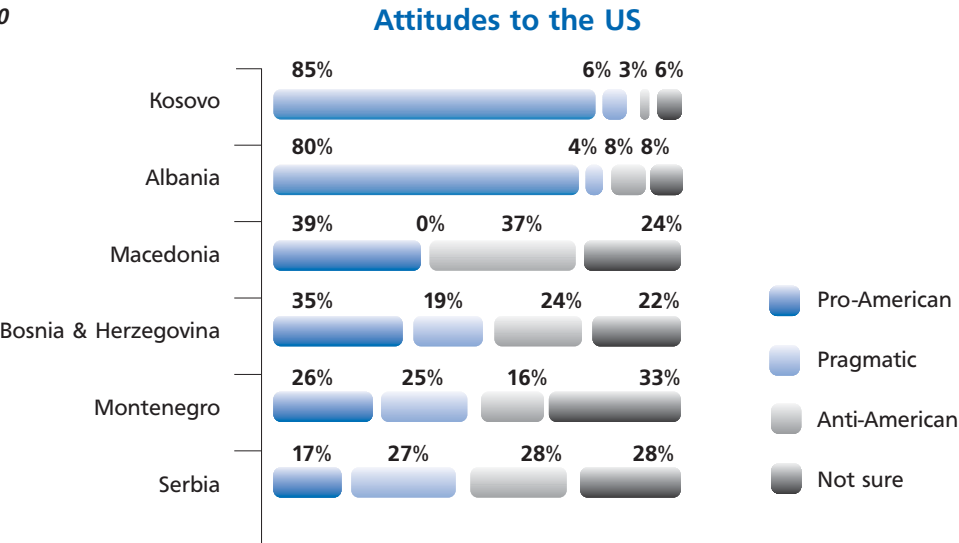
Definitions: Pro-American : Positive to the US / come closer to the USAPragmatic: Come closer to the USAnti American: Negative To the US / stay distanced

fig. 21

"The peoples of former Yugoslavia will reunite again in the end – in the EU"?

Country	Rather Disagree	Rather Agree
Macedonia	21%	63%
Serbia	20%	62%
Bosnia & Herzegovina	28%	60%
Montenegro	19%	56%
Albania	34%	42%
Kosovo	48%	35%

■ Rather Agree ■ Rather Disagree
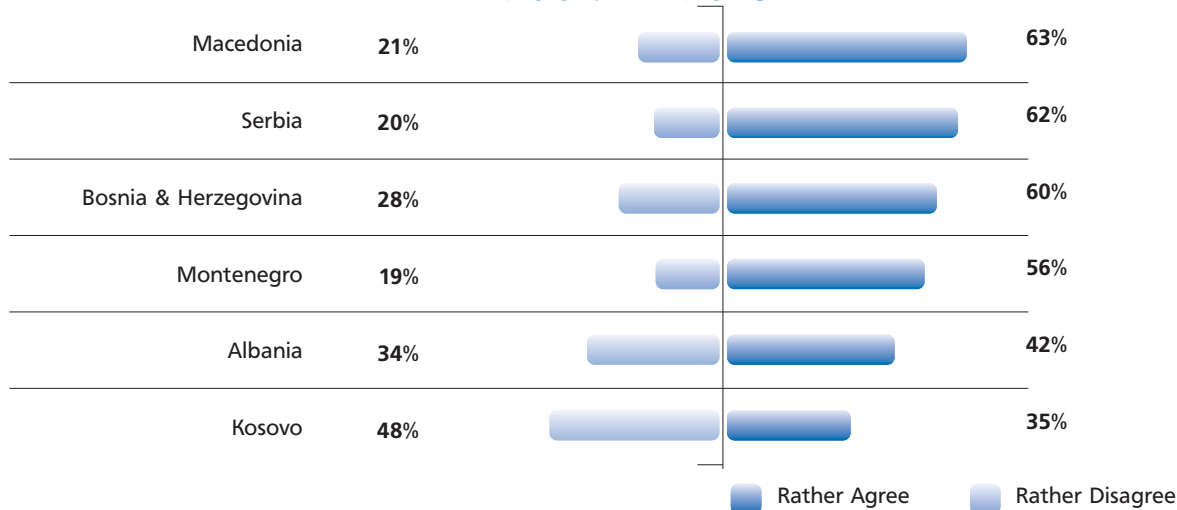
fig. 22

New Borders

"It will be best if, under the auspices of the International Community, new borders are drawn in the former Yugoslavia and each large nationality lives in a separate country/state"

Country	Rather Disagree	Rather Agree
Kosovo	18%	72%
Albania	20%	68%
Bosnia & Herzegovina	55%	29%
Serbia	53%	19%
Macedonia	68%	16%
Montenegro	56%	14%

■ Rather Agree ■ Rather Disagree
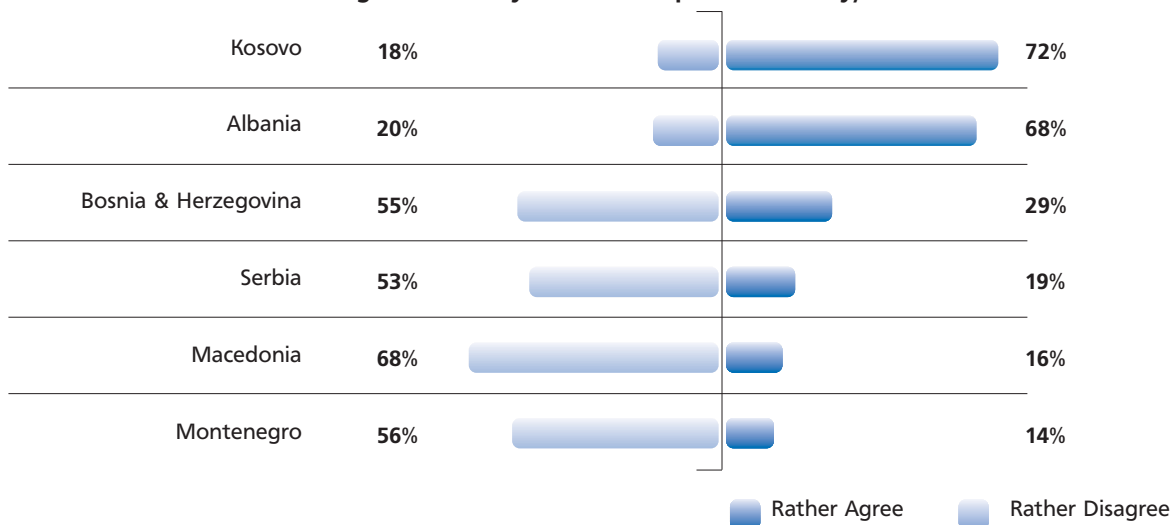
LIST OF COMMISSION STUDY TOURS

Serbia and Montenegro (July 2004)

Stojan Cerovic	*Journalist, Vreme*
Goran Ciric	*Mayor of Nis*
Nebojsa Covic	*Deputy Prime Minister of Serbia and Montenegro*
Radivoj Cveticanin	*Journalist, Danas*
Miljenko Dereta	*Civic Initiatives*
Milo Djukanovic	*Prime Minister of Montenegro*
Nemanja Dragicevic	*Student Union of Serbia*
Vuk Draskovic	*Foreign Minister of Serbia and Montenegro*
Vladimir Goati	*Social Science Institute*
Bratislav Grubacic	*Journalist, V.I.P. newsletter*
Tanja Jordovic	*Journalist, Pink*
Jasa Jovicevic	*MINA Information Agency*
Natasa Kandic	*Humanitarian Law Center*
Dragomir J. Karic	*Founding President of International University of Business and Management*
Djoko Kesic	*Journalist, Kurier*
Jelena Kleut	*Student Union of Serbia*
Vojislav Kostunica	*Prime Minister of Serbia and Montenegro*
Bilijana Kovacevic Vuco	*YUCOM*
Miroljub Labus	*Deputy Prime Minister of Serbia and Montenegro*
Milan Lajhner	*Patrimons trading company*
Sonja Licht	*School of Modern Politics*
Svetozar Marovic	*President of Serbia and Montenegro*
Veran Matic	*Journalist, "B92"*
Jelica Minic	*European Movement*
Tomislav Nikolic	*President, Serbian Radical Party*
Danijel Pantic	*European Movement*
Dusan Pavlovic	*Political Expert*
Lila Radonjic	*Journalist, Mreza*
Zeljka Radulovic	*Vijesti*
Dusan Spasojevic	*Student Union of Serbia*
Stojanovic	*Political Expert*
Milka Tadic	*Monitor Weekly*
Srbijanka Turajlic	*Belgrade University*
Ratko Vlajkovic	*Mayor of Kragujevac*
Hoyt Brian Yee	*Principal Officer, US Consulate, Podgorica*

Kosovo (July 2004)

Fisnik Abrashi	*Associated Press*
General Allard	*Chief of Operations, KFOR*
Snezana Arsic	*NGO Dona, Strpce*
Zorica Barac	*Women Association, Leposavic*
Besim Beqaj	*Kosovo Coordinator for the Stability Pact*
Vesna Bojcic	*Voice of America, Pristina*
Nicolas Booth	*Senior Advisor to the Head of Pillar I (Police and Justice)*
Charles Brayshaw	*Deputy Special Representative of the Secretary General, UNMIK*
Miomir Cankovic	*Community Coordinator, Lipljan*
Zoran Cirkovic	*Village of Staro Gradsko*
Patrice Coeur-Bizot	*acting DSRSG, Deputy Head of Pillar II*

	(UNCA, Civil Administration)
Jugoslav Crvenkovic	*Village of Staro Gradsko*
Melihate Dedushi	*Program Manager, NGO Flaka*
Vlada Dimic	*Village of Staro Gradsko*
Zlatko Dimitrov	*Director of Office of Political Affairs, Pillar III (OSCE, Institution Building and Elections)*
Florina Duli Sefaj	*Republican Club*
Milorad Durlevic	*Director, Fabrika Radiatora*
Nafiye Gas	*MP, Democratic Party of Turks in Kosovo*
Astrit Gashi	*Koha Ditore*
Bashkim Gashi	*Council for the Defense of Human Rights and Freedoms (CDHRF), Prizren*
Pater Walter Happel	*Prizren*
Ramush Haradinaj	*MP and President of Alliance for the Future of Kosovo (AAK)*
Ylber Hysa	*Kosova Action for Civil Initiative (KACI)*
Sadik Idrizi	*Deputy chairperson and spokesperson of parliamentary group "Other Communities"*
Sladjan Ilic	*Mayor of Strpce*
Oliver Ivanovic	*MP, Member of Democratic Alternative (DA)*
Rev. **Sava Janjic** ('Father Sava')	*Monastery of Decani*
Vesna Jovanovic	*MP, Member of Democratic Alternative (DA)*
Zorica Jovanovic	*Village of Staro Gradsko*
Ljubomir Kragovic	*MP, Federal Parliament of Serbia and Montenegro*
Tina Kraja	*Associated Press*
Jakup Krasniqi	*Minister of Public Services, Secretary General of PDK*
Branislav Krstic	*Correspondent for Reuters and National News Agency Fonet*
Dragisa Krstovic	*MP, Member of Democratic Party (DS)*
Dojcin Kukurekovic	*Vice President of the Serb Chamber of Commerce in Kosovo, President of the Association of Small Businesses*
Majka **Makarije**	*Monastery Sokolica*
Leon Malazogu	*Program Director, Kosovar Institute for Policy Research and Development (KIPRED)*
Jill Muncy	*Acting Police Commissioner, UNMIK*
Muhamet Mustafa	*President, RIINVEST - Institute for Development Research*
Randjel Nojkic	*MP, Member of Serbian Renewal Movement (SPO)*
Xhevat Olluri	*President of the Municipal Assembly of Lipljan*
Dragan Petkovic	*Community Coordinator, Gnjilan*
Nebi Quena	*Kosovo's Public Broadcaster (RTK)*
Zivojin Rakocevic	*Glas Juga and KiM Radio*
Bajram Rexhepi	*Prime Minister of Kosovo*

Ibrahim Rugova	*President of Kosovo*		*Movement*
Ahmet Shala	*Deputy Director, Kosovo Trust Agency*	Vjollca Mecaj	*Executive Director, Women Center*
Blerim Shala	*Zeri*	Fatmir Mediu	*MP, President of Albanian Republican Party (RP)*
Bishop Marko Sopi	*Head of the Catholic Community*		
Nexhmedin Spahiu	*Radio Television Kosovo (RTV)*	Ermelinda Meksi	*Minister of European Integration*
Nevenka Spilkovic	*NGO NADA, Gjilan*	Isa Memia	*Mayor of Tropoja*
Boban Stankovic	*NGO Council for Protections of Human Rights - CPHR*	Arian Mene	*General Manager, DEKA Company*
		Archbishop **Rrok Mirdita**	*Head of Catholic Church*
Bogoljub Stefanovic	*Village of Staro Gradsko*	Pirro Misha	*Director, Book and Communication House*
Danko Stolic	*Village of Staro Gradsko*		
Naim Ternava	*Head of the Islamic Community of Kosovo*	Alfred Moisiu	*President of the Republic of Albania*
Hashim Thaci	*MP and President of Kosovo Democratic Party (PDK)*	Selim Mucho	*Head of Islamic Community*
		Genc Pollo	*Chairman of New Democratic Party (PDR)*
Milorad Todorovic	*Minister-Coordinator for Returns, Provisional Kosovo Government*		
		Ylli Popa	*Chairman of the Academy of Sciences*
Boban Vignjevic	*Deputy Mayor of Lipljan*	Albert Rakipi	*Director, Albanian Institute for International Studies*
Andreas Wittkowsky	*Head of the Political and Legal Office, Pillar IV (EU, Reconstruction and Economic Development)*		
		Edi Rama	*Mayor of Tirana*
		Lutz Salzmann	*Head of Delegation, European Commission*

Albania (July 2004)

Hans-Peter Annen	*Ambassador of Germany*	Dr. Gjergji Sauli	*President of the Constitutional Court*
Baba Reshat Bardhi	*Head of Bektashi Community*	Kresnik Spahiu	*Director, Citizens' Advocacy Office*
Sokol Berberi	*Executive Director, Center for Parliamentary Studies*	Igli Toska	*Minister of Public Order*
		Ardian Turku	*Mayor of Elbasan*
Sali Berisha	*President of Democratic Party (DP)*	Vebi Velija	*President, VEVE Group*
Erinda Bllaca	*Association of Former Property Owners*	Steven E. Zate	*Charge d'Affaires, Embassy of the United States of America*
Carlo Bollino	*Gazeta Shqiptare*		
Luan Bregasi	*President, Chamber of Commerce*	Leka Zogu	*Honorary President, Movement of Legality Party*
Ylli Cabiri	*Human Development Promotion Center*		
Pantelis Carcabassis	*Ambassador of Greece*		
Ilirian Celibashi	*Head of the Central Electoral Commission*		

Macedonia (September 2004)

Robert Damo	*Mayor of Korca*	Ali Ahmeti	*President, Democratic Union for Integration*
Namik Dokle	*Deputy Prime Minister*		
Admir Duraj	*Association of Former Property Owners*	Zoran Andonovski	*Vreme*
Alex Finnen	*Deputy Head of OSCE Presence in Albania*	Venko Andonovski	*University of Skopje*
		Stojan Andov	*Liberal Party*
Sabri Godo	*Member of the Steering Committee of Albanian Republican Party (RP)*	Teuta Arifi	*Vice President, Democratic Union for Integration*
		Siljan Avramovski	*Minister of Interior*
Argile Gorea	*Former Mayor of Durres*	Kristof Bender	*European Stability Initiative*
Artan Haxhi Shkoder	*Mayor of Shkodra*	Gligor Bishev	*CEO, Stopanska Banka*
Odeta Haxhia	*Student of Social Sciences*	Sandra Bloemenkamp	*Representative of the World Bank in Macedonia*
Avni Hoxha	*Local TV owner*		
Vasilika Hysi	*Director, Helsinki Committee for Human Rights*	Lawrence Butler	*Ambassador of the USA*
		Romeo Dereban	*Mayor of Struga*
Attilio Massimo Lannucci	*Ambassador of Italy*	Donato Chiarini	*Head of Delegation, Delegation of the European Commission*
Gent Ibrahimi	*Executive Director, Institute for Policy and Legal Studies*		
		Den Donchev	*VMRO - Narodna*
Archbishop Janullatos	*Head of Orthodox Church*	Jovan Donev	*Euro-Balkan Institute*
Grigor Joti	*General Manager, Infosoft Group*	Tobias Flessenkemper	*Program Coordinator, EU Police Mission in Macedonia (PROXIMA)*
Perparim Kalo	*Managing Partner, Kalo & Associates*		
Lefter Koka	*Mayor of Durres*	Lubomir Frckovski	*Former Minister of Interior and Minister of Foreign Affairs of Macedonia*
Koco Kokedhima	*Publisher, Shekulli Daily News*		
Vajdin Lamaj	*Businessman*	Branko Gerovski	*Dnevnik Daily*
Remzi Lani	*Executive Director, Albanian Media Institute*	Zvetan Grozdanov	*President of Macedonian Academy of Sciences*
Edmond Leka	*CEO, Western Union*	Nikola Gruevski	*VMRO-DPMNE*
Arbi Masniku	*Deputy Executive Director, MJAFT*	Riza Halimi	*Mayor of Presevo (Kosovo)*
		Lurzim Haziri	*ADI*

Lutfi Haziri	*Mayor of Gjilan/Gnjilane, Kosovo*	**Jakob Finci**	*Head of Jewish Community*
Guner Ismail	*Forum Magazine*	**Emina Ganic**	*Director, Sarajevo Film Festival*
Murtezan Ismaili	*Mayor of Tetovo*	**Dobrila Govedarica**	*Executive Director, Soros Foundation*
Georgi Ivanov	*Social Democratic Institute*	**Nedzad Grabus**	*Islamic Faculty, University of Sarajevo*
Zoran Jachev	*Transparency Macedonia*	**Tomo Grizelj**	*Chairman of Bosnian Business Association*
Svetozar Janevski	*Pivara Skopja AD*		
Saso Klekovski	*Macedonian Center for International Cooperation*	**Nedzad Hadzimusic**	*Ambassador, Multilateral Relations, Ministry of Foreign Affairs*
Hari Kostov	*Prime Minister of Macedonia*	**Michael Humphreys**	*Delegation of the European Commission*
Slobodan Kovacevski	*Mayor of Kumanovo*		
Vladimir Milchin	*Open Society Institute Macedonia*	**Jasmen Imamovic**	*Mayor of Tuzla*
Ognyan Minchev	*Institute for Regional and International Studies, Bulgaria*	**Mladen Ivanic**	*Minister of Foreign Affairs, National Government, PDP*
Sasho Ordanovski	*Forum Magazine*	**Bakir Izetbegovic**	*Deputy Chairman, SDA*
Vlado Popovski	*University of Skopje*	**Hamdija Jahic**	*Mayor of Mostar*
Erol Rizaov	*Utrinski Vesnik Daily*	**Zvone Jukic**	*Dnevni List, Mostar*
Kevin Ross	*Representative of the International Monetary Fund in Macedonia*	**Eldin Karic**	*Editor in Chief, START Magazine*
		Freiherr von Kittlitz	
Iso Rusi	*Albanian language weekly Lobi*	**und Ottendorf**	*Ambassador of Germany*
Michael Sahlin	*EU Special Representative in Macedonia*	**Zeljko Komsic**	*Mayor of Novo Sarajevo, SDP*
Behicudin Sehapi	*El Hilal*	**Boro Kontic**	*Director, Media Centar*
Radmila Shekerinska	*Deputy Prime Minister of Macedonia*	**Zeljko Kopanja**	*Nezavisne Novine Newspaper*
Gordana Siljanovska	*University of Skopje*	**Senka Kurtovic**	*Oslobodenje Daily*
Archbishop **Stefan**	*Head of Orthodox Church*	**Lejla Letic**	*Student of the Postgraduate Course, Human Rights and Democracy in Southeastern Europe*
Veton Surroi	*Publisher, Koha Ditore, Kosovo*		
Attila Szendrei	*CEO, Makedonski Telekomunikacii*		
Sladjana Taseva	*former chair of Macedonia's Anti-Corruption Commission, director of the Police Academy*	**Sefic Lojo**	
		Ivan Lovrenovic	*Journalist, Dani*
		Markovic	*Former Mayor of Municipal Centre Sarajevo, SDP*
Biljana Vankovska	*University of Skopje*		
Arben Xhaferi	*President Democratic Party of Albanians*	**Douglas McElhaney**	*Ambassador of USA*
Richard Zink	*Director European Agency for Reconstruction (Thessalonica)*	**Dapo Mirsad**	*Brcko District Government*
		Dino Mustafic	*Director, MESS Theatre Festival*
		Hilmo Neimarlija	*Head of IC Council*
		Zlatan Ohranovic	*Executive Director, Centers for Civil Initiatives*

Bosnia and Herzegovina (December 2004)

Nidzara Ahmetasevic	*Slobodna Bosna*	**Orucevic**	*Former Deputy Mayor of Mostar*
Fatmir Alispahic	*Valten Newspaper*	**Zarko Papic**	*Economy Expert, IBHI*
Edo Arsnalagic	*Bosnaljek Pharmaceutics Sarajevo*	**Borislav Paravac**	*Presidency Chairman (Serb), National Government, SDS*
Paddy Ashdown	*High Representative, OHR*		
Ivan Barbalic	*President of the Alumni Association of the Center for Interdisciplinary Postgraduate Studies*	**Zeljko Paukovic**	*Youth Communication Center*
		Senad Pecanin	*Dani*
Becirevic	*Mayor of Municipal Centre Sarajevo*	**Zoran Puljic**	*Executive Director, Mozaik - Community Development Foundation*
Taida Begic	*Deputy Director of the Center for Interdisciplinary Postgraduate Studies*	**Fahrudin Radoncic**	*Owner, Dnevni Avas*
Ivica Cavar	*Centers for Civil Initiatives, Mostar*	**Nikola Radovanovic**	*Minister of Defence, National Government, SDS*
Dragan Cavic	*President, Republika Srpska; Chairman, SDS*		
Mustafa Ceric	*Head of Islamic Community*	**Brothers Sabanovic**	*Bosmal*
Dragan Covic	*Presidency Member (Croat), National Government, HDZ*	**Vehid Sehic**	*director of the Forum of Tuzla Citizens*
		Hilmo Selimovic	*Brewery Sarajevo*
Dragoljub Davidovic	*Mayor of Banja Luka*	**Fadil Sero**	*Executive Manager, Civil Society Promotion Center*
Saba D'Elia	*Ambassador of Italy*		
Boris Diviak	*Transparency International*	**Faruk Sirbegovic**	*contruction businessmen*
Srdan Dizdarevic	*Helsinki Committee on Human Rights*	**Zekerijah Smajic**	*Sense agency*
Dino Djipa	*PRISMA*	**Adnan Terzic**	*Chairman, Council of Ministers, National Government; Deputy President of SDA*
Petar Djokic	*Former President of Federal Assembly, Socialist Party of Republika Srpska*		
		Sulejman Tihic	*Presidency Member (Bosniak), National Government; President of SDA*
Milorad Dodik	*Chairman, SNSD*		
Sacir Filandra	*Professor of Political Science*	**Neven Tomic**	*Former Mayor of Mostar*

Osman Topcagic	*Director, EU Integration Department at Council of Ministers*
Henry Zipper de Fabiani	*Ambassador of France*
Kresmir Zubak	*New Croat Initative*
Edin Zubvevic	*Director, Jazz Festival*

Croatia (December 2004)

Tomo Aracic	*President, Association of Croatian Settlers from BiH (ZUNH), Knin*
Damir Azenic	*GONG*
Zvjezdana Bajic-Zeljak	*Association Zvonimir Knin*
Ivan Begovic	*County Prefect of Viroviticko-Podravska County*
Nikolina Colovic	*Activist from Knin*
Mirela Despotovic	*Center for Civil Initiatives*
Milan Dukic	*Mayor of Donji Lapac, Member of Serbian National Party (SNS)*
Andrea Feldman	*President, Soros Foundation Croatia*
Boris Grigic	*Head of EU Department, Ministry for Foreign Affairs*
Nenad Ivankovic	*President of Party "Independence and Progress" (SIN)*
Ivan Jakovic	*County Prefect of Istarska County*
Suzi Jasic	*GONG*
Ljubo Jurcic	*MP, Professor at Faculty of Economics*
Bojana Kovacic	*Central State Administrative Office*
Josip Kregar	*Professor at the Faculty of Law, University of Zagreb*
Bruno Lopandic	*Vjesnik*
Zoran Maksic	*Director of Finance Agency (FINA)*
Stjepan Mesic	*President of the Republic of Croatia*
Sasa Milosevic	*Serbian Democratic Forum*
Sladana Miocic	*former Assistant Minister, Ministry of Environmental Protection*
Sevko Omerbasic	*Head of Islamic Community in Croatia*
Miroslav Parac	*Businessman from Knin*
Petar Pasic	*Mayor of Evenik*
Nebojsa Paunovic	*UNHCR Office Knin*
Antun Petrovic	*President, Transparency International Croatia*
Milorad Pupovac	*Vice-President of Independent Democratic Serb Party (SDSS)*
Vesna Pusic	*President of Croatian People's Party (HNS)*
Ivica Racan	*President of Social Democratic Party (SDP)*
Miroslav Rozic	*Vice President of Croatian Party of the Right (HSP)*
Nikola Safer	*County Prefect of Vukovarsko-Srijemska County*
Ivo Sanader	*Prime Minister of the Republic of Croatia*
Zdenka Sintraga	*Association Hocu Kuci*
Olgica Spevec	*Agency for the Protection of Market Competition*
Gordana Stojanovic	*Coalition for Promotion and Protection of Human Rights*
Vojislav Stanimirovic	*President of Independent Democratic Serb Party (SDSS)*
Mladen Vedris	*Economic analyst*
Damir Vidovic	*Komunalno Poduzece Knin*

Boris Vujcic	*Deputy Governor, Croatian National Bank*

Kosovo (February 2005)

Goran Bogdanovic	*Serbian List for Kosovo and Metohija*
Ramush Haradinaj	*Prime Minister of Kosovo*
Oliver Ivanovic	*Leader of Serbian List for Kosovo and Metohija*
Marko Jaksic	*Law student, Kosovska Mitrovica*
Stojna Jevtic	*Director of elementary school „21. Novembar" in Gojbulja*
Vesna Jovanovic	*Serbian List for Kosovo and Metohija; Member of Democratic Alternative (DA)*
Faruk Korenica	*Public prosecutor, Kosovska Mitrovica*
Bratislav Kostic	*Teacher at elementary school „21. Novembar", Gojbulja*
Stojan Kovacevic	*Coordinator for the Serbian community in the Office for Minorities*
Nebojsa Maric	*Public servant, Kosovska Mitrovica*
Suncica Masic	*Director of the Center for Social Work, Priluzje*
Snezana Milic	*Village of Vucitrn*
Vuceta Milenkovic	*Teacher at elementary school „21. Novembar", Gojbulja*
Adem Mripa	*Kosovska Mitrovica*
Randjel Nojkic	*Serbian List for Kosovo and Metohija, Member of Serbian Renewal Movement*
Misko Popovic	*Community Coordinator in Vucitrn*
Slavisa Petkovic	*Minister for Returns*
Ibrahim Rugova	*President of Kosovo*
Zecir Rusiti	*Kosovska Mitrovica*
Veton Surroi	*President of ORA („Time")*
Dragisa Terentic	*Village of Priluzje*
Hashim Thaci	*MP and President of Kosovo Democratic Party (PDK)*

Macedonia (February 2005)

Silvana Boneva	*VMRO-DPMNE*
Vlado Buckovski	*Prime Minister of Macedonia*
Argon Buxhaku	*Vice President of the Democratic Union of Integration*
Branko Crvenkovski	*President of the Republic of Macedonia*
Nikola Gruevski	*President of VMRO-DPMNE*
Gordana Jankuloska	*General Secretary, VMRO-DPMNE*
Trajko Slaveski	*VMRO-DPMNE*
Arben Xhaferi	*Leader of the Democratic Party of Albanians*

Serbia (February 2005)

Srdjan Bogosavljevic	*Strategic Marketing*
Nebojsa Covic	*President of the Joint Coordinating Center for Kosovo and Metohija*
Biljana Jovic	*Joint Coordinating Center for Kosovo and Metohija*
Vojislav Kostunica	*Prime Minister of Serbia and Montenegro*
Jelica Minic	*European Movement in Serbia*
Boris Tadic	*President of Serbia and Montenegro*

BIOGRAPHIES OF COMMISSION MEMBERS

GIULIANO AMATO

Former Prime Minister
Italy

Mr. Amato was Prime Minister from 1992 to 1993 and from 2000 to 2001. Thereafter he served as Vice President of the Convention.

Mr. Amato was a Member of Parliament from 1983 to 1994; Under Secretary to the Prime Minister's Office from 1983 to 1987; Minister for the Treasury from 1987 to 1989 and from 1999 to 2000; Minister for Constitutional Reforms from 1998 to 1999; Deputy Prime Minister from 1987 to 1988. He also headed the Italian Antitrust Authority from 1994 to 1997.

Full Professor of Comparative Constitutional Law at the University of Rome, School of Political Science, from 1975 to 1997, he had been Full Professor at the Universities of Modena, Perugia, Florence. Presently he is Global Law Professor at the NYU Law School and part time Professor at the EUI in Florence.

Mr. Amato has written books and articles on the economy and public institutions, personal liberties, federalism and comparative government.

CARL BILDT

Former Prime Minister
Sweden

In Sweden, Mr. Bildt served as Member of Parliament from 1979 to 2001, Chairman of the Moderate Party from 1986 to 1999 and Prime Minister from 1991 to 1994.

Mr. Bildt served as European Union Special Representative to the Former Yugoslavia as well as the first High Representative in Bosnia between 1995 and 1997, and then as Special Envoy of the Secretary-General of the United Nations to the Balkans between 1999 and 2001.

In the United States, he is the only non-US member of the Board of Trustees of the RAND Corporation and on the Board of the Centre for European Reform as well as the Council of the International Institute for Strategic Studies in London.

Apart from numerous other awards, Mr. Bildt has an honorary degree from the University of St. Andrews in Scotland, where he is a Fellow at its renowned Institute

for the Study of Terrorism and Political Violence.

AVIS BOHLEN

Former Assistant Secretary of State
United States

Until May 2002, Ms. Bohlen was Assistant Secretary of State for Arms Control. A career Foreign Service officer, she also served as US Ambassador to Bulgaria, Deputy Chief of Mission at the US Embassy in Paris, and Deputy Assistant Secretary for European and Canadian affairs for European security issues. She previously served as Director of the Office of European Security and Political Affairs, Executive Director of the US Delegation to the US-Soviet Nuclear and Space Arms Talks in Geneva, Deputy Political Counsellor at the US Embassy in Paris, and Chief of the Strategic Affairs and Arms Control Section in the Office of NATO Affairs.

Currently member of the Board of Directors of the International Research and Exchange Board IREX in Washington, DC. In 2003 was a Public Policy Scholar at the Woodrow Wilson International Centre.

Ms. Bohlen received the President's Distinguished Service Award in 1991.

JEAN-LUC DEHAENE

Former Prime Minister
Belgium

Mr. Jean-Luc Dehaene gained his degrees in law and economics at the Universities of Namur and Leuven. From 1971, he held the position of advisor, then as Head of Cabinet for several different Ministers. He first held a ministerial post in 1981. From 1988 to 1992, he then became Deputy Prime Minister and Minister of Traffic and Transport and Institutional Reform. Finally, as Prime Minister, he led two governments, from 1992 to 1995, and subsequently from 1995 to July 1999.

He is seen as the architect of state reform. He led Belgium into the Euro economy and reorganised the government finances.

Mr. Jean Luc Dehaene was vice chairman of the European Convention and is at present a Member of the European Parliament.

KEMAL DERVIS

Member of Parliament
Turkey

Mr. Dervis holds a Degree in Economics from the London School of Economics and Political Science and a PhD in Economics from Princeton University, USA.

Following his studies, Mr. Dervis lectured at the Department of Economics of the Middle Eastern Technical University. In 1973-1976, he served then Prime Minister Bulent Ecevit as an advisor on issues relating to the economy and international relations. He then returned to Princeton University teaching economics and international relations.

In 1978, he took office at the World Bank, where in 1991 he became Head of the Central Europe Department, including former Yugoslavia and Albania. In 1996, he became a Vice-President of the World Bank in charge of Middle East and Africa Region. In May 2000, he was appointed Vice-President responsible for Poverty Reduction and Economic Management. In March 2001 he left the World bank to become Minister for Economic Affairs of his country, called back to deal with the financial crisis that erupted in February 2001. After the crisis was overcome he resigned from the government in August 2002 and was subsequently elected to Parliament in November of 2002. He also represented the Turkish parliament in the Convention for the Future of Europe.

Mr. Dervis has published numerous articles on economic policy and development economics. He is co-author of "General Equilibrium Models for Development Policy" and recently published a new book entitled "A Better Globalization".

MIRCEA DAN GEOANA

Former Minister of Foreign Affairs
Romania

An alumnus of the Polytechnic Institute and, respectively, the Law School at the University of Bucharest, Mr. Mircea Geoana graduated in 1992 the "Ecole Nationale d'Administration" in Paris, France. He served as professor at the National School for Political and Administration Sciences and the "Nicolae Titulescu" University in Bucharest. He graduated the 1999 World Bank Group Executive Development Program at the Harvard Business School.

In February 1996, was appointed Ambassador Extraordinary and Plenipotentiary of Romania to the United States of America. Prior to his appointment to Washington, he was Director General at the Ministry of Foreign Affairs of Romania. From 1993 to 1995 he also served as Spokesman for the Romanian Foreign Ministry.

Mr. Mircea Geoana was Minister of Foreign Affairs of Romania in 2000-2004. In this capacity, he served as OSCE Chairman-in-Office in 2001. In December 2004 he was elected Member of the Romanian Senate.

KIRO GLIGOROV

President of the Republic of Macedonia (1991-1999)

Mr. Gligorov graduated from the Law Faculty in Belgrade in 1939. At the outbreak of the Second World War, he took part actively in the anti-fascist and people's liberation movement in Macedonia. From 1945 to the beginning of the 60s, he held specialised executive functions in the spheres of economy and finance in Belgrade. From 1963 to 1969 he was Minister of Finance of the SFR of Yugoslavia.

One of the leading economists supporting the advancement of market economy in Yugoslavia, he was elected a member of the Presidency of the Socialist Federal Republic of Yugoslavia (1974-1978) and President of the Parliament of the Socialist Federal Republic of Yugoslavia. Thereafter he was forced to abstain from political activities.

At the onset of the crises in Yugoslavia (1989-1990) he made a comeback in the political life of Macedonia, promoting multi-party elections and the introduction of a market economy. These activities resulted in his election as President of the Republic of Macedonia, in the first free, multi-party elections held in January 1991.

While he was in office as President, the Republic of Macedonia proclaimed its independence and became the only Republic of the former SFR Yugoslavia to attain its independence though a peaceful and legitimate manner. On the first general presidential elections in the Republic of Macedonia held in October 1994, Mr. Kiro Gligorov was re-elected President of the Republic of Macedonia with a five year term, which he completed in 1999.

ISTVAN GYARMATI

Chairman, Centre for Euro Atlantic
Integration and Democracy
Hungary

Mr. Gyarmati is currently Chairman of the Board of the Centre for Euro Atlantic Integration and Democracy in Budapest and Co-Chairman of the International Security Advisory Board for Southeast Europe of the Geneva-based Centre for the Democratic Control of Armed Forces.

He has been a Foreign Service officer since he graduated from the Budapest University of Economics, Faculty of Diplomacy, in 1974. His postings include member of the Hungarian delegation to the MBFR and IAEA (1981-86, Vienna), to the CSCE Follow-up Meeting (1987-89, Vienna), Head of Delegation to the CFE, CSBM, Opens Skies Negotiations (1990-92, Vienna), Head of Security Policy Department, MFA (Budapest, 1992-96); Personal Representative of the CSCE/OSCE Chairman-in-Office in Georgia (1992-93), Chechnya (1995) and the Negotiations on CSBMs in Bosnia and Herzegovina (1996), Chairman of the OSCE Senior Council (1995), Executive Secretary of the Budapest CSCE Summit (1994); Under-Secretary of Defence (1996-99), Chairman of the Missile Technology Control Regime (1998-99), Chief Adviser of the Foreign Minister on Security Policy and Chairman of the OPCW (1999-2000), Senior Vice President for Policy and Programs of the East West Institute.

Mr. Gyarmati holds a Ph.D. in Political Science and is a candidate of Strategic Studies. He is member of the IISS, of numerous scientific projects, Associate Professor at the Zrinyi Miklos National Defence University. He is author of numerous publications on security policy, European security, conflict management and Hungarian defence policy.

FRANÇOIS HEISBOURG

Director
Fondation pour la Recherche Stratégique
France

Mr. Heisbourg began his career as a member of the French foreign ministry's policy planning staff followed by a position at the French Permanent Mission to the U.N. (New-York).

From 1981-84 he was the International security adviser to the French Minister of Defence as well as a founder member of the French-German Commission on Security and Defence. He took over the Directorship of the International Institute for Strategic Studies (IISS) in London. In the years 1992-98, he was Senior Vice-President (Strategic development) at MATRA-Defense-Espace and subsequently was Director of the Fondation pour la Recherche Stratégique in Paris. He is adviser to the French Foreign Ministry Planning Staff; Board member of the Aspen Institute in Berlin and Member of the Royal Society for the Encouragement of Arts, Manufacture and Commerce; Chairman, Geneva Centre for Security Policy.

Mr. Heisbourg has published numerous articles and interviews in the academic and general media in both English and French among which 'Hyperterrorisme: la nouvelle guerre', 2001, and 'La Fin de l'Occident? L'Amérique, l'Europe et le Moyen Orient', 2005.

BRUCE P. JACKSON

President
Project on Transitional Democracies
United States

Mr. Bruce Jackson is the founder and President of the Project on Transitional Democracies, a multi-year endeavour aimed at the integration of post-1989 democracies into the institutions of the Euro-Atlantic.

From 1986 to 1990, he served in the Office of the Secretary of Defence in a variety of policy positions pertaining to nuclear forces and arms control. In 1990, Mr. Jackson joined Lehman Brothers, an investment bank in New York. Between 1993 and 2002, Mr. Jackson was Vice President for Strategy and Planning at Lockheed Martin Corporation.

From 1995 until 2003, he was the President of the US Committee on NATO, a non-profit corporation formed in 1996 to promote the expansion of NATO and the strengthening of ties between the United States and Europe. During the 2002-2003, he served as the Chairman of the Committee for the Liberation of Iraq.

He continues to serve on the Board of Directors of the Project for the New American Century, a non-profit corporation involved in educating American opinion on foreign policy and national security.

ZLATKO LAGUMDZIJA

President, Social Democratic Party
Former Prime Minister
Bosnia and Herzegovina

Mr. Lagumdzija holds a Ph.D. in computer Science and Electrical Engineering at University of Sarajevo. He is a professor of Management Information System at the School of Economics and at the Computer Science and Electrical Engineering School, University of Sarajevo since 1989.

President of the Social Democratic Party of B&H (SDP) since 1997. Member of Parliament of B&H, House of Representatives since 1996.

Chairman of the Council of Ministers of B&H (Prime Minister) 2001 - 2002. Minister of Foreign Affairs of B&H in 2001 - 2003. Acting Prime Minister 1993. Deputy Prime Minister of B&H 1992 - 1993.

Member of "Global Leaders for Tomorrow" of the World Economic Forum, since 1998. Awarded with numerous international and national awards for his professional and expert results.

Postdoctoral research at MIS Department and CCIT at University of Arizona, Tucson 1988/89. Consultant to various business and governmental organizations. Author over hundred research and expert papers and four books in MIS area. Author of numerous articles on Bosnian political and economic issues and series of independent TV forums on Bosnian future.

ILIR META

Former Prime Minister
Albania

Mr. Ilir Meta is Chairman of the Socialist Movement for Integration, which began in September 2004 as a reform movement within the Socialist Party. He has graduated from the Faculty of Economy, Tirana University. He was involved in political life at the beginning of the 1990s as a member of the leadership of the Student Movement. A member of the Socialist Party Leading Council since 1992, Mr. Meta was SP vice chairman during 1993-1996. In the period 1996-1997, Meta was deputy chairman of the Foreign Policy Parliamentary Commission.

Mr. Meta was appointed Prime Minister of Albania in 1999, and was reconfirmed in this post after the June 2001 elections. Mr. Meta resigned in January 2002 to give way to a solution of a government crisis.

In August 2002 he was appointed Deputy Prime Minister and Minister of Foreign Affairs, from which he resigned in June 2003, as result of the failure of the government to pursue the reforms toward EU integration.

NEVEN MIMICA

Former Minister for European Integration
Croatia

Mr. Mimica received in 1976 a degree in Economics from the University of Zagreb and in 1987 a Master's degree from the Faculty of Economics.

Between 1979-83 he was a Research Associate and Adviser at the Republic Committee for International Relations, in 1983-87 he became Assistant to the President of the Republic Committee for the International Relations in Charge of Foreign Exchange System and Foreign Trade System.

Between 1987 and 1997 he served at the Ministry of Foreign Affairs of the Republic of Croatia.

In 1997 Mr. Mimica was appointed Assistant Minister for International Economic Relations at the Croatian Ministry of Economy. In 2000, he was appointed Chief Negotiator for Stabilization and Association Agreement and Deputy Minister of Economy of the Republic of Croatia. In 2001-2003 he occupied the position of Minister for European Integration. Since November 2003 he is member of the Croatian Parliament.

DAME PAULINE NEVILLE-JONES

Former Governor of BBC
United Kingdom

Ms. Dame Pauline Neville-Jones is Chairman of QinetiQ Group plc, a defence technology company with government customers in the UK and USA and Chairman of the Information Assurance Advisory Council (IAAC). She is a member of the UK governing Board of the International Chambers of Commerce (ICC) and of the governing Council of Oxford University.

From 1998-2004 she was the International Governor of the BBC with responsibility, among other things, for external broadcasting, notably the BBC World Service (radio and online) and BBC World (television).

Prior to that, she was a career member of the British Diplomatic Service serving, among other places, in Singapore, Washington DC, the European Commission in Brussels and Bonn. She was a foreign affairs adviser to Prime Minister John Major (1991-1994), chairman of the Joint Intelligence Committee in Whitehall (1993-1994). As Political Director in the Foreign and Commonwealth Office (1994-96), she was leader of the British delegation to the Dayton peace conference on Bosnia.

She is a graduate of Oxford University and was a Harkness Fellow of the Commonwealth Fund in the United States (1961-1963). She was made a Dame Commander of the Order of St Michael and St George (DCMG) in 1995. She is a Doctor of the Open and London Universities.

JANEZ POTOCNIK

Member of the European Commission
Slovenia

Mr. Janez Potocnik graduated with honours from the Faculty of Economics at the University of Ljubljana, where he did his Ph.D. degree in 1993.

For several years (1989-1993), he worked as a researcher at the Institute of Economic Research in Ljubljana. In July 1994, he was appointed Director of the Institute of Macroeconomic Analysis and Development of the Republic of Slovenia. In 1998 he was appointed Head of the Negotiating Team for Accession of the Republic of Slovenia to the European Union.

In 2002, the Government of the Republic of Slovenia appointed Mr. Potocnik the Minister without portfolio responsible for European Affairs.

Since 2004 he is Member of the European Commission responsible for Science and Research.

ALEXANDROS GEORGE RONDOS

Former Ambassador at Large
Greece

Mr. Rondos, a Greek national, born in Dar-es-Salaam, Tanzania, was educated in Kenya and the UK where completed BA (Hons) at Oxford University (Brasenose College).

Career has included journalism at West Africa Magazine, followed by twelve years work in relief and development work.

After two years at the World Bank, became an adviser to the Foreign Minister of Greece, counselling him and implementing changes in Greek strategy in the Balkans as well as helping manage the Greek Presidency of the European Union during the Iraq crisis.

Throughout this period also served as a personal envoy of the Foreign Minister on missions to Turkey, governments in the Middle East, Europe and the USA.

GORAN SVILANOVIC

Chair, WT I, Stability Pact for SEE
Former Minister for Foreign Affairs
Serbia and Montenegro

Mr. Svilanovic graduated from Belgrade University's School of Law in 1987, and received his M.A. degree in 1993. At the end of 1998, Svilanovic, along with another six professors, was expelled from the Law School for his participation in a strike organized to protest against the new and restrictive university Law.

In 1993 Mr. Svilanovic organized a legal aid department "SOS line for the victims of national, ethnic and religious policy and trade union discrimination" in the Centre for Anti-War Action, dealing with the protection of minorities in Serbia.

In December 1995, Mr. Svilanovic was elected president of the centre's Council for Human Rights in Belgrade, member of FIDH.

President of the Civic Alliance, political party 1999-2004. Member of Federal Parliament 2000-2003. Federal Minister of foreign affaires of the Federal Republic of Yugoslavia, later Serbia and Montenegro, 2000-2004. Since January 2004 Member of the Parliament of Serbia. Since November 2004, Chair of the Working table I of the Stability Pact for South Eastern Europe.

In 1996 the University of Belgrade published his book "Proposal for Repetition of Legal Proceedings." Svilanovic wrote a large number of articles in the sphere of law, most of them concentrating on the condition of human rights in Yugoslavia.

RICHARD VON WEIZSÄCKER

President of Germany (1984 - 1994)

Mr. Richard von Weizsäcker studied philosophy and history in Oxford and Grenoble. In 1938 he joined the army and participated in World War II. In 1945-1950, Mr. von Weizsäcker continued his studies in Göttingen.

Mr. von Weizsäcker was elected to the Bundestag in 1969. He served as vice president of the Bundestag (1979-1981), but he resigned the office to become the governing mayor of West Berlin (1981 - 1984).

In 1984, Mr. von Weizsäcker as the CDU/CSU candidate won the presidential election. On May 8, 1985 - the 40th anniversary of the end of World War II in Europe - he made a dramatic speech to the Bundestag that articulated the historic responsibility of Germany and Germans for the crimes of Nazism. Running unopposed for the first time in the history of presidential elections in Germany, Weizsäcker was re-elected in 1989. His second term witnessed the process of the unification of Germany and collapse of the Communist regimes in Eastern Europe.

He was one of the "Three Wise Men" who were requested by the President of the European Union, Romano Prodi, to elaborate suggestions for institutional reform of the European Union in preparation for the integration of new member states (1999).

IVAN KRASTEV

Chairman, Centre for Liberal Strategies
Bulgaria

Mr. Ivan Krastev is a political scientist and Chairman of the Board of the Centre for Liberal Strategies in Sofia, Bulgaria.

In the last decade he has been visiting fellow at St. Anthony College, Oxford; Woodrow Wilson Center for International Scholars in Washington; Collegium Budapest, Wissenschaftskolleg, Berlin; Institute of Federalism, University of Fribourg, Switzerland; Institute for Human Sciences, Vienna and Remarque Forum, New York.

Since October 2003 he has been the research director of the project "Politics of Anti-Americanism in the Beginning of the 21st Century" coordinated by the Central European University, Budapest. Since January 2004 Mr. Krastev is the executive director of the International Commission on the Balkans.

Among his latest publications in English are: De-Balkanizing the Balkans: The State of the Debate; The Balkans: Democracy Without Choices; Corruption, Anti-Corruption Sentiments, and the Rule of Law. His paper "The Anti-American century?" appeared in the April 2004 issue of Journal of Democracy. His book "Shifting Obsessions. Three Essays on Politics of Anti-corruption." was published by CEU Press in 2004.

SENIOR STAFF

Sandra Breka

Ms. Sandra Breka joined the Berlin Office of the Robert Bosch Stiftung as Program Director in January 2001. Her portfolio primarily includes international programs focusing on Southeast Europe and transatlantic relations. Ms. Breka furthermore runs the newly established Bellevue-Fellowship-Program involving several EU member states. Prior to joining the Robert Bosch Stiftung, she served as Program Director for Southeast Europe, transatlantic relations and security issues at the Aspen Institute Berlin after a previous assignment with the American Council on Germany in New York City. Ms. Breka is affiliated with several international institutions such as the TRANSFUSE Association and Women in International Security (WIIS). After studies in Germany, France and the United States, she obtained her M.A. at Columbia University in New York.

Vessela Tcherneva

Ms. Vessela Tcherneva is a Program Director at the Centre for Liberal Strategies, a Bulgarian think-tank since November 2003. She manages the Centre's programmes related to the Balkans and the transatlantic relations, as well as security-related projects. She is the Managing Editor of Foreign Policy Bulgaria magazine. Ms. Tcherneva is a career foreign service officer on sabbatical for the time of existence of the International Commission on the Balkans. Her last assignment was at the Bulgarian Embassy in Washington, DC, where she was the political officer responsible for political-military and security issues including NATO enlargement; liaison to the US administration and NGOs; South Eastern Europe. Ms. Tcherneva holds a M.A. in Political Science from the University in Bonn, Germany.

LIST OF EXPERTS

Srdjan Bogosavljevic, Strategic Marketing and Media Research Institute, Belgrade

Srdjan Darmanovic, CEDEM, Podgorica

Misha Glenny, editor

Damir Grubisa, Department for International Economic and Political Relations, University of Zagreb

Fabrice de Kerchove, Project Manager, King Baudouin Foundation

Gerald Knaus, Director, European Stability Initiative

Josip Kregar, School of Law, University of Zagreb

Remzi Lani, Executive Director, Albanian Media Institute

James O'Brien, analyst

Stevo Pendarovski, Head of the Macedonian Electoral Commission

Jean-Louis Six, Honorary Vice-Chairman, King Baudouin Foundation, Director, EBRD

Jovan Teokarevic, Faculty of Political Science, Belgrade

Walter Veirs, Program Officer, Charles Stewart Mott Foundation

Ivan Vejvoda, Executive Director, Balkan Trust for Democracy

Antonina Zheliazkova, Director, International Centre for Minority Studies and Intercultural Relations, Sofia

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ROBERT BOSCH STIFTUNG

The Robert Bosch Stiftung GmbH (Robert Bosch Foundation), established in 1964, is one of the largest German foundations associated with a private company. It embodies the philanthropic endeavors of founder Robert Bosch (1861-1942) within the structure of the Bosch organization. The Foundation pursues the following purposes: health care, international understanding, social welfare, education, the arts, culture, the humanities, social and natural sciences. It represents the philanthropic and social endeavors of founder Robert Bosch 1861-1942) and fulfils his legacy in a contemporary manner in the flowing program areas:

- Science in Society, Research at Foundation Institutes;
- Health, Humanitarian Aid;
- International Relations;
- Youth, Education and Civil Society.

Its work is organised into five program areas of which two are dedicated to international understanding. The Foundation operates three institutions in Stuttgart: The Robert Bosch Hospital, the Dr. Margarete Fischer-Bosch Institute for Clinical Pharmacology and the Institute for the History of Medicine.

KING BAUDOUIN FOUNDATION

The King Baudouin Foundation is a public benefit foundation, based in Brussels. It was established in 1976 on the occasion of the 25th anniversary of the reign of late King Baudouin with the aim of improving the living conditions of the population. Four main themes are currently central to its work: the 'Social Justice' programme seeks out new forms of social inequality and supports initiatives to give greater autonomy to vulnerable people. The 'Civil Society' programme aims to stimulate civic engagement and strengthen the NGO sector. The 'Governance' programme seeks to involve citizens more closely in the decision-making that determines how goods and services are produced and consumed, and in developments in the medical sciences. Through the 'Funds & Contemporary Philanthropy' programme, the Foundation wishes to encourage modern forms of generosity. The Foundation is active at local, regional, federal, European and international level, with a special focus on Southeastern Europe since 1999.

GERMAN MARSHALL FUND OF THE UNITED STATES

The German Marshall Fund of the United States (GMF) is a non-partisan American public policy and grantmaking institution dedicated to promoting greater cooperation and understanding between the United States and Europe. GMF does this by supporting individuals and institutions working on transatlantic issues, by convening leaders to discuss the most pressing transatlantic themes, and by examining ways in which transatlantic cooperation can address a variety of global policy challenges. In addition, GMF supports a number of initiatives to strengthen democracies. Founded in 1972 through a gift from Germany as a permanent memorial to Marshall Plan assistance, GMF maintains a strong presence on both sides of the Atlantic. In addition to its headquarters in Washington, DC, GMF has five offices in Europe: Berlin, Paris, Bratislava, Brussels, Belgrade, and Ankara.

CHARLES STEWART MOTT FOUNDATION

The Charles Stewart Mott Foundation is an endowed, nonprofit, private grantmaking foundation based in Flint, Michigan, U.S.A. Charles Stewart Mott, who was an automotive pioneer in the General Motors Corporation, established the Foundation in 1926. Through its Civil Society program, the Foundation awards grants to nonprofit, non-governmental organizations working in Eastern Europe, including South Eastern Europe, and Russia. The mission of the Civil Society program is to support efforts to assist in democratic institution building, strengthen local communities, promote equitable access to resources, and ensure respect of rights and diversity. Through the Civil Society program and all of its programs, the Foundation seeks to fulfill its mission of supporting efforts that promote a just, equitable, and sustainable society.