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Author(s): Pugh, Michael, C.

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Crime and Capitalism in Kosovo's Transformation

MICHAEL PUGH

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Introduction

In the context of a fragile political and security situation, an ambiguous legal constitutional status and an imprecise and contested balance of power between international 'protection' and local ownership, academic and practitioner strategies in Kosovo have emphasized human protection, military security and public law and order. However, Kosovo is also a site of contention between economic norms. On the one hand, the external agencies have attempted to impose a neoliberal economic model, rooted in the 1989 Washington consensus on developmentalism. On the other hand, Kosovars have clung to clientism, shadow economic activities and resistance to centrally-audited exchange.

This chapter contends that these interactions led to accommodation by the external and domestic actors, but also friction and contest. To some extent the protectors have cushioned the population from the rigours of neoliberalism by investing in public services; to some extent Kosovar Albanians have accepted the conditionalities of the peacebuilders as a means to secure independence. By the end of 2002 the population of 1.8 million had benefited from donor reconstruction aid worth €2 billion. Indeed, economic growth officially increased dramatically in the first two years after the war thanks to donor support, diaspora remittances and UNMIK spending on goods and services. The budget had considerable cash balances reflecting donor contributions, revenue gains from excise duties, the phasing in of income tax and strict monetarist rules on spending. In the absence of reliable official statistics, surveys indicated that per capita gross domestic product (gdp) had climbed significantly above the pre-war level by 2003. However, these calculations certainly underestimated the size of the pre-conflict gdp because the service sector was excluded from the Yugoslav accounting system.¹ Furthermore, the Banking and Payments Authority estimated that in 2002 only about 20 per cent of post-conflict gdp was domestically generated, the rest comprising foreign aid (50 per cent) and remittances (30 per cent).² In spite of the internationally-financed reconstruction boom, the economy remained one of the weakest in Europe and growth had slowed down from 11.1 per cent in 2001 to 7.0 per cent in 2002.³ In effect capital expenditure has floated on aid; the domestic authorities are left to fund institutional growth and

recurrent disbursements. The weak economic recovery has reflected a long-standing neglect of agricultural and industrial investment, disruption and migration caused by the war, and the uncertainty about Kosovo's future constitutional status, which inhibits post-war investment.

The purpose of this chapter is to interrogate three critical aspects of Kosovo's post-war political economy: 'criminality'; unaccountable external economic governance; and neoliberal development policy. It argues that Kosovo's post-conflict transformation policies and practices contain contradictions that risk frustrating the goals of economic growth and European integration, and which do little to alleviate the pressing issues of poverty and unemployment. But first it is essential to sketch antecedents of Kosovo's political economy that confronted the external actors in 1999.

Lineages of Resistance and Dislocation

Throughout south-east Europe the heads of clans traditionally offered social stability through the distribution of land, revenues and welfare. Ottoman and subsequent Habsburg efforts to establish property rights in law failed to eradicate the robust clientist and patrimonial systems.⁴ Moreover, shadow economies of barter and black markets thrived in the Tito period and permitted the avoidance of socially-discriminating and time-consuming bureaucratic obstacles to exchange. Shadow economies, local predation, and reversion to clientist and patrimonial protection of the exposed populations accompanied the economic fragmentation of Yugoslavia.⁵ Paralysis of the Yugoslav command economy was, however, significantly worsened by structural adjustment and austerity in the 1980s introduced at the behest of the International Monetary Fund (IMF). Purchasing power fell by 30 per cent between 1983 and 1985. By 1990, unemployment had reached about 20 per cent, and perhaps as much as 60 per cent of the Yugoslav population was living at, or below, the poverty line.⁶

In Kosovo formal GDP subsequently contracted by an estimated 50 per cent in the period 1989 to 1994.⁷ Secession, war and sanctions further encouraged predatory war entrepreneurs to demand a cut from smuggling, and invigorated shadow trading as an international business that benefited crime syndicates and corrupt officials.⁸ In turn, the conflicts were fuelled by wealth derived from transit trafficking in drugs, weapons, migrants, refugees and women forced into the sex industry.

Oddly enough, Kosovo remained relatively quiescent during the wars further west, though Kosovo Polje was the stage which Slobodan Milošević had used to rally Serb

nationalism in 1987 and plunge the federal state into political crisis. In spite of rising unemployment, a precipitous deterioration of the formal economy and political and cultural repression by the Serb authorities, the Kosovar Albanians failed to seize the opportunity of war in Croatia and Bosnia–Herzegovina to overthrow Serb control. To a large degree this level of neutrality depended on Ibrahim Rugova's strategy of forging democratic change through the creation of parallel social, economic and political structures. However, a kind of *pax mafiosa* also emerged. Sanctions spurred the trade in Turkish heroin and other goods across borders, boosting incomes in the area. Much of it was arranged by three gangsters with connections to state security: Zeljko Ražnatović (Arkan) in Serbia; Momcilo Mandić, a member of the Karadžić government in Republika Srpska; and Enver Hajin of the Albania Secret Police. The Serbs connived at protecting the route through Bulgaria, Serbia, Budapest and Bratislava, much of it around Plovdiv controlled by a Kosovar, Nazim Delegu.⁹ In essence, the *pax* produced a reciprocal relationship of intimidation and subsistence that enabled people to cope and survive which seems to have contributed to keeping Kosovo relatively peaceful. In spite of power struggles with the Croatian and Italian mafiosi over trafficking, the Albanian Kosovars, in collaboration with the Italian *'Ndrangheta* asserted control of the heroin traffic, laundering the revenues in Switzerland, and financing their own insurrection.¹⁰

The militarization of the Kosovar Albanian struggle, the contest over trafficking and the failure of the 1995 Dayton Accord to address Albanian political ambitions combined to wreck Rugova's strategy. The peace crumbled in 1997 when a cascade of arms looted from military and police depots in Albania worked its way northwards. The Kosovo Liberation Army (KLA) centred on the Jashari clan was the main beneficiary of the Albanian weapons liberation of 1997 and continued to profit from trafficking. Under the leadership of Hashim Thaçi the KLA became not only a guerrilla force, but an economic structure for controlling the labour market and providing black market civilian goods.¹¹ By early 1998, the KLA's shadow economy began to co-exist with, and often within, Rugova's parallel economy. This embedding of trafficking corporations in the regional economies proved to be an enduring legacy of the Yugoslav wars.

Meanings of Criminality

It is a commonplace perception, both within and beyond Kosovo, that the territory remains a major hub of organized crime. Indeed south-east Europe's political economies seem to have been archived as 'criminalized'.¹² Regional traffickers and

corrupt political leaders have been held responsible by external peacebuilding agencies for resistance to economic modernization and integration with the world economy.¹³ As a legal concept, the term 'criminal' signifies behaviour contrary to legislative controls and beyond the rule of law. Economically, it connotes the avoidance of audited revenue payments that would otherwise be available for local authority and government distribution. Politically, it is portrayed as a threat to transparency and accountability, and thus a threat to sustainable democracy. As a social concept, 'crime' indicates moral debasement. But such discussions of 'crime' tend to lack a nuanced understanding of its variations, its relationship to legitimate activities and the inadvertent role of external policies in its perpetuation. Indeed, there is a deeper issue of morality, particularly where people are directly harmed, such as trafficking in women and children. From an ethical perspective, any strategy of human protection should undertake to eliminate rights abuses of this kind, and external intervenors merit plaudits for action to protect the abused. The negative perceptions and representations serve to distance the supposedly virtuous, law-abiding cores of capitalist democracy from phenomena that are categorized as threats to their social well-being. These same cores, and the international financial institutions, are thereby exonerated from complicity in sustaining the demand for shadow activity.

Economic 'crime' in Kosovo can be deconstructed into at least three varieties of 'shadow economy': organized mafia rackets and trafficking; corruption, fraud and nepotism in business and public life; and the coping or survival shadow economies of the population at large. To some degree these varieties overlap (a university professor may take bribes to cope with a newly impoverished status, for example). And they probably all draw on traditions of economic organization that resisted the pressures of modern, centralized and audited economic exchange well before the disintegration of Yugoslavia.¹⁴

Organized crime

With regard to organized crime, the conflicts of the 1990s opened up new opportunities and incentive structures for ruthless, predatory and socially destabilising mafia networks and corrupt rentiers to gain from clientism, trafficking and black marketeering. As noted above, sanctions busting through Kosovo's borders became a highly lucrative economic strategy. In the post-conflict period entrepreneurs adapted by expanding the shadow spaces for trafficking in weapons, goods and people. In this project they were inadvertently assisted by the priorities

and dynamics of peacebuilding based on the neoliberal model.¹⁵ The economic priorities of the post-conflict 'protectorate' presented opportunities for further wealth creation among the victors of the conflict.

In particular, arms trafficking has remained a source of income. Dedicated to becoming the army of an independent state, the KLA had formed a separate social, criminal and military structure whose abilities to take over local municipalities were demonstrated after the Yugoslav forces vacated Kosovo.¹⁶ The KLA had also acquired former Yugoslav petrol companies and fuel distribution and controlled petrol stations which are used for money laundering.¹⁷ KFOR and the UN Interim Administration Mission in Kosovo (UNMIK) chose not to confront the KLA and enforce disarmament, but instead coerced it into an Undertaking on Demilitarization for arms control and demobilization in June 1999.¹⁸ The policy was dictated by the notion that accessibility to weapons was too widespread to make wholesale disarmament effective.¹⁹ The KLA was officially disbanded and replaced by the Kosovo Protection Corps as a civil emergency force issued with light weapons only. Supposedly under strict international control, the Corps is regarded as an army in waiting. It has participated in violence against minorities, intimidated the Kosovo Police Service and judiciary and is engaged in organized crime and weapons trafficking.²⁰

About a third of the half a million weapons looted in Albania in 1997 remain at large, many of them passing through Kukes where they have been sold to Albanian nationalists in Kosovo and Macedonia. Other Kukes consignments reach the Albanian port of Vlores a transit centre for weapons taken across the Adriatic into the European Union. Assorted military weapons are found in ordinary homes, and AK47s can be purchased for as little as US\$35. In 2003 a UN Development Programme (UNDP) flagship initiative aimed to restore public confidence in security through a weapons armistice. Only 155 items were handed in during a short-lived armistice after a year's preparation.²¹ Although the murder rate is no worse than elsewhere central-east Europe, between 330,000 and 460,000 weapons are believed to be in civilian hands and are used more often than elsewhere.²² Some weapons are held for protection in the event of conflict recurring, as was demonstrated during the ethnic cleansing of Serb, Roma and Ashkali minorities throughout Kosovo in March 2004 in which 19 people died (while the local police and international units took no preventive action).²³ But they are also used by youths to demonstrate prowess and by rival KLA factions following the disbandment of the organisation. Murders have as much to do with disaffected youth and gangsterism, as with the politics of ethnicity. Gang warfare directed against a notorious Gashi family in Kosovo was responsible for a car bomb

in Sarajevo that killed a Gashi associate in January 2004.²⁴ Attacks against protectorate personnel also continue – though it was probably inadvertently symbolic that in 2003 a violent affray injured members of a World Bank delegation in a Mitrovica pizzeria.²⁵

Corruption

Corruption, the misuse of public office or private business for illegal gain, is perhaps less directly life-threatening than the gangsterism of organized crime. Moreover, surveys and indices of corruption related to the misuse of public office indicate that it may not be pervasive in government processes, and that Kosovo fares better than neighbouring communities on scales of tolerance, practices and the ability of the authorities to deal with it.²⁶

Yet the issue remains serious and expert opinion reports endemic corruption, particularly among the legal, medical, educational and other professional classes, and in the power and telecommunications companies. In November 2003 the head of UNMIK, Harri Holkeri, had to set up a new unit to counter corruption in budget-funded enterprises – and within UNMIK's own ranks after a UN official was found guilty of embezzling €4.5 million from the power company.²⁷ The EU and other donors had invested upwards of €700 million in reviving the existing power system, but the system produces less than before the conflict and shortages continue; only about a third of the customers actually pay for what they use. Bribery and corruption concerning building permits and the illegal construction of thousands of buildings had also led to an investigation against local politicians.²⁸ In 2002 a sacked customs officer claimed that international officials were hiding a major corruption problem, and subsequently the head of the customs service, Ylber Rraçi, was charged with fraud and abuse of power.²⁹ In addition, the failure to regulate financial activities seems to have made it easy to launder money and engage in lottery fraud.³⁰ Experts also consider that processes of privatization are prone to abuse and without safeguards could become a 'de facto money laundering operation'.³¹ Indeed, there are concerns that privatization will follow the same course as in Bosnia and Herzegovina where it enriched an elite of war entrepreneurs and their political protectors.³² Former KLA fighters, including the Thaçi family, are prominent among the beneficiaries. In January 2000 UN police raided the apartment of Gani, elder brother of the political leader Hashim, and found 500,000 marks in cash, which he claimed had been paid to him for intermediary services by a Canadian construction firm working in Kosovo (though the firm's director maintained the fee was in the region of only 120,000

marks).³³

The issue mobilized USAID and the East-West Management Institute to launch a major anti-corruption programme with a major conference in Priština in March 2002, attended by some 200 people, mainly from cadres of capitalism but also from unions and NGOs.³⁴ Ordinary Kosovars were increasingly disenchanted with the former KLA's protection rackets, trafficking and deadly power struggles. Disciples of free-market capitalism also regard the widespread fraud and corruption in day-to-day business as detrimental to fair competition. Lack of transparency in business practices and an absence of regulatory frameworks, for example, lead to insider dealing.³⁵ Confronted by the scale of the problem, the institutions promoting free-market enterprise have paradoxically counselled stricter regulation, oversight and accountability mechanisms, financial disclosure provisions and the engagement of NGOs and civil society in anti-corruption schemes. Such measures would no doubt contribute to transforming the economic environment by removing local resistance to audited exchange and providing equal opportunities to corporate capitalism and foreign investors. Nevertheless, the main obstacle to removing corruption is economic stagnation and low purchasing power.³⁶ Reducing corruption and fraud, like reducing the shadow economies that enable the poor to cope and survive, is thus contingent on improvement in the general economic situation.

Coping and survival

Shadow economic activity has been a means of coping and surviving for sections of the population throughout south-east Europe. The power of mafia and clientist networks is sustained partly because it performs a social function. For example, in Republika Srpska shadow economies increase personal consumption, productivity and employment, improve the variety of goods and services, and reduce social inequalities, adding more than 50 per cent to the domestic product.³⁷ The black market may also be considered a kind of 'free' market, or at least 'managed' in a sense not dissimilar from the management of capitalism. For example, as with free markets, successful entrepreneurship depends as much on social networks of assistance, protection and marketing as much as competitive pricing. In this sense, too, the black market provides a social function in underpinning networks of clientism and allegiance: 'self-help groups' par excellence.

Equally salient, the anti-crime offensives in Kosovo have been hampered by the inability of the external actors to link such offensives to poverty-reduction and job creation strategies. Failure to comprehend the social functions of 'crime' has led in

equal measure to hubris, frustration and self-exoneration on the part of the external actors.

Unaccountable Economic Governance

In its own lack of transparency and accountability, UNMIK has been widely-perceived as a sorry exemplar of institution building. Perhaps because UNMIK has been run from the militarily-orientated UN Department of Peacekeeping Operations, the mission to Kosovo has lacked knowledge about the local legal system, shown insufficient respect for local traditions and marginalized locally-elected representatives in terms of policy input. By 2003, the unaccountable international agencies were reportedly losing respect.³⁸

Implementing an Ultimatum

The UN mission seemed to have a relatively uncomplicated palimpsest on which to etch an economic future. Clearly there were considerable difficulties apart from economic resistance in the shadow economies. These included the legacies of discrimination against the Albanians and their lack of property rights; the capture of municipal authorities by the KLA; poor rural infrastructure; a gross imbalance in wealth and opportunity between rural and urban areas; and the creation of parallel Serb structures dependent on Belgrade for security, health, education, welfare and public utilities. Nevertheless, wealth re-distribution was facilitated by the small population size and the expulsion or marginalization of previously privileged Serb workers, administrators and professionals. Commercial law, administrative and financial institutions could be virtually created from scratch. Moreover, UNMIK simply expropriated state assets. Chief among them was the huge, but decrepit and heavily indebted, Trepča state mining and smelting complex near Mitrovica. UNMIK troops seized the complex from Serb control as a prelude to its transfer to foreign consortia.³⁹ But most of the works remain closed on account of sulphur dioxide discharge, acid pollution and flooded mine workings. A major source of employment is thus denied to Serbs, though UNMIK paid some 1,000 workers to clean up the complex.⁴⁰

Above all, NATO came armed with an economic vision that its most powerful members had already inserted into the Rambouillet ultimatum of 23 February 1999 before the war. The *diktat* that 'the economy of Kosovo shall function in accordance with free market principles' became integral to the NATO/KLA war aim of securing

the territory from Serb authority.⁴¹ The economic principles were not actually spelt out at Rambouillet, but it was assumed that they were valid and should be imposed. Security Council resolution 1244 of 10 June was less presumptive, but supported economic development through the Balkan Stability Pact, which in turn specified free market economies throughout the region.

The Constitutional Framework

In keeping with NATO's imperialism, UNMIK then arrogated the right to stipulate in the constitutional framework that Kosovo must adopt a neoliberal economy.⁴² Kosovo's leaders had little choice but to agree if they wanted to gain independence eventually.⁴³ The constitutional framework was formulated by UNMIK, 'the Quint' (the UK, United States, Germany, France and Italy), the Contact Group (including Russia), and the G8 (plus Canada and Japan), and promulgated by the Special Representative of the UN Secretary-General (SRSG) in May 2001. It confirmed that UNMIK had the ultimate authority to decide that Kosovo's economic welfare would be fostered through the development of a market economy. The economy would thus be harmonized with what was loosely characterized as the 'Euro-Atlantic community's developmental standards'. Charged with responsibility for economic reconstruction (Pillar 4 in the UNMIK architecture), the EU operates through its European Agency for Reconstruction, which reports to the European Commission as well as to UNMIK. Indeed, complaints by UNMIK about the parallel structures of the former KLA and the Serb minority lack moral authority when the external actors protect their own parallelism. Completely outside UNMIK, USAID is another influential actor, which at the end of 1999 commanded a regulatory framework for the financial sector in the form of the Banking and Payments Authority.

UNMIK exercises exclusive control and regulation over economic policy and personnel, and over public and socially-owned property and enterprises.⁴⁴ When some members of the UN Security Council, such as Russia, regarded changes to property rights as an infringement of sovereignty, the head of the EU pillar, Joly Dixon, retorted that UNMIK and not the Security Council would decide the details for administering Kosovo.⁴⁵ Development benchmarks were subsequently imposed on Kosovo, including the adoption of the deutschmark and then euro, without any direct input by Kosovars.⁴⁶ Moreover, the constitutional framework specified that the SSRG would decide the parameters of budgetary and monetary policy.⁴⁷ The SRSG convenes and presides over the Economic and Fiscal Council (operated by Americans and Australians paid by USAID)⁴⁸ and appoints its international and

Kosovar members. The SRSG appoints the international Auditor General, the international and Kosovar members of the Governing Board of the Banking and Payments Authority (acting as the central bank) and verifies the locally elected directors of the Customs Service and Tax Inspectorate.

Industrial Control

Following the creation of a Department of Trade and Industry in December 2000, an UNMIK regulation (No. 2002/12 of May 2002) set up the Kosovo Trust Agency as the landlord and trustee of socially- and publicly- owned property. Exclusively under international control and operated by EU staff and USAID contractors, the Trust Agency, aims to 'preserve or enhance the value, viability, and corporate governance of socially owned and public enterprises in Kosovo'. It does so by selling them off. The legal basis for this project is cloudy because constitutionally Kosovo is part of a state which owns them, and the ownership of many state enterprises was forcibly taken over by KFOR (in the case of the Trepca complex) or by the KLA. The initial goal was privatization of 500 companies, in the face of trade union and Belgrade's opposition. Socially-owned enterprises have been operating at a third of capacity, employing 30,000 workers with another 30,000 on unpaid leave, out of Kosovo's total employed labour force of 341,000.⁴⁹ Kosovar researchers have accused the Department of Trade and Industry of unwittingly reinstating the badly malfunctioning self-management system of former Yugoslavia by reviving elected worker's councils. In the absence of a Department of Trade and Industry field presence to exert authority, the councils are permanently locked in disputes with self-appointed KLA strongmen who sell off stock and rent out premises to line their own pockets.⁵⁰ According to its critics, the Trust Agency's own lack of transparency adds to perceptions of corruption. It has also displayed limited understanding of the needs of the private sector for access to basic infrastructure and property titles, and it has been unable to tackle the essential prerequisite of reforming registry and ownership. Instead private enterprise has become parasitic on the ailing infrastructures of state industry.⁵¹

Crime Controls

UNMIK learned the necessity of tackling shadow economies from experience in Bosnia and Herzegovina, where anti-crime measures and institutions had been established slowly. UNMIK Customs was the first public body to be set up, and

together with EU Customs Assistance Mission (CAM-K) reformed the collection system, tripling revenues between 1999 and 2003.⁵² But with only seven CAM-K officers and a shortage of staff and processing capacity in the Customs Service, the control mechanisms are seriously deficient.⁵³ It also took two years for the EU to establish a Kosovo Anti-Economic Crime Unit to counter crime and promote intolerance of criminality.⁵⁴ Moreover, special processes were introduced for illegal activity by key political figures, which fostered a widely-held view that Kosovar leaders benefited from a degree of immunity.⁵⁵ In effect, criminality was not seen as a high priority and an economic system was introduced that failed to curtail it.

In contradiction to numerous declarations that Kosovo was to be governed in accordance with democratic principles, economic policy is determined by the EU, the international financial institutions and national aid agencies. Under the constitutional framework, the peoples of Kosovo are entitled to protect their ethnic, cultural, religious and linguistic identities, and to be free of economic discrimination. But they are denied the right to choose their economic future, and the choices made for them are inappropriate and poorly implemented.

Neoliberal Developmentalism

This does not mean that the external agencies have ignored all earlier experience of defective social protection in Bosnia and Herzegovina. Nor have they been insensitive to the moral obligation to repair the economic damage and social displacement wrought by NATO itself during the war. The neoliberal credo of Rambouillet and the constitutional framework has been tempered in rhetoric and practice by programmes of social protection.

Social Protection

Thus the EU's 2002 Action Programme gave priority to the delivery of public services, institution building, public administration and socially-oriented projects.⁵⁶ The UNDP emphasized employment generation through training programmes and social justice projects for ending ethnic and gender discrimination.⁵⁷ The World Bank provided significant sums for social and public welfare and for poverty reduction through a Trust Fund.⁵⁸ Together with the UNDP, the Bank also supported community initiatives for infrastructure rehabilitation and attempted to strengthen the income generation capacity of vulnerable rural families. Even the IMF proposed reform to facilitate long-term planning and stressed the need for investment in

education, health and social policy.⁵⁹ In Kosovo, therefore, several partners in economic restructuring have acknowledged the importance of social justice, and have undertaken investment in poverty reduction and public services.

Bare-knuckle Capitalism

But in moving from reconstruction to development, the EU, the international financial institutions and the national aid agencies, notably USAID and the UK's Department for International Development (which are not accountable to UNMIK), generally sing variations on the neoliberal tunes of monetarism, privatization, deregulation and state withdrawal from the economy.⁶⁰ The adverse impacts of this agenda, in the view of many informed critics such as Joseph Stiglitz and George Soros, were already evident in central and eastern Europe.⁶¹ Undeterred by experience, the development assumptions of the external protectors were presented in policy reports, laws and regulations. As it was not a state, Kosovo could not qualify for World Bank and IMF loans. This might be deemed a blessing in disguise, but the international financial institutions could still provide advice and, as in the World Bank's case subsidise 'economic reforms', the budget (\$16 million) and private sector development (\$3 million).⁶²

An IMF delegation to Kosovo in November 2003 concluded that the main risks to the economy arose from serious governance problems in publicly-owned enterprises, an uncertain long-term economic outlook and pressures for rapid expansion in current spending. In spite of slackening growth, rising unemployment and falling purchasing power in 2002–03, the IMF welcomed curbs on consumption power and advised further controls on wages, social welfare, public sector employment and compensation for workers thrown out of work by privatization.⁶³ Here, then, the IMF expressed its (long-discredited) structural adjustment model of fiscal stringency and deflationary curbs on government expenditure and consumption power. Deficit financing was not part of its lexicon, even in conditions of social distress. In the last quarter of 2001, an estimated 50 per cent of the population lived in poverty and 12 per cent in extreme poverty.⁶⁴ In the first quarter of 2003 the unemployment rate was estimated at between 49 and 57 per cent (70 per cent among 16-24 year olds); about 25 per cent of the population were registered as job seekers.⁶⁵ Not surprisingly, opinion surveys ranked unemployment and poverty among the greatest problems facing Kosovo.⁶⁶ These were not, however, the top priorities of the external agencies.

An Investor's Charter

International officials have had a seemingly inexhaustible faith in economic growth and jobs through the privatization of small to medium enterprises. Joly Dixon was a zealot for rapid privatization and reportedly wanted to sell off enterprises at a rate of 20 a week.⁶⁷ His *White Paper* on Enterprise Development Strategy ran into opposition from the unions and some Kosovar economists, as well as from Serbia and the UN Security Council. But state laws were introduced to ensure an investor-friendly environment, including regulations on foreign investment, repatriation of capital, the purchase of real estate and the 99-year leases of land formerly controlled by socially-owned enterprises. These were deemed essential to wean the territory from its dependence on foreign aid.⁶⁸

Likewise, USAID's credo has been: 'to set in place institutions, practices, and policies that encourage and reward investment', and 'to work directly and intensively with businesses to create a dynamic, competitive and expanding private sector.'⁶⁹ USAID therefore fostered a mirror image of the US economy with a kind of investor's charter masquerading as a development strategy. It aimed to:

provide the framework for market-based economic growth that will permit self-sufficiency and enable Kosovo to achieve its economic aspirations in a free market environment. Under this strategic objective the policy and legal environment will be set in place, export barriers diminished, work will be completed on modern budget, tax and financial systems, and socially-owned assets will be privatized.⁷⁰

Accordingly, USAID focused on improving business capacity and the ability of business associations 'to provide meaningful input in the development of economic policy and law... [and to] ensure an operating environment that supports business creation, market expansion, and rational investment.' By August 2003, USAID had contributed \$200 million to Kosovo, of which \$46 million was spent on 'economic policy', and a further \$42 million on private sector development (including agriculture and a business support programme). An example of Albanian Kosovars able to take advantage of this largesse to become one of the *nouveau riche* was Abdurrahman Konjufca. Dismissed as a consequence of Serbianisation policies from the state Shpendaria poultry concern by the Serb administration in 1990, Konjufca was able to invest US\$1 million of development loans from USAID via the American Bank of Kosovo to gain control of the business after the war.⁷¹ However, these initiatives have provided little new employment; USAID's substantial business support

programme had created a grand total of 635 jobs by August 2003.⁷² About half of the small to medium enterprises represent the restitution of traditional micro enterprises – the family or one-person small-holdings, pizzerias and kiosks. The majority were barely surviving, let alone driving economic growth.⁷³

Privatization of former state and socially-owned companies was unlikely to compensate for the liquidation of decrepit industries and loss of industrial employment.⁷⁴ The Trust Agency put six up for tender in May 2003, but interest was weak especially among foreign investors.⁷⁵ Without employment alternatives, deindustrialization has encouraged emigration, leading to depletion of the territory's skills pool and encouraged engagement in informal economic activity. Studies of reliance on foreign direct investment and privatization to stimulate economic growth suggest that productivity does not increase and benefits are heavily skewed towards entrepreneurs who take control of public enterprises.⁷⁶ Foreign direct investment appears to make little impact on growth, according to the level of repatriated profits, but increases the risk of instability in production and consumption because of the volatility of external investment. Moreover, economic deregulation and withdrawal of the state from the economy contradicts the requirement for strong institutions of public authority. The effort accorded to social protection by the external actors has been consistently counteracted by the attention paid to introducing neoliberalism. In this context, shadow markets act as a survival mechanism, enabling people to exist at, or just above, the general poverty level.⁷⁷

An Alternative Conception

The free market ideology represented as a normative model for post-conflict societies suppresses the contradiction inherent in nursing, protecting and subsidizing the investment and business sectors with public funds. In Kosovo, the rhetoric of support for private enterprise may disguise an absence of transformation on property laws and business-oriented infrastructure, but this represents a flaw in implementing the model, rather than a critique of the model itself. The externals ignore the effect of bare-knuckle capitalism in weakening social cohesion and political authority. Institution building and social welfare policies may have received closer attention from the external actors than has been the case in Bosnia and Herzegovina, but this has not deflected policy-makers from dictating an economic model which was given an unusual constitutional status to privilege profit-seeking entrepreneurs. The model entails fiscal austerity for a balanced budget and the inhibition of consumption power while large sums are spent in attempting to create a mirror image of aggressive

capitalism and to construct a political balance in favour of entrepreneurs.

Controls over organized crime, and incentives to denounce corruption can certainly be improved, and as indicated earlier considerable effort could be made to deal with trafficking in people. Alternative strategies do need to confront the deeply immoral aspects of criminal activity. This can be done domestically through tough regulation, the monitoring of officials and draconian sanctions; and through the mobilization of civil society (including investigative journalism).⁷⁸ Because shadow economies profit from the absence of cross-border policing and differential tax rates in south-east Europe, a regional approach to trade is also essential. Macedonia has a free trade agreement with Serbia that allows imports into Kosovo duty-free, while exports from Kosovo to Macedonia incur a 14 per cent tariff. Imports from Albania attract a tax of 26.5 per cent, while Kosovo's neighbours only pay 15 per cent, thereby creating an incentive to misrepresent the origins and value of goods. However, regulation and policing do not address the functional basis of shadow economies when they are coping and survival mechanisms for the general populace in the absence of formal welfare provision. An emphasis on legal controls and policing is unbalanced in that it criminalizes shadow markets while giving the unaccountable external protectors *carte blanche* to legalize socially stressful policies.

Economic expansion to make the territories less 'crime' dependent requires more openness to alternative approaches on the part of the external actors. An alternative route to growth would be based on fiscal policies that stimulate borrowing to build production capacity. A Keynesian recovery strategy for production and purchasing power would also build up social capital. 'Pump priming', even in the absence of a 'Marshall Plan', and cheaper borrowing would stimulate consumption, savings and domestic investment.⁷⁹ Modified forms of the protectionism that enabled the economies of the United States and the EU to flourish should not be denied to south-east Europe. There is an element of fantasy about expecting Kosovo to engage in export-led growth and integrated free trade, especially as expert analysis indicates that growth leads to free trade rather than vice versa.⁸⁰ Forms of protection might include *inter alia*: non-tariff barriers and subsidies to protect particularly vulnerable sectors such as agriculture; control of imports while liberalizing those vital for processing and trade; and devaluation only to a competitive exchange rate level. Economic priorities would thus shift to fostering production using underemployed resources, easing the demise of ailing industries, strengthening social capital, and providing a firmer basis for a long (perhaps fifteen-year) transformation to freer trade and integration with the EU.

Conclusion

The archiving of the economies of the protectorates in south-east Europe as 'criminal' overlooks the social welfare elements in shadow economies in the absence of state safety nets. The dominant international partners present in south-east Europe appear to have learned something of the importance of social protection from their experience of rubbing neoliberal salt into Bosnia's war wounds. But the investment in social projects and poverty reduction does not compensate for the ideology of aggressive neoliberalism that perpetuates the dependence of the poor on shadow economies and keeps the mafiosi and war entrepreneurs in business.

The protectorate powers allowed no debate on the most appropriate economic systems to foster. NATO members went to war with an economic strategy already cast, and the EU and the international financial institutions were delegated a completely free hand to impose it. Consequently, the UNMIK and associated authorities have ultimate control over finance and budgets; there has been limited transfer of ownership over economic policy.

The strategy may be summarized as macroeconomic stability to promote investor confidence, and the use of public money derived from government revenues in Kosovo and government budgets in aid donor countries to subsidize private capital acquisition and investment for profit. The intention may be not only to achieve macroeconomic stability, install a free enterprise culture and make Kosovo safe for foreign investment. Given concerns about organized crime, corruption and the shadow economies, UNMIK has exercised caution in relinquishing the levers of the economy to Kosovar leaders and has invested in a degree of social protection. But it has also meant that a meaningful role in economic decisions is denied to civil society and it is difficult for the population to hold Kosovar politicians responsible for the country's economic welfare. This may be justifiable in so far as civil society is likely to have limited influence on economic policy, but it also seems to be the case that the international protectors define civil society in the narrow terms reminiscent of Adam Smith, as private enterprise to be given every assistance to counter the economic claims of the rest of civil society. Moreover, the international protectors seem to discount the extent to which an imported economic model, especially if rigorously imposed, reinforces the need for communities to protect themselves from the adverse impacts of neoliberalism and to spend as much as they think advisable on public infrastructure projects and public services.⁸¹

Dependence on governmental support to private enterprise contradicts the neoliberal ideology of the free market that the strategy claims to represent and

reproduce. In addition, it may be seriously doubted whether subsidizing business generates strong public institutions and economic growth in post-conflict contexts. Privatization is likely to further reward the war entrepreneurs who claimed the spoils of peace. At the same time, the neoliberal economic model inhibits the prospects for legitimate work, taxable economic exchange and an increase in consumption power. In the absence of alternative sources of income generation, dependence on shadow activity has therefore been a necessity for many workers and their families.

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Notes

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² Gross national product (gnp) exceeded gdp by about 25% (gnp = gdp + income of Kosovars employed by international donors + diaspora remittances). IMF estimates cited by the Banking and Payments Authority of Kosovo, *Annual Report: 2002*, Pristina, 2002, p.8 (www.bpk-kos.org/publications/Annual%20Report%2002.pdf).

³ Ibid., Sven Gunnar Simonsen, 'Nationbuilding as Peacebuilding: Racing to Define the Kosovar', *International Peacekeeping*, Vol.11, No.2, Summer 2004, pp.289-311; United Nations Development Programme [UNDP], 'Factsheet 4: Security', Communications & Advocacy Team, UNDP, May 2003 (www.ks.undp.org); UNDP, 'Kosovo Early Warning Report No.4', May-August 2003, p.10. Donor commitments for budget support, peace implementation and reconstruction were €2.5 billion for 1999–2003. This excluded humanitarian assistance and funds for the international police. Diaspora remittances were worth an estimated €400–500 annually. Office for South East Europe, European Commission and the World Bank, 'Donor Pledges and Commitments and Spending in Kosovo', June 2003 (www.seerecon.org/kosovo/documents/kosovo_report_june_2003.htm).

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⁶ Branka Magaš, *The Destruction of Yugoslavia: Tracking the Break-up, 1980-92*, London: Verso, 1993, pp.96-7. See also, George Macesich (ed.) with Rikard Lang and Dragomir Vojnić, *Essays on the Yugoslav Economic Model*, New York: Praeger, 1989.

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¹² See, e.g., Michel Chossudovsky, 'The Criminalization of Albania', in Tariq Ali (ed.), *Masters of the Universe? NATO's Balkan Crusade*, London: Verso, 2000, pp.285–316.

¹³ 'BiH is a centre of organised crime', *Nezavisne Novine* (Banja Luka), 2 Dec. 2003, p.2. [OHR trans.]; Foreword by Henrik Kolstrup, UNDP Resident Coordinator, *Human Development Report: Bosnia and Herzegovina, 2002*, Sarajevo: UNDP, 2002.

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