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Liquid Transformation in the Political Economies of BiH and Kosovo

Draft Paper for TD10 International Studies Association Honolulu March 2005.

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The transformation dynamics of Bosnia and Herzegovina (BiH) and Kosovo rubs salt into the war wounds of economically vulnerable sectors of society in a context of fragile political and security situations, complex or ambiguous constitutional status and an imprecise and contested balance of power between international direction and local ownership. The protectors have been imposing a model of economic transformation, ultimately derived from the neoliberal economic ideology of aggressive capitalism and the 1989 Washington consensus on developmentalism. The inhabitants of war-torn societies have often clung to clientism, shadow economic activities and resistance to centrally-audited exchange. This paper contends that what is sometimes portrayed as a clash between neoliberal modernity and a pre-modern 'Balkan way' is questionable in its dyadic assumptions and its underestimation of linkages between the spheres of neoliberalism and nationalist–mafia–clientism.

This paper has a dual focus. First it is concerned with the crisis of 'public squalor and private affluence' (in the phrase popularized by J.K. Galbraith),¹ occasioned by the diminishing public realm in the post-war political economies of Bosnia and Kosovo. Second, it is concerned with the extent to which the shadow economies are criminalized, while externally-imposed and socially stressful policies have been legitimized. The paper seeks to challenge the assumption of many international state-builders that the failures of market-orientated reform are a product of pre-modern resistances, rather than a case of neo-liberal policies themselves undermining and fragmenting southeast Europe's social and economic fabric. Southeast Europe can be characterized as 'un-modern' in that while the shapes of class, territory and social order have evidently changed since 1992, identity groups remain highly configured.² Contrary to the process highlighted by the critical theorist Zygmunt Bauman in *Liquid Modernity* (2000), individuals have not been freed from collective constraints, social norms or society itself.³ Indeed, collective restraints and social norms have been redefined in national terms as protection of, and justice for, the social group, contributing to the diminution of the state's role in determining a just society.

However, the diminution of the public space in economic, social and political terms cannot be understood solely in terms of domestic nationalist-elite opposition to a nascent multi-ethnic state. This process has been reinforced and is significantly driven by external

direction, in particular the policies pursued by international institutions in the economic sphere. Roland Paris maintains that there has been a civilizing mission to protect war-torn societies and introduce a 'liberal peace' through what I have called an 'urge to engineer'.⁴ The legacy of conflict seems to provide a blank canvas on which war entrepreneurs, international administrators and carpetbaggers from outside can introduce a doxa (in Bourdieu's sense of beliefs and practices elevated into such a status that they cannot be called into question).⁵

In addition to Bauman's version of critical theory, the paper also draws upon work on the evolution of capitalist modernity and its relation to warfare as developed by researchers associated with the Research Centre for War, Armament and Development, University of Hamburg, and the 'Micropolitics of Armed Groups' at the Humboldt University, Berlin.⁶ Their methodology has comprised a rich mixture of quantitative recording, categorization and comparative analysis of wars (stored in data sets), and theories of war causation (grounded in analysis of historical social, political and economic processes). The approach has included research on understanding the interactions between social orders and the economic structures within war-prone societies.

Relevant to BiH and Kosovo are the findings that violence in areas of former socialist governance is generally a consequence of systemic failures and highly differentiated and attenuated modernization – and is accompanied by a reassertion of neo-patrimonial political economies. The withdrawal of state functions and economic decline leads patrimonial/clientist networks to assert claims against the state and other groups, sometimes using ethnicity to mobilize followers into violent conflict.⁷ The significance for this paper is that post-conflict peacebuilding under external, international guidance that addresses only economic symptoms of social unrest, such as corruption and crime, overlooks the functionalism of clientistic networks for economic survival and social cohesion.⁸

A coincidence of interest in squeezing public space

In liquid modernisation, the separation of private and public space is increasingly dissolved. Public goods and public space are often a stage for creating, preening and demolishing celebrities and for projecting private relations and emotions, as a kind of salute to individual free expression.⁹ It implies that Big Brother is no longer watching over 'society', but over socially autonomous individuals who are watching *Big Brother* on television.

From a political economy perspective, public space might be defined as an arena for civil society, configured and set aside by the state, in which citizens organize themselves collectively for the common good.¹⁰ This presupposes a distinction between state and civil society communities – though the latter were often state subsidized and furnished with social

ownership and legal guarantees of free association. A broader definition allows that through social provision, common ownership and direction of economic enterprises the state, notably those with liberal welfare- and socialist-oriented governments, could also claim to be providing public goods and public space. Whether defined as the civil society space between state and individual, or as a socio-economic function to provide public goods (as distinct from private accumulation), public space has been increasingly squeezed by corporate privatization for the extraction of profit that emphasises deflationary monetarism, privatization and limiting the state's economic role.¹¹ Even the apparatus of state security is increasingly privatized.¹² Although presented as a 'golden rule' of economic development, this agenda is contested by Massimo Florio, Joseph Stiglitz and others who argue that it has less to do with economic rationalism than political ideology and the reflection and maintenance of a particular structure of global power.¹³

The war-torn societies of southeast Europe seem to fit into this picture, though they they stand accused of resisting the modern condition, clinging to primordial identities, political clientism and forms of economic exchange that brought them into contention with globalization and structural adjustment, as well as with each other.¹⁴ State budgets have typically been plundered by local actors during civil war, and the regulation of finance and economic exchange is weak or non-existent. New incentives have been created to enrich the individual and impoverish the collective. Collective assets, social property, public utilities, government factories, infrastructures and lootable resources are targets and emerge depleted or destroyed. Ruling elites are disoriented, captured or catapulted into office to continue their wartime exploitation.

But the transformation of the political economy of public space has also been a purposeful strategy of territorial administration and social management by missionaries from outside. In BiH and Kosovo, society has been vulnerable to raids on the public sphere from intervenors equipped with a neoliberal agenda of political economy as part of a civilizing mission to introduce a 'liberal peace' to war-torn societies.¹⁵

For example, the Kosovo economy was mapped by the Rambouillet ultimatum where the requirement to convert to a free market was inscribed and was subsequently written into the framework constitution. UNMIK exercises exclusive control and regulation over economic policy and personnel, and over public and socially-owned property and enterprises.¹⁶ 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.¹⁷ Development benchmarks were subsequently imposed on Kosovo without any direct input by Kosovars.¹⁸ Moreover, the constitutional framework specified that the SSRG would decide the parameters of budgetary and monetary policy.¹⁹ The SSRG convenes and presides over

the Economic and Fiscal Council (operated by Americans and Australians paid by USAID)²⁰ and appoints its international and Kosovar members. The SSRG 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.

Paradoxically, the determination of external agencies (notably the OHR, USAID, the IMF and World Bank), to engineer BiH and Kosovo into peace and the good life has reproduced (and produced) social divisions rather than social cohesion, marked in Kosovo by the ethnic cleansing of March 1994. And such transformation that has occurred for reducing public space and public goods has been in partnership with, or connived at by, war entrepreneurs and local power brokers in a coincidence of interest.

In BiH elite adaptation to peace has ensured the continuation of nationalist appropriation. While military and paramilitary commandeering of spoils as part of the war economy ended, their embedded networks remained, for example, between Croat wartime militias that were controlled by soldiers and nationalists in Zagreb and Mostar. In each of the Croat and Bosniak areas of the Federation and the Serb-controlled Republika Srpska, the political organizations that took BiH into the war claimed control of resources in their ethno-geographical sectors. In BiH, the ruling nationalist parties extended a post-war amnesty for deserters to include 'economic crimes' committed from the start of 1991 to the end of 1995, including the misuse of humanitarian aid. This immunized those politicians and wartime commanders who were otherwise vulnerable to investigation²¹ and enabled thousands of others to safeguard their wartime gains and to consolidate their economic control. Command and influence in the peacetime political economy could then be exerted through fragmentation of the public space through clientalism, rentier fraud, corporatism, and capture of privatisation processes.

Although initially resistant to legalized privatization and the spirit of transparency promoted by the Office of the High Representative (OHR), from 1998 onwards elites sought to gain control of privatization so that they could take advantage of donor funds that were conditional on withdrawing the state from the economy.²² A glaring example of 'crony capitalism' concerned the giant Mostar aluminium plant. In 1996, the Democratic Croat Union (Hrvatska Demokratske Zajednica – HDZ) took over the management of Aluminij Mostar, with a board led by Mijo Brajković. Although the plant suffered little war damage the management had it valued at US\$84 million, compared to its pre-war value of US\$620 million. Its exports in the first year of revival exceeded its valuation by US\$1 million. Brajković 'privatized' it through a co-capitalization process, the shares going to the Croat workers and management. A team of international auditors found that illegalities had occurred, but 'for political and practical reasons' recommended that the ownership structure should remain

undisturbed. The Bosniac-dominated Federation government subsequently sought to re-privatize it.²³

In fact mechanisms introduced for distributing public assets, through voucher schemes, for example, were complex and vulnerable to corruption.²⁴ The banking sector was particularly ripe for plucking, partly because the international financial institutions and donors first privatized the sector (through cash investments not vouchers) and then exerted pressure to reduce the burgeoning number of private banks. Jadranko Prlić, former Prime Minister of wartime Herceg-Bosna and Mostar tycoon had an empire estimated at US\$1.3 billion and acquired a holding in Hrvatska Postanka Banka at a remarkably low price.²⁵ Privredna Banka Sarajevo, a respected pre-war financial institution, was privatized via an offshore company in the Cayman Islands in 2004. Its true owners were a mystery and neither the FBiH Privatization Agency nor the FBiH Banking Agency could (or would) throw light on the matter.²⁶

A lack of industrial investment going back decades, the wartime loss of markets and a dislocated labour pool meant that many former public enterprises were already bankrupt. Complementary privatization strategies of the international agencies and the nationalist appropriators in BiH underpinned bankruptcy. International donors withheld support for public enterprises, and new nationalist managements engaged in asset stripping and undervaluing enterprises for sale. In RS, the Kristal Bank was sold for one euro to forestall liquidation by the Mladen Ivanić government without any attempt to estimate its value.²⁷ And the indebted Banja Luka dairy was under threat of closure in a privatization process that would have left the city without milk.²⁸

By 2004 the Federation government seemed caught between accelerating bankruptcies to write off losses and decelerating the resale of enterprises to protect the 'new elite', which, as Edhem Biber, president of the BiH Independent Syndicates' Union, suggested, had 'gained plenty of property, created by workers', for little outlay through share offers and the pre-war Marković privatisation.²⁹ In January 2005 the Federation Prime Minister, Ahmet Hadzipasić, announced that privatization of key companies (Energopetrol, Energoinvest, Agrokomerc, KTK Visoko, Hidrogradnja, and the Mostar Tobacco Factory, for example) would be delayed, claiming that it was first necessary to improve the conditions for privatization.³⁰ Hadzipasić maintained that the time was not right, there needed to be 'restructuring of mines and modernisation of thermal-energy capacities...investments in the telecommunication sector, solving of property-related issues.... I think the state is not mature enough to go into the privatisation in these sectors in the next two to three years.'³¹ Paradoxically, the delay to some privatizations brought workers out on strike, for example at the Kamengrad coal mine near Sanski Most and the Tesanj UNICOFILTER company, because they had not received pay for months.³² By contrast a privatized Tuzla iron-casting

plant ceased production because of its debts, leaving 180 workers attempting to claim back-pay and pension fund contributions, resulting in the canton revoking the privatization contract.³³

Indeed the progress of legislation to facilitate bankruptcy proceedings and to curb the money laundering, bribery and sleaze of privatization was marked by inadequate provision for the workers who were adversely affected by the process. The Federation government estimated that 10,000 workers would lose their jobs as a consequence of accelerated privatization and restructuring, but amendment of the bankruptcy law supposedly required trade union participation in planning social care for redundant workers of enterprises with a minimum of 51 per cent of state capital. Biber objected that the necessary funds for social protection were lacking, and when parliament amended the law in March 2004, miners staged a mass protest at the parliament building and Biber pledged to sue the government.³⁴

It was from rather different perspectives, then, that a consensus about the shambles had emerged by 2004: between proponents of privatisation; politicians who had failed to line their pockets; workers whose jobs were threatened; and non-nationalist elements in civil society. Donald Hays, the American Principal Deputy OHR in charge of economic transformation, and an unabashed zealot for privatization, announced that another name for it in BiH was 'theft', for which he blamed government authorities.³⁵ The RS Prime Minister, Dragan Mikerević, bemoaned the slowness in implementing privatization, for which he blamed the international community.³⁶ Biber, asserted that: 'the principles of theft, corruption and immoral[ity]' had characterized the process.³⁷ The Sarajevo civil society group, Circle 99, concluded that privatization was a 'dogma' that had destroyed BiH companies, the economist Dragoljub Stojanov arguing that: 'the only thing privatization made possible was robbery.'³⁸

The coincidence of anti-statist interests between an OHR seemingly obsessed with squeezing public economic space as a key to developing the liberal peace, and nationalist management elites anxious to hold on to the public space they had captured for private gain, diverged only in the methods by which the general population would be marginalized and workers excluded, community leaders engaging in varieties of blatant discrimination. The restrictions on the public sphere cannot be understood without taking into account the interplay between external actors and these domestic elites.

In Kosovo, following the creation of a Department of Trade and Industry (DTI) 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 attempting to sell 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 some state enterprises was forcibly taken over by KFOR (in the case of the Trepca complex) or by the KLA. The initial goal was privatization 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 341,000.³⁹ Kosovar researchers have accused the DTI of unwittingly reinstating the badly malfunctioning self-management system of former Yugoslavia by reviving elected worker's councils. In the absence of a DTI 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.⁴⁰ 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.⁴¹

Experts also consider that processes of privatization are prone to abuse and without safeguards could become a 'de facto money laundering operation'.⁴² Indeed, there are concerns that privatization will follow a similar course to BiH.⁴³ Former KLA fighters, including the Thaçi family, are prominent among the beneficiaries. In January 2000 UN police raided the apartment of Gani, Hashim's elder brother and found 500,000 deutschmarks in cash, which he claimed had been paid to him for intermediary services by a Canadian construction firm working in Kosovo (through the firm's director maintained the fee was in the region of only 120,000 deutschmarks).⁴⁴ An example of Albanian Kosovars able to take advantage of international largesse to become one of the *nouveau riche* was Abdurrahman Konjufca. Dismissed from the state Shpendaria poultry administration as part of the Serbianisation process 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.⁴⁵

Growth and Poverty

Capturing and selling public assets for private profit had been determined by the external agencies as a key to economic growth, with the specific intention of attracting foreign direct investment (FDI). But economic recovery was occurring too slowly in BiH to reach the 1991 level before 2010, and in both BiH and Kosovo growth failed to reduce poverty.

Ten years after Dayton, GDP per capita in BiH is only 50 per cent of the average for southeast Europe and still less than 50 per cent of its pre-war level (the official pre-war level being understated because it was accounting practice to exclude the service sector). The

real average annual growth rate fell markedly: from 10 percent in 1999, reaching a low of 3.5 per cent in 2003, before recovering to an estimated 5 per cent in 2004–05 (see annex). Hopes for export-led growth have been stalled by the trade deficit equivalent to 36 per cent of GDP in 2003. The fiscal deficit has improved, but deficit financing is ruled out for BiH on ideological grounds, and because there is limited ability to attract FDI or to borrow from abroad.

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. 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 rules on spending. In the absence of reliable official statistics, surveys indicated that per capita gdp had climbed significantly above the pre-conflict level. However, these calculations certainly underestimated the size of the pre-conflict GDP.⁴⁶ Furthermore, only about 20% of post-conflict GDP was domestically generated, the rest comprising foreign aid (50%) and remittances (30%).⁴⁷ The economy remained one of the weakest in Europe and growth had slowed down by mid-2003.⁴⁸ The economy was floating on aid.

Receipts from privatization have been temporary, irregular and low (partly because asset stripping reduces the market value). Privatization of former state and socially-owned companies in Kosovo has failed to compensate for the liquidation of decrepit industries and loss of industrial employment.⁴⁹ The Trust Agency put six up for tender in May 2003, but interest was weak, especially among foreign investors.⁵⁰ In 2002, privatization in BiH yielded receipts amounting to only 1.3 per cent of GDP, and in 2003 the Federation Privatization Agency recorded a deficit of KM 2.3 million, partly because it failed to attract buyers for companies and partly because procedures were not completed in a satisfactory way.⁵¹ Only 50 contracts were made with foreign buyers, and although net inflow doubled between 2001 and 2002, the total stock of FDI had reached only 16 percent of GDP, half the level in Croatia.⁵² Most of it came from other parts of former Yugoslavia, Austria, Germany and Kuwait. The country's *Strategy for Economic Development* (the poverty reduction strategy paper) of May 2004 aimed to attract US\$2 billion in FDI and \$1.5 in donor grants by the end of 2007.⁵³

Even if this could be achieved, 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.⁵⁴

FDI appears to make little impact on growth, varying 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 to tempt FDI contradicts the requirement for strong institutions of public authority to establish a social contract between society and the new state.

The dynamics of political economy that concern foreign investors, administrators and international financial institutions are: financial stringency to pay back loans; market penetration; cheap labour; and cheap exports. Monetarism in BiH brought inflation down to below 1 percent by 2002, but in a depleted land this was virtually a contribution to stagnation. The high cost of borrowing (over 10 per cent for business and individuals in 2002) has also smothered opportunities for growth. In addition, the effort accorded to attracting private sector investment has been inversely proportional to the attention paid to measures that might reduce the adverse social impacts of neoliberal policies. Poverty and unemployment, industrial and trade policy have been either neglected or treated as a kind of unavoidable collateral damage in the mission to make BiH profitable for investors. Poverty levels, income generation, employment opportunities, the cost of borrowing, social protection and the functionality of shadow economies do not figure highly, if at all. The World Bank and OHR could only wonder at the mystery of the demand for the convertible *kaimark* and invisible capital inflows apparently greater than annual FDI.⁵⁵ This 'excess liquidity' in the economy clearly reflected a high dependence on cash transactions to facilitate services and exchange that could not be audited. In this respect, the shadow economy as well as the high proportion of government spending (20–30 per cent on welfare), although distorting in its budgetary impact, has been a cushion against even worse distress.

Measurement of poverty and living standards is notoriously difficult, especially in BiH and Kosovo where data are unreliable. A living standards survey conducted in BiH in 2001 indicated that 16 per cent of the population in the Federation and 25 per cent in RS were living below the poverty line. A further 30 percent were only just above the line and vulnerable to falling below it, and displaced persons in collective centres (who are among the poorest) were excluded from the survey.⁵⁶ The UNDP's 'early warning survey' for the spring of 2002 suggested that poverty was widespread, serious, and rising. Some 40–49 per cent in the Federation and 67–68 per cent in RS had insufficient income to cover a basic basket of consumer goods.⁵⁷ One might reasonably surmise that the shadow labour market has been acting as a survival mechanism to enable people to exist at, or just above, the general poverty level. Without employment alternatives, deindustrialization has encouraged emigration, leading to depletion of skills and encouraged engagement in informal economic activity.

Dilemmas of Survival

In response to various developmental crises, the IFIs have signalled general reforms to mitigate the harmful impacts of economic liberalization. It might even be argued that the Washington Consensus is dead.⁵⁸ Nevertheless, modification, rather than a fundamental questioning of structural adjustment, has characterized the 'liberal peace' in southeast Europe.

BiH

In May 2000, the World Bank's Country Assistance Strategy for BiH included strengthening the social safety net. The Bank approved a US\$14.6 million credit, repayable over 35 years, for educational development and welfare policies for the most vulnerable.⁵⁹ However, this represented only about a third of the sum committed to merely managing the privatization process. Furthermore, the adoption of a poverty reduction strategy paper (PRSP) in 2004, although supposedly driven by local conditions and requirements, and directed by local political 'stakeholders', was drafted with rigid budgetary and other macroeconomic rules by the 'distant but omnipresent' World Bank.⁶⁰ PRSPs typically make little room for negotiation by local political elites. As such, the BiH Development/Poverty Reduction Strategy portrayed poverty reduction and employment as ancillary to the absolute necessity of enticing business and investment.⁶¹ The only new aspects of the strategy were designed to reinforce the neoliberal agenda: convergence towards EU integration through the Agreement on Stabilization and Association; integration into the global world economic space by attracting foreign investments; and membership of the WTO. Although there was reference to providing 'appropriate' welfare, health, and educational systems, the PRSP contained no indication of the extent to which these sectors would be subject to market principles. Poverty was thoroughly profiled in the main section of the report, but curiously for a poverty reduction strategy, the vision statement mentioned poverty only briefly and contained virtually no employment or industrial policy.

A third of BiH respondents surveyed by the UNDP in the spring of 2002 cited unemployment as their chief concern.⁶² But employment creation has not exercised the external agencies unduly. In spite of the OHR's introduction of a 'Jobs and Justice' programme in 2002, the working assumption was that there was excessive labour capacity and that social protection would follow market principles. This rationale peddled blatant dishonesty about the choices available. According to the Economic Reform Agenda agreed by the BiH authorities and instituted by the IMF, the World Bank and the EU: 'Governments cannot create jobs. But they can create the conditions in which private enterprise can thrive and generate growth and with increased employment.'⁶³ Obviously, governments can and do

create jobs, otherwise reforming officials would be out of work themselves.

The official BiH unemployment rate in 2003 was about 42 percent of the labour force and had been rising by about 1 per cent a year since 1999. However, this figure is misleading because evading the registration and taxation of labour became a major industry in itself. The IFIs assume a much lower rate on the grounds that over half the unemployed work in the shadow economy, and that the true rate was 16–20 per cent.⁶⁴ Nevertheless, unemployment was still a significant drag on purchasing power and growth, and those officially employed do not necessarily get paid. The majority of the poor were employed people in families with children.⁶⁵

Kosovo

For reasons that may reflect the history of forcible protection by externals of Albanian interests, legal and constitutional difficulties in sequestering public ownership, and perhaps also criticism over the impact of neoliberalism in BiH, the EU's 2002 Action Programme for Kosovo gave priority to the delivery of public services, institution building, public administration and socially-oriented projects.⁶⁶ The UNDP emphasized employment generation through training programmes and social justice projects for ending ethnic and gender discrimination.⁶⁷ The World Bank provided significant sums for social and public welfare and for poverty reduction through a Trust Fund.⁶⁸ 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.⁶⁹ In Kosovo, therefore, public space has been squeezed less rigorously, though clearly divided between Serbs (with Belgrade's protection) and Albanians. Several partners in economic restructuring have acknowledged the importance of social justice, and have undertaken investment in poverty reduction and public services.

Owever, the social orientation in Kosovo was essentially cosmetic. In spite of faltering growth, declining diaspora remittances and foreign donations, high unemployment and falling purchasing power in 2002–03, the IMF presented its (long-discredited) structural adjustment model of fiscal stringency and deflationary curbs on government expenditure and consumption. IMF advisers welcomed curbs on consumption power and proposed further controls on wages, social welfare, public sector employment and on compensation for workers thrown out of work by privatization.⁷⁰ In the last quarter of 2001, an estimated 50 per cent of the Kosovo population lived in poverty and 12 per cent in extreme poverty.⁷¹ 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), and about 25 per cent of the population were registered as job seekers.⁷² Opinion surveys ranked unemployment and poverty among the

greatest problems facing Kosovo.⁷³ These were not, however, the top priorities of the external agencies.

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). However, these initiatives have provided little new employment; USAID's substantial business support programme had created a grand total of 635 jobs by August 2003.⁷⁴ About half of the Small and medium enterprises represent the restitution of traditional micro enterprises – the family or one-person smallholdings, pizzerias and kiosks. The majority were barely surviving, let alone driving economic growth.⁷⁵

Little wonder that petty economic crime, tax evasion, corruption, illegal employment, black marketeering and smuggling are considered to be widespread in both territories. According to Professor Rajko Tomaš, shadow economic activity added about 50% to the economy of the RS in the early years following Dayton. Nevertheless, research for the IMF and World Bank indicates that shadow economies and corruption appear to hinder economic growth, mainly by deterring investment and weakening government revenue potential.⁷⁶

Criminality

However, discussions of 'crime' tend to lack a nuanced understanding of its moral variations, its relationship to legitimate activities and the inadvertent role of external policies in its perpetuation. 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 (IFIs), are thereby exonerated from complicity in sustaining the demand for shadow activity.

Economic 'crime' 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 (including black markets in employment and trade) of the population at large. Moral imperatives demand the elimination of crimes against the person, gang violence and trafficking in women and children. But the reliance of sectors of the population on mafia welfare and petty economic crime is at least in part, a function of impoverishment and the withdrawal of public safety nets, as well as drawing on traditions of economic organization that resisted the pressures of modern, centralized and audited economic exchange well before the disintegration of Yugoslavia.⁷⁷

The external agenda does little to suppress and divert shadow economies, and may well increase their grip. Privatization processes have brought benefits to some sectors. In BiH the Zenica complex has been sold to a foreign company with a contract that guarantees employment protection: this may indicate a change in direction. But the removal of the state from the economy reinforces reliance of the poor on the shadow coping and survival economies. The external actors claim to be building up state institutions, but deny the state a formative economic role in favour of private enterprise. They claim to be protecting individual rights, but deprive the poorest individuals of social protection and public space (or make them pay for it). The neoliberal agenda claims to promote economic growth, but entails monetarist policies that have a deflationary impact.⁷⁸ Dealing with criminality involves greater controls and more policing but the failure to create jobs forces people to rely on shadow economic exchange.

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.⁷⁹ And this is the main paradox of economic survival in southeast Europe: policies that add to social stress and reliance on crime are legitimized, while economic survival through shadow economic activity is criminalized. Indeed south-east Europe's political economies seem to have been archived as 'criminalized',⁸⁰ and regional traffickers and corrupt political leaders have been held responsible by external peacebuilding agencies for resistance to economic modernisation and integration with the world economy.⁸¹

Conclusion

As Simon Chesterman argues, the means used by international civil administrations to reach the ends of are generally inconsistent, irrelevant or inadequate for the ends of human security.⁸² They are not, however, inconsistent with the thrust of liquid transformation which places priority not on local needs, employment and social protection, since the liberal agenda involves suppression of state-generated growth at the macro-level. On the contrary, in BiH, Kosovo, Afghanistan and Iraq there has been a near paralysis of many public institutions and services: a form of asset stripping.

These war-torn societies have limited say in the pace and direction of transformation. Bauman's contention that power elites have no interest in the burdens of administration and management, welfare and 'civilizing missions' is not at all evident in these societies. According to Bauman, active engagement in the life of subordinate populations is no longer needed but avoided as unnecessarily costly and ineffective'.⁸³ It may transpire that the

external actors are rapidly losing their appetite for civilizing subordinate populations, either as a consequence of experience in southeast Europe or as a response to other unruly contexts. A much 'lighter touch' by peacebuilders was evident in Afghanistan than in BiH and Kosovo, and the Coalition in Iraq can be said to have attempted to exert control through centralized indirect rule. The external urge to engineer is often doomed to disappointment because the security situation is too risky, the market too small or the business context too alien. Nevertheless, in southeast Europe the war-torn societies have been vulnerable to raids on the public sphere from intervenors equipped with a neo-liberal agenda of political economy.

Who does benefit? Since capitalism is about risk and speculation in the quest for market monopolies, then by definition mistakes and false assumptions about profitability are common. Foreign investors often meet disappointment in their effort to penetrate war-torn markets. But this is not persuasive evidence that a neoliberal agenda is being avoided. Investment failure may be underwritten by government guarantees. Other entrepreneurs make profits: security firms, insurance companies, foreign planners, consultants, experts and administrators. The post-Saddam political economy of Iraq may be an extreme example, but it is indicative of the neoliberal agenda that has been visited on war-torn societies elsewhere. In October 2003 half a dozen US graduates who could not speak Arabic and had never been to the Middle East took part charge of the Iraqi budget and the awarding of contracts. The friend of prominent US figures, Chalabi, secured US\$40 million for his organisation from the US State Department and Department of Defense. Of the aid budgeted by Congress – US\$18.4 billion – for the period before handing over to the interim government, only 2% had been spent. Yet Halliburton had secured \$17 billion worth of contracts (much of it without competitive tender). Of the Iraq Development Fund, based on oil revenues, some \$20 billion has gone missing, and half of it has funded contracts to externals. The fund was also raided to subsidise the US Embassy in Baghdad.

The political economy of liquid transformation is replete with contradictions. As Joseph Stiglitz remarks it is a case of do as the external engineers say – not as they do. The 'free market' is not defined in the Kosovo constitution, other than in the vaguest terms about conformity to Euro-Atlantic standards). Perhaps this is because by most criteria, the external actors would themselves fail badly. The United States and EU subsidise agriculture, steel workers, arms manufacturers and dealers, technological development and the airline industry. The United States has a public deficit running into trillions of dollars. No US or EU farmer would tolerate BiH interest rates of 11%. The EU and other donors will not tolerate large public sector wage bills in southeast Europe, but has itself a public sector higher (at 10.3% of GDP).

No alternatives to the model are entertained, yet there are plenty of examples of dirigisme, which appear to have nursed vulnerable societies through difficult times: France,

Sweden, Cuba, Asian states (including Vietnam which recovered from war quicker than Cambodia). Investment in public goods, infrastructure, social welfare systems and public employment may be necessary to help redress a situation in which a few individuals flaunt obscene affluence but public facilities are often squalid. Such dirigisme may entail controls and a degree of political authoritarianism every bit as irksome as that employed by the OHR and UNMIK. But a strong and active state role in planning and implementation,⁸⁴ with expansionist policies to increase employment, income generation and consumption power to wean vulnerable people off illegal activity through investment in public services and social protection, may be less dysfunctional than the neoliberal model.

This paper concludes that the case of war-torn societies supports Bauman's depiction of liquid transformation in the reduction of public spheres. But it has also contended that for southeast Europe this has not been an organic process based in local cultures of political economy, but an aggressive social engineering, in which regional war elites have been willing participants in diminishing the public space. In Kosovo, for example, 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 in southeast Europe may be summarized as macroeconomic stability to promote investor confidence, and the use of public money derived from the public revenues of aid donor countries to subsidize private capital acquisition and investment for profit. The intention may be not only to achieve macro-economic stability, install a free enterprise culture and make BiH and Kosovo safe for foreign investment. Given concerns about organized crime, corruption and the shadow economies, the OHR and UNMIK have exercised some caution in relinquishing the levers of the economy to local leaders and have 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 populations to hold local 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 on public projects.⁸⁵

The implication for the politics of the region is profound. An emphasis on 'individualization' has the effect of detracting from, and camouflaging, the structures of power that canalize the processes of modernization. Economic power is no longer exerted from a territorial base or from the commanding heights of a national economy. As Robert Cox notes, whereas the *right* of self-assertion is celebrated, in a social and economic context the individual's capacity to exert control over the systemic factors that determine its *implementation* is removed. Consequently, just as in one-party, authoritarian regimes, politics is about depoliticizing people, by removing the economic determinants of everyday conditions from political control. Politics becomes irrelevant: '[t]he sense of civic efficacy is removed; and many people, the most disadvantaged, are left in the futility of alienation.'⁸⁶ In southeast Europe this process seems rather more complex. The meaningful function of formal politics, to protect group interests from other groups, had an impact in high levels of participation and voter turn-out. But it may be increasingly the case that depoliticization is occurring, not simply because economic reforms are removing a key interest in participation, but because the populations have not been effectively re-politicized in the sense of controlling formal 'state' politics – as a consequence of external governance. For example, in their own lack of transparency and accountability, the OHR and UNMIK have been widely-perceived as a sorry exemplar of institution building. 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.⁸⁷

Dependence on governmental support to private enterprise also contradicts the neoliberal ideology of the free market that the external agencies claim 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. As Bauman remarks, it is the job of critical thought 'to bring into light the many obstacles piled on the road to emancipation'.⁸⁸ His dimensions of liquid modernity are by no means all apparent in southeast Europe. But both the neoliberal and local carpetbaggers have created impediments to emancipation in their quest to engineer liquid transformation in the region.

*[Annex follows the Notes]

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Notes

¹ John Kenneth Galbraith, *The Affluent Society*, Boston, MA: Houghton Mifflin, 1958.

² Zygmunt Bauman, *Liquid Modernity*, Cambridge: Polity, 2000.

³ The boundaries separating private and public space are increasingly dissolved. Public goods and public space are often a stage for projecting private relations and emotions, as a kind of salute to individual free expression. *Ibid.*, pp.29,37.

⁴ Roland Paris, *At War's End*, Cambridge: Cambridge University Press, 2004; Michael Pugh (ed), *Regeneration of War-Torn Societies*, London: Macmillan, 2000.

⁵ The term 'carpetbaggers' refers to Northerners who went South after the American Civil War to speculate in economic reconstruction and to exert control in the new Republican state governments there. Their possessions were often carried in cloth (or carpet) bags. Their political-economic corruption has made the term applicable to outsiders who interfere in the politics of a war-torn society for their own benefit.

⁶ It would be convenient to be able to refer to a 'Hamburg School' whose work began in 1978. But this would be less accurate than 'German School' as leading lights are now elsewhere: Herfried Münkler, Klaus Schlichte and Jens Siegelberg are at Humboldt University; Dietrich Jung is at the Danish Institute for International Studies, Copenhagen. For summaries of the approach and its implementation see: Jens Siegelberg, *Capitalism and War – a Theory of War in World Society*, 1994; Dietrich Jung, Klaus Schlichte and Jens Siegelberg, *Krieg in Weltgesellschaft: strukturgeschichtliche Erklärung kriegerischer Gewalt (1945–2002)*, Wiesbaden: Westdeutscher Verlag, 2003. See also, Jens Siegelberg, *Kapitalismus und Krieg*, Münster & Hamburg, 1994; Dietrich Jung and Klaus Schlichte, 'Why Only Intrastate Wars? Patterns of War and Conflicts after 1945', in Haakan Wiberg and Christoph Scherrer, (eds.): *Ethnicity and Intra-State Conflict: Types, Peace Strategies*, Aldershot, 1999, pp. 35–51; Klaus Schlichte, *Why states decay. A preliminary assessment*, Working Paper 3/1998, Forschungsstelle Kriege, Universität Hamburg. 'Micropolitics of Armed Groups' led by Klaus Schlichte at the Humboldt University Berlin, www2.hu-berlin.de/mikropolitik; Münkler, *Die neuen Kriege*, Reinbeck: Rowholt, 2002; Klaus Jürgen Gantzel and Torsten Schwinghammer, *Warfare Since the Second World War*, New Brunswick, NJ: Transaction Publishers, 2000.

⁷ See, Burkhard Conrad and Klaus Schlichte, 'The Hamburg Experience, or Quantitative Research: four limits and one alternative', paper presented at the conference on conflict data, Uppsala, 8–9 June 2001.

⁸ Berit Bliesmann de Guevara, 'External State-Building in Bosnia and Herzegovina: A Boost for the (Re-)Institutionalisation of the State or a Catalyst for the Establishment of Parallel Structures?', paper at 7th International Seminar, 'Democracy and Human Rights in Multiethnic Societies', Konjic, 12–17 July, 2004.

⁹ Bauman (n.2 above), p.37.

¹⁰ Catherine Götze, 'Civil Society Organizations in Failing States: the Red Cross in Bosnia and Albania', *International Peacekeeping*, vol.11, no.4, winter 2004, pp.664-82.

¹¹ See Béatrice Hibou, *Privatising the State*, London: Hurst & Co., 2005 (forthcoming).

¹² Sami Makki, *Militarisation de l'humanaire, privatisation du militaire, et stratégie globale des États-Unis*, Groupe de sociologie de la défense, École des Hautes études en Science, Paris, 2004. In Iraq during the foreign occupation and interim government, there were about 20,000 people engaged in private security, armed to the teeth and poorly trained for dealing with civilian populations in a non-violent way.

¹³ Massimo Florio, *The Great Divestiture*, Cambridge, MA: MIT Press, 2004; Joseph Stiglitz, *Globalization and its Discontents*, London: Penguin, 2002; Amy Chua, *World on Fire: How Exporting Free-Market Democracy Breeds Ethnic Hatred and Global Instability*, New York: Doubleday, 2002; George Soros, *The Crisis of Global Capitalism: Open Society Endangered*, Oxford: Public Affairs, 1998.

¹⁴ For examples of stereotyping, see Gerald Knaus and Marcus Cox, 'Bosnia and Herzegovina: Europeanization by Decree?', in Judy Batt (ed.), *The Western Balkans: Moving On*, Chaillot Paper 70, Paris: Institute for Security Studies, Oct. 2004, p.63 (Bosnians as passive); and the foreword by Henrik Kolstrup, UNDP Resident Coordinator, *Human Development Report. Bosnia and Herzegovina, 2002* Sarajevo: UNDP, p.3 (Bosnians as pathologically diseased).

¹⁵ This is explicit in the 'mission statement' of the US State Department's Office of the Coordinator for Reconstruction and Stabilization (at: www.state.gov/s/crs) and in the strategy: 'Bosnia and Herzegovina: Towards Economic Recovery' laid out by the World Bank, European Commission and European Bank for Reconstruction and Development in 1996.

¹⁶ Robert Muharremi et al., *Administration and Governance in Kosovo: Lessons Learned and Lessons to be Learned*, Priština/Geneva: Centre for Applied Studies in International Negotiations, Jan. 2003, p.39.

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¹⁸ International Crisis Group [ICG], *Two to Tango: An Agenda for the New Kosovo SRS*, ICG Europe Report No. 148, Priština/Brussels, 3 Sept. 2003, p.16.

¹⁹ UNMIK Regulation No.201/9, ch.8.1 (c),(d).

²⁰ Muharremi, et al. (n.16 above), p.39.

²¹ Peter Andreas, 'Criminalized Conflict: the Clandestine Political Economy of War in Bosnia', *International Studies Quarterly*, vol.48, no.1, 2004, pp.29–51.

²² Žarko Papić, 'Etička privatizacija: neograničene mogućnosti prevare', [Ethnic Privatization: unlimited possibilities for cheating] *Dani*, 6 August 1999, pp.20–21.

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²⁴ See International Crisis Group, 'Bosnia's Precarious Economy: Still Not Open for Business', Bosnia Report No.115, Sarajevo/Brussels, 7 August 2001.

²⁵ BiH Media Round-up (trans. OHR), 18 October 2001; N. Katunarić and M. Puntarić, 'Prlic i partneri sada Peru Robu u Pistom Moru Makarske Rivijere', [Prlic and his partners now launder money in the clean waters of the Makarska], *Slobodna Salmacija* [Split], 24 September 2001 (trans. OHR). In conversations with the author on an unattributable basis Prlic was considered to have the right sort of entrepreneurial skills by top international officials who knew him as BiH Foreign Minister. He went to the Hague to answer war crimes charges but was released on bail in 2004, along with four other Croats, after an intercession by former US Secretary of State, Madeleine Albright.

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²⁷ Ivanić claimed that the buyer had to invest KM 60 million of additional capital and KM 190 million of deposit, 'EURO of millions worth', *Glas Srpske* [Banja Luka], 30 March 2004, p.2 (trans. OHR).

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²⁹ E. Plečić, 'Revision being slowed down due to fear: FBiH Govt accelerates bankruptcies and is to dismiss thousands of workers', *Dnevni Avaz* [Sarajevo], 16 Feb. 2004, pp.1,5; Pre-war Prime Minister of Federal Yugoslavia, Ante Marković had introduced a limited privatization strategy.

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- ⁴⁷ International Crisis Group, *Collapse in Kosovo*, report no. 155, Pristina/Belgrade/Brussels: 22 April 2004, p.3
- ⁴⁸ 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 (available at: 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 (available at www.seerecon.org/kosovo/documents/kosovo_report_june_2003.htm);
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♦ **Table 1: BiH Economic and Financial Indicators**

Indicators	1990	1999	2000	2001	2002	2003	2004*	2005*
GDP (\$US m.)	10,633**	4,540	4,252	4,795	5,610			
GDP per cap, current prices (\$US)	2,429**	1,135	1,093	1,222				
FBiH		1,458	1,373	1,453				
RS		821	806	873				
Real GDP growth % (i.e. allowing for inflation but not shadow activity) BiH		9.9	5.5	4.4	5.5	3.5	5.0	5.5
FBiH		9.5	7.0	7.0				
RS		11.3	2.6	1.9				
Industrial output								
FBiH		11.0	8.8	12.2	9.2	4.8	14.0	7.0
RS		2.0	5.3	-12.9	-2.5	5.8	8.0	6.0
Consumer price yearly average % change								
FBiH		-1.0	1.4	2.1	1.0	0.6	0.2	1.8
RS		14.0	14.0	7.0	1.7	1.9	2.2	2.2
Budget Balance (% of GDP)		-	-7.0	-3.3	-2.2			
	0.4	-0.1	0.0					
Recorded unemployment (% labour force) BiH		-	-	-	40.9	42.0		
FBiH		-	38.9	39.9	42.7	44.0		
RS		-	40.2	38.5	36.5	37.0		

Note: *Forecast. **Service sector was excluded in Yugoslav GDP accounts. *Source:* Dragoljub Stojanov, 'Poverty Reduction Strategy Paper', forum for Albania, BiH and FR Yugoslavia, Policy Notes, November 2002; European Commission, *European Economy: The Western Balkans in Transition*, Occasional Paper no.1, DGA Economic and Financial Affairs, Brussels, January 2003; Bank Austria Creditanstalt, *CEE Report*, 4, 2004.

Table 2: South-east Europe Inflows of Foreign Direct Investment (€million)

	BiH	Croatia	Slovenia	Serbia & Mont.	Macedonia
2005*	320				
2004*	310				
2003	340				
2002	275	750**	390**	300**	75**
2001	133	470	385	200	350
2000	158	827	110	25	169
1999	90	1,445	144	112	27
Population	3.8m	4.5m	2m	11.4m	2m
FDI (€per cap. in 2002)	230	1,900	2,600	200	500

Notes: *Forecast. **Approximate. *Source:* Bank Austria Creditanstalt, *CEE Report*, 4, 2004 (available at: www.ba-ca.com).